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# EXPLAINING SUCCESS AND FAILURE IN WELFARE POLICY CHANGES IN EUROPE: GOVERNANCE, TRUST AND LEGITIMACY

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The global financial crisis and the subsequent Euro area debt crisis have led to new political challenges for the European Union, especially in the domain of welfare policies. This paper analyzes the effects of political institutions and societal preferences on the crisis management reactions of political elites in the more vulnerable EU member states. It explores two typical mechanisms diverting the democratic procedures from their usual stream, mainly in Southern and Central-Eastern European countries: an increasing delegation of power to non-elected economic policy experts and the strengthening of populist political leaders. The causal explanation reveals that the most important factors of the legitimacy of the political elites' crisis management reactions are the trust of citizens in political institutions, the intensity of political polarization and the attitudes of citizens towards welfare entitlements.

**Keywords:** Legitimacy, Polarization, Politics of crisis management, Trust in political institutions, Welfare policy.

## Introduction

The global financial crisis and the subsequent European debt crisis have led to new political challenges for the European Union member countries. Most of the EU economies have had to face an enduring crisis and by mid-2013 many European citizens have been experiencing already the fifth consecutive year of economic and social hardship. By the end of 2012, the GDP per capita in the overall EU was still below the pre-crisis level. Moreover, preliminary results (Eurostat, 2013) suggest that economic recession continues in 2013. Briefly: the European Union in general and the more vulnerable Southern-European and Central-Eastern European EU member countries (SCEE) in particular are in a state of permanent crisis and the economic recovery is still in the uncertain future.

The long-lasting unfavourable macroeconomic environment has several political implications. In his seminal book, Political Man, Lipset (1981 [1959]) already underlined more than 50 years ago that economic performance is particularly important for fragile democracies. In line with this classical thesis, a recent study of Diamond found 'an apparent correlation between bad governance and democratic vulnerability' (Diamond 2011:21). But the political impact of the recent global financial crisis on democracy in the economically harder-hit countries is 'surprisingly little: governments have come and gone, but democracy has remained' (Diamond 2011:23). Nevertheless, discussing the potential impacts of a longer and more pervasive recession, the author prognosticates that 'at a minimum, illiberal populist and even extremist political parties could be expected to draw many more voters, even in some of the postcommunist countries that have joined the European Union' (Diamond 2011:28). To put it differently: we may fairly assume that enduring economic crises exert strong pressure on fragile democracies; though in the context of the European Union, democracies will probably survive, an increasing populism could be the consequence of the serious economic hardship. In this respect, countries' democratic stocks (the length of democratic experience, Gerring et al. 2005) especially matter – economic crisis is a particularly strong test for the relatively new democracies. Within the European Union, this is especially true in the more vulnerable societies of Southern and Central-Eastern Europe.

Welfare policies are among the politically most delicate fields of crisis management; while economic policy expert groups are typically urging welfare state retrenchment, political parties typically resist to this logic of macroeconomic policy expertise. Most of the political leaders at least implicitly perceive the fundamental risks of welfare policy reforms associated with welfare state retrenchment (Pierson 2002). This paper analyzes the role of politics in shaping welfare policies in SCEE in time of crisis. The next section elaborates the conceptual and theoretical framework (Section 2), followed by exploration of the impacts of crisis on democracies in general and the political variables on welfare policies in particular from a European cross-country perspective, comparing the more and the less vulnerable groups of countries (Section 3). The last section concludes and discusses the main findings (Section 4).

## Conceptual and Theoretical Framework

Welfare reform constraints are universal challenges in European societies. The status quo is unlikely sustainable as three major factors have been generating increasing macrofinancial pressure on national welfare budgets: (1) globalisation and more tangible international competitiveness, (2) demographic ageing, and (3) the recent global financial crisis as well as the subsequent Euro area debt crisis. However, European Union (EU) member countries have had conspicuously different performance in their welfare policy adjustment as well as the socio-economic and political outcome of the welfare policy changes applied (Krumlin 2011). Some countries were able to maintain social cohesion while other countries are facing increases of social and political tensions aggravating further the welfare policy environment. Concerning the policy outcomes, Nordic countries are undoubtedly among the best performers: in Northern Europe the period of recession was rather limited and after a temporary moderate loss, the previous level of employment has almost been restored, in sharp contrast to the Mediterranean and several new EU member countries. The level of income inequalities and poverty (both in absolute and relative terms) are rather low in the Nordic countries; in addition, the relatively low level of indebtedness may ensure the sustainability of their welfare policies in the longer run.

### High level of Trust and Legitimacy – The Context of Nordic Welfare Reforms

In his influential paper about the different European social models, André Sapir indicated that among EU citizens 'Nordics enjoy an envious position, with a social model that delivers both efficiency and equity' (Sapir 2006:380). This might logically imply the adoption of the Nordic welfare policies in Southern and Central-Eastern Europe (SCEE). However, learning from abroad is a difficult and complicated process; when governments are borrowing the 'best practice' policies and institutions, the expectation that the transfer will lead to policy success may often bring about a disappointing outcome (Dolowitz-Marsh 2000). In the case of transferring the Nordic type welfare policies, dissimilarities in the socio-economic environment and the behavioural patterns of major political actors can potentially shape the implementation inappropriately, viz. the Nordic welfare policies are embedded in a particular socio-political context. Namely, in Northern Europe 'the institutionalization of compromises between divergent particular interests (...) was legitimized by the confidence in the virtuous circle of social equality, economic growth and widening democracy.' (Kettunen 2012:38). In other words, the self-reinforcing mechanisms between trust in political institutions, legitimacy and procedural fairness of public policy decisions (De Cremer – Tyler 2007) are fundamental behind Nordic welfare policies and this virtuous circle also supports the Nordic welfare state adaptation capabilities (i.e. implementing welfare policy reforms) in times of crises.

