Policy specific effects of welfare states’ impact on social trust

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1. **Introducing a functional spectrum in social trust analysis**

Welfare states differ in many characteristics and are all based on certain principles within which social policies are conducted. Their policy preferences were developed in the countries’ specific institutional, political, historical, cultural, and economic conditions, resulting in different levels and structures of benefit packages (Flora, 1986; Bonoli, 2004). Generally speaking, each country has its own specific preferences in choosing from the standard range of policies that would insure not only individual well-being but also societal prosperity. Hence, when measuring the welfare state as a single indicator, one blurs the difference in the structure of social policies and automatically assumes their ‘linearity’ or equivalence in their impact on social capital. Certainly, one may distinguish the difference in the impact on social trust produced by child-care provisions or training programs for the unemployed or passive provisions of unemployment benefits. They all affect social capital in different ways through different indirect mechanisms leading to different directions of change. Child-care provisions for instance allow women to combine employment and motherhood and hence work even when they have small children (Esping-Andersen, 2001). Employment means additional income in the household which is usually associated with high levels of social capital (Knack and Keefer, 1997; Putnam, 2000; Uslaner, 2002a,b) as well as with a broader personal network, which also enhances social capital development (Lin, 2000a,b). Obligatory training programs for unemployed people allow them to directly increase their social capital through gaining knowledge (an important determinant of social capital according to Fukuyama (2000), Knack and Zak (2001)), as well as indirectly through helping them feel integrated and less pessimistic about their future. Passive unemployment benefits replace the lost source of income, affecting to some extent the individual’s perception of his current situation and his expectations concerning the future that again can influence his trust level. It is difficult to find
theoretical research that explicitly supports our argument, but even at the intuitive level, one can deduce the conclusion that each social policy affects social capital through specific direct or indirect mechanisms, which differ in strength, direction, and duration. Therefore, if not distinguishing the possible diversity of effects welfare state activity may produce on social capital, one may face several problems which were outlined earlier.

However, some explanations should be delivered, in order to understand the mechanisms underlying crowding-out effects in two selected social provisions (pensions and unemployment benefits). In the case of the whole population, crowding-out is expected due to the erosion of volunteering, which is a basic explanation for crowding-out effects. In the case of pensioners and the unemployed, the mechanism is quite different. The explanation of these mechanisms is based on the idea that social trust can be considered an attitudinal variable and, hence, the theory of attitude formation and change can be employed for describing the mechanism that underlies the crowding-out effects in trust among unemployed and retired people.

Attitude is usually defined as the view of an individual on a specific phenomenon, a state of things or an object in real life (Blomberg and Kroll, 2002). There are several factors that affect an individual’s attitude. First of all, the attitude arises as a consequence of the ideas of the desirable – the values internalized by the individual. Or in other words, attitudes can be seen as expressions of underlying values. Values are seen here as fundamental and constant ideas about what is desirable in principle, and are not connected to any specific phenomena in real life.

Another factor that influences attitudes towards welfare state systems is self-interest. Attitudes are interpreted here as expressions of the aspiration of individuals and groups to maximize their self-interests. These two approaches – values and self-interests - seem to complement each other. One can easily assume that the individual, when taking up a position on a
certain issue in real life, takes into consideration his or her values as well as his or her self-interests. Moreover, both theories presume that attitudes may change over time.

Finally, Blomberg and Kroll (2002) define the third group of factors which might claim responsibility for changes in attitudes. They refer to Sihvo and Uusitalo (2000), who discuss different theoretical approaches that stress the impact of an economic crisis on the attitudes of the population. This group comprises three different approaches, each of which is related to an individual’s perception of recent changes in welfare states.

A first approach stresses the consequences of people’s perception of economic decline; if a person feels that his or her personal economic situation is being threatened (directly or through increase taxation) his or her willingness to take the common good into consideration through contributing to the welfare system will be negatively affected. A second theoretical approach is concerned with the impact on attitudes of the population of influential groups such as politicians, political parties, and other organizations, and their interpretation of the state of the economy and their views on the interplay between social policy and the economy. A third approach deals with the impact on attitudes of actual changes in the welfare system. Sihvo and Uusitalo (2000 in Blomberg and Kroll, 2002) assume that the synchronous effects of more people using the system and a lowering of the level of social security that can result from an economic crisis might lead to changes in attitudes towards the system. Blomberg and Kroll (2002) present other assumption based on different reasoning. They assert that cuts in services are thought to result in a vicious circle of cutback policies: the lowered standard of public services results in growing dissatisfaction, which in turn leads to more positive attitudes towards alternative service—providers and a growing pressure to privatize, which results in a further lowering of the standard
of public services and thus to even greater dissatisfaction and negative attitudes towards public services.

