

Does trust in institutions have an economic payoff? Evidence from India

by

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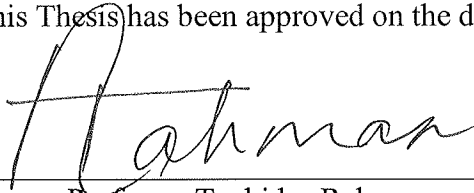
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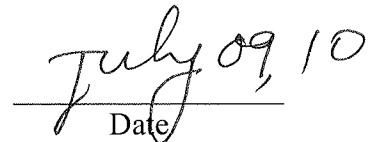
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ABSTRACT

Recent studies in economic development, have documented significant economic payoff to trust/social capital. However, most of these studies focus on quantifying the economic effects of inter-personal trusts (e.g. trusting and trustworthiness), or social network. But data also show that individual incomes and trusts in country's institutions vary greatly. Are these variations systematic? Alternatively, are individuals who trust in country's institutions economically better off than those who do not? In this study, we address this question and quantify the economic effects of trusts in country's institutions (e.g. schools, military, politicians, judiciary, and state government), using a representative household survey data from India, conducted during 2004-2005. Among many results, we find that households with greater trust in police have higher per capita income, while households with greater trust in schools, have lower income.

CHAPTER ONE

INTRODUCTION

In a regular conversation, most of us would not start to discuss the issue of trust. Although, it is not mentioned much in regular conversations if we think about it, we face issues of trust every day, not just the level of trust, but trust as important in itself. It is a part of human interaction. Trust is a basic foundation of relationships among family, friends, social networks and such. Individuals communicate, contact, and correspond more with people they trust. Gunnarson (2008) suggests that trust leads to better government, less corruption, less crime and happier citizens. Gunnarson argues that trust is positively correlated with economic growth and development, which is confirmed by much research from various fields of interest. Trust in institutions, however, is somewhat different from generalized trust or interpersonal trust. Trust in institutions is a level of trust that an individual has in his or her country's institutions. It is a trust in a group of people instead of a person. Hodgson (2006) defined 'institutions' as "systems of established and embedded social rules that structure social interactions (p.2)." Every country is composed of different institutions. In other words, institutions are a significant component to form a country. For each country to be strong and unified, the country's institutions must be strong.

After all, we are all related to our country's institutions somehow. Most people are involved with more than one institution. For example, people send their children to go to school, vote for their favorite political party, and buy a newspaper to read, and deposit their money in the bank and also invest in companies.

Trust in institutions is related with inter-personal trust. That is, if one does not trust in his or her country's institutions and does not feel safe to be associated with these institutions,

as a consequence, has less interaction to no interaction at all with these institutions. Imagine, if you do not trust your local bank, will you deposit your money in the bank? Or if you do not trust that your neighborhood school is a good place for your children, will you still send your children to that school anyway? Trust in the bank can encourage more interaction with the bank such as getting a loan to invest in a new business or receiving money from the interest rate and then more money to make an investment.

In this study, we explore the following issues related to trust and economic performance:

- i) The economic effects of trusts in institutions, in terms of household per capita income; and
- ii) The effects of other factors such as an household demographics and social network on household per capita income.

Our ultimate goal is to answer the following questions: How does our trust in institutions affect our income? Alternatively, does the level of confidence in institutions influence income?

CHAPTER TWO

MOTIVATION

Imagine two individuals who are exactly similar in everything else except their trusts in country's institutions. Will the individual with greater trust in country's institutions have greater income? Why should trust in country's institutions have economic payoffs?

The concept of trust appeals to many academic researchers today, but it has a long history. Economists have recognized the critical role played by trust in economic performance. Trust has significant influences in human routines (Katuscak and Slemrod, 2005). Arrow (1972) remarks, "virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can plausibly be argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence." Individuals who live in a high trust society can minimize their transaction cost in economic transactions. For example, in a trust environment the cost of private security devices or services can be avoided. Kuscak and Slemrod (2005) state that in high-trust societies, individuals need to spend fewer resources to protect themselves from being exploited in economic transactions. They show that, on average, exhibiting trust has positive impact on income and personal return is positive and that occurs in almost all countries. In addition, Zak and Knack (2001) confirm, "trust reduces the cost of transactions". Individuals will spend less time to investigate one another. As a result, a higher trust society can generate more output. Knack and Keefer (1997) find that low trust can discourage innovation. If the company owners have to devote their time to watching their employees working, they will have less time to create something new for the company. They

also argue that trusting societies tend to have stronger incentives to innovate and to accumulate both physical and human capital and, as a result, grow faster. People will communicate more when they trust one another. They feel safe and secure enough to converse with others whom they trust. According to Dearmon and Grier (2009), trust contributes in a positive manner to the level of physical capital via a significant interaction with human capital. In a low-trust society, individuals tend to isolate themselves from the society and are less likely to communicate with one another. Thus, this makes it harder for any investment to be created. Gunnarson (2008) suggests that a low level of trust discourages income distribution between rich and poor. Moreover, trust and economic growth and democracy have a positive linkage.

Fawcett et al. (2004) argue that if partners do not trust each other, neither of them will be willing to step out of traditional comfort zones to take on new roles and responsibilities. Trust is even more important among those individuals who already have a business together, because without it the business cannot move forward. It is surprising how much a social network has an impact on business and results in some real consequences. Uzzi's (1999) shows that the strength of the relationship between members of firms and bank personnel is reflected in a firm's better access to capital and lower interest rates. It is important in the dominant group to have an extensive social network; Halpern (2005), citing Burt (1999) suggests "those who broker information between groups and individual can derive considerable benefits from their position in the social network". A study of life histories from 134 firms by Shane and Stuart (2002) suggests that if the firm's founder had more direct and indirect relationships with venture investors then they were considerably more likely to obtain funding and their firms was less likely to collapse.

