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# Local contexts for democracy and economic development: connecting political trust and the local business climate

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## Local contexts for democracy and economic development: connecting political trust and the local business climate

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### **Abstract**

A re-analysis of three Swedish studies of political trust at local level shows that the extent to which citizens trust the system of democracy in municipalities correlates strongly with how the employers in that area assess the state of the local business climate. This article deals with the question of how this can be understood. Three sets of underlying explanations are tested – social capital theory, a theory of local well-being and political-institutional conditions. The empirical analysis shows that only the theory of local well-being can consistently explain why political trust and a flourishing local business climate occur in concert.

The study emphasizes the need to expand research on political trust to also take into account the role played by the business climate. This has been completely ignored in previous research on political trust. The findings are also directly relevant for local policy-making. There is no trade-off between attempts to improve a trusting relationship between electors and elected, on the one hand, and policies aiming at creating a better business climate, on the other. On the contrary, these may reinforce each other. In order to capture the specific mechanisms at work, case studies are suggested as the next step of research.

### **Keywords**

Political trust, business climate, social capital, local well-being, local politics, Sweden

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### **Biography**

Anders Lidström is professor in Political Science at Umeå University, Sweden. He has written books and articles on comparative and Swedish local and regional government and on education policy. Among recent books are *Kommunsystem i Europa* (Liber 2003) and *Local Education Policies* (Palgrave 2001, edited with Christine Hudson). A recent article is *Commuting and Citizen Participation in Swedish City-Regions*. *Political Studies*, vol 54 (4), pp. 865-888, 2006.

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## **INTRODUCTION<sup>1</sup>**

The debate during the last few decades on citizens' lack of trust towards politicians and political institutions has stimulated political scientists to come up with more precise answers as to what generates not only distrust but also citizen trust of the political system. Many important contributions have been made during recent years (compare for example Dalton 1999; Norris 1999; Norén Bretzer 2005). Political trust is seen as a property of individuals (Nye et al 1997; Norris 1999) but can vary between contexts. Such variation can be a result of the particular mix of individuals in an area (micro-explanations) or depend on conditions that are not directly linked to individual characteristics (macro-explanations) (Mishler & Rose 2001). Contexts that have been analyzed are both states (for example Listhaug & Wiberg 1995; Dalton 1999; Inglehart 1999 and Zmerli et al. 2007) and regions (Putnam 1993; Stolle 2004) and to some extent also cities or municipalities (Norén Bretzer 2005; Rahn & Rudolph 2005).

Previous research has gradually come closer to identifying major explanations of variation in political trust. However, there are still only a handful of studies that deal with political trust at the local level. This is despite the fact that political trust can vary quite considerably between localities, and in a way that only partly can be explained by the composition of these areas in terms of the traits of the individuals living there. Clearly, there is a need to identify, in a better way than has been done so far, why some localities generate stronger political trust than others.

One factor that has not been examined in the literature, but that has turned out to have a surprisingly strong connection with political trust at local level is the quality of the local business climate. A re-analysis of three different studies of political trust at municipal level in Sweden, together representing more than a quarter of all Swedish municipalities, shows that in local authorities where the system of local democracy is highly trusted by the citizens, the employers in the area are also pleased with the quality of the business climate. The connection is strong and consistent in all three studies. This article addresses the question of how the simultaneous occurrence of citizen's trust in the local system of democracy and a favourable business climate may be understood.

## **POLITICAL TRUST AND THE LOCAL BUSINESS CLIMATE**

### **Political Trust**

From the 1960's and onwards, studies of political trust (and similar concepts such as support and confidence) have gradually grown to form what is now a major area of research in political science. As in many other fields of study, there is no general consensus about definitions, theories and methods, but several researchers have made significant contributions to its development. Seminal works include David Easton's systems analytical framework which emphasized the importance of citizens' support for the political system (Easton 1965), and Robert Putnam's studies of social capital (Putnam 1993, 2000). Even if social capital theory emphasizes trust between citizens, it also claims that citizens who trust each other cooperate more and form stronger democratic institutions. Interpersonal trust has been found to be declining in America and in many other countries, which may eventually present a challenge to the systems of democracy in these countries. Researchers have also reported that

citizens are becoming increasingly critical and sceptical about politicians and political institutions (Norris 1999).

As the research area has developed, it has become important to refine the analytical instruments. Easton separated diffuse from specific support, where the former concerned the legitimacy of the political system generally and the latter support for particular actors and institutions. Pippa Norris distinguishes between different objects of support: the political community, regime principles, regime performance, regime institutions and political actors, where support for actors is more specific and that for the political community is more diffuse (Norris 1999)<sup>2</sup>. Mishler and Rose (2001) identify two sets of theories that have been used to explain political trust. Cultural theories emphasize exogenous factors, such as the historically rooted values and norms, and how these are socialized and adopted by new generations. Institutional theories focus on endogenous explanations such as the performance of governments and how this is being assessed by rational individuals. Political trust, it is argued, is earned by governments that perform well.

The investigation of political trust in this study will focus on citizens' confidence in the way the local system of representative democracy functions, which mainly refers to Norris' categories of regime institutions and political actors. It is based on a re-analysis of three recent citizen surveys on local democracy, carried out in a total of 82 municipalities. These surveys are the City-Region Democracy Survey (CRD), the Democracy Audit (DA) and the Norén Bretzer study (NB)<sup>3</sup>. In each of these, political trust was captured by three questions that were used as a basis for constructing indices. The mean value of the index in a municipality is used as a measure of political trust in that municipality. The wordings of the questions in the City-Region Democracy Survey and the Democracy Audit were almost identical, but a different set of questions was used in the Norén Bretzer study. The questions are listed in Table 1.

