The impact of welfare states on social trust: theoretical and empirical foundations

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There is a clear lack of agreement among scholars about how the quality of relationships between citizens and the government affects social capital in general and social trust in particular[1]. On the one hand, the welfare state variable can be included in the 'societal theory' which assumes that country-level characteristics, in this case welfare state development, can be considered a determinant of social capital levels. On the other hand, the theories elaborating on the relationship in question also take into account the indirect effects of social policies on social trust which arise from the welfare state ruining the primary mechanisms through which the development of trust occurs. Both can be systemized in the way presented in table 3.1.

Thus, it is possible to distinguish between several arguments in the literature regarding the relationship in question. The first point of view can be called the 'civil society erosion' argument, which assumes the dependence of social trust on the level of development in civil society. Here, the effect of the welfare state is mediated through civic engagement which stems from the general assumption that civil society is the basis for social capital creation. This therefore suggests that welfare states may discourage civic engagement and thereby erode trust creation. In other words, when social obligations become public, intimate ties will weaken and civil society, as well as the norms of reciprocity, are crowded out. In this particular case, the influence of the welfare state is a kind of indirect effect which arises from the 'network' theories of social trust formation.

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[1] In total, the vast majority of studies conducted so far are developed around the question of the sign of the influence welfare state development causes on social capital formation. Researchers (advocating for either positive or negative relationship between welfare state activities and social capital) base their arguments on the assumption that the causal mechanism goes from the state to trust. Recently, this assumption has been contested. Uslaner (2000) for instance asserts that the direction of causality is reversed and it is hence not welfare state development that determines trust, but trust that determines the amount of GDP the state spends on social programs. According to him, trusting nations spend more of their total income on governmental programs in general and on education in particular. They also have a larger share of their total population employed by the government. A similar logic is used by Soroka (2003). To check this assumption however, one needs longitudinal data that goes back to the initial formation of the welfare state. Such data are not available which makes it difficult to define the direction of causality between the welfare state and social trust. For the purpose of our analysis, we hence rely on the traditional assumption that causality goes from the welfare state to social trust and not the other way around.

Alternative explanations of how welfare states affect social trust include the ‘moral destruction argument’. It is based on the assumption that the ability of people to cooperate with each other is based on habit and practice. As such, it suggests that the crowding-out effect on social capital happens if the state starts to undertake activities that are better left to the private sector or to civil society since if the state gets into the business of organizing everything, people become dependent on it and lose their ability to work with one another. Additional mechanisms of the negative relationship between the state and social capital assume that state activity erodes an individual’s sense of responsibility for caring about family members and friends.

Table 1. : Classification of theories of welfare state effects on social trust

Theories	***Assumptions upon which the theory is based***	***Mechanisms of influence***	***Final outcomes***
The civil society erosion argument	Social trust is dependent on the level of development of civil society	The welfare state discourages civic engagement	Crowding-out
The moral destruction argument	Trust depends on the ability of the individual to cooperate	The welfare state destroys people’s ability to work with one another and erodes the individual’s sense of responsibility	Crowding-out
The integration argument	Trust is more likely to appear among equal individuals	The welfare state redistributes substantial sums from the rich to the poor, making income distribution more even	Crowding-in
The institutional argument			
(a) Macro-level		State institutions promote trust through reducing the risk	Crowding-in

	Individuals are more likely to trust in a safe environment	involved in agreements by acting as a third-party enforcer of agreements	
(b) micro-level	Trust depends on the institutional design of social program	Non means-tested schemes cause no crowding out compared to means-tested schemes since they are more efficient in reducing income inequality and enhancing the equality of opportunities	Crowding-out and Crowding-in
The synergetic argument	The synergy between the state and society is possible	The state creates incentives for collective actions from below	Crowding-in

There are, however, scholars who support the opposite effects of the welfare state. They base their argument on the idea that social policy helps to integrate an individual into society. As a consequence, these theories can be called ‘integration arguments’. Some assume that if government guarantees to keep an individual alive and in good health when he or she has difficulties, the individual does not feel abandoned and as a result his or her perception of failing substantially decreases, which forms the necessary grounds for higher institutional and interpersonal trust. The main reasoning here consists in the fact that welfare states make people’s lives more secure by protecting them from severe income losses and by redistributing substantial sums from the rich to the poor, thereby in a way artificially making the income redistribution more even. Others use the backward induction mechanism which demonstrates that the shrinking of a welfare state will lead to an increase in uncertainty among the population, which may entail a loss of their confidence in the future, thus negatively affecting trust levels.

The fourth argument found in the literature can be called ‘institutional’, which emphasizes the role of institutions in inducing pro-social behavior. This institutional argument may be divided into macro-and micro-level theories. The former emphasizes the role of the quality of public institutions in generating social trust while the latter stresses the dependence of the final outcome on the institutional design of benefit schemes.

More specifically, macro institutional theories assert that efficient state institutions promote more trusting societies by reducing the risk involved in agreements. This is due to the fact that the state may serve as a third party enforcer of agreements through administrations or courts that have the power to impose fines or other penalties or sentences and in this way boost social trust. An alternative way for public institutions to influence social trust consists in citizens evaluating the quality of performance of public institutions or elected officials.

The micro-level institutional theories focus on the idea that the particular design of welfare state programs may explain the kind of influence they have on social capital. Crowding-out is expected in the case of means-tested schemes, while universal non means-tested schemes usually have a positive influence on social capital levels. This is because universal programs are more efficient in reducing inequality and tend to promote equal opportunities.

The next block of literature on the relationship between social capital and the state recognizes the possibility of a synergy between the state and society and can hence be called ‘synergetic’. Here, for instance, one uses the term ‘political construction,’ which is based mainly on the idea of the state creating the incentives for collective actions from below. Others suggest that norms of cooperation and networks of civic engagement among ordinary citizens can be promoted by public agencies, which can take the form of complementarity or embeddedness. In general, these studies demonstrate that the vigor and dynamism of civil society can be associated with a strong state.

