# The Impact of Welfare State Development on Social Trust Formation: an Empirical Investigation

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Abstract: Social trust is shaped by many society-level as well as individual-level factors. One of the determinants highly debated in literature is the welfare state which reflects the level of state intervention in organizing individuals' welfare. Theoretical as well as empirical studies are in their vast majority controversial with respect to the kind of effects welfare state may have on social trust formation. However, all of them have one element in common - they measure welfare state development through social spending. The main objective of this research consists of demonstrating that in order to precisely estimate this impact, it is necessary to introduce a new operationalization for welfare state development which would reflect the outcomes rather than the process of the state intervention into individuals' arrangements. The latter can be obtained by decomposing Esping-Andersen's welfare regime typology and directly evaluating the effects of decommodification and stratification on social trust indexes. This hypothesis is checked based on a cross-sectional analysis for a set of 18 OECD countries while using multi-level modelling as the main research method. The individual-level analysis demonstrates that decommodification enhances trust formation. The aggregated-level analysis allows for explaining that this positive effect of decommodification on social trust mainly goes through reduction of income inequality which is the key aim of social policies. Moreover, the analysis demonstrates that the quality of public institutions, in general, and welfare institutions, in particular, conducts essential influence on the level of trust in the societies. Besides decommodification, the form of social stratification was found to matter for social trust. Preserving existing class structure inherent to conservative welfare regime type influences negatively institutional trust, but positively interpersonal trust. Stigmatizing approach apt to liberal welfare state erodes interpersonal trust, but boosts institutional trust. Finally, socialism's universal approach leads to crowding-in effects in both forms of social trust.

Keywords: trust, welfare states, decommodification, stratification, crowding-out

#### 1. Introduction

The role social capital performs at individual and societal levels gave rise to numerous studies about its meaning, origins and determinants. One of the often discussed issues in literature is the relationship between social policy and social capital. On the one hand, there is a lot of research which demonstrates that this relationship is negative as it was conceptualized in the 'crowding-out' hypothesis (Fukuyama 2000, Stolle and Rochon 1999, De Swaan 1998). On the other hand, there are studies which point out that social policy boosts social trust formation (Knack and Zak 2001, Szreter 2002, Patulny 2005). The latter is supported by empirical evidence based on positive correlation between welfare efforts measured through social spending and social trust indexes (Delhey and Newton 2004, Knack and Zack 2001, Van Oorschot and Arts 2005).

An alternative operationalization of the state intervention in the form of social policy that consists in constructing dummies for welfare regimes provided similar evidence. Social democratic welfare regime was found to have higher levels of social trust compared to Conservative and Liberal ones (Van Oorschot and Arts 2005). Using Esping-Andersen's typology for studying social policy effects is a clear breakthrough in the empirical analysis, although neither this approach nor the tradition of using social spending reveals the true nature of the mechanism in which social policy affects social trust.

The main objective of this article consists of introducing a new approach in analyzing the effects of welfare state development on social capital which is based on decomposing Esping-Andersen's welfare regime typology into two dimensions and separately analyzing their influence on social trust levels. These two dimensions lying at the roots of welfare regime typology refer to the outcomes of welfare state intervention which includes decommodification of the individual from the market and a certain type of social stratification. The results will have direct policy implication since on their basis it will become possible to infer about the consequences of the recent changes in welfare states consisting in lowering the decommodification level and gradual shift to a liberal paradigm in securing individuals' welfare.

The paper is structured as follows: in the second section the overview of the literature about the state activity affecting social capital is provided. The argument in favour of a new approach is raised in the following section. This will be followed by the methodology discussions and methods description. The empirical analysis will be provided in the fifth and sixth sections. Finally, the discussion will be closed by the results interpretation and the identification of the directions for future research.

# 2. The state and social trust: a multidimensional relationship

There is no agreement among scholars about the kind of the effects the welfare state conducts on social trust. It is possible to distinguish among several mainstreams in the literature discussing the relationship in question. The first mainstream can be called 'civic society erosion' argument which assumes the dependence of social trust on the level of development of civic society. Here, the effect of welfare state is intermediated through civic engagement. This thus suggests that welfare state may discourage civic engagement and as such social trust levels go down (Stolle and Rochon 1999) The argument however remains largely theoretical. On the one hand, there is no empirical research up to now which would demonstrate that the welfare state activity discourages civic engagement. On the other hand, the theory is quite ambiguous about the fact that civic engagement may be a determinant of social trust at all (Kumlin and Rothstein 2007, Newton 1999, Uslaner 2000-2001).