**Table 1 Operationalisation of political trust and the indices used in the analysis**

Survey	Statements/Questions	Index label
The City-Region Democracy Survey	- Municipal politicians do their best to make decisions that correspond to citizens' wishes. - If one really wants to, it is possible to influence the politicians' decisions in the municipality. - The politicians in the municipality listen to the views put forward by ordinary people.	Political trust index CRD
The Democracy Audit	- Municipal politicians are genuinely interested in our common good. - If I try to influence policies in my municipality I think that it will give results. - Municipal politicians listen to the views put forward by citizens.	Political trust index DA
The Norén Bretzer Study	- How satisfied are you with the way democracy functions in the municipality where you live? - How do you think that the municipal board in the municipality where you live carries out its tasks? - Generally speaking, how much confidence do you have in municipal politicians?	Political trust index NB

The statements in the City-Region Democracy Survey and the Democracy Audit were used to construct indices of local political trust (Political trust index CRD and Political trust index DA). In theory, the scales could vary between -100 and +100. The highest value would occur if all respondents in a municipality totally agreed with all three statements<sup>4</sup>. The Political trust index NB was developed by Norén Bretzer in her doctoral dissertation (Norén Bretzer 2005). The index represents the mean response at municipal level to her questions on political trust (see Table 1). It can vary between 0 and 100, where the highest value represents a situation

where all respondents in a municipality express the highest amount of trust in response to all three questions<sup>5</sup>.

It is important to point out that citizens' trust in the local system of democracy is not the same as a measure of the quality of the system of democracy. Depending on what kind of underlying normative theory of democracy is being used, the answer will be different. A principal distinction can be made between a majoritarian theory of democracy and a consensus theory (Downs 1957; Lijphart 1999; Lewin 2002; Lantto 2005). Majoritarian democracy emphasizes that the political majority has both the privilege and the responsibility to rule. Its success is evaluated *ex post* by the voters in the next election. The role of the opposition is to scrutinize the actions taken by the majority, if necessary by confrontation, and to present its alternative policies to the electorate. In a majoritarian democracy, citizens' distrust of political institutions and actors can be functional, as this can be seen as healthy scepticism (compare Hardin 1998). Consensus democracy, on the other hand, would claim that the views of the people are best represented if broad agreements are established that take into account the views of all political parties. There may still be differences between them, and the parties will be competing for popular support for their views in the elections. However, the distinction between majority and opposition is less relevant, instead it is emphasized that all parties have a responsibility to contribute to reaching decisions that are good for the community. Consensus, compromises and cooperation between different interests are stressed. Contrary to the majoritarian democrats, those in favour of consensus democracy argue that trust in politicians and political institutions is an expression of a good democracy.

### **The Local Business Climate**

In the literature on local economic development policies there is an explicit or implicit assumption that local conditions matter for businesses to develop and flourish (Hudson 1993; Waltzer 1995; Reese & Rosenfeld 2002; Lidström 2002; Beer et al. 2003; Wood & Valler 2004, Witko & Newmark 2005). Theories of economic development, for example theories dealing with regional economics, economic base theories and location theories, also emphasize that economic growth may be more likely in certain locations than others (Blakely & Bradshaw 2002). Despite an increasingly globalized economy, traits in the local context are likely to facilitate or hinder businesses to be successful and create employment in the local area (Parkinson 2005). These conditions may be thought of as the local business climate. There is no consensus as to what these conditions are. On the contrary, this is a highly controversial matter that largely follows the left-right political scale. One extreme would be to argue that the best business climate is achieved where firms are left alone without local government interference. Others would argue that active involvement of local authorities can enhance business development (Beer et al. 2003). However, the type of actions taken by local authorities can vary between settings. They may not only be limited to, for example, offering favourable conditions for buying or hiring land or buildings, but may also include providing public services of good quality, such as well functioning schools, cultural facilities and child care (Lidström 2002). Of course, the prospects for business development may also be influenced by local conditions that do not necessarily require local government involvement, for example the resources and labour skills present in the local area, its location and transport facilities, and the general public's attitudes towards entrepreneurship and business.

In Sweden, the major private employers' organisation – the Confederation of Swedish Enterprise – supports the idea that the business climate varies between localities. For them, the local business climate is “the sum of the attitudes, rules, institutions and knowledge that

exist in the business peoples' immediate vicinity" (Svenskt Näringsliv 2003). Since 2002, the Confederation has carried out annual investigations of the business climate in all Swedish municipalities. The main purpose is to use municipalities considered to be particularly business-friendly as a benchmark for the less friendly ones, thereby putting pressure on municipalities to change the local preconditions. The local business climate is measured by a composite index – the Confederation Business Climate Index - based on a combination of statistical data and information collected through a postal survey. Each year, the questionnaire is distributed to 200 private employers in every municipality (a larger number in the three largest cities) and has a return rate of approximately 60 percent (in total, ca 34,000 respondents)<sup>6</sup>. The index consists of three sets of indicators which are given equal weight – (1) a number of measures from official statistics<sup>7</sup>, (2) local business peoples' replies to questions in the questionnaire about different preconditions for business development<sup>8</sup> and (3) local business peoples' general assessments about the business climate in the municipality. There is no equivalent study in any other country. It is unique in the way it provides questionnaire based assessments for every single municipality. This opens up the possibility of carrying out unparalleled analyses of variation in the business climate between municipalities.

