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Social Capital and Preferences for Redistribution to Target Groups

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Will you give
some of your
income to
unlucky ones?



Many give something to the « deserving »



But no one
wants
to help this
cheater

Trust matters!!

What do we know?

- **Recent papers show that trust is a very important factor of redistribution preferences.** Trust is connected with stronger support for government redistribution, because it diminishes concerns about others' misbehavior and free-riding (Daniele and Geys, 2015, Algan et al., 2016, and Borisova et al., 2017 for Russia)
- **Trust is no less important than more standard parameters like:**
 - income (Meltzer, Richards, 1981),
 - past income shocks (Giuliano, Spilimbergo, 2008),
 - expected income mobility (Alesina, La Ferrara, 2005),
 - diversity (Alesina, Glaeser 2004),
 - ideological indoctrination (Alesina, Fuchs-Schundeln, 2007; Pop-Eleches, Tucker, 2014),
 - etc.

Missing in the literature?

- **Redistribution target groups**
 - Groups are different in perceived opportunities to cheat: it could be comparatively easier to pretend to be poor than to be a retired or a disabled person
- **Evidence for developing and transition economies is scarce**

Our research question

Does higher generalized trust (and social capital) lead to stronger support for redistribution in favor of all target groups?

We hypothesize that higher social capital results in less tolerance for cheating and in lower preferences for redistribution towards the poor and unemployed and greater preferences towards groups that are objectively identifiable

Explanations

- **The problem of moral hazard is reduced** -> decreasing the proportion of people who pretend to be poor and who would thus support redistribution in favor of the poor
- **Increased individual concerns about public finance** -> respondents support less redistribution towards the poor that becomes inefficient because of the high probability of benefit fraud
- **Greater public support for assistance to persons who have rendered services to the community** (e.g., veterans) and are thus seen objectively as more deserving than the poor and unemployed

- Two surveys of about 34,000 individuals across 68 Russian regions conducted in 2007 and 2011 by FOM and designed to be regionally representative for the basic socio-economic parameters; it's not panel data.
 - People's preferences for redistribution to target groups – 2011
 - Generalized trust – 2007
 - A rich set of individual level control variables (gender, age, wealth, occupation, religion, nationality, etc.)
- Official regional statistics:
 - Income/GRP per capita
 - Share of people below subsistence level/Gini index
 - Ethnic fractionalization index
 - Social expenditures
- Survey measures for the quality of institutions
 - Perceived corruption

Preferences for redistribution

“Who, in your opinion, should the government help first...?”

| Answer choice | Percent | Our groups | |
|--|---------|------------|---------|
| | | Group | Percent |
| Poor | 31% | Needy | 52% |
| Homeless | 20% | | |
| Persons who lost job | 16% | | |
| War and labour veterans | 31% | Merit | 42% |
| Participants of military operations | 11% | | |
| Distinguished teachers, doctors or other distinguished workers | 7% | | |
| Retired | 34% | Retired | 34% |
| One-parent families and families with many children | 43% | Family | 63% |
| Families with children | 31% | | |
| Disabled persons | 46% | Disabled | 46% |