We will try to explain the mechanism of trust formation using the attitudinal theory presented above. In the case of unemployed people, the effects of the welfare state on trust levels provide the possibility of crowding-out effects. This may happen despite the fact that the values of individuals with respect to providing support for the unemployed show support for state intervention. It is possible to claim that most people base their considerations on the view that the unemployed must be in one way or another supported by the state. For instance, Matheson and Wearing (2002) look to ISSP data to illustrate the fact that about 52.6 percent of Australians, 74.3 percent of Germans, 87.5 percent of Norwegians, and 48.0 percent of Americans declare that the state should assume the responsibility to look after the unemployed. This reflects the common view that the risk of becoming unemployed is quite high for any individual. Moreover, as Rothstein (1998) shows, individuals tend to overestimate the risk of entering unemployment, which results in the vast support of unemployment programs even if they are based on means-testing.

An analysis of the value component does not however reveal the mechanism of crowding-out effects. What is responsible for crowding-out here is precisely the self-interest of individuals. Higher unemployment benefits can encourage people to stay unemployed longer, while being unemployed is negatively associated with social capital. Unemployment brings relative poverty and creates sentiments of discrimination and injustice, which lead to distrust towards people, collective action and society as a whole. Goul Andersen (2002) shows that labour market marginalization is related to low political trust levels, which can easily be extrapolated to interpersonal trust. Moreover, he illustrates that under the conditions of unemployment, there is a polarization between insiders and outsiders in the labor market, which also leads to problems with
collective action. Christoforou (2004) also demonstrates that unemployment is an important factor in deciding the level of social capital, pointing out that unemployment creates a strong disincentive for group membership. She argues that the unemployed lack the income to afford group membership or they spend their plentiful leisure time seeking jobs and securing a source of minimum income rather than participating in groups. Additional factors affecting the individual’s incentive to participate when facing unemployment might lie in sentiments of distrust he or she develops towards other social groups and society as a whole, which are considered to have deprived him or her of opportunities for employment and self-development. She refers also to Brehm and Rahn who confirm the negative impact of being unemployed on an individual’s sentiments of interpersonal trusts.

As far as the third factor group is concerned, one can hardly apply it to the case of the unemployed, since the alternatives to state support of individual welfare during unemployment hardly exist. To sum up, the attitudinal theory may provide the mechanisms of crowding-out effects for unemployed people. The latter consists in the desire of unemployed people to stay in unemployment and get unemployment benefits as long as possible when these allow one to secure decent living standards without entering the labor market. The latter will lead to the erosion of both forms of social trust due to the fact that unemployment negatively affects trust levels.

As far as pensioners are concerned, the mechanism of crowding-out effects takes a different form which is not easy to describe. Both values and self-interests point out rather the existence of a positive relationship between pensions and interpersonal trust. The value of people towards pension systems can be articulated as follows: retired people should be supported by the state. Matheson’s and Wearing’s (2002) calculations based on ISSP data clearly illustrate this opinion. More precisely, they show that the vast majority of the population consider that securing the well-
being of retired people must be the task of the state. In particular, 93.2 percent of Australians, 92.6 percent of Germans, 97.8 percent of Norwegians and 82.5 percent of Americans declare that it is the government’s responsibility to look after retired people.

The positive effects of pensions on trust towards public institutions might be supported by the fact that for a great number of retired people, pensions constitute their main source of income. Empirics for instance show that the share of public pensions in total gross household income of all pensioner households amounts to about 80 percent. More precisely, this share amounts to 80.9 percent in France, 83.3 percent in Germany, and 75.2 percent in Spain (Bönker, 2005).

Self-interests might affect attitudes towards public institutions in the same way as values. This seems to be a result of the fact that everybody is at risk of retirement to the same degree. In other words, retirement is unavoidable and, hence, people must form positive attitudes towards the public pension system forming the ground for positive effects of pensions on institutional trust, which in turn affects interpersonal trust among individuals.

Up to now the question about the mechanism of crowding-out in trust levels remains open. Values interpretation and self-interests articulation leave no room for the negative impact of pensions on trust levels. Here, this is the effect of the third factor of attitudes change that can be responsible for the negative influence on trust levels, namely that of economic crises factors.