The composite index has the disadvantage that the different components are not theoretically interrelated. They represent the employers' association's view of what a good business climate is, but the particular combination of indicators does not rest on any explicit or elaborated theory of the causes of business development. Instead, it has an ideological purpose as its aim is to influence municipalities to create the conditions that the Confederation regards as being good for businesses. Further, the measures from official statistics are not significantly correlated with the indicators based on questionnaire replies. Despite these limitations, the Confederation Business Climate Index is generally recognized as authoritative by the municipalities. Each year's publication of a new league table is met with considerable interest and respect.

The problem of weighing different components is avoided if the analysis is confined to the business peoples' own assessments of the business climate, as expressed in their replies to the general question included in the Confederation index<sup>9</sup>. Of course, we do not know exactly what the employers had in mind when they replied to that question. However, it is straight forward and independent of attempts by outsiders to weigh different components against each other. Who can better assess the state of the local business climate than the business people themselves? However, even though this study will use these assessments as a measure of the local business climate, reference will also be made to the Confederation Business Climate Index as a whole whenever appropriate.

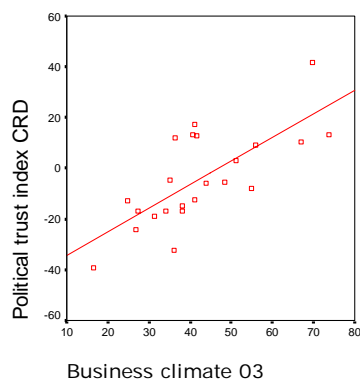
The data collected in connection with the 2003 investigation of the local business climate will be used for all three samples of municipalities. Data for 2002 is also available, and it would perhaps have been more correct to use this older information in the analysis with the Norén Bretzer data, as this dates from 1998-2001. However, as the rankings from these years are highly interrelated, this choice has marginal effect on the subsequent analysis.

### **The Bivariate Relationships**

As already mentioned, the statistical relationship between citizens' trust in the local system of democracy in a municipality and the business climate is very strong. For all three samples of municipalities, this is illustrated in Figure 1<sup>10</sup>.

**Figure 1. The relationship between trust in local democracy and the local business climate**

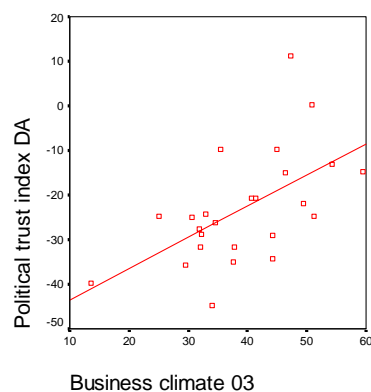
The City-Region Democracy Survey



$$r_{xy}: .726^{***}$$

N = 23

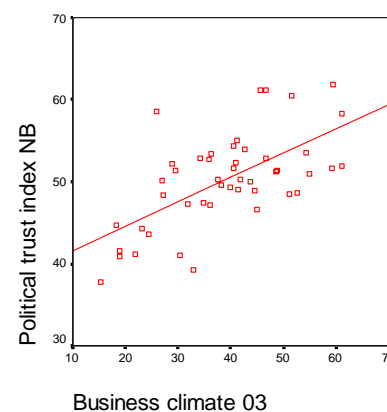
The Democracy Audit



$$r_{xy}: .571^{**}$$

N = 25

The Norén Bretzer Study



$$r_{xy}: .629^{***}$$

N = 47

The relationships are significant in all three sets of municipalities and are particularly strong in the City-Region Democracy survey and the Norén Bretzer study. Hence, the relationship is unaffected by the different ways in which political trust has been operationalized. In the subsequent Table 3, the trust indices are correlated with a large number of other municipal characteristics. None of these produced higher correlation coefficients than the business climate. In the Norén Bretzer study, a measure of citizens' assessment of the possibility to influence municipal decisions correlates more strongly with political trust, with a coefficient of .68\*\*\* (Norén Bretzer 2005, 184). However, this is in itself very close to an indicator of political trust. The conclusion must be that business climate and trust in the local system of democracy are highly interrelated<sup>11</sup>.

There does not seem to be any spill-over between municipalities or any regional effect. Indeed, there are several examples of neighbouring municipalities that are positioned at different ends of the scales. This would support the notion that the municipality, rather than any larger regional unit, is the relevant unit for investigating political trust as well as the local business climate, and that processes of diffusion between neighbouring municipalities are not important.

A thought that comes to mind when observing these strong relationships, is a suspicion that they are spurious. Perhaps citizens' trust in the local system of democracy and the local business climate are just two labels for the same thing? The two measures have a lot in common. They are both based on questionnaire data and concern local actors' confidence in features of the local area. They share a focus on how responsive the municipality is towards actors' needs and demands. At the same time, there are clear differences between them. Not only do they focus on different subject matters using clearly different questions, the data has also been collected by different surveys and from different sets of respondents. Hence, it seems unlikely that citizens' political trust and the local business climate simply reflect the

same theoretical concept. However, there are most certainly underlying factors that can account for their common occurrence. This is discussed in the next section.

## **EXPLAINING THE SIMULTANEOUS OCCURRENCE**

When it has been established that the relationship is genuine, the next question is: Why do citizens have high trust in the system of local democracy in those municipalities where the business community also regard the business climate to be good – and vice versa? What theories can explain why these occur in concert?

Unfortunately, theories that explicitly deal with this interrelationship are rare. Hence, existing theories of political trust will be used and adjusted to fit the circumstances of this study. Three theories will be considered: social capital theory, theories of local well-being and political-institutional explanations. In terms of Mishler and Rose's (2001) previously mentioned distinction, social capital theory can be regarded as a culturally based theory, whereas both theories of local well-being and political-institutional explanations tend to be more institutional as they emphasize assessments and responses by rational individuals.