There is evidence showing that having a wider range of trust or more social capital has a positive effect on social status in monetary terms. Podolny and Baron (1997) suggest that those who progress faster tend to have broader contacts. Boxman et al. (1991) found that for top managers in large companies in the Netherlands, their level of income was closely tied to their level of social capital. Further, Halpern (2005) argues that a broad range of social networks for each individual promotes the individual's financial well being "from farmers to top businesspeople".

Tony Restell read Economics and Management Studies at St. John's College [Cambridge], graduating in 1996. Here he shares with us the tremendous difference that being a Johnian has made in the launch of his internet venture.

...thumbing through my address book I found countless Johnians willing and able to help. And so it is that tasks that might have taken many man-weeks have been condensed into man-days. Cold-calling exercise has been transformed into pleasant introductions.

...interpersonal networks are critical in setting up an internet venture- the more you can draw on a strong network of people and contacts, the more productive and successful you will be.

-- Johnian News, Issue 7, Lent term 2000

Thus, there is strong evidence to suggest that trust and social capital have significant effects on economic performance. Every literature to date has confirmed their thought with their research studies.

CHAPTER THREE PAST STUDIES

Trust, social capital and development

In many cases, the nature of the relationship between social capital and growth and development is tied up with trust as well. Fukuyama (1995) states “social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it (p.26).” Putnam (1993) have used trust as a measure of social capital and suggests that trust is an essential component of social capital. Bjornskov (2006a) uses a cross-section of countries and confirms that trust is a key component of social capital that actuates life satisfaction and governance. As a result, besides trust, social capital and its relationship with economic outcomes is also relevant to this study.

Putnam (1993) finds that after the Second World War, the region of Northern Italy grew faster than Southern Italy due to the existence of social capital. Putnam (1993) writes “social capital enhances the benefits of investment in physical and human capital” (p.36). Helliwell and Putnam (1995) studied the evidence of social capital in regions in Italy by using one of three measures: an index of the extent of civic community or an index of various direct measures of the effectiveness of regional government or surveys of citizen satisfaction with their regional governments. They find that in the regions in which there is high social capital, convergence is faster and equilibrium income levels higher. They also find that regions with higher levels of social capital have much more effective regional governments. As a result, they have higher economic growth than those regions with ineffective and lesser social capital.

Weaker social capital can also create disadvantages. Halpern (2005) explains that while people with large social networks are more likely to gain benefit, the working class has smaller and more constrained social networks than the middle class, and thus those with large social networks, social capital, and financial capital maintain the advantage. For example, Black Americans face more disadvantages in the society because they have weaker bonds to the mainstream society (Loury, 1987, 1992). However, Halpern (2005) concludes that it is still hard to answer whether more social capital will always make an individual economically better off. He uses the word “maybe” in regard to the good effect of social capital on economic status. That is because he thinks there are some points that should be considered carefully. This includes, for example, the strength of some findings and “downsides” of social networks. Hollis (1998) suggests that there is a relationship between trust and economic progress such as circular interaction. People collaborate better if they trust each other, hence the economy grows. Nevertheless, he concludes that as an economy become more and more successful, people become more realistic and thus trust less.

Trust and economic growth

Many studies show a link between trust and growth. Fukuyama (1995) hypothesizes that a rise in trust level should promote efficiency increases at large scales activities. La Porta et al. (1997) use a cross-sectional regression and confirms Fukuyama’s hypothesis by demonstrating that trust encourages cooperation and efficient outcomes in government, social structures, and large organizations. Knack (2002) uses a cross-sectional framework and finds that trust is considered to be an important predictor of government performance. Uslaner (2002) finds that social trust is associated with positive economic outcomes. For example, volunteering, charity, and advocating policies help promote economic growth. Also, he

thinks that the level of trust and individuals' willingness to make contributions to support others move in the same direction. As level of trust rises, so does people's willingness to make contributions to causes supporting other people. Bjornskov (2004) finds that trust endorses lower levels of corruption, while Bjornskov (2006b) shows that social trust influences both schooling and rule of law.

On the other hand, Miguel et al. (2005) present different ideas about social capital from study of the Indonesia case. They use Indonesian household and village level nationwide surveys to create a panel data set of 274 districts. The data set contains a uniquely rich set of social network measures following those outlined in the existing literature to characterize the density of voluntary community associational activity and level of trust and informal cooperation (Fukuyama 2000, Putnam 1995). The main finding is that the initial density of a social network does not predict subsequent industrial development in Indonesia. However, they do not believe that their finding implies that social networks and social interactions can never affect industrial development. Instead, they only show that during the study period of the Indonesian case, any benefits of dense social networks were counteracted by their costs, or that other local economic, institutional, or political factors were the prime drivers of industrial development.

Challenges to previous literature

Sobel (2002) critiques the previous literature, claiming that it frequently "confuses the causes and effects of social capital". Miguel et al (2005) also suggest that even though strong social networks may (or may not) be essential for achieving collective action and good governance and for improving human welfare more broadly, they find no evidence from the Indonesia case that the social networks helped create industrial development. Nevertheless,

Miguel et al (2005) provide a side note to Sobel's (2002) finding that Indonesia is a special case; despite industrial growth in some parts of Indonesia in the decades of the 1980s and 1990s, social networks were found to play an insignificant role in such growth. They also mention that although their findings challenge many well-known empirical studies which observe positive cross-sectional correlations between income levels and social networks, supporting the claim that stronger social networks promote economic development, their study and Putnam's classic study of Italy has one thing in common: they are case studies of one nation during one era. It is possible that the configuration of social networks and social capital is different among the entire Indonesian population, which the measured sampled, and the smaller group of Chinese entrepreneurs who may actually have the largest influence on industrialization. Before that Suharto¹'s regime in the end of their study period, Miguel et al (2005) lead to difference findings than others.

