

# THE CULTURAL ORIGINS OF INSTITUTIONAL TRUST: THE CASE OF THE ECB

SIRIA ANGINO (ECB), FEDERICO M. FERRARA (LSE) AND STEFANIA SECOLA (ECB)

## MOTIVATION

Most studies on the determinants of trust in the ECB focus on:

1. National-level macroeconomic determinants.
2. Individual-level attitudes and socio-economic factors.

Limited attention has been paid to:

1. Sub-national regional differences.
2. Non-economic determinants.

## RESEARCH QUESTION

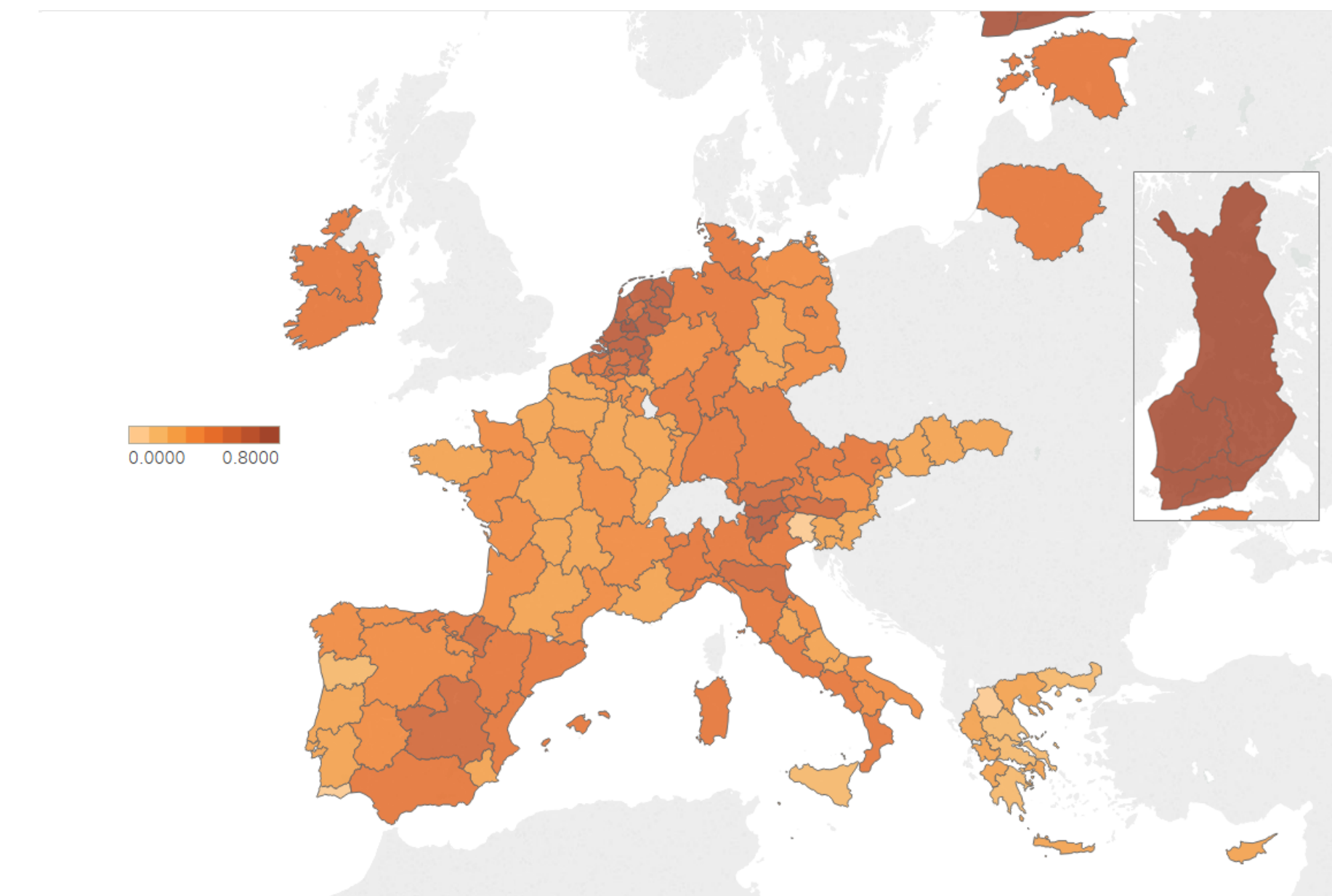
**Does culture have a causal effect on citizen trust in the ECB?**

Reasons to think culture matters:

1. Evidence that cultural differences in Switzerland are associated with different monetary policy preferences (Jost 2018).
2. Wide literature on the effects of social trust – proxy for regional culture – on economic performance.

## DATA & METHODS

Figure 1: Regional Social Trust



- We consider **social trust** as a proxy of cultural orientations and rely

on 2002-2016 **ESS data** at the NUTS2/NUTS1 level.