### **Social Capital Theory**

Perhaps the theory most suited to explaining connections between political trust and the business climate is social capital theory. A basic idea in Putnam's *Making Democracy Work* is that social capital is conducive for both a working democracy and economic development (compare also Inglehart 1999). Putnam's macro level studies of regions in Italy suggest that economic development and democracy go hand in hand. They both require a level of social capital that is found mainly in the north of Italy but not to the same extent in the south (Putnam 1993). Similar studies have been carried out elsewhere (for recent contributions, see Putnam 2002; Badescu & Uslaner 2003; Hooghe & Stolle 2003; Prakash & Selle 2004). Other scholars have argued that social capital can also vary between smaller entities than regions (de Hart & Dekker 2003).

Social capital is a contested concept but seems to be commonly thought of as consisting of two components – dense organizational networks and peoples' trust in each other. It refers to "connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them" (Putnam 2000, 19). The components are interrelated but it is not clear to what extent or whether one of them generates the other. Social capital is generally thought of as a macro concept – something that characterizes a social setting even though some researchers have used it as a trait of individuals.

Empirical investigations of social capital are usually based on questionnaire replies from citizens concerning their engagement in voluntary organizations and trust in other people. With the exception of Putnam's original studies, analyses of the relationship between social capital and political trust have generally generated disappointing results (Newton 1999; Denters 2002; Norén Bretzer 2005). Sweden has been seen as a particularly interesting country with regard to social capital, as levels of trust between citizens are generally high, and there is a long tradition of strong, well-organized popular movements helping to link people together (Rothstein & Stolle 2003; van Oorschot et al. 2006). However, most Swedish studies have been unable to confirm Putnam's assumptions about the role of social capital, or have

only given him limited support. For example, political trust has remained high despite decreasing levels of traditional forms of political participation (Rothstein 2002, 2003)

The Confederation of Swedish Enterprise has carried out case studies of selected municipalities which adds depth to the more general picture provided by their index. A comparison of four pairs of neighbouring municipalities where the municipalities in each pair have different business climates suggests that a good climate is enhanced by extensive networks between different businesses in the local area and between business and local politicians. This would support the idea that social capital is important. A further facilitator is a local culture characterized by cooperation and consensus (Rönn 2002).

### **A Theory of Local Well-Being**

Another reason for the simultaneous occurrence of trust in the system of local democracy and a good business climate could be that the local community is a good place in which to live. The assumption is that there will be more reasons for citizens and business to be positive about features of their community if they are pleased with the living conditions in their municipality. These conditions may not only concern economic wealth, but can also include, for example, social and health aspects and the quality of the physical environment. Instead of only referring to the prosperity of the local community, focus here will be on well-being. Wolman and Goldsmith define this as “the satisfaction an individual derives from the life circumstances he/she experiences” (Wolman & Goldsmith 1992, 22). By aggregating individuals’ well-being, but also by taking into account how this is distributed, the well-being of a community is captured (compare also Christakopoulou et al. 2001).

Local well-being can be affected by decisions of local policy-makers. Indeed, several studies of political trust have suggested that this is linked to how satisfied citizens are with the public services (Denters 2002; Norén Bretzer 2002; Levinsen 2003). There is no clear connection between the economic performance of governments and political trust (McAllister 1999 et al. 1999), but how the wealth is distributed has turned out to be relevant (Rahn & Rudolph 2005).

### **Institutional and Political Conditions**

The coexistence of political trust and a favourable business climate may also be linked to underlying institutional and political factors. Institutional theory would suggest that the way institutions are shaped will create preconditions that undermine or promote peoples’ confidence in the political system and the quality of the business climate. Further, related to this, the dominance of certain political parties and political values in the community may lead to variations in political trust and the business climate.

Previous research in the political trust tradition has shown that variation in trust between countries is related to how the political institutions are shaped. The weakening of political parties has been seen as one cause of diminishing trust in politicians generally. In an overview of the variation in political trust between states, Pippa Norris identified two major institutional explanations: citizens belonging to the winning side after an election expressed more confidence in the political institutions and this was also higher in states with extensive civil and political rights (Norris 1999). However, most of these studies have been undertaken at national level where institutional variation is more extensive than at the local level.

Local institutions have nevertheless also turned out to be relevant for variations in political trust. Norris' conclusion about the importance of belonging to the winning side after an election is also valid at the municipal level (Norén Bretzer 2005). The particular shape of the local political majority may also be important. The previously mentioned case-study by Rönn indicates that consensus oriented municipalities tend to have a favourable business climate (Rönn 2002). How the municipal territory is delimited can also be regarded as an institutional factor. A negative relationship between municipal population size and political trust has been identified in Denmark, Norway, the Netherlands and the UK (Denters 2002, see also Levinsen 2003). Rose and Pettersen (1999) make the interesting observation that trust in local political institutions varies with municipal size, but this does not affect citizens' trust in national institutions. The way in which the relationship between municipal size and the business climate is shaped is more difficult to predict.

Finally, political values may also matter, but it is not clear exactly how. Norén Bretzer has shown that those who support the Social Democratic party are more likely to trust the political system, the political institutions and the political actors (Norén Bretzer 2005). However, a favourable business climate is more likely to emerge in municipalities where there is strong support for the non-socialist parties, as these have traditionally been more ideologically friendly towards private enterprises.

## **ANALYZING TRUST AND BUSINESS CLIMATE**

To what extent do these theories explain the co-variation of political trust and business climate in the three samples of municipalities that are investigated? In this section, the assumptions are tested empirically. Initially, the method and material used in the study are presented and this is followed by the empirical analysis. Bivariate analyses of indicators representing the possible explanations are carried out and, as a second step, multivariate analyses are undertaken with a smaller number of these.