According to Douglas North (1990), "the inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third world" . To achieve a goal of development, a sufficient amount of trust is a must in any society. In a society if the trust level is too low, savings will be inadequate to maintain positive growth.

The literature to date has focused on the effects of interpersonal trust and social capital, and economic payoff. Much of the literature finds that interpersonal trust has positive correlations to economic growth and development. The more you trust the more likely you will communicate with others, which will result in new innovations and economic payoffs. However, one important relationship that has not been examined empirically to date is the

¹Suharto is the 2nd President of Indonesia, having held the office for 32 years from 1967 and resigned in 1998

influence of trust in institutions on economic payoff. This study attempts to fill this gap: we empirically investigate the impact of trust in institutions on individual income. Each individual provides information on how confident they are in each of the institutions. This study focuses on the impact of household confidence in institutions on the level of individual income. Individual's social network information is also included in the models.

CHAPTER FOUR

DATA AND EMPIRICAL STRATEGY

4.1 Data

The survey data was collected between November 2004 and October 2005. It was conducted by the India Human Development Survey (IHDS). The IHDS was a jointly organized by researchers from the United States and India. The University of Maryland and the National Council of Applied Economics Research fielded a survey of more than 40,000 households across India. This survey, the Human Development Profile of India”, includes a wide range of question about health, education, employment, income, consumption and gender relations. Several aspects of social capital were included in order to trace the relationship between household education and status with outcomes such as children’s education and access to medical care. The survey was translated into twelve languages and administered throughout India- the survey was conducted all over India-25 states and Union Territories (with the exception of Andaman Nicobar)- and includes urban as well as rural areas. Of a total of 602 districts in India, 383 were included in the sample. The number of villages in the sample is 1504 and the number of urban blocks is 970 the sampling procedure adopted in the survey aimed to ensure a nationally representative sample. The districts were selected using stratified random sampling to represent a rage of socio-economic conditions. Villages and urban centers and households were selected using cluster-sampling techniques. The data collection was funded by grants from the national Institute of Health to the University of Maryland.

This study, however, only focuses on confidence in institutions and income of household. In addition, household demographics, social capital, membership and political activity information on the households, and regional information are also from the same survey. The final sample size, after cleaning the data, is 36,111.

A. Dependent Variable

Our dependent variable of interest is household per capita income. It is measured 1,000 Rupees. . It indicates all income of the head household including payment in cash for work, benefits received in the last 12 months, and money support from the government.

B. Potential explanatory variables

Trust in Institutions

The variables representing trust in institutions measure degree of confidence in country's institution. . There are ten types of institution. These are trusts in politicians to fulfill promises, trust in military to defend the country, trust in police to enforce the law, trust in state government to look after the people, trust in newspapers to print the truth, trust in village Panchayats/Nagarpalika to implement public projects, trust in schools to provide good education, trust in hospitals and doctors to provide good treatment, trust in courts to meet out justice, and trust in banks to keep money safe. Corresponding to each institution, we define a variable that measures the degree of confidence, by the head of the household, in a particular institution. The variable takes the value of 11 to indicate 'hardly any confidence at all in the trust', 2 to indicate 'only some confidence', and 3 to indicate 'a great deal of confidence' in an institution. Thus, trust in a institution is a categorical variable.

Demographic Characteristics

The education of the head of household takes a minimum value of 0, indicating no education at all, 5 indicating 5 years of schooling, 10 indicating 10 years of schooling, 12 indicating higher sec and a maximum value of 15 indicating graduate level in education. It is the highest education that the head of the household receives. Gender of the household head is a dummy variable, taking the value of 1 if male and 0 otherwise. Age of the household head is a continuous variable, measured in years. . The variable, Rural, is also a binary dummy variable taking the value of 1 if the household is from rural areas, otherwise it takes the value of 0. Similarly, variable Urban takes the value of 1 if the household is from urban areas, otherwise it takes the value of 0.. The variable, Caste, indicates the caste or social status of the household, taking the value of 1 if the household is SC or ST; otherwise it takes the value of 0. . Religion is a variable that indicates the belief of the head of the household. We have three variables representing religions of the households (Hindu, Muslim and Christian). The variable Hindu takes a value of 1 if Hinduism is the religion of the e head of the household; otherwise it takes the value of, 0.. Principle source of income for the household is recoded to 3 dummy variables: Cultivation takes a value of 1 if main source of income come from Cultivation, 0 otherwise. Non-Agricultural wage labor takes a value of 1 if main source of income come from Non-Agricultural labor, 0 otherwise. Salaried Employment takes a value of 1 if main source of income come from Salaried, 0 otherwise. The length of time, Family-town, counts from the first time the household came to this village/ town or city. Take a minimum value of 1 and maximum value of 90. Own or cultivate any agricultural land, Own-Ag, is a dummy variable that takes a value of 1 if yes, 0 otherwise.

Social Networks, Membership and political activity

“Among your acquaintances and relatives, are there any who are doctors or nurses or who work in hospitals and clinics, know-Doctors” is a dummy variable that takes a value of 1 if yes, 0 otherwise. Among your acquaintances and relatives are there any who are teachers, school officials, or anybody who works in a school, know-Teachers, is a dummy variable that takes a value of 1 if yes, 0 otherwise. Among your acquaintances and relatives, are there any who are in government service, know-Gov't, is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a Mahila mandal (Belong-Mahila mandal) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a youth club, sports group, or reading room (Belong-Youth Club) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a trade union, business or professional group? (Belong-Trade Union) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a self-help group (Belong- Self Help) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a credit or savings groups (Belong- Credit) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a religious or social group or festival society (Belong-Religious) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a caste association (Belong-Caste) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to a development group or NGO (Belong-NGO) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Does anybody in the household belong to agricultural, milk, or other co-operative (Belong-Agri) is a dummy variable that takes a value of 1 if yes, 0 otherwise. In the most recent national

