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Europe in crisis: political trust, corruption and austerity

Georgios Melios [1]
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Abstract

Over the past decade European citizens' con dence in di erent political institutions has declined sharply. This paper explores the di erent determinants of political trust in EU28 countries and the role perceived corruption and austerity hold in this decline. At rst, the paper reviews the literature on what a ects trust decisions and the role of institutions in them. Subsequently, using data from the Eurobarometer (2005-2018) the paper identi es di erent determinants of political trust. Using hierarchical modelling, the paper combines micro and macro characteristics to identify the importance of perceived corruption and austerity measures in this process. Results suggest that corruption is a signi cant determinant of trust in national governments, particularly in countries where austerity was present.

Keywords: Trust in government, Corruption, Europe, Austerity

1 Introduction

Over the past decade political stability in European democracies appears to be volatile. Cases of snap elections, coalition governments with weak majority, protest votes and the rise of populist parties became more frequent since the Financial Crisis of 2008. At the same time, the levels of trust European citizens report towards their national institutions, politicians and political parties are in decline (Hooghe, 2011; Torcal, 2014; Foster and Frieden,

[1]Institute for Global Prosperity, University College London, 149 Tottenham court road - g.melios@ucl.ac.uk. I would like to thank Susan Rose-Ackerman, Bo Rothstein, Nigel O'Leary, Henrietta L. Moore, David Blackaby, James Foreman-Peck and Brian Varian for numerous discussions and valuable comments. Additionally, I would like to thank participants of the IOEA, SIOE, WINIR and Public Choice Society (2019) conferences and Swansea, Cardi , AUEB, Panteion, UCL, Oxford workshops/seminars for providing important feedback. All interpretations and errors are solely the author's responsibility.

2017; Algan et al., 2017). Public opinion trends for European institutions are also similar. It is

glected by economists until the seminal work of Arrow (1974) who noted that in the face of transaction costs, trust is ubiquitous to almost every economic transaction, arguing that much of the economic backwardness in the transaction,

The empirical observations with regard to these questions are limited and Uslaner

tional theories on the other hand argue that it is endogenous and in uenced by institutional

to measures of trust. Despite these e orts and consensus regarding the im-

in the attempts to provide a single and inclusive de nition. Transparency International de nes corruption as the abuse of entrusted power for private gain[4]. Corruption includes a wide range of

fosters

the economy and therefore the performance of the government in the previous period. Foster and Frieden (2017) nd that more educated tend to trust more national and European institutions, so a positive relationship can also be hypothesised. Employment status can also impact on an individual's opinion about the performance of the government. Hudson (2006) suggests that people tend to blame others instead of themselves for adverse events in their life and one such case could be the event of sudden unemployment with the government taking the blame.

In terms of institutional and country speci c factors, the main hypothesis of the paper is that the level of perceived corruption negatively a ects trust in the government. Other political factors might also have a role in this process such as the stability, ideology and tenure of each government. More stable governments are an indication of better performance and more support by the public. Additionally, the state of the economy is hypothesised to be signi cant in such a process and we expect that weaker economies with high levels of unemployment and under austerity programs to be associated with lower levels of trust in government.

For this chapter the main estimation results are derived using data from

ments over the sample period in every country.

Figure 1: Trust in the European Union 28 countries between 2005-2018. Average Trust in National Governments. Data: Eurobarometer

Control variables are chosen based on factors found to be important determinants of trust according to the literature including di erent individual level characteristics that are considered important in determining the levels of trust such as education, employment, marriage, political ideology and household composition *(see Appendix for a complete account of variables, summary statistics & sources)*.

In order to examine the e ects of corruption on political trust, country level data for perceived corruption were also collected. Due to the hidden nature of corruption, accurate data are impossible to collect and therefore there is no uni ed or general known method used in the literature. In this research the Corruption Perception Index (CPI) is being used as a measure of corruption in the rst part of the estimation as provided by Transparency International. The index ranges between 0-100 with higher values associated with better outcomes (less corruption). As a robustness check further on in order to investigate potential e ects of measurement error, a di erent corruption measure is used, the Control of Corruption Index (CCI).

Figure

survey waves nested into countries).[7] Multilevel analysis is considered the compromise between complete and no pooling at all. In that way, both cross sectional and across time e ects can be explored in order to account for the variance in a dependent variable measured at the lowest level by analysing information from all levels of the analysis.