### **Method and Material**

The three data sets that are being used have already been introduced (see also Appendix I). The samples were selected according to different principles. The City-Region Democracy survey consists of municipalities originally selected for a research project on democracy and participation in city-regions, the Democracy Audit consists of self-selected municipalities and the Norén Bretzer study is based on data from the municipalities in the West Sweden region. Hence, none of the samples are representative of all Swedish municipalities. The major selection bias is summarized in Table 2.

**Table 2 Characteristics of the municipalities in the samples**

	City-Region Democracy	Democracy Audit	Norén- Bretzer	All three studies	Sweden as a whole
No of municipalities	23	25	47	82*	290
Population					
- average	53 600	77 700	33 300	46 300	30 100
- median	30 600	33 200	14 900	17 200	15 200
Urbanization %	80.2	80.4	70.5	74.8	73.8
Geographical location:					
- Northern Sweden %	9	12	0	6	19
- Mid Sweden %	17	44	0	19	33
- Southern Sweden %	74	44	100	75	48

\* 11 municipalities were overlapping between the Norén Bretzer study and either of the other two.

In the City-Region Democracy and Democracy Audit studies, the municipalities investigated tend to be larger and more urbanized than the national average, but are fairly evenly spread throughout the country. In the Norén Bretzer study, the population size and the degree of urbanization are similar to the country as a whole, but all municipalities studied belong to the West Sweden region. The three samples are biased, but in different ways. The ideal would have been to have had access to a random selection of municipalities and to citizen surveys carried out in each of these. However, when overlaps have been taken into account, data is available from 82 municipalities, which is more than a quarter of all 290 Swedish municipalities. Therefore, conclusions from this study will be treated as preliminary results for the country as a whole, even if it is recognized that they need to be confirmed by more representative data.

The analyses will be carried out using a combined measure of political trust and the local business climate as dependent variable. The measure consists of the factor scores that are generated in factor analyses with these two variables in each of the three samples<sup>12</sup>.

### **The Independent Variables**

The indicators representing the independent variables have either been collected through the surveys used in this study or have been taken from official statistical sources. As a first step, correlation analyses are carried out in order to make an initial test of the assumptions, but also with the aim of identifying a limited number of particularly relevant variables that will be used in the subsequent regression analyses. Measures that are significantly correlated to both political trust and business climate in most of the samples will be singled out. However, as the samples of municipalities are so small, it is not fruitful to carry out regression analyses with more than 2-3 variables. The results from the bivariate analyses are summarized in Table 3.

**Table 3 Three alternative theories: Bivariate analysis**  
Correlations with the combined political trust-business climate index.

Independent variables	City-Region Democracy	Democracy Audit	Norén- Bretzer
<b>Social capital</b>			
Activity in study circles	.327	-.206	-.125
Active member of an organization	.362		
Number of organizational memberships	-.050		
Active in an organization last two years		.142	
Fellow-feeling for local people		.176	
Trusting people in one's own municipality		.259	
Activity in organizations			.145
Trust in other people			.037
<b>Local well-being</b>			
Mean income	.369	-.067	.205
Employment rate	.615**	.537**	.334*
Health status	.551**	.310	.426**
Gender equality (index)	.557**	.018	.268
Crime rate	-.087	-.186	.091
Level of education	.030	-.226	.177
<b>Political-institutional conditions</b>			
Population size (log)	.001	-.369	.173
Political competition	-.041	.215	-.163
Cross-block majorities		.101	-.259
New means of participation (index)	.254	.033	
Socialist block strength	-.541**	-.174	-.068
Non-socialist block strength	.582**	.094	.142
N	23	25	47

Note: Correlation coefficients are Pearson's Rxy. For information on the construction of the independent variables and their sources, see Appendix II. No municipality in the City-Region Democracy study is led by a cross-block majority. The index on new means of participation concerns 2002, and cannot be used as an independent variable for trust in the Norén-Bretzer study, which is based on data from 1998-2001.

As mentioned in the theory section, *social capital* is usually seen as consisting of two components - dense organizational networks and peoples' trust in each other. An overall measure is the extent to which people participate in study circles. These are groups of around ten people who meet regularly to study a particular topic. There is a long tradition of study circles in Sweden and they are still very common. Indeed, study circles have been regarded as a typically Swedish form for generating and preserving social capital, as they combine close personal networks with strong interpersonal trust (compare Putnam 2002). Social capital is also measured on the basis of replies to specific questions from the three studies. As these questions are different, direct comparisons between the studies cannot be made.

The interpretation of the coefficients is very clear. There is no significant relationship between social capital on the one hand and combination of political trust and local business climate on the other. Perhaps differences in social capital are too small between Swedish municipalities, or perhaps questionnaires are not a sufficiently sophisticated instrument to capture the variation that may exist. However, the result confirms conclusions from the previously mentioned studies suggesting that social capital is not a particularly valid

explanation in a Swedish setting. Accordingly, regression analyses will not be carried out using indicators of social capital as independent variables.

The *local well-being* explanation is operationalized using a set of statistical indicators. The mean income and employment rate are mainly indicators of economic circumstances. Non-economic measures are the average health status of the citizens in the locality, gender equality, as measured by an index developed by Statistics Sweden, and the local crime rate. Whether the education level of the population is related to political trust and the local business climate is also investigated.

The theory of local well-being turns out to be a more relevant explanation than social capital theory for the combination of local political trust and business climate. Interestingly, not only economic well-being, but also some non-economic aspects of local well-being are significant. The employment rate is significantly correlated in all the samples, health status in two of them and gender equality in one. Mean income, population change, crime rate and level of education have very limited or no importance. Accordingly, employment rate and health status will be used in the regression analyses as indicators of local well-being.

