Characteristics of social policies and social trust

Tamilina, Larysa

Independent Research

1 January 2012
CHARACTERISTICS OF SOCIAL POLICIES AND SOCIAL TRUST

Larysa Tamilina

Independent Research
Diakogianni Str. 7
Marousi Athens
15126 Greece
Phone: +30 210 7777640
E-mail: larysa.tamilina@gmail.com

2011

Author Note

Correspondence concerning this paper should be addressed to Larysa Tamilina (E-mail: larysa.tamilina@gmail.com).
1. **Introducing a qualitative spectrum in social trust analysis**

Welfare states represent a multidimensional concept that has quantitative as well as qualitative characteristics. By defining a package of social rights, social policies are based on the principles upon which the maintenance of an individual’s welfare takes place. These principles include not only the level of decommodification of those experiencing social risks or certain mechanisms of social stratification, but also the particular design of benefit schemes, their form of delivery, and the mode of financing.

Up to now, there is no research that accounts for effects of these characteristics on social trust levels. The general tendency in analyzing the relationship between welfare states and social trust consists in using either their spending level or Esping-Andersen’s welfare regime typology to describe welfare state development. Using social spending as the measure of welfare state development omits from the analysis any kind of qualitative features that describe the principles of welfare provisions to individuals.

An alternative way to operationalize welfare states is to use Esping-Andersen’s welfare regime typology based on a three-dimensional approach defined along de-familiarization, decommodification, and stratification axes. Nevertheless, this typology also has disadvantages. This classification itself is highly criticized. Esping-Andersen’s classification is a continuation of the old ‘quantitative tradition’ and only partially accounts for some qualitative dimensions, the effects of which are often debated in the literature. The latter includes for instance debates about the replacement of passive unemployment schemes with more effective active labor market policies (Aust and Arriba, 2005; Kvist and Ploug, 2003; Taylor-Gooby, 2005a,b), discussions about shifting to general and indirect taxation instead of contributory modes of financing (Edlund, 2002; Orsini, 2006), or arguments to substitute cash benefits with in-kind benefits.
The question that arises is ‘why’ we should recognize the existence of the qualitative spectrum. The starting point of the argument is that the welfare state itself represents a synthetic construct which reflects not only the level of the state’s intervention into societal arrangements, but also ‘how’ this intervention happens. This involves using multiple mechanisms in organizing and financing the provision of welfare to individuals experiencing social risks for whatever reasons. Organizing the same range of social policies, countries differ in ‘how’ these policies are designed, implemented, and financed. So it is possible to assume that the same policy may lead to different outcomes (in terms of social trust levels) just because its characteristics vary across different countries. The diversity of instruments for policy design, implementation, and financing thus presupposes particular features of every social policy in each specific country, which reflects the principles upon which the organization of welfare provisions at national or sub-national levels takes place.

On the other hand, the isolation of the qualitative characteristics of social policies is necessary for the analysis of their effects on social trust because of the existence of ‘mixed’ effects. The latter is based on the assumption that the final outcome in the relationship between social policy and social trust is the result of simultaneous interactions between the effects stemming from different policy characteristics. It is plausible to assume that these effects may sometimes have the opposite sign of influence and hence neutralize each other when analyzed as a whole. It is thus necessary to disaggregate the qualitative characteristics and analyze their separate effects on interpersonal and institutional trust.

Finally, this new approach allows us to grasp all possible effects welfare states conducts on trust perception from a different prospective and go beyond the usual spending level. The latter permits describing welfare state development in more detail. In addition, this approach also
contributes to a better understanding of the mechanisms that underlie the relationship between welfare state development and social trust formation.

We must thus introduce a qualitative spectrum in the analysis of the relationship between welfare states and social trust. This includes isolating social policy characteristics and analyzing their separate characteristics on social trust indexes. These characteristics that form the qualitative spectrum are:

(1) general taxation versus contributory financing,

(2) in-kind versus cash benefits,

(3) active versus passive labor market policies,

(4) means-tested versus non means-tested benefits.

It is impossible to analyze the effects of all qualitative characteristics. Therefore, we will choose only one of them to conduct a detailed analysis of the relationship between these characteristics and social trust levels on the one hand, and its interaction with the functional dimension on the other. Our choice is based on the availability of data. An additional criterion is the availability of theory to explain the mechanism that underlies this phenomenon. This characteristic is the institutional design of benefits schemes which can be either non means-tested or means-tested.

2. The Institutional design and social trust: a theoretical elaboration

The relationship between welfare states and social trust is subject of many debates that very often lead to controversial results. There are studies that suggest that the effects of social policies are positive and hence welfare states enhance an individual’s confidence in institutions as well as in other people (Knack and Zak, 2001; Patulny, 2005; Rothstein and Uslaner, 2006; Szreter, 2002).
But there are some studies that advocate the opposite. Scholars argue that welfare states crowd-out social trust (Fukuyama, 2000; De Swaan, 1988). The recent attempt to explain this contradiction is the idea of taking into account the institutional design of welfare states or benefit schemes. This approach recognizes the possibility of both crowding-in and crowding-out as will be shown later.