Alternative explanations of welfare state effects on social trust were provided by Fukuyama and De Swaan which can be called a 'moral destruction' argument. They both suggest that the crowding-out in social capital will happen if the state starts to undertake activities that are better left to the private sector or to a civic society. Fukuyama (2000) explains the crowding-out mechanism with the fact that if the state gets into the business of organizing everything, people will become dependent on it and lose their ability to work with one another. According to De Swaan (1988), the state activity erodes the individual's sense of responsibility for caring about family members and friends. But again these mechanisms of the crowding-out were never studied empirically.

There are several scholars supporting the opposite effects of welfare state. Positive impact of welfare state on social trust is recognized by Bonoli (2001), Knack and Zack (2001), Patulny (2005) and Szreter (2002). They all base their argumentation on the idea that social policy in this way or another helps to integrate the individual in the society when he or she has difficulties. As a consequence, these theories can be called 'integration' argument. This theoretical argument has been broadly supported by the results of empirical analysis. The findings usually demonstrate positive correlation between welfare state and social trust indexes (Delhey and Newton 2004, Kanck and Zack 2001, Van Oorschot and Arts 2005). These studies however have certain limitations since welfare state development is measured through the level of social spending while ignoring the fact that it does not reflect the actual level of benefit generosity.

The fourth mainstream in the literature can be called 'institutional' which emphasises the role of institutions in inducing pro-social behaviour. The institutional argument about social capital can be divided into macro- and micro-level theories. More specifically, macro institutional theories assert that efficient state institutions promote more trusting societies through reducing the risk involved in the agreements (Herreros and Criado 2008, Rothstein and Stolle 2002, Tillmar and Lindkvist 2007). An alternative way of public institutions influencing social trust consists in evaluating by the citizens the quality of performance of these institutions (Mishler and Rose 2001) or that of elected officials (Thomas 1997). The micro-level institutional theories are focused on the fact that a particular design of welfare state programmes may explain the kind of influence they conduct on social trust. Crowding-out is expected in the case of means-tested schemes while universal non means-tested schemes are usually assigned positive influence on social trust (Kumlin and Rothstein 2007, Rothstein and Uslaner 2006).

Finally, the last block of literature on the relationship between social capital and the state recognizes the possibility of a synergy between the state and the society and can hence be called 'synergetic' argument (Fox 1996, Heller 1996, Evans 1996). The main reasoning of this argument rests on the idea of creating by the state the incentives for the collective actions from below which must enforce trust levels. This argument remains however largely theoretical without being quantitatively analyzed.

# 3. Introducing an outcome spectrum in social capital analysis

The overview of literature on the relationship between the state and social trust allows for drawing certain conclusions which define space for further research. The analysis of literature provided

evidence which points out at the lack of empirical studies on the effects social policy may have on social trust. The studies are mainly theoretical which basically speculate on the kind of the relationship in question rarely employing statistical techniques for checking the plausibility of the ideas underlying the relationship.

The studies on the crowding-out hypothesis constitute an exception here since they usually include empirical analysis of the impact welfare effort may have on social trust. However, they mainly tend to operationalize the welfare state development through social spending measured as a percentage of GDP. This approach can be claimed false since social spending does not reflect the actual level of the support the welfare state provides individuals with. It is plausible to assume that the level of social spending depends not only on the amount of social benefits paid, but as well on the coverage rate. The same level of spending thus can be obtained in the countries with high benefit levels but small coverage rates or in the countries with low benefit levels but high coverage rates. Moreover, this measure of welfare state development does not fully reflect the dynamics of the state intervention in the form of social policy since an increase in the level of spending may also result from the fact that the number of eligible recipients increased while the level of benefits remained unchanged.

The traditional way of operationalizing welfare state development thus fails to measure the extent to which the state affects the individual well-being. It completely ignores the micro-level foundations since it is fully detached from which extent social spending allows for outsourcing of the individual from the market. On the other hand, social spending reflects the process of the state intervention rather than its outcomes. The need therefore consists in introducing an outcome spectrum in the analysis of welfare state effects. This problem is to some extent solved in the studies which are based on including dummies for Esping-Andersen's welfare regimes. But this measure is not perfect as well since it remains unclear here whether it is the level of benefit generosity or the type of social stratification resulting from social rights which can be claimed responsible for variation in social trust levels across welfare regimes. It should not be forgotten that Esping-Andersen's welfare regime typology is by itself a multidimensional concept which is created along dimensions of decommodification, stratification and de-familiarisation.