The results of the analysis with *political-institutional factors* are also summarized in Table 3. The first is the size of the municipality, represented by the logarithmic of the population size. The next two reflect the local political majority situation, namely the extent to which there is competition between the two major political blocks (the socialist party block and the non-socialist parties) and whether or not the council is led by a majority that includes parties from both these blocks. Further, local policies that aim at improving local democracy have had an effect is also studied. This is represented by an index of the extent to which the council has introduced new means of public participation, such as public hearings, citizen panels and citizen initiatives. Finally, the role of the strength of the two party blocks is investigated.

The only political-institutional factor of importance is party political strength and this is limited to the City-Region Democracy study. None of the other institutional factors are important. Size is of no overall relevance and there is very little support for the idea that the political majority situation or new means of participation foster political trust and a favourable business climate. Hence, non-socialist block strength is selected for the multivariate analyses.

### **Multivariate Analyses**

Already at the outset of the article, it was established that there is a strong correlation between political trust and the business climate in the investigated municipalities. From the bivariate analyses, it was concluded that certain aspects of local well-being – employment rate and health status - and a political-institutional factor – non-socialist block strength - co-vary with both political trust and the local business climate. Contrary to the initial assumptions, no indicator of social capital has turned out to be relevant, and therefore this theory will not be subjected to any further analysis. The design of the multivariate analysis has also been guided by the fact that the number of cases is very limited. Hence, only 2-3 independent variables are used.

What characterizes municipalities where citizens trust their system of local democracy and where there is also a favourable business climate? Table 4 summarizes the results of the regression analyses using the factor scores from this combination of variables as dependent

variables. Two analyses are reported in every sample. In the first, all three selected variables are being used and in the second, only those representing local well-being are included.

**Table 4 Explaining the combined occurrence of political trust and local business climate. OLS regressions. B-values.**

Dependent variable: Factor scores for the combination of political trust and local business climate						
Independent variables	City-Reg. Democracy		Democracy Audit		Norén-Bretzer	
	1	2	1	2	1	2
Local well-being:						
Employment rate	.091	.106	.159**	.142*	.044	.050
Health status	.016	.036	.041	.024	.072*	.072*
Political-institutional factors:						
Non-socialist block strength	.022		-.045		.009	
Constant	-7.423	-6.698	-8.514	-9.921	-.716	-.727
F	5.438**	7.319**	3.843*	4.991*	3.734*	5.523**
R Square	.462	.423	.354	.312	.207	.201
Adj R Square	.377	.365	.262	.250	.151	.164
N	23	23	25	25	47	47

The relationships between the independent variables have been tested for multicollinearity and heteroskedacity, but no such effects have been detected. No significant interaction effects have been identified.

The F-tests indicate that all regression analyses are significant at the .95 level. Due to the small sample sizes, effects have to be very strong in order to be significant, and only a few of them meet this criterion. Together, the independent variables account for between 15 and 38 percent of the variation (adjusted R square), which suggests that they are able to capture a reasonable amount of the pattern behind the variation.

Of the three suggested theories, the theory of local well-being seems to be the most relevant. Although no significant effects were detected in the regression analyses in the City-Region Democracy sample and different indicators are significant in the other two samples, the variables representing local well-being still seem to provide the strongest effects. An economic measure - employment rate – and a non-economic measure – health status – have turned out to be significant. The political-institutional factors, represented by the strength of the non-socialist parties, are not significant in any of the samples. It can also be noted that adjusted R square changes only marginally when the variable for non-socialist strength is omitted from the analysis, which supports the conclusion that political-institutional factors are not relevant. Finally, as mentioned previously, social capital theory has turned out to have nothing to do with the joint occurrence of political trust and a favourable business climate.

## CONCLUSIONS

At the outset of the paper, it was shown that in municipalities where citizens trust the system of local democracy there is also a favourable local business climate. This relationship is strong and significant in three different and independently selected sets of Swedish municipalities, despite using different indicators for political trust. The task in this analysis has been to investigate whether social capital theory, a theory of local well-being or political-institutional conditions can explain why extensive political trust and a good local business climate appear in parallel.

The empirical analysis has shown that that only one of these theories is sufficiently supported in all three samples. Local well-being in a municipality is conducive for both people's trust in politicians and political institutions, and in the business peoples' views of the local business climate. Local well-being concerns both economic and non-economic factors. One interpretation is that local well-being generates a satisfaction with the conditions in the community generally that is reflected in both political trust and business peoples' appreciation of the business climate. An alternative interpretation is that local well-being is an intervening variable. In communities where the local business climate is favourable (which may or may not be caused by local political decisions), more wealth and well-being is being created, which makes people happier with their local political decision-makers. In the long run, political trust and a good business climate would help sustaining each other. At the other end of the scale, municipalities could end up in a vicious circle. A worsening business climate may result in reduced well-being which eventually can lead to an erosion of political trust. To be able to settle which of these interpretations is the most likely access to time-series data would be required. Unfortunately, such data is not available at the moment.

The strong connection between the local business climate and political trust has shed new light on the nature of citizen's trust towards local political decision-makers and institutions. This research suggests that the understanding of political trust has to be expanded to also take into account the conditions for business development in the local area. This factor has been completely ignored in previous studies of political trust. One possible reason for this is the lack of data. The survey on business climate in Sweden is unique in an international comparison. Future studies of political trust, in other countries and on a comparative basis, should include measures of the business climate to test whether this link is valid also more generally.

Knowledge about the connection between political trust and a good local business climate is also directly relevant for local policy-making. This research suggests that there is no trade-off between improving trusting relationships between elected and electors on the one hand and focusing on creating a better local business climate on the other. On the contrary, these features may reinforce each other. Policies aiming at improving one of them may also help to improve the other.