We will try to discuss all the selected arguments about the patterns of the influence of welfare states on social trusts in more detail. This discussion will be supplemented by an empirical analysis aimed at testing whether or not the idea underlying the relationship of interest is really valid.

1. The civil society erosion argument

The network theory states that a vigorous state ruins social capital in general and social trust in particular. Kumlin and Rothstein (2007) demonstrate that the analysis of this relationship is usually based on Wolfe's assumption[2] that the most important prerequisite for the accumulation of social capital is the prevalence of norms of reciprocity and networks of civic engagement in the society. According to them, welfare state development discourages civic engagement and hence voluntary reciprocity becomes harder to create. As a consequence, instead of organizing themselves in associations that reach out to support fellow citizens in distress, or build strong reciprocal ties, citizens in large welfare states refer their more unfortunate compatriots to the broad system of social and welfare programs (and morally adjust themselves by referring to the high level of taxes they are paying). In other words, when social obligations become public, intimate ties weaken and civil society and norms of reciprocity are crowded out.

Scholars predominantly agree that associational memberships produce more social capital in weak state settings and in pluralistic civil societies. Likewise, associations may produce less social capital in a strong state setting with a more institutionalized and less competitive civil

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[2] See Wolfe, 1989

society, such as in Germany and Sweden. They emphasize the fact that strong states subsidize associational life more and in a more pro-active (visible) way than weak states. As a result, it is very likely that in nations where states have expended their activity levels, one may expect more apathy, less involvement, and less of an impact by voluntary associations.

Many researchers however admit that state support may produce an extensive associational network, but participation in a state-fostered network may also diminish the impact of associations on social capital and hardly leads to social capital accumulation. Already in the nineteenth century, Tocqueville was concerned about the possibility that states would take over the functions of voluntary associations creating a bunch of problems for the society and the economy.

The argument about the effects of the welfare state on civic engagement remains largely theoretical in nature. There is little empirical research that demonstrates that welfare state activity discourages the membership in voluntary associations or unpaid work outside the family. Few empirical evidence that would support the crowding-out thesis is found (Hackl, Halla, and Pruckner, 2009; Van Oorschot and Arts, 2005), while scholars usually refer to Scandinavian nations where the extensive public sector also leaves room for voluntary organized provisions of goods and services (Henriksen, Koch-Nielsen, and Rosdahl, 2006).

A study conducted by Stolle and Rochon (1999) is a good example of a new approach to contesting the plausibility and validity of the classical crowding-out thesis. Their empirical analysis demonstrates that regardless of institutional differences among countries (in their analysis Germany, the United States, and Sweden), the associational membership may create trust in all three countries while the trust developing capacity of Swedish and German associations in most sectors can be equal to or greater than that found in the United States.

In general, recent research tends to emphasize that the classical theory that holds that welfare states undermine social trust levels by discouraging civic engagement should be revisited. Bode (2006), for instance, focuses on voluntary agencies being partners of the welfare state and being able to complement welfare state arrangements. His analysis indicates that during the 20th century, most countries experienced a common development into governance regimes exhibiting a tight coupling of civil society and the welfare state in (a) the process of planning, providing and supervising social services; (b) system-wide coordination via negotiated public-private partnerships and (c) a milieu-based firm involvement of civic stakeholders in voluntary action. This turns the relationship between the welfare state and the voluntary sector into a complex and multidimensional interaction which opens up new opportunity windows for mutually beneficial co-operations.

The common mistake of many studies is that they use a uni-dimensional approach to understanding the relationship between the welfare state and civil society. The relations between them do not constitute any straightforward equation. This implies that the welfare state is a complex construct, which affects volunteering in a multidimensional manner. First, one should account for the size of the public sector, which to a great extent indicates the degree of the replacement by the state of the voluntary sector. This can be measured by a share of GDP dedicated to social policies. Second, one should assess the impact of the welfare state on the environment that necessitates the formation of volunteering. Since poverty is considered to trigger the collective action, it is necessary to analyze how the redistributive function of welfare states affects unpaid labor. Finally, the quality of institutions, in which the welfare state provisions of goods and services are imbedded, might predefine incentives for voluntary work. Corruption levels can reveal how fair public welfare institutions treat an individual in the process of defining the access to, and the amount of, benefits.

The crowding-out thus takes place if all these three aspects of welfare states negatively correlate with participation of individuals in unpaid labor. The hypothesis is checked based on the World Values Survey for the wave 1999, while the sample includes 18 OECD countries. The multilevel logistic regression is the main research method, which allows one to control for observed and unobserved heterogeneity in the different levels of the data.

Table 2.: The impact of welfare states on the membership in voluntary associations

	Model 1	***Model 2***	***Model 3***
Country-level variables			
Total social expenditures	-0.391***	-0.661***	-0.747***
Income inequality		0.935***	1.152***
Institutional quality			0.462***
Individual-level variables			
Socialization	1.856***	1.805***	1.799***
Religion			
Atheist	Ref. Category	Ref. Category	Ref. Category
Catholic	-1.364***	-1.193***	-1.070***
Protestant	0.183	0.282**	0.430**
Other	0.200***	0.201***	0.205***
Religiousness	-0.431***	-0.405***	-0.416***
Gender	-0.098***	-0.101***	-0.099***
Age			
15-29	Ref. Category	Ref. Category	Ref. Category
30 – 44	-1.985***	-1.935***	-1.993***
45 – more	-0.950***	-0.907***	-0.974***
Education			
Lower	Ref. Category	Ref. Category	Ref. Category

