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Short communication

Financial market exposure increases generalized trust☆

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ABSTRACT

How can we build trust, especially in polarized societies? We propose that exposure to broad financial markets—where individuals place their assets in the hands of large groups of unfamiliar agents who nonetheless have the incentive and ability to promote their interests—can contribute to generalized trust. In a randomized controlled trial, we encourage Israelis to hold or trade stocks for up to seven weeks. We find that participation in financial markets increases the probability of expressing generalized trust by about 6 percentage points, equivalent to a quarter of the control group mean. The effects seem to be driven by political partisans along the left–right spectrum in Israel, and are robust to negative price changes. Thus, trust is not only a cause but can also be an effect of participation in financial markets.

1. Introduction

Virtually every economic transaction has within itself an element of trust (Arrow, 1972). A large literature argues that trust is "the cause or precondition of much of what is good and valuable in society" (Nannestad, 2008). Generalized trust, conceptualized as a belief in the goodwill of others and an expectation that others have an incentive and ability to promote one's interests (Sapienza, Toldra-Simats and Zingales, 2013; Levi and Stoker, 2000), is widely seen as a facilitator of economic activity (Sapienza and Zingales, 2011; Guiso, Sapienza and Zingales, 2004, 2008), and a central component of social capital (Putnam, 1992). Generalized trust has been associated with economic growth (Zak and Knack, 2001; Algan and Cahuc, 2010, 2013; De Sousa et al., 2023), good governance (Knack, 2000; Bjørnskov, 2010), and compliance with public health guidance (Siegrist and Bearth, 2021; Bargain and Aminjonov, 2020). However, trust is far from common (Fig. 1). In a majority of the countries sampled by the World Values Survey, less than one in four survey respondents agree that "most people can be trusted" (Inglehart et al., 2020). Low levels of trust are especially common in politically polarized societies (Rapp, 2016). This is concerning given the rising levels of political polarization in many democracies worldwide (Boxell, Gentzkow and Shapiro, 2022).

How do societies build trust? Research suggests that societal levels of trust are a consequence of contemporary civil society strength and political institutions (Putnam, 1992; Weingast, 1998), historical legacies of extractive institutions (Nunn and Wantchekon, 2011), personal traumatic experiences (Drelichman, Vidal-Robert and Voth, 2021), patterns of discrimination (Alesina and La Ferrara, 2002), levels of education (Guiso, Sapienza and Zingales, 2008), religiosity (Chuah et al., 2016), economic inequality (Gustavsson and Jordahl, 2008), and exposure to various outgroups (Alesina and La Ferrara, 2002; Jha, 2013; Finseraas et al., 2019). In line with these studies, it is commonly thought that generalized trust is a personal disposition largely acquired through early socialization (Dohmen et al., 2012), and that durably increasing generalized trust is extremely challenging (Uslaner, 2002). This is especially the case in an era of enhanced political polarization (Boxell, Gentzkow and Shapiro, 2022), where social and political groups are perceived by many citizens to be in opposition to one another.

Building on studies examining the relationship between market integration and prosocial behavior (Henrich et al., 2004; Jha, 2013; Enke, 2023; Agneman and Chevrot-Bianco, 2023), and based on the expectation that personal experiences with risk can inform people's level of trust (Malmendier and Nagel, 2011; Nee, Holm and Opper. (2018)), we propose that a positive experience of entrusting one's assets to unfamiliar others who nonetheless have an incentive to make one better off can help increase trust. Specifically, that opportunities to invest in and trade stocks, can increase generalized trust.

To test this expectation, we turn to Israel, a highly polarized society

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(Bassan-Nygate and Weiss, 2020) with low levels of generalized trust (see Fig. 1). We report results from a randomized controlled trial in which we encouraged individuals to invest in and trade a specific stock for up to seven weeks. We included no additional political or social information. We then elicit respondents' levels of generalized trust and identify the effects of exposure to financial markets on generalized trust. Consistent with our expectations, we find that trading stocks durably increases generalized trust. Furthermore, it does so even among polarized voters. However, contrary to our pre-registered expectation, the increase in trust is more robust than we expected: it does not seem to hinge on the performance of the stocks, and is present even when stock prices fall. There is some indication, however, that the effect is larger among participants whose investment decisions did relatively well.

