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Tamilina, Larysa

Independent Research

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The welfare state and social trust: a three-dimensional approach of analysis

Larysa Tamilina

Independent Research

Diakogianni Str. 7

Marousi Athens

15126 Greece

Phone: +30 210 7777640

E-mail: [larysa.tamilina@gmail.com](mailto:larysa.tamilina@gmail.com)

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Author Note

Correspondence concerning this paper should be addressed to Larysa Tamilina (E-mail: [larysa.tamilina@gmail.com](mailto:larysa.tamilina@gmail.com)).

Higher levels of social capital have been associated with many positive effects ranging from the prevention of crime to enhancing the economic growth and overall functioning of democracy<sup>1</sup>. The role that social capital performs at individual and societal level has spurred numerous researches about its recent dynamics and factors that may determine the speed and the direction of its change. The progress is however limited and only a small share of variation in social capital levels across countries and over time could be explained. Some ambiguity exists with regard to both: the direction of change over time and the factors which may trigger it. Among the determinants, welfare state development is the most controversial and often discussed. More specifically, many argue that if the state gets into the business of organizing everything, people will become dependent on it and lose their ability to spontaneously work with one another (De Swaan, 1988; Fukuyama, 2000; Kumlin and Rothstein, 2007). This negative relationship was conceptualized in the ‘crowding-out’ hypothesis.

However, the empirical evidence of negative dynamics in social capital and crowding-out effects is controversial. Those scholars who suggest that with respect to certain elements of social capital the negative trend is really taking place (Putnam, 1995, 2000; Uslaner, 2000-2001; You, 2005a,b) usually omit welfare state impacts from their analysis. Those who focus directly on this relationship generally provide empirical evidence of the positive, or at least neutral, influence of welfare state development on people’s trust in others, participation in volunteer organizations and social networks, and supportive behavior in families and neighborhoods (Hall, 1999; De Hart and Dekker, 1999; Rothstein, 2001; Van Oorschot and Arts, 2005).

The impact of public policies on social capital requires a more detailed elaboration and can be considered an issue of utmost importance if taking account of the current transformation of

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<sup>1</sup> See, for instance, Billiet and Cambree, 1999; Fedderke, Dekadt, and Luiz, 1999; OECD, 2001; Mishler and Rose, 2005; Portes, 1998, 2000; Seligson, 1999; Stark, 2003; Woolcock, 1998.

welfare states. The latter is happening because of the enforcement of neo-liberal principles which results in the shrinking of social spending on the one hand, and redesigning their structure on the other. The potential effects of this change on social capital among the population are impossible to predict if the relationship between welfare state development and the level of social capital is not fully understood and explained.

The main objective of this study is to test the “crowding-out” hypothesis by applying a new approach based on the multidimensionality of social policies and the differences in their effects on social capital formation. The latter is considered plausible due to the fact that the research conducted so far has mostly focused on the careful measurement of social capital while welfare state policies were treated as a single indicator without taking into account the diversity of social programs and the differences in their impact on social values and networks. Focusing on the multidimensionality of social capital and the relevant ignorance of the multidimensionality of the state activity provides a reason to think that this narrow operationalization of the predictor can to some extent explain the controversy of the empirical results obtained so far and provide some ground for better theoretical elaboration on the association in question. Moreover, an approach of this kind may allow us to identify what policies lead to the decline of and what policies may enhance social capital development. The latter would have a direct policy implication allowing for a design of a set of policies which, apart from ensuring individuals’ wellbeing, would also have a positive impact on the level of their social capital.

### **1. Identifying the background for a multidimensional approach**

Summing up the recent findings leads us to believe that the existing research (regardless of its outcomes) possesses a number of shortcomings that can be summarized in five main points.

*The first drawback* of the research consists in ignoring the possibility of ‘mixed’ effects of welfare state activity on social capital. As it was mentioned before, the concept of the welfare state includes a set of numerous social policies. Hence, it is plausible to assume that certain policies may lead social capital to decline while other policies may enhance the development of familial and social values. Therefore, when analyzing them as a whole, the total effect can be neutralized or biased by a prevailing policy. This logic is especially clear if welfare states are scored on spending. By doing so we assume that all spending counts equally. As a result, we ignore the fact that spending actually reflects a number of policies and has a specific structure. These policies are different in their impact, outputs, and outcomes and each of them affects social capital in its own way. Thus, when analyzing the effect of total spending, the changes in social capital are inevitably biased either by the policy absorbing a greater share of expenditures or by the policy with the strongest influence.

*The second drawback* is ignorance of the notion of targeting. In each welfare state, there are policies that are applied exclusively to a certain population group (for instance pensioners) and hence only the social capital of this specific group is subject to the direct pressure of change. Hence, when analyzing crowding out effects on the basis of the data for the whole population, we are not taking into consideration the fact that welfare state intervention consists of numerous policies developed to cover certain risks and thus the social capital of people experiencing those risks can primarily change. Ignoring this nuance and focusing the analysis to the whole population may result in the underestimation of the true impact of welfare state development on social capital formation.

*The third drawback* consists in ignoring the fact that social spending levels limited to the ‘how much’ dimension do not reflect the actual level of benefits received by individuals. High

social spending may result from the fact that selective benefits are quite high while the coverage rate is quite small. A similar level of total social spending may be obtained in the situation of high coverage rates but low benefits levels. Hence, when analyzing the 'how much' dimension we ignore, on the one hand, the coverage rate and, on the other hand, the actual decommodification level obtained as a result of state intervention in social arrangements. Besides that, intervention by the state in the form of social policies results in a certain type of stratification which is not completely reflected by social spending. As Forma and Kangas (2002) point out 'Social expenditures as such do not tell very much about the principles or social rights according to which money is actually distributed'.

*The fourth drawback* consists in ignoring the fact that each policy is designed and implemented in a variety of ways and hence each possesses certain characteristics. This reflects the historical, institutional, and structural conditions in which the development of social schemes takes place. And it is widely established that social trust is affected not only by the degree of intervention but also by the form which characterizes the process of this intervention. In particular, it is scientifically proved that means-testing may ruin trust while universal provision of benefits enhances trust formation and accumulation. Hence, even if two countries spend the same amount of their resources on social benefits, but offer them within different institutional frameworks or according to different principles of the access to the state support, then the outcomes of these social policies will be hardly the same for interpersonal trust. The institutional design is only one example, and one should take into account that social benefits are based on the specific features resulting in different financing source structure or conditions of provisions. Social spending does not reveal these differences and hides any functional confines that arise from the particular design of social rights which can be decisive for trust levels.