The studies about the effects of the institutional design of social provisions on social trust represent a new trend in analyzing the relationship between welfare states and trust. They all fit in the general framework of the research, which is focused on the effects social policy conducts on faith in other people or public welfare institutions. Although, it is an independent trend in social trust research, this field of analysis incorporates the main drawbacks of general studies on the welfare state-social trust nexus, which lack empirical analysis which that would help prove or disprove the hypothesis about the effects welfare states have on social trust. Another drawback inherent to social trust research is the fact that the mechanisms of the effects of the institutional design are quite numerous, which makes the analysis cumbersome. There are however some differences between the so called ‘institutional’ approach to social trust analysis and the general trend mentioned above. While relying on numerous mechanisms, the effects are not controversial with respect to the final outcomes. The discussion always concludes that universalism, which is associated with non means-testing, has a positive impact on generalized trust, while ‘selectivity’, which is based on means-testing, has a negative relationship with confidence in other people.

Before starting an overview of the literature on the effects of the institutional design on social trust, it should be mentioned that the origins of this analysis stem from the research conducted by Rothstein (1998), where he introduces a distinction between universal and selective\(^1\)

---

\(^1\) Some scholars name selective welfare states as categorical.
welfare states. Although this study does not directly elaborate on the effects institutional design can have on social trust, Rothstein (1998) draws a detailed scheme of how institutions charged with the making and implementation of collective decisions may be designed and how this particular design affects the willingness of citizens to assist in realizing the objectives of welfare policy. His main contribution consists in showing the advantages of the universal design of welfare states, which include a greater (compared to selective ones) redistributive effect. Based on calculations of the effects of universal welfare states, Rothstein (1998) comes to a conclusion that there is a dramatic reduction in inequality between the highest and the lowest percentiles of income distribution. He concludes that this reduction can be achieved with no progressivity in taxation and without targeting benefits and services for the truly needy.

In his other research conducted together with other scholars, he elaborates in more detail how the particular design of welfare state programs may explain the kind of influence they conduct on social capital. As was said before, in spite of the diversity of studies, they all come to the conclusion that crowding-out is expected in the case of means-tested schemes, while universal non means-tested schemes usually have a positive influence on social trust levels. The difference mainly lies in the diversity of the mechanisms that underlie the relationship in question.

Rothstein and Stolle (2001) for instance provide explanations which in the form of the ‘justice enforcement” argument. They argue that universal welfare states are the most effective in generating trust since they enable, more than any other system of public policy, the implementation of norms of impartiality, fairness, and respect, particularly in comparison to selective or conservative public policy systems. General inclusiveness, which excludes discrimination on any basis, functions here as an important factor in the development and maintenance of generalized trust. The effectiveness of a universal system in generating trust lies in the more transparent
procedures of implementing social programs as selective systems presuppose a wide range of
discretionary power which escalates fears of fraud and/or dishonesty into increased control and
complicated rules of getting social benefits. However, they do not conduct an empirical analysis
to prove their arguments.

This idea is developed by Kumlin and Rothstein (2007) who base their analysis in the frame
of a ‘justice enforcement argument’, although they do limit justice to a procedural interpretation.
They argue that people are concerned not only with the final results of personal contacts with
public institutions, but in whether the process that eventually leads to the final results is fair.
Kumlin and Rothstein (2007) distinguish between several aspects of procedural justice. These may
involve questions of whether or not an individual is received with respect and dignity; whether he
or she is able to communicate opinions to civil servants; and whether there are signs of
discrimination, corruption, and/or cheating. They further argue that needs-tested public services
may more readily give rise to suspicions concerning procedural justice and arbitrary treatment than
do universal agencies. In other words, programs based on needs-testing imply a greater scope for
bureaucratic discretion. Citizens for their part have an incentive and opportunity in this situation
to withhold relevant information from bureaucrats to try to convince the latter that they should
qualify for the service in question. This easily escalates into a vicious spiral of distrust from clients
leading to increased control from bureaucrats. Because of this complex and controversial decision
making process, needs testing and bureaucratic discretionary power are often more difficult to
reconcile with the principles of procedural justice compared with universal public services. Their
empirical analysis explicitly shows the negative relationship between the number of needs-tested
institutional contacts and the levels of social trust based on the Sweden SOM survey. Their analysis
was thus limited to one country. Furthermore, they do not prove whether or not the mechanism
that underlies the phenomenon under study works as they assume, but instead they focus on establishing the fact that the number of contacts with means-tested programs negatively correlates with generalized trust levels.

In their further research, scholars focus more on explaining why selective and conservative welfare regimes undermine trust among individuals. Unlike a universal one, Rothstein and Stolle (2001) argue that both selective and conservative welfare states are designed to plot groups of people against each other, which violates the principle of fairness. They use the so called ‘stigma creation’ argument to explain how means-testing may ruin social trust among the recipients of such benefits. They continue their reasoning by arguing that if citizens are singled out as special ‘problem’ cases as they are in selective welfare systems, it is possible that the majority of citizens might not trust them. This in turn causes ‘problem’ people to be distrustful of others. They also explain the development of distrust among clientele of means-tested programs with the discriminatory experience they go through when applying for, and receiving relevant benefits.²

Rothstein and Stolle (2001) conduct an empirical analysis based on SOM data for Sweden for the years 1996-2000, which confirms their hypothesis that citizens who use selective welfare state services in Sweden are less trusting than the rest of the population. They stop however at this point without checking whether means-testing is a negative determinant of social trust with respect to all policies or if it can be policy specific. Moreover, their analysis is based exclusively on data for one country and ignores the possibility of a cross-national investigation.

