Institutional vulnerability, breakdown of trust: A model of social unrest in Chile

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The Problem

• Traditional explanations of *Estallido Social* are unconvincing, often politically motivated, and frequently unsubstantiated
• Responses – such as the constitutional agreement /process – have been designed in response to these suppositions
• Even if the ‘why’ were true, few asked two further questions: Why here? Why now?
....in other words ...
Hypothesis

- Citizen discontent clearly spiked in Chile, but inequality did not.
- Some other causal factor must have varied so as to explain the change.
- What changed so dramatically in Chile over the last few years that might explain massive citizen anger?

- Our hypothesis is that it was institutional trust.
Why trust? How trust?

• Development is always a race between frustration and trust.
  – People control their anger as long as they believe that things will get better for them and their children.

• This hope includes a belief that institutions — the government, parliament, judges, prosecutors, the police, the military, labor unions, big business — are working to make that improved future possible.

• If trust suddenly collapses, then frustration and anger will boil over and quite possibly turn violent.
Institutional trust 1990-2019

Source: CERC-Mori
Institutional trust 1990-2019

Source: CERC-Mori
TRUST IN POLITICAL PARTIES (LATAM)

Source: LAPOP 2021
Interpersonal Trust
Selected Countries, Americas

Source: LAPOP, 2021
INTERPERSONAL TRUST

Share of people agreeing with the statement "most people can be trusted", 2014

- Norway: 73.73% in 2009
- Netherlands: 66.18%
- Sweden: 63.76%
- Finland: 57.99% in 2009
- New Zealand: 58.64%
- Australia: 56.23%
- Switzerland: 49.43% in 2009
- Germany: 49.35%
- Estonia: 38.51%
- United States: 38.17%
- Japan: 35.94%
- United Kingdom: 29.96% in 2009
- South Korea: 29.67%
- Hungary: 28.13% in 2009
- Poland: 22.26%
- Slovenia: 19.98%
- Spain: 19.02%
- France: 18.66% in 2009
- Chile: 12.64%
- Mexico: 12.41%
- Turkey: 12.01%

Source: World Values Survey (2014)
Interpersonal Trust, Chile

Source: WVS
Is all this suspicion justified?
# World Bank Governance Indicators for Chile

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Governance Index (-2.5 to 2.5)</td>
<td>Percentile Rank (1 to 100)</td>
</tr>
<tr>
<td>Voice &amp; accountability</td>
<td>1.11</td>
<td>84.5</td>
</tr>
<tr>
<td>Political stability</td>
<td>0.36</td>
<td>59.72</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>1.26</td>
<td>86.73</td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>1.49</td>
<td>91.94</td>
</tr>
<tr>
<td>Rule of law</td>
<td>1.37</td>
<td>87.79</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>1.54</td>
<td>90.52</td>
</tr>
</tbody>
</table>

• World Bank indices suggest that Chile had reasonably high-quality institutions, even after the drop in quality in the run up to 2019

• But Chileans believed the institutional framework was in terrible shape, and their assessment became dramatically more pessimistic.

• Public opinion vs. Expert opinion
Is it the economy?

• The post-commodity slowdown likely had an impact
At the present moment the country is....
(percentage choosing each alternative)

<table>
<thead>
<tr>
<th></th>
<th>December 2012</th>
<th>Sept/Oct 2017</th>
<th>December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moving forward</td>
<td>44</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Stagnating</td>
<td>46</td>
<td>65</td>
<td>61</td>
</tr>
<tr>
<td>Going backwards</td>
<td>8</td>
<td>15</td>
<td>32</td>
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Source: www.cepchile.cl
At the present moment the country is....
(percentage choosing each alternative)

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<td>32</td>
<td>35</td>
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</table>

Source: www.cepchile.cl
Is it the economy?

• The post-commodity slowdown likely has an impact, but...
What will be your economic situation a year from now? (percentage choosing each alternative)

<table>
<thead>
<tr>
<th></th>
<th>July / August 2013</th>
<th>December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much better</td>
<td>4.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Better</td>
<td>34.6</td>
<td>26.9</td>
</tr>
<tr>
<td>The same</td>
<td>54.1</td>
<td>54.6</td>
</tr>
<tr>
<td>Worse</td>
<td>3.9</td>
<td>12.6</td>
</tr>
<tr>
<td>Much worse</td>
<td>0.4</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: www.cepchile.cl
What about other warning signs?
CORRUPTION (PERCEPTION VS VICTIMIZATION)

Corruption Victimization

SOURCE: LAPOP (2018)
CORRUPTION (PERCEPTION VS VICTIMIZATION)

Corruption Victimization

SOURCE: LAPOP (2018)
• The trust people place in an institution depends in large measure on how effective that institution is.

• At the same time the effectiveness of a public institution depends crucially on how much citizens trust it.

• But externalities are at work. The trust we place in an institution matters, but the trust of others matters just as much → banks, masks.
• So we have two-way causation: if we all believe that our institutions are ineffective, we are likely to get ineffective institutions.

• But is any country, at any stage of development, with any level of institutional quality, vulnerable to a sudden and self-fulfilling crash in trust? Could an *Estallido Social* occur tomorrow in Denmark, Holland? Unlikely.

• Initial conditions matter. For a country to be vulnerable, its institutions must be relatively weak.
Narrow Corridor

Source: Acemoglu and Robinson, 2019
The model

• We use taxes as a proxy for institutional trust

• We assume
  – The incentive to contribute depends not only on enforcement, but on the belief that a) others pay, and b) that payment will result in welfare (efficiency)
  – The level of welfare is an increasing function of the share of people who contribute.
  – If (almost) everyone contributes there is an aggregate cost, while if no one contributes this cost is zero. So we have a kind of “herd moral effect”: it is less costly not to contribute when others also fail to contribute, and an eventual equilibrium between contributors and non-contributors.
The model

Welfare of a member of the non-contributing class

Welfare of a member of the contributing class

\[ (1 - \tau)y \]

\[ 1 + \alpha \tau \]

\[ 1 + (1 + \alpha)\beta \tau \]

\[ \bar{p} \]

\[ \bar{p}' \]
In the Chilean case

- There was a shock, or several
  - Elite stagnation (post 2009)
  - Economic slowdown (post 2010)
  - Corruption scandals (post 2014)
  - Crisis of trust (post 2014)
  - Tone-deaf government (post 2018)
  - 30 pesos (2019)
In the Chilean case

After each shock there is a loss of faith, some people stop ‘contributing’, until this becomes a systemic collapse
Going forward

• From Tocqueville to Putnam to Fukuyama there are social foundations underlying trust, including family life and associativity, and these have been evolving together with Chile’s economic progress.

• Chile’s modernization requires new social coordination, pacts and institutional arrangements.

• Constitution?