**The Political Context of Policy Reforms in More Vulnerable European Societies: Delegation of Power and a Shift Towards Populism**

At first glance this perspective is disturbingly pessimistic about the transferability of Nordic welfare reforms in Southern and Central-Eastern European societies. As both social and political trust is significantly lower in the latter groups of countries (Newton-Zmerli 2011, Boda–Medve-Bálint 2012) policy reformers have a markedly more difficult task in ensuring legitimacy for the intended changes. As it was discussed above, in crisis periods the output legitimacy of democracy in more vulnerable economies weakens. At the same time, constraints to implement welfare policy reforms are increasing. In this sense of urgency, the dilemma of the governing political elites is obvious: how to do 'something' with the welfare state and to avoid the supposed negative electoral consequences simultaneously? In this decision-making puzzle the two typical reactions are: (1) the temporary delegation of politically painful decisions to public policy experts or/and (2) a shift towards populism. Sebők (2010) elaborated convincingly the theoretical relation between exogenous shocks and the delegation of power from politicians to public policy experts; his main argument is that the delegation of power is indeed a rational choice of the political incumbents as it may mitigate the supposed electoral losses.

The shift towards populism is a more complicated issue. Populism in this context, following the conceptualisation of Pappas (2012), is 'the flipside of political liberalism'; a kind of 'democratic illiberalism' (Pappas 2012:2) by the politicization of resentment, the creation of a new cleavage between 'the people' and (some) establishment and an intense political polarisation. While delegation implies a temporary withdrawal of the political leadership, populism, on the contrary, rather enables political leaders (political entrepreneurs). Nonetheless, the two mechanisms have at least one common consequence: both deviate democratic procedures from their usual stream. Delegation evidently weakens democracies, but as Pappas argues, the same is true for populist political leadership as well: 'once in power, populist political parties exacerbate polarization, which in turn leads to high social politicization and bipolar politics; this, to be sure, is a serious challenge for established democratic patterns' (Pappas 2012:16).

**Procedural Legitimacy: The Achilles-Heel of Welfare Reforms in Southern and Central-Eastern Europe**

It is obvious that the success of Nordic welfare policy reforms does not merely come from the policy content, but also from the procedural legitimacy. Though Schmitt and Starke (2011) found a strong evidence of convergence of welfare policies within the EU, they understand *policy* *convergence as a conditional process* upon a large set of socio-economic and political factors. For the success of a policy transfer (including the 'best practice' of welfare policy reforms) these conditions indeed may be more important than the policy content. Briefly, it is assumed that in the context of crisis-generated welfare policy reforms (besides governance and historical path dependency) politics matter more than policy analytical capacities. The discussion of Einhorn and Logue (2010) about the transferability of Nordic-like welfare policy reforms strongly supports this assumption. The two authors underline several features of the Nordic political environment as crucial in the development of public policy: 'democratic corporatism, a strong civil society, especially among those otherwise weakest in capitalist society (workers, family farmers), underpinned by a set of values around empiricism and social trust, in particular, values in which solidarity and reciprocal responsibility' (Einhorn and Logue 2010: 26).

These 'conditional factors' are unlikely prevalent in the more vulnerable SCEE countries. We may fairly assume that for most of the welfare reforms in these countries rather the opposite is true; to put it differently, procedural legitimacy is typically the 'Achilles heel' of welfare reforms in these societies. In this respect, Wallner's typology about the core elements of legitimacy in public policy is particularly useful for our research purposes. She makes a distinction between the substantive and procedural elements of legitimacy (Wallner 2008:424); policy content aligned with the stakeholders and the general public belongs to the substantive components while the procedural legitimacy is constituted by three major factors: incubation, emotive appeals and stakeholder engagement. Here we may identify a fundamentally critical point of welfare policy reforms in more vulnerable societies shaped by 'best practice' policy transfers. Welfare reforms built upon policy transfers are, by definition, not formulated by internal political debates but rather by external (most frequently financial) constraints. In this typical sense of urgency 'there is no time'. First, time is missing for policy incubation that might ensure the internalisation of the ideas of reform in the minds of public officials as well as domestic politicians and influential policy experts. Second, time is missing for the engagement of stakeholders and the public in meaningful participation. It is atypical that a government, when initiating a reform agenda from a policy transfer, is willing to slow down the reform process by substantially engaging a large set of societal actors. The elitist isolation attitude is more compatible with the perception of 'urgent reform constraint'; reformist governments tend to speed up the policy process by 'fast and efficient' decision-making that neglects those societal actors that do not precisely adhere to the governmental agenda. There is no doubt that this decision-making pattern is valid not only for welfare policy reforms in SCEE countries, but is generalizable for any kind of policy reform implemented in any country amidst constraints and urgency from a policy transfer.