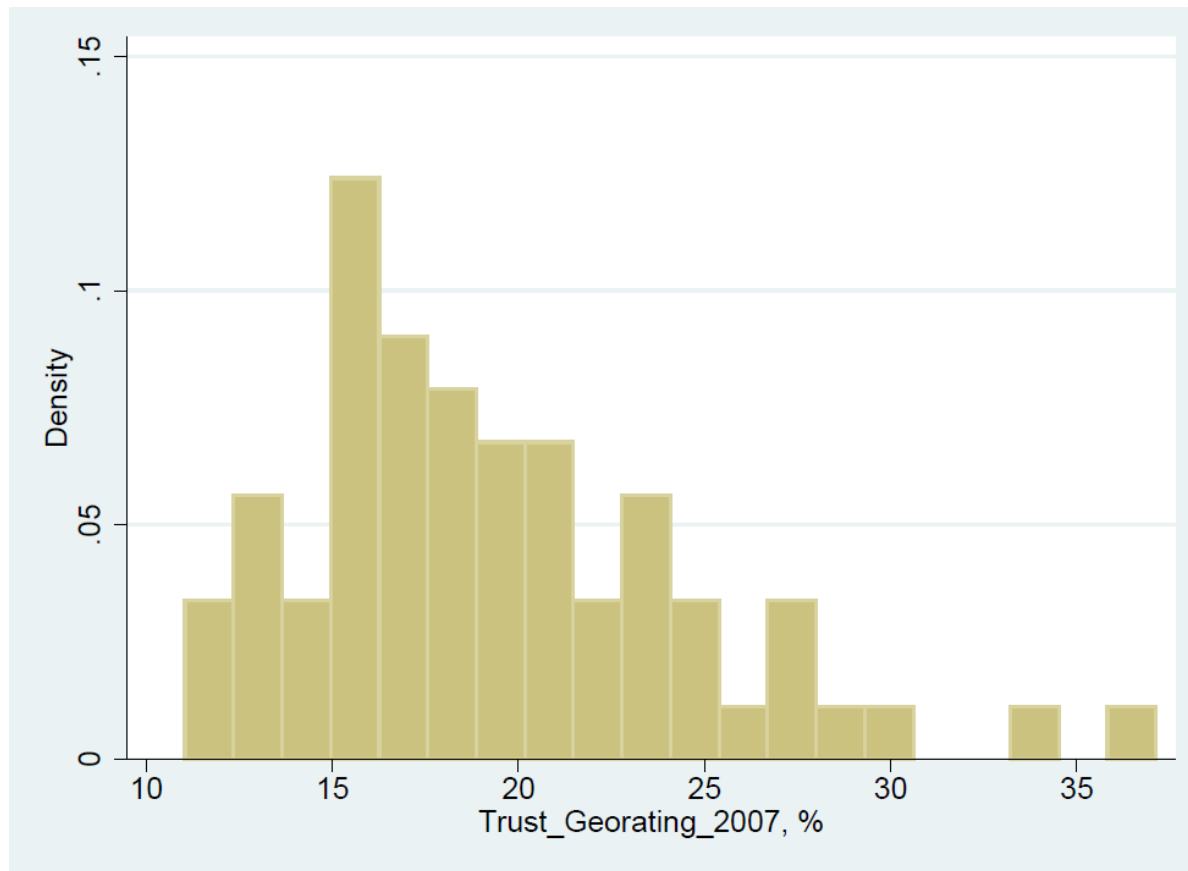
- Preferred coding from 0 to 1, where “1” means that respondent selected at least one category from the group.
- Alternative coding on a scale from 0 to 3 where the value reflects the number of options selected by respondent from each of the five groups.

Trust and social norms

| Variable | Formulation of the question | Response options |
|--------------------------|---|---|
| Generalized trust | Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people? | <ol style="list-style-type: none"> 1. Most people can be trusted 2. Need to be very careful 3. Don't know |
| Solidarity | Do you think that there is more solidarity and cohesion among people in our country today, or that there is more disagreement and disunion? | <ol style="list-style-type: none"> 1. Certainly more solidarity and cohesion 2. Somewhat more solidarity and cohesion 3. Somewhat more disagreement and disunion 4. Certainly more disagreement and disunion 5. Don't know |
| Helpfulness | How often do you see readiness to help each other among people, which surround you? | <ol style="list-style-type: none"> 1. Very often 2. Quite often 3. Quite seldom 4. Very seldom 5. Never 6. Don't know |

Trust in Russian regions

Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?



Trust in Russia: Top 10 and bottom 10 regions

| Rank | Generalized trust, 2007, percent | Region |
|------------------|-------------------------------------|-----------------------------------|
| Top 10 | | |
| 1 | 37.1 | Primorsky Krai |
| 2 | 34.1 | Sakhalinskaya oblast |
| 3 | 29.4 | Kamchatsky Krai |
| 4 | 28.5 | Voronezhskaya oblast |
| 5 | 27.4 | Volgogradskaya oblast |
| 6 | 27.3 | Komi Republic |
| 7 | 27.1 | Kaliningradskaya oblast |
| 8 | 25.5 | Arkhangelskaya oblast |
| 9 | 25.3 | Yaroslavskaya oblast |
| 10 | 25.2 | Tomskkaya oblast |
| Bottom 10 | | |
| 59 | 13.7 | Tulskaya oblast |
| 60 | 13.7 | Kemerovskaya oblast |
| 61 | 13.6 | Stavropolsky Krai |
| 62 | 13.3 | Tambovskaya oblast |
| 63 | 13.2 | Republic of Chuvashia |
| 64 | 13.2 | Nizhegorodskaya oblast |
| 65 | 12.7 | Khanty-Mansiisky Autonomous Okrug |
| 66 | 11.9 | Republic of Mordovia |
| 67 | 11.7 | Krasnodarsky Krai |
| 68 | 11.0 | Omskaya oblast |