- To measure individual **ECB trust**, we rely on **novel survey data** collected in the 19 euro area countries in 2016, 2017 and 2018 (n=39,246).
- To identify the causal effect of culture, we resort to an **instrumental variable** approach.
- We use probit and linear models with **country fixed effects** and **individual-level controls**.

## IDENTIFICATION STRATEGY

Two historical variables from Tabellini (2010) as regional-level instruments:

1. **Institutions:** Institutionalised constraints on government decision making powers in 1600-1850 period.
2. **Education:** Literacy rates at the end of the 19th century.

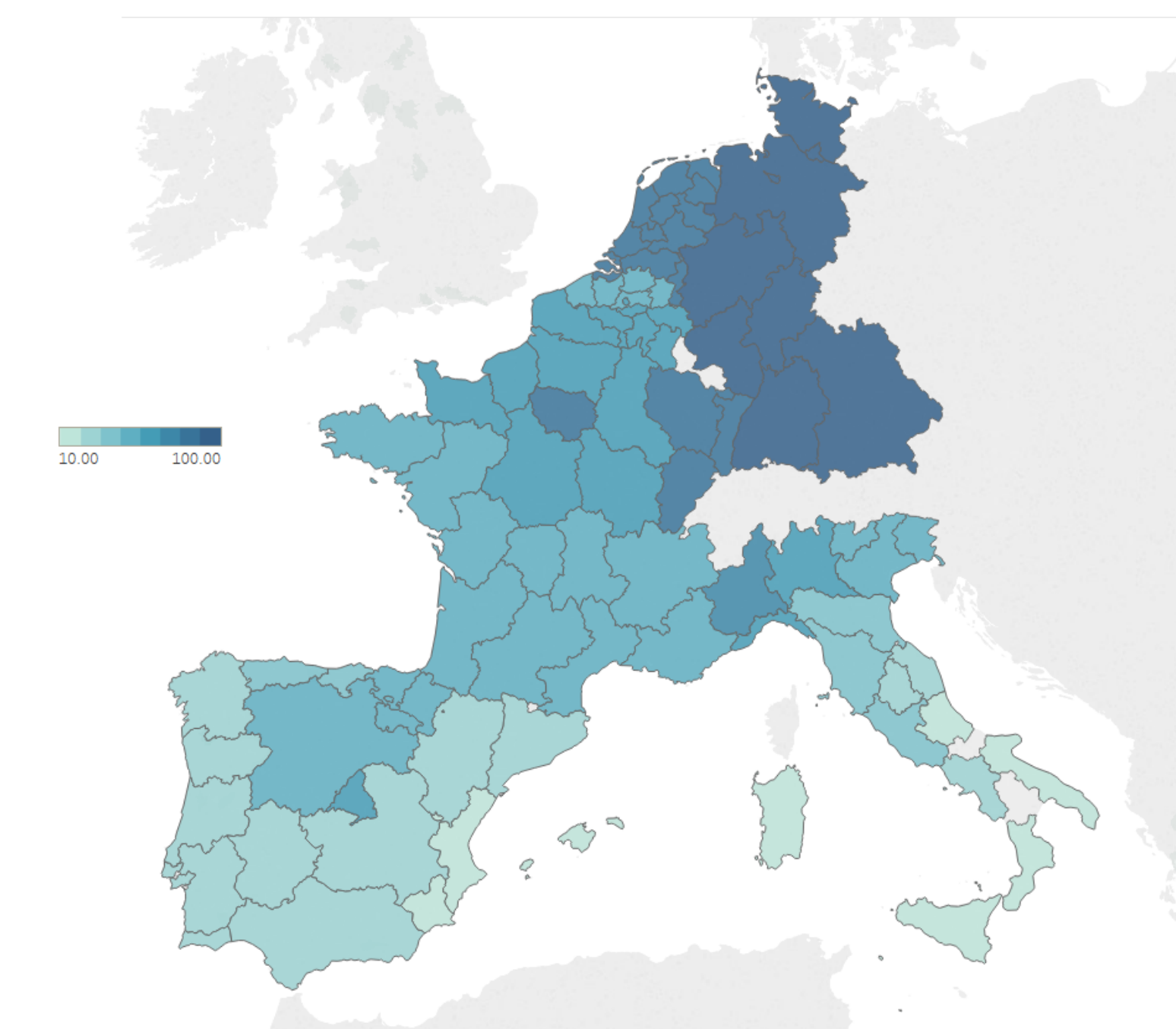
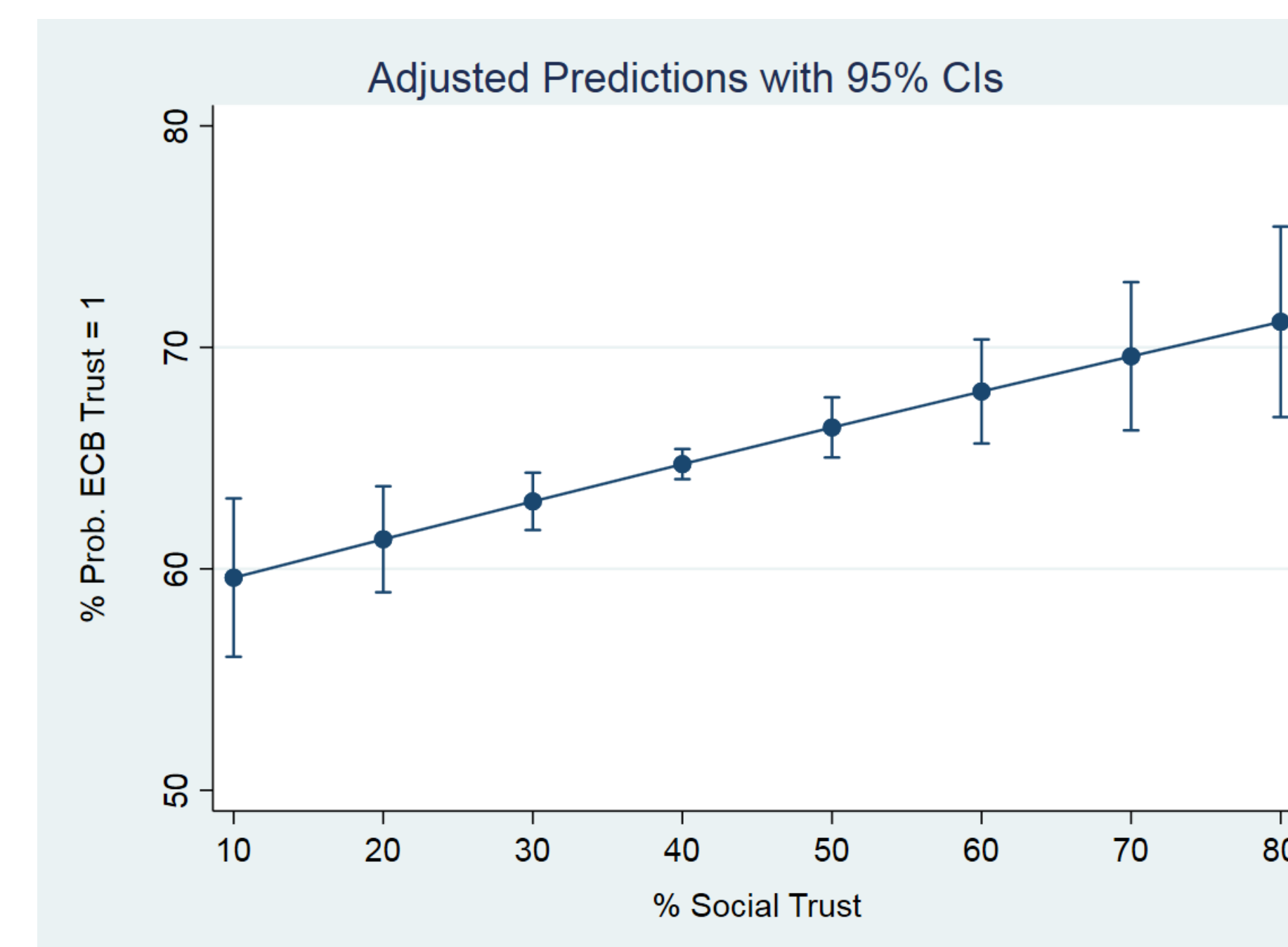