Welfare policy reforms in SCEE countries, however, have a particular status in this context. Because of the globally shared perception of the increasing macrofinancial constraints related to the unstoppable ageing of societies, both international financial institutions and domestic policy experts repeatedly push governments of more vulnerable societies to adopt 'best practices' from abroad. It is true that in the proper domain of welfare policy reforms there is a partial shift from the focus on cost-containment towards the Nordic type activation policies. But from a procedural policy perspective the essential feature of SCEE welfare reforms has remained unchanged: the policy transfer from abroad in the sense of strong financial constraints and urgency. It is possible that an adopted 'best practice' of welfare reform leads to a convincing policy outcome on the short run that triggers a virtuous circle between policy effectiveness, the legitimacy of the adopted reforms and the trust of stakeholders as well as the wider public in the particular policy actors and political institutions in general. Nonetheless, a weak procedural legitimacy poses a particular risk even in this case; various types of exogenous factors may induce a shift towards an opposite, vicious circle – first and foremost the problems of governance effectiveness.

The self-reinforcing mechanisms between trust, legitimacy and the policy outcome as well as the difficulties of welfare policy reforms in SCEE countries are theoretically clear. Moreover, a recent study of Trüdinger and Bollow (2011) about the evaluation of welfare state reforms in Germany gives convincing empirical evidence that trust in political institutions and historical legitimacy of welfare policies may play a primary role in the perception of new reform initiatives. Indeed, the particular way in which political factors are shaping the context is, ultimately, an empirical question. The next section discusses this issue.

## The Role of Politics in Welfare Policies: A European Cross-Country Comparison

### More and Less Vulnerable Societies in Europe

The first step of the empirical research is defining the vulnerable societies in Europe. One possible option could be to apply a pre-defined institutional criterion: for instance, belonging to the group of the twelve new EU member countries or the former cohesion countries (Greece, Ireland, Portugal and Spain) would be a reasonable criterion. Another (generally preferred) option is to define the level of vulnerability according to a set of empirical indicators. A plausible tool for this is the use of the macroeconomic imbalances procedure (MIP) scoreboard set-up by the European Commission in December 2011. The MIP aims to identify whether serious macroeconomic imbalances exist or risks of it are emerging in the EU member countries. It defines alert thresholds for 11 indicators of external imbalances, competitiveness and internal imbalances (for more details see: European Commission 2013). The level of imbalances is undoubtedly a good proxy of the national economic vulnerabilities (Bobeva 2013). For the purpose of this research the pre-crisis period is relevant to assess the vulnerability of countries, therefore the indicators of the MIP scoreboard for 2007-2008 (the average of the two years) are used, with one adjustment; unlike the MIP scoreboard, I do not consider high current account surplus as an indicator of vulnerability. The following table shows the classification of the EU members by their level of vulnerability (numbers between parentheses indicate the number of violated thresholds in the average of 2007-2008).

**Table 1.** Vulnerability of the EU-27 countries.

| **Less vulnerable EU countries before the global financial crisis** | **More vulnerable EU countries before the global financial crisis** |
|---|---|
| Austria (1.5), Finland (1.5), Germany (1.5), Netherlands (1.5), France (2), Italy (2), *Czech Republic (3)*, Luxembourg (3), Sweden (3), Denmark (3.5), *Slovenia (3.5)*, Belgium (4), United Kingdom (4) | Greece (4.5), Hungary (4.5), Cyprus (5), Lithuania (5), Poland (5), Estonia (5.5), Latvia (5.5), Portugal (5.5), Romania (5.5), Slovakia (5.5), Ireland (6), Bulgaria (6.5), Malta (6.5), Spain (6.5) |

Source: European Commission MIP Scoreboard 2007 and 2008.

One may obviously argue about the arbitrary placement of threshold violation between 4 and 4.5. However, not only the number of violations but also the degree of violation matters, and that is an additional reason for the choice of our cutting point. The extremely high general government debt of Greece (110% of the GDP) and the extremely bad net international investment position of Hungary (-105.6% of the GDP) obviously put these two countries in the vulnerable group, while neither Belgium nor the United Kingdom had such an extreme violation of any of the thresholds of imbalances. Eventually, this classification has only two differences compared with the pre-defined institutional approach: Czech Republic and Slovenia are odd-ones-out; otherwise the new EU members and the old cohesion countries do equally belong to the group of more vulnerable countries.

### Vulnerability, Governance and Democratic Deviation

The first hypothesis to be tested supposes a relationship between macroeconomic vulnerability and democracy in time of crises. More precisely, we can expect that since the onset of the global financial crisis there has been a tangible deterioration in the quality of democracy in the more vulnerable European societies, and in this group of countries the regression of democracy is significantly higher than among the less vulnerable EU member states. To test this hypothesis the Economist Intelligence Unit's Index of Democracy (EIU DI) is used. The choice of this index is partly technical: unlike other commonly used democracy indices (e.g. provided by the Freedom House or the Polity IV Project) the EIU DI covers all of the EU member countries. In addition, there is another strong argument for the preference of the EIU DI: this democracy index encompasses not only the formal but also the more substantive components of democracy such as political participation and civil liberties (for a more detailed discussion, see Kekic, 2007). For the democracy value of the pre-crisis period the average of the years of 2007 and 2008 is used, and is compared with the most recent data available (about 2012). As a control variable a proxy of crisis management is applied, namely the perceived quality of government effectiveness from the Worldwide Governance Indicators (WGI) project of the World Bank Development Research Group (Kaufmann et al. 2010). Again, the 2007-2008 average values for the pre-crisis period are considered and they are compared with the most recent available data (in this case about 2011).