1.1. Financial markets and trust

The finance literature emphasizes the key importance of generalized trust for the development of financial markets where individuals exchange sums of money for promises of future economic gains (Sapienza and Zingales, 2011). In line with this theoretical insight, existing studies report a positive relationship between societal levels of trust and the development of financial markets (Sapienza and Zingales, 2011; Xu, 2020), and other work shows that individuals' level of trust increases their participation in financial markets (Guiso, Sapienza and Zingales, 2004; Balloch, Nicolae and Philip, 2015; Georgarakos and Pasini, 2011; Leblang, Smith and Wesselbaum, 2022). Moreover, corporate scandals that reduce individuals' trust in the stock market also reduce their stock market participation (Sapienza and Zingales, 2012; Giannetti and Wang, 2016; Gurun, Stoffman and Yonker, 2018).

Thus far, the literature mainly focused on trust as a *cause* of financial participation. However, causality might also work in the opposite direction. Indeed, recent findings suggest that market interactions shape morals and prosocial behavior (Henrich et al., 2004; Jha, 2013, 2015; Margalit and Shayo, 2021; Enke, 2023), and evidence from a range of cross-cultural (Henrich et al., 2004; Enke, 2023) and local- contemporary (Baldassarri, 2020; Agneman and Chevrot-Bianco, 2023) studies point to a robust association between market integration and generalized trust. However, market integration, and specifically participation in financial markets, is naturally associated with a myriad of potentially confounding factors (Duflo and Saez, 2002; Conlin et al., 2015; Almenberg and Dreber, 2015). In this study, we therefore examine whether randomly assigned exposure to markets can increase generalized trust.

Specifically, the experience of investing in the stock market requires an individual investor to trust other parties to handle their investment conscientiously and reliably (Guiso, Sapienza and Zingales, 2004). By investing in financial markets, citizens expose themselves to a degree of risk (Sapienza and Zingales, 2011). However, over time, investments can yield mutually beneficial returns. This can have a particularly pronounced effect among those political partisans for whom distrust of the other side is especially salient.

In previous studies, some of us emphasize how randomized financial market exposure can help citizens internalize the costs of conflict and increase their support for peace-promoting parties (Jha and Shayo, 2019). It is also an empowering intervention, increasing financial literacy, participation and confidence (Jha and Shayo, 2025). Furthermore, in the UK, investment in stocks enhances pro-market attitudes on issues like redistribution and the role of luck in economic success, and reduces skepticism concerning the ability of regular people to invest in the stock market (Margalit and Shayo, 2021). The mechanism linking financial markets and generalized trust is related but somewhat different. Participation in financial markets, we argue, can increase generalized trust because it provides people with an opportunity to directly experience a setting where general and unknown other agents have the incentive and the ability to promote one's—i.e. the investor's—interests.

2. The randomized controlled trial

Identifying the effects of exposure to financial markets on personal levels of generalized trust with observational data is challenging. First, financial market participation is arguably endogenous to trust. Indeed, recent studies suggest that generalized trust is a salient determinant of investment in financial markets (Georgarakos and Pasini, 2011). Second, generalized trust is often viewed as a disposition acquired through socialization (Dohmen et al., 2012). Accordingly, various unobserved factors that correlate with generalized trust (e.g., one's upbringing) may also correlate with participation in financial markets (Almenberg and Dreber, 2015; Conlin et al., 2015).