Middle	-0.178**	-0.173**	-0.175**
Upper	1.001***	1.132***	1.051***
Unemployed	-1.531***	-1.532***	-1.457***
Income			
1st qu.	Ref. category	Ref. Category	Ref. Category
2nd qu.	-1.086***	-1.110***	-1.153***
3rd qu.	0.267***	0.218**	0.183**
4th qu.	-0.420***	-0.593***	-0.5558***
5th qu.	2.918***	2.761***	2.871***
Moral values			
Welfare state-related morals	-0.022***	-0.020***	-0.022***
Traditional values-related morals	-0.023***	-0.036***	-0.034***
	-0.638***	-0.748***	-0.763***
Laws and regulations-related morals			
Responsibility			
Importance of responsibility	-0.638***	-0.748***	-0.763***
Individual vs Welfare state responsibility	-0.231***	-0.205***	-0.214***
R square	0.413	0.417	0.418
Number of cases (country level)	18	18	18
Number of cases (individual level)	11298	11298	11298

The empirical results suggest that welfare states cause crowding-out effects in voluntary activities. In the countries with more developed social obligations less people volunteer than in the countries with less developed welfare states. Three channels of crowding-out of volunteering are identified. First, by expanding into areas that used to be a civil responsibility, welfare state development crowds out volunteering through replacement of volunteers with paid employees (the replacement crowding-out). Second, by making income distribution more equal, welfare states decrease individuals' willingness to volunteer (the redistributive crowding-out). Finally, the better the quality of public welfare institutions is, the lower is an individual's engagement into voluntary associations (the institutional crowding-out).

The mechanism of the classical crowding-out hypothesis is therefore plausible and can be used to explain the recent decline in trust levels. Nevertheless, one should be very cautious with assigning too much of importance to this thesis. Civil society is a predictor of trust that conditions the speed of its accumulation and the direction of its change. But, the explanatory power of civic engagement is too small to claim that the classical crowding-out thesis is the only or the major mechanism through which the impact of the welfare state on trust materializes.

2. The moral destruction argument

The moral destruction argument repeats that welfare states may be detrimental to social capital in general and social trust in particular. By penetrating into the private sphere, the government does not only replace the civil society in the sense that it limited its concern to the material interests of citizens. The harmful effect of the state is much worse since apart from retaining itself from enhancing sense of morals among citizens, it also ruins the attained level of morality formed through other processes.

Morality is very important in the trust formation process since an individual's evaluation of others' trustworthiness passes through a specific framework of morals, values, and beliefs. As a result, an individual's expectations about others' behavior can be dependent on his or her sense of morals. Dishonest individuals may develop mistrust since they expect that people can easily deceive them the way they deceive others in their everyday behavior. A scientific explanation for this can be derived from the persistence hypothesis that asserts that although people may be aware of the reputation or past behavior of others they analyze it through a specific framework which is based on particular moral values, acquired in their early formative years, that condition their rationality (Camoes 2003).

Morality can thus represent a supplementary channel through which the welfare state impact on institutional trust materializes. Scholars indeed recognize that as the scope of public responsibility expands, private morality atrophies (Gooding, 1993). The empirical evidence for this reasoning is however limited to establishing a negative impact of social spending on morals relevant only to the functioning of the welfare state (tax compliance, benefit claimant, etc) (Heinemann, 2007), while ignoring other moral principles. Our empirical analysis has an objective to investigate how an individual's sense of morals changes in the presence of a strong state.

Table 3.: The impact of welfare states on an individual's sense of morals

	Model 1 *Welfare state-related morals*	***Model 2*** *Traditional values-related morals*	***Model 3*** *Laws and regulations-related morals*
Country-level variables			
Total social expenditures	**0.748*** **	**1.421**	**0.116*** **
Individual-level variables			
Volunteering	0.794***	-0.090	1.300***
Religion			
Atheist	Ref. Category	Ref. Category	Ref. Category
Catholic	-3.934***	-1.908***	1.006***
Protestant	-4.920***	-1.131***	-0.797***
Other	-1.339***	-1.001***	-0.224***
Religiousness	0.343***	-1.141***	-0.005
Gender	0.001	-0.980***	0.008
Age			

15-29	Ref. Category	Ref. Category	Ref. Category
30 – 44	-2.312***	-1.493***	0.064***
45 – more	-0.437	-3.612***	-1.759***
Education			
Lower	Ref. Category	Ref. Category	Ref. Category
Middle	2.607***	-3.239***	-3.403***
Upper	1.451***	3.906***	-0.605***
Unemployed	3.854***	9.315***	4.010***
Income			
1st qu.	Ref. Category	Ref. Category	Ref. Category
2nd qu.	-2.900***	-7.883***	-1.613***
3rd qu.	-1.274***	-1.350***	-1.333***
4th qu.	9.950***	6.171***	8.528***
5th qu.	3.872***	0.737***	0.962***
R square	0.170	0.521	0.396
Number of cases (country level)	18	18	18
Number of cases (individual level)	16723	15444	12625

The findings are supportive of the negative effects that the state may have on morality. As the welfare state expands, people tend to justify more easily any violation of laws and regulations. They start considering lying and cheating on the state as normal and acceptable. The welfare state also ruins family morals and impose on people less strict attitude towards divorces, abortions or casual sex.

The moral destruction argument thus holds true and can be used to explain the negative effects that the welfare state structures conduct on trusting attitudes. If taking into account that the morality variable accounts for almost 30 percent in explaining variation of trust among individuals, one can assert that the negative impact of social policy on trust is to a great extent understood.

There are several additional explanations for the crowding-out effects that perfectly fit into the moral destruction argument. Fukuyama (2000) supports the idea that crowding-out in social capital will happen if the state starts to undertake activities that are better left to the private sector or to civil society. He explains these effects by the fact that the ability of an individual to cooperate is based on habit and practice. And hence, if the state gets into the business of organizing everything, people will become dependent on it and lose their ability to work with one another.

To some extent, a similar logic was used by De Swaan (1988). He also insists on the negative consequences of welfare state development for social capital, arguing that the activities of the state erode an individual's sense of responsibility for caring about family members and friends. According to him, the root of the negative relationship lies in an individual's propensity to cede caring activities to the state in the presence of a developed welfare state. These studies are again purely theoretical and provide no empirical evidence which would either confirm or disprove their argument.