**Table 2.** Quality of democracy and government effectiveness in the EU-27: mean values (standard deviations in parentheses).

| | ***Before the crisis (2007-2008)*** | ***Recently (2011-2012)*** | ***Change since the onset of the crisis*** |
|---|---|---|---|
| Quality of democracy | 8.20 (0.80) | 7.98 (0.82) | -0.22 |
| Government effectiveness | 1.14 (0.64) | 1.16 (0.62) | +0.02 |

Source: Economist Intelligence Unit Index of Democracy and World Bank, Worldwide Governance Indicators.

*Table 2* indicates that since the onset of the global financial crisis the quality of democracy has deteriorated in the European Union in general. In addition, the volatility (measured by the standard deviation) of the quality of democracy has also increased, meanwhile the perceived government effectiveness has remained stable. Nevertheless, to test our hypothesis the essential point is whether democracy has been regressing significantly more in the more vulnerable European countries.

**Table 3**. Quality of democracy and government effectiveness in less and more vulnerable EU member states, changes between 2007-2012 mean values (standard deviations in parentheses).

| | ***Less vulnerable countries*** | ***More vulnerable countries*** |
|---|---|---|
| Quality of democracy, 2007-2008 | 8.70 (0.70) | 7.74 (0.58) |
| Quality of democracy, 2012 | 8.55 (0.65) | 7.45 (0.59) |
| **Change, 2007-2012** | **-0.15** | **-0.29** |
| Government effectiveness, 2007-2008 | 1.54 (0.51) | 0.77 (0.52) |
| Government effectiveness, 2011 | 1.55 (0.50) | 0.80 (0.49) |
| **Change, 2007-2011** | **+0.01** | **+0.03** |

Source: Economist Intelligence Unit Index of Democracy and World Bank, Worldwide Governance Indicators.

The results presented in Table 3 supports this hypothesis. Though since the beginning of the crisis democracy regressed in both segments of the EU countries, the difference in the quality of democracy has markedly increased between the less and more vulnerable EU members. On the other hand, the difference in perceived government effectiveness has slightly decreased between the two set of countries. In the crisis period the variance between the group of less and more vulnerable countries remained significant in both dimensions, but the F-test value increased from 15.0 to 21.3 in the quality of democracy dimension, while it remained roughly unchanged (15.4 vs. 15.1) concerning the government effectiveness. Thus, in general we do not have to reject our hypothesis about the significant relationship between vulnerability and democratic deviation in Europe during this period of crisis. In the next sub-section we discuss some mechanisms that may explain this democratic deviation in the domain of welfare policies.

**Welfare Policy Outcome, Trust and Legitimacy**

Evaluating welfare reforms in a cross-country comparison is a challenging task methodologically. For quantitative research purposes we obviously have to use a proxy, and we know several schools to conceptualize and measure welfare efforts (Jensen, 2011). Green-Pedersen argues that there is no ultimate solution to the 'dependent variable problem' in welfare researches; the conceptualisation and the operationalisation are 'dependent on one's theoretical perspective and research question' (Green-Pedersen 2004:12). In this sub-section the central issue is the outcome of welfare policies; and the conceptual focus on policy outcomes may theoretically be justified as ultimately they (and not the reforms or policies per se) constitute the major interest of policy actors.

The main questions of the quantitative cross-country comparison of welfare policies are the following ones: (1) How are the national political contexts shaping welfare policy outcomes? (2) What kind of political factors may contribute to virtuous cycles versus vicious circles of trust, legitimacy and policy effectiveness in the domain of welfare policies? The initial hypothesis is that 'politics matter': besides economic performance, political variables (trust in political institutions, change in the quality of democracy, general ideological support of welfare state and the polarization of it) are of utmost importance in welfare policy outcomes.

