

**SOCIAL CAPITAL AND WELFARE REGIMES**

The impact of institution dependent living conditions  
and perceptions of poor and unemployed

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# **SOCIAL CAPITAL AND WELFARE REGIMES**

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The comparative studies of social capital, operationalised as social trust between citizens, have revealed two major puzzles. The first puzzle has to do with the decline in social trust in USA, which fuelled the large discussion of social capital. However, the World Value Studies have shown that erosion of social trust is a general phenomenon in what has been labelled the liberal welfare regimes. In what have been labelled social democratic and conservative welfare regimes the overall trend is stability. This erosion in liberal regimes versus stability in conservative and social democratic regimes is the first puzzle. The second puzzle has to do with the fact that the group of social democratic regimes have extremely high levels of social trust. This especially comes as a surprise for those who believe that a large state crowd-out the civil society, which has been seen as one of the major sources of social capital. This article suggests that both puzzles can partly be explained by cross-regime differences in living conditions and perceptions of poor and unemployed. Thus, the extremely high level of social trust in social democratic welfare regimes might partly be explained by the absence of a poor and cultural distinct 'underclass'. And the decline in the liberal welfare regimes might partly be explained by the neo-liberal labour market trajectory, which effectively contributed to the presence of a poor and cultural distinct 'underclass'.

*Keywords: social capital, social trust, welfare-state institutions, polarisation, inequality*

## **THE TWO PUZZLES OF SOCIAL TRUST**

The origin of social trust has been much discussed in recent years, as social trust is believed to be very important to solve collective problems, e.g. make democracy 'work' (Putnam 1993) and generate economic growth (e.g. Knack & Keefer, 1997). The attention is understandable as social trust is seen as a mechanism to overcome the main social problem highlighted by rational choice theory; namely how actors without mutual trust logically would choose a suboptimal solution (the prisoner's dilemma problem). To put it briefly, everybody agrees that social trust is nice to have. Where it comes from, how it can be created, and why it erodes in some countries, is up for discussion. As a prelude to our argument let us take a brief look at the empirical results from the World Values Studies (WVS) conducted in the beginning (1990-1993) and in the end of the 1990s (1999-2001). Following the arguments made by Inglehart (1999) we recognise the huge impact from economic development and religion and therefore delimit our study to the rich capitalist countries with Christianity as a common cultural background. Furthermore, we categorise the countries according to Esping-Andersen's famous distinction between liberal (Anglo Saxon), conservative (Continental European), and social democratic (Scandinavian) welfare regimes (Esping-Andersen, 1990; 2000). We use the standard question of social

trust (also labelled interpersonal or horizontal trust); 'Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people'.

Presented this way the table1 reveals two major puzzles. The first is the striking level of horizontal trust in the social democratic regimes. In 1990, the share that answered that 'most people can be trusted' was on average 61 percent in these countries. In the nine conservative regimes, however, the average was 31 pct., and in the four liberal regimes the average was 48 pct. The distinctiveness of the social democratic regimes is even more remarkable in the latest wave, where the average was 63 pct. in the social democratic regimes compared to respectively 29 pct. in the conservative regimes and 38 pct. in the liberal regimes. We will not pretend or with ad hoc explanations defend the idea that a clear-cut regime pattern is present (at first sight the distinction between conservative and liberal regimes does not seem to be of much relevance) but one cannot deny the fact that the countries which Esping-Andersen grouped as belonging to the social democratic welfare regimes distinguish themselves.

Table 1. Social trust in different countries. First wave (1990-1993) and fourth wave (1999-2001) of World Values Study. Pct. that believes that 'most people can be trusted'.

	1990-1993	1999-2001	Change
<b>Social Democratic Welfare Regimes:</b>			
Sweden	66	66	0
Denmark	58	67	+9
Norway	65	65 <sup>1</sup>	0
Finland	63	58	-5
The Netherlands <sup>3</sup>	55	60	+5
Average:	61	63	
<b>Conservative Welfare Regimes:</b>			
Germany <sup>2</sup>	38	35	-
France	23	22	-1
Belgium	33	31	-2
Austria	32	34	+2
Luxembourg	-	26	-
Spain	34	36	+2
Portugal	21	10	-11
Italy	37	33	-4
Greece	-	24	-
	31	29	
<b>Liberal Welfare Regimes:</b>			
USA	50	36	-14
Canada	52	39	-13
Australia	-	40 <sup>1</sup>	-
New Zealand	-	49 <sup>1</sup>	-
Ireland	47	35	-12
Great Britain	44	30	-14
	48	38	

Note: 'Don't know' excluded.

<sup>1</sup> Based on the third wave from 1995-1997.

<sup>2</sup> 1990 is West Germany. 1999-2001 is both West and East Germany as the available dataset from ICPSR did not make a distinction possible.

<sup>3</sup> The Netherlands is a deviant case that both a characteristics of the conservative and social democratic regimes. However, in terms of welfare *state* structures and the living conditions of potential poor the country has most in common with the social democratic regimes.

The standard WVS weight is used (correct for bias not size of country).

Question: Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?

The second quite striking finding is that dramatic erosion of social trust only seems to be a phenomenon in what Esping-Andersen labelled liberal welfare state regimes; in the last column in table 1 we have presented the changes from WVS 1990 to WVS 1999. The decrease is 14 percentage points in USA and Great Britain, 13 percentage points in Canada and 12 percentage points in Ireland. From Australia and New Zealand we do not have figures from 1990. The 14 percentage point decrease in the USA, which is part of a longer trend (general elections surveys, e.g. Inglehart 1999:95), has fuelled a large American discussion. The subtitle of Putnam's 2001 book *Bowling alone* was 'the collapse and revival of American community'. The basic concern is that decreased interactions among citizens e.g. in bowling associations leads to decreased trust, which as mentioned is believed to be one of the fundamental building blocks of a rich and democratic state. From a comparative point of view, the most interesting finding is that the horizontal trust only decreased in what we label the liberal regimes. In the social democratic and conservative regimes, the level has been rather stable in the covered decade - except Portugal, which experienced a decrease of 11 percentage points, and Denmark, which experienced a 9 percentage point increase. It is these two puzzles, which is our point of departure. And basically we suggest that both puzzles have to do with regime dependent mechanisms that have been encircled by the comparative welfare state literature.

