

Media coverage of
Trust and the welfare state : The twin peaks curve

IZA Discussion Papers 8277, Institute for the Study of Labor (IZA), 2014
The Economic Journal, Vol. 126(593), pp. 861-883, 2016

Yann Algan Pierre Cahuc Marc Sangnier

0. July 17, 2014 - VoxEU.org
1. July 17, 2014 - Smartweek.it
2. July 24, 2014 - Fin24.com

Trust and the welfare state: The twin-peaked curve

Yann Algan, Pierre Cahuc, Marc Sangnier

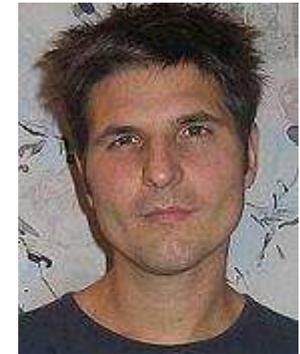
17 July 2014

It is commonly argued that the persistence of large welfare states in Scandinavian countries is due to the trustworthiness of their citizens. This column shows that the relationship between trust and the size of the welfare state is twin peaked. Untrustworthy individuals support generous welfare states because they expect to benefit without bearing the costs, whereas civic-minded individuals only support generous welfare states when surrounded by people they trust.



It is commonly argued that the persistence of large welfare states in Scandinavian countries is explained by the trustworthiness of their citizens. Those large welfare states presumably rely on conditional cooperation. Trustworthy, or 'civic' individuals consent to pay high rates of tax only because they are convinced that their compatriots are paying their taxes too, and not misusing social benefits (Rothstein and Uslaner 2005).

Actually, a glance at the data shows that this explanation can only be one part of a much broader story for the OECD countries. Figure 1 shows that the observed cross-country relationship between trust and the size of welfare states – measured by the share of social expenditure in GDP – is not



Yann Algan

Yann Algan is Professor of Economics at Paris School of Economics and University Paris East



Pierre Cahuc

Director, CREST Macroeconomic Laboratory; Professor of Economics at the Ecole Polytechnique (Paris); CEPR Research Fellow

