Recession Pares Faith In Government, Banks

By JUSTIN LAHART

Banks, government and other institutions in the U.S. suffered a greater loss of trust than those in most other countries during the financial crisis and recession, new research suggests. That could act as a drag on the economy for years to come.

The percentage of Americans who say they have confidence in financial institutions fell to an average 44% in 2009 and 2010, down 31 points from 2006 and 2007, economists Justin Wolfers and Betsey Stevenson of the University of Pennsylvania's Wharton School found in an analysis of global polling data from the Gallup Organization. That compares with an average drop of six percentage points among 71 countries for which data were available covering similar time periods, and was the fourth-largest drop after Ireland, Portugal and Latvia.

Over the same period, the share of Americans who say they have confidence in the national government fell 0.4 percentage point to 46.7%. That compares with an average rise of 1% among 65 countries.

The drop in confidence could present another obstacle to a full economic recovery. Researchers have found that general levels of trust—meaning how much trust people place in one other—is closely related to how willing they are to engage in financial activities, ranging from sending a check in the mail to investing in the stock market. That, in turn, has a strong relationship with how well the economy performs, says Kellogg School of Management economist Paola Sapienza—one reason she believes the economy in her native Italy has tended to lag behind others.

"The typical thing you tell an Italian child growing up is, 'Don't trust anybody,' " she said.

The changes in confidence were closely related to how much a country’s jobless rate rose after the global financial crisis, Mr. Wolfers and Ms. Stevenson found. In Germany, where unemployment decreased, trust in government rose sharply while trust in banks fell. In Ireland, where the unemployment rate rose more than seven percentage points as the government struggled to bail out banks and control its budget deficit, confidence in banks and government plummeted.

"It's crystal clear that the harder a country got hit, the larger the decline in trust in the financial system and in government," says Mr. Wolfers, who does consulting work for Gallup. Ms. Stevenson is currently on leave from Wharton, serving as the Labor Department’s chief economist.

Americans' faith in institutions has been slipping for years, and fell recently to new lows. In a long-running Gallup poll separate from the one used for the global comparisons, only 11% of respondents said last year they had a "great deal" or "quite a lot" of confidence in Congress. That was the lowest since Gallup started gauging trust in institutions in 1973.

Only 23% said they had a great deal or a lot of confidence in banks in 2010, down from 41% three years
earlier and less than the 25% who said the same of newspapers. In 2009, banks fell below newspapers—for the first time since 1993.

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