To some extent, these differences are accounted for by Esping-Andersen's welfare state regime typology based on a three-dimensional approach defined along de-familirization, de-commodification and stratification axes. But this typology has some disadvantages. On the one hand, this classification ignores the differences among countries by grouping them into a single welfare regime type. This results in the loss of information and possible underestimation of the effects de-familirization, de-commodification and stratification cause on social trust levels. On the other hand, Esping-Andersen's classification only partially accounts for some dimensions whose effects are often discussed. These characteristics are: (1) universal versus categorical welfare programs (non means-tested versus means-tested benefit schemes), (2) general tax financing versus contributory financing, (3) in-kind versus cash benefits, and (4) active versus passive policies.

*The fifth drawback* concerns the fact that the effects of social policies can differ across social groups. It is difficult to contest that the need for social help is defined on the basis of each individual's situation and phase of life in which he or she requires public help. This stipulates the existence of specific features for problems that people belonging to different social backgrounds, different age or gender groups can have. Social policy may not take into account these particularities of their needs and apply the standard mechanism to all the population, which means that it will be more effective for those whose needs are closer to the standardized pattern and less effective for those whose problems diverge from the widely-understood and accepted model. As a consequence, the welfare state effects are not homogenous across the population but allows for a substantial variation of its effectiveness and the strength of its impact across various social groups. Herros and Criado (2008), for instance, prove that the effects of the state will be different for members of the country's majority ethnic group than for members of minority ethnic group. Orloff

(1996) argues that social policy favours more men than women and do not take into account the gender –specific needs of women in providing state support to the female population. Social spending combines different intervention mechanisms and blurs the real focus of its policies on different groups and sub-groups of benefit recipients. This measurement does not hence allow for group specific effects that the welfare state intervention may have on social trust. To illustrate the plausibility of our argumentation, a distinction will be made across the gender axis. It is widely accepted that there is no gender dimension in welfare state classification, while it is possible to argue theoretically that there is a gender gap in the effects social policy has on social trust.

Social spending therefore possesses a number of shortcomings that require a replacement of this conventional indicator of welfare state development with a new measurement approach which would take into account the multidimensional character of relations between social policy and social trust.

## **2. Describing the idea of multidimensionality in social policy effects**

Multidimensionality refers to the existence of many interactions between two concepts allowing for a co-existence of different patterns and a combination of opposite outcomes. The basis for the multidimensional effects is the complexity of at least one or all the concepts whose interplay is analyzed. The welfare state is recognized to be the construct that possesses different dimensions and levels within which an individual gets into contact with the state, which results in certain experiences that in turn change his or her trusting attitudes not only towards social security systems but also towards other individuals.

To identify the dimensions for the analysis, we will try to correct the drawbacks specified above. Our research is based on the assumption that each social program is intended to cover



certain risks or contingencies and is designed for a certain group of people, namely those experiencing these contingencies. Apart from that, we will take into account the fact that state intervention in the form of social policies results in a certain level of decommodification, as well as a certain form of social stratification. Finally, we assume that each policy possesses a number of characteristics which reflect the features of the program's design.

This logic is visualized below (Figure 4.1.) while suggesting a three-fold analysis. First, one should analyze the effects of the level of social spending on certain social programs on trust indicators among their direct recipients. Second, one should investigate how the level of outsourcing of the individual from the market and the form of social stratification influences his or her social trust levels. And third, one can account for how the specific conditions of benefits provisions and design affect their trust indicators. In other words, one can derive three axes around which the multidimensionality of social policies is formed.

The first is a functional axis, which takes into account the different functions performed by social policies, and forms the functional dimension. The functions are derived on the basis of the risks or contingencies which social policies are designed to cover. The distinction here applies to the existence of policy specific effects on social trust levels. In other words, one should deconstruct social spending on a functional basis to assess the policy effects of each specific social benefit scheme on trusting attitudes of its direct recipients.

The second axis refers to the final outcomes of social policies, namely the level of decommodification, stratification, and de-familiarization. It can be called the outcome axis around which the outcome dimension is formed. The latter focuses on the effects of welfare state outcomes on social trust indicators. The overall approach consists here in deconstructing or disentangling

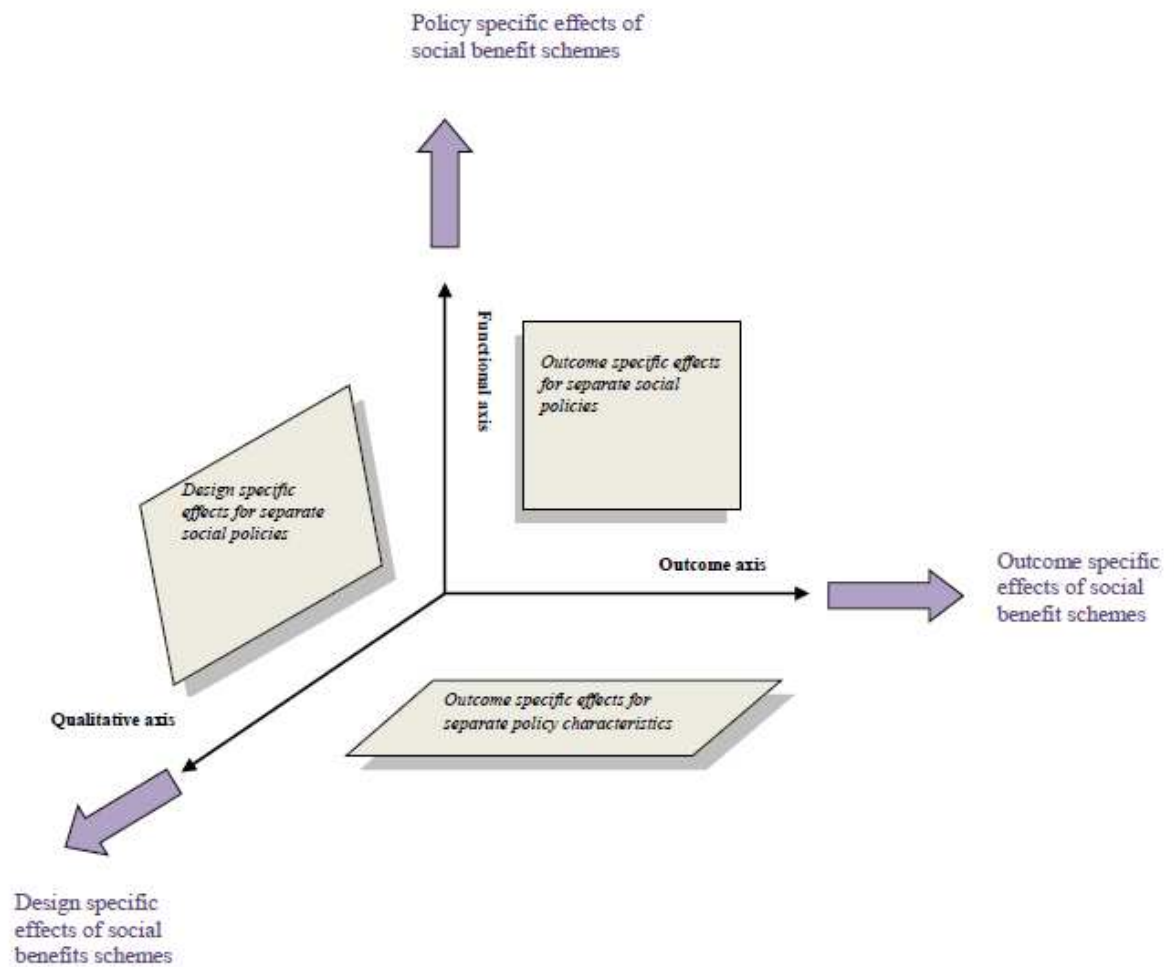
Esping-Andersen's welfare regime typology (1990) and evaluating the effects of decommodification and stratification on social trust levels.<sup>2</sup>