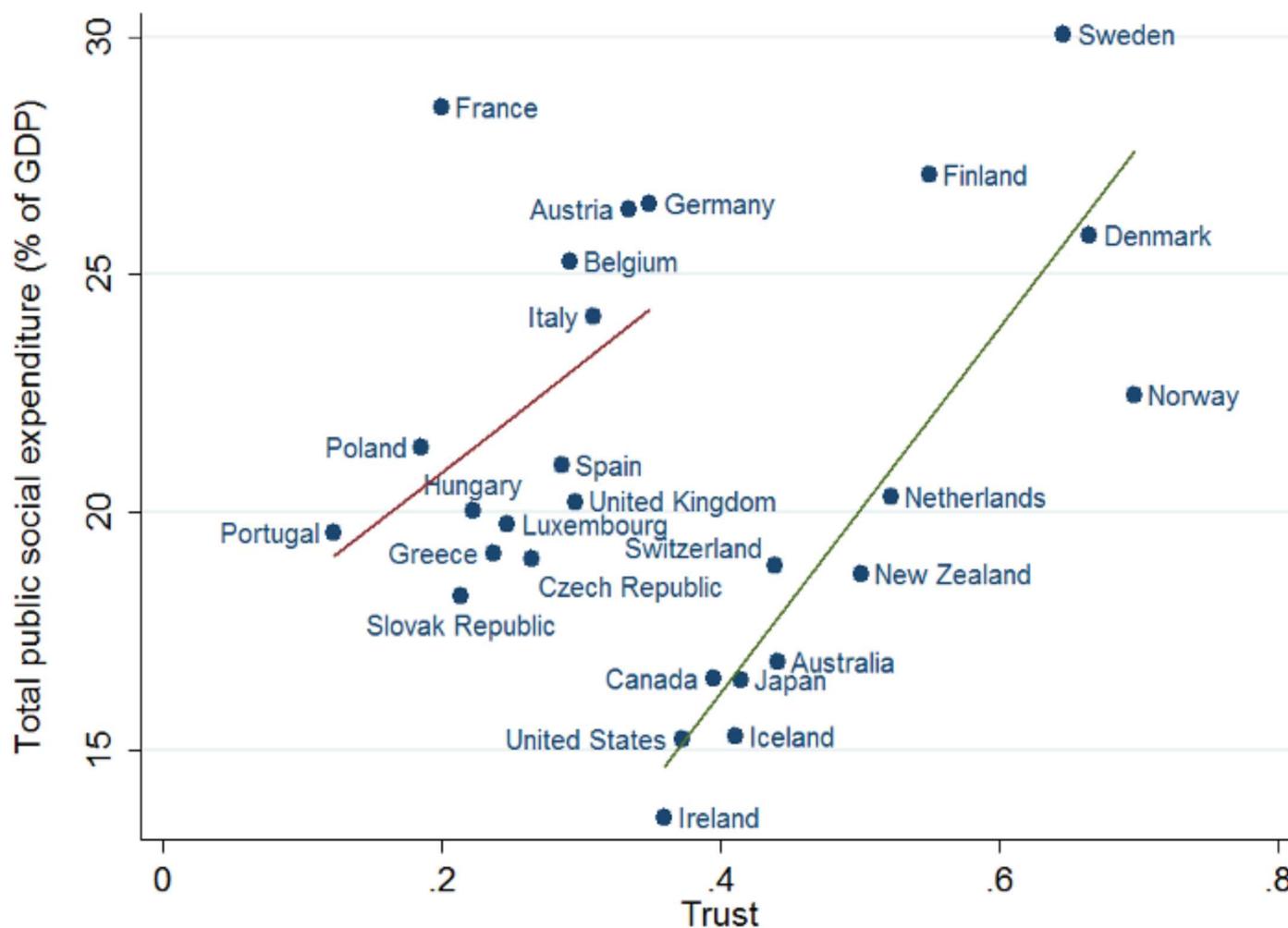
Related

[A "one dollar, one vote" explanation of the welfare state](#)

Loukas Karabarounis

monotonic, contrary to the traditional claim, but twin peaked. Although Austria, Belgium, France, Germany, and Italy display limited trust, their welfare states are as large as those of Scandinavian countries.

Figure 1. The twin-peaked relationship between the generosity of the welfare state and trust



Source: Algan et al. (2014).

Similarly, Figure 2 shows a twin-peaked relation between the transparency and the size of welfare states. This twin-peaked relation holds for various measures of the generosity of the welfare state, and a handful of measures of trust and trustworthiness – even when one controls for alternative



Marc Sangnier

Assistant Professor, Aix-Marseille University

Don't Miss

New eBook: The Long Economic and Political Shadow of History - Africa and Asia

Michalopoulos, Papaioannou

The Long Economic and Political Shadow of History, Volume 2

Michalopoulos, Papaioannou

Crisis, Credit and Resource Misallocation: Evidence from Europe during the Great Recession