The data used stem from the survey conducted in 1999-2000 – the years of the constant debates about the need to transform the institutional settings underlying pension systems in almost all countries included in the analysis. They were also years of rapid and sometimes drastic reforms in pension systems that resulted in the reduction of pension levels or the tightening of entitlement conditions. Moreover, it should be noticed that the changes in pension systems and the debates that accompanied them were larger in countries where pension expenditures were higher.
Furthermore, Adelantado and Cuevas (2006) demonstrate that countries that used to allocate the most resources to public expenditures and social protection expenditures are those that have cut back the most and where income inequality and the risk of poverty have increased the most. This logic can be easily applied to pension spending. This can be grounds for negative attitudes by the pensioners towards the welfare state in general, and the pension system in particular. To adjust Blomberg and Kroll’s (2002) statement, the logic of reasoning is as follows: constant reduction in pensions and changes in entitlement conditions produce negative attitudes towards pension systems. More specifically, lowered standards of public services result in growing dissatisfaction among the population, which in turn leads to more positive attitudes towards alternative sources, namely to privatized pensions. This dissatisfaction with the pension system is supported by the fact that pensioners are among those who are least satisfied with their income. As the WVS data show, the level of income satisfaction among retired people equals 3.7, almost half than of the fully employed (6.2), or partially employed (5.5). Even students are more satisfied with their income than pensioners (the satisfaction score for students equals 4.6). The dissatisfaction of retired people with their income may also have some side-effects on their trust levels towards the pension system in particular and public institutions in general. They may create incentives for the middle and upper classes to search for social security in the private sector (Forma, 2002), reflecting the undermined confidence towards public welfare state institutions. This dissatisfaction with welfare state institutions is also supported by Goul Andersen’s findings (2002) which show that old-aged pensioners have the most negative attitudes towards the welfare state.

The effects of recent changes in pension levels and the conditions of their delivery may thus ruin an individual’s level of trust towards the national pension system and public institutions.
The latter in turn contributes to the negative experience of people which may also negatively affect an individual’s trust towards other people.¹

We try to correct for the existing drawbacks by analyzing the effects of pension and unemployment policies on social trust of their direct recipients. This analysis will allow us to draw two main conclusions. First, it will show whether pension and unemployment policies result in crowding-in or crowding-out effects on social trust. Second, we will be able to see whether the effects of the welfare state operationalized as a single indicator through total social spending as percentage of GDP are equal to those of pension and unemployment policies. If there is a difference, owe can speak about policy specific effects.

2. Policy specific effects: a descriptive analysis

Before proceeding to the analysis, it is worth seeing whether the level of social trust in both of its forms among pensioners and unemployed people is different from that calculated on the basis of the whole population.

The analysis of the level of interpersonal and institutional trust among subgroups of pensioners and the unemployed provides no clear results. The level of interpersonal trust tends to be on average lower among pensioners than among the whole population. To some extent, this contradicts the expectations and the theory that asserts that older people have higher levels of trust which is attributed either to the age or cohort effects.

¹ Rothstein and Stolle (2003) for example find that confidence in institutions has a large effect on interpersonal trust. Jamal (2007) also argues that those individuals who feel existing political institutions are adequate in representing their interests are more likely to trust others. Because individuals feel that existing political institutions can protect their interests, they are more likely to feel secure in trusting others. In other words, representative institutions can create the foundation for trust. When citizens feel their rights are protected through legal institutions they are more inclined to trust others.
The unemployed are characterized by lower levels of interpersonal trust than the whole population and pensioners. This confirms our expectations since unemployment tends to erode social capital due to making unemployed people feel at a disadvantage compared to others, which destroys their trust levels. However, the Netherlands, Norway, and Denmark are an exception, where the level of interpersonal trust among the unemployed is incredibly high and exceeds that of both the whole population and pensioners.

![Figure 1: Interpersonal trust levels among the whole population, pensioners, and the unemployed](image)

Source: World Values Survey

Institutional trust has a different distribution, which leads us to think that it differs in the mechanism of its formation from interpersonal trust. Institutional trust tends to be higher among pensioners than among the whole population, which is consistent with the theory mentioned above. The unemployed are last in the comparison of trust levels since they tend to have the lowest levels of trust. The exception here is the Netherlands and Sweden, which are
characterized with indexes of institutional trust that exceed trust scores among the whole population and pensioners.

**Figure 2.: Institutional trust levels among the whole population, pensioners, and the unemployed**

Source: World Values Survey

A descriptive analysis of the relationship between trust and relevant social spending provides mixed results. For the OECD sample, there is evidence that advocates for the presence of crowding-out effects, but it happens only in the case of pension spending. The relationship between pension spending and both forms of trust among pensioners is negative and statistically significant. The correlation indexes here appear to be negative but have rather low values, indicating that higher spending on pension policy entails a decline in the level of both forms of trust among pensioners. In the rest of the cases: for the whole population and the unemployed, we find a positive and statistically significant relationship between relevant social spending and trust levels among their direct recipients, indicating the presence of crowding-in effects. It is also worth
mentioning that for interpersonal trust the correlation coefficient calculated on the basis of the whole population is equal to that computed for the sub-sample of the unemployed. In the case of institutional trust, the latter is however more than half of the former. This allows us to conclude at this early stage that the effects of welfare states on social trust are policy specific.