**Data and Methods**

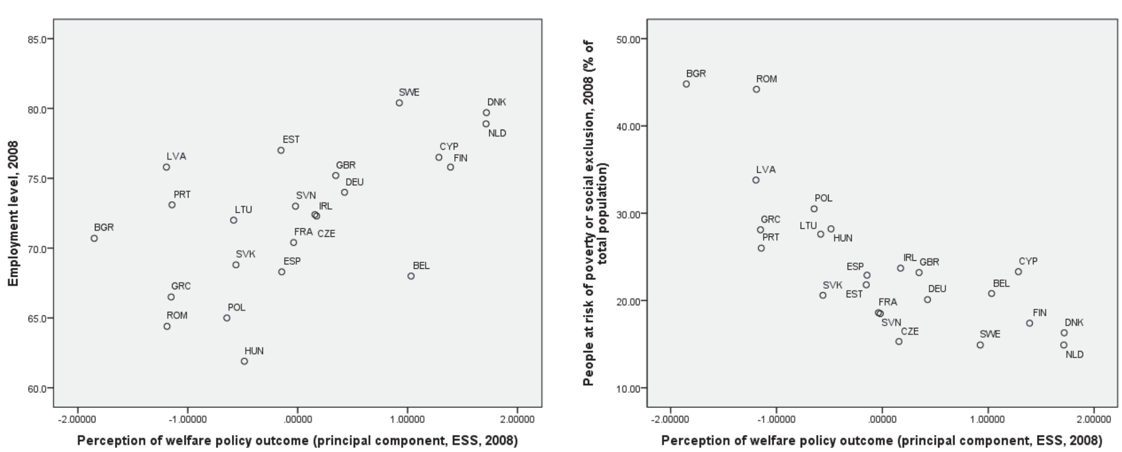
The cross-country statistical analysis concentrates on the relationship between welfare policy outcome and the attitudes at the national level. Attitudes include on the one hand general trust in political institutions and on the other, particular attitudes towards welfare policy issues. The module "Welfare Attitudes in a Changing Europe" of the European Social Survey Round 4 conducted in 2008 (hereafter ESS 2008) was designed to tap the attitudes of the European public towards the welfare state and its policies; this is an essential, virtually unavoidable source for our research. The usual problems of international surveys (e.g. sampling methods, translation or pilot testing) are strictly controlled in the data collection procedure of ESS that is 'widely regarded as the most reliable cross-national survey of its kind' (Zmerli-Newton 2008:78). However, the available data sources limit our analysis in this sub-section to only 23 EU member countries (Austria, Malta, Italy, and Luxembourg are missing from this survey). Another limitation of using this dataset is that we are able to explore the attitudes only in one particular moment and to map only simultaneous relations. In addition, the timing of the field work is particularly sensitive; as it concentrated on the last quarter of 2008 but also passed through the first months of 2009 it explores attitudes partly before the crisis but partly during the personally tangible period of the crisis. Nevertheless, the simultaneous relations between the perceived welfare policy outcome and the attitudes are generalizable; although the analysis is a macro level cross-country comparison of aggregated data by countries, the micro level data collection of ESS 2008 also permits us to include certain internal socio-political dimensions (e.g. the polarisation of the attitudes).

The small number of the cases (n=23) limits the scope of the applicable methods. As our focus is on welfare policies in general (and not the specific welfare domains such as pension, labour and family policies), if it is methodologically permitted, we will use common factors (principal components) to explore attitudes towards welfare issues. Besides descriptive statistics (principal component analysis, analysis of variance and correlation), we test the causal relationship between the perception of the welfare policy outcome, the trust in political institutions and the legitimacy of welfare provisions also with simple regression equations.

**Variables, Operationalization, Dependent Variable**

The dependent variable used in this sub-section represents welfare policy outcome. The ESS 2008 maps the perception of welfare policy outcome along four items: standard of living of pensioners, standard of living of unemployed, provision of affordable child care services for working parents and opportunities for young people to find first full-time job. The internal consistency among these four welfare items is high as the value of Cronbach’s alpha coefficient is 0.88; hence the use of a common factor of welfare policy outcome is technically justified. The constructed principal component of the perception of welfare policy outcome explains 72.9% of the total variance of the four original items.

Nevertheless, we have to examine also the theoretical and empirical validity of this variable. Following Sapir’s analysis (Sapir, 2006), the two major dimensions of national welfare performances are efficiency and equity; the first can be measured by the level of employment while the second by the spread of poverty and social exclusion. The four survey items apparently encompass these dimensions; this confirms the theoretical validity of the perception of welfare policy outcome as a dependent variable.




**Charts 1-2.** Perception of welfare policy outcome, level of employment and the ratio of people living at risk of poverty and social exclusion in 2008

Concerning its empirical validity, the perception of welfare policy outcome correlates significantly and positively with the level of employment while significantly and negatively with the level of poverty and social exclusion. Measuring employment by the ratio of employed in the age group of 20-64 and using the indicator of the ratio of people living at risk of poverty and social exclusion (both provided by Eurostat for 2008), the Pearson’s correlation coefficients of the perceived welfare policy outcome are 0.59 and -0.78 respectively. It is noteworthy, however, that the constructed principal component of the perceived welfare policy outcome does not cover the dimension of macro-financial sustainability. If we use gross government debt as a proxy of macro-financial sustainability, in 2008 there was no significant correlation between gross government debt as a percentage of GDP and the perceived welfare policy outcome: the value of Pearson’s correlation coefficient in this relation was only 0.13. In sum, we can confirm the constructed principal component as a reasonable proxy of welfare policy outcome in 2008, though it does not tackle the macro-financial sustainability aspect at all.

**Independent Variables**

Institutional trust is one of the major potential explanatory variables of welfare policy perceptions (Trüdinger-Bollow, 2011). The ESS 2008 provides five items to operationalize institutional trust: trust in a country's parliament, trust in the legal system, trust in the police, trust in politicians and trust in political parties. An important methodological question is whether the creation of a comprehensive variable about ‘trust in political institutions’ is theoretically and empirically valid. Fisher et al. (2010) debates that political trust can be treated as a single concept, but recent empirical researches (Marien 2011, Boda–Medve-Bálint 2012) support the one-dimensional attitude approach. In our case, the internal consistency among these five items is very high as the value of Cronbach’s alpha coefficient is 0.98; hence the use of a common institutional trust factor is also technically justified. The constructed principal component of trust in political and legal institutions explains 92% of the total variance of the five original items.