One can check empirically whether there is a negative correlation between the sense of responsibility and social spending. The underlying assumption for this crowding-out mechanism is that more responsible people are more likely to trust others than less responsible individuals. While forming expectations about a trustee fulfilling his obligations, an individual supplements his analysis of trustworthiness with his own psychological predisposition to keep promises and meet obligations. A responsible person expects that others will act equally responsible to him. A less responsible individual may generalize his or her own attitude to others and hence be more cautious or distrustful when building trusting relations. As the previous analysis of trust determinants indicated, the sense of responsibility conducts a considerable effect on trust formation among individuals and explains up to 7 percent of variations of trust among people. Hence, if the state expansion erodes an individual's sense of responsibility, trust-building process can be blocked.

The empirical analysis supports this expectation only to a limited extent, since the findings demonstrate in their majority that social spending tends to enhance the sense of responsibility among individuals. In the countries where the state spends more on supporting an individual's wellbeing, people are usually more responsible and more often consider the sense of responsibility as an important attribute of an individual.

Table 4.: The impact of welfare states on an individual's sense of responsibility

	Model 1 *Importance of responsibility*	***Model 2*** *Individual vs welfare state responsibility*
Country-level variables		
Total social expenditures	**0.387*** **	**-0.191*** **
Individual-level variables		
Volunteering	0.443***	-1.245***
Religion		
Atheist	Ref. Category	Ref. Category
Catholic	1.217***	-0.741***
Protestant	1.329***	-1.932***
Other	0.889***	-0.191***
Religiousness	-0.085***	-0.219***
Gender	0.005	0.003
Age		
15-29	Ref. Category	Ref. Category
30 – 44	-0.293**	-0.212***
45 – more	-0.076	0.196***
Education		
Lower	Ref. Category	Ref. Category
Middle	0.386***	0.846***
Upper	0.494***	-0.755***
Unemployed	-1.998***	0.187***

Income		
1st qu.	Ref. Category	Ref. Category
2nd qu.	-0.010***	0.389***
3rd qu.	0.551***	0.538***
4th qu.	0.146***	-0.174***
5th qu.	0.848***	-0.796***
Moral values		
Welfare state-related morals	-0.013***	0.015***
Traditional values-related morals	0.042***	-0.064***
Laws and regulations-related morals	-0.078***	-0.047***
R square	0.437	0.461
Number of cases (country level)	18	18
Number of cases (individual level)	16723	11303

Furthermore, an expansion of the welfare state does not mean that an individual will prefer to cede his or her obligations to the state. In more developed welfare state structures, people tend to stress more their personal responsibility for their lives and rely less on the state. And this is where the root of crowding-out lies. Trust favours the collective attitude with an individual relying on the state, and can be developed more easily among individuals who have the leftist approach and who promote the state taking on the responsibility for others. Since more social spending leads to a gradual shift to a personal responsibility and enhances an individualistic nature of people, trusting attitudes cannot be so easily developed and maintained. Therefore, responsibility is an additional mechanism through which the harmful effect of welfare states on trust may go.

3.The integration argument

There are however several studies that recognize the probability of the opposite relationship and try to explain why social policies may enhance social capital formation. They all base their argument on the idea that social policies in this way or another help to integrate the individual into society. As a consequence, these theories can be called 'integration arguments'. Szreter (2002), for instance, regards social capital as far from being an alternative to state and government activity, but as a symbiotic link to it. He argues that the context of a prestigious and vigorous state is vitally important for the development of social capital, and adds that high support from the state may result in high levels of trust. He further explains that if the government guarantees to keep an individual alive and in good health when he or she is in difficulty then individual does not feel abandoned but integrated and as a result his perception of failing substantially decreases. This forms the basis for high evaluations of the government and affects first and foremost an individual's trust in state institutions. High regard for the state and its activities in turn forms the essential cultural, symbolic, psychological and experiential preconditions for citizens to respect and trust each other and volunteer their time to trusting and cooperative activities. He concludes his discussion with the statement that the first task in building respectful social capital in a community is hence to restore collective faith in the idea of the state and local government as practically effective servants of the community and guarantor of personal security.

This statement was further developed by Patulny (2005). By using bonding and bridging distinctions of trust, the author tries to explain why welfare state activities may enforce social capital formation. According to his definitions, bonding is more exclusive and based upon rational familiarity, while bridging is more inclusive and based upon norms of civility. Using this idea as a framework, he suggests that any type of welfare regime may enhance social capital development: universal welfare regimes support bridging social capital, while rational familiarity-based trust (inherent to bonding social capital) must act as a substitute when social policies encourage individual and familial reliance.

A more pragmatic explanation of the positive influence of welfare state development on trust is proposed by Knack and Zak (2001). They suggest that one way to build trust in society is to reduce income inequality since it tends to ruin the common bonds among individuals that are necessary for the formation of generalized trust. Income redistribution through different social programs is an effective instrument to reduce inequality and hence can also be considered an instrument for raising trust.

Somewhat similar logic is used by Bjornskov (2005) who points out that the welfare state makes people's lives more certain by protecting them from severe income losses due to unemployment and by redistributing substantial sums from the rich to the poor, thereby artificially making income distribution more even. This effect would likely both reduce social fractionalization and perhaps increase individual's trust radius, as people might perceive the income distribution to be fair. However, he recognizes that it remains an open question as to whether the majority of the population in such states would consider the intensive redistribution as 'fair', since most citizens would pay higher taxes to finance the welfare state.

Bonoli (2004) also argues that welfare state activities are associated with positive influences on social capital while using the backward induction mechanism. He demonstrates that the shrinking of welfare states leads to an increase of uncertainty among the population. He uses the German case of Rieste-Rente reform as an example to show that a shift from direct state old age provisions to an increased reliance on financial markets results in a general uncertainty among people about the future. Uncertainty may also develop as a result of imperfect legislation about private pension insurance, which is unavoidable at the early stages of shifting from state to private insurance. Consequently, people find it difficult to make calculations about their future pensions, which again results in a loss of confidence in the future, thus negatively affecting their trust levels.