The conclusion about the relevance of local well-being lends support to institutional explanations of political trust, rather than cultural ones (compare Mishler & Rose 2001). The next research step should aim at challenging this, by using a more culture sensitive approach. A set of carefully selected case studies would make it possible not only to examine the role of cultural explanations, but would also facilitate studies of the mechanisms that link citizens' trust in democracy with a favourable business climate. These explanations may include features of the local culture and history, informal norms, the municipal leadership style and

the level of conflict/consensus in the local community. Precisely such factors, referred to as “the local civic culture” have been identified as highly relevant explanations of variations in local economic development policies among cities in Canada and the US (Reese & Rosenfeld 2002). Thus, case studies would add further insights into why local political trust and a good business climate go hand in hand.

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## Appendix I

### THREE CITIZEN SURVEYS ON POLITICAL TRUST AND LOCAL DEMOCRACY

#### The City-Region Democracy Survey

The purpose of this study was to investigate democratic conditions and participation in a sample of Swedish city-regions. Seven such regions of various sizes and locations were selected - Göteborg (large), Norrköping and Umeå (medium sized), and Karlskoga, Oskarshamn, Avesta and Värnamo (small). Apart from these core cities, the selected regions also comprised the municipalities located within their commuting hinterlands. In total, 48 municipalities were included. A random, representative sample of citizens aged between 18 and 74 was selected in each city-region. During the period November 2002 to June 2003, everyone in the sample received a postal questionnaire on democracy and participation. The return rate was 62 percent. In total, the data set for the City-Region Democracy Survey consists of information from 7 200 citizens. In this analysis of political trust, only municipalities where at least 80 respondents replied to the questions on political trust were included. This makes it possible to calculate a reliable average value as an indicator of the general level of trust in the municipality. This criteria was met by 23 municipalities, with a total of 6 700 respondents.

Principal Investigator: Professor Anders Lidström, Department of Political Science, Umeå University. For further information, see [http://www.pol.umu.se/personal/Lidstrom\\_Anders/city-region.htm](http://www.pol.umu.se/personal/Lidstrom_Anders/city-region.htm)

#### The Democracy Audit

This investigation was run jointly by the Swedish Association of Local Authorities and the Federation of County Councils. The purpose was to analyze conditions of local democracy in a way that would facilitate comparisons between municipalities. The municipalities were self-selected, and had to pay the costs for the surveys themselves. A total of 26 municipalities took part. In each of them, 400 respondents were selected randomly and a standardized postal questionnaire was sent out. The average response rate was 57 percent. The study was carried out during the spring of 2004. The questions on political trust had been inspired by the questionnaire used in the City-Region Democracy Survey, but the wording was slightly different. Of the 26 municipalities in the Democracy Audit, 25 were included in this analysis of political trust. The municipality of Fagersta was excluded as an outlier. This is the Left party's leading stronghold in Sweden and is governed by a very popular local politician. Fagersta is an extreme case with regard to both political trust and business climate, and the inclusion of this particular case would highly distort the results. Therefore, it was excluded.

Principal Investigators: Bo Per Larsson and Johanna Lampinen, The Swedish Association of Local Authorities. For further information, see Svenska Kommunförbundet och Landstingsförbundet (2004).

#### The Norén Bretzer Study

From the mid 1990s, the SOM institute at Göteborg University in Sweden has administered an annual survey to samples of citizens in the West Sweden region. The survey is carried out as a postal questionnaire and includes questions on democracy, participation, opinions on

topical matters and media use. The institute is also responsible for a corresponding national survey each year. In her doctoral dissertation, Ylva Norén Bretzer used data from the West Sweden investigations from 1998-2001 to analyze variation in political trust, at both individual and municipal levels. As each year's survey included the same questions on political trust, they could be merged into a large data set, with a sufficient number of respondents in each municipality to make it possible to analyze variations between them. Of the 50 municipalities in the West Sweden region, 47 were included. The response rates varied, from 65 percent in 1998 to 70 percent in 2001. The merged data set consists of replies from 12 873 respondents.

Principal Investigator: Dr Ylva Norén Bretzer, Department of Political Science, Göteborg University. For further information, see Norén Bretzer (2005).