Rothstein and Uslaner (2006) also elaborate on the reasons why universal programs are positive in their effects on social trust while selective programs have negative effects. They provide their explanation in the frame of reasoning called as the ‘equality promotion’ argument. Equality is

---

² In line with these findings, Mofflat and Higgs argue that the ‘stigmatizing’ of people through means-testing may create among participants a feeling of being demeaned by the system that negatively affects their trust level.
understood as income equality. More specifically, they say that unlike selective social schemes, universal schemes may enhance trust. This occurs due to the fact that such programs are much better in reducing inequality than simple redistributive schemes that imply selective policies. The authors insist that apart from economic equality, one should also take account of the equality of opportunities as a determinant of social trust. Universal programs may also ensure this since they possess a number of specific characteristics. First, they are delivered with less bureaucratic hassle and control. Second, they may create feelings of social cohesion in society. Third, high quality universal programs may increase feelings of optimism and equal opportunity among large segments of the population. They use a regression analysis to test the effects of means-tested benefits on generalized trust. The results meet their expectations and show that being a client of means-tested benefit schemes in the United States entails negative effects on trust indexes. Moreover, these negative effects on social trust caused by interaction with means-testing institutions remain statistically significant even after controlling for the personal characteristics of recipients. As in the previous research, they do not elaborate on whether or not the effects of the institutional design of benefit schemes on social trust are policy specific. They again base their research on an individual level analysis for one country. Apart from that, the authors do not prove the mechanism of the effects directly, but rather limit their empirical investigation to general statements that claim that experience with means-testing may ruin social trust. They conclude their analysis with a pessimistic prediction about the dynamics of trust based on the notion of social traps: “social trust will not increase because massive social inequality prevails, but the public policies that could remedy this situation cannot be established precisely because there is a genuine lack of trust.”
In spite of the fact that the question of the relationship between the institutional design and social trust receives some attention and is elaborated on to a great extent in the literature, there are some problems that require a further analysis. **First**, the research conducted so far focuses on explaining the mechanisms that underlie effects non means-testing and means-testing have on social trust. The empirical analysis that supports the hypothesis is poor and limited to the individual level on the basis of two countries: the United States and Sweden. Moreover, scholars merely focus on studying whether or not the contact with means-tested programs ruins generalized trust. There is no cross-national research based on a wide range of countries that relates spending on non means-tested and means-tested benefit schemes to their social trust levels. This analysis is necessary since the narrow boundaries of research do not allow for generalizing the findings to the rest of the world, which goes far beyond Sweden and the United States.

**Second**, the analysis conducted so far generalizes the effects of the institutional design to all social policies and ignores the fact that they may be policy specific. Welfare states represent a number of policies that differ in their aims, clientele, and effects. A wide range of policies use means-testing and it is plausible to assume that the complexity of means-testing and hence the strength of its influence on social trust will largely depend on the perception of how deserving people who are experiencing social contingencies and hence become the clientele of welfare states are. It is also widely known that the deservingness for public support substantially varies across social groups for whom the policies are designed. It is hence possible to expect that the effects of the institutional design on social trust will be policy specific.

**Third**, all studies presented above limit social trust to generalized trust, or confidence in other people. It is hence more or less known how a particular institutional design will affect interpersonal trust. It remains however ignored that trust itself is a multifaceted concept that has
several forms. The most common used in empirical research (besides interpersonal trust) is institutional trust, which reflects confidence in public welfare institutions. There is no analysis that attempts to explain how and why institutional trust may be affected by welfare states in general and their institutional design in particular. It is interesting to see whether institutional design matters for institutional trust and if so, whether it follows the pattern found for interpersonal trust.  

Thus, we will try to account for the problems mentioned above and will conduct a cross-national investigation based on data of 18 OECD countries. We will also check for the policy specific effects of institutional design on social trust, while extending the analysis of institutional effects to institutional trust.

3. Division of spending between non means-tested and means-tested

The division of spending between non means-tested and means-tested schemes follows the expected distribution. The vast majority of social provisions is provided through non means-tested schemes in all countries, especially in conservative and social democratic welfare regimes. Means-tested benefits account there for only about two percent. In liberal countries, the share of means-tested schemes in total social spending constitutes almost 25 percent or 5.26 percent of GDP. In other words, continental and northern Europe rely on non means-tested benefits, while using means-tested schemes as a complementary measure mainly in the case of social assistance. Anglo-Saxon countries by contrast use the stigmatizing principle in social welfare provisions, which presupposes the dominance of means-tested mechanisms with their sometimes rude procedures of defining and monitoring the need for, and the level of, benefits.

3 There is a study conducted by Rothstein and Stolle (2001) that demonstrates that institutional trust that reflects the impartiality of political and social institutions is important for interpersonal trust development. They argue that citizens generalize from knowledge about the honesty and impartiality of public officials and the public welfare/legal system to other people.
### Table 1.: Average levels of social spending by institutional design, % of GDP

<table>
<thead>
<tr>
<th></th>
<th>Percentage of non means-tested schemes</th>
<th>Percentage of means-tested schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social democratic</td>
<td>27.61</td>
<td>1.96</td>
</tr>
<tr>
<td>Conservative</td>
<td>24.21</td>
<td>1.83</td>
</tr>
<tr>
<td>Liberal</td>
<td>16.47</td>
<td>5.26</td>
</tr>
</tbody>
</table>