These theoretical arguments have been broadly supported by the results of empirical analysis. The prevailing tendency is however the lack of research that is focused on directly analyzing the effects of welfare state activities on social capital formation or which at least includes among their control variables the welfare efforts usually operationalized through percentage of GDP spent on social policies. Delhey and Newton (2003), for instance, suggest that good government is an essential structural basis for trust, but the size of the public sector may have a pervasive influence on society as a whole, including the private and market sectors. The results of their OLS on social trust conducted on the basis of 60 countries are nevertheless inconsistent with their expectations – the coefficient on this variable is positive but has a very small value. Their analysis is however based on the assumption of homogeneity of public policies since the latter is operationalized through government social spending and represents a single indicator.

Van Oorschot and Arts (2005) obtain similar results. They find no evidence of crowding-out effects in European countries in their cross-sectional analysis from the EVS data from 1999/2000. At the individual level, explicit crowding-out effects appear only in the case of trustworthiness. With regard to other forms of social capital, the findings point out at best mixed evidence, but they mostly contradict the crowding-out hypothesis. This research partially accounts for the specificity of welfare state regimes by using the dummies for welfare state regimes, along with the level of social spending. But again, the study does not differentiate between the impacts of different social policies.

To some extent, the study of Knack and Zak (2001) elaborates on the relationship between social trust and social spending by checking how amenable trust levels are to policy interventions. Their empirical analysis shows that trust can be raised directly by improving transportation and telecommunication infrastructure and increasing education, as well as indirectly by strengthening formal institutions that enforce contracts and by reducing income inequality. This research however does not distinguish between types of re-distributive policies that can be considered efficient in their influence on trust since they are treated as a single group.

In the case of European countries, most of the research generally finds positive and strong correlations between social expenditures and social capital as a synthetic construct or between social spending and one of the social capital elements (Arts et al., 2003; Gaskin and Smith, 1995; Salamon and Sokolowski, 2003 in Van Oorschot and Arts, 2005; Van Oorschot, 2003). This provides a ground for many scholars to recognize the possibility of high levels of public obligations being associated with higher levels of social capital while using Scandinavian countries as an example (Kumlin and Rothstein, 2007; Rothstein, 2001; Rothstein and Stolle, 2003; Rothstein and Uslaner, 2006; Svallfors, 1997).

We will check empirically whether the integration argument holds true when combing social spending and income inequality indicators in the same equation. One should note that we only report the estimates of coefficients for welfare state related variables while those for individual-level control variables are not included in the final table since they were discussed and analyzed in the previous section.

Table 5.: The impact of redistributive policies of welfare states on social trust

	Model 1	***Model 2***	***Model 3***
Social spending	0.080***		-0.183***
Income inequality		-0.450***	-0.912***
R square	0.498	0.493	0.512
Number of cases (country level)	18	18	18
Number of cases (individual level)	23869	23869	23869

The key finding is that income inequality levels negatively correlate with interpersonal trust, which indicates that people living in more equal societies tend to trust their fellows more. Hence, welfare states enhance trust formation by reducing income inequalities between low income groups and upper income groups of individuals. This is completely in line with the integration argument and brings up nothing new in the discussion of the state-trust nexus. The novelty of this approach is that the redistributive function of social policies absorbs most of the positive effect of welfare states and if controlled for, the impact of social spending on trust turns into negative. When entering alone the equation, social spending obtains a positive sign on the estimate of its coefficient which becomes negative when simultaneously controlling for inequality levels. Social policies can thus ‘break’ and ‘make’ social trust. On the one hand, they encourage accumulation of trust by promoting income equality. On the other hand, they ruin trust through other mechanisms like those related to civic engagement and morality.

These findings are still limited since welfare state development is measured by the level of social spending while ignoring the fact that the level of spending does not reflect the actual level of benefits. Apart from that, none of the research specifies whether the effects of social spending are linear with respect to all social policies or if they can be policy specific.

4. The institutional argument

Macro-level institutional theory argues that the quality of public institutions may influence the level of social capital. Some of the scholars accept that this influence can be positive, although there are some arguments that say that their effects can also be negative since the state substitutes social trust. In addition, there is also disagreement with respect to the mechanisms underlying the relationship between the state's institutions and social trust.

The straightforward conclusion about the relationship between the state and trust rests on the premise that the quality of public institutions predefines the level of trust towards these institutions. Institutional trust in its turn forms necessary preconditions for the development of interpersonal trust. The role of the state is regarded as important for the process of trust formation in the study conducted by Khodyakov (2007). His analysis of trust in the Soviet Union emphasizes that state institutions may provide people with the resources necessary for achieving their goals. "Effective functioning of institutions and especially of the state, increases the level of institutional trust. As a result, citizens are more likely to rely on the government and its institutions in their everyday life" (Khodyakov, 2007: 123).

Trust is thus dependent on the perceived legitimacy of the institutions, of their technical competence, and their ability to perform assigned duties efficiently. The overview of the literature conducted by Edlund (2006) supports the above–mentioned idea as well. Edlund (2006) defines two variants for his idea. The first variant focuses exclusively on the role and functioning of political decision-making institutions for building political trust in government and welfare policies. In brief, the argument is as follows: "The structure of political decision-making institutions critically determines policy outcomes. These outcomes in turn shape public perceptions regarding the efficacy of the political decision-making institutions and the role of the state" (Edlund, 2006: 396). Only if the state is affective and caring will it make sense to trust it and put people's welfare in the hands of officials armed with the power of law and vast fiscal resources.

The second variant emphasizes the specific institutions that constitute welfare. The legitimacy of the welfare state's implementing agencies (hospitals, elderly care, health insurance, and pensions) influences public welfare state support. Whether citizens support a welfare state depends on whether they trust the welfare state to be capable of delivering various public goods and services of sufficient quality. It is assumed that popular support for a welfare state is dependent on its institutional performance. As an example Edlund (2006) emphasizes that one of the reasons the public distrusted state institutions in Sweden during the latter half of the 90s was because of cutbacks in social spending as well as public discontent with the quality of vital social services.