## **THE SHORT-COMINGS OF PREVIOUS EXPLANATIONS**

The previous debate has used the term 'social capital' as a common reference point, even though it is not very well defined. Putnam has delivered various definitions; in his 2000 book he defines it as the '... connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them' (Putnam 2000:19). However, when it comes down to empirical research, scholars often use social trust as the dependent variable. The connections among individuals or social networks are primarily perceived as means to create this social trust. Thus, the high level of horizontal trust in the social democratic regimes might be a consequence of the very high participation in organisations and social networks, which one also finds in the Nordic countries. And the erosion of social trust in USA could be explained by the increased tendency to "bowl alone".

However, Putnam's argument has been questioned by a number of scholars. The main problem is that the connection between participation and trust might be a matter of self-selection, i.e. persons with high trust in other people might be more likely to enter into voluntary associations than persons with lower trust. The empirical finding that the activity level of members of voluntary associations does not increase the level of horizontal trust supports this self-selection argument, i.e. apparently increased interaction

within associations does not lead to increased social trust (Stolle 2001). Furthermore it is a problem that some participants in voluntary associations might create the opposite of civic attitudes and trust, which has led Putnam to distinguish between bridging (contact with many people who are dissimilar) and bonding (contact with people like oneself) social interaction (Putnam 2000). The fragile empirical support for the participation thesis (Stolle & Rochon 1999; Knack & Keefer, 1997; Newton 1999; 2001; Uslaner 1999; Gundelach & Torpe 1997) has led a number of other scholars to suggest the importance of the structure and the functioning of the state.

This brings us closer to the institutional argument, which we will suggest. First of all the idea was that the (vertical) trust citizens have in the state might influence the horizontal trust between citizens. One could call it a rubbing-off argument. On the aggregated level Rothstein & Stolle (2001) find a correlation (Pearson's  $r$  0.53) between confidence in the police, the army and the legal institutions (combined in a factor loading), and horizontal trust when they look at all the countries included in WVS, i.e. both the Western countries we analyse and the other countries covered by the WVS 1990. In game theory jargon one could say that the horizontal trust is higher when the state guarantees that unreliable players will be punished. The relationship might be spurious,<sup>2</sup> but it is still a decent theoretical argument. Nevertheless, the corruption argument is less helpful when it comes to explaining the large differences within the rich Western countries seen in table 1. In most of these states, a trustworthy policy, army and legal system have developed even though variations still can be found. Neither, is the corruption argument of much help, when it comes to explain decline in social trust in the liberal regimes. The WVS from 1990 and 1999 do not show any signs of decreased confidence in the policy, army or legal institutions in the liberal regimes.<sup>3</sup>

The distinctiveness of the Scandinavian countries found in the cross-national surveys eventually led Kumlin & Rothstein (2005) to suggest an influence from universal welfare policy. Now we are at the heart of the argument, which we will present, but as we shall see our line of reasoning is somewhat different. Kumlin & Rothstein explains the impact of universal welfare policy as an extended corruption argument. As the degree of arbitrariness in terms of entitlement and the possibility to misuse services and benefits is lower when the state pursues a universal welfare policy, one could imagine that this larger trustworthiness of the state might rub off on the horizontal trust between citizens. However, in contrast to the general corruption argument – unreliable players are punished by the state – the idea of rubbing off between the arbitrariness connected to selective policy and horizontal trust seems more fragile; why should I have less trust in my fellow citizens because some of them are treated in a special way when they claim benefits? Naturally, one could argue that those who experience arbitrariness in the social security system would tend to express lower trust; at least if they use the civil servants as their yardstick for 'most other people'. It is this latter approach Kumlin's & Rothstein (2005)

take in their search for empirical evidence. Based on Swedish data they have analysed the connection between the number of contacts with selective (needs-tested) welfare policies<sup>4</sup>, number of contacts with universal (non-needs-tested) welfare policies<sup>5</sup>, and social trust. With a sample of 3,615 respondents they do find a significant result but the strength of the connections is modest; bi-variate the correlation between contact with selective welfare policy, contact with universal welfare policy and trust is respectively -0.14 and 0.10 (Pearson's  $r$ ). As the number of selective welfare policies is limited in the social democratic regimes, it is likely that the lack of personal experience with arbitrariness in the implementation of welfare policies helps to explain the puzzle of extremely high level of trust in the Scandinavian countries; and that is indeed an interesting finding. But it is unlikely that this modest effect (at the individual level) should add up to such a strong effect at the aggregated level.<sup>6</sup> Furthermore, this line of reasoning gives us no explanation of the other puzzle; namely why erosion of social trust takes place in liberal welfare regimes and not in the conservative and social democratic welfare regimes.

## **WELFARE REGIMES, UNDERCLASS PHENOMENA, AND SOCIAL TRUST**

The main idea in the following is that our two puzzles can partly be explained by cross-regime differences in the living conditions and perceptions of poor and unemployed. At first sight this argument might seem quite similar to the recent primarily American studies that emphasise the importance of ethnic or even racial homogeneity (e.g. Alsina & Ferrara, 2002). Or using Durkheim's terminology one could say that modern nation states are still based on mechanic solidarity, i.e. solidarity based on closeness and similarity. In this line of reasoning the thesis would be that high level of social trust in the social democratic regimes is caused by ethnic homogeneity. Ethnic divides are difficult to quantify but using the measures of so-called ethnic fractionalization provided by Alsina et al. (2003) the social democratic regimes is quite homogeneous; but so are Australia, France, Austria, Italy, UK and especially Portugal. The latter case is the most ethnic homogeneous among the Western countries according to Alsina et al. (2003) and still Portugal both in WVS 1990 and WVS 1999 has the lowest measured social trust.<sup>7</sup> Furthermore, the literature on ethnic homogeneity does not have an answer to the puzzle of declined trust in the liberal regimes. Therefore we would rather emphasise the importance of 'social homogeneity' and follow Larsen (forthcoming) who argues 1) that it is especially the cultural distinctiveness of poor and unemployed that is of importance and 2) that this cultural distinctiveness of the 'bottom of society' is heavily influenced by the institutional structure of the welfare regimes.