Figure 2: Regional Historical Literacy Rates

## RESULTS

Figure 3: Predicted P(ECB Trust | Social Trust)



**Main results:**

- Respondents in low social trust regions (<20%) are 15% less likely to trust the ECB than those in high social trust regions (>70%).
- Causal interpretation confirmed by 2SLS regressions.
- Regional controls included to ensure that the *exclusion restriction* is not violated.

**Additional results:**

- More sophisticated individuals trust the ECB more.
- But non-linear relationship between knowledge and trust.

2SLS Regressions with Country FEs & Controls

	(1)	(2)	(3)
Social Trust	0.681*** (3.13)	0.695*** (3.08)	0.586*** (2.72)
Regional Controls		✓	✓
ECB Knowledge			✓
First-Stage F	20.47	20.87	20.78

## ROBUSTNESS CHECKS & ADDITIONAL ANALYSES

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Survey	K&A	Wgt. K&A	Eurobar.	Eurobar.	Eurobar.	Eurobar.	Eurobar.
Dep. Variable	ECB	ECB	ECB	ECB	EU	EU w/ ECB	Nat. Inst.
Social Trust (WVS)	0.549*** (2.62)			1.011** (2.02)			
Social Trust (ESS)		0.711*** (3.33)	1.235* (1.78)		1.124** (0.28)	0.998* (-0.96)	0.497 (0.40)

Results are **robust across different data sources** on social trust and ECB trust (i.e., World Values Survey, Eurobarometer); the **effect extends to other European institutions**, but not to national ones.

## IMPLICATIONS

Potential drops in social trust triggered by the COVID-19 crisis may lead to a decrease in public trust towards the ECB and other European institutions.