The third axis can be called qualitative. It takes account of the different policy characteristics in order to study their separate effects on social trust levels. The dimension formed around this axis can also be called qualitative and it focuses on the specificity of a benefit's design, delivery, and financing for trust formation process. The analysis here is aimed at isolating policy characteristics and assessing design specific effects on social trust levels.

These three axes form the basis of the multidimensionality of a social policy's effects on social trust formation. The latter constitutes a clear breakthrough in the analysis of impacts of welfare states on trust levels, which usually consists in relating the level of social spending to trust indexes. This new approach allows us to grasp all possible effects the welfare state conducts on trust perception from a different prospective and go beyond the usual spending level. The latter permits for describing welfare state development in better detail. But this approach also provides ground for a better understanding of the mechanisms underlying the relationship between the level of welfare state development and social trust formation.

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<sup>2</sup> De-familiarization will be omitted from the analysis due to the lack of data.



**Figure 1.: Visualizing the functional, outcome, and qualitative dimensions and their two-dimensional interactions**

In addition, the interaction between the defined three dimensions should be taken into account. When combining the functional dimension with the outcome dimension, it becomes possible to assess the effects of decommodification and the stratification of separate social policies

on social trust levels among their direct recipients. In other words, the interaction between these two dimensions provides outcome specific effects on social trust for separate social policies. For instance, one may be interested in assessing how the level of decommodification and stratification of pension policy affects interpersonal and institutional trust among pensioners.

Similarly, the interaction between functional and qualitative dimensions can be defined. In this case, one can evaluate how the characteristics of distinct social schemes affect social trust levels among their direct recipients. In other words, we can assess the design specific effects of separate social benefits on interpersonal trust. As an example, one can think about the relationship of means-tested and non means-tested pension spending on social trust among pensioners.

The third interaction provides the most complicated insight into the overlap of welfare state dimensions. By projecting the outcome dimension on the qualitative dimension, one can assess the outcome specific effects of different social policy characteristics. If the outcome dimension is related to the level of decommodification and stratification of social policies and the qualitative dimension describes the institutional design of benefit schemes, their interaction allows for an assessment on how the level of decommodification and stratification of means-tested and non means-tested schemes influences social trust levels.

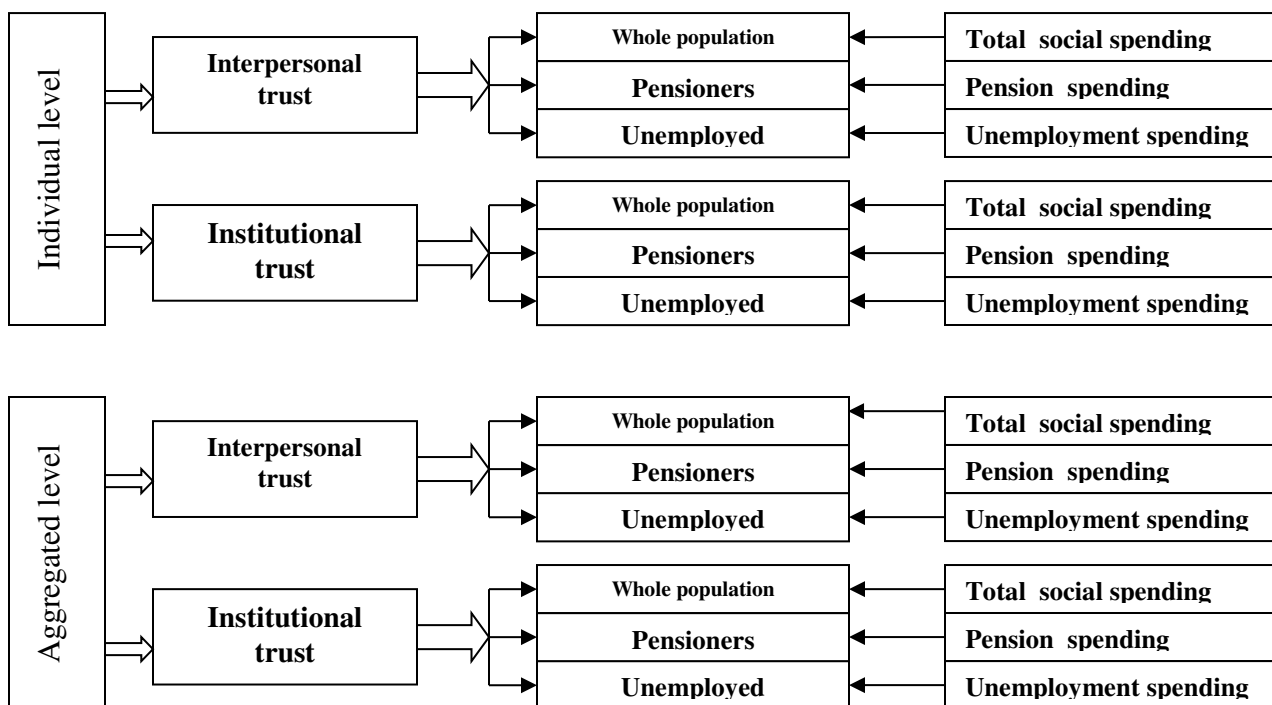
#### *Specification of the functional dimension*

The first two drawbacks can thus be corrected by relating the spending level of certain social policies to the trust level of their direct recipients. For the purpose of the analysis, two main social provisions will be chosen: pensions and unemployment benefits. The choice of these two welfare programs is based on the fact that they are convenient in terms of defining their target groups and forming a sub-sample of pensioners and a sub-sample of unemployed people for

conducting the analysis on the basis of the WVS data. In order to see whether the specification of the crowding-out hypothesis through the isolation of the effects of these two social policies is reasonable or not, we include total social spending in our analysis. Their effect on social trust indicators among the whole population will be used as a benchmark for comparison with policy specific effects of unemployment and pension spending on social trust levels among their direct recipients. We will thus correct the first and second drawbacks deduced from recent studies by separately analyzing the variations in the trust indicators of the unemployed and pensioners in relation to the level of spending on these relevant policies.

