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Macroeconomic Drivers of Public Confidence in Institutions

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Abstract

Institutional trust is essential for the effective functioning of governments. How do macroeconomic conditions shape public confidence in institutions? Based on a recent paper by Popova et al. (2025), this policy brief underscores that unemployment is a significantly stronger driver of political distrust than inflation, and that it is associated with lower confidence in national governments and reduced approval of national leaders globally. Furthermore, personal economic hardship, combined with public perceptions of a poorly performing national economy and lower-quality institutions, underlie and strengthen this relationship. That is, policies focused on job creation and targeted economic support for vulnerable population groups are essential for maintaining confidence in political institutions and for implementing economic reforms.

Disclaimer: This policy brief is based on a recently published paper "Inflation, unemployment, and institutional trust: the global evidence". The views expressed in this policy brief are those of the authors and do not necessarily reflect those of the organizations with which the authors are affiliated.

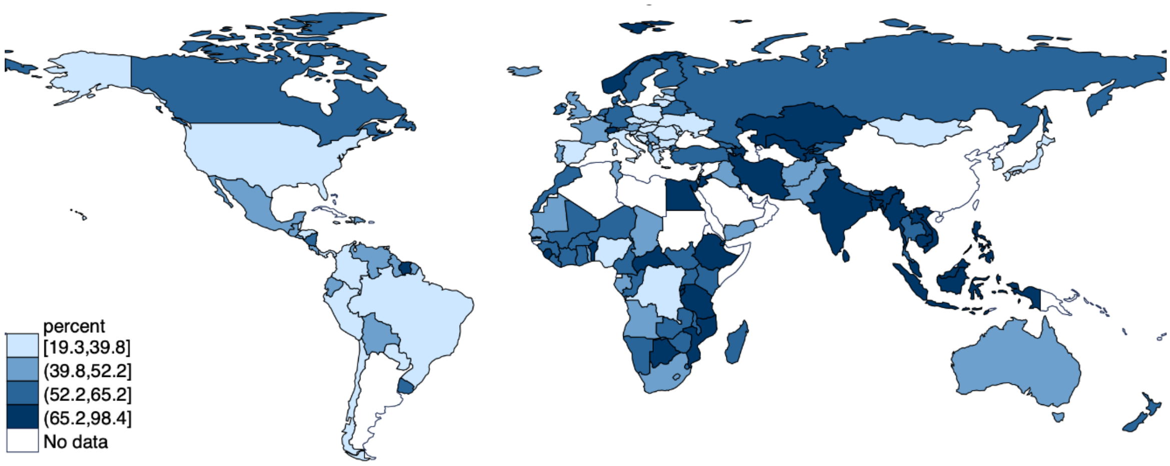
Why Public Confidence in Institutions Matters and How to Measure It

Confidence in institutions reflects public perceptions of how effectively, competently, and accountably institutions function, as well as public acceptance of their actions (Stoker and Evans 2019). As a result, the design and implementation of economic policies and reforms rely on public support and confidence that governments act consistently with public expectations (OECD 2025). Furthermore, countries with a greater share of trusting people experience stronger economic growth by boosting productivity and human capital accumulation, attracting investment, and increasing internationalization and transparency (Kalish et al. 2021).

How can we reveal public confidence in institutions? On the one hand, electoral outcomes help to gauge the extent to which voters support the incumbent government's performance and policies. Voters are likely to attribute changes in economic performance to the incumbent government's activities (Lewis-Beck and Stegmaier 2019). As a result, dissatisfaction with government performance can lead voters to support challengers as a way to express public discontent.