3.2 Hypotheses and results

Control variables are chosen based on the assumptions of the model spec-

u_{0jk} is the error term in Level 2 (survey years)

$_{00k}$ the error term in Level 3 (countries) [8]

At rst, as shown in Table 1 the above model is estimated using a baseline speci cation including only socio-economic characteristics without corruption and other political factors. Columns 1-4 refers to di erent estimation techniques, namely pooled OLS (2), logit (3), mixed e ects (4), multilevel logit (5 & 6). Based on the reported variance decomposition, variance at the individual level mainly explains heterogeneity (84%). Additionally, country characteristics seem to explain a signi cant proportion of the variance (15%) whilst time contributes less than 1%.

In Table 2 the main estimation follows including as determinants of trust in the national government indicators of corruption, political characteristics of the country, political cycles and interaction terms. Columns 2 & 3 show estimation results including corruption with a simple logit with clustered errors and a multilevel logit respectively. In the fourth column variables related to political characteristics of each individual are included. These include a variable that captures individuals' interest in politics by measuring the frequency of interactions that include political discussion, a variable on individuals' expectations about the future of the national economy as well as a variable on the self-identi cation of individuals in the left-right placement of the political spectrum. Column 5 includes similar political characteristics measured in the country level now. A variable that measures the stability of the government is included which captures the % of votes the government had in the last national elections, a measure of polarisation between political parties as well as a dummy variable that captures whether a national elec-tion took place in the last between the wave the individual is questioned and the previous one. Lastly column 6 includes a dummy variable that captures whether the country was under a Structural Adjustment Program which is an indication of severe austerity measures being adopted by the national government which could a ect people's levels of trust.[9]

In order to interpret the results and compare di erent speci cations of the model, predicted logits need to be changed into probabilities. The reported

[8] Typically, the residuals in hierarchical models are assumed to be normally distributed: $_{00k}$ $N(0; \ ^2_{(T)})$; u_{0jk} $N(0; \ ^2_{u(T)})$ and e_{ijk} $N(0; \ ^2_{e(T)})$.

[9] For further information in regards with these variables please refer to the Appendix

Table 1: Baseline model estimation of trust in national governments

	OLS	Logit	Multilevel	ML Logit	ML Logit
Education	0.020***	0.075***	0.015***	0.067***	0.069***
	(5.87)	(5.89)	(68.04)	(65.21)	(67.12)
Gender	-0.021**	-0.061*	-0.015***	-0.058***	-0.067***
	(-3.05)	(-2.46)	(-13.66)	(-11.61)	(-13.29)
Age	0.003***	0.010***	0.002***	0.009***	0.009***
	(7.09)	(7.62)	(41.27)	(39.84)	(40.35)
Community	-0.012	-0.027	-0.001*	-0.004	-0.006
	(-1.71)	(-1.05)	(-2.13)	(-1.31)	(-1.78)
Household	0.001	0.036**	0.009***	0.045***	0.043***
	(0.44)	(2.88)	(19.34)	(19.99)	(18.87)
Employed	0.019	0.092	0.027***	0.146***	0.130***
	(1.33)	(1.28)	(13.15)	(15.14)	(13.34)
High skills	0.027	0.064	0.004	0.016	0.016
	(1.96)	(1.04)	(1.60)	(1.40)	(1.43)
Mid skills	0.020	-0.020	-0.011***	-0.048***	-0.051***
	(1.56)	(-0.49)	(-6.14)	(-5.70)	(-5.98)
Low skills	-0.032**	-0.137***	-0.035***	-0.163***	-0.170***
	(-3.65)	(-3.62)	(-17.90)	(-17.39)	(-18.09)
GDP (ln)		0.450***	-0.076***		-0.386***
		(4.37)	(-9.80)		(-10.06)
Unemployment %		-0.069***	-0.018***		-0.091***
		(-6.22)	(-84.17)		(-85.90)
Country FE	Yes	Yes	Yes	Yes	Yes
Politic. Cycles	Yes	Yes	Yes	Yes	Yes
N	785,496	785,496	785,496	785,496	785,496

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Notes: 1)* p<0.1, ** p<0.05 and *** p<0.01, 2) All standard errors are clustered by country (28 clusters), 3) ML in columns 5 & 6 stands for multilevel, 4) Parentheses include t and z statistics