Table 1.: Correlation between relevant social spending and social trust among the whole population, pensioners, and the unemployed in OECD countries.

<table>
<thead>
<tr>
<th></th>
<th>Relevant social spending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total social spending</td>
</tr>
<tr>
<td><strong>Whole population</strong></td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>0.054***</td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>0.068***</td>
</tr>
<tr>
<td><strong>Pensioners</strong></td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td></td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td></td>
</tr>
<tr>
<td><strong>Unemployed</strong></td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td></td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own calculations based on the World Values Survey

Thus, the descriptive analysis shows that the relationship between relevant social spending and social trust is policy specific. The correlation coefficients for the whole population take different values from those calculated for the sub-population of the unemployed and pensioners.
Hence, one should speak about crowding-in effects when analyzing the relationship between welfare state development and social trust formation. At this early stage, the results mostly advocate about positive effects that social spending has on both forms of social trust.

3. Relevant social spending and social trust: an aggregated-level analysis

Aggregated level analysis refers to the relationship between the level of relevant social spending in the selected countries and the average level of social trust among their population. The analysis is conducted by calculating the correlation between social spending and social trust for the selected sub-samples, while sequentially controlling for country-level characteristics.

The analysis of the crowding-out hypothesis through the functional dimension provides results that advocate for the crowding-out effects in social capital. The correlation between relevant social spending and social trust is positive in the case of the whole population and the unemployed. When relating pension spending to the average trust levels among pensioners, the relationship appears to be negative. The latter allows us to conclude two things. First, in the case of pension spending, there is a clear case of crowding-out. Second, the effects of social spending are policy specific.
Table 2.: Correlation between relevant social expenditures and social trust, controlled for country-level characteristics

<table>
<thead>
<tr>
<th></th>
<th>Correlation between relevant social expenditures and social trust</th>
<th>Controlled for</th>
<th>Percentage of protestants</th>
<th>Wealth</th>
<th>Income Inequality</th>
<th>Corruption</th>
<th>Fractionalization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Whole population</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>0.325**</td>
<td>0.145*</td>
<td>0.319</td>
<td>-0.279**</td>
<td>0.359</td>
<td>0.436</td>
<td></td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>0.289*</td>
<td>0.071</td>
<td>0.456</td>
<td>-0.679*</td>
<td>0.038**</td>
<td>0.218</td>
<td></td>
</tr>
<tr>
<td><strong>Pensioners</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>-0.273*</td>
<td>-0.159</td>
<td>-0.273</td>
<td>-0.458*</td>
<td>-0.089</td>
<td>-0.135</td>
<td></td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>-0.550*</td>
<td>-0.523*</td>
<td>-0.258</td>
<td>-0.678**</td>
<td>-0.218*</td>
<td>-0.550*</td>
<td></td>
</tr>
<tr>
<td><strong>Unemployed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>0.365*</td>
<td>0.438*</td>
<td>0.434</td>
<td>0.098*</td>
<td>0.269</td>
<td>0.569</td>
<td></td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>0.728**</td>
<td>0.325</td>
<td>0.478*</td>
<td>0.289**</td>
<td>0.202*</td>
<td>0.319</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own calculations based on the World Values Survey

When sequentially controlling for country-level characteristics, the correlation between relevant social spending and social trust among their direct recipients loses its strength, remaining in many cases statistically insignificant. In particular, controlling for income inequality greatly influences the relationship in question. In the case of the whole population, the relationship

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2 * - 10%, ** 5%, *** 1% and less
between institutional trust and total social spending becomes negative when income inequality is held constant and it also remains statistically significant. The same happens in the case of pensioners for both interpersonal and institutional trust, with both cases being statistically significant. For the unemployed, the relationship remains positive but becomes much weaker while still being statistically significant. It can be interpreted that the effect of social spending on social trust is absorbed by the inequality variable, which means that the impact of social spending is mediated through the reduction of inequality. This can be considered evidence for the integration argument, which emphasizes that welfare states raise social trust levels by keeping individuals socially integrated and by reducing the income inequality.