Source: Calculated based on Eurostat

### 4. The institutional design and social trust: an aggregated-level analysis

To some extent, interesting results are obtained when relating the level of spending by institutional design to trust indicators (see Table 8.2.). In line with the theory discussed before, crowding-in effects are found for interpersonal trust in the case of non means-tested schemes. This positive relationship remains even after sequentially controlling for four out of five country-level covariates. Only when keeping the inequality level constant does the positive relationship turns negative, while remaining statistically significant. First, this proof that social policy influences social trust through redistribution. The positive impact of non means-tested schemes is thus mainly due to their redistributive effect. Moreover, it is also obvious from the table that the spurious effects of redistribution are stronger for universal policies compared to selective ones, which are always mentioned in the literature. This supports the equality promotion argument that states that non-means tested social programs are more effective in reducing income inequality. Second, it supports
the idea that when redistributive effects are controlled for, the direct effects of social spending on interpersonal trust are negative, which is often conceptualized in the ‘crowding-out hypothesis’ (Fukuyama, 2000; De Swaan, 1988). The mechanism that underlies the negative partial correlation between the two phenomena under study remains a ‘black box’, although the literature assumes that it entails an erosion of either civil society or the ability of individuals to cooperate with each other. Finally, these results are in line with many findings (Kawachi et al., 1997; Knack and Keefer, 1997; Putnam, 1993; Seligman, 1997; Uslaner, 2000) that emphasize the detrimental effects of income inequality on trust formation process.

Table 2.: The correlation between social trust and measures of universalism and categorization: an aggregated-level analysis

<table>
<thead>
<tr>
<th>Correlation between spending by institutional design and social trust</th>
<th>Controlled for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fractionalization</td>
</tr>
<tr>
<td>Spending on non means-tested schemes</td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>0.132***</td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>-0.062***</td>
</tr>
<tr>
<td>Spending on means-tested schemes</td>
<td></td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>-0.039***</td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>-0.024***</td>
</tr>
</tbody>
</table>

Source: Own calculations based on the World Values Survey
The quality of public institutions expressed through corruption has a little effect in the case of non means-tested benefits since this way of delivering social provisions does not require intense interaction between public welfare institutions and the beneficiaries of social security systems.

When relating spending on means-testing benefit schemes and interpersonal trust indexes, one sees a negative relationship, which is fully in line with the results of recent research. It is hence possible to conclude that means-testing tends to erode interpersonal trust even when keeping most of country-level characteristics constant. Only when controlling for income inequality level does the negative effects turn neutral and lose their significance level. The effect of redistribution is smaller here than in the case of non means-tested spending. Controlling for corruption strengthens the negative influence of means-tested benefits on interpersonal trust. It is hence possible to conclude that what matters in the case of means-tested spending is not their redistributive effects but rather the quality of welfare institutions through which the provision of these benefits takes place. In corrupt systems, which are known to tolerate bribes and which do not adhere to any norms of impartiality, generalized trust cannot thrive (Rothstein and Stolle, 2001; La Porta et al., 1999; Putnam, 1993). It confirms the ‘justice enforcement’ argument that assumes the importance of impartiality for manipulating trust levels.

For institutional trust, the effects of institutional design develop their own pattern that substantially differs from interpersonal trust. Crowding-out effects are detected when linking spending on both non means-tested and means-tested schemes to institutional trust indexes. When talking about the relationship with non means-tested spending, the negative sign remains even after controlling for fractionalization, country wealth, income inequality, and percentage of Protestants. Out of these four covariates, income inequality can be defined as most influential since keeping redistributive effects constant substantially increases the absolute value of the negative coefficient
measuring the direct relationship between non means-tested spending and social trust. What also matters for institutional trust is the corruption level. Corruption conducts a spurious effect on the relationship between trust and non means-tested spending. Hence, even if interaction with public welfare institutions is rare in universal welfare states, the quality of their performance essentially predefines the level of institutional trust in society. If corruption levels are controlled for, the direct effect of non means-tested spending on institutional trust is neutral, but not negative. Trust in public institutions is thus highly determined by the degree of credibility and the fairness of these institutions. This can again be considered proof of the justice enforcement argument. Although there are not so many studies elaborating on this association, we find a strong correlation (0.747) between institutional trust and corruption indexes.

The relationship between spending on means-tested schemes and institutional trust is also found negative and remains so even after keeping fractionalization, country wealth, income inequality level and percentage of Protestants constant. Although the ability of means-tested social provisions to reduce income inequality is low, their redistributive effects on institutional trust are large. A strong effect is again seen in the case of corruption, which is positive and statistically significant this time. For institutional trust, it is hence more important how public welfare institutions operate or how fairly they treat applicants for means-tested benefits. If institutions are characterized as ‘not corrupt’, the effect of means-tested spending on institutional trust is positive. It supports the argument provided by Rothstein and Stolle (2001) that suggests that institutional trust largely depends on how impartial, just, and fair social and political institutions, which are responsible for the implementation of public policies, are.

Thus, the results indicate that social spending, in any institutional form, can lead to the erosion of institutional trust, unless the corruption level in institutions through which social
provisions are delivered is controlled for. With respect to interpersonal trust, this happens when welfare provisions are done through means-tested schemes while non means-tested schemes enhance interpersonal trust formation completely in line with the theory.

5. The institutional design and social trust: an individual-level analysis

When moving to an individual-level analysis, we again see mixed results that are not completely consistent with our expectations. Our expectations are:

**Hypothesis 1.** Higher spending on non means-tested schemes in countries should be associated with higher levels of interpersonal and institutional trust among the population.

**Hypothesis 2.** Higher spending on means-tested schemes in countries should be associated with lower levels of interpersonal and institutional trust among the population.