The general logic of the analysis thus triggers the need to find a new way of operationalizing welfare states which would more accurately approximate the degree of their development while still being in a direct way linked to the outcomes of the state intervention in societal arrangements at the micro-level. Such measure in our opinion can be obtained by decomposing Esping-Andersen's welfare regime typology into two dimensions and directly relating each dimension to social trust indexes. These dimensions are decommodification and stratification which assess the effects of the degree of outsourcing of the individual from the market, on the one hand, and the impact of the stratification mechanism, on the other hand. The main advantage of this approach consists of measuring the development of welfare states through their outcomes which brings a new spectrum in studying welfare state effects on social trust.

# 4. Data source and methods description

#### 4.1 Data source

The main data source is the World Values Survey that contains measures reflecting people's attitudes and believes in a wide range of social domains. We will use the data from the most recent wave - 1999. Our sample will include the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Great Britain, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United States<sup>1</sup>. The choice of countries was based on the data availability about their country-level characteristics.

## 4.2 Methods description

The relationship between decommodification level and trust indicators will be examined at both: individual and aggregated level. The aggregated-level analysis relates average level of social trust indicators across nations to their level of decommodification while sequentially controlling for country-level characteristics. The individual-level analysis represents a cross-sectional analysis based on multilevel modeling. The multilevel linear regression is applied to detect the direct influence of

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<sup>&</sup>lt;sup>1</sup> It should be noticed that the data for some countries included in the survey stem from the previous wave – 1994-1998 due to the lack of data for the last wave. These countries are: Australia, New Zealand, Norway and Switzerland.

relevant measures of welfare state development on respondents' indicators of institutional trust. For interpersonal trust, we will use multilevel logistic regression. We model only fixed effects while random effects are not included. This can be explained with the fact that we are not interested in studying how the effects of individual level variables differ across countries, but rather prefer to focus our attention on the effects of country level variable, namely, welfare state development, which can be done through fixed effects. Moreover, we do not include in the equation other country-level covariates due to the small number of cases at the second (country) level.

The operationalization of the models will be done as follows:

## 4.3 Dependent variables

As it usually appears in the literature we distinguish between two types of social trust: interpersonal trust and trust in institutions. Interpersonal trust is defined on the basis of the following question: 'generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?'<sup>2</sup>. The positive answer on the first part of question is interpreted as high level of trust, and is assigned the value of 1. The opposite answer is treated as low level of trust, and has value of 0.

Trust in institutions is a synthetic variable constructed on the basis of a range of questions concerning people's confidence in various institutions. The answer to each question is measured on a four-scale basis varying from 'a great deal' to 'none at all'. For our dependent variable we selected the following institutions: the police, parliament, civic service, social security system, health care system, and justice system. Van Oorschot and Arts (2005) showed by using factor analysis that all of them load on the same construct and the new scale provides quite high reliability level (0.80). We came to the same conclusion while repeating the factor and reliability analyses. The new variable 'trust in institutions' was calculated by summing-up scores of construct-parts so that the new scale had values varying from 6 to 24. However, for the ease of interpretation the values are recorded into the range from 1 to 19 reflecting respectively 'no confidence' to 'high confidence' in the selected institutions.

#### 4.4 Independent variables

Decommodification level is operationalized through benefit generosity index which represents the level of generosity of social benefits. The indicators were calculated by Scruggs and Allan (Scruggs and Allan 2006) and made available to the public through their publications. We also use their stratification indexes for operationalizing stratification level in the countries of interest. The indexes were again obtained by replicating Esping-Andersen's analysis of stratification scores (Scruggs and Allan 2006).

### 4.5 Control variables

Among control variables we distinguish between country-level and individual-level characteristics. The overview of the literature on social trust suggests that the following characteristics should be controlled for at country level: country wealth, income inequality, corruption, percentage of Protestants living in the country and fractionalization level. At the individual level we control, on the one hand, for socio-economic/demographic variables (age, gender, education, household income, employment status), on the other hand, we hold constant attitudinal, perceptual and behavioural causal mechanisms through which socio-economic/demographic variables may have an impact on trust (civic society activity, sociability, religion and religiousness).

Our expectations are formed based on the integration argument and can be formulated as follows:

Hypothesis 1: higher levels of decommodification are associated with higher levels of social trust this is so for both levels of analysis: aggregated and individual.

Hypothesis 2: Socialism and conservative stratification scores are positively associated with social trust indexes and this is so for both levels of analysis: aggregated and individual.