As to the former idea the argument is two-fold. Poor and unemployed can live under circumstances that force them to behave in an unreliable way. Poor and

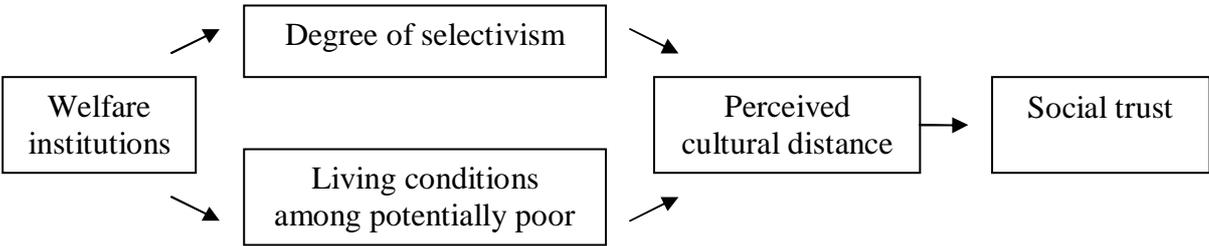
unemployed have a lot to win and little to lose. In game theory this is labelled an exploitative player with whom cooperation is a losing strategy (Axelrod, 1986). Furthermore cultural distinctiveness might imply – or at least the majority might think so – that poor and unemployed do not share the common values that normally prevent unreliable behaviour.

The latter idea is a bit more complex as more mechanisms are in place. Firstly, it is an old idea within the welfare state literature that systems that primarily deliver selective (need-tested) benefits and services generate a distinction between ‘us’ and ‘those’ in need. Rothstein e.g. argue in his 1998 book that *‘the very act of separating out the needy almost always stamps them as socially inferior, as “others” with other types of social characteristics and needs’* (1998:158). Thus, rather than the personal experience of arbitrariness with selective welfare policies, which Kumlin & Rothstein (2005) emphasise in their new work, we emphasise the general ‘identity effect’ or call it stigmatisation effect connected to selective welfare policies. Empirically it is a trivial finding that the most selective welfare policies are the most stigmatising policies (e.g. Kim & Mergoupis, 1997, Riphahn, 2001, and Oorschot 1991, see also Larsen, forthcoming, chapter 6, for an attempt to show the effect using cross-national data). To put it boldly it lies in the nature of selective welfare policy that a group of “those in need” have to be encircled. Therefore it comes as no surprise that underclass debates primarily take place in countries with selective welfare policy (e.g. Murray 1984 for the US, Dean & Taylor-Gooby 1992, for the UK).

Secondly, it is also a basic idea in the welfare state literature that generous benefits, especially generous benefits to low-income groups and long duration periods in the unemployment benefit system, allow potential poor to maintain a way of living that is not very different from the living style of the majority. The potential poor can e.g. be operationalised as the two bottom deciles in the income distribution. For economists this ‘income guaranty’ is basically what welfare policy is all about. And one can indeed observe that the different welfare regimes produce different living standards at ‘the bottom’ of society. If we take the ideal type countries used by Esping-Andersen and look at the share of the population that has a disposable income, which is smaller than 50 percent of the median equivalent income, we find the expected pattern. According to the Luxembourg Income Study the share was 17 percent in USA, 8.3 percent in Germany, and 6.5 percent in Sweden in 2000.<sup>8</sup> Based on the European household panel study Gallie, Jacobs & Paugam (2000:51) e.g. finds that among the households experiencing unemployment only 8 percent of these live below the poverty line in Denmark (50 pct. of average equivalent income, Sweden not available), while the share is 27 percent in Germany and 49 percent in United Kingdom (USA not available). Thus, the argument is that the cross-regime differences in disposable income among the (potential) poor generate cross-regime differences in the amount of what game theory would label exploitative

players. Even though poor people have larger incentives to behave in an exploitive way they might not automatically do so. But in any case modest economic resources force poor people to have another living style than the majority, which almost unavoidable generates what we will label a perceived cultural distance between ‘the bottom’ and ‘the majority’. In the citizenship literature, following T. H. Marshal (1950), the discussion of the extent to which welfare policy secure the full citizenship of marginalised groups address more or less the same issue (e.g. Goul Andersen & Jensen, 2002).

Figure 1: Basic line of reasoning



Following this line of reasoning, illustrated in figure 1, one can basically explain differences in level of social trust with differences in welfare institutions. However, in order to explain changes in social trust one needs to explain how welfare institutions have changed over time. To understand change in welfare institutions is actually one of the main efforts of the welfare regime theory. In the last part of *Three worlds of welfare state capitalism* (1990) and in the work from 1996, Esping-Andersen describes how regime differences affect the way welfare states developed since the economic crises of the 1970s. In this restructuring phase one of the basic trade-offs was between lowering welfare benefits and wages (and thereby generating new low wage job primarily in the service sector) and increasing inequality. Basically, the liberal welfare regimes ‘chose’ to follow a so-called neo-liberal market trajectory, which generated a number of low-wage jobs in the private service sector, at the expense of economic inequality. The conservative and social democratic regimes ‘chose’ to uphold the level of economic equality (even though inequality has slightly increased in most countries); in the conservative regimes clearly at the expense of job creation. In the social democratic regimes the trade-off was softened by an active labour market policy and the creation of a number of service jobs established in the sheltered public service sector (Esping-Andersen, 1990, 1996, 2000). Thus, even though the degree of welfare stateretrenchment did not fulfil Thatcher’s and Reagan’s proclaimed intensions (Pierson, 1994), it is clear that by comparative standards the largest roll back of the welfare state took place in the liberal

regimes (Pierson, 2001). Therefore we do have reasons to believe that the decrease in social trust in the liberal regimes could be related to institutional changes in welfare policies.

This leads to the overall argument that the extremely high level of social trust in the social democratic welfare regimes has to do with 1) the presence of universal policy, which rather than generating a strong divide between ‘the majority’ and ‘the bottom’ encompass all citizens into a broad national system of benefits and services, 2) the very generous benefits for low-income groups (especially long duration periods in the unemployment benefits systems is of importance) which allow potential poor to have a life style close to that of the majority, and 3) the social democratic labour market trajectory, which did not lead to increased inequality. As to the decrease in social trust in the liberal regimes, we suggest that it has to do with retrenchment of the welfare state and the neo-liberal labour market strategy. By lowering benefits and wages this strategy probably contributed significantly to the presence of a poor and (at least perceived) cultural distinct underclass. Naturally, there is no single answer to the question of creation and erosion of social trust but in the following we will test if our suggestion can obtain empirical support.