Banerjee, Coricelli

New eBook: The Long Economic and Political Shadow of History

Michalopoulos, Papaioannou

US tariffs are an arbitrary and regressive tax

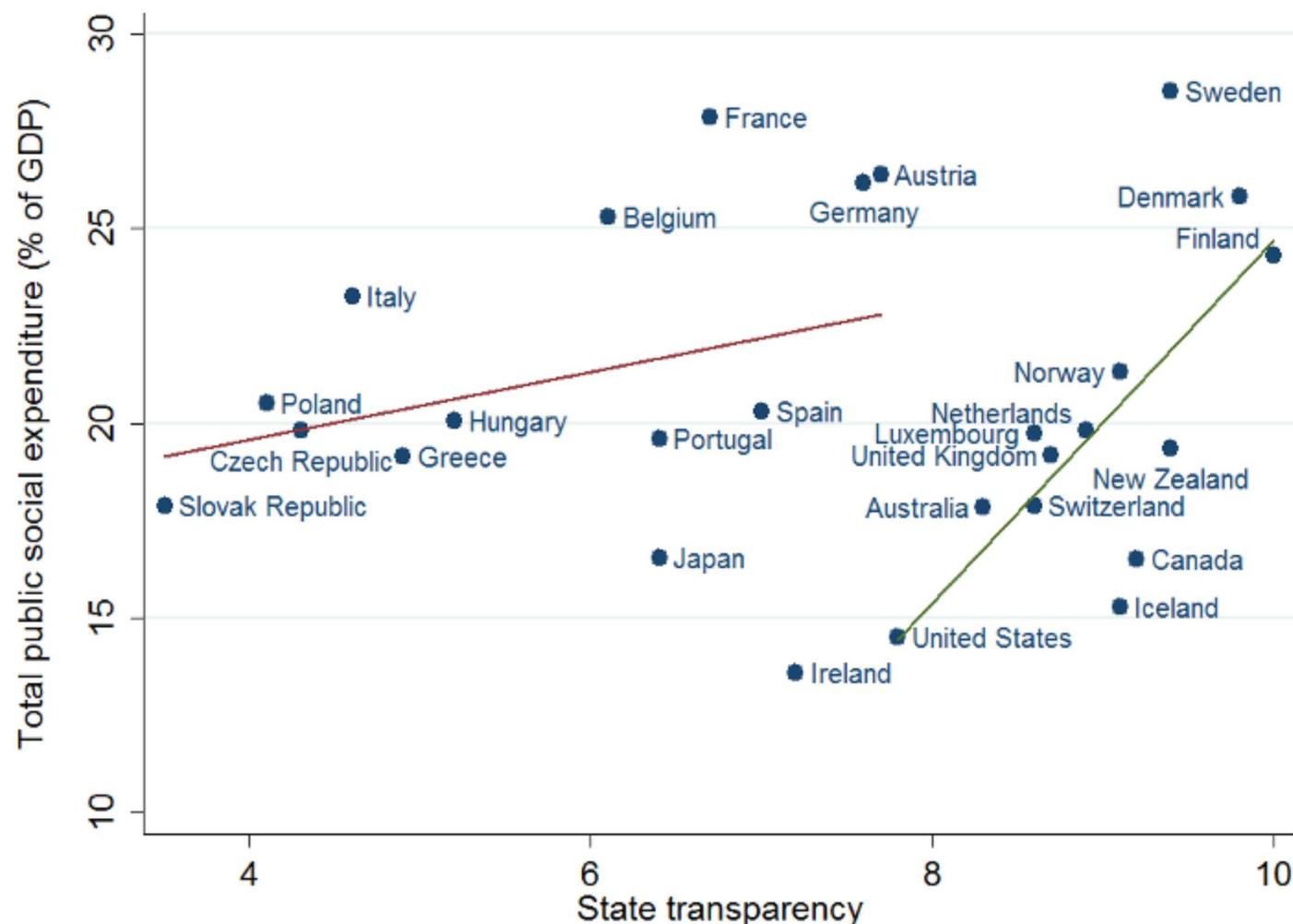
Furman, Russ, Shambaugh

Public policy in a zero-growth scenario

Perotti

variables – ethnic segmentation, democracy score, and real GDP per capita – that have been found to influence the size of the welfare state.

Figure 2. The twin-peaked relationship between the generosity of the welfare state and perceptions of state transparency



Source: Algan et al. (2014).

In Algan et al. (2014), we show that the interplay between two opposing forces leads to this twin-peaked relation.

When behavioural economics meets randomised control trials

French, Oreopoulos

Globalisation and Brexit

Colantone, Stanig

Think global, act local

Shafik

Production fragmentation and the global trade slowdown

Timmer, Los, Stehrer, De Vries

Unwinding of the pound carry trade

Mody

New eBook | Long-term Unemployment after the Great Recession: Causes and remedies

Bentolila, Jansen

The limitations of randomised controlled trials

Deaton, Cartwright

Know your facts: Poverty numbers

Cuesta, Negre, Lakner

The fundamental factors behind the Brexit vote

Becker, Fetzer, Novy

Most Read

[This Month](#)

[All Time](#)

New eBook: The Long Economic and Political Shadow of History

Michalopoulos, Papaioannou

- On one hand, uncivic people support large welfare states because they expect to benefit from them without bearing their costs.
- On the other hand, civic individuals support generous benefits and high taxes only when they are surrounded with people they trust.

In this context, large welfare states can exist in societies populated by a majority of untrustworthy individuals who cheat on social benefits and taxes, and where the share of civic citizens is nonetheless large enough to raise a significant amount of taxes. If the civic spirit of public officials mirrors that of the population, these large welfare states will also be corrupt. Conversely, the welfare state can be both large and transparent, but only if the share of trustworthy individuals is very large.

We explore the empirical relevance of this explanation by using international social surveys.

- From the European Social Survey, we find that individuals exhibit a stronger support for the welfare state when they are surrounded with more people they trust.
- From the World Values Survey, we find that untrustworthy individuals support the welfare state more strongly than civic ones.

In particular, individuals who declare that it may be excusable to claim government benefits to which they are not entitled or to avoid a fare on public transport are found to support more generous social programs than trustworthy individuals who declare that there is no justification for cheating.

These findings might explain why it is so difficult to reform the large welfare states of several continental European countries, despite the widespread consensus that they are less effective and transparent than the welfare states of Nordic countries. Their large size might be sustained by an equilibrium in which the majority of the population is made up of untrustworthy individuals who exploit the advantages provided by the welfare state at the expense of a minority of trustworthy individuals. The long-run sustainability of this equilibrium is, however, an open question.

The fact that all individuals – either trustworthy or untrustworthy – are better off when they are surrounded by trustworthy individuals suggests that all individuals could coordinate to invest in education in order to improve the civic spirit of their offspring, to the extent that education can improve civic spirit (see Glaeser et al. 2007 and Algan et al. 2013). This should improve the effectiveness and the transparency of the welfare state. However, there are also opposing forces at play. Generous welfare states provide numerous individuals with incentives to abuse social benefits and to evade taxation, which can undermine civic attitudes (Ljunge 2012).

References

Protectionist threats jeopardise international trade

Crowley, Song, Meng

Technological creativity and the Great Enrichment: Reflections on the 'Rise of Europe'

Mokyr

The economic impact of colonialism

Acemoglu, Robinson

Talking trade in the post-truth era

Cernat, Jansen

[more](#)

CEPR Policy Research

[Discussion Papers](#)

[Insights](#)

Homeownership of immigrants in France: selection effects related to international migration flows

Gobillon, Solignac

Climate Change and Long-Run Discount Rates: Evidence from Real Estate

Giglio, Maggiori, Stroebel,
Weber

The Permanent Effects of Fiscal Consolidations

Summers, Fatás

Demographics and the Secular Stagnation Hypothesis in Europe

Favero, Galasso

QE and the Bank Lending Channel in the United Kingdom

Butt, Churm, McMahon,
Morotz, Schanz

Algan, Yann, Pierre Cahuc and Marc Sangnier (2014), “Trust and the Welfare State: The Twin Peaks Curve”, forthcoming, *Economic Journal*.