At the individual-level analysis, we see again mixed results not completely consistent with our expectations (see Table 8.3). The effects of the institutional design on social trust only partially coincide with the theory that asserts that crowding-out can be expected in the case of means-tested schemes, while crowding-in is usually the outcome when the analysis is focused on non means-tested schemes. In the case of interpersonal trust, it is true that hassle and control, which are the main characteristics of means-testing, tend to erode confidence levels while more universalistic approaches to granting social benefits on a universal basis tend to enhance trust levels. The positive impact of non means-tested schemes may also arise from the fact that the latter are more efficient in poverty reduction than means-tested benefits.
Table 3.: Impact of the institutional design of benefit schemes on social trust levels: an individual-level analysis

<table>
<thead>
<tr>
<th></th>
<th>Institutional trust</th>
<th></th>
<th>Interpersonal trust</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non means tested spending</td>
<td>Means-tested spending</td>
<td>Non means tested spending</td>
<td>Means-tested spending</td>
</tr>
<tr>
<td>Non means-tested spending</td>
<td>0.076***</td>
<td></td>
<td>0.043***</td>
<td></td>
</tr>
<tr>
<td>Means-tested spending</td>
<td>0.071***</td>
<td></td>
<td>-0.064***</td>
<td></td>
</tr>
<tr>
<td>Volunteering</td>
<td>0.125**</td>
<td>0.122**</td>
<td>0.286***</td>
<td>0.247***</td>
</tr>
<tr>
<td>Sociability</td>
<td>0.416***</td>
<td>0.429***</td>
<td>0.361***</td>
<td>0.432***</td>
</tr>
<tr>
<td>Religion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Catholic</td>
<td>0.225</td>
<td>0.602</td>
<td>-0.215***</td>
<td>-0.176***</td>
</tr>
<tr>
<td>Protestant</td>
<td>0.387</td>
<td>0.693</td>
<td>0.066**</td>
<td>0.029</td>
</tr>
<tr>
<td>Other</td>
<td>0.035</td>
<td>0.312</td>
<td>0.050</td>
<td>0.020</td>
</tr>
<tr>
<td>Religiousness</td>
<td>-0.157***</td>
<td>-0.160***</td>
<td>-0.025***</td>
<td>-0.028***</td>
</tr>
<tr>
<td>Gender</td>
<td>0.119**</td>
<td>0.124**</td>
<td>0.062**</td>
<td>0.063**</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-29</td>
<td>Ref/category</td>
<td>Ref/category</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>30 – 44</td>
<td>-0.133*</td>
<td>-0.136*</td>
<td>0.161***</td>
<td>0.169***</td>
</tr>
<tr>
<td>45 –above</td>
<td>0.170**</td>
<td>0.165**</td>
<td>0.172***</td>
<td>0.188***</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower</td>
<td>Ref/category</td>
<td>Ref/category</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>Middle</td>
<td>-0.044</td>
<td>-0.057</td>
<td>0.085***</td>
<td>0.093***</td>
</tr>
<tr>
<td>Upper</td>
<td>0.118**</td>
<td>0.116**</td>
<td>0.690***</td>
<td>0.675***</td>
</tr>
<tr>
<td>Unemployed</td>
<td>-0.367***</td>
<td>-0.392***</td>
<td>-0.255***</td>
<td>-0.244***</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st qu.</td>
<td>Ref/category</td>
<td>Ref/category</td>
<td>Ref/category</td>
<td>Ref/category</td>
</tr>
<tr>
<td>2nd qu.</td>
<td>0.135*</td>
<td>0.132*</td>
<td>0.075**</td>
<td>0.079**</td>
</tr>
<tr>
<td>3rd qu.</td>
<td>0.079</td>
<td>0.086</td>
<td>0.230***</td>
<td>0.231***</td>
</tr>
<tr>
<td>4th qu.</td>
<td>0.088</td>
<td>0.094</td>
<td>0.437***</td>
<td>0.434***</td>
</tr>
<tr>
<td>5th qu.</td>
<td>0.045</td>
<td>0.069</td>
<td>0.576***</td>
<td>0.582***</td>
</tr>
<tr>
<td>Variance at level 1</td>
<td>9.265 (0.111)</td>
<td>9.262 (0.111)</td>
<td>Not calculated</td>
<td>Not calculated</td>
</tr>
<tr>
<td>Variance at level 2</td>
<td>0.318 (0.022)</td>
<td>0.216 (0.014)</td>
<td>0.220 (0.014)0</td>
<td>0.206 (0.013)</td>
</tr>
</tbody>
</table>
More specifically, the coefficient values indicate that an increase in social spending on non means-tested schemes by one percent increases the odds of trusting other people by an average of 3.5 percent when other variables are kept constant. An increase in means-tested schemes by one percent leads to a decrease in the odds of trusting by an average of 6.2 percent when other variables are held constant. The coefficient on the ratio of non means-tested spending to means-tested spending is found to equal 0.007, which confirms that an increase in the provision of benefits on non means-tested principles should positively affect interpersonal trust indexes. Thus, complex and sometimes humiliating procedures of means-testing might cultivate the feeling of being at a disadvantage among those applying for benefits, leading to psychological closure of the personality and hence results in less trust in other people.