## **DATA, OUR RESEARCH STRATEGY, AND EMPIRICAL EVIDENCE**

Empirically it is very difficult to disentangle the different suggested origins of social trust. At the aggregate level we are left with a large number of independent variables and a limited number of cases; especially if we acknowledge that the level of economic development is so important (Inglehart 1999) that it hardly makes sense to compare OECD countries with economically less developed countries. Nevertheless, a number of previous empirical findings actually give considerable support to our theoretical argument. It has been shown that at the aggregated level, economic inequality (or the other way around economic equality) is highly connected to crime levels (e.g. Hsieh & Pugh, 1993, for an overview of 34 previous studies), which again is highly connected to cross-national differences in horizontal trust (e.g. Rothstein & Stolle, 2001, table 6). More directly Knack & Keefer (1997), using 29 so-called market economies from WVS, found a rather strong relationship (at the aggregated level) between what they labelled polarization and horizontal trust. The degree of polarisation was measured by the gini-coefficient and the percentage of the population that belonged to the largest ‘ethnolinguistic’ group (1997:1281). The result was that the more inequality and the more heterogeneity, the less horizontal trust. Delhey & Newton even found that the level of perceived conflict between various groups within the nation state was one of the strongest predictors of the individual variations in horizontal trust. The respondents that found the level of conflict – or call it the cultural distance - to be high expressed little social trust (2003).

In the following sections we will contribute to this literature without having illusions about the possibility to give solid empirical verification of the whole model presented in figure 1. This would demand good comparative measures of 1) living conditions of the potential poor (e.g. poverty rates and gini-coefficients), 2) degree of selectivism/universalism (e.g. measured as share selective benefits and services make up of the income package among potential poor), and 3) the perceived cultural distance. The data should at least cover the countries in table 1 and should cover a considerable time period. Such data simply do not exist so we will primarily focus on the connection between the perceived cultural distinctiveness of the potential poor and social trust.

Firstly, we will look at the aggregated level for a connection between the perceived level of conflict between ‘the bottom’ and ‘the majority’ and the level of social trust. In this analysis we will use the social inequality module from the 1992 ISSP survey (International social survey program) to measure level of perceived conflict between unemployed (the potential poor) and employed. Secondly, we will see whether we can find the same connection at the individual level. Here will use the extent to which people believe that poverty is caused by ‘laziness and lack of will power’ as proxy for the perceived cultural distance between ‘the bottom’ and ‘the majority’. We use the WVS 1990 as data source, as we for a large number of countries both find a measure for perceived cultural distance, the standard measure for social trust and variables that capture the competing theoretical explanations discussed above (unfortunately the question of caused of poverty was not asked in the WVS 1999). We use the 16 Western countries the in WVS 1990, which leaves us with 25.679 respondents in the data set.<sup>9</sup>

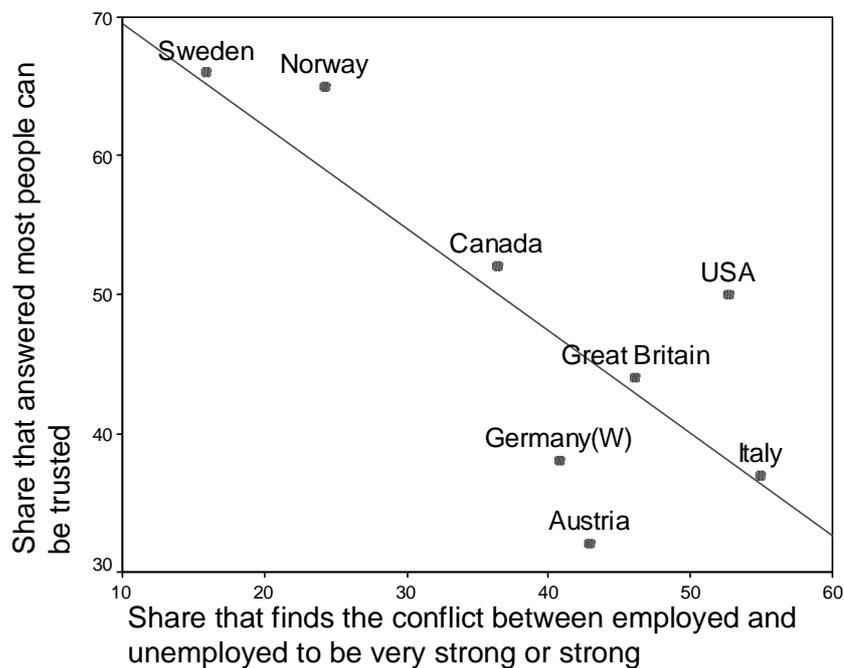
These two sections will show that both at the aggregated and individual level we find results that support our argument. The task in last two sections is to re-examine the two puzzles of social trust in the light of this new causal reasoning. First, we re-examine the puzzle of the social democratic regimes, where we again use the WVS 1990. Second, we re-examine the puzzle of the liberal regimes. As we do not have good survey data over time this latter section will simply illustrate our theoretical point by looking at the bivariate correlation between changes in income inequality (measured by Gini-coefficients) and changes in social trust at the aggregated level. We use inequality measures from the Luxembourg income study and the changes in social trust presented in table 1.

## **THE CONNECTION BETWEEN CULTURAL DISTINCTIVENESS OF POOR AND UNEMPLOYED AND SOCIAL TRUST AT THE AGGREGATED LEVEL**

It is not an easy task to find a good indicator of the perceived cultural distance between the potential poor and ‘the majority’ The use of gini-coefficients in previous studies is a very rough measure for what we are looking for, c.f. figure 1 we are not only looking for

economic differences. Given different possibilities we end up using a measure that comes close to what Delhey & Newton (2003) used in their single country study. In the ISSP survey from 1992 we have used the item; “*in all countries there are differences or even conflicts between different social groups. In your opinion, in <R’s country> how much conflict is there between the unemployed and people with jobs?*” The share answering ‘very strong’ or ‘strong’ conflict in the countries covered by this survey gives us a rather good measure of the perceived cultural distance between of the potential poor (the unemployed) and the majority (the employed), which we are looking for. Furthermore, when we relate these values to the level of social trust measured in the WVS (unfortunately the trust question was not asked in the ISSP survey) we find a striking pattern for the 8 countries that were included in both surveys (see figure 2). The correlation is -0.78, which is fairly strong (even with the very limited number of cases) and highly significant.

Figure 2. Relationship between perceived level of conflict between employed and unemployed (ISSP 1992) and horizontal trust (WVS 1990-1993).