Table 2: Trust in Government including corruption and political factors

	Logit	ML Logit	ML Logit	ML Logit	ML Logit
Education	0.068***	0.070***	0.057***	0.060***	0.060***
	(5.48)	(67.26)	(39.79)	(37.84)	(37.70)
Gender	-0.060*	-0.068***	-0.047***	-0.053***	-0.054**
	(-2.48)	(-13.33)	(-6.79)	(-6.85)	(-6.93)
Age	0.010***	0.009***	0.010***	0.011***	0.011***
	(6.88)	(40.42)	(33.96)	(32.02)	(31.84)
Community	-0.023	-0.006	-0.009*	0.003	0.003
	(-0.87)	(-1.78)	(-2.11)	(0.60)	(0.68)
Household	0.047***	0.043***	0.039***	0.043***	0.043***
	(5.08)	(18.87)	(12.94)	(12.69)	(12.57)
Employed	0.072	0.131***	0.125***	0.111***	0.110***
	(1.00)	(13.44)	(9.25)	(7.4)	(7.36)
High Skills	0.061	0.016	-0.012	-0.010	-0.010
	(1.03)	(1.37)	(-0.79)	(-0.57)	(-0.60)
Mid Skills	-0.011	-0.052***	-0.035**	-0.025*	-0.026*
	(-0.27)	(-6.08)	(-3.07)	(-1.96)	(-2.01)
Low skills	-0.124***	-0.171***	-0.134***	-0.124***	-0.125***
	(-3.53)	(-18.18)	(-10.44)	(-8.55)	(-8.63)
GDP (ln)	0.110	-0.491***	-1.094***	-1.674***	-1.521***
	(0.59)	(-12.35)	(-21.05)	(-23.09)	(-20.77)
Unemployment %	-0.057***	-0.090***	-0.106***	-0.133***	-0.120***
	(-4.60)	(-85.14)	(-69.71)	(-67.70)	(-54.80)
Corruption	0.016*	0.007***	0.010***	0.004***	0.005***
	(2.26)	(10.13)	(10.89)	(3.79)	(4.32)
Ideology			0.113***	0.113***	0.113***
			(34.96)	(30.68)	(30.64)
Expect. Econ.			0.677***	0.663***	0.661***
			(143.86)	(125.42)	(125.00)
Polit. Interest			0.032**	0.008	0.009
			(2.95)	(0.62)	(0.73)
Gov. votes %				-0.001	-0.000
				(-0.85)	(-0.41)
Polarization				0.023***	0.021**
				(3.35)	(3.03)
Elections				0.083***	0.086***
				(4.8)	(4.98)
S.A.P					-0.307***
					(-13.94)
Country FE	Yes	Yes	Yes	Yes	Yes
Politic. Cycles	Yes	Yes	Yes	Yes	Yes
N	785,496	785,496	434,284	340,399	340,399

Notes: 1)* p<0.1, ** p<0.05 and *** p<0.01, 2) All standard errors are clustered by country (28 clusters), 3) ML in columns 4 & 5 & 6 stands for multilevel, 4) Parentheses include t and z statistics

probabilities for each of the specifications are available at Tables 1 & 2. The reported numbers refer to the change in probability for Y=1 instead of Y=0 for 1 point change of each variable while keeping all other variables at their mean. When using that method in multilevel modelling, the mean for every variable is taken from the mean value of the group that each individual belongs to and not the overall population mean. To understand the magnitude of each effect, it is important to take into account the measure used for every variable.

For the main variable of interest in this paper, corruption, the coefficient is statistically significant in all specifications of Table 2 and the reported probabilities change reported in column 6 is 0.7%. That means that 1 point increase in the Corruption Perception Index (lower corruption) will increase the probability of trusting a government by 0.7% keeping everything else at the mean. This effect might seem low at first but looking at differences in the Corruption Perception Index (CPI) over the sample the magnitude of the effect becomes clearer. For example, if Greece recovered from its lowest point (36/100 in 2009) to its highest CPI values (48/100 in 2006) the probability of trusting the government would increase by 8,4%. That would be of equal magnitude to the effect of a 0.7% change in the overall unemployment rate on the probability of trusting the national government or a 5.8% in GDP per capita. Immediately it is obvious that according to the results the effects of corruption on the probability to trust a national

(2017) in a similar sample of countries and time frame hold that in countries with higher levels of income per capita individuals tend to view institutions less positively, because of the higher expectations for better governance that come from socio-economic development.