Another interesting point that arises from controlling for inequality is the fact that the direct effect of total social spending and pension spending on social trust is negative. This means that social spending crowds out social trust when their redistributive effect is controlled for. In other words, if reduction of inequality is controlled for, social spending tends to erode social trust. However, the mechanism of this erosion still remains unclear. The only option is to use the existing theory, which emphasizes that crowding-out happens through the destruction of civic engagement or through the erosion of people’s ability to work with one another. It seems that the civil society erosion argument or the moral destruction argument hold true as well, although we possess no empirical analysis that proves this assumption.

An interesting conclusion can also be inferred from the results of controlling for the corruption level. In most cases, correlation coefficients between relevant social spending and social trust lose their value when controlling for corruption levels and it is especially obvious in the case of institutional trust. It suggests that people develop their trust, especially towards public welfare state institutions, based on their performance, in particular taking into account the level of
corruption. Thus, the effect of welfare states on social trust also goes through the corruption level in public welfare state institutions. If they are considered to treat people equally, they form the necessary grounds for the positive evaluation of public welfare state institutions, which results in higher levels of trust towards them. This is a confirmation of the macro-level institutional theory, which emphasizes the importance of the quality of the performance of public institutions in the process of trust formation.

The other country-level covariates also conduct some effect on the relationship between relevant social spending and social trust. Controlling for the percentage of Protestants living in the country mainly reduces the value of the coefficients. However, they remain negative when relating pension spending to social trust among pensioners. The same influence on the relationship in question is found in the case of the wealth variable. When controlling for the level of GDP, a negative sign is seen in the correlation between pension spending and social trust among pensioners.

Controlling for fractionalization levels results in positive correlation coefficients for total social spending and social trust among the whole population, and for unemployment spending and social trust among the unemployed. A negative correlation is still obtained for pension spending and social trust among pensioners, which is statistically significant for institutional trust.

The aggregated level of analysis already provides evidence that supports the idea of a multidimensionality in welfare state activities. Moreover, our results are in line with the expectations of policy specific effects. The latter can be concluded from the fact that the values of correlation coefficients calculated based on data for the whole population differ substantially from subsamples of pensioners and the unemployed. Hence, in order to reveal the true relationship between welfare states and social trust, one should relate relevant social spending to trust indicators
among their direct recipients. In addition, our analysis points to the fact that not all social policies erode social trust. Some of them may actually enhance trust levels among certain groups of the population, as seems to be the case among the unemployed.

Another conclusion that can be drawn on the basis of the aggregated-level of analysis is the idea that the effects of social policy on social trust have dubious nature. Welfare state may enhance social trust formation by reducing income inequality and guaranteeing a good performance of welfare state institutions. Relevant social spending may also crowd out social trust by discouraging civic engagement or ruining an individual’s habit to cooperate.

Therefore, the aggregated-level analysis provides some evidence that supports the crowding-out hypothesis. Such cases are however very few, while partial correlation coefficients mostly advocate either for the absence of influence or for the positive influence of relevant social spending on social trust levels. Crowding-out is mainly found in pension spending, which means that pension spending erodes social trust among pensioners. It should be noted that in most cases, partial correlation coefficients are not statistically significant, which can be attributed to a small number of cases at the aggregated level.

4. Relevant social spending and social trust: an individual-level analysis

The individual-level analysis is based on the expectations that the crowding-out hypothesis can be extrapolated to both pension and unemployment policies. The mechanism of crowding-out for the selected social provisions was explained in the light of the attitudinal theory. The expectations can be deduced from Hypothesis 2 and can be thus formulated as follows:
**Hypothesis 1.** In the case of the whole population, we expect that higher levels of social spending will be associated with lower levels of interpersonal and institutional trust among individuals. The moral destruction theory or civil society erosion theory can be used to explain why crowding-out takes place.

**Hypothesis 2.** In the case of pensioners, higher levels of pension spending are anticipated to be associated with lower levels of both forms of trust among pensioners. The recent changes in the level of pensions and their entitlement conditions are assumed to increase uncertainty, which causes crowding-out in social trust among pensioners.

**Hypothesis 3.** In the case of the unemployed, higher levels of unemployment spending are expected to be associated with lower levels of social trust among the unemployed. The crowding-out mechanism is expected to realize itself through the self-interest element. One can expect that higher unemployment spending encourages the unemployed to stay outside the labor market, while being unemployed is negatively associated with social trust levels.

In other words, we expect that the relationship between relevant social spending and social trust must be negative if the crowding-out hypothesis holds. If the empirical analysis provides positive relationship, we can talk about crowding-in effects.