The role of the state in generating trust is also successfully summarized in the institutional theory which is based on the idea that trust is politically endogenous. More specifically, Mishler and Rose (2001) point out that trust is the expected utility of institutions performing satisfactory, "it is a consequence, not a cause of institutional performance" (Mishler and Rose, 2001: 31). Being rationally based, trust hinges on citizens' evaluations of institutional performance. If institutions perform well, trust is generated. In the opposite case, the outcome of institutional functioning is 'skepticism and distrust'. In explaining what exactly citizens evaluate, they refer to such issues as promoting growth, governing effectively, and avoiding corruption which are assumed to determine individual responses. They test these theories on the basis of data for 10 post-Communist societies in Eastern and Central Europe. Their analysis combines macro-level indicators of economic and political performance across the 10 countries with micro-level survey data on interpersonal and institutional trust, political socialization experience and individual performance evaluations. The results strongly support the superiority of institutional explanations of trust which allows them to make propositions on how government can generate public trust in the old fashioned way. According to them, the government can earn it by responding promptly and effectively to public priorities, by rooting out corrupt practices, and by protecting new freedoms or by implementing sound economic policies that promise and ultimately provide a better material future for the country as a whole.

Rothstein and Stolle (2002) also formulate their ideas in the framework of the institutional argument. They use an institutional-centered approach to argue that social capital does not exist independently of politics or government in the realm of civil society. Instead, government policies and political institutions create, channel and influence the amount and type of social capital by manipulating the capacity of citizens to develop cooperative ties. According to them, this may happen since states enable the establishment of contracts in that they provide information, monitor legislation, enforce the rights and rules that sanction lawbreakers, protect minorities, and actively support the integration and participation of citizens. This point of view implies that institutional engineering can indeed be used to foster social capital accumulation.

A similar logic is used by Herreros and Criado (2008) in their discussion of the relationship between institutions and interpersonal trust. They demonstrate that institutions clearly matter for social trust. An efficient state promotes more trusting societies by reducing the risk involved in the agreements. This happens due to the fact that the state may serve as a third party enforcer of agreements through administration or courts with the power to impose fines, other penalties, or sentences and in this way boosts social trust. Their empirical analysis based on the European Social Survey (ESS) for 22 European countries confirms this hypothesis. The results explicitly indicate that the efficacy of the state as measured through the Public Institutions Index increases the probability of people trusting their fellow citizens.

Support for the macro-level role of the state in regulating micro-level relations between individuals is emphasized in the study conducted by Tillmar and Lindkvist. They demonstrate that the leap of faith in the mechanism of trust formation does not happen on empty ground. Individuals always do it in a specific context, and thus, their mental processes and actions should be seen as embedded. A different context may provide more or less fertile soil for the emergence of trust and for forming different reasoning and leap of faith processes. Government rules and regulations, a system of law and police-force, as well as their ability to enact rights and obligations and apply sanctions, constitute this context, within which the economic actors operate, and hence may provide strong grounds for trust formation processes. The authors however recognize that trust may also be promoted by less formal constitutional institutions, including general cultural features, local traditions, and contingencies.

Kumlin and Rothstein (2007) go even further in their analysis by providing three psychological mechanisms to explain the effect of institutional quality on social trust. First, people may draw inferences about others' trustworthiness from how they perceive public service bureaucrats. If social workers, local policemen, public health workers, and so on act in such a way that they cannot be trusted, why should people in general be trusted? Second, if citizens, to get what they themselves deem necessary from public services, have to engage in cheating, distorting vital information and other forms of dishonest behavior, why should people in general be trusted? Third, if you yourself, to get what you deem fair from public services, have an interest in engaging in questionable behavior, then not even people, such as yourself can be trusted, so why should 'other people in general' be trusted?

Apart from the quality of public institutions which may determine the level of social trust, the performance of public servants is recognized as essential in generating trust. An alternative study of the relationship between formal institutions and trust is conducted by Thomas (1998), who refers in his analysis of trust to two main groups of factors related to the state. According to him, trust in government depends on the performance of elected officials on the one hand. On the other, the decline in trust is due to the general public dissatisfaction with government institutions.

The institutional theory also allows for negative effects of the state on social capital. The contribution of Herreros and Criado (2008) to the analysis of the relationship between the state and trust consists in a detailed overview of the opposite statement which asserts that the state does not generate trust but actually substitutes trusting relations. They refer to Uslaner who argues that trust is not encouraged by making people respect the law: courts may at most help to build some forms of ‘strategic trust ’. Ullman-Marhgalit (2005 in Herreros and Criado, 2008) continues this idea by demonstrating that the state’s enforcement of legally binding contracts does not generate trust but in fact relieves society of the need to trust. Thomas (1998) supports this reasoning by arguing that one way in which trust can be lost is through extensive use of contracts detailing the precise responsibilities of each party in the event of remote or unlikely contingencies. Not only is complete planning impossible and costly, extensive detailed contracts imply a lack of trust because their purpose is to specify obligations and future returns – and thus to align expectations when trust is low. The more contracts are used as a substitute for trust, the greater the signal of distrust or lack of trust is.

Thus, the macro-level institutional theories provide strong theoretical and empirical foundations for understanding why and how welfare state institutions and their employees may influence not only institutional trust but also confidence in other people. These studies are exhaustive and provide well-built argumentations on the type of relationship between state institutions and social trust. There are however very few studies that employ an empirical analysis on the relationship in question since the discussion is dominated by the theoretically grounded reasoning with little use of statistical techniques which would confirm this theory.