In addition, this approach will allow us to deduce whether the effects of social spending on trust levels are policy specific. The latter can be inferred by comparing the effects of total social spending on trust levels among the whole population to the effects of relevant social spending on trust levels among their direct recipients.

The logic of the analyses can be depicted as follows:



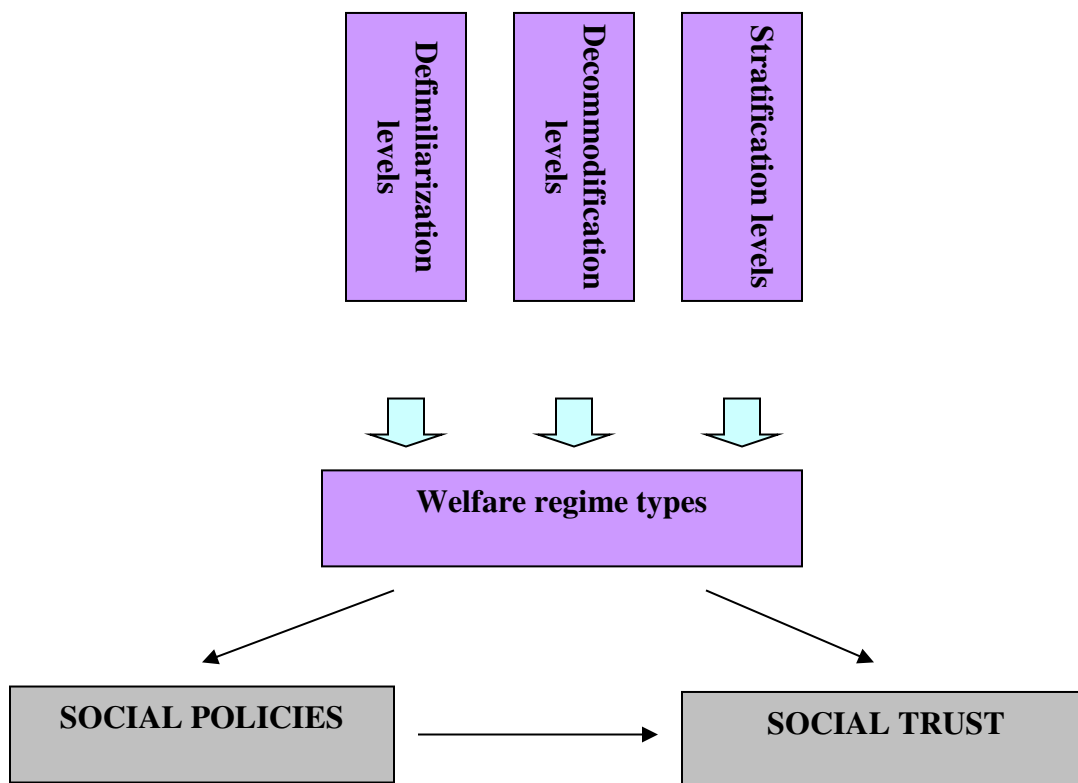
**Figure 2. The logic of the analysis of the functional dimension**

The hypothesis for this part of the analysis can be formulated as follows:

**HYPOTHESIS 1.** If the crowding-out thesis holds true, then higher levels of relevant social spending will be associated with lower levels of interpersonal trust among the whole population, pensioners, and the unemployed.

*Specification of the outcome dimension*

Apart from defining the functional dimension, one should take account of the level of an individual's outsourcing from the market and the form of the social stratification that results from social policy implementation. In other words, one should consider the third drawback. The correction of this drawback is done by separately analyzing the effects of each dimension of Esping-Andersen's welfare regime typology (1990) on social trust levels. The logic of our analysis can be depicted as follows:



**Figure 3. The logic of the analysis of the outcome dimension**

One should relate the welfare regime types to the level of social trust among individuals living in them. It is plausible to assume that welfare regimes that are characterized by universal entitlements based on citizenship, decent replacement rates, a broad supply of social services, active family policy, and the promotion of gender equity will outperform welfare regimes characterized by means-tested targeted and needs-based entitlements as well as those predominantly based on employment-related social insurance. Hence we assume that:

**HYPOTHESIS 2:** Higher levels of trust are expected to be found in the social democratic welfare regime inherent to Scandinavian countries while lowest in the liberal welfare regime type. Continental countries are anticipated to be in-between relative to their social trust levels.

On the other hand, in order to avoid the loss of information resulted from grouping countries to welfare regime types, we will analyze the effects of decommodification and stratification coefficients on trust indicators directly. The dimension of de-familiarization is omitted from the analysis due to the fact that there are no available data measuring the de-familiarization level. We anticipate that:

**HYPOTHESIS 3:** Lower levels of trust will be found in countries with higher levels of decommodification if the crowding-out hypothesis is true. This must hold for both levels of analysis: aggregated and individual.