Empirical model

$$\text{RedistributionPreferences}_{ij} = \alpha + \beta \text{Trust}_j + \gamma \text{IndividualControls}_{ij} + \delta \text{RegionalControls}_j + \varepsilon_{ij}$$

- Baseline: OLS
- Dependent variable is individual preferences for redistribution in 2011
- Main independent variable is regional trust in 2007
- Standard errors clustered at the regional level



Generalized trust and redistribution target groups: the needy

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Trust in the region | -0.607*** (0.175) | -0.615*** (0.170) | -0.575*** (0.145) | -0.577*** (0.144) | -0.506*** (0.158) | -0.506*** (0.168) |
| Income per capita in the region, log | | -0.041 (0.054) | -0.121 (0.074) | -0.113 (0.076) | -0.114 (0.087) | -0.108 (0.086) |
| Gini coefficient (regional) | | | 0.794 (0.536) | 0.789 (0.544) | 0.805 (0.671) | 1.035 (0.654) |
| Corruption in the region | | | -0.047 (0.055) | -0.055 (0.061) | -0.068 (0.067) | -0.057 (0.066) |
| Ethnic fractionalization | | | -0.091 (0.060) | -0.092 (0.059) | -0.121* (0.061) | -0.120** (0.060) |
| Social spending per capita in the region | | | | -0.024 (0.061) | -0.012 (0.065) | -0.006 (0.065) |
| Gender, age, age squared, education, wealth, religion | Yes | Yes | Yes | Yes | Yes | Yes |
| Social benefits | No | No | No | No | Yes | Yes |
| Control for respondent's occupation | | | | | | Yes |
| Control for size of city / town / locality | | | | | | Yes |
| Observations | 27,172 | 27,172 | 27,172 | 27,172 | 23,460 | 23,414 |
| R-squared | 0.015 | 0.015 | 0.017 | 0.017 | 0.017 | 0.022 |

Generalized trust and redistribution target groups: all groups

| | (1) | (2) | (3) | (4) | (5) |
|--|-----------------------------|---------------------------|----------------------------|--------------------------|--------------------------|
| | Needy | Merit | Retired | Family | Disabled |
| Trust in the region | -0.506*** (0.168) | 0.372** (0.174) | 0.386*** (0.132) | -0.170 (0.150) | -0.026 (0.190) |
| Income per capita in the region, log | -0.108 (0.086) | 0.059 (0.090) | 0.029 (0.072) | -0.106 (0.077) | 0.219*** (0.082) |
| Gini coefficient (regional) | 1.035 (0.654) | -0.025 (0.707) | 0.200 (0.452) | 0.242 (0.686) | -0.776 (0.593) |
| Corruption | -0.057 (0.066) | -0.013 (0.071) | 0.034 (0.061) | -0.123* (0.067) | 0.013 (0.061) |
| Ethnic fractionalization | -0.120** (0.060) | 0.036 (0.076) | 0.050 (0.054) | -0.046 (0.068) | 0.022 (0.052) |
| Social spending per capita in the region, log | -0.006 (0.065) | -0.013 (0.067) | -0.042 (0.050) | -0.001 (0.061) | -0.020 (0.058) |
| Control for respondent's gender, age, education, welfare, religion, importance of social benefits, occupation; size of locality where respondent lives | Yes | Yes | Yes | Yes | Yes |
| Observations | 23,414 | 23,414 | 23,414 | 23,414 | 23,414 |
| R-squared | 0.022 | 0.023 | 0.054 | 0.021 | 0.015 |

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Social norms and redistribution

target groups: OLS

| | (1) | (2) | (3) | (4) |
|--|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| | Needy | Merit + Retired | Needy | Merit + Retired |
| Helpfulness in the region | -0.448** (0.188) | 0.591*** (0.153) | | |
| Solidarity in the region | | | -0.346* (0.181) | 0.447*** (0.118) |
| Income per capita in the region, log | -0.096 (0.080) | 0.018 (0.066) | -0.088 (0.086) | 0.007 (0.082) |
| Gini coefficient (regional) | 1.113** (0.541) | 0.176 (0.494) | 0.936 (0.637) | 0.402 (0.612) |
| Corruption in the region | -0.059 (0.065) | 0.006 (0.054) | -0.072 (0.067) | 0.023 (0.059) |
| Ethnic fractionalization | -0.060 (0.068) | -0.027 (0.061) | -0.086 (0.061) | 0.009 (0.056) |
| Social spending per capita in the region, log | 0.037 (0.068) | -0.105* (0.056) | -0.005 (0.068) | -0.049 (0.048) |
| Control for respondent's gender, age, education, welfare, religion, importance of social benefits, occupation; size of locality where respondent lives | Yes | Yes | Yes | Yes |
| Observations | 23,414 | 23,414 | 23,414 | 23,414 |
| R-squared | 0.022 | 0.026 | 0.021 | 0.025 |