Algan, Yann, Pierre Cahuc and Andrei Shleifer (2013), “Teaching Practices and Social Capital”, *American Economic Journal: Applied Economics*, 5(3): 189–210.

Glaeser, Edward, Giacomo Ponzetto and Andrei Shleifer (2007), “Why does democracy need education?”, *Journal of Economic Growth*, 12(2): 77–99.

Ljunge, Martin (2012), “The Spirit of the Welfare State? Adaptation in the Demand for Social Insurance”, *Journal of Human Capital*, 6(3): 187–223.

Rothstein, Bo and Eric M Uslaner (2005), “All for All: Equality, Corruption, and Social Trust”, *World Politics*, 58(1): 41–72.



Topics: [Welfare state and social Europe](#)

Tags: [welfare state](#), [trust](#), [social capital](#), [cheating](#)

Related

[A “one dollar, one vote” explanation of the welfare state](#)
Loukas Karabarbounis

22,865 reads

[Printer-friendly version](#)

Events

Brexit and the implications for financial services

23 - 23 February 2017 / London, UK / SUERF - The European Money and Finance Forum and Ernst & Young

News and Fiscal Policy

2 - 3 March 2017 / Brussels / Vrije Universiteit Brussel, INFER

Macroprudential policy: promises and challenges

8 - 10 March 2017 / Florence, Italy (EUI Premises) / Florence School of Banking and Finance (Robert Schuman Centre for Advanced Studies, European University Institute)

Think Forward Summit

15 - 15 March 2017 / Munich / ING, CEPR, Deloitte, Microsoft, Dell EMC and Dimension Data

Measuring and Managing Systemic Risk

21 - 23 March 2017 / Florence, Italy (EUI Premises) / Florence School of Banking and Finance (Robert Schuman Centre for Advanced Studies, European University Institute)

Subscribe

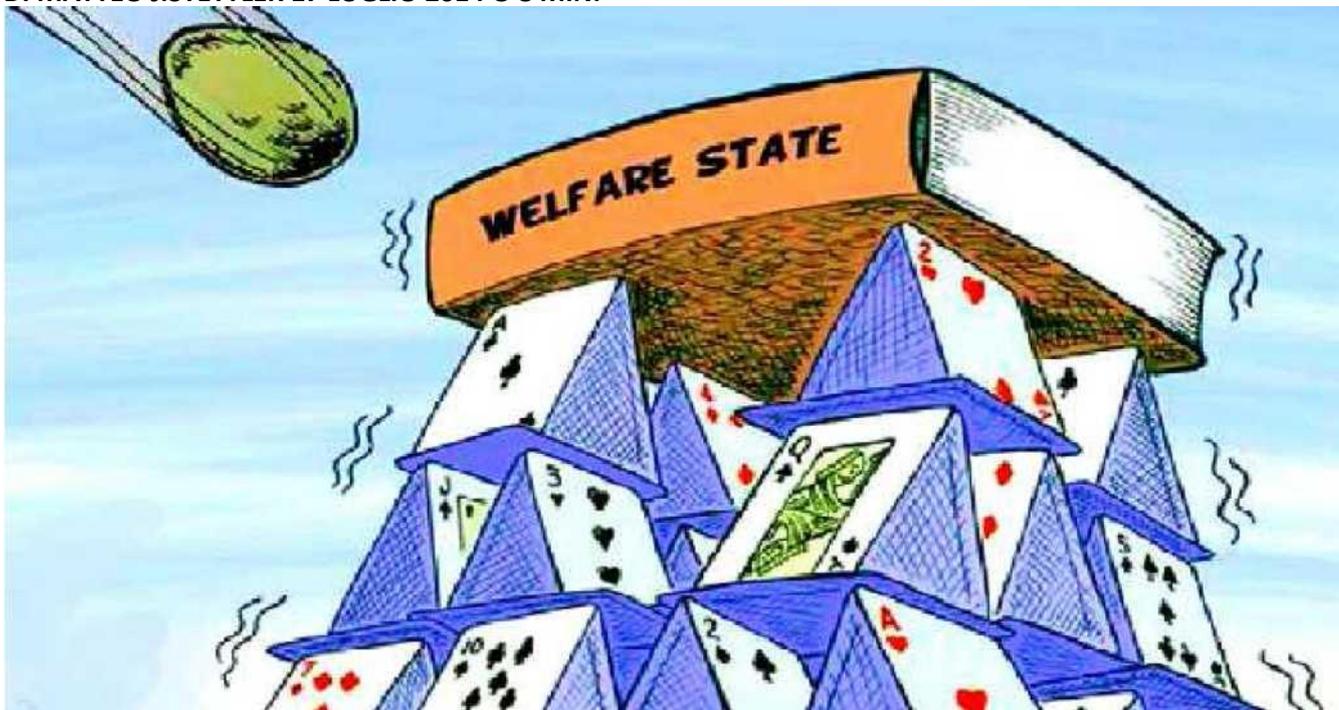
 [@VoxEU](#)