We also expect that:

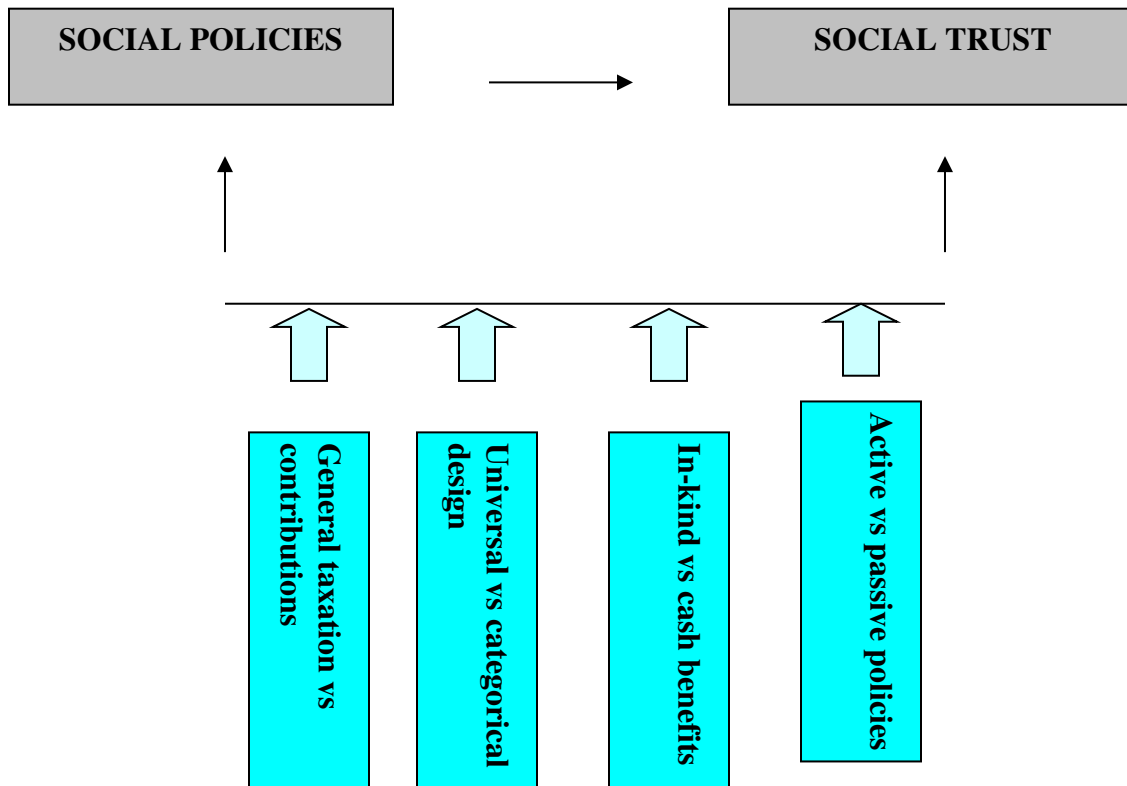


**HYPOTHESIS 4:** Highly stratified societies must be associated with lower levels of social trust indicators for both levels of analysis: aggregated and individual.

*Specification of the qualitative dimension*

In addition, we will relate the above-mentioned four characteristics of social policies to trust levels in order to see how the specific features of design and provisions of social benefits affect trust indicators in order to correct the fourth drawback.

The logic of the analysis can be visualized as follows:



**Figure 4.** The logic of the analysis of the qualitative dimension

There is little literature that explains how the specific characteristics of the welfare state mentioned above affect trust indicators. The only exception is the distinction between universal and selective (categorical) welfare states, which emphasize that universal welfare states promote equality of opportunities and equal treatment of all citizens, from which we can deduce that their effects on social trust must be positive (Rothstein, 1998; Rothstein, 2001). For the purpose of our analysis, only this characteristic of social policy will be taken. This choice is due to the fact that the effects of the institutional design on social trust is fully theoretically elaborated in the literature, which allows one to formulate expectations and a hypothesis, which can be done as follows:

**HYPOTHESIS 6:** Spending on non means-tested benefit schemes should be positively associated with social trust indexes while spending on means-tested benefit schemes should be negatively associated with social trust scores.

*Specification of the gender gap in social policy effects*

Finally, we will account for the fifth drawback by analyzing the gendered effects of the welfare state policies on social trust. We will first elaborate on the theory to form expectations about how social policies may differ in their impact on social trust among the two sexes. Even at the intuitive level, it can be expected that a welfare state's effects are more positive for men than for women. The hypothesis for group specific effects can be formulated as follows:

**HYPOTHESIS 7:** Social trust indexes among men will be more positively associated with relevant social spending than those among women.

### **3. A brief description of the three dimensions**

As was said before, the multidimensionality is formed along three axes: functional, outcome and qualitative. Each axis is assumed to reflect the specificity of welfare state organization and the degree of its development.

The functional axis allows one to define the functional dimension, which is based on decomposing total social spending on a functional basis and relating relevant social expenditures to social trust among their direct recipients. The empirical analysis suggests that social policies do differ in their impact on social trust, which means that some welfare state arrangements may enhance social trust formation, while other programs tend to discourage trust development. The final impact of each particular social policy is shaped by its contribution to changing income inequalities in society. The policies that have strong redistributive effects usually have an essential impact on trusting attitudes of the recipients of benefits. Furthermore, if entitlements to social benefits require frequent interactions with welfare institutions, then their quality may condition trust accumulation process among individuals and in society as a whole. In addition, there are many other mechanisms through which the impact of a particular social policy on trust materializes. One needs to identify all the links that exist between a social program and social trust of its recipient to fully explain the impact mechanism and find out whether one should talk about crowding-out or crowding-in effects in trusting attitudes in the presence of a developed welfare state.

While being policy-specific, the effects of social spending are also group-specific. The analysis for the gender variable demonstrates that welfare state support is not homogenous and

does not take into account specific needs and risks of sub-groups of the recipients. Women for instance require a set of policies tailored to their needs to meet the expectation of the post-modern society. Welfare states that successfully address this issue by building through social policies a stimulating contextual environment that promotes new gender relations in the labor market and family are characterized with more gender equal trust levels. The welfare states that are over-focused on male preferences while assigning an inferior role to women's specific risks tend to have lower trust levels among the female population as compared to men.

The outcome axis, around which the outcome dimension is formed, is defined based on the outcomes of social policies. More specifically, we take into account decommodification levels and the type of social stratification to analyze their effects on social trust. Decommodification is argued to be a better measure of the degree to which welfare states intervene into an individual's life. But decommodification is not the only result of social policies. Welfare state structures are based on a certain logic formed within a country's specific history and culture, and place functional confines that shape not only relations between the state and an individual but may condition to a considerable extent interpersonal relations. When welfare states promote universalism in income and status, they encourage trust formation. When welfare states differentiate their support based on the status of the recipient or his/her needs, then people become less trusting.

Finally, the qualitative dimension is aimed at describing the effects of the institutional design of benefit schemes on interpersonal trust. This dimension reveals the dependence of trust not only on the amount of social benefits paid, but also on the way through which these benefits are provided. Universal benefits are found to enhance confidence towards other people, while means-testing usually negatively affects interpersonal trust indexes. Again, the final effect is shaped by the effectiveness of these benefits to change income inequalities in society. In addition,

trust among the recipients of benefits is very sensitive to treatment inequalities. When the mechanism of welfare state arrangements provides an opportunity for unfair treatment, the recipient of such benefits has less trusting attitudes.