To overcome this identification challenge, we implemented a large-scale randomized controlled trial in Israel in the run-up to the 2015 national elections, in which we incentivized Jewish Israelis to hold or trade a specific stock from the Israeli or Palestinian stock exchanges for a period of up to seven weeks. To the best of our knowledge, this is the first randomized controlled trial to assign stock portfolios to potential investors and evaluate the social consequences of exposure to financial

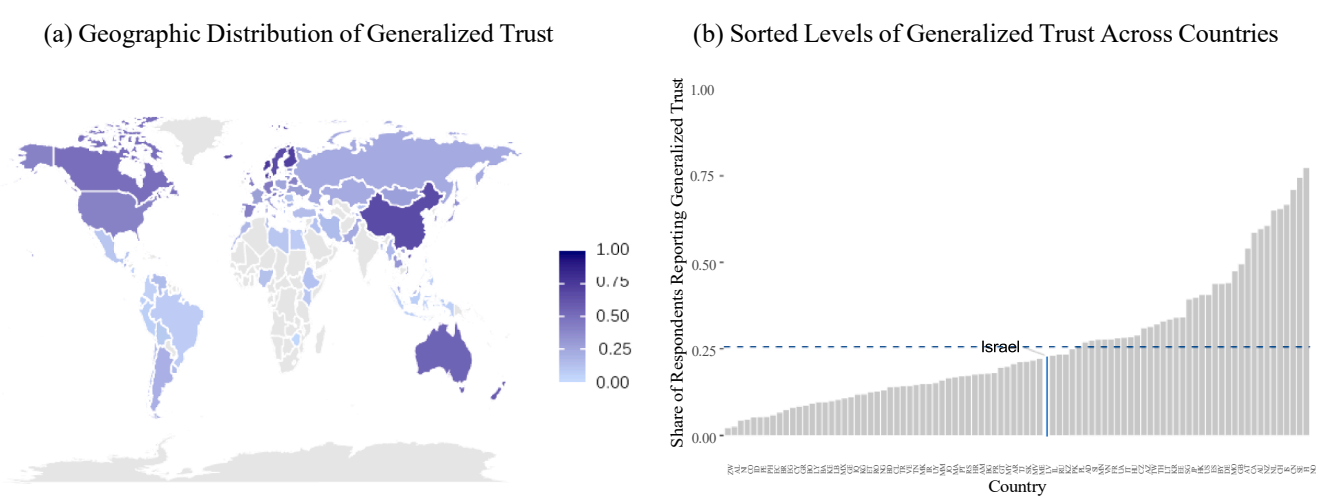

Fig. 1. Generalized trust around the world. (a) Geographic Distribution of Generalized Trust (b) Sorted Levels of Generalized Trust Across Countries. This figure reports cross-national patterns of generalized trust from the World Values Survey (Wave 7). For each country, we report the share of respondents who state that most people can be trusted. Since Israel is not included in the most recent wave of the World Value Survey, the figure shows generalized trust data from the 2004 World Value Survey. In panel b, the horizontal line denotes the average of generalized trust across all countries in wave 7 of the World Values Survey.

markets. Our randomized controlled trial was rolled out in three main stages.

2.1. Pre-Treatment survey and treatment assignment

Using an online panel, we surveyed 1,418 Israelis, screening 73 respondents who provided incomplete information, inconsistent information or finished the survey in an unusually quick time. As part of our baseline surveys, we collected demographic information as well as pre-treatment measures of generalized trust, asking respondents the following question originating in the World Values Survey: "*Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?*" Possible responses included 1) "*Most people can be trusted,*" 2) "*Need to be very careful with other people,*" and 3) " *I don't know.*"[1].

After collecting baseline data, we block-randomized the remaining 1,345 survey respondents to treatment and control conditions (treatment = 1,036, control = 309). Treated individuals were incentivized to participate in an instructions survey that detailed the rules of the study, informed respondents about their allocated assets, and quizzed respondents to ensure that they understood how the value of their assets would be determined. Participants were assigned either 200NIS (~$50) or 400NIS (~$100). These endowments are substantial when compared to many experiments in social science research, or to the average daily wage of 312NIS in Israel in 2014. We consider the 88% of treated individuals who completed both the instructions survey and the endline survey to be compliers. Throughout the main text, we report intent to treat (ITT) estimates. In the Appendix (Table A3) we further report treatment effect on the treated (TOT) estimates, using treatment status as an instrument for actual take-up of treatment. Appendix Table A1 reports descriptive statistics and compares our sample to the general population. This sample approximates the Jewish population of Israel in geographical coverage and gender, but is somewhat younger, more educated and more secular. Fig. A3 reports balance checks between treatment and control.