To measure governmental performance outside the electoral cycle, public opinion surveys are typically used. Survey questions may ask, for example, how respondents assess the national government's performance or the performance of specific leaders in their country, or whether respondents are confident or not in specific political institutions. Figure 1 shows the percentage of respondents who have confidence in their national governments worldwide. It is based on a survey question asked in the Gallup World Poll, a global study of public attitudes: "*In (this country), do you have confidence in each of the following, or not? How about: National government.*" As shown, there are substantial differences in public confidence in national governments globally. These differences do not always align with countries' economic development levels: countries with high levels of GDP per capita may not necessarily have high trust in their national governments. This leads to a key question: **To what extent do macroeconomic conditions, such as inflation and unemployment, explain public confidence in governmental institutions?** In the next section, we explore it in detail, based on the recent findings by Popova et al. (2025).

Figure 1. Percentage of respondents with confidence in their national governments



Source: Popova et al. (2025) based on Gallup World Polls, 2006-2023. Note: Confidence in national government is computed based on a survey question: "In (this country), do you have confidence in each of the following, or not? How about: National government." The share of respondents who answered "yes" averaged across 2006-2023 in each country is reported.

How Do Inflation and Unemployment Affect Institutional Trust?

Inflation and unemployment are often seen as a trade-off. To understand how these macroeconomic conditions shape public support for economic policies, it is essential to go beyond examining pure economic outcomes and focus on institutional trust and its changes in response to economic circumstances. In Popova et al. (2025), we use data encompassing over 2 million individuals across 148 countries from 2006 to 2023 to investigate the impact of inflation and unemployment on confidence in national governments and approval of the country's leadership's performance.

The key finding is that high unemployment is strongly and consistently linked to lower confidence in political institutions, whereas inflation's effect on trust is weaker. In particular, the role of unemployment in institutional trust is up to eight times stronger than that of inflation. This finding is consistent across different levels of country income. At the micro level, the consequences of unemployment are stronger for lower-income individuals. At the same time, there are no consistent differences in the unemployment-trust relationship by education, labor force status, or age.

How to explain the negative association between unemployment, inflation, and institutional trust? Our findings suggest that it is not just objective economic conditions, but how people interpret and experience them, that shape confidence in political institutions. Indeed, the public often perceives economic shocks to be more severe than they actually are (Harris and Sojourner 2024). Thus, high unemployment and inflation may trigger negative perceptions of economic and political performance. In line with this argument, we find that public perceptions of corruption and economic considerations at the national and individual levels are key channels through which macroeconomic conditions affect political trust. Specifically, public satisfaction with national economic performance and personal financial situation softens the negative effects of unemployment on trust. At the same time, concerns about widespread corruption intensify them. As we discuss below, this suggests that informational campaigns explaining economic changes are essential for building confidence in political institutions and for effective policymaking.

Key policy insights

- **Policies that prioritize job creation and job stability are crucial for gaining public confidence in governmental institutions and support for economic reforms.** High unemployment is consistently and strongly associated with lower confidence in national governments and reduced approval of national leaders worldwide. The findings suggest that globally, unemployment is a more severe problem for individuals, the economy, and the political process than inflation, particularly in terms of institutional trust.

- **The influence of inflation on political trust is substantially smaller — typically four to eight times weaker than unemployment.** It primarily erodes trust in upper-middle- and high-income countries. In contrast, unemployment remains a global and pressing challenge across all income levels. While controlling inflation and focusing on price stability remain important, recognizing that high unemployment has broader political implications across all stages of development is also crucial.

- **Protecting vulnerable groups and providing targeted economic support is important for gaining public confidence in political institutions.** The negative consequences of unemployment for institutional trust are more pronounced for individuals with lower incomes. This implies that implementing job creation and social safety net policies that specifically target lower-income individuals and regions experiencing high unemployment may help mitigate the high political costs of joblessness.

- **The decline in trust due to macroeconomic conditions is explained by citizens' perceptions of poor national economic performance, personal financial insecurity, and low-quality institutions.** Therefore, addressing institutional failures, strengthening anti-corruption policies and institutional transparency, especially during periods of economic hardship, and informational campaigns regarding economic challenges and policies are essential for shaping public expectations of governmental performance and restoring institutional trust.

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