



ABSTRACT WORKING PAPER 5.15

TRUST AND INNOVATION IN EUROPE: CAUSAL, SPATIAL AND NON-LINEAR FORCES

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This paper investigates the effect of trust on innovation. In addition to generalised trust we use a range of other indicators that could measure trust and investigate which trust related variables could explain innovation in 20 European countries divided into 135 regions. We specifically look at causal, non-linear and spatial forces. Our findings indicate that only generalised trust and non-egoistic fairness have robust effects on innovation in Europe. Using historical data on the extent and existence of universities and an instrumental variable strategy we set up a causal relationship between trust and innovation. Even after controlling for causal, spatial and non-linear forces there is a significant direct impact of trust on innovation.