Though we cannot directly measure the procedural legitimacy of welfare reforms, as a proxy variable we can use citizens’ perceptions about the procedural fairness in the conduct of government officials; this variable also covers the legitimacy aspect of welfare service provisions (Linde 2012). True, this way we explore the legitimacy of public administration procedures shaped rather by bureaucratic actors (public officials) and much less by politicians; the latter aspect, however, is reflected by the trust in political and legal institutions. This approach has indeed a significant advantage: we may empirically test whether trust in political institutions and the perceived fairness of public administration procedures in welfare domains are strongly correlated (see also the discussion of Esaiasson 2010). The ESS 2008 provides two items to operationalize perception of procedural fairness: whether doctors, nurses on the one hand, and tax authorities on the other give special advantages or deal with everyone equally according to the impression of citizens. The internal consistency among these two items is high as the value of Cronbach’s alpha coefficient is 0.90; hence the use of a common factor of perceived procedural fairness is also technically justified. The constructed principal component explains 91.2% of the total variance of the two original items.

The welfare module of ESS 2008 also provides us a possibility to test the effects of some specific political variables related to welfare policies. Welfare policies as public policies in general not only create but also require legitimacy (Rothstein 2003) and ideology towards welfare state is a key component in providing legitimacy to this policies. More precisely, welfare ideologies manifested in different expectations towards states vs. markets in welfare domains are shaping welfare attitudes in general (Sabbagh – Vanhuysse 2010). The ESS 2008 provides six items to test this attitude: whether governments have a responsibility to ensure a job for everyone, health care for the sick, standard of living for the old, standard of living for the unemployed, child care services for working parents and paid leave from work to care for sick family members. The internal consistency among these six items is high as the value of Cronbach's alpha coefficient is 0.92; hence the use of a common factor of expected role from government in welfare domains is also technically justified. The constructed principal component explains 77.7% of the total variance of the six original items.

In addition, we have strong empirical evidence that not only average ideological positions but also the polarization of these attitudes strongly matter (Lindqvist – Ostling, 2010). To measure polarization in expected role from government in welfare domains across countries, we use the most common measure of dispersion, the standard deviation. The standard deviations calculated from the six questions about the expected role of government are strongly correlated at the country level (the lowest correlation is 0.59 and the highest is 0.93). Consequently, the use of the average standard deviation of the six items to measure polarization in expected role from government in welfare domains gives a valid indicator.

ESS 2008 also explores citizens' attitudes towards the supposed effects of welfare provisions. The survey provides nine items for this issue: respondents have to express the level of their agreement whether social benefits/services (hereafter: SBS) place too great strain on economy (1); SBS prevent widespread poverty (2); SBS lead to a more equal society (3); SBS encourage people from other countries to come to live in the respondents' country (4); SBS cost businesses too much in taxes/charges (5); SBS make it easier to combine work and family (6); SBS make people lazy (7); SBS make people less willing care for one another (8); SBS make people less willing look after themselves/family (9). The internal consistency among these nine items is not convincingly high as the value of Cronbach's alpha coefficient is only 0.82. However, if we consider the supposed negative and positive effects (perceived societal costs vs. benefits) of welfare provisions as two separate set of indicators, we have an unambiguous internal consistency. The value of Cronbach's alpha for the welfare provisions' supposed negative effects (the 1$^{st}$, the 5$^{th}$, the 7$^{th}$, the 8$^{th}$ and the 9$^{th}$ items) is 0.92 and for the welfare provisions' supposed positive effects (the 2$^{nd}$, the 3$^{rd}$ and the 6$^{th}$ items) is 0.96. (The 4$^{th}$ item that explores the attitudes of citizens towards supposed welfare-related migration obviously covers a separate issue.) Accordingly, we constructed two principal components; the factor of the perceived costs of welfare provisions explains 76.9% of the total variance of the five original items, while the factor of the perceived benefits of welfare provisions explains 92.8% of the total variance of the three original items. In addition, as in the original survey a lower value represented a stronger agreement and a higher one a stronger disagreement we multiplied the country factor scores of the generated principal components by negative one.

Finally, we considered the polarization of these two attitudes as well. The standard deviations calculated from the five questions about the perceived societal costs of welfare provisions are strongly correlated at the country level (the lowest correlation is 0.66 and the highest is 0.93), and the same is true for the perceived benefits of welfare provisions (here the correlation among the original items varies between 0.85 and 0.91). Consequently, the use of the average standard deviations of the original items to measure polarization in perceived costs of welfare provisions and polarization in perceived benefits of welfare provisions respectively give valid indicators.

## Results

At first sight, our results reveal remarkably consistent patterns (see *Table 4* below). The principal component scores of the perceived welfare policy outcome are significantly higher in the less vulnerable countries than in the more vulnerable ones, and the same is true for the trust in political institutions as well as the perceived procedural fairness in public administration.

