

# Can Trust Substitute for Quality Institutions To Promote Economic Growth?

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## Abstract

This study looks at the relationship between generalized social trust, state institutions and economic growth. Social capital literature and economic growth literature have consistently shown that interpersonal trust has a positive effect on growth, and quality state institutions similarly have a positive effect on growth. This study hypothesizes that countries with lower institutional quality will rely more heavily on interpersonal trust for their economic transactions, because state apparatus are too weak to sanction those who violate contracts. Similarly trust will have less of an impact on growth conditional on high levels of institutional quality. This hypothesis is tested on 29 countries using growth data on the period between 1981 and 1992. The results show that the marginal effect of trust on growth diminishes as institutional quality increases, thereby offering support for the hypothesis. Trust also remains a significant predictor of growth at all levels of institutional quality.