As expected figure 2 shows that the level of perceived conflict between the unemployed and those with jobs is exceptionally low in the two social democratic welfare regimes included in both surveys, i.e. Sweden and Norway. In Sweden only 16 percent of the population and in Norway only 24 percent indicate that the conflict between unemployed

and those with jobs is 'strong' or 'very strong'. At the same time the share answering that 'most people can be trusted' is also exceptional high in these countries. Together with Italy (55 percent) USA (53 percent) has the largest share of the population saying that the conflict between unemployed and employed is strong. In the Italian case it goes nicely together with a low share answering that most people can be trusted. According to this line of reasoning the share answering trust in America in WVS 1990 (50 percent) is higher than expected. The regression line would fit much better with the observation from the WVS 1999, where only 36 percent of the Americans indicate that most people can be trusted. Nevertheless, the overall impression is that we find a rather convincing scatter-plot at the aggregated level. In order to illustrate our point on less fragile empirical data, we will turn to the individual level and see if the same pattern can be found, i.e. whether individual differences in perceived cultural distance between the 'potential poor' and 'the majority' goes together with individuals differences in social trust.

### **THE CONNECTION BETWEEN CULTURAL DISTINCTIVENS OF POOR AND ENEMPLOYED AND SOCIAL TRUST AT THE INDIVIDUAL LEVEL**

The optimal data for an individual level analysis would enable us to correlated individuals' perceived level of conflict between unemployed (the potential poor) and employed (the well-adjusted majority) with individuals' social trust. However, as already mentioned the two items are posed in two different surveys. Therefore we have found a proxy for the ISSP item in the WVS. In the WVS 1990 respondents have been asked 'Why there is people in this country who live in need' and given the four following possibilities; 1) because they have been unlucky, 2) because of laziness and lack of will power, 3) because there is much injustice in our society, 4) it's an inevitable part of modern progress. In our opinion people who 'choose' to explain poverty with 'laziness and lack of will power' clearly indicate that 'those' being poor are culturally distinct from the 'hardworking' majority 'with willpower'. Naturally, this it not a perfect proxy and Larsen (forthcoming: chapter 5) clearly demonstrates that the answers given to this question can be given a wider welfare regime interpretation but to some extent it 'taps' the perceived cultural distinctivenss we are looking for.

Simply looking at the bi-variate relationship we find the expected connection. Among those who answer that poverty is caused by 'laziness and lack of will power' 35 percent indicate that 'most people can be trusted'. Among those who give one of the other three answers to the poverty question 44 percent indicate that most people can be trusted. Thus, we do have a 9 percentage point difference in the expected directions, when we look at all the individuals in the 16 countries; for some reason the connection is not present in

Finland and Portugal but in the other 14 countries we find significant correlations within each country.

In table 2 we have estimated a binary logistic regression (1 = ‘most people can be trusted’; 0 = ‘one cannot be too careful’), which tries to take the other plausible explanations into account.<sup>11</sup> We have included the respondents’ number of memberships in voluntary associations (the Putnam thesis), confidence in law and order institutions i.e. police, legal system, and armed forces (the Rothstein & Stolle 2001 thesis), confidence in the social security system (the Kumlin & Rothstein thesis) and education (which in previous studies has been shown to have a significant effect on social trust). The WVS 1990 provides us with good measures for participations in associations and confidence in law and order institutions but it does not include items about contact with different public agencies. Instead we use an item that measures the respondent overall ‘confidence in the social security system’ to capture the procedural justice emphasised by Kumlin & Rothstein.<sup>12</sup> Finally, it is widely known that it is difficult to establish a descent measurement of education across countries but here we have simply included the 9 point scale provided in the WVS.

*Table 2: Social trust predicted by perception of low-income groups, membership of voluntary associations, confidence in law and order institutions, confidence in the social security system, and education. Binary logistic regression (0 = cannot be too careful; 1=most people can be trusted). Odds ratios and significant levels.*

	Model I	Model II	Model III	Model IV	Model V
Perception of low-income groups:					
Poverty caused by laziness	Ref.	Ref.	Ref.	Ref.	Ref.
Poverty caused by other factors	1.49**	1.40**	1.40**	1.41**	1.38**
Number of memberships in voluntary associations (both active and passive):		1.28**	1.27**	1.27**	1.21**
Confidence in police:					
Great deal or quite a lot			1.36**	1.38**	1.39**
Not very much or none at all			Ref.	Ref.	Ref.
Confidence in legal system:					
Great deal or quite a lot			1.32**	1.35**	1.28**
Not very much or none at all			Ref.	Ref.	Ref.
Confidence in the armed forces:					
Great deal or quite a lot			0.94 <sup>ns</sup>	0.94 <sup>ns</sup>	0.99 <sup>ns</sup>
Not very much or none at all			Ref.	Ref.	Ref.
Confidence in the social security system					
Great deal or quite a lot				0.91*	0.91*
Not very much or none at all				Ref.	Ref.
Education level (WVS 9 point scale)					1.12**
N (16 countries)	19868	19868	19868	19868	19868

Significance level: \*\* = below 0.1 percent; \* = below 1 percent; <sup>ns</sup> = 1 percent or above

In model I we have only included our proxy variable for the perceived cultural distance between the potential poor and the majority and the effect is quite impressive. It is estimated that the chance of a person who do not explain poverty with ‘laziness and lack of will power’ answering that ‘most people can be trusted’ is almost 1.5 times higher than the chance of the same answer of a person who explain poverty with ‘laziness and lack of will power (odds-ratio 1.49). This is simply an advanced way to describe the bi-variate relationship. In the following four models we have one at the time entered the other suggested explanations encircled above. The purpose is two-fold. Firstly, the exercise can be used to analyse whether the found effect can be explained – or at least reduced - by the other relevant explanations. Is the effect e.g. reduced after control for educational level and membership in voluntary organisations? Secondly, the models can be used to assess the relative importance of our explanation.

In model II we have entered the number of memberships in voluntary associations. The result is that for each voluntary association the respondents join the chance of answering trust increases by 1.28. Thus, we see a rather strong connection, as membership of say 4 to 6 voluntary association leads to a considerable effect. But naturally the argument still faces the problem of self-selection. In model III we have entered the respondents confidence in the ‘law and order’ institutions (we have used the three items used by Rothstein & Stolle, 2001). As expected ‘vertical’ confidence in the policy (odds-ratio 1.36) and in the legal system (odds-ratio 1.32), e.g. confidence in those who can punish unreliable fellow citizens, goes together with ‘horizontal’ social trust. However, confidence in the army actually seems to work the other way around (odds-ratio 0.94) but the effect is not significant (we use a 1 percent level due to the large sample). The most interesting finding is that the model actually suggests that in order to predict whether a person trusts other people or not, it is as important to know how she perceives the causes of poverty (1.40) as to know whether she has confidence in the police (1.36); the former coefficients is actually the highest.