elections, did you vote yourself (Vote) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Have you or anyone in the household attended a public meeting called by the village panchayat/nagarpalika/ward committee in the last year (Attend-village meeting) is a dummy variable that takes a value of 1 if yes, 0 otherwise. Is anyone in the household an official of the village panchayat/nagarpalika/ward committee? Is there someone close to the household, who is a member (Pan/Nag/Ward Com) of the village panchayat/nagarpalika/ward takes a value of 2 if someone in the household including you is a member of an official of the village panchayat/nagarpalika/ward committee, 1 if somebody close to household is a member, and 0 if nobody close to household is a member. In this village/neighborhood, how much conflict would you say there is among the communities/jatis that live here (Conflict) take a value of 1 if not much conflict, 2 if there is some conflict and 3 if there is a lot of conflict. Please see APPENDIX A for more information about the data and coding.

4.2. Empirical Model

Here our goal is to estimate relationships between household per capita income and household head's trust in country's institution. The dependent variable is per capita income of the household. The independent variables are those defined in the previous section: the country's institutions include politicians, military, police, state government, newspapers, village Panchayats, schools, hospitals, courts, and banks. The demographics of a household including education, gender, age, caste, states of which household reside, religious, principal source of income, length of time that the household has been reside to the current town, etc. Household's social network information: whether household has any acquaintances or relatives who works in hospitals, schools or government offices; whether a household's

member belong/attend to any social network group such as Mahila mandal, youth club, trade union, self help, credits, religious, caste association, development, agricultural, public meeting called by village panchayat/nagarpalika/ward committee and recent national election (voting). Plus, the key question of how much conflict is there in the village/neighborhood.

The first equation is a basic model, which includes 10 trust variables and the head of the household's demographic characteristics. We would like to see how trust in institutions together with an individual's demographics such as age, gender, caste, area which household resides, religion, source of income, whether household cultivate any agriculture and the length of time that the household has been living in their current town affect their income level.

Y_i = Total income per capita of the head of the household

$Trust_{ij}$ = The measure of the i^{th} household's trust in institution j

$Demographic_i$ = Demographic information of household i

$SocialNetworks_i$ = Household i social network, membership and political activity's information

$Dstateid_i$ = 33 state dummy variables in India,

$i = 1, 2, \dots, 36111, j = 1, 2, \dots, 10$

$$Y_i = \alpha + \beta * Trust_{ij} + \gamma * Demographic_i + \varepsilon_i \quad (1)$$

The second equation includes all the variables which appear in the first equation plus another group of variables, social network and membership information. Since there are many studies confirm that there is a positive relationship between social capital and economic returns, we would like to see whether social network together with trust in

institutions and individual's characteristics will show any different result from our basic model.

$$Y_i = \alpha + \beta * Trust_{ij} + \gamma * Demographic_i + \delta * SocialNetworks_i + \varepsilon_i \quad (2)$$

Our data came from 34 different states in India. Since each state has its own characteristics and uniqueness, there is a potential heteroskedasticity problem (unconstant variance of the error term). Even though heteroskedasticity does not destroy unbiasedness and consistency properties of OLS estimators, these estimators are no longer Best Linear Unbiased Estimator (BLUE). Our basic model and equation (2) will not be able to detect this problem and their estimators are no longer minimum variance or efficient. Hence, we developed the following specification (3) and (4). In these specifications we added state dummy variables to equation (1) and (2). Equation (3) shows our basic model (1) with added state dummy variables.

$$Y_i = \alpha + \beta * Trust_{ij} + \gamma * Demographic_i + \lambda * Dstateid_i + \varepsilon_i \quad (3)$$

Equation (4) includes all the potential explanatory variables. It includes trust in 10 institutions, individual's demographics, social network and political activity, and state dummy variables.

$$Y_i = \alpha + \beta * Trust_{ij} + \gamma * Demographic_i + \delta * SocialNetworks_i + \lambda * Dstateid_i + \varepsilon_i \quad (4)$$

Table 1 shows the descriptive statistic of the data that we used. It is designed to show the overall data information. The majority of the household who completed the survey are Hindu. Almost 11 % were Muslim and only 3% were Christian. Most of the household principle source of income comes from cultivation, salaried and non-agricultural labor respectively. The range of years that each household came to their current village/town/city is from 1-90 years with an average value of 71 years. On average, households do not own or

cultivate any agricultural land. Around one-third of the total had acquaintances or relatives who were doctors or nurses or who worked in hospitals and clinics, or in government service. Forty percent had acquaintances or relatives who were teachers, school officials or worked for schools. Most of the households did not belong or have a member in any club/ group or union of their local region. However, 90 percent of households attended the most recent national elections or vote. Almost one-third of households attended a public meeting held by village panchayat/nagarpalika within the year preceding the survey. The conflicts were rare in the community/jatis where the household resided.

Some individuals are assigned a minimum value of negative incomes because this is a total per capita income, which is a net income. Some individuals had debt and unpaid expenses. The mean value shows that most individuals had the highest confidence (from high to low) in banks, the military, schools, hospitals, courts, newspapers, village panchayats, state government, police and politicians respectively. The average age of the head of the household was 47 years old. The lowest and highest age of the head of a household was 15 and 100 respectively. Most households had a male as the head of the household.