With respect to institutional trust, the relationship has a different nature. It seems that the institutional design matters little for institutional trust: regardless of whether or not the benefits are provided based on means-testing or not, they have a positive influence on trust levels. For institutional trust, the fact that the state provides individuals with financial support is hence more important than the mechanisms through which it does so. This thus supports the integration argument that assumes that if governments guarantee to keep an individual alive and in good health when he or she has difficulties, then the individual will feel integrated and as a result his or her perception of failing substantially decreases, which forms the necessary grounds for higher institutional trust (Szreter, 2002).

The coefficients point out that an increase in social spending on non means-tested schemes by one percent leads to an increase in institutional trust by an average of 0.076 units while an
increase in means-tested spending by one percent is usually associated with an increase of 0.064 units in confidence in public welfare institutions. The coefficient on the ratio of non means-tested to means-tested spending is estimated at 0.035, which means that in spite of the fact that both types of spending lead to crowding-in, non means-tested provisions must have more positive effects on institutional trust.

Hence, the effects of institutional design may differ across trust forms, which has not been mentioned before in the literature. One should limit the theory of means-testing to generalized or interpersonal trust. Institutional trust develops a completely different type of relationship with means-tested social provisions. The effects remain positive even after making a distinction between means and non means-tested spending. Regardless of the principles the provision of social benefits is based on, they induce positive effects on institutional trust. The fact that public institutions give support to those in need positively affects the recipients of public aid and their confidence towards these institutions. What becomes important here is how the institutions operate. As the aggregated level of analysis shows, the level of corruption conducts an essential influence on the relationship between means-tested spending and institutional trust. If the institutions are perceived as fair and not corrupt, they gain high regards from the individuals who will have higher levels of confidence in them even in the case of means-testing.

6. Interaction of the institutional design with the functional dimension

It is an open question as to whether the effects of the institutional design are policy specific. To shed more light on this, we disaggregate total spending on means-tested and non means-tested schemes on functional a basis, thus obtaining the percentage of GDP spent on non means-tested
and means-tested pension and unemployment schemes. An overview of these spending levels is summarized in the table below.

<table>
<thead>
<tr>
<th>Welfare Regime Type</th>
<th>Pension schemes</th>
<th>Unemployment schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non Means-tested</td>
<td>Means-tested</td>
</tr>
<tr>
<td>Social democratic</td>
<td>9.28</td>
<td>0.48</td>
</tr>
<tr>
<td>Conservative</td>
<td>10.29</td>
<td>0.35</td>
</tr>
<tr>
<td>Liberal</td>
<td>5.84</td>
<td>0.78</td>
</tr>
</tbody>
</table>

The data suggest that with respect to pensions, countries tend to give preference to non means-tested schemes while means–tested schemes are used as a supplementary measure to the traditional way of supplying pensions. As expected, liberal welfare regimes take the lead in using means-tested scheme, where eleven percent of pension spending is dedicated to means-tested pensions. In the other two welfare regimes, this share is much smaller and barely exceeds five percent.

With respect to the institutional design of unemployment schemes, the variation of the share of GDP devoted to means-tested schemes is analogous. Here, governments tend to rely more on means-testing when providing the unemployed with financial support. In liberal welfare regimes, almost 57 percent of unemployment provisions are done through means-tested schemes.
This percentage varies between six and twelve percent in social democratic and conservative welfare regimes.

**Table 5.: The correlation between the institutional design of pensions and unemployment schemes and social trust: an aggregated-level analysis**

<table>
<thead>
<tr>
<th>Spending on non means-tested pension schemes</th>
<th>Correlation between spending by institutional design and social trust</th>
<th>Controlled for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation</td>
<td>Fractionalization</td>
</tr>
<tr>
<td>1. Interpersonal trust</td>
<td>-0.141</td>
<td>-0.102</td>
</tr>
<tr>
<td>2. Institutional trust</td>
<td>-0.458</td>
<td>-0.546*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spending on means-tested pension schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interpersonal trust</td>
</tr>
<tr>
<td>2. Institutional trust</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spending on non means-tested unemployment schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interpersonal trust</td>
</tr>
<tr>
<td>2. Institutional trust</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spending on means-tested unemployment schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interpersonal trust</td>
</tr>
<tr>
<td>2. Institutional trust</td>
</tr>
</tbody>
</table>
The aggregated level of analysis failed to provide statistically significant results although the sign in the relationship between the institutional design of the selected provisions and social trust varies considerably. More specifically, a negative relationship is seen between non means-tested pension schemes and both forms of trust. A positive relationship is found in the case of means-tested pension provisions and social trust. The results are completely opposite to what the theory asserts.

The institutional design seems to matter little for unemployment benefits since the relationship between relevant types of unemployment spending and social trust is usually positive, although the relationship is not statistically significant in any case. Controlling for the five covariates changes the significance level of the relationship in question.