 [RSS Feeds](#)

 [Weekly Digest](#)

WELFARE STATE, IL PRECARIO EQUILIBRIO SOSTENUTO DAGLI “UNCIVIC CITIZENS”

DI MATTEO J. STETTLER 17 LUGLIO 2014 O 8 MIN.

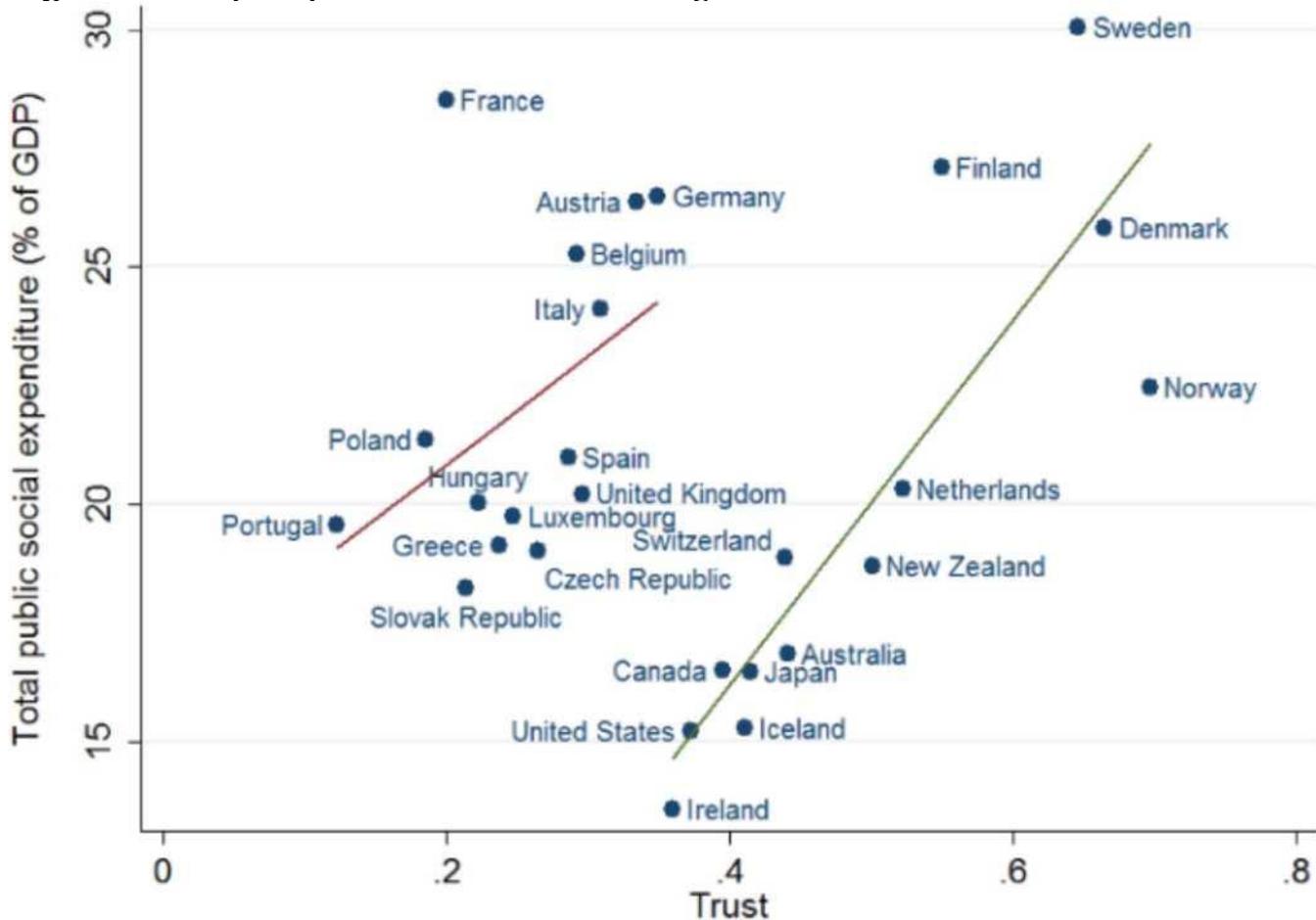


Perché lo **stato sociale** assume forme tanto diverse e, conseguentemente, opera attraverso modelli organizzativi eterogenei a seconda del paese di riferimento? A questa domanda tradizionale del dibattito economico la letteratura rilevante in materia risponde con l'ipotesi che la dimensione del Welfare State dipende positivamente dal **livello nazionale di fiducia**. Individui con un radicato senso civico, in questo senso, acconsentono a pagare alte imposte solo quando sono convinti che i loro compatrioti facciano lo stesso, e non abusino delle prestazioni sociali (si veda *Rothstein and Uslaner, 2005*).