Table 2-6 shows how trust in institution varies by different variables. From these tables we observed many interesting points which we will explain each table individually. Our focus is on the level of trust and variation. Table 2 shows that there is a variation of trust in trust in police, schools and hospitals when the income values change. Trust in police is increasing as income value goes up, while trust in schools and hospitals go down as income rises. Individuals who have high income level tend to trust in police more than those who earn lower income. However, individuals with low-income values have a higher trust in schools and hospitals than those who earn higher income. Tables 3 we investigated that Muslim have

a lower trust in all country's institutions relatively to Hindu and Christian. This is a very interesting point because Muslim is the biggest minority in India. Table 4, show that in most cases both social groups show a relative high level of trust in country's institution which take a value higher than 2. However, trust in politician and police are an exception. The value of trust in politician and police are very low especially trust in politician the average value is as low as 1.5. Table 5 shows that individuals who live in rural area trusted in most of country's institution (politician, military, state government, village panchayats, school, hospitals and courts) more than individuals who live in urban area. The explanation to this is that people who live in urban area have better access to their country's institutions and know what is happening more than people who reside in rural area. Table 6 shows that individuals with higher education have lower trust in politician, police and state government than individuals who has lower education. Nevertheless, there is an opposite trend in trust in military. Individuals who receive lesser education trust in military more than individual with higher education.

CHAPTER FIVE

RESULT

Table 7 reports my baseline result. It presents the result of a regression of the per capita of the head of the household income (measured in 1,000 rupees) against trust in institutions variables, individual's demographics, individual's social network information and regional state. We will focus on sign and significant level. We will discuss the overall result from 4 specifications, and then we will discuss each model specifically.

Equations 1-4 shows that trust in police and schools is always significant to income. The confidence in police to enforce the law always has a positive effect on income value, implying that they assist people in increasing their income. In a higher trust in police society, people tend to follow to rules and regulations and less likely to bribe. As a result, the community has less crime and more job opportunity. On the other hand, in a community, which has lower trust in police, people are more likely to break the rules which created more thief and gangsters. As a consequence, the community has more problems and become a less present place to live. The coefficient is the highest value (0.66) in equation 3 when we added individual's social network variables to the model with trust and demographics variables and the lowest value (0.34) in equation 2 when we added state dummy variables to the model with trust and demographics variables. However, the confidence in school to provide a good education shows a negative effect on income, which is not consistent with out intuition. The explanation to this could be that the quality of the schools changed over time. Our data represents the head of the household's information with an average age of 47 and even though they believe that schools provide a good education, they are no longer attending schools. The schools that they had in mind while answering the question could be the school

that they attended in the past decades or more. Therefore, if the quality of the present schools is not as good as it was the higher level in trust can effect negatively on income.

Education and age always provide a positive impact on income. As you get higher education or get older your income will rise. This result makes intuitive sense since an individual who has higher education can offer more knowledge and skill than the one who has no education at all. An age variable is undoubtedly associated with work experience. Thus, it also consistent with intuition, the older have more life experience than the younger. As a result, they know more and have more ability to work. Across equations 1-4, the coefficient of these two variables slightly changes but remains significant at the 1% level.

In addition, the result in all 4 columns show that per capita income for the head of the household is positively related to *Urban, Christian and Salaried Employment*; whereas it is negatively correlated to *SC and ST, Hindu, Muslim, Cultivation, Non Agricultural wage labor variables* and *Family-town* variables. All of these variables are significant at a 1% level except for the *Christian* variable for column 2 and 4 which is significant at 5% level.

The specification in column 1 contains trust in institutions variables and individual's demographic variables. The results in Table 7 show that per capita income for the first specified model by equation (1) show that the per capita income for the head of the household is positively correlated to *Trust in politician, Trust in police, Trust in Newspaper, Trust in Village Panchayats, Education, age, Urban, Christian, Salaried Employment, Own-Ag variables*; whereas it is negatively correlated to *Trust in State Government, Trust in Schools, SC and ST, Hindu, Muslim, cultivation, Non Agricultural wage labor, FTown* variables. According to the result, *Trust in police, Trust in Schools, Education, age, urban,*

SC and ST, Hindu, Muslim, Christian, cultivation, Salaried Employment, Non Agricultural wage labor and *Family-town* are significant at a 1% level, while *Trust in State Government* is significant at a 5% level and *Trust in politician, Trust in Newspaper, Trust in Village Panchayats* and *Own-Ag* are significant at a 10% level.

These results suggest that an individual who trust in politicians, police, newspaper and village panchayats are likely to have a higher income. Individuals who live in urban areas, are Christian have their main source of income come from salaried employment and own or cultivate agricultural land are more likely to receive higher income.

On the other hand, trust in state government and schools can be inefficient and result in lower income. Additionally, with individuals who belong to caste SC and ST, being Hindu or Muslim and their main source of income comes from cultivation or non agricultural wage labor income and they are more likely to earn lower income.

The second column of table 7 shows a very similar result to column 1. This equation shows that per capita income for the head of the household is positively correlated with the *Trust in police* significant at a 10% level, while *Trust in Schools* has negative relationship with significant at a 1% level to income. The results from individual's demographic variables are similar to the result from the previous equation except now *Christian* and *Own-Ag* variables are significant at the 5% and 1 % level respectively.

Equation (3) includes more individual personal information variables. These variables are determined an individual's social network, membership and political activity in the society. This equation shows similar results to the previous two equations but with the addition of significant trust and social network variables. Equation (3) shows a negative impact with significant at a 5 % level for *Trust in State Government*, implying that the higher

the trust level in state government is, the lower the individual's income. This may imply that state government is inefficient in serving the people. Trust in police remains positive effect on income and significant at 1% level. Trust in schools also remains negative effect on income and significant at 5% level.