2.2. Treatment Rollout: Holding and trading stocks

Through an accessible and simplified survey-based platform, compliers received weekly updates about the price of their assigned assets, as well as a description and valuation of their current portfolio after markets closed on the last day of the week.[2] Treated participants were given a weekly opportunity to decide to hold their existing portfolio or buy or sell up to 10% of that portfolio before markets opened the following week. To incentivize engagement, if they did not register any decision, including a decision to hold, they lost the 10% that they could have traded. A third (two-thirds) of treated participants were randomly selected to trade on the platform for four (seven) weeks with three (six) trading periods. 69% of compliers engaged in trading during every opportunity, and 80% of compliers traded in all but one week.

2.3. Post-Treatment surveys

Following the trading period compliers and control participants reported outcomes of interest as part of our endline survey. We collected non-compliers outcomes in a later follow-up survey. Endline surveys included a measure of generalized trust, as well as other outcomes of interest relating to vote choice, political attitudes, financial literacy, financial confidence, and participation in financial markets. The latter are explored in companion papers (Jha and Shayo, 2019, 2025). 100 respondents did not answer the post-treatment trust question, leaving us with 1,245 observations in the main sample. Appendix C discusses the issue of attrition further.

3. Results

Table 1 reports our main results, focusing on intent to treat (ITT) estimates.[3] First, we show that, as expected, treatment status does not affect *pre-treatment* levels of generalized trust. When employing pre-treatment trust as an outcome in the first column of Table 1, the treatment point estimate is very small, amounting to 0.8 percentage points, and statistically indistinguishable from zero. The second column of Table 1 shows that, despite these initial similarities, after the trading period, participants randomly assigned to trade financial assets are 5.9 percentage points (se: 0.028) more likely to say that "most people can be trusted" (p-value of an increase 0.016). The effect remains stable at around six percentage points when we control for the randomization strata and for demographic, political and attitudinal controls (measured pre-treatment). This effect is equivalent to 25 % of baseline trust in the control group. Importantly, levels of trust in our control group (23.8 %) are similar to levels of trust measured by the World Values Survey in

Table 1
Trading Stock Increases Generalized Trust (Weighted) Outcome: Generalized Trust (0/1).

	Pre-Treat Trust	Post-Treat Trust	Post-Treat Trust	Post-Treat Trust
Treatment	0.008	0.059**	0.062**	0.057**
	(0.031)	(0.028)	(0.028)	(0.028)
Left-wing	0.129***	0.107***	0.076**	0.109
	(0.040)	(0.035)	(0.037)	(0.145)
Right-wing	0.009	0.031	0.004	−0.112
	(0.030)	(0.027)	(0.028)	(0.152)
Pre-treat trust		0.515***	0.485***	0.472***
		(0.031)	(0.032)	(0.034)
Controls	No	No	Yes	Yes
Block FE	No	No	No	Yes
Observations	1245	1245	1245	1245
R-squared	0.013	0.268	0.303	0.357
Mean of Dep. Variable (Control group)	0.249	0.238	0.238	0.238
SD of Dep. Variable (Control group)	0.433	0.426	0.426	0.426
One sided test p-value [Treatment > 0]	0.400	0.016	0.013	0.021

Controls in columns 3–4 include measures of left-wing support, right-wing support, pre-treatment generalized trust, gender, age, education, marital status, religiosity, geographical location, income, news consumption willingness to take risk, patience, a measure of survey timing, and a financial literacy. Block FE account for 104 blocks within which treatment was randomized. We created blocks by stratifying sequentially by respondents' 2013 vote choice, sex, experience trading stocks, indicator for whether respondents would recommend Arab stocks to a friend, region, discrepancies in the 2013 vote, and willingness to take risks. All models include weights to match the party shares of the Jewish vote in 2013.
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[1] This measure is suitable for capturing the belief (rather than preference) element of generalized trust (Sapienza, Toldra-Simats and Zingales, 2013).

[2] Foreign assets were listed in foreign currency. We thus fixed the exchange rate for the duration of the experiment so that there was no exchange rate risk. Assets in the experiment represented derivative claims on the authors' research account: the treatment did not include direct ownership of the underlying asset.