The relationship between welfare states and social trust is complex, multi-level and multi-dimensional, which reflects the fact that social policies are embedded within complex structures that interact with many social phenomena and are interlinked with many societal processes. The effect is a combination of positive and negative impacts which goes through many direct and indirect mechanisms that exist between an individual and the state. The positive impact of social policy stems from its redistributive function which results in reduction of income inequalities in society. An additional factor that stimulates trust accumulation is the positive experience with public welfare institutions which may contribute to developing an individual's predisposition to trust others. But welfare states can also 'break' trust. By discouraging civic engagement, social policies make people less able to cooperate and restrict the process of their morals' development. Furthermore, receiving social benefits ruins an individual's morality and changes his or her sense of responsibility.

An individual's trusting attitudes are shaped and conditioned by welfare state structures in many ways. There is no straightforward and uni-dimensional understanding of the impact mechanism but rather interplay of many interdependent and interlinked processes of interactions that predefine the speed and the direction of changes in the level of social trust among individuals. Knowing this may allow one to provide some predictions of how recent trends in welfare state restructuring may affect social trust levels.

#### 4. Reporting empirical results on the relationship between welfare states and social trust

To see how the changes in welfare state provisions will affect social trust levels, it is necessary to recall the kind of relationship between social trust and levels of social provisions, as well as the characteristics of social benefits' design. The table below summarizes the changes in an individual's trusting attitudes that result from welfare state intervention.

**Table 1: The relationship between welfare states and social trust in a multidimensional approach**

	<i>Correlation between</i> <b>Interpersonal trust</b>
<b>THE FUNCTIONAL DIMENSION:</b>	
Total social spending	Positive
Pension spending	Negative
Unemployment spending	Positive
<b>THE OUTCOME DIMENSION:</b>	
Decommodification level	Positive
<b>Stratification</b>	
(a) conservatism	Negative
(b) liberalism	Negative
(c) socialism	Positive
<b>THE QUALITATIVE DIMENSION:</b>	
Non means-tested schemes	Positive
Means-tested schemes	Negative

Source: Own calculations based on the World Values Survey

The total effect of social policy on social trust has a complex nature, consisting of a number of simultaneous effects that sometimes have an opposite direction. The functional dimension shows the presence of policy specific effects since the impact of total social spending and unemployment expenditures is positive, while pension spending is found to be a negative predictor of trusting attitudes. This positive impact is mostly due to the reduction in income inequalities that social policies cause.

Social trust is very sensitive not only to the total amount of money spent on social policies but also to the actual level of decommodification that social benefits guarantee. High levels of decommodification enhance trust formation process among individuals. By providing support, the state also frames social relations and forms the environment which either stimulates or inhibits the development and maintenance of trust. The universal approach to social provisions promotes trusting attitudes mainly through smoothing economic inequalities in society and equalizing the status of individuals. The conservative and liberal way to condition entitlements to, or the amount of, benefits on social or economic situation of individuals should be recognized harmful for trust due to sustaining the existing division of societies into groups or due to bringing a new social division which assumes the existence of certain social or economic distances between its members.

The general logic, that underpins the understanding of roles the state performs and the extent to which its intervention is desirable for society, predefines the institutional design of benefit schemes. If state support is based on a universal basis which excludes any use of means-testing, then trusting others becomes easy. If the state provides social benefits by applying means-testing procedures that humiliate and stigmatize recipients, then individuals feel less predisposed to trust others and trust stocks are also relatively poor in such societies.

The identified set of relations between different aspects of the welfare state and trust can help one to understand how the recent restructuring and recalibration in social policy may affect trust levels among individuals.

### **5. Predicting possible outcomes of welfare state transformation on social trust levels**

Before proceeding to the analysis of possible effects of recent changes in welfare states on social trust levels, it is worth giving a general overview of the main directions in welfare state transformation which may potentially affect social trust levels.

The discussion about welfare states are predominantly focused on their restructuring and retrenchment as a solution to external and internal pressure caused by globalization, Europeanization, the shift to post-modern values, and a new mode of family relations. The key idea is to enforce a new political discourse that favors the introduction of a more flexible and de-regulated social model (Moreno and Palier, 2005) with a prevailing trend to lowering social expenditures over the next decades (Pierson, 1996; Taylor-Gooby, 2002, 2005a,b)<sup>3</sup>. Briefly, national developments evolve –albeit gradually- towards a similar approach for social policy reforms that are designed to meet new risk challenges largely analogous in the four welfare regimes. These reforms are often limited to retrenchments defined as cuts in public welfare programs. Shrinking of welfare states inevitably enforces the residual logic of social provisions while undermining the redistributive aims of social policy. Strengthening of the residual principles in welfare state provisions theoretically and practically means that many countries are moving towards a more liberal social protection system (Aust and Arriba, 2005; Kananen, 2005; Trampusch, 2006).

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<sup>3</sup> This is contested by some scholars (see for instance Adelantado and Cuevas, 2006)



Recent debates are focused on the need to adopt the liberal principles in organizing welfare state provisions. The latter will entail a minimization of de commodification levels and a maximization of self-reliance in securing an individual's welfare. This has a direct and immediate implication for the stratification function of welfare states. If the liberal approach is supported in the future, the reliance on the market that leads to a dualism in society combined with the stigmatizing function of welfare states will be the main characteristic of the social stratification process.

Labor market policies are also undergoing a deep transformation. The pressure on labor markets and greater economic openness make it more difficult for governments to pursue standard post-war employment policies, which relied on Keynesian demand management and social transfers to regulate the supply of jobs and ensure the income of those out of work. This change brings two major reforms on policy agenda. First, there is a need to exclude the redistributive discourse from the policy agenda and legitimize a policy shift of some actors towards increased conditionality in social assistance and unemployment benefits (Aust and Ariba, 2005). Second, the change in the employment discourse entails a drastic reduction in the level of unemployment benefits, while an essential restructuring of principles of their delivery occurs in parallel to this. The latter mainly consists of linking unemployment benefits to activation measures, which are supposed to lessen the unemployment span and assist in a gradual transition to employment.

Considerable changes are also introduced in the provision of pensions as a response to the ageing of the population and the new economic logic. The most common feature of pension reforms that prevails in countries overloaded with pension expenditures is a reduction in public pension levels and a shift to private pensions as a supplement to the state pension schemes (Bönker, 2005). In addition, many countries implement a wide range of other (but broadly similar) measures

to control pension spending, such as taking into account longer working lives and applying actuarial criteria for the calculation of benefits.