The individual-level effects of the institutional design on social trust provide evidence of a clear existence of policy specific effects. When analyzing institutional trust (see Table 8.6.), one comes to the conclusion that the institutional design matters. For pension schemes, we have results, which are opposite to those for total social spending. More specifically, non means-tested schemes are found to crowd-out institutional trust among pensioners, while means-tested pension schemes tend to boost confidence in public welfare institutions. For unemployment spending, the division between means-tested and non means-tested only partially supports the general hypothesis. The former is found to have neutral effect on institutional trust among the unemployed, while the latter increases trust levels among the direct recipients of unemployment benefits.
Table 6.: Policy specific effects of the institutional design on institutional trust

<table>
<thead>
<tr>
<th>Relevant social spending</th>
<th>Pension spending</th>
<th>Unemployment spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>On pensions</td>
<td>Non means-tested</td>
<td>Means-tested</td>
</tr>
<tr>
<td>On unemployment</td>
<td>-0.167***</td>
<td>0.818***</td>
</tr>
<tr>
<td></td>
<td>0.536***</td>
<td>0.053</td>
</tr>
<tr>
<td>Variance at individual level</td>
<td>9.985 (0.256)</td>
<td>9.987 (0.256)</td>
</tr>
<tr>
<td></td>
<td>10.688 (0.0542)</td>
<td>10.645 (0.540)</td>
</tr>
<tr>
<td>Variance at country level</td>
<td>0.495 (0.091)</td>
<td>0.495 (0.101)</td>
</tr>
<tr>
<td></td>
<td>0.168 (0.179)</td>
<td>0.588 (0.328)</td>
</tr>
</tbody>
</table>

Source: Own calculations based on the World Values Survey

In the case of interpersonal trust, only one of the effects is statistically significant (see Table 8.7.). For pension schemes, the effects of non means-tested pensions are in line with previous findings. Namely, they tend to negatively influence trust levels among pensioners. Means-tested schemes are found to boost interpersonal trust levels, although none of the coefficients is found to be statistically significant. For unemployment schemes, the institutional design seems to matter since we have a positive relationship for non means-tested schemes and a neutral relationship for means-tested schemes.

4 The coefficients on control variables are not reported since they are similar to those in Table 3.
Table 7.: Policy specific effects of the institutional design on interpersonal trust

<table>
<thead>
<tr>
<th>Relevant social spending</th>
<th>Pension spending</th>
<th>Unemployment spending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non means-tested</td>
<td>Means-tested</td>
</tr>
<tr>
<td>On pensions</td>
<td>-0.013</td>
<td>0.060</td>
</tr>
<tr>
<td>On unemployment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance at individual level</td>
<td>Not calculated</td>
<td>Not calculated</td>
</tr>
<tr>
<td>Variance at country level</td>
<td>0.172 (0.042)</td>
<td>0.206 (0.063)</td>
</tr>
<tr>
<td></td>
<td>0.413 (0.259)</td>
<td>0.369 (0.175)</td>
</tr>
</tbody>
</table>

Source: Own calculations based on the World Values Survey

Thus, the effects of institutional design on social trust can be considered policy specific. What comes as a surprise here is the negative impact of non means-tested pension spending on both interpersonal and institutional trust among pensioners, which coincides with the negative relationship found earlier between total pension expenditures and social trust among pensioners. Since social trust is an attitudinal variable we will try to explain the negative effects with the theory of attitude formation and change. The effects of recent changes in pension levels and conditions of delivery may ruin an individual’s level of trust in national pension system and in public institutions in general. The latter in turn contributes to people’s negative experience, which may also negatively affect their trust in other people.

There are however other considerations for the negative impact of non means-tested pension spending on social trust. The reason for the negative effect could be a result of a purely

5 The coefficients on control variables are not reported since they are similar to those in Table 3.
6 Brehm and Rahn (in Rothstein and Stolle, 2003), for example, found that confidence in institutions has a large effect on interpersonal trust. Jamal (2007) as well argues that those individuals who feel existing political institutions are adequate in representing their interests are also more likely to feel trusting towards others. Because individuals feel that existing political institutions can protect their interest 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 for example they are more inclined to trust others.
technical problem. In order to obtain the negative correlation, there must be a situation in which lower pension spending is associated with higher trust levels and vice versa. This was the case for the selected countries. To explain the possibility of such a situation, one should recall pension system characteristics in the countries selected for the analysis. On the one hand, in Scandinavian nations, where trust is relatively high, spending on public pensions is relatively moderate (Norway -7% of GDP, Finland -7% of GDP) since in northern countries they managed to build a two or three pillar system with public pensions offering only a basic income relative to occupational and private pensions. On the other hand, countries where trust levels are relatively low, public pensions sometimes constitute the only source of income and are the biggest spending item in social security systems. Such countries are France (10%) and Italy (12% of GDP). This can be equally applied to Anglo-Saxon countries, which spend a lot on supporting the elderly and have moderate levels of trust (the UK- 10% of GDP). This is due to the fact that in liberal welfare regimes, pensions constitute one of the largest items of social spending and supporting pensioners is integral to their social security system. They grant minimum pensions to everyone even if an individual paid contributions for a short period of time. This situation results in a negative correlation between pension spending and social trust levels.

There are some questions that arise here. The first is why the effects of non means-tested spending on social trust are different for the two social provisions. The first explanation lies in the distinct stratification mechanisms. Unemployment policy presupposes that income related benefits are paid within a short period of time after which an individual receives social assistance benefits. The liberal stratification mechanism hence prevails in the case of unemployment benefits. Pensions are almost always income related since they are calculated based on income levels or previous contributions to the system. This is directly related to income since how much you contributed
during your work history depends on how high your income was. This state of affairs suggests that pensions have less of a redistributive effect than unemployment benefits. On the other hand, it may mean that pensions rest more on the conservative stratification mechanisms than unemployment benefits, which seek to preserve the existing class structure. Conservative stratification mechanisms are present with respect to pensions not only in conservative welfare state regimes, but also in liberal and socialist welfare states. Conservatism, as was demonstrated before, negatively affects institutional trust, which is completely in line with the results obtained that show a negative statistically significant correlation between non means-tested pensions and institutional trust among pensioners.