I grandi sistemi di Welfare, si è soliti sostenere, si basano quindi su una **cooperazione condizionale**. Nozione recentemente consolidata anche dallo studio *“Historical Trust Levels Predict the Current Size of the Welfare State”* condotto da **Andreas Bergh** e **Christian Bjornskov** dell'Università di Lund, in Svezia. “Abbiamo sempre riposto grande fiducia nelle altre persone in Scandinavia - afferma Bjornskov - e questa è la base del nostro stato sociale.”

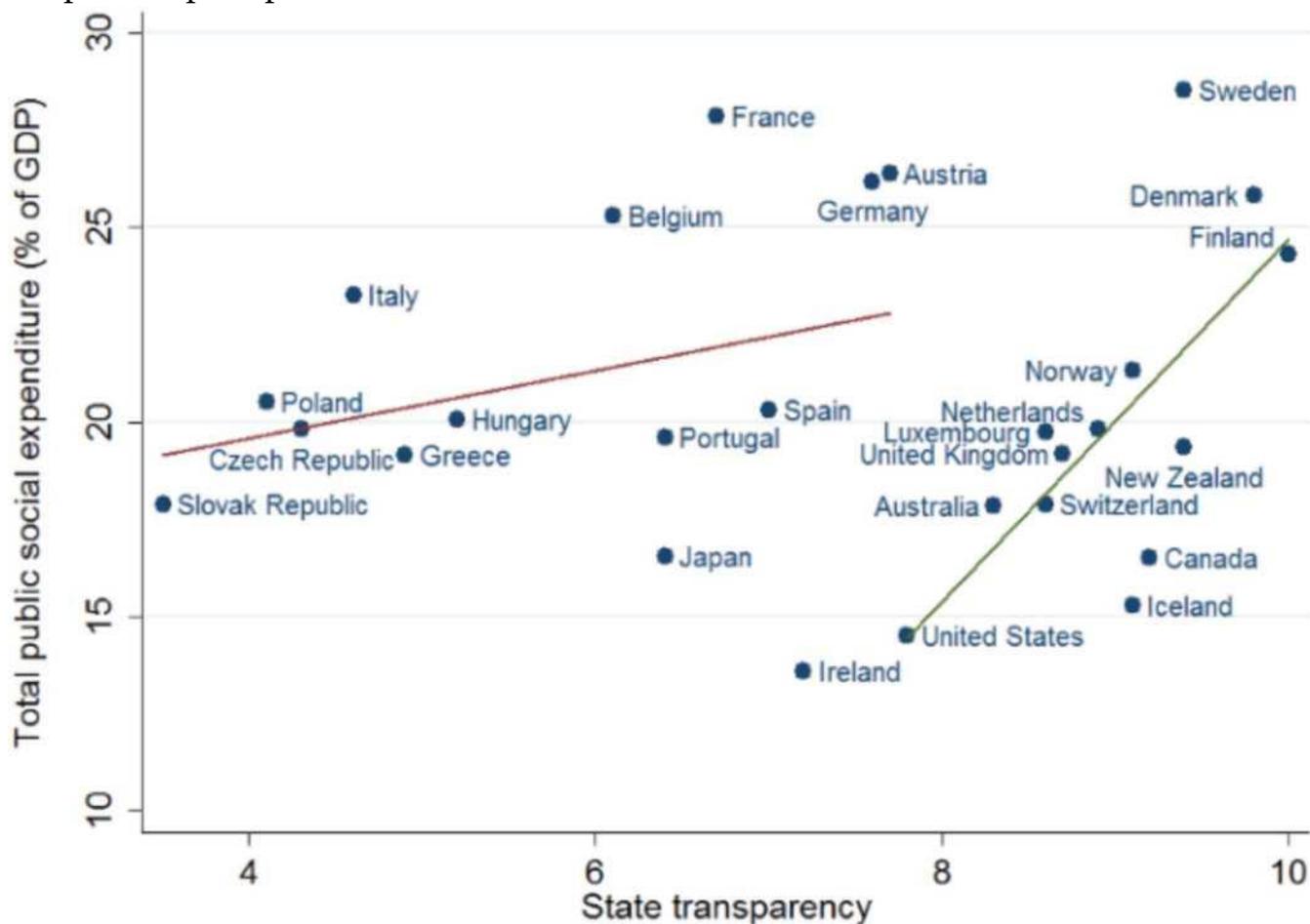
Tuttavia la fiducia potrebbe costituire **soltanto una parte della storia**. A raccontarcela nella sua totalità, includendo anche i risvolti meno felici, sono tre economisti francesi **Yann Algan, Pierre Cahuc, e Marc Sangnier**, accademici facenti riferimento rispettivamente alla Paris School of Economics, l'Ecole Polytechnique e la Aix-Marseille University. Nel loro studio *"Trust and the Welfare State: The Twin Peaks Curve"* i tre hanno rilevato che la relazione *cross-country* tra fiducia e le dimensioni dello stato sociale - misurate dalla quota della spesa pubblica sul GDP - non è monotona ma, contrariamente a quanto sostenuto dalla letteratura tradizionale, presenta **un duplice picco** (vedi Figura 1).