The emphasis on the liberal ideas and a gradual scaling down of welfare states may also affect the institutional design of benefit schemes which mainly involves a gradual shift to means-testing as a key principle for welfare state provisions. Many countries (among which, Scandinavian countries are also often found) have recently introduced means-tested benefits schemes. This process is especially pronounced in welfare states that rely on social assistance, or where great discretionary power is given to the local welfare actors.

One should however be very careful in assessing the final effects of recent changes on social trust levels. There is not a single trend in their effects: rather, the final outcome will be a result of the simultaneous interactions among many trajectories in interpersonal trust dynamics. On the other hand, the reaction of trust to recent changes may be not immediately evident but appear with a certain delay. It is hence possible to expect that the immediate effects may differ from the final effects in their size, direction, and strength.

The recent trend towards retrenchment will most probably bring controversial results. Cuts in social expenditures can contribute to spreading uncertainty among the population, especially among those experiencing any of the social risks or those on the margins of labor markets. The fact that the state leaves the unfortunate to their own fate without providing them with any support or providing with insufficient support will contribute to feelings of being unprotected, as well as will increase pessimism among the population. This forms the necessary grounds for believing that such trends in the welfare state restructuring may undermine trust.

Another factor that contributes to a decrease in levels of trust is poverty. Curtailment of social spending usually results in less redistribution and leads to higher poverty rates within the

population. It is reasonable to judge that cuts in social spending will, in the short-term, result in a decrease in interpersonal trust. But, it is quite possible to expect that interpersonal trust may increase in the long-term due to expanding volunteering and an increase in socializing of individuals with friends and families. This happens due to the fact that poverty enhances collectivism as the result of an increased reliance on social ties and fellow in-group members (Simpson, 2006). Furthermore, an increase in the role of the voluntary sector can be promoted by another but similar change in welfare state principles which consist of the shift from government to governance on all scales. This new approach to welfare provisions is based on decreasing social spending, but increasing regulation of welfare provisions by alternative actors, among which the voluntary sector is one of utmost importance. Moreover, it is widely assumed that this new regime leaves more room for creativity and local innovations (Bode, 2006), which presumes more space for acting on the part of the voluntary organizations. One can however doubt that civic engagement alone will help to restore trust to its initial levels.

The shift to relying mainly on the liberal principles in welfare state provisions can also have its impact on social trust levels. The latter mainly stems from decreasing decommodification levels and the gradual shift to liberalism in the social stratification process. A drop in decommodification levels may discourage social trust and will hence have a negative impact on trust stock in many societies. With respect to the effects on stratification, one should expect that the shift to liberalism is likely to result in a downward trend in interpersonal trust as a consequence of increased poverty and uncertainty and widened distances between the members of society. Moreover, the liberal approach to isolating the needy from the rest of the population can be an additional mechanism that negatively affects trust levels. Liberal practices are based on the needy being stigmatized and stamped as socially inferior or as 'others' with other types of social

characteristics and needs. This has negative consequences for an individual's self-respect and self-confidence, leading to less trust among these people. Moreover, if some citizens are singled out as special or 'problem' cases, it seems plausible that the majority of citizens might not trust them (Rothstein and Stolle, 2001).

The change in the employment discourse may have mixed effects. A reduction in unemployment benefits should lead to an erosion of social trust. It seems that increased uncertainty, and lower living standards of the unemployed may cause an atrophy of their trusting attitudes. Nevertheless, it is plausible to believe that the focus on supplementing cuts in unemployment benefits with an increase in spending on active labor market policies can off-set the expected decrease in levels of trust. This can be explained by the fact that the latter will precipitate the transition from unemployment to employment, which is associated with positive effects on confidence in others.

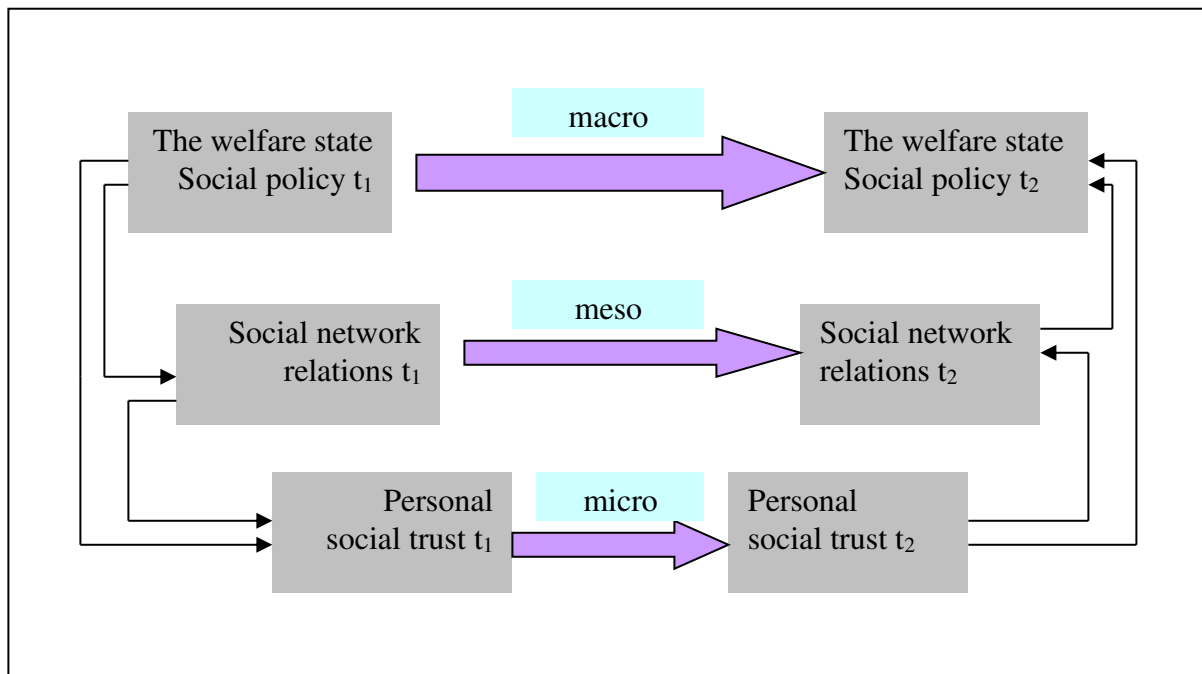
Recent trends in the reduction of pension spending will have surprisingly positive effects on interpersonal trust among pensioners. It may result from the fact that the reduction in public pensions will be accompanied by an increase in private provisions, which is associated with less uncertainty concerning levels of pensions. However, it is possible to expect that in the long-term, the shift to private pensions may entail losses in trust since the spread of private pensions can inevitably bring more economic inequalities in society. Higher income inequality is certainly an expression of stronger segmentation of society into various groups that do not live in similar life circumstances, thereby ruining social trust levels.