In model IV we enter the confidence in the social security system but we do not find the expected effect. Actually, it is estimated that those who have a ‘great deal’ or ‘quite a lot’ confidence in the social security systems are less likely to answer that ‘most people can be trusted’ (odds-ratio 0.91). Thus, the effect found by Kumlin & Rothstein (2005) cannot be found on these data. It probably has to do with the very rough measure we use but it underpins the impression that in any case Kumlin & Rothstein describes a rather modest effect. Finally, model 5 includes level of education, which as expected has a positive effect on social trust (odds-ratio 0.91). Controlling for education reduces the effect from perceived cultural distance a little (from odds-ratio 1.41 to 1.38), confidence in the legal system a little (from odds-ratio 1.35 to 1.28), and membership in voluntary organisations a little (from odds-ratio 1.27 to 1.21). However, the overall conclusion remains the same; at the individual level the respondents’ perception of those living in

need seems to have a considerable impact on social trust. Thus, so far we have found the expected effect both at the aggregated and at the individual level. In the following two sections we will re-examine the two puzzle of social trust in the light of this causal reasoning.

## **RE-EXAMINING THE PUZZLE OF EXTREMELY HIGH SOCIAL TRUST IN THE SOCIAL DEMOCRATIC REGIMES**

The discussions and analyses above support the argument that the very high level of social trust in the social democratic welfare regime might be explained by the absence of a poor and culturally distinct ‘under-class’. The universal nature of the pursued welfare policy avoid distinguishing a group of ‘others’, the level of generosity allow potential poor to uphold a living style close to that of the majority, and the Nordic labour market trajectory underpins these mechanisms. Nevertheless, the question still remains whether these argument enable us to solve the Nordic puzzle. One (over) optimistic possibility is to take the explained variation of the regression line in figure 2; doing so we could say that 60 percent of the cross-national variation in social capital is explained by our theory. However, it is well-known that it is quite easy to get high explained variation at the aggregated level. A much harder test is to analyse to what extent observed variations at the individual level can explain the variations at the aggregated level. In table 3 we follow this latter strategy by conducting a number of binary logistic regressions on the WVS used above. In the first model, we have only included the dummy variable for living in a social democratic regime (Sweden, Norway, Denmark, Finland plus the deviant case of the Netherlands). The odds ratio is as high as 2.51, which again illustrates the high level of social trust in the social democratic regimes. The chance of a Nordic respondent answering ‘most people can be trusted’ is 2.5 times higher than the chance of an Anglo-Saxon or a Continental European respondent answering the same.

*Table 3. Social trust predicted by regime belonging and controlled for membership of voluntary associations, confidence in law and order institutions, confidence in social security system, and perception of poverty. Binary logistic regression (0 = cannot be too careful; 1=most people can be trusted). Odds-ratios. (N=20580).*

	Model I	Model II Controlled for membership voluntary	Model III Controlled for confidence in law and order	Model IV Controlled for confidence in social security	Model V Controlled for perception of low-income groups	Model VI Full model <sup>1</sup>
Living in social democratic regimes	2.51	2.10	2.33	2.51	2.42	1.90
Living in liberal or conservative regimes	Ref.	Ref.	Ref.	Ref.	Ref.	Ref.
Reduction in effect from regime dummy		-0.41	-0.18	0.00	-0.09	-0.61

<sup>1</sup>We have not included education level, as it is problematic to analyse across countries. At the individual level analyses used in table 2 this is less problematic (furthermore, conducted analyses have shown that the results are not changed substantially).

Now the trick is to introduce individual variations in membership of voluntary associations, confidence in legal institutions, confidence in the social security system, perception of those ‘in need’ and see to what degree they are able to reduce (and thereby explain) the effect from living in a social democratic regime. Taken the individuals’ number of memberships of voluntary organisations into account generates the largest reduction in the regime dummy (from odds-ratio 2.51 to 2.10 = -0.41), i.e. some of the Nordic puzzle is explained by the high level of participation in voluntary organisation (but we still have the self-selection problem). The second largest effect comes from the Nordic citizens’ larger confidence in the ‘law and order’ institutions (from odds-ratio 2.51 to 2.33). The third largest effect comes from the Nordic citizens’ perception of lower perceived cultural distance between those ‘living in need’ and the majority (from odds-ratio 2.51 to 2.42). Calculated this way it is not a strong and convincing effect but one should remember that we use a rough proxy. The same is the case in model IV, which shows that the confidence in the social security system does not explain anything of the effect at the aggregated level. This does not necessarily mean that Kumlin & Rothstein is wrong but it highlights that the suggested effect cannot be captured by our data. Finally, the full model shows that including all these variables only enable us to reduce the effect from the regime dummy from 2.51 to 1.90. Thus, even taking higher membership of

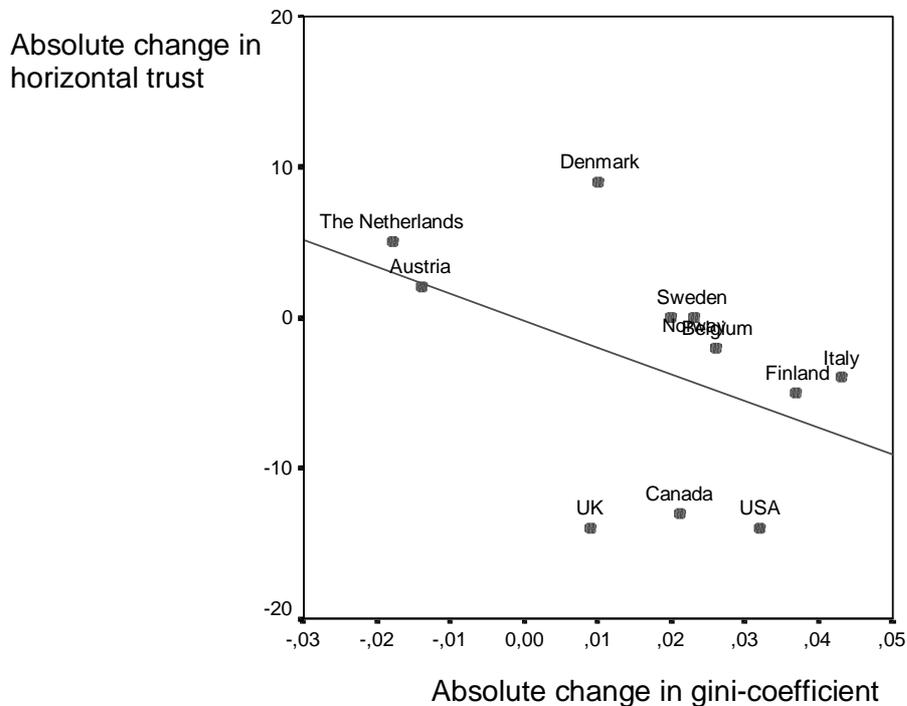
voluntary associations, higher trust in law and order institutions, confidence in the social security system and the more positive perception of those in need into account we still have a very strong effect from living in a social democratic regime. The chance of trust in other people is still almost twice as high in the social democratic regimes (odds ratio 1.90). So calculated this way there is still a lot that need to be explained before the puzzle of the social democratic regimes is solved.