Figura 1. Il duplice picco nella relazione tra la generosità dello stato sociale e la fiducia.



"Sebbene **Austria, Belgio, Francia, Germania ed Italia** esibiscano livelli di fiducia limitati, i loro stati sociali sono grandi tanto quanto quelli dei paesi Scandinavi", riporta lo studio. Inoltre, la medesima relazione **"a doppia punta"** viene riscontrata nella relazione tra la trasparenza e la dimensione del Welfare State (Figura 2.), anche dopo aver inserito variabili di controllo quali la segmentazione etnica, indici di democratizzazione, e PIL - parametri potenzialmente influenti per la dimensione dello stato sociale.

Figura 2. Il duplice picco nella relazione tra la generosità dello stato sociale e la trasparenza percepita dello stato.



Gli autori sostengono che tale risultato sia da attribuire al conflitto tra l'atteggiamento adottato dagli **individui dotati di "senso civico"** e da **coloro che ne sono sprovvisti - uncivic citizens** - nei confronti dello stato sociale. Coloro che tendono ad evadere i propri obblighi fiscali ed estrarre il possibile dalle prestazioni sociali, a detta degli autori, "sosterranno l'espansione dello stato sociale con maggior impegno di quanto potrebbero fare i cittadini *'civili'*, dal momento che, sottraendosi alle spese, si aspettano di beneficiare maggiormente dei suoi servizi". In questo modo "un aumento della quota di cittadini *uncivic* potrebbe aumentare la domanda per uno stato sociale generoso".

V'è comunque **un'altra dinamica che opera in direzione opposta** alla prima. I "*civic citizens*" saranno meno inclini a sostenere elevati livelli di tassazione se si aspettano che gli altri individui non facciano lo stesso. In tale contesto, stati sociali di grandi dimensioni sopravvivono in un **precario equilibrio** in cui le società sono popolate da una maggioranza di individui sprovvisti di "senso civico", ma dove la quota di cittadini "civili" è comunque sufficientemente ampia da permettere l'estrazione di una **notevole quantità**

d'imposte. Non è un caso che all'apice del primo picco vi si trovano paesi con grandi sistemi di welfare pubblico - paragonabili per dimensioni a quelli Scandinavi - con un'ampia economia sommersa, ed alti livelli di deficit (vedi grafico).

Cüürj'y	Gfip 1009 (Euro Miilinf)	Gov. iptnding □ = p> apertigli cf SDP (%)	ije of ShadDw EctMtomv (Euro Million)	7*k ins.1 .e, a t«ul(nf Shadow Lconümy (Euro Million)	rain la it js r [ji OfiLif [Iiji i al gdtfprnmiÜ spending	T.i" I -M on shadow «ononvy A3 ■WoF hidllhLjre- spending	Gu'j. bar rowing 2tllo(Eiro MiMlon)	Wh i \ i [■»■luld '.ai.t tin luH to fepav debt	^1 III Uri 1 deficjt 2fl 11? IF urn Vili i Dill
fklRiIPH	353,«n		77.307	*2,679	19,1	6U7	341,019	10.1	1JK35S
Har", e		52.B		li 0,619	13.4		1.591.169	li,?	136,525
■Gwmany	ifcmooc	ili 3.7	ms4o	15A,7iti	IA 5	75.rt	1,073.019	13.1	B 1,650
fraly	1,549,000	48 .P	+ 18.1343	180,257	2J.8	228.2	1,34.3,0:5	10.2	jusjn
Sweden	3* 7,000	52.5	65,216	J0.596	16.8	39.]	113,106	4.5	0
DcrihUjk	Z34.L10U	51.E	41.41B	19,33 J	IE.4	1Jl.&	102J024	M	t.,313
Fm' and	130,000	4&i	JL.9IO	11,712	1&J	65.2	67,110	6.4	M2 7

Elaborazione dati Tax Research UK

Ciò potrebbe spiegare come mai è così difficile riformare gli stati sociali di molte economie continentali, nonostante un diffuso consenso circa la loro ridotta efficienza e trasparenza rispetto ai modelli caratterizzanti i paesi nordici.

References:

Algan, Y., Cahuc, P., & Sangnier, M. (2014). Trust and the Welfare State: The Twin Peaks Curve.