**Table 4.** Trust in political institutions, perceived procedural fairness and welfare attitudes in less and more vulnerable EU member states

| | ***Less vulnerable countries*** | ***More vulnerable countries*** |
|---|---|---|
| *Principal component scores* | | |
| Perception of welfare policy outcome | **0.76** | **-0.59** |
| Trust in political and legal institutions | **0.70** | **-0.54** |
| Perceived procedural fairness in public administration | **0.69** | **-0.53** |
| Expected role from government in welfare domains | **-0.70** | **0.54** |
| Perceived costs of welfare provisions | 0.32 | -0.25 |
| Perceived benefits of welfare provisions | **0.57** | **-0.44** |
| *Measures of dispersion within countries: means (standard deviations in parentheses)* | | |
| Polarization in expected role from government in welfare domains | 1.93 (0.22) | 1.98 (0.25) |
| Polarization in perceived costs of welfare provisions | 1.02 (0.08) | 1.05 (0.06) |
| Polarization in perceived benefits of welfare provisions | **0.88 (0.10)** | **0.99 (0.08)** |

*Note:* bold fonts indicate significant differences (p<.01) between less and more vulnerable groups of countries
*Source: European Social Survey Round 4 (ESS 2008)*

In addition, the two groups of countries follow a similar, though somewhat less pronounced division in the attitudes concerning the perceived benefits of welfare provisions. The attitudes regarding the perceived costs of welfare provisions, however, do not show a marked difference by the dimension of vulnerability. Moreover, though the division between less and more vulnerable EU member countries in the expected role from government in welfare domains is significant, the sign of the relation is opposite to the other variables: citizens of more vulnerable societies typically expect significantly larger state intervention.

The indicators of polarization in welfare attitudes follow the dominant pattern: more vulnerable countries are typically more polarized as well, though we can detect a statistically significant difference only concerning the polarization in perceived benefits of welfare provisions. The results in general underline that among the EU member states there is a strong association between vulnerability and the explanatory variables of the perceived welfare policy outcome. Nevertheless, certain variables have a variance along other patterns: the expected role from governments in welfare domains, the perceived costs of welfare provisions and the indicators of polarization in welfare attitudes by countries explore additional dimensions that are not unambiguously represented by vulnerability.

At the level of countries, there is a particularly strong positive correlation between trust in political institutions and perceived procedural fairness in public administration. In addition, the perceived benefits of welfare provisions are also highly and positively correlated with both trust and perceived procedural fairness (see *Table 5*). In accordance with theoretical implications of previous researches (MacIntyre 2001, Weymouth 2011, Körösényi 2012) the polarization of attitudes correlates negatively with either trust in political institutions, or perceived procedural fairness or the supposed benefits of welfare provisions. This negative relationship is particularly strong concerning the polarization in the perceived benefits.

**Table 5.** Bivariate correlations between trust in political institutions, perceived procedural fairness and welfare attitudes in EU member states

| | TRUST_POL | PROC_FAIR | GOV_WELF | COST_WELF | BENEFIT_WELF | POLAR_GOV | POLAR_COST | POLAR_BENEFIT |
|---|---|---|---|---|---|---|---|---|
| TRUST_POL | 1 | .85** | -.50* | .03 | .80** | -.40 | -.40 | -.77** |
| PROC_FAIR | | 1 | -.48* | .07 | .69** | -.46* | -.45* | -.72** |
| GOV_WELF | | | 1 | -.65** | -.43* | -.34 | .06 | .46* |
| COST_WELF | | | | 1 | -.07 | .39 | .19 | -.10 |
| BENEFIT_WELF | | | | | 1 | -.41* | -.33 | -.72** |
| POLAR_GOV | | | | | | 1 | .41 | .40 |
| POLAR_COST | | | | | | | 1 | .59** |
| POLAR_BENEFIT | | | | | | | | 1 |

Notes: TRUST_POL: Trust in political and legal institutions; PROC_FAIR: Perceived procedural fairness in public administration; GOV_WELF: Expected role from government in welfare domains; COST_WELF: Perceived costs of welfare provisions; BENFIT_WELF Perceived benefits of welfare provisions; POLAR_GOV: Polarization in expected role from government in welfare domains; POLAR_COST: Polarization in perceived costs of welfare provisions; POLAR_BENEFIT: Polarization in perceived benefits of welfare provisions.

* Correlation is significant at the 0.05 level. ** Correlation is significant at the 0.01 level.

Source: European Social Survey Round 4 (ESS 2008)

To test the causality between welfare policy outcome and the potential explanatory variables, we run various specifications of the regression $y = \beta i\ Xi + \varepsilon$, *(1)* where y is the perceived welfare policy outcome and Xi is a vector of explanatory variables measured at the country level.

**Table 6.** Effects of welfare attitudes on perceived welfare policy outcome in EU member states.

| | ***Model 1*** | ***Model 2*** |
|---|---|---|
| Perceived procedural fairness in public administration | .43 (.20)* | .59 (.15)** |
| Expected role from government in welfare domains | -.41 (.27) | |
| Perceived costs of welfare provisions | -.20 (.17) | |
| Perceived benefits of welfare provisions | -.14 (.20) | |
| Polarization in expected role from government in welfare domains | -1.08 (.83) | |
| Polarization in perceived costs of welfare provisions | 3.19 (2.01) | |
| Polarization in perceived benefits of welfare provisions | -4.23 (1.96)* | -3.46 (1.45)* |
| *Adjusted $R^2$* | .75 | .75 |

Notes: The dependent variable is the perception of welfare policy outcome. A constant was estimated but is not reported. Reported values are unstandardized B coefficients (standard errors are in parentheses).