In addition, equation (3) shows that 6 out of 14 social network variables (excluding *Vote* and *Conflict*) are significant at a 1 % level. These include *know-Doctors*, *know-Gov't*, *Belong-Youth Club*, *Belong-Trade Union*, *Belong- Self Help* and *Belong-NGO* variables. Only 1 out of these 6 significant variables show a negative relationship to individual income level and that is *Belong- Self Help*. This result is intuitively rational since the *Belong- Self Help* variable shows whether someone in the household belongs to a self-help group. Individuals who belong to self help group tend to be able to survive by themselves and are more likely to be isolated from others. Individuals who join self help groups only communicate with the people who are in the group and not anyone else. In contrast, if an individual has a contact with someone who works in hospital or government service, or belong to a social group including youth club, sports group, reading room, trade union, business/professional group or development group (NGO) are more likely to get a positive impact or have a higher income. The last new additional variable that I added to equation (3) is the *Conflict* variable; the results show that the coefficient of this variable is negatively correlated with the dependent variable and is significant at a 1% level. If there is a lot of conflict among people who live in the same village/neighborhood their income will decrease. In other words, if the people in a village get along well, then income will rise. This result confirmed previous studies which I discussed at the beginning of the paper.

From the fourth column of Table 7, we can see that by using all the variables together in one regression model including trust variables, individual's demographics, individual's social network and state dummy variables, the results are also very similar to the previous 3 equations with only slight variation in some social network variables. The *Ownag* variable shows a similar result as the first and second column, which is a positive relationship to income but at a 5% significant level. Equation (4) shows that 7 out of 14 social network variables are significant. The variables, which have a positive relationship with income, are *know-Doctors*, *know-Teachers*, *know-Gov't*, *Belong-Youth Club*, *Belong-Trade Union* and *Belong-NGO*, while *Belong- Self Help* still remains a negative relationship to income. *Know-Doctors*, *know-Gov't*, *Belong-Trade Union*, and *Belong- Self Help* are significant at a 1% level, *Belong-Youth Club*, *Belong-NGO* are significant at a 5% level, and *know-Teachers* is significant at a 10 % level. Furthermore, the *Vote* variable is now significant at a 5% level with a negative impact on income. The *Conflict* variable still remains very significant at a 1% level with a negative impact on income. Again, this result confirms previous studies of how social capital has a positive return as I discussed at the beginning of the paper.

CHAPTER SIX CONCLUSION

Numerous researchers have investigated the issues of trust and social capital. The economic studies of trust and social capital show that there is a strong economic payoff to trust and social capital. But what had not been investigated are potential economic payoffs to trust in country's institutions. This study addresses this issue by empirically investigating effects of household's trust in country's institution on the per capita income of the household. We find that trust in police and schools are two robust determinants of household income. Trust in police has a positive effect on per capita income of the household. Trusts in politician, newspaper and village panchayats have positive effects on income, only controlling for household head's demographics. Age, education, resides in urban area and having a main source of income from salaried employment also contributes a positive effect on income. On the other hand, trust in schools contributes negatively to household income. If main source of income comes from cultivation and non-agricultural wage labor shows a negative impact on income.

Households that have contacts with someone working in hospital or government offices are found to have higher per capita income. e. Households with memberships to youth club, trade union, and development group, are found to have higher income, while households with membership to self help groups, have lower income. On average, per capita household income is lower in communities with greater incidences of conflicts.

For future research, it is necessary to further refine these findings. Define an aggregate measure of Trusts in Institutions. First, instead of study in one era, it would be insightful to include the data, which come from different time period. Reexamine the

question using a panel data. Second, more work and test are necessary to clarify the causal among trust in institution and income. Explore and account for potential simultaneous relationships between household per capita income and trusts in institutions. Explore mediating paths between income and trusts in institutions. Explain heterogeneity in trusts in institutions. That is explore the determinants of trusts in institutions

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APPENDIX A: Table1 Basic Statistics

Variables	Mean	Std.Dev	Min	Max
Total Income (in 1,000 Rupees)	12.307	21.432	-27.290	1315.050
Trust in politician	1.541	0.684	1	3
Trust in military	2.833	0.435	1	3
Trust in police	1.958	0.715	1	3
Trust in State Government	2.034	0.694	1	3
Trust in Newspaper	2.300	0.616	1	3
Trust in Village Panchayats/nagarpalika	2.152	0.710	1	3
Trust in Schools	2.641	0.584	1	3
Trust in Hospitals	2.582	0.621	1	3
Trust in Courts	2.453	0.674	1	3
Trust in Banks	2.867	0.386	1	3
Education	7.922	5.018	0	15
Age	47.321	13.404	15	100
Gender	0.905	0.293	0	1
Rural	0.638	0.481	0	1
Urban	0.341	0.474	0	1
SC and ST	0.276	0.447	0	1
Hindu	0.813	0.390	0	1
Muslim	0.108	0.311	0	1
Christian	0.034	0.182	0	1
Cultivation	0.236	0.425	0	1
Non Agricultural labor	0.165	0.371	0	1
Salaried Employment	0.215	0.411	0	1
Family-town	71.000	31.421	1	90
Own-Ag	0.415	0.493	0	1
know-Doctors	0.335	0.472	0	1
know-Teachers	0.419	0.493	0	1
know-Gov't	0.364	0.481	0	1
Belong-Mahila mandal	0.079	0.269	0	1
Belong-Youth Club	0.056	0.230	0	1
Belong-Trade Union	0.054	0.225	0	1
Belong- Self Help	0.098	0.298	0	1
Belong- Credit	0.067	0.249	0	1
Belong- Religious	0.145	0.352	0	1
Belong-Caste	0.135	0.342	0	1
Belong-NGO	0.020	0.141	0	1
Belong-Agri	0.036	0.187	0	1
Vote	0.900	0.300	0	1
Pan/Nag/Ward Com	0.105	0.307	0	1
Conflict	2.676	0.551	1	3

Table 2: Trusts in institutions by Income (in 1,000 Rupees)

Trust in Institutions	< 50	50-100	101-150	>150
Trust in politician	1.54	1.57	1.49	1.63
Trust in military	2.83	2.85	2.85	2.85
Trust in police	1.96	2.02	2.02	2.06
Trust in State Government	2.03	2.04	2.00	2.11
Trust in Newspaper	2.30	2.38	2.39	2.31
Trust in Village Panchayats/nagarpalika	2.15	2.17	2.11	2.15
Trust in Schools	2.64	2.64	2.59	2.46
Trust in Hospitals	2.58	2.57	2.44	2.43
Trust in Courts	2.45	2.44	2.48	2.36
Trust in Banks	2.87	2.89	2.85	2.80