Our empirical analysis endeavours to specify the sign for the effects the institutional quality has on social trust. We measure the institutional quality through corruption levels which may reveal how fair the institutions, within which the welfare state is embedded, operate. The estimate of the coefficient on corruption levels has a positive sign which indicates that the less corrupt the institutions are, the more trusting individuals become. Moreover, the impact of corruption on trust does not vanish after controlling for the level of social spending. This allows one to infer that the quality of public institutions that regulate interpersonal relations condition trust formation in society.

Table 6.: The impact of the quality of welfare states' institutions on social trust

	Model 1	***Model 2***	***Model 3***
Social spending	0.080***		0.123***
Institutional quality		0.632***	0.815***
R square	0.498	0.492	0.515
Number of cases (country level)	18	18	18
Number of cases (individual level)	23869	23869	23869

In addition to macro-level theories, there are also micro-level arguments which fit the institutional approach. The micro-level institutional theories focus on the importance of the institutional design of welfare state programs for social capital. They assert that the particular design of benefit schemes may explain the kind of influence they conduct on social capital.

Crowding-out is expected in the case of means-tested schemes while universal non means-tested schemes usually assign a positive influence on social capital levels. Rothstein and Uslaner (2006) for instance argue that unlike selective social schemes, universal ones may enhance trust. This happens first of all due to the fact that such programs are much better at reducing inequality than simple redistributive schemes that imply selective policies. Moreover, the authors insist that apart from economic equality, one should also take into account the equality of opportunities as a determinant of social trust. The universal programs again may ensure this since they possess a number of specific characteristics. First, they are delivered with less bureaucratic hassle and control. Second, they may create a feeling of social cohesion in society. And finally, high quality universal programs may increase the feeling of optimism and equal opportunity among large segments of population.

This idea is further developed in Kumlin and Rothstein (2007). They suggest that welfare states exist along several dimensions: one is the level of social spending as proportion of GDP and another is a proportion of citizens that are covered by various social programs. A third dimension has to do with the many different situations and phases in life in which average citizens are in personal contact with public services and welfare state programs. According to them, contact with universal welfare state institutions tends to increase social trust, while experiences with needs-testing social programs undermine it. Their analysis explicitly shows the negative relationship between the number of needs-tested institutional contacts and the levels of social trust based on the Sweden SOM survey.

What makes difference between universal and selective social programs is not only the final results of personal contacts with public institutions but whether or not the process that eventually leads to the final results is fair. Kumlin and Rothstein (2007) distinguish between several aspects of procedural justice. These may involve questions of whether the individual was received with respect and dignity, whether he or she was able to communicate opinions to civil servants, and whether there are signs of discrimination, corruption, and /or cheating. They also argue that needs-tested public services may more readily give rise to suspicions concerning procedural justice and arbitrary treatment than do universal agencies since they imply a greater scope for bureaucratic discretion. Citizens for their part have an incentive and opportunity in this situation to withhold relevant information from bureaucrats and to try in various ways to convince the latter that they should qualify for the service in question. This easily escalates to a vicious spiral of distrust from clients leading to increased control by bureaucrats. Because of this complex and controversial decision making process, needs-testing and bureaucratic discretionary power are often more difficult to reconcile with principles of procedural justice compared to universal public services.

Micro-level institutional theories are also not perfect, although they do provide empirical evidence of the negative relationship between means-tested social programs and social trust. However, the question about the exact mechanisms, through which the effects of the institutional design go on social trust, remains open.

5. The synergetic argument

The synergy between the state and society in generating social capital is also recognized in the series of studies conducted by Fox (1996), Evans (1996), and Heller (1996). They do however confine the process of social capital accumulation to the breadth and density of representative societal organizations. But since they are seen as an important element in developing and reinforcing social trust levels, these studies represent a certain value in understanding the way the state influences social trust accumulation.

Fox (1996) distinguishes between two approaches to civil society building: state-driven and society-driven. The society-oriented approach tends to adopt an ‘historical’ determinist explanation to social capital formation or stresses social structure, which takes political strategies, ideologies, values, and cultures as givens. The state-oriented approach emphasizes the centrality of rules and incentives that induce social responses while treating the social arena as a residual black box (Fox, 1996). Fox (1996) argues that relying on the state or society alone does not explain the origins of institutions and thus cannot resolve the reconstruction of social capital, especially in a society with low levels of trust and civic pride which are apt to non-democratic, authoritarian regimes. In such circumstances, what he calls ‘political construction’ may foster social capital creation. In order to overcome these limitations, Fox (1996) proposes accounting for the interaction between the state and society.

To describe patterns of state-society synergy he refers to the ‘political construction’ process, which is based on three conceptual building blocks. They include political opportunities, social energy and ideas, and the process of ‘scaling up’ local representation and bargaining power. The first conceptual block includes creating positive incentives for collective actions from below or buffering the negative sanctions against autonomous collective action. The second involves taking actors, their ideas, and motivations into account to explain how people respond to positive and negative incentives for collective actions. Finally, the third block in the political construction approach highlights the importance of organizations whose efforts create opportunities for others to engage in autonomous collective action.

Fox's case study in rural Mexico shows that despite the poor stock of social capital, in some regions of Mexico the distinct patterns of state-society relations emerge, constituting distinct 'subnational political regimes' ranging from entrenched regional authoritarian redoubts to enclaves of pluralism. Fox (1996) distinguishes between three main causal pathways of societal capital accumulation: state-society convergence, local external societal groups, and independent emergence. The main pattern of collaborative production of social capital between state and societal actors took the form of successful initiatives by middle and lower level reformist government officials to recognize and encourage relatively autonomous grassroots organizations. It mainly took the form of cooperation between reformists and local social groups willing and able to take advantage of an opening from above, involving limited but substantive participation in the implementation of government development programs. In other words, state reformists created political opportunities, following pressure from local groups for securing political, civil, and social rights.

The second pathway involves external non-government actors that provide support to local and regional organizing efforts such as churches, development, and human rights groups. The third path includes provision of positive and anti-negative incentives for local voluntary actors. Positive incentives range from direct individual and group material inducements, tangible and intangible rewards for the exercise of leadership, as well as an enabling institutional framework and ideological resources that reduce free-riding problems. Anti-negative resources in contrast reduce the costs that other external actors may threaten to impose on those engaged in constructing autonomous social capital – protection from retribution.