The empirical results are summarized in Table 6.1. The analysis of the relationship between social spending and social capital at the individual level provides evidence that has its own peculiarities. First of all, it should be noted that one must analyze the relationship between social trust and relevant social spending separately for interpersonal and institutional trust, since they
differ substantially in their determinants. In spite of this difference, the effects of relevant social spending on interpersonal and institutional trust are found to be identical.

In the case of both forms of trust, we find crowding-out effects only when relating pension spending to social trust levels among pensioners, while crowding-in effects are seen for total social spending and unemployment spending.

More specifically, an increase in total social spending by 1 percent of GDP tends to increase the odds of interpersonal trust by 5.4 percent if other variables are kept constant. The figure is small, but still advocates for the presence of a positive relationship between interpersonal trust and total social spending. A positive effect is also obtained for institutional trust. An increase in total social spending by one percent increases institutional trust by 0.044 points. It seems that the moral destruction theory and civil society erosion theory that suggest crowding-out effects do not hold true. However, it remains difficult to explain the mechanism of crowding-in effects. At the macro-level, the integration theory that emphasizes the role social spending plays in reducing income inequality can be used to explain the positive impact. At the micro-level, the positive impact stems from the fact that the state keeps individuals socially integrated when he or she has difficulties, which reduces the feeling of failing. On the other hand, providing individuals with alternative sources of income, when they experience social risks, helps to reduce feelings of being disadvantaged compared to others. Moreover, the government support contributes to others feeling more optimistic about the future. These factors create the necessary conditions for higher trust in the state and, therefore, they enhance institutional trust. This also serves as a precondition for trusting other individuals more, since more optimism and less probability of failing strengthens pro-social behavior and positively affects interpersonal trust levels.
Table 6.: The regression of individual-level and country-level variables on social trust

<table>
<thead>
<tr>
<th>Relevant social spending</th>
<th>Institutional trust</th>
<th>Interpersonal trust</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Whole population</td>
<td>Pensioners</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On pensions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On unemployment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volunteering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sociability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Religion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atheist</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>Catholic</td>
<td>0.456</td>
<td>0.380***</td>
</tr>
<tr>
<td>Protestant</td>
<td>0.633</td>
<td>0.763***</td>
</tr>
<tr>
<td>Other</td>
<td>0.290</td>
<td>0.582***</td>
</tr>
<tr>
<td>Religiousness</td>
<td>-0.155***</td>
<td>-0.104***</td>
</tr>
<tr>
<td>Gender</td>
<td>0.122**</td>
<td>0.195**</td>
</tr>
<tr>
<td>Age</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>15–29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30–44</td>
<td>-0.134*</td>
<td>-1.378</td>
</tr>
<tr>
<td>45–more</td>
<td>0.166**</td>
<td>-0.786</td>
</tr>
<tr>
<td>Education</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>Lower</td>
<td>-0.062</td>
<td>-0.286</td>
</tr>
<tr>
<td>Middle</td>
<td>0.116**</td>
<td>-0.103</td>
</tr>
<tr>
<td>Upper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployed</td>
<td>-0.393***</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Income</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>1st qu.</td>
<td>0.134**</td>
<td>0.150</td>
</tr>
<tr>
<td>2nd qu.</td>
<td>0.089</td>
<td>0.374***</td>
</tr>
<tr>
<td>3rd qu.</td>
<td>0.100</td>
<td>0.292</td>
</tr>
<tr>
<td>4th qu.</td>
<td>0.064</td>
<td>-0.219</td>
</tr>
<tr>
<td>5th qu.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance at the first (individual) level</td>
<td>9.266 (0.111)</td>
<td>10.011 (0.440)</td>
</tr>
<tr>
<td>Variance at the second (country) level</td>
<td>0.151 (0.012)</td>
<td>0.157 (0.100)</td>
</tr>
</tbody>
</table>

Source: Own calculations based on the World Values Survey
Taking the functional dimension into account shows the presence of crowding-out effects, which happens in the case of pension spending. Moreover, this negative relationship remains statistically significant for both forms of trust. The coefficient on pension spending suggests that an increase in pension spending by one percent leads to a decrease in the odds of trusting others by 5.8 percent. In the case of institutional trust, this decrease equals 0.044 points. This negative sign for pension spending effects comes as a surprise. Taking into account the role pensions play in the lives of retired people, as well as the fact that pensioners can be regarded as the net beneficiaries of social security systems, one expects that the relationship must be positive. The explanation for this negative sign can be provided based on the theory of attitude formation and change. The effects of recent changes in pension levels and conditions of their delivery may ruin an individual’s level of trust towards national pension systems and towards public welfare institutions. The constant introduction of changes to pension systems may increase uncertainty about future pensions and their level, which negatively affects people’s perception of the state and the performance of its institutions. Moreover, negative effects may also stem from the fact that pensioners could regard what they get from social security systems in the form of pensions as less than what they paid during their work history. These factors in turn may contribute to negative experiences of people, which entail negative consequences for an individual’s trust in others.