Table 3: Trusts in institutions by Religion

Trust in Institutions	HINDU	MUSLIM	CHRISTIAN
Trust in politician	1.54	1.53	1.66
Trust in military	2.85	2.71	2.74
Trust in police	1.97	1.90	2.16
Trust in State Government	2.05	1.97	2.01
Trust in Newspaper	2.30	2.29	2.22
Trust in Village Panchayats/nagarpalika	2.16	2.05	2.17
Trust in Schools	2.64	2.62	2.70
Trust in Hospitals	2.58	2.55	2.63
Trust in Courts	2.46	2.41	2.41
Trust in Banks	2.87	2.86	2.79

Table 4: Trusts in institutions by Social Group

Trust in Institutions	SC/ST	NON-SC/ST
Trust in politician	1.56	1.53
Trust in military	2.82	2.84
Trust in police	1.98	1.95
Trust in State Government	2.05	2.03
Trust in Newspaper	2.28	2.31
Trust in Village Panchayats/nagarpalika	2.17	2.15
Trust in Schools	2.63	2.64
Trust in Hospitals	2.59	2.58
Trust in Courts	2.45	2.46
Trust in Banks	2.85	2.87

Table 5: Trusts in institutions by Rural-Urban

Trust in Institutions	RURAL URBAN	
	RURAL	URBAN
Trust in politician	1.56	1.50
Trust in military	2.84	2.82
Trust in police	1.95	1.96
Trust in State Government	2.05	2.01
Trust in Newspaper	2.30	2.30
Trust in Village Panchayats/nagarpalika	2.19	2.09
Trust in Schools	2.64	2.63
Trust in Hospitals	2.60	2.55
Trust in Courts	2.47	2.42
Trust in Banks	2.86	2.88

Table 6: Trusts in institutions by years of Education

Trust in Institutions	6 Years	10 Years	12 Years	15 Years
Trust in politician	1.63	1.55	1.52	1.51
Trust in military	2.83	2.84	2.86	2.86
Trust in police	2.01	2.00	1.95	1.95
Trust in State Government	2.07	2.03	2.02	2.02
Trust in Newspaper	2.31	2.31	2.32	2.33
Trust in Village Panchayats/nagarpalika	2.15	2.18	2.17	2.14
Trust in Schools	2.66	2.67	2.67	2.64
Trust in Hospitals	2.59	2.61	2.60	2.53
Trust in Courts	2.45	2.48	2.45	2.43
Trust in Banks	2.87	2.88	2.89	2.89

Table 7 : Regression Result: The Impact of Trust in Institutions on Real Household per Capital Income

Dependent Variable: Per Capital Household Income (in 1,000 Rupees Unit)								
Explanatory Variable	(1)		(2)		(3)		(4)	
Trust in politician	0.316*	(0.171)	0.188	(0.173)	0.276	(0.170)	0.237	(0.172)
Trust in military	-0.154	(0.257)	0.291	(0.264)	-0.347	(0.256)	0.067	(0.264)
Trust in police	0.507***	(0.172)	0.339*	(0.180)	0.662***	(0.172)	0.459***	(0.179)
Trust in State Government	-0.393**	(0.178)	-0.067	(0.181)	-0.410**	(0.177)	-0.158	(0.180)
Trust in Newspaper	0.335*	(0.189)	0.258	(0.191)	0.267	(0.188)	0.218	(0.190)
Trust in Village Panchayats	0.317*	(0.170)	0.033	(0.173)	0.180	(0.170)	-0.049	(0.172)
Trust in Schools	-0.637***	(0.217)	-0.769***	(0.220)	-0.533**	(0.217)	-0.652***	(0.219)
Trust in Hospitals	-0.074	(0.207)	-0.143	(0.209)	0.004	(0.206)	-0.114	(0.208)
Trust in Courts	-0.016	(0.177)	-0.031	(0.178)	-0.070	(0.177)	-0.114	(0.178)
Trust in Banks	-0.139	(0.300)	0.036	(0.305)	-0.419	(0.299)	-0.199	(0.303)
Education	0.725***	(0.024)	0.692***	(0.025)	0.599***	(0.025)	0.565***	(0.026)
Age	0.079***	(0.008)	0.076***	(0.008)	0.069***	(0.008)	0.068***	(0.008)
Gender	-0.229	(0.366)	-0.235	(0.367)	-0.354	(0.364)	-0.422	(0.365)
Rural	-0.429	(0.766)	-0.635	(0.781)	0.142	(0.764)	-0.063	(0.779)
Urban	4.599***	(0.761)	4.607***	(0.777)	4.859***	(0.757)	4.749***	(0.773)
SC and ST	-2.061***	(0.255)	-2.205***	(0.259)	-1.852***	(0.255)	-1.970***	(0.258)
Hindu	-2.752***	(0.519)	-2.624***	(0.585)	-2.233***	(0.519)	-2.451***	(0.583)
Muslim	-5.044***	(0.616)	-5.039***	(0.685)	-4.466***	(0.614)	-4.731***	(0.682)
Christian	2.960***	(0.765)	1.963**	(0.861)	2.723***	(0.768)	2.050**	(0.857)
Cultivation	-1.415***	(0.350)	-1.419***	(0.356)	-1.149***	(0.349)	-1.360***	(0.354)
Non Agricultural wage labor	-2.721***	(0.318)	-2.545***	(0.321)	-2.216***	(0.317)	-2.060***	(0.320)
Salaried Employment	5.649***	(0.302)	5.328***	(0.306)	4.923***	(0.303)	4.638***	(0.307)
Family-town	-0.035***	(0.004)	-0.034***	(0.004)	-0.033***	(0.004)	-0.034***	(0.004)
Own-Ag	0.542*	(0.309)	0.953***	(0.322)	0.280	(0.309)	0.787**	(0.321)
know-Doctors					2.013***	(0.269)	2.412***	(0.275)
know-Teachers					0.125	(0.267)	0.464*	(0.271)
know-Gov't					3.338***	(0.261)	3.123***	(0.265)
Belong-Mahila mandal					0.162	(0.426)	-0.048	(0.430)
Belong-Youth Club					1.58***	(0.493)	1.2245**	(0.503)
Belong-Trade Union					2.387***	(0.490)	2.751***	(0.505)
Belong- Self Help					-1.68***	(0.392)	-1.485***	(0.407)
Belong- Credit					0.094	(0.455)	0.351	(0.462)
Belong- Religious					-0.153	(0.348)	0.133	(0.374)
Belong-Caste					0.284	(0.354)	0.308	(0.371)
Belong-NGO					2.676***	(0.777)	1.670**	(0.835)
Belong-Agri					0.186	(0.582)	0.068	(0.587)
Vote					-0.511	(0.354)	-0.737**	(0.375)
Attend-village meeting					-0.149	(0.253)	-0.282	(0.263)
Pan/Nag/Ward Com					-0.147	(0.301)	-0.050	(0.302)
Conflict					-0.748***	(0.193)	-0.640***	(0.197)
Including State Dummy	NO		YES		NO		YES	
Number of Observation	36111		36111		36111		36111	
R-Square	0.127		0.1349		0.1385		0.146	
Adj R-Sq	0.1264		0.1336		0.1376		0.1443	