[3] For the purpose of other studies in our randomized controlled trial (Jha and Shayo, 2019), we oversampled political centrists along the right-left political spectrum in Israel. To examine the effects on the general Jewish Israeli electorate, and specifically on Jewish Israeli partisans, we reweigh our sample to resemble the party shares of the Jewish voting population in 2013. In Appendix E, we further justify this decision, and report additional unweighted estimates.

Israel during the most recent wave fielded in 2004 (23.02 %) (Inglehart et al., 2020). Estimates of treatment effects on the treated paint a very similar picture.[4] In substantive terms, the effect of trading stocks on generalized trust is around 1.5 times larger than the gender difference in pre-treatment trust. In Appendix C, we address concerns about differential attrition, and in Appendix Fig. A7, we demonstrate that our results are also not an artifact of an "income shock": treatment effects are similar when participants are assigned to endowments of different values.

One might plausibly expect that financial markets would be more likely to increase trust when citizens benefit financially. Indeed, this was our hypothesis going into the study. To explore this possibility, we leverage data on the price change of assets on the day on which participants were divested from their stock and measure participants' gains and losses. Since participants were randomly assigned to a single asset, with randomly assigned divestment dates, the price changes of the underlying stock from initial allocation to an individual's divestment day are exogenously determined.

In Fig. 2, we explore the consequences of negative exogenous price performance of the stock until divestment. To do so, we regress our trust variable on two binary variables that indicate asset treatment interacted with whether a respondent's asset price increased; and asset treatment interacted with whether it decreased (all treated individuals experienced either an increase or a decrease). Our sample includes 301 (647) treated respondents whose stock price decreased (increased) by their divestment day, with price changes ranging between −11.79% and 15.76%. We find positive point estimates for both groups of treated respondents, with the effects slightly larger among respondents who experience an exogenous price decrease.

These additional results help reduce concerns about potential negative consequences of participation in financial markets, suggesting that regardless of specific price shocks, exposure to financial markets can have positive effects on generalized trust.

Another variant on the above hypothesis is that treatment effects will be larger among successful in- vestors who made decisions that outperformed the price of their assigned stock. Unlike the preceding exercise, we do not have exogenous variation in actual performance. Yet it may still be of interest to examine how performance correlates with the effect on trust. The bottom panel in Fig. 2 explores this possibility. Specifically, we now regress trust on binary variables for treated respondents whose decisions out-performed or did not out-perform, relative to passively holding the initial portfolios without making any trades. Our sample includes 246 (702) out-performing (non out-performing) respondents. The financial consequences of respondents' performance ranged between −59.83 NIS and + 11.78 NIS. The figure suggests that our general effects are somewhat stronger among those investors who also out-performed the exogenous price performance of their original stock. However, once again the point estimates remain positive for both groups of investors. One possible interpretation of these patterns is that better decision-making with more favorable realized outcomes is associated with larger effects on generalized trust, but this is, of course, not causally identified. The main point is that, at least in our setting, the effect does not hinge upon price changes or performance: poorer decision-making and exogenous asset price falls did not lead to a backlash that *undermined* trust.

In Fig. 3, we explore average intent to treat effects on several subsamples of interest. We examine whether treatment effects are different among partisans (n = 469) and centrists (n = 776); respondents reporting trust (n = 330) or no trust (n = 915) in the pre-treatment period; and male (n = 658) and female (n = 587) respondents.[5] To do so, we generate treatment indicators that take a value of one if a respondent was assigned to treatment, and is a member of a given subgroup (e.g. a supporter of left/right-wing parties). The top panel of Fig. 3 indicates that the point estimate of financial market exposure on increased trust is almost four times larger among polarized respondents—those who voted for left and right-wing parties in the preceding elections—rather than more centrist voters (p-value of an increase 0.115).[6] This is notable in the present age of partisan polarization (Graham and Svolik, 2020), in which many partisans perceive inherent opposition between social and political groups.