The relationship between unemployment spending and both forms of trust among the unemployed turns out to be positive. Moreover, this relationship is statistically significant with large values for both interpersonal and institutional trust. In particular, an increase in unemployment expenditures by one percent tends to increase the odds of trust among the unemployed by 38.8 percent if other variables are kept constant. An analogous change in unemployment spending increases institutional trust by 0.696 points. It seems that the value
component plays a crucial role here in defining trust levels. The fact that the state provides people temporarily out of the labor market with an alternative source of income must positively affect their trust towards public welfare institutions and other people in general. The mechanism of self-interest discussed earlier is blocked here.

There are two questions that arise here. The first is why the effects of social policy on social trust are different for the two social provisions. The underlying logic of the answer to this question is that there is a difference in perceived risks between pension and unemployment policies and, as a result, a different nature of coverage by the redistributive activity of the state. In the case of unemployment policy, the risk of becoming unemployed is temporary and can be eliminated with the help of the state. In between, the state supports the individual without a job. Hence, trust in welfare institutions is quite high, which results in a positive relationship between unemployment expenditures, institutional trust, and interpersonal trust. In the case of pension policy, the risk of retirement can be regarded as unavoidable, with the state just compensating for the lack of a source of income without any probability of eliminating it completely. The relationship between pension policy and social trust is hence not positive.

Second, the difference between the effects of relevant social spending may result from different influence mechanisms that underlie the relationship between the state and the individual. Pension policy supports individuals exclusively through providing pensions, which varies from guaranteeing a minimum income to maintaining living standards acquired when working. Hence, the relationship between pension spending and social trust among pensioners is mediated exclusively through income. It should also be noted that now pension policy is surrounded by uncertainty about its future levels and the question of whether pensions will be paid at all as current
debates show. The latter also negatively affects people’s trust in public welfare institutions and, to a lesser extent, people’s confidence in other people.

Unemployment policy affects social trust levels through completely different mechanisms which rest on a variety of policy instruments used by the state to combat unemployment. The latter includes increasing an individual’s education level, precipitating job search through public placement offices, supporting an individual’s living standards through unemployment benefits, providing subsidies for firms employing people without jobs, etc. These mechanisms influence not only the income level of unemployed people but also underlie a range of other types of interactions between the state and the individual. The individual is to a lesser extent dependent on the state in financial terms, but to a greater degree on its activating measures, which form positive attitudes for the unemployed towards the welfare state.

The question related to this is about indirect effects social polices have on social trust. It should be taken into account that the effects of welfare states on trust are multi-faceted. They are not limited to the direct influence measured by coefficients on social spending variables, but also have an indirect effect through other individual-level as well as country-level characteristics. As such, these characteristics enter the model as intervening variables, controlling for which allows indirect effects to be detected. Among such variables, income inequality, education level, and household income are the most important.

There are many studies that emphasize that redistributive policies reduce income inequality and, as such, social categorization. The latter leads people to feel more integrated in society which positively influences their trust level.

Apart from inequality, the welfare state influences an individual’s disposable income, which also predicts trust. The effects of income are insignificant for institutional trust but very
important for trust in other people. The influence of income is of utmost importance for pensioners and to some extent the unemployed, for whom social benefits are usually the main source of income.

Moreover, the state engages actively in educating people through financing secondary and higher education or organizing re-education and different types of workshops. As such, it contributes to the individual level of education, which is one of the main predictors of social trust, especially in the case of interpersonal trust. The role of education is very important in the case of unemployed people.

Finally, it is possible to ask whether this approach of isolating the target groups of specific social policies entails the risk of receiving biased results due to the over-representation of people with certain characteristics. As far as the effects of selected determinants for social trust show, their direction and strength are almost always in line with the results obtained on the basis of the whole sample\(^3\) and are generally consistent with the theory. An interesting nuance here (which is rarely or ever mentioned in the literature) is that interpersonal trust and institutional trust slightly differ in their determinants.

Higher levels of social trust are found more often among people involved in volunteer activities, as well as among more sociable individuals. Religiousness can also be considered a strong determinant for both forms of social trust. The type of religion however influences institutional and interpersonal trusts differently. Catholics are found to have more trust in institutions compared to non-religious people, but their interpersonal trust levels are lower than among people without any religion or Protestants. Protestants show higher levels of institutional trust compared to non-religious people for both interpersonal trust and institutional trust. Other

\(^3\) However, in the sub-samples, the non-significance of coefficients is found more often, which is mostly due to a smaller number of cases in the sub-samples compared to the pooled sample for the whole population.
religions tend to have less confidence in other people but more trust in institutions compared to non-religious individuals.

