

Title: The Transmission of Trust through Generations

Sara Tonini

Abstract:

Understanding the formation of trust at the individual level is a key issue given the impact that it has been recognized to have on the economic development and the wealth of nations since Arrow (1972). Recent research highlights the role of the transmission of values - trust, in particular - from parents to their children (Bisin and Verdier, 2001, among others). So far, attempts to empirically measure the strength of this transmission relied on the cross-sectional regression of the trust of children on the contemporaneous trust of their parents (Dohmen et al., 2012, among others). We introduce a new identification strategy relying on a panel sample of parents and of their children drawn from the German Socio Economic Panel. As a result, we show that 1) one half to two thirds of the observed variability of trust is pure noise irrelevant to the transmission process; 2) this noise strongly biases the OLS estimate of the parameters of the regression of children's trust on parents' trust but an IV estimate straightforwardly emerges from the analysis; 3) the dynamics of the component of trust relevant to the transmission process shed light on the structural interpretation of the parameters of this regression; 4) the strength of the flow of trust that parents pass on to their children is easily summarised by the conventional R^2 of a latent equation. As applied to our sample, only one fifth of the variability of children's trust is inherited from their parents.

JEL codes: J62, P16, Z1

Keywords: Trust, Intergenerational transmission, Cultural economics