*p < .05; **p < .01

*Source: European Social Survey Round 4 (ESS 2008)*

Because of the obvious multicollinearity among the independent variables, we try to minimize the number of variables entered simultaneously in regression. As trust in political institutions and perceived procedural fairness are particularly highly correlated, we do not keep both of these variables simultaneously. The first specification is an otherwise all-encompassing endogenous model (*Model 1*) that keeps each of the potential explanatory variables (except the trust in political institutions). The second specification (*Model 2*) derives from the first one, but keeps only the two statistically significant variables after using a backward elimination procedure.

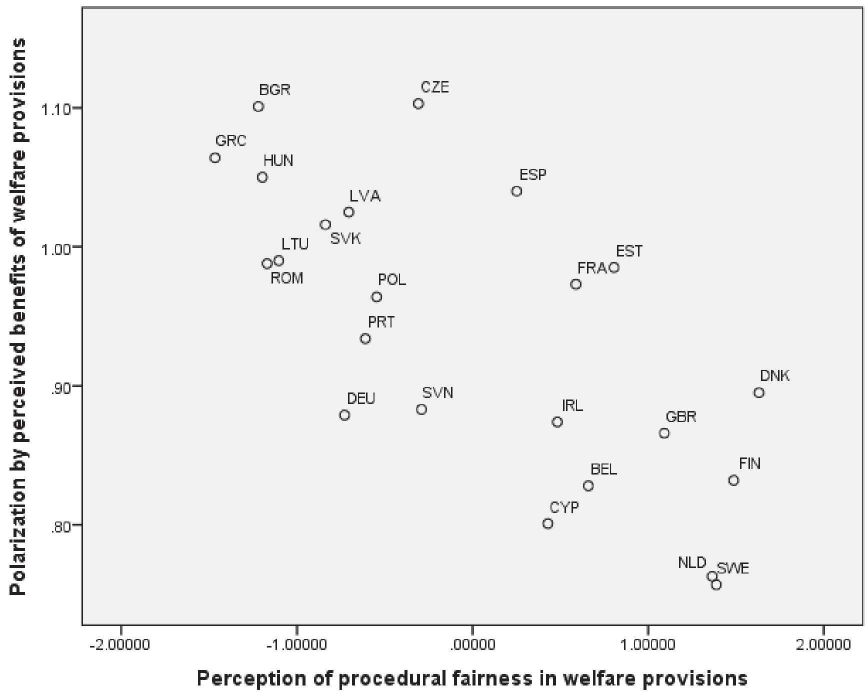



**Chart 3.** Perception of procedural fairness and polarization in perceived welfare benefits.

According to our expectations, the two models explore a significant positive effect of the perceived procedural fairness and a significant negative effect of the polarization in perceived welfare benefits on the perceived welfare policy outcome. In descriptive empirical terms (see *Chart 3* above), the division of more and less vulnerable EU member states was clearly reflected in the welfare policy domain, already before the onset of the crisis. Nevertheless, our results indicate some partial exceptions: Estonia, Ireland and Cyprus rather belonged to the 'better' group of countries where the perceived procedural fairness was relatively high and the perceived polarization in provided welfare benefits was rather low or moderate. Indeed, as this constellation could be considered as a proxy of legitimacy of welfare policies, it indirectly also implies the crisis management ability of the political elites in welfare domains.

## Conclusion

In this paper we tried to explore some mechanisms of crisis management potential in the European Union member states since the onset of the global financial crisis. We presented that the Southern and Central-Eastern European countries were significantly more vulnerable than the leading Northern EU members already before the crisis. The vulnerability of the SCEE countries is not simply related to their 'economic vulnerability' (e.g. real estate bubble, current account deficit or level of indebtedness), but also to the weaker input legitimacy of their democracies. Not surprisingly, in the crisis period the quality of democracy regressed more in the more vulnerable EU member states: this implies that in these countries the usual democratic procedures more probably deviated either by delegation of power to non-elected policy experts or through a shift towards populist political practices.

We considered welfare policy areas as a particularly tangible domain of these trends. The enduring macrofinancial crisis has enhanced the constraints of implementing politically always risky welfare reforms, and the general trust in political institutions as well as the perceived procedural fairness in public administration became key factors of legitimizing the crisis-induced changes. In this respect, more vulnerable EU countries typically suffer not only from lower political trust and weaker procedural fairness in public administration, but also from two additional problems: the higher expected role from government in welfare domains and especially the stronger polarization in perceived benefits of welfare provisions. Moreover, procedural fairness and polarization in welfare issues are causal factors of perceived welfare policy outcomes. Indeed, the chance of welfare reforms in the more vulnerable countries is generally weak. Even if the ruling political elite may fairly consider itself being in a loss domain (Vis – Van Kersbergen 2007:160), most of the citizens in vulnerable societies will unlikely cooperate with reformist policy experts. They will more typically consider the retrenchment intentions as illegitimate ones; therefore unless tangible socio-economic results trigger a virtuous cycle between the outcome of welfare reform policies, trust in political institutions and legitimacy of democratic procedures, we can expect a general revival of populist political leadership in the vulnerable societies of Southern and Central-Eastern Europe.

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