The center panel shows that financial exposure treatment is similar for both respondents who were trusting and non-trusting prior to the treatment, but estimates are substantially noisier on sustaining trust among the smaller set (about a quarter) of individuals who already reported trusting others in the pre- treatment period. Finally, the bottom panel of Fig. 3 suggests that the treatment effects are more marked among men.

4. Discussion

Financial markets provide citizens with opportunities to share risks and realize mutually beneficial gains from placing resources in the hands of other parties. We have argued that this experience can increase their willingness to trust others. Reporting results from a novel randomized controlled trial, we substantiate this expectation: exposure to financial markets increases generalized trust, particularly among polarized partisans. Surprisingly, this effect seems to hold even for investors whose assigned assets declined in value. We make three contributions to the existing literature. First, we contribute to the existing scholarship on generalized trust (Alesina and La Ferrara, 2002; Sapienza, Toldra-Simats and Zingales, 2013; Bjørnskov, 2010; Nunn and Wantchekon, 2011; Moscona, Nunn and Robinson, 2017; Putnam, 1992) by identifying an approach for increasing trust in a highly polarized society. We show that empowering people and providing them with opportunities to invest in financial markets on a simple and transparent platform can increase gen- eralized trust. This is potentially important given the prevalence of low levels of trust worldwide, particularly in our current age of polarization (Boxell, Gentzkow and Shapiro, 2022). Our approach to trust-building is notable for being non-paternalistic and scalable. Rather than informing participants how they should regard others, we allow them to develop their preferences based on their own experiences. This non-paternalistic intervention could be scaled by integrating financial market exposure into at-scale cash transfer programs (Egger et al., 2022) and encouraging non-investors towards informed participation in financial markets.

Second, we contribute to the literature on market exposure and prosociality. A range of existing studies analyzes rich data to document the links between market exposure and pro-social behavior (Henrich et al., 2004; Jha, 2013; Baldassarri, 2020; Agneman and Chevrot-Bianco, 2023; Enke, 2023). Through our randomized controlled trial, we complement existing studies and provide causal evidence that exposure to financial markets increases generalized trust arguably because it gives investors hands-on learning experiences that emphasize the benefits of cooperation under uncertainty.

Finally, we contribute to the literature on generalized trust and economic behavior (Guiso, Sapienza and Zingales, 2004, 2008; Sapienza and Zingales, 2011, 2012), by demonstrating that trust is not only a

[4] Table A3 provides IV-TOT results (which employ treatment assignment as an instrument for compliance). We report the first stage treatment effect on take up in Table A5. Controlling for randomization strata, pre-treatment trust and other covariates, the probability of take up rises to 94.8% due to treatment assignment (with first stage F-statistic 6510.4). Given the high rate of compliance, the TOT effects are very close to ITT.

[5] These subgroup sample sizes include both treatment and control participants who report measures of generalized trust in post-treatment surveys.

[6] Similarly, Fig. A9 shows that the point estimate on partisans in the unweighted regression are: 0.089 (0.043) is about 7 times larger than centrists: 0.011 (0.033), p-value of an increase 0.074.