## **RE-EXAMINING THE PUZZLE OF DECLINING SOCIAL TRUST IN LIBERAL REGIMES**

The puzzle of decreased social trust in the liberal welfare regimes can neither be easily solved. Above we have shown that the perceived cultural distinctiveness of the potential poor is important for social trust. So if retrenchment of the welfare state and the neo-liberal labour market trajectory has contributed to the presence of a larger perceived distance between ‘the bottom’ and ‘the majority’ this could explain erosion of social trust. However, whether this is the case or not is very difficult to tell. We do not have time series that enable us to analyse whether e.g. the perceived conflict between unemployed and unemployed actually has become stronger in the liberal regimes (unfortunately the question was not asked in the third ISSP module on social inequality, 1999). Neither does the WVS allow us to investigate the development over time in the liberal countries.

Another possibility is to look at the connection between changes in degree of selectivism/universalism, changes in living conditions of the potential poor, and changes in social trust. Some in-depth country studies do claim that at least the welfare policy in UK has become more selective but basically we simply do not have comparative indicators (Bendix Jensen, 2004). Therefore we will simply try to illustrate our theoretical point by combining the absolute changes in economic inequality, using Gini-coefficients provided by the Luxembourg Income Study, and the changes in social trust measured from WVS 1990 to WVS 1999 (see table 1).<sup>13</sup> As we can see in figure 3 there is not a deterministic relationship between changes in inequality during the 1990s and the changes in social trust during the 1990s. The correlation between the 11 countries we were able to merge is  $-0.45$ , but the result is not significant (0.17). The two countries that according to this simple calculation reduced income inequality in the 1990s – The Netherlands and Austria – did in fact experience increased horizontal trust. But so did Denmark, which experienced a much larger increase in social trust (a 9 percentage point increase) and no reduction in inequality measured from 1990 to 2000 (Danish Ministry of Finance, 2002). Furthermore we see that the substantial decrease in horizontal trust in the liberal regimes in the 1990s does not go together with substantial increase in inequality (see figure 3). The most profound increase in inequality in UK and USA took place from the mid-1970s until the mid-1980s.

Figure 3. Relationship between changes in social trust measured in WVS (1990-1993 to 1999-2001) and changes in inequality in disposable income measured in Luxembourg Income study (1989-1994 to 1997-2000).



One could suggest that perceived cultural distinctiveness caused by increased income inequality might influence the horizontal trust among citizens with a considerable time lag. This is probably more logical than to expect a connection within the same year. Thus, the fall in horizontal trust in the liberal regimes during the 1990s might be an effect of the increased inequality during the 1980s. We do not have time series for change in inequality or poverty for all the countries presented in table 1. However, Förster's & Pearson's comprehensive study of historical trends in inequality give results that seem to be regime dependent (2002: 38). Their study is based on surveys from 21 OECD countries where data are available back to the mid-1980s and for some countries back to the mid-1970s. Measured by Gini-coefficients, the level of inequality increased tremendously in USA and UK in the period from the mid-1970s to the mid-1980s and continued to increase from the mid-1980s to the mid-1990s. The same was the case in Australia from the mid-1970s to the mid-1980, but from the mid-1980 to the mid-1990 there was a slight decrease. In Canada the level of inequality was reduced in the whole period. Thus, Canada seems to be a deviant case. Coming from a low level, the social democratic regimes increased inequality from the mid-1980 to the mid-1990s; except Denmark, which actually managed to reduce

inequality, see also Goul Andersen, 2003. This correspond nicely with the finding that Denmark is the only country that had a substantial increase in the level of social trust from WVS 1990 to WVS 1999(see table 1). Due to lack of historical data, the conservative regimes are not well represented in the 21 OECD countries analysed by Förster & Pearson. But four conservative countries are included, and they show that from the mid-1980s to the mid-1990s, inequality increased slightly in Austria and France and more substantially in Germany. The deviant case is Italy, which experienced the highest increase in level of inequality from the mid-1980 to the mid-1990s. Portugal, which was the only non liberal regime that from WVS 1990 to WVS 1999 experienced a decrease in social trust above 10 percentage points, was not included in Förster's & Peason's study. Neither are figures from Portugal available from the Luxembourg Income Study. However, based on national data (cross earning) Cardoso (2004) shows that inequality from 1985 to 1995 increased at the same pace in Portugal as in UK – actually even a bit faster. Thus, if we had the historical development in inequality for all the countries in table 1 available, there are reasons to believe that the connection between changes in economic inequality and changes in social trust could be stronger than the pattern presented in figure 2. In any case it is clear that the puzzle of erosion of social capital in the liberal regimes is far from solved. But based on the analyses above it seems reasonable to suggest that future research, e.g. single country studies, should look at the possible impact the liberal welfare state reforms might have had on the perceived cultural distance between ‘the bottom’ and ‘the majority’.

## **CONCLUSIONS AND IMPLICATIONS**

We have found empirical support for the idea that both the puzzle of extremely high social trust in social democratic welfare regimes and the puzzle of erosion of social trust in liberal welfare regimes might have something to do with the presence or the absence of a poor and cultural distinct ‘underclass’. At the aggregated level we found a strong relationship between the perceived level of conflict between unemployed (the potential poor) and employed (the well-adjusted majority) and social trust. At the individual level we also found a strong relationship between the perception of those living ‘in need’– measured as the tendency to explain poverty with laziness and lack of will power – and level of social trust. The analysis was based on the respondents from the 16 Western countries in the WVS 1990. Using the same data we also showed that the effect from the perceived cultural distinctiveness of poor and unemployed was not substantially reduced after control for memberships in voluntary association, confidence in law and order institutions, confidence in the social security system, and education.