Main results

- Higher trust and norms in a region are connected with less support for the needy and with higher support for merit (veterans and different kinds of distinguished people) and retired
- The effect is also meaningful: moving from the region with the lowest trust to the region with the highest trust decreases support for the needy by 25% (from 0.54 to 0.41) and increases support for people of merit and the retired by 18% (from 0.6 to 0.71)

Results for controls

- Women prefer more redistribution to the needy and less to those of merit and the retired, which is not surprising given the feminization of poverty that is prominent in Russia (Rhein, 1998; Lokshin et al., 2000)
- Better educated and wealthier people demand less redistribution to the needy and more to those of merit and the retired, which could be explained by the literature on the comparative role of effort vs. luck
- Age: a U-shape relationship with the redistribution to merit and the retired: a declining level of support is observed until the age of 38; this plausibly reflects the fact that people support these groups once they become closer to them
- Support for the needy is higher if individuals are more dependent on social benefits
- Regional variables are mostly irrelevant

Robust checks

- Alternative coding of dependent variable and measures of social capital that are conditional on respondents' socio-demographic characteristics
- Additional and alternative controls such as GRP instead of income, share of people below subsistence minimum instead of Gini and different measures of corruption
- Repeat our estimations with a probit-model and multilevel-modelling approach

Instrumental variables

- Regional-level omitted variables or measurement error may still endanger our identification and make OLS results inconsistent.
- We instrument trust with the following variables:
 - January and July average temperature could be positively or negatively related to trust
 - in colder climates individual survival historically depended more on cooperation with strangers due to weather-related agricultural shocks
 - but Russia has tradition of communal agriculture that is important for survival in southern and warmer areas, while colder Russian regions rely on exploitation of contestable and lootable resources which are likely to nurture aggression and suspiciousness towards strangers
 - 1989 regional share of college graduates (higher education): education affects trust (Coleman, 1988), expect to be positively related to it
 - Distance to Moscow: proxy for state capacity and intensity of state control (Foa, Nemirovskaya, 2016), expect positive influence

| | (1) | (2) | (3) |
|--|-----------------|------------------|-----------------|
| | 1-st stage | 2-nd stage | |
| | Trust | Needy | Merit + Retired |
| Trust in the region | | -0.981*** | 0.860*** |
| | | (0.349) | (0.223) |
| Average temperature in January | 0.003** | | |
| | (0.002) | | |
| Average temperature in July | -0.003 | | |
| | (0.002) | | |
| Distance to Moscow, log | 0.026*** | | |
| | (0.010) | | |
| Share of people with higher education in 1989 | 0.009*** | | |
| | (0.003) | | |
| Income per capita in the region, log | 0.005 | -0.097 | 0.028 |
| | (0.054) | (0.094) | (0.093) |
| Gini coefficient (regional) | -0.546 | 0.864 | 0.348 |
| | (0.360) | (0.720) | (0.708) |
| Corruption in the region | -0.078 | -0.059 | 0.003 |
| | (0.050) | (0.067) | (0.066) |
| Ethnic fractionalization | -0.026 | -0.112** | 0.049 |
| | (0.032) | (0.055) | (0.056) |
| Social spending per capita in the region, log | -0.042 | -0.009 | -0.047 |
| | (0.028) | (0.062) | (0.051) |
| Control for respondent's gender, age, education, welfare, religion, importance of social benefits, occupation; size of locality where respondent lives | Yes | Yes | Yes |
| Observations | 23,414 | 23,414 | 23,414 |
| R-squared | 0.394 | 0.020 | 0.022 |

Implications

- In countries with weak institutions consequences of high trust and norms could be ambiguous; they are not necessarily good as most of the literature shows
- Relation between trust, norms and preferences for redistribution target groups should be accounted for in the discussions for the relation between trust and economic growth

Suggestions please
Thank you!