<sup>&</sup>lt;sup>2</sup> Glaeser et al. (2000), Danielson and Holm (2002) (in Slemrod and Katuscak 2005) measured trust and trustworthiness by conducting experiments with monetary rewards. They find that the standard question used to measure trusting behaviour used in the WVS does not have a significant correlation with trusting choices.

Hypothesis 3: Liberal stratification scores are negatively associated with social trust indexes and this is so for both forms of analysis: aggregated and individual.

## 5. The effect of decommodification on social trust

Esping-Andersen (1990) refers to the decommodification as the degree to which individuals or families can uphold a socially acceptable standard of living independently of market participation. Each welfare regime type is thus based on the idea of providing different levels of decommodification which is rooted in the specific regards of the state as the main provider of welfare to the individuals and resulted in three types of decommodification traditions: conservative, liberal and socialism (for more details see Esping-Andersen 1990).

Relating decommodification level to social trust indexes at the aggregated level provides evidence advocating for the presence of crowding-in effects in both forms of trust (Table 1). More specifically, interpersonal and institutional trust was found to positively correlate with indexes of decommodification. However, it should be noticed that controlling for the country-level characteristics changes the relationship under analysis.

**Table 1**: Correlation between decommodification level and social trust, controlled for country-level characteristics<sup>3</sup> (18 OECD countries)

	Correlation between decommodifica tion indexes and social trust	Controlled for				
		Fractionalizati on	Wealth	Inequality	Corruptio n	% of protestant s
1. Interpersonal trust	0.519**	0.722**	0.441*	0.021	0.408*	0.510
2. Institutional trust	0.571*	0.463	0.344	-0.341	0.025	0.285

Source: Own calculations based on the World Values Survey

If sequentially controlling for country-level characteristics, the correlation between relevant social spending and social trust among their direct recipients loses its strength remaining in most cases statistically insignificant at all. More specifically, when controlling for income inequality level the positive relationship between decommodification scores and institutional trust becomes negative although not statistically significant. In the case of interpersonal trust the relationship in question loses its strength completely and becomes as well statistically insignificant. It allows for concluding that the effect of social spending on social trust is absorbed by the inequality variable which means that the effect of welfare state is mediated through reduction of inequality. This can be considered an evidence of integration theory which emphasises that welfare state raises social trust levels through keeping the individual socially integrated and through reducing income inequality levels.

Another interesting point that arises from controlling for inequality level is the fact that the direct effect of decommodification is found negative for institutional trust. This means that welfare state crowds-out institutional trust when its redistributive effect is controlled for. However, the mechanism of this erosion remains unclear here. The only option is to use the existing theory which emphasises that the crowding-out happens through destruction of civic engagement or through erosion of people's ability to work with one another. It seems that civic society erosion argument or moral destruction theory hold as well true although we possess no empirical analysis proving this assumption. The effects of welfare state on social trust hence can be considered at least dubious. On the one hand, decommodification level boosts social trust through reduction of income inequality. On the other hand, it erodes trust levels most probably through de-motivating social networks.

<sup>&</sup>lt;sup>3</sup> \* - 10% , \*\* 5%, \*\*\* 1% and less

An interesting conclusion can be also drawn from the results obtained based on controlling for the corruption level. In most cases the correlation coefficients between decommodification scores and social trust loose their value when controlling for this country-level characteristic and it is especially obvious in the case of institutional trust. It allows for concluding that people form their trust first of all towards public welfare state institutions based on their performance. In particular, they take into account the level of corruption. The effect of welfare state on social trust thus goes as well through the quality of institutions' performance. If they are considered fair in treating people equally, it forms necessary ground for high evaluation of public welfare state institutions which results in high trust towards them. This can be considered a confirmation of macro-level institutional argument which emphasises the importance of the quality of the performance of public institutions in the process of trust formation.

The individual-level analysis provides empirical evidence which again advocates for the presence of crowding-in rather than crowding-out effects. Benefit generosity seems to enhance both forms of trust (Table 2).