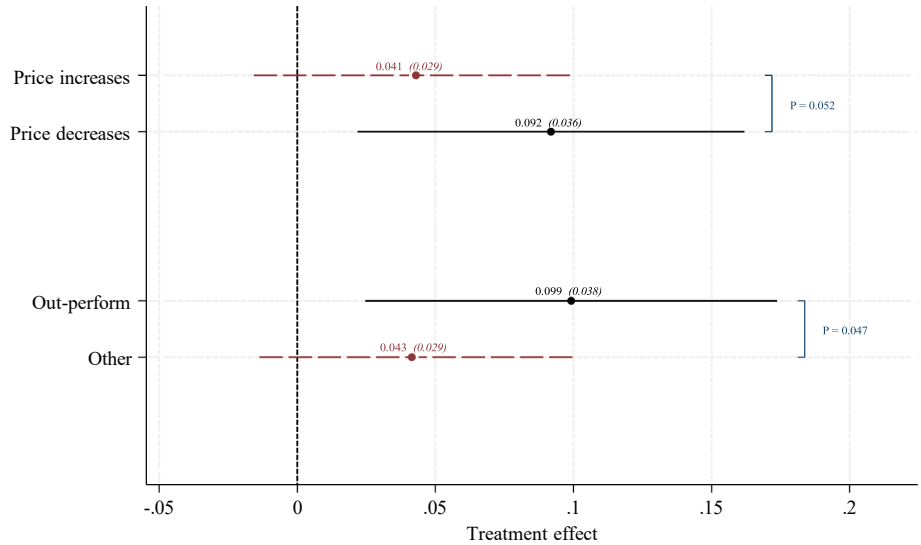

Fig. 2. Treatment effects by performance and stock price change at divestment (weighted). This figure displays weighted ITT point estimates for the effects of price changes and portfolio performance on generalized trust. The top panel shows estimates from a regression of our trust variable on an indicator for being treated with an asset whose price increased by divestment day (in red, dashed), and an indicator for being treated with an asset whose price decreased by divestment day (black solid). The bottom panel shows a similar exercise for performance (those out-performing in black (solid), and those not out-performing in red (dashed)). These specifications include covariates from our main model and block fixed effects. Robust standard errors are shown in parentheses, along with 95 % confidence intervals and one-sided p-values for tests comparing larger versus smaller coefficients in each specification. We focus on the full sample of respondents for whom we obtain a post-treatment measure of generalized trust (N = 1245).

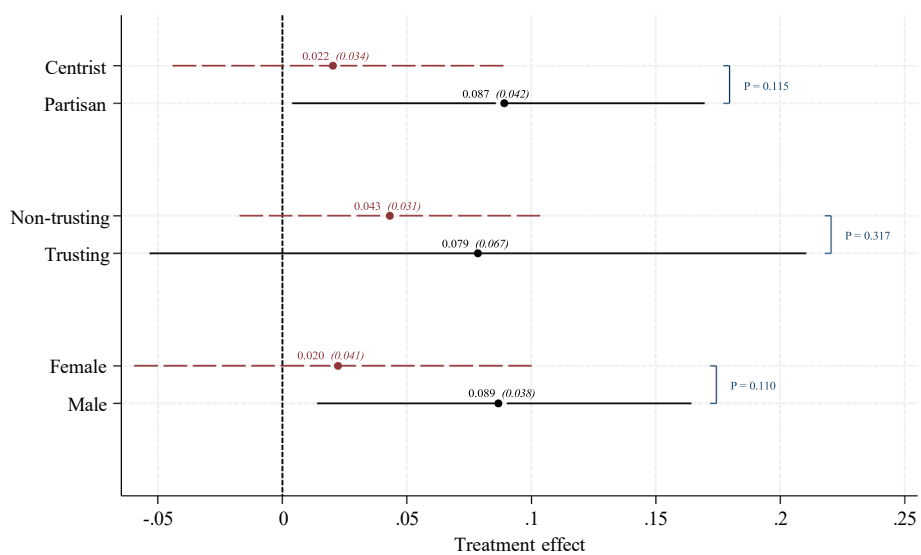

Fig. 3. Treatment effects by partisanship, pre-treatment trust, and gender (weighted). This figure presents weighted ITT point estimates for the interaction terms of treatment with subsample characteristics. The top panel shows interactions between the treatment and indicators for partisan respondents (those who voted for either left or right-wing parties in the preceding 2013 elections, presented in black) and centrists (presented in red). The middle panel reports interactions between the treatment and indicators for pre-treatment trust (black) and non-trust (red). The bottom panel reports the interaction terms between the treatment and genders (male reported in black, and female in red). All specifications control for covariates from our main specification and include block fixed effects. Robust standard errors are reported in parentheses, along with 95 % confidence intervals and one-sided p-values for comparing the larger versus smaller coefficients in each specification. The analysis focuses on the full sample of respondents with a post-treatment measure of generalized trust.

determinant of financial market participation, but also its product.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Appendix A. Supplementary data

Supplementary data to this article can be found online at https://doi.org/10.1016/j.jpubeco.2025.105303.

Data availability

All data and code can be found on Harvard Dataverse: http://doi.org/10.7910/DVN/Q3WP3X.

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