Another reason why pensions may negatively affect trust levels is the fact that in many countries, pension schemes are more segmented than unemployment schemes. They are usually status oriented social insurance schemes in every country regardless of welfare regime type. According to Scruggs and Allan (2006a), Finland has 7 occupationally distinct pension schemes, France has 9, Ireland has 3, Norway has 6, Italy has 7, etc. Such an approach creates different treatment outcomes. The segregation of pension schemes may lead to pensions that are tailored to specific clientele, which in turn has a negative effect on social trust. This is because social trust is very sensitive to singling out one group of the population and plotting it against another group. This makes people feel unequal, which erodes trust levels among pensioners.

Another other question that arises is why the effects of means-tested expenditures are different for the selected social provisions. It should be also noted that in the case of pension spending, the effects of means-tested schemes appear to be positive for interpersonal and institutional trust. This finding refutes what the theory usually asserts and can be explained by two factors. First, the vast majority of pensions are non means-tested. Means-tested pension schemes
are mainly used for very poor elderly people for whom obtaining a source of income can outweigh the negative consequences of passing through bureaucratic procedures and the hassles inherent to means-tested benefits. Second, the complexity of means-testing might depend on society’s perception of deservingness and retired people are considered to be most deserving of public help (Van Oorschot, 2006).

In the case of unemployment policy, positive effects of relevant social spending are found in both forms of social trust, although they are only statistically significant for non means-tested spending. The fact that the state provides the unemployed with financial support might reinforce their confidence towards public institutions. Receiving unemployment benefits allows them to keep the attained standards of living and not feel abandoned, which in turn helps maintain their trust in other people. Means-tested unemployment schemes however must imply more complex procedures (compared to means-tested pension schemes) since they show a neutral effect on the levels of interpersonal and institutional trust among the unemployed. Their complexity may be explained by less favorable (compared to pensioners) perceptions of the deservingness of the unemployed for state support (Van Oorschot, 2006), which results in more bureaucratic procedures of obtaining means-tested unemployment benefits.

Dissimilar effects of the benefit schemes design on interpersonal and institutional trust among pensioners and unemployed people can thus be explained by different perceptions of deservingness for state support between pensioners and the unemployed. This might determine the complexity of obtaining means-tested benefits and hence their influence on social trust levels.
Overview and concluding remarks

Institutional theory asserts that the institutional design of benefit schemes predefines its influence on social trust levels. Many studies conclude that non means-tested benefit schemes should positively influence interpersonal trust while means-tested ones are expected to be negatively associated with confidence in others. The main rationale behind this mechanism rests on the idea that the former is more effective in reducing income inequality and guarantying equality of opportunities than the latter.

Our cross-sectional tested this hypothesis for 18 OECD countries and provided evidence that only partially supported our expectations in the case of interpersonal trust. The aggregated-level and individual-level analyses confirm that means-testing usually erodes confidence in other people while non means-testing positively affects interpersonal trust levels. The spurious effect of redistribution is indeed larger for non means-tested spending although it is also present for social spending on means-tested schemes. What appears to matter more for means-tested provisions is the quality of the performance of public institutions as measured through their corruption level.

The results for institutional trust follow a completely different pattern. At the aggregated level of analysis, the institutional design of benefit schemes seems to play no essential role since both types of spending show a negative relationship to institutional trust indexes. This relationship changes considerably and turns positive (even more strongly for means-tested benefits) when the spurious effects of corruption are controlled for. Institutional trust thus depends on how fairly the institutions through which the provisions of public support occurs are. The individual level of analysis proves that whatever the institutional design of benefit schemes is, they tend to enhance confidence in public welfare institutions. This shows that the fact that the state supports individuals
who are in need is more important for institutional trust than the mechanisms through which this support is delivered.

The analysis also indicates that the effects of institutional design can be policy specific. Disaggregating social spending on a functional basis may bring completely different results. For pension spending, means-testing is found to have a positive impact on both forms of trust. This effect is neutral in the case of unemployment means-tested spending. The difference in the effects can be explained by the different complexity of means-tested procedures, which in turn depends on the perceptions of how deserving those who apply for public support are.

What remains unexplained here is the negative effect of non means-tested pension spending on social trust among pensioners. This contradicts all theoretical reasoning and cannot be easily explained. This negative effect is in line with the argument of the ‘crowding-out’ hypothesis. But the question however remains why this crowding-out hypothesis does not hold true for non means-tested unemployment spending? And why is it that the sub-sample of pensioners triggers negative mechanisms of social spending effects? Finally, what is the exact mechanism of the effects of crowding-out of pension spending? It is possible to expect that each social policy develops its own relationship with social trust that goes through many direct and indirect links. These links thus require more theoretical and empirical analysis for the social sciences to be able to answer the questions raised above.
BIBLIOGRAPHY


Bjornskov, Ch. (2005), The determinants of trust. Working paper of University of Aarhus.


spread of the multi-pillar paradigm in five EU social insurance countries”, In: P. Taylor-
81 - 99.


patterns of adaptation to new social risks”, Paper presented at the 2nd ESPAnet annual

Vol. 37, No. 2, pp. 183-193.

America”, In: R. Edwards, M. W. Foley and M. Diani, (eds), *Beyond Tocqueville: Civil
43 -55.

and user satisfaction as indicators of good governance: difficulties in linking trust and
satisfaction indicators”, *International Review of Administrative Sciences*, Vol. 69, pp. 329-
343.

Vol. 31, pp. 2-3.