In line with Fox (1996), Peter Evans (1996) assert that the state-society synergy is possible. Norms of cooperation and networks of civic engagement among ordinary citizens can be promoted by public agencies and used for developmental ends. The synergy may take the form of either complementarity or embeddedness. Complementarity is seen here as the conventional way of conceptualizing mutually supportive relations between public and private actors. It suggests a clear division of labor, based on the contrasting properties of public and private institutions. The idea of synergy can also be based on embeddedness, that is on ties that connect citizens and public officials across the public-private divide. In this framework, he considers it possible to create networks that surpass the boundary between public and private and which are seen as repositories of developmentally valuable social capital rather than instruments of corruption or rent-seeking.

An example of complementarity is when effective states enable a rule-governed environment, which strengthens and increases the efficiency of local organizations and institutions. But here, he emphasizes that the state's contribution to social capital is general and distant. Productive informal ties, like market exchanges, require a basic ambience, but public agencies are not directly linked to societal actors. He further argues that complementarity based on the public provision of intangibles can also take forms quite independent of the provision and enforcement of rules. The latter may happen through the creation and diffusion of new knowledge and media publicity. In this case, one of the most important aspects of the complementarity input is that it enhances the extent to which government programs are able to combine social capital formation with the delivery of services. His example of Ceara's successful preventive health program illustrates that the government's blitz of positive media publicity bolstered the health agents' sense of 'calling' and made them more willing to engage in the kind of diffuse public service that helped generate new trust relations between them and the community. It also affected the way in which they were viewed by members of the community, again increasing the likelihood of trust relations.

Positive impact on social trust formation is seen here as one of the most important byproducts of complementarity.

Embeddedness is based on the idea that the state can help best by providing inputs that local people cannot provide for themselves and then maintaining a 'hands-off' stance with regard to activities that are within the scope of local action. Social capital is formed by making those who are part of the state apparatus more thoroughly part of the communities in which they work. The networks of trust and collaboration that are created as a result span the public-private boundary and bind state and civil society together. As an example, he refers to China's transition success story where they managed to create the dense networks of ties that connect state agencies and private capital. "From joint business-government deliberation councils to the maze of intermediate organizations and informal policy networks where much of the time consuming work of consensus formation takes place". In this example, social capital is formed in networks that are neither public nor private but fill the gap between the two spheres.

He continues by pointing out that embeddedness and complementarity are not competing concepts of synergetic relations but are themselves complementary. Based on the examples of the government programs in developing countries, he argues that if the government had limited its role to the provision of the complementary input and assumed that local citizens would provide the appropriate responses without the involvement of public sector workers in the construction of a set of reinforcing ties, the campaign would almost certainly have failed.

Heller (1996) goes even further in his discussions about state–society synergy, demonstrating that a strong state is usually associated with a strong society. His case study of Kerala, India shows that successfully pursued social and redistributive development strategies are tied to exceptionally high levels of social capital as measured through the density of civic organizations. Heller (1996) argues that the vigor and dynamism of civil society is matched only by the size and activism of the state. He concludes about the reciprocal link between state and social capital by showing that the state and society in Kerala have reinforced each other in a manner that supports the synergy hypothesis. State intervention aimed at providing public goods and welfare to individuals has been built directly on existing social capital resources and has in turn reinforced social capital. The expansion of public health and education services has had a crowding-in effect as the competition between public and private delivery services has increased overall efficiency. The comparatively corruption free and logistically successful provision of low-cost housing, school lunch programs, subsidized food and day care have been attributed to the active and informed participation of local groups. High civic participation in Kerala is associated with the most developed social welfare system in India, the most extensive network of fair price shops and rates of social expenditures that continue to be significantly higher than the national average.

Heller (1996) also discusses the process of welfare state development which fits into the power resource model. He argues that the organized militancy of lower class groups united under the leadership of the Communist Party eroded traditional structures of domination, which cleared the path for state intervention. The bureaucratic-legal capacities of the state were activated and extended by mobilization pressure from below. The resulting synergy underwrote the politically and administratively daunting tasks of implementing structural reforms and building an extensive network of welfare services in an impoverished society. The legal and social protections enforced by an activist state in turn heightened labor's capacity for militancy. The most concrete and tangible effect of this synergy was redistributive development. He concludes that the most visible product of the synergy between a society mobilized along class lines and a democratically accountable state is the efficient and comprehensive provision of social services and the development of human capital resources.

Thus, the different mechanisms of synergy between the state and society in generating social capital are widely analyzed in the literature. These discussions are however purely theoretical and are based on the case studies conducted in the third world countries. There is little empirical evidence that proves that this synergy really exists and that it works in the way it is discussed in the literature.

Overview and concluding remarks

Based on the known mechanisms of trust formation, we analyze the relationship between the welfare state and social trust. Theoretical explanations show that, on the one hand, the state can destroy social trust through its negative impact on volunteering, individuals' ability to cooperate, and a collective sense of responsibility. On the other hand, there are theories that argue about the possibility of synergy between the state and society, which are based on the idea that the state can keep the individual integrated when he or she is having difficulties, can provide a strong institutional framework within which trust deals can take place, and can foster voluntary associations from below.

Empirical research can also provide controversial results which demonstrate that the degree of welfare state development may positively as well as negatively affect trust levels. But the studies conducted so far possess one common feature which consists in the predominant use of social spending as a measure of welfare state development. This in turn may lead to a number of problems which will be discussed next.

This hence gives rise to the need for finding a new operationalization for welfare state development which would allow us to conduct a cross-sectional analysis to estimate the effects of social policy on social trust. We will propose a new research design based on the idea of the multidimensionality of welfare state effects on social trust. This will shift the attention from discussing the multidimensionality in social capital to allowing for the multidimensionality in operationalizing the degree of welfare state development.

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