With regard to factors related to political cycles, polarisation and electoral events appear to have signi cant results in levels of political trust. Less polarised parliaments are correlated with higher probabilities of trusting the government. That could be explained

events that lead to a signi cant decrease in the levels of political trust. Finally, 2017 answers follow the 2016 referendum on Brexit and the subsequent negotiations between European Union and the UK government which were associated with lower levels of trust in political institutions.

Table 3: E ect of Corruption Perception Index excluding country by country

Excluded Country	Logit	Multilevel	ML logit	ML logit	Obs. 2-3	Obs. 4-5	CPI	CCR

Table 4: E ect of Corruption Perception Index excluding year by year

Excluded Year	Logit	Multilevel	ML Logit	ML Logit
2005	0.018*	0.014***	0.016***	0.015***
2006	0.017*	0.007***	0.009***	0.008***
2007	0.017*	0.005***	0.006***	0.006***
2008	0.016*	0.005***	0.006***	0.005***
2009	0.017*	0.005***	0.007***	0.007***
2010	0.016*	0.011***	0.011***	0.011***
2011	0.015*	0.005***	0.009***	0.008***
2012	0.016*	0.006***	0.009***	0.008***
2013	0.016*	0.005***	0.009***	0.008***
2014	0.016*	0.006***	0.006***	0.006***
2015	0.016*	0.004***	0.006***	0.005***
2016	0.016*	0.006***	0.007***	0.006***
2017	0.016*	0.009***	0.012***	0.011***
2018	0.016*	0.008***	0.010***	0.009***
Personal Charact.	Yes	Yes	Yes	Yes
Country Charact.	Yes	Yes	Yes	Yes
Political Identity	No	No	Yes	Yes
Political Climate	No	No	Yes	Yes
SAP	No	No	Yes	Yes

Notes: 1)* p<0.1, ** p<0.05 and *** p<0.01, 2) All standard errors are clustered by country (28 clusters) and time (14 years), 3) ML in columns 4 & 5 stands for multilevel,

focus now shifts on individual characteristics. As data of each individual's income are not included in the Eurobarometer questionnaire other subsets of individual characteristics are explored beginning with di erent educational levels. Following that, the sample is explored by gender, age group and the size of the community in which individuals live in. In terms of individuals' political characteristics, the subsets of political ideology and interest in politics are explored. Results are presented on Table 5.

Table 5: E ect of Corruption Perception Index on subsets of personal characteristics

	Logit	Multilevel	ML Logit	ML Logit	Obs. 2-3	Obs. 4-5
Females	0.015	0.006***	0.008***	0.007***	426,141	242,876
Males	0.018**	0.008***	0.009***	0.009***	359,355	215,800
High Education	0.011	0.006***	0.010***	0.009***	529,637	302,439
Mid Education	0.019**	0.006***	0.007***	0.006***	391,972	231,632

4.1 Control for Corruption Index

In this subsection, the speci cations of Table 2 are re-estimated using a di erent index for corruption to test whether results are driven by that choice. To do so, the Control for Corruption Index by Kaufmann et al. (2011) is employed. This index captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the levels of how *"captured the state"* is by elites and private interests. The index is in the form of percentile rank which indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank (Kaufmann et al., 2011). Results shown in Table 6 suggest that the e ect of corruption on trust in national government is persistently signi cant and robust across indices used. To compare the magnitude of the two indices, using the same example of Greece, the change of corruption from the lowest point to the highest one of the samples will result a % increase in the probability of trusting the national government.

4.2 Reverse causality

One of the main

Table 6: Trust in National Governments using Control of Corruption Percentile Rank

	Logit	Multilevel	Multilevel	ML Logit	ML Logit
Education	0.015***	0.069***	0.070***	0.057***	0.057***

5 Conclusions

This chapter attempts to explore what are the determinants of trust in government in Europe and what is the role of corruption in this process. Motivated by the declining levels of political trust in European countries in the era of austerit

Appendix

Data Description

Tables 8 & 9 include data description and sources as well as summary statistics for the variables used in this paper.