Significant at 1% level *** Significant at 5% level ** Significant at 10% level*

Table 8: Independent Variable Definitions

Variable	Definition
Trust in politician	It is defined as the confidence of the head of the household in politicians to fulfill promises. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in military	It is defined as the confidence of the head of the household in the military to defend the country. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in police	It is defined as the confidence of the head of the household in the police to enforce the law. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in State Government	It is defined as the confidence of the head of the household in the state government to look after the people. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in Newspaper	It is defined as the confidence of the head of the household in newspapers to print the truth. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in Village Panchayats	It is defined as the confidence of the head of the household in village panchayats/nagarpalika to implement public projects. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in Schools	It is defined as the confidence of the head of the household in schools to provide good education. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in Hospitals	It is defined as the confidence of the head of the household in hospitals and doctors to provide good treatment. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in Courts	It is defined as the confidence of the head of the household in courts to meet out justice. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Trust in Banks	It is defined as the confidence of the head of the household in banks to keep money safe. It takes a value of 3 if 'a great deal of confidence', 2 if 'only some confidence' and 1 if 'hardly any confidence at all.'
Education	How many standards/years of education had the head of the household completed?
Age	Age of the head of the household.
Gender	Gender of the head of the household. 1 if male and 0 otherwise.
Rural	1 if the household resides in rural and 0 otherwise.
Urban	1 if the household resides in urban and 0 otherwise.
SC and ST	1 if the household considers to be SC or ST and 0 otherwise.
Hindu	1 if the head of the household's religion is Hinduism and 0 otherwise.
Muslim	1 if the head of the household's religion is Islam and 0 otherwise.
Christian	1 if the head of the household's religion is Christianity and 0 otherwise.

Cultivation	1 if the principal source of income for the household comes from Cultivation and 0 otherwise.
Salaried Employment	1 if the principal source of income for the household comes from Salaried Employment and 0 otherwise.
Non Agricultural wage labor	1 if the principal source of income for the household comes from Non Agricultural Wage Labor and 0 otherwise.
Family-town	How many years ago did the household family first come to this town/village/city?
Own-Ag	1 if the household own or cultivate any agricultural land and 0 otherwise.
know-Doctors	1 if the household has acquaintances or relatives who are doctors or nurses or who work in hospitals and clinics and 0 otherwise.
know-Teachers	1 if the household has acquaintances or relatives who are teachers, school officials, or anybody who works in a school and 0 otherwise.
know-Gov't	1 if the household has acquaintances or relatives who are in government service (other than doctors, teachers, above) and 0 otherwise.
Belong-Mahila mandal	1 if someone in the household including you belong to Mahila mandal and 0 otherwise.
Belong-Youth Club	1 if someone in the household including you belong to Youth club, sports group, or reading room and 0 otherwise.
Belong-Trade Union	1 if someone in the household including you belong to Trade union, business or professional group and 0 otherwise.
Belong- Self Help	1 if someone in the household including you belong to Self Help Groups and 0 otherwise.
Belong- Credit	1 if someone in the household including you belong to Credit or savings group and 0 otherwise.
Belong- Religious	1 if someone in the household including you belong to Religious or social group or festival society and 0 otherwise.
Belong-Caste	1 if someone in the household including you belong to Caste association and 0 otherwise.
Belong-NGO	1 if someone in the household including you belong to Development group or NGO and 0 otherwise.
Belong-Agri	1 if someone in the household including you belong to Agricultural, milk, or other co-operative and 0 otherwise.
Vote	1 if in the most recent national election, you vote yourself and 0 otherwise
Attend-village meeting	1 if someone in the household including you attended a public meeting called by the village panchayat/nagarpalika/ward committee in the last year and 0 otherwise
Pan/Nag/Ward Com	2 if someone in the household including you is a member of an official of the village panchayat/nagarpalika/ ward committee, 1 if somebody close to thousehold is a member, and 0 if nobody close to household is a member.
Conflict	3 if in your village/neighborhood has 'a lot' of conflict among the communities/jatis that live here, 2 if 'some' conflict and 1 if 'not much' conflict.