With age people tend to become more trusting towards public institutions, as well as towards other individuals. Moreover, this relationship appears to be non-linear. In the case of interpersonal trust, people aged 30-44 have more trust than those aged 15-29. People aged over 45: their trust levels are almost equally higher compared to those aged 15-29. For the institutional trust we found that people aged 15-29 have more trust than those aged 30-44. But people aged over 45 have higher trust indexes than younger people.

Income tends to also have a positive impact: wealthier people show higher levels of interpersonal trust. This effect is still positive although not statistically significant in the case of confidence in public welfare institutions. For interpersonal trust, income effects are non–linear, but there is an increase in trust levels for each quintile. For institutional trust, there is still a positive effect which slows down when satisfaction with income goes up. Nevertheless, most coefficients appear not to be statistically significant for institutional trust.

The influence of gender is found to be statistically significant in all cases. Males seem to have higher trust levels than females on average. As it always appears in the literature, unemployment negatively affects levels of interpersonal trust and institutional trust. Education also conducts some influence on social trust indexes but its direction differs across trust forms. More educated people show more confidence in other individuals. In the case of institutional trust, the impact of the education is non-linear. Moderately educated people have lower indicators of trust in institutions compared to less educated people, although this effect is not statistically significant. But highly educated people have higher institutional trust indexes compared to less educated people.
In general, the results obtained allow us to say that in discussing the welfare state’s effects on social capital formation, it is necessary not only to refer to total social spending, but to analyze policy-specific effects. Our analysis provides evidence that suggests that even if total spending may deliver some support for the crowding-in hypothesis, not all social policies have a positive influence on social trust levels.

The multidimensional approach thus advocates that we may have crowding-out effects in some cases. In particular, pension spending negatively affect levels of both forms of trust, especially institutional trust. In the case of unemployment spending, one should refer to crowding-in effects, especially for interpersonal trust. It seems that the effects of unemployment benefits as the main source of income outweigh negative effects of the self-interest component, enhancing positive attitudes towards welfare states institutions and other people.

Thus, the empirical analysis shows that the effects of welfare state activities can result in a drop in confidence levels. It is also obvious that welfare state effects can be policy specific. In other words, one should accept that policy effects are not linear across social provisions and each of them has its own specific mechanism of influence resulting in different levels of interpersonal and institutional trust.

Overview and concluding remarks

This paper analyzes the functional dimension which is defined based on the functions social polices perform. Functions are derived on the basis of the risks or contingencies that social policies are designed to cover. The analysis is conducted by relating relevant social expenditures to the levels of institutional and interpersonal trust among their direct recipients. Relevant social
expenditures include pension and unemployment spending that are linked to social trust levels among pensioners and the unemployed. The results are compared to those calculated based on the pooled sample for the whole population and total social expenditures. The analysis provides evidence of the existence of policy specific effects. Mixed results were however obtained in the case of the crowding-out hypothesis. An aggregated level of analysis supports crowding-out only for pension spending while positive effects are found for unemployment spending. Moreover, the aggregated-level of analysis suggest that effects of social spending on social trust mainly go through reduction of income inequality, which supports integration argument. If redistributive effects of welfare state activities are controlled for, the direct effect of social spending on social trust becomes negative, which can be explained by the civil society erosion or the moral destruction arguments. The individual level of analysis provides similar evidence. Crowding-out can be expected in the case of pensioners for both forms of social trust, while crowding-in effects can be found in the case of total social spending and unemployment spending. An explanation of these effects among pensioners and the unemployed is provided based on the attitudinal theory of trust formation.

The analysis presented in this chapter does not intend to provide theoretical explanations of welfare state effects on social trust. Instead, we focus on discussing the empirical results of our cross-sectional analysis. Only a few explanations of the mechanisms of crowding-out and crowding-in effects are delivered, which do not provide a complete picture. Moreover, additional arguments are needed to explain why relevant social spending can differ in their effects on social trust. This must become a subject for further research that should take a form of qualitative studies rather than quantitative studies to make the explanation of mechanisms underlying the phenomenon under study possible.
Moreover, the desegregation of total social spending on a functional basis still relies on using relevant social spending. This however neglects the fact that this measure of welfare state development does not reflect the actual level of decommodification of individuals from the labor market. The need hence consists in introducing an outcome spectrum in the social trust analysis which will be done in the next section.
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