Table 8: Variables, data description and sources

Variable name	Values	Description	Source

Table 9: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Political Interest	673,522	2.04	0.71	1	9
Expect. Economy	729,031	2.22	0.80	1	4
Trust in Gov.	785,496	0.37	0.48	0	1
Left-Right Scale	562,251	3.23	1.65	1	5
Education	785,496	5.61	2.92	0	10
Gender	785,496	1.54	0.50	1	2
Age	785,496	49.09	18.09	15	99
Community	785,496	1.93	0.78	1	3
Household Memb.	785,496	2.58	1.25	1	7
Employed	785,496	0.78	0.41	0	1
Corruption CPI	785,496	64.20	17.10	30	96
Corruption CCR	785,496	79.17	15.31	48	100
GDP per capita	785,496	31,926.95	18,608.07	5,561	111,968

Table 10: Countries with Structural Adjustment Programs

Country	Years
Cyprus	2013-2015
Greece	2010-2017
Hungary	2009-2010
Ireland	2011-2013
Latvia	2009-2011
Portugal	2010-2016
Spain	2012-2014
Romania	2009-2011

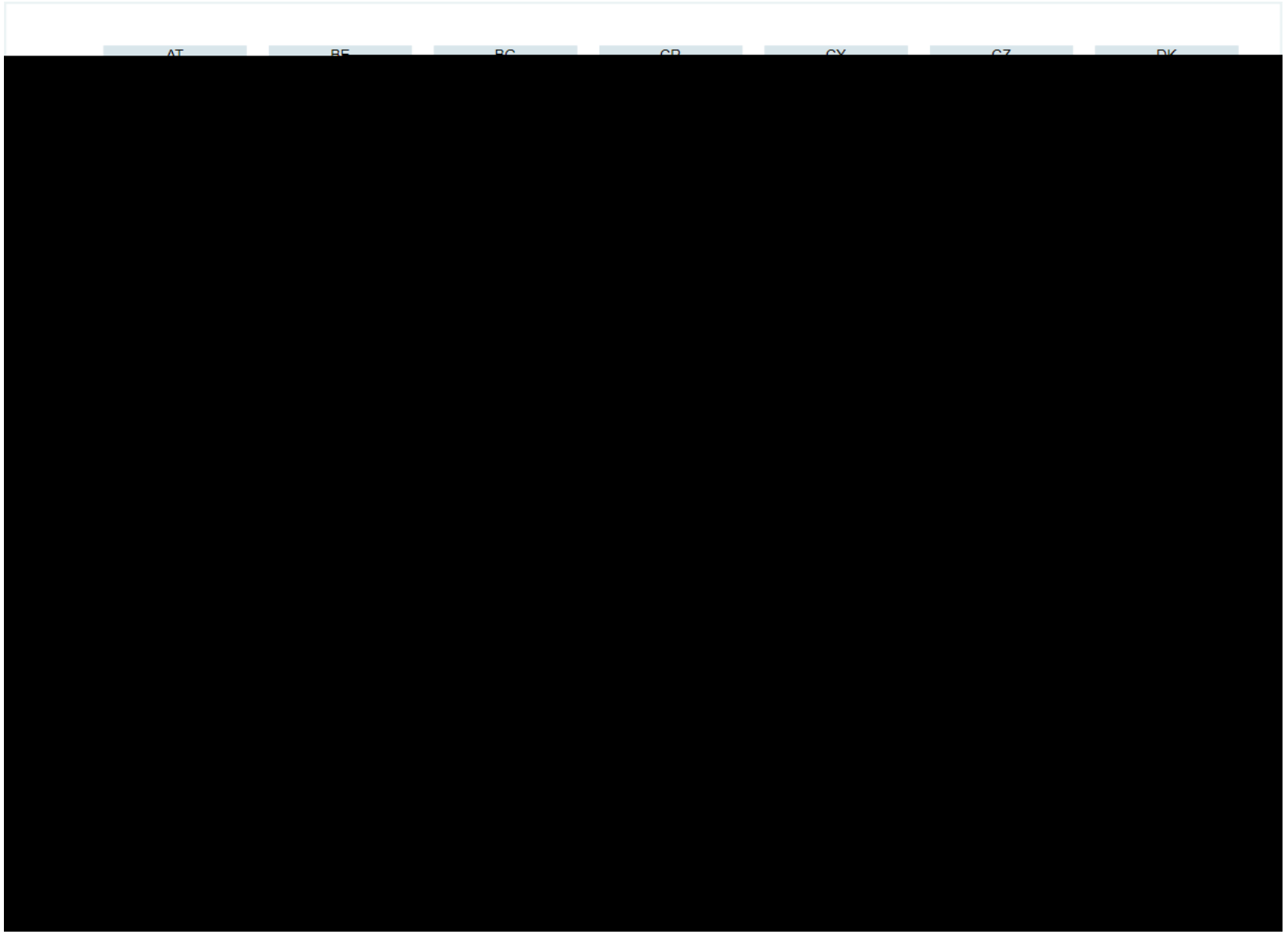
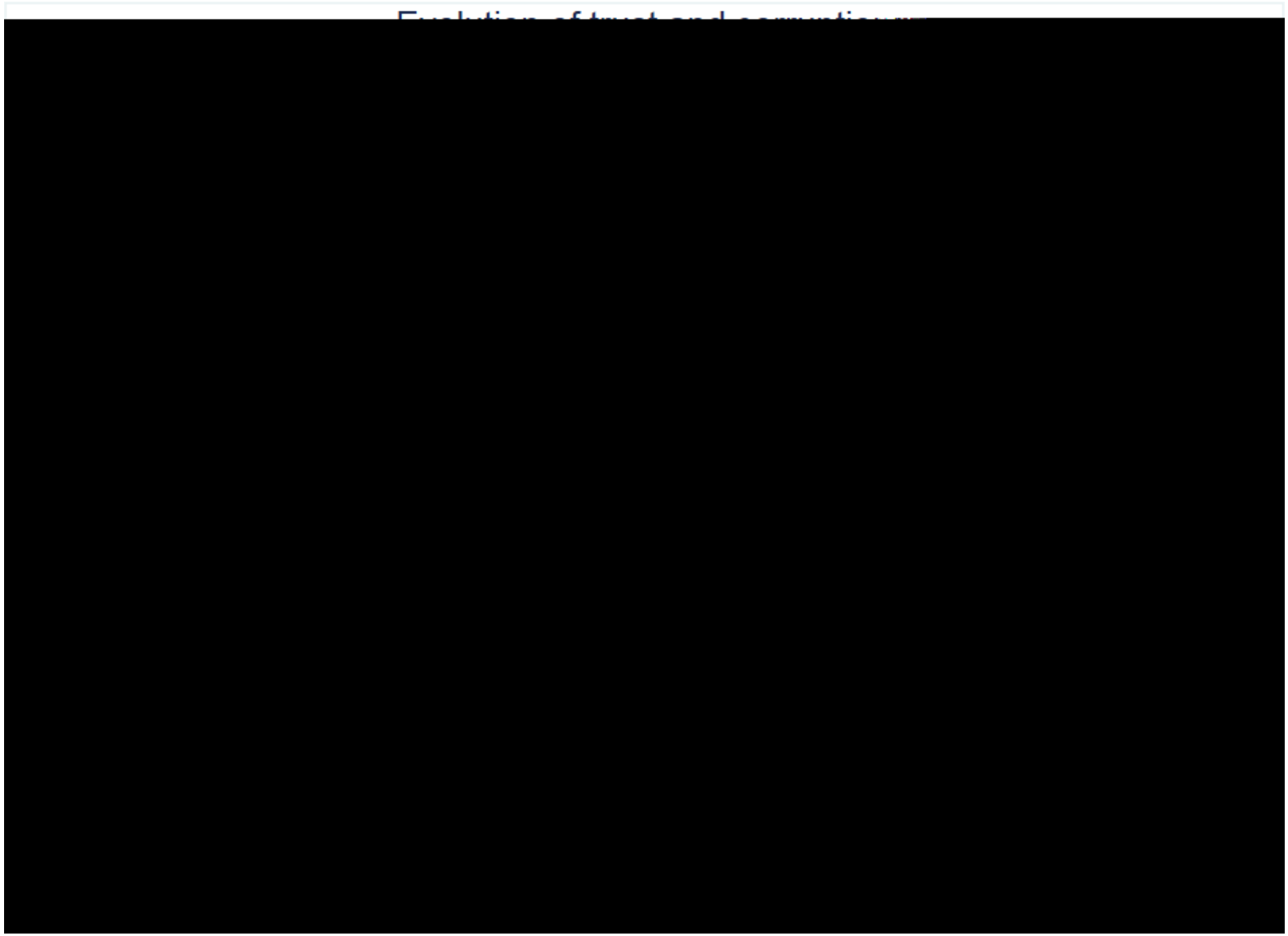


Figure 3: Density of responses on trust in National Government by country

Figure 4: Evolution of trust and normalised index of corruption over the sample period country by country



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CONTACT

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