Bergh, Andreas, and Christian Bjørnskov (2011), "Historical trust levels predict the current size of the welfare state." *Kyklos* 64.1 : 1-19.

Rothstein, Bo and Eric M Uslaner (2005), "All for All: Equality, Corruption, and Social Trust", *World Politics*, 58(1): 41-72.

**Inside Labour: Minimum wage**

It is the workers' labour that creates wealth and generates profits, says Patrick Craven.

**Economic miracles**

Creating new money and lending or spending it wisely is key, say Edward Ingram and Riekie Cloete.



Home

Companies ▾

Budget 2017

Markets ▾

Economy ▾

Tech ▾

Money ▾

Entrepreneurs ▾

O

Delayed data provided by
INET BFA

ZAR/AUD

10,06 ▲ (-0.24%)

ZAR/EUR

13,96 ▲ (-0.41%)

ZAR/GBP

16,28 ▲ (-0.03%)

ZAR/JPY

0,12 ▲ (-0.96%)

ZAR/US

13,1 ▲

Corruption, welfare and SA

Jul 24 2014 07:24 *Geoffrey Chapman



EARLIER this year, Social Development Minister Bathabile Dlamini announced that the child support grant would be expanded to include young people aged 19 to 23 years.

Ignoring this announcement for the moment, it is mostly because of the child support grant that over the past decade, the number of social grant beneficiaries has doubled since 2003 (up from 7.9 million to 15.8 million this year).

Our social assistance system is one of the largest in Africa, with spending on social grants accounting for 3% of the country's gross domestic product. This expenditure is projected to rise from R118bn in 2013/14 to R145bn by 2016, as the number receiving assistance increases to 16.5 million.

The two largest grant programmes, constituting roughly 75% of total grant spending, is the child support grant and the old age grant.

With 52.98 million in the country (mid-2013 estimate by Statistics SA) and 15.8 million currently receiving social assistance, that equals 30%. But a welfare state is not defined by the percentage of people receiving social assistance; instead, it is defined by the state being committed to ensuring all its citizens enjoy a minimum standard of living.

Whether or not we are becoming a welfare state is a debate that will continue for some time (I believe) but regardless of this debate, I found something interesting last week.

New research suggests that "Untrustworthy individuals support generous welfare states because they expect to benefit without bearing the costs, whereas civic-minded individuals only support



(Shutterstock)

RELATED ARTICLES

- **Minister cheers social grant ruling**
- **ConCourt to rule on R10bn tender**
- **Grants play big part in fighting poverty**
- **Spending on social grants goes up**
- **Ministry lauds social grant tender ruling**
- **Social grants weighing on govt coffers**

- S
- D
- H
- A
- H

COI

We

#BU

Fin2
view
Gorc

Rela
Tax,
cred
cent
Spe
Bud
out,
Fou
for i

G
F

Twin peaks

Further, the cross-country relationship between trust and the size of welfare states is twin-peaked due to these two opposing forces.

The implication of the above is that the research by Algan, Cahuc and Sangnier (2014) shows that “large welfare states can exist in societies populated by a majority of untrustworthy individuals who cheat on social benefits and taxes, and where the share of civic citizens is nonetheless large enough to raise a significant amount of taxes.

“If the civic spirit of public officials mirrors that of the population, these large welfare states will also be corrupt. Conversely, the welfare state can be both large and transparent, but only if the share of trustworthy individuals is very large.”

Rather than simply regurgitating the research further, please follow the [link](#) in the references and read the article for yourself (it is short and quite enlightening) and then consider the question below.

At the end of the day, perhaps like me you will find it interesting that our government (which is known for corruption) is pushing for an enlarged welfare state.

Which of the two options below sounds more like South Africa to you?

- “large welfare states can exist in societies populated by a majority of untrustworthy individuals who cheat on social benefits and taxes, and where the share of civic citizens is nonetheless large enough to raise a significant amount of taxes”, or
- “the welfare state can be both large and transparent, but only if the share of trustworthy individuals is very large.”

References

Algan, Y, Cahuc, P & M Sangnier. (2014). Trust and the welfare state: [The twin-peaked curve](#).

- Fin24

* Geoffrey Chapman is a guest columnist and trade policy expert at the SABS. Views expressed are his own.

Follow Fin24 on [Twitter](#), [Facebook](#), [Google+](#) and [Pinterest](#).

WHAT TO READ NEXT



Mcebisi Jonas takes on Ajay Gupta over Saxonwold meeting



Dlamini says she did not reject Gordhan's social grants option



Absa let off collusion fine as it helped regulators - source



ANC leader race down to Dlamini-Zuma and Ramaphosa - Bloomberg survey



Bank probe timing couldn't be worse amid Gupta blacklisting - expert



Treasury touts Twin Peaks Bill amid banking scandal



Mini:
has
Mini:
distr



Te

FOI

MO

- I
- V
- I
- F
- L

D
W