Table 2: Influence of decommodification level on social trust indexes

	Institutional trust	Interpersonal trust 0.034***		
Benefit generosity Index	0.088***			
Volunteering	0.124***	0.261***		
Sociability	0.420***			
Religion				
Catholic	0.316***	-0.169***		
Protestant	0.334***	0.065*		
Other	0.115***	-0.120***		
Religiousness	-0.159***	-0.024***		
Gender	0.117**	0.065**		
Age				
15-29	Ref/category	Ref/category		
30 – 44	-0.126	0.164***		
45 – more	0.192***	0.187***		
Education				
Lower	Ref/category	Ref/category		
Middle	-0.041	0.100***		
Upper	0.134**	0.701***		
Unemployed	-0.125***	-0.050***		
Income				
1 <sup>st</sup> qu.	Ref/category	Ref/category		
2 <sup>na</sup> au.	0.146**	0.067**		
3' <sup>a</sup> qu.	0.092	0.222***		
4 <sup>th</sup> qu.	0.117	0.433***		
5 <sup>th</sup> qu.	0.089	0.576***		

Source: Own calculations based on the World Values Survey

Thus, both levels of analysis provided evidence mostly advocating for the positive effects of decommodification on social trust.

## 6. The effect of stratification on social trust

Another dimension of welfare states classification describes how social policy structures society which allows to investigate the stratification effects of social policy. The main objective here is to show that the programs of a similar 'size' could produce very different outcomes overall. Esping-Andersen (1990) distinguishes between three different traditions in stratifying society each of which is inherent to three welfare regime types (for more details see Esping-Andersen 1990)

Aggregated level of analysis of stratification effects provides mainly statistically insignificant results<sup>4</sup>. With respect to the individual-level stratification effects on social trust we obtain results which are not completely in line with our expectations (Table3).

**Table 3:** Influence of stratification level on social trust scores<sup>5</sup>

	Institutional trust			Interpersonal trust		
	Conservatis m	Liberalism	Socialism	Conservatis m	Liberalism	Socialism
Conservatism	-0.071***			0.051***		
Liberalism		0.193***			-0.022***	
Socialism			0.190***			0.091***

Source: Own calculations based on the World Values Survey

For interpersonal trust crowding-out can be expected in the case of liberalism while crowding-in effects in the case of conservatism and socialism. The conservative approach to organize welfare aimed at preserving the existing class structure seems to affect interpersonal trust positively. Socialism was also found to lead to crowding-in effects in the confidence toward other people. The effect is however almost twice as strong for socialism compared to conservatism which is quite modest but still advocates for the presence of positive influence. An approach aimed at supporting the individual independence is hence more productive in generating interpersonal trust than that of preserving the existing class structure. In the case of liberalism, the total effect is negative which allows us to assert that liberal stigmatizing-like social policy leads to an erosion of interpersonal trust among individuals. In the case of institutional trust, the results obtained point out at the possibility of crowding-out for conservatism and crowding-in for liberalism and socialism. The conservative stratification hence tends to negatively influence the confidence towards public welfare state institutions which operate in a way aimed at preserving the existing class structure. It seems that the general principle of organizing welfare based on individual's work history and individual's placement in social structure might produce negative effects on trust towards public welfare institutions.

What comes as a surprise here is that an increase in the measure of liberalism leads to an increase in institutional trust which is against general logic assuming that means-testing and stigmatizing ruins individual's confidence towards public institutions. It is plausible to infer here that the fact that the state provides an individual with financial aid outweighs the negative impact of the way in which this welfare is provided. The positive effect was also obtained for socialism's measure. Providing individuals with welfare on a universal basis can be considered an instrument for increasing institutional trust. To sum up, specification of outcome dimension reveals the fact that in most cases the crowding-in effects are present in the relationship between social policy outcomes and social trust levels.

#### 7. Conclusions

This study represents an empirical investigation of welfare state effects on social trust. Our contribution consists in introducing an outcome spectrum in the analysis of the relationship between welfare state development and social trust. The analysis is based on decomposing Esping-Andersen's welfare regime typology and directly relating the level of decommodification and

<sup>&</sup>lt;sup>4</sup> For this reason they are not reported.

<sup>&</sup>lt;sup>5</sup> The coefficients on individual-level control variables are not reported since they have been referred to in Table 1

stratification to trust indexes. The results obtained point out that regardless of the way the welfare state development is operationalized one might expect that in most cases its impact is positive on institutional and interpersonal trust. Social spending can hence be used as a good proxy for decommodification level since both these measures of the degree of welfare state intervention lead to the same findings which demonstrate positive impact on social trust. What remains unclear here is the mechanism underlying the relationship of interest. There must be many links between welfare state and social trust through which the effect materializes. Based on aggregated level of analysis it is possible to conclude that the effect itself is at least dubious. On the one hand, welfare state boosts trust by reducing income inequality level and improving the performance of public institutions. On the other hand, the direct effect is negative which may stem from the erosion by social policy of social networks or individual's morality. An additional research is hence necessary to study the mechanism of the relationship between welfare state and social trust.

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