## Appendix II

### INDEPENDENT VARIABLES IN THE CORRELATION AND REGRESSION ANALYSES

<i>Variable name</i>	<i>Variable construction</i>	<i>Source</i>
Activity in study circles	Number of participants in study circles per 1000 inhabitants, 2002	The Swedish National Council for Cultural Affairs
Active member in an organization	<i>Only in the City-Region Democracy Survey:</i> A list with 13 different types of voluntary organizations was presented. For each of the organizations, the respondent was asked to tick one of the following alternatives: not member, passive member, active member or board member. The variable represents the municipal average of those reporting that they are an active member or board member in at least one type of organization.	The City-Region Democracy Survey
Number of organizational memberships	<i>Only in the City-Region Democracy Survey:</i> The same question as above. The number of types of organizations that the respondent is a passive or active member in, or is a board member of was added up. If more than 6 were indicated, this has been coded as 6 (in order to avoid the undue impact of extreme values). The variable represents the municipal average for this question.	The City-Region Democracy Survey
Been active in organization the last two years	<i>Only in the Democracy Audit:</i> Percentage of the respondents in the municipality that replied yes to this question.	Svenska Kommunförbundet och Landstingsförbundet (2004)
Having a fellow-feeling for people in one's own community	<i>Only in the Democracy Audit:</i> Percentage of the respondents in the municipality that totally or partly agree with this statement.	Svenska Kommunförbundet och Landstingsförbundet (2004)
Trusting people in one's own municipality	<i>Only in the Democracy Audit:</i> Percentage of the respondents in the municipality that totally or partly agree with this statement.	Svenska Kommunförbundet och Landstingsförbundet (2004)
Activity in organizations	<i>Only in the Norén Bretzer study:</i> The average level of organizational activity among the respondents in the municipality, measured on a scale from 1 to 4. The highest value represents a situation where all respondents are active members in at least one organization. Data collected 1998-2001.	Norén Bretzer (2005), p. 180 and 228
Trust in other people	<i>Only in the Norén Bretzer study:</i> Average level of trust in other people among the respondents in the municipality, recoded as a scale from 0 to 1. Data collected 1998-2001, using a question where respondents were asked to indicate their position on an 11-point scale between "Generally, people cannot be trusted" and "Generally, people can be trusted".	Norén Bretzer (2005), p. 102, 180 and 228
Mean income	Mean income 2001 for the population 20 years and older, in thousands SEK.	Official statistics from Statistics Sweden
Employment rate	Percentage of population in employment 2001.	Official statistics from Statistics Sweden
Health status	Number of days during a year lost due to bad health, divided by the total number of people covered by health insurance or in early retirement. Data for 2002. Negated to create an index of health status as the original index represents bad health.	Swedish National Institute of Public Health
Gender equality	An index based on 13 indicators of gender differences in the municipality, with regard to for example level of education, employment rate, health status, political representation and number of entrepreneurs. The scale was negated as the original scale is a measure of inequality.	Official statistics from Statistics Sweden

<i>Variable name</i>	<i>Variable construction</i>	<i>Source</i>
Crime rate	Number of reported crimes per 100 000 inhabitants, 2002	The Swedish National council for Crime Prevention
Level of education	Percentage of the population aged between 25 and 64 with higher education 2004.	Official statistics from Statistics Sweden
Population size (log)	The log of the municipal population size 1 November 2003.	Official statistics from Statistics Sweden
Political competition	Similarity in size between the socialist and non-socialist party blocks during the election period 2002-2006. Calculated as $100 - \text{Abs}(\text{soc block percentage} - \text{nonsoc block percentage})$ .	Official statistics from Statistics Sweden
Cross-block majorities	Dummy variable. The value is 1 if the ruling constellation consists of the Left or the Social Democratic party and any of the non-socialist parties, otherwise 0.	Dagens Samhälle
New means of participation	Index representing the extent to which the following means were used by the municipality during 2002: radio broadcasted council meeting, committee meeting open to the public, public hearing, citizen panel and citizens' initiatives. One point for each provides an index varying between 0 and 5.	Official statistics from Statistics Sweden
Socialist block strength	Percentage of mandates in the council held by the Social Democratic party, the Left party and the Environmental party during 2002-2006.	Official statistics from Statistics Sweden
Non-socialist block strength	Percentage of mandates in the council held by the Moderate party, the Liberal party, the Christian Democratic party and the Centre party during 2002-2006.	Official statistics from Statistics Sweden

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1 This research has been carried out within the Urban Design Project at Umeå University, Sweden, jointly financed by the County Council and the County Administrative Board of Västerbotten, eight municipalities in Västerbotten and the EU Objective 1 structural fund. A previous version of this working paper was presented at the XIV Nordic Local Government Research Conference, Turku, Finland, 25-27 November 2005. I am grateful for valuable comments from the conference participants.

2 For overviews of the development of research on political trust, see Braithwaite & Levi (1998); Norris (1999); Warren (1999); Norén Bretzer (2005).

3 For more information about these studies, see the methods and materials section of this working paper and Appendix I. The City-Region Democracy Survey (CRD) consists of data from 23 municipalities, the Democracy Audit (DA) from 25 and the Norén Bretzer study (NB) from 47. There is a slight overlap between the three samples, see Table 2.

4 The respondents were asked to reply in one of five ways to each of the statements: totally accurate, fairly accurate, not very accurate, not at all accurate and no opinion/don't know. For each municipality, a value was calculated by subtracting the percentage that replied not very accurate and not at all accurate from the share replying that the statement was totally or fairly accurate.

5 See Norén Bretzer (2005) for further details.

6 Källa SCB, nr 4, 2003

7 These are: share of household income from the private sector, local tax level, extent of municipal outsourcing, the population's level of education, new businesses per 1000 inhabitants and number of private workplaces per 1000 inhabitants.

8 These are the business peoples' assessments about: attitudes to business in the local community, supply of competent labour, the status of the local infrastructure, municipal services to businesses, municipal regulation and bureaucracy, and the extent to which the municipality is unfairly competing with private businesses.

9 The business people were asked: "On the whole, how would you assess the business climate in the municipality?". The response alternatives were: bad, not fully acceptable, acceptable, good, very good, excellent and have no experience/don't know. The measure that is used in this study is constructed by adding the percentages in each municipality replying that the climate is good, very good and excellent. Hence, in theory this could vary between 0 and 100.

10 In this working paper, the following symbols are used to indicate level of significance (2-tailed): \* .05-level, \*\* .01-level, \*\*\* .001-level.

11 Statistically significant, but slightly weaker coefficients are obtained when the Confederation Business Climate Index is correlated with the different measures of political trust. It is .718\*\*\* in the City-Region Democracy Survey, .445\* in the Democracy Audit and .545\*\*\* in the Norén Bretzer Study.

12 Each of the factor analyses generated one factor, accounting for 86 percent of the variation in the City-Region Democracy Survey, 79 percent in the Democracy Audit and 81 percent in the Norén Bretzer Study.