By arguing that the cultural distinctiveness of ‘the bottom of society’ is highly influenced by the institutional structure of different welfare regimes we follow the

previous studies, which gradually have paid more attention to the state. As to the Nordic puzzle we argued that the absence of poor and cultural distinct ‘underclass’ is caused by 1) a highly universal welfare policy that encompass citizens in a national system rather than identifying a group of ‘those in need’, 2) very generous benefits to potentially poor, especially in terms of high compensations for low-income groups and long duration periods in the unemployment benefit system, which enable them to uphold a living style close to that of the majority, and 3) a Nordic labour market trajectory that by sheltered service employment in the public sector and active labour market policy has avoided the consequences of a neo-liberal labour market strategy. As to the puzzle of decline in social trust in liberal regime we argued that it could be a matter of increased cultural distance between ‘the bottom’ and ‘the majority’ caused by welfare state retrenchment and the neo-liberal labour market trajectory followed by these countries. Whether this is the case or not is difficult to tell by available empirical data.

Nevertheless, the overall lesson from these analyses is that policy makers should be aware that welfare state reforms over time can have impact on the level of social trust in a given society. This awareness seem highly relevant in a time where nation states often are advised to - and sometimes forced to - implement reforms that target benefits to the poor, reduce benefits levels, cut duration periods and support a neo-liberal labour market dynamic. It is also relevant in times when one could have the fatalistic idea that increased immigration and thereby increased cultural heterogeneity sooner or later erode social trust. Our findings suggest that this is indeed a possible scenario but there are also ways to counteract such ‘underclass’ tendencies. To put it in positive terms one can argue that if nation states want to ‘invest’ in social capital, an effort to build welfare institutions that prevent the existence of a poor and cultural distinct ‘underclass’ might be the most logical place to start. Naturally, one can also ‘invest’ in law and order institutions that punish potentially exploitative players but in our opinion the ‘under class strategy’ solve the collective problem of low trust much closer to its very root.

## Notes

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<sup>2</sup> The trustworthiness of police, army and legal system typically goes together with economic development. In poor countries corruption is simply a way to supplement the low salaries of policemen, soldiers and judges. Furthermore, economic development goes together with equality and the existence of a distinct underclass. And we will argue that the existence of inequality and a distinct underclass influence horizontal trust. Thus the case might be that both the horizontal trust and the vertical trust are caused by economic development.

<sup>3</sup> Measured as the share that had ‘a great deal’ or ‘quite a lot’ confidence in WVS 1990 and WVS 1999 the figures are respectively; Canada; police 84 percent/ 80 percent, legal system 54 percent/not available, army 57 percent/57 percent; USA; police 75 percent/72 percent, legal system 57 percent/not available, army 48 percent/82 percent; Ireland; police 86 percent/86 percent, legal system; 47 percent/56 percent, army 61 percent/63 percent; UK; police 77 percent/69 percent, legal system 53 percent / 47 percent, army 81 percent/83 percent.

<sup>4</sup> Defined as number of contacts with public agencies that deliver housing allowances, social assistance, transportation allowances for disabled persons, disability pensions, disability care, active labour market measures, and elder care.

<sup>5</sup> Defined as number of contacts with public agencies that deliver public transportation, municipal child care, libraries, sports facilities, recreational activities, and the national dental service.

<sup>6</sup> Kumlin & Rothstein also show that the bi-variate connection is found after control for various background variables. It turns out in this regression model that the effect from number of contacts with selective policies, even though the effect from the beginning is very modest, is stronger than the effect from number of memberships in organizations in civil society. However, one should take into account that they have also controlled for general ‘satisfaction with life’, which turns out to be the strongest of all the included variables (2005:354). And one could argue that general ‘satisfaction with life’ is strongly linked to, or even created by, participation in civil society. Finally Kumlin & Rothstein support their argument by showing that those citizens who feel that they have not received the services and assistance to which they were entitled have somewhat lower trust. But here we have a serious problem with the direction of causality. Do people who generally have a distrust in other people easily perceive that they been cheated or is it they other way around?

<sup>7</sup> Their figures is based on information from *Encyclopedia Britannica* (2001) and they calculate the probability of two randomly selected individuals belong to different ethnic groups. The boundaries of an ethnic group are very blurred as it not only includes language differences ‘but also other cleavages such as racial characteristics’ (2003:157).

<sup>8</sup> The estimates of the proportion of citizens living below the poverty line are heavily influenced by the method of calculation. Here we have simply taken the overall figures provided at the webpage of the Luxembourg Income Study.

<sup>9</sup> The countries included are USA, Canada, Ireland, Great Britain, Germany (W), France, Belgium, Austria, Spain, Portugal, Italy, Sweden, Norway, Denmark, Finland, and the Netherlands. In the dataset missing case is deleted list wise. Thus, in table 2 we end up having 19868, who have answered all question used in the regression. In table 3 the number is 20580.

<sup>11</sup> As we only have 16 countries it makes no sense to use a multilevel analysis. Thus, we will have to live with the fact that the data points might not be fully independent, which potentially reduces the magnitude of the estimated standard errors.

<sup>12</sup> Naturally, one could argue that confidence or lack of confidence also ‘taps’ the respondents perception of the economic sustainability of a given social security system. It is a relevant objection. However, in the WVS the question was posed in a battery with other items that measures confidence in a number of institutions, e.g. churches, armed forces, legal system, press, policy, government, parliament etc. So the question is posed in context that emphasises institutional trust and not any discussion of economic sustainability.

<sup>13</sup> The gini-coefficients were taken from the Luxembourg Income Study website. As the initial point we used surveys from 1991 in Norway, Finland, The Netherlands, Italy, USA, Canada and UK, from 1992 in Sweden, Belgium and from 1994 in Austria. As the end point we used surveys from 1997 in Belgium and Austria, from 1999 in The Netherlands and UK, and from 2000 in Sweden, Norway, Finland, Italy, USA and Canada. From Denmark we used 1990 and 2000 figures from the Danish Ministry of Finance (2002). We have not been able to find comparable indicators for Portugal, but see text. It is by no means easy to calculate these Gini-coefficients, and studies based on the Luxembourg Income Studies often arrive at different findings. Above we have just used the coefficients available on the Luxembourg Income Study website (autumn 2004).

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