It is difficult to define one single trend in the dynamics of social trust as a result of the changes in social provisions. Welfare states constitute a multifaceted concept that has many characteristics and is under the impact of many interrelated and interdependent processes of

change. The final outcome will be a result of interactions of different trajectories, whose effects in the short-term may significantly differ from those in the long-term. In general, one should expect that recent changes in the level and structure of welfare state provisions will result in a decrease of levels of trust. In the long-term, its dynamics can be however reversed by greater reliance on volunteering and socialization as the substitutes for state support.

### 6. Theorizing the relationship between welfare states and social trust

The analysis of the Welfare State-Trust Nexus demonstrates the complexity of the effects that the state may have on attitude formation and change. The linkages between them can be not only multi-dimensional but also multi-level through embracing three societal levels: macro, micro and meso. A visualization of this relationship can be presented as follows:



**Figure 5.: Welfare states and social trust: a multi-level approach**

To explain the relationship, one should first shed some light on the principles upon which it is based. The first is the principle of *simultaneous* effects, which means that all selected concepts are interrelated and conduct an influence on each other, whether in the same time period or with a delay. Social processes may hence reinforce each other, which makes it difficult to determine what the causal link between them is. The principle of *reverse* effects asserts that the relationship between the selected concepts goes not only from concept  $C_1$  to concept  $C_2$  but can also be reversed. The complexity of social processes allows the influences to go in both directions. It should be however noted that the reverse effect may come with a certain delay. The principle of *feedback* effects expresses the idea that there is room for new social relations that appear as a result of the feedback coming from actors who are involved in these social relations. Finally, the principle of *hierarchical* relations reflects that there is a certain hierarchy among actors participating in social relations. This, however, does not exclude the possibility that an actor of a lower order influences an actor of a higher order.

According to the principle of hierarchical relations, it is possible to distinguish three societal levels in social trust relations: macro, which refers to welfare states; micro, which represents an individual; and meso, which embraces social networks. The principle of simultaneous effects allows that they all influence each other when taking part in social processes. Welfare states influence actors of the meso-level. By implementing social policies, the state determines the extent of development and type of social networks. They may encourage the development of family-based networks, as happens in Mediterranean countries. Such welfare states promote familial networks by providing social benefits on the premise that family constitutes the main source of support and, therefore, linking entitlements to state support to a family basis.

The meso-level effects of the welfare state on networks may take a slightly different form. As it happens in liberal welfare regimes, the state may encourage the grass-roots creation of volunteer organizations, which are then regarded as equal partners for delivering support to individuals. Similarly, the state may substitute the third sector. The direct provision of benefits for those experiencing social contingences leaves no room for volunteer organizations, whose role then declines as welfare states expand. The erosion of volunteering by social policy is a classical assumption which is framed in the crowding-out hypothesis.

Welfare states also affect an individual, which happens directly and indirectly. The indirect impact rests on the assumption that social networks are an important source for social trust. Since social networks are heavily influenced by social policies, the ability of an individual to trust, and especially to trust other people, is also affected. In addition, by supporting an individual that experiences social risks, the welfare state may change an individual's sense of morals and responsibility that are important predictors of social trust. Besides the indirect effect, the direct impact of welfare states on social also occurs, which is grounded in the integration argument. This positive effect is double: first, its magnitude is defined by the degree of redistribution resulting from the state intervention in societal arrangements. Second, social trust is influenced by the quality of public institutions, in which welfare state functions are embedded. High quality of the institutional framework of welfare states enhances trust formation process among individuals. Also, the institutional design of social provisions defines social trust levels. In universal welfare states, which treat all people equally and do not isolate the 'problem' people, social trust levels are usually higher. It should be however noted that the effect of welfare states on an individual's social trust can be heterogeneous, which assumes that not all social groups are affected by social policies similarly or in the same way. Instead, the effects are either policy or group specific.

The welfare state's influence described above may have a reverse nature as the principle of reverse effects asserts. Trust may affect the creation of social networks, since more trusting people are more often members of social networks. Furthermore, an individual's trust levels may influence the development of welfare states. In trusting societies, people may delegate more functions to the state, including the support of those experiencing any contingences. Furthermore, social networks may promote welfare state formation since social networks may complement social security systems. Under the conditions of low intervention of welfare states, for instance, social networks may flourish since poverty increases collectivism as a result of increased reliance on social ties and fellow in-group members. Or, civil society may be a partner which coexists in a fruitful synergy with the public support to the needy.

It is difficult to say which social process takes place in the first period and triggers the feedback mechanism, and which comes as a result in the later period. But all the processes may reinforce each other, leading to the results from which it becomes almost impossible to disaggregate or disentangle the effects and identify what comes first and what follows next.

### **Overview and concluding remarks**

This chapter is focused on analyzing recent trends in the evolution of welfare state approaches to securing an individual's well-being and predicting their effects on social trust, given the relationship between relevant social spending and social trust obtained from the empirical analysis. The overview of the literature on welfare state transformation shows that under pressure of external and internal factors, social policies undergo a deep restructuring concerning both the level of spending and the character of social provisions. These trends are diverse, but have one feature in common - they are usually derived from the increasingly used liberal paradigm, leading



to minimizing the state intervention and maximizing an individual's motivation to be re-commodified in the labor market.

Based on the observed relationship between welfare states and social trust, it is difficult to define one single trend in the dynamics of trusting attitudes that results from changes in welfare state provisions. Welfare states constitute a multifaceted concept that has many characteristics and is under the impact of many interrelated, as well as interdependent, processes of change. For this reason, it is possible to say that the final outcome will be the result of interactions of different trajectories, whose short-term effects may significantly differ from long-term ones.

Our analysis also indicates the lack of theory, which may explain the effects that each social policy has on social capital. It seems that there are many direct and indirect links between the two variables of interest, through which the impact materializes. It is difficult to restrict their causal mechanism to the traditional assumption about reciprocal ties and civic engagement, as well as to a more recent one about the reduction of inequality. They might be specific for each policy and in turn, involve multidimensional effect structures. Therefore, additional theoretical and empirical research is still needed to explore and explain the causal mechanism in the relationship between welfare state development and social capital formation within the framework of multidimensionality in social spending.

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