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Economic Crisis, Political Legitimacy, and Social Cohesion

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Introduction

Between 2008 and 2009, the world’s economy collapsed. Although the epicentre of this global shock was located in the US sub-prime mortgage market, many European countries were amongst the hardest hit, suffering GDP losses unrecorded since the Oil crisis of the early 1970s (see Chapter 1 in this book). The impact of recession has been particularly sore in Euro-zone peripheral economies that experienced a real state bubble (i.e. Spain, Ireland, Greece), irresponsible banking practices (i.e. Iceland, Ireland, Spain) and/or decades-long governmental over-expending (i.e. Greece, Italy, Portugal). Unable to sustain their public finances, the governments of Greece, Ireland and Portugal drew on IMF and EU full bailout packages in 2010 and 2011, whilst Spain requested a special Eurozone bailout to finance its teetering banking system in June 2012 (Spiegel and Mallet 2012). Exceptional actions to sustain national banking sectors were undertaken by many other governments across Europe. These actions have soon been followed by equally extraordinary measures to contain mounting public deficits. Due to the unprecedented severity of the global crisis originated in 2008-2009, many have dubbed it as the Great Recession.

As I write these lines, yields to Spanish 10-year bonds have hit another Euro-era record, entering the same levels that prompted sovereign bailouts for Greece, Ireland and Portugal. Italian borrowing costs are only slightly lower. Many believe Spain and
Italy will have to ask for full bailouts soon. Whether EU and IMF funds would have enough firepower between them to cover the needs of these two countries over the next few years remains, however, an open question (see e.g. Czuczka and Cullen 2012; EUBusiness 2010). Meanwhile, the possibility that Greece abandons the Euro is publicly discussed by top leaders everywhere, from the President of the European Commission to the Director of the IMF. Four years after the fall of Lehman Brothers, the European Monetary Union is at the verge of fragmentation if not total collapse. If the Euro breaks the Great Recession would have claimed its largest prey to date.

Yet Europe could have something even more valuable at stake. The Great Recession poses a major challenge to the so-called European model of social capitalism (Offe 2003). This model has been historically defined by the combination of national democratic institutions and extensive welfare provision. At its core lies the most advanced form of citizenship rights ever granted in political history (Marshall 1964).

This study analyses the impact of the Great Recession on attitudes towards the political system and welfare-state redistribution across different European countries. Public support for the democratic institutions and the redistributive policies that define European welfare states is crucial for the survival of the European social model. I investigate how the experiences of economic vulnerability and recession affect political trust, satisfaction with democracy and attitudes towards income redistribution by exploiting the 2004 and 2010 rounds of the European Social Survey. These two data points provide an observation window to study the effects of the first deep of recession. Analysing how this initial phase of the Great Recession affected attitudes towards the political system and welfare-state redistribution under different macro-level and
individual-level conditions seems a highly relevant research question in a defining moment for Europe.

**The determinants of support for democratic institutions and redistribution**

*Support for Democratic Institutions*

Political scientists have long argued that low levels of public support can pose serious problems for the working of existing democracies (see e.g. Lipset 1960; 1994). Hence a considerable amount of research has been devoted to understanding the determinants of public attitudes towards democratic institutions. Two classical theoretical perspectives have dominated the literature: the political culture perspective and the political economy perspective.

According to the former perspective, the stability of the existing democratic regimes would ultimately depend on the existence of a set of widely-shared values, affects and attachments with which citizens adhere to the principles and procedures of liberal democracy. Such core democratic values and attachments are transmitted from one generation to the next through powerful processes of political socialization, which take place mainly inside families and schools. Together, they compose a particular political culture. This culture, often called civic or democratic culture in the literature, acts as a cement for democracy, providing what Easton (1975) called “diffuse support”, that is, solid and largely stable attitudinal foundations for the existing democratic institutions (see also Almond and Verba 1963; Barnes 1979; Inglehart 1977; 1990; Kaase and Newton 1995; Hyman and Wright 1979; Putnam 1993). Although these sustaining democratic values are not seen as immutable, their pace of change is typically considered slow under this theoretical perspective (see Clarke, Dutt and Kornberg 1993;
Easton 1975). Core democratic values would thus allow democracies to endure even through times of severe economic duress (see Bermeo 2003).

The claim that democratic legitimacy rests firmly on stable political values is challenged by the proponents of the political economy perspective. According to this perspective, the degree of legitimacy of the democratic system would ultimately depend upon its capacity to meet and represent citizens’ needs and demands, which are for the most part rooted in socio-economic interests (see e.g. Habermas 1973; Lipset 1960; Offe 1984; see also Macpherson 1977). Support for democratic institutions is therefore considered contingent upon institutional performance and hence much more changing and dynamic than the political culture perspective would concede. ¹

It follows from the political economy approach that the degree of support for the existing democratic institutions should be patterned by the class structure, as it is this structure that captures the main socio-economic interests of the population (e.g. Lipset 1960; Lipset and Rokkan 1967). In line with this prediction, accumulated evidence has shown that members of the working-classes have higher levels of political disaffection, cynicism and distrust than those placed in more privileged positions within the class structure (see e.g. Goldthorpe et al 1969; Goldthorpe 1996; Lockwood 1966; Hout, Brooks and Manza 1995; Manza and Brooks 1996).

Classes capture the societal distribution of life-chances and hence they tap on the most stable drivers of social inequality. Yet more transient experiences of economic...

¹ Although political culture and political-economy perspectives may lead to different predictions about democratic stability, these are by no means irreconcilable approaches (see e.g. Clarke, Dutt and Kornberg 1993; Green, Palmquist and Schickler 2002).
vulnerability also seem to have significant political consequences. Most research on the political effects of transitory economic vulnerability has focused on the study of unemployment. The existing evidence suggests that the experience of unemployment can also increase feelings of internal and external political inefficacy, discontent with the political system, distrust and frustration (e.g. Jahoda, Lazarsfeld and Zeisel 1971; Gallie 1993; Leggett 1964; Marshall et al. 1988; Schlozman and Verba 1979; Polavieja 2003, Chap.7).

In sum, there is abundant evidence showing that individual experiences of economic strain, whether lasting or transitory, can reduce citizens’ degree of satisfaction with, and support for, the existing political institutions. A less explored question is whether severe economic recession shapes the political attitudes of individuals who are not directly affected by economic hardship. Awareness of the depth of the economic crisis is likely to spur fears about the future, leading many to feel increasingly unsafe (see Mughan and Lacy 2002). If increasingly anxious citizens believe that the existing political actors and institutions are incapable of pulling the country out of recession, discontent with the political system could spread across the board. Note that the overall impact of recession on public attitudes towards key democratic institutions would be much greater in this latter scenario.

Whether or not recession leads to an erosion of support for the political system beyond those directly affected by economic hardship is therefore a crucial question for the study of the economic determinants of political legitimacy. Following the terminology of the economic voting literature, I call attitudinal reactions that are

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2 This is precisely why extended social rights can be seen as having a crucial legitimising impact on democratic institutions (see e.g. Clarke, Dutt and Kornberg 1993; Brooks and Manza 2007).
triggered by individuals’ own objective experiences of economic hardship *egocentric* reactions; whereas I call *sociotropic* reactions those reactions that are triggered by respondents’ assessments of the economic situation of the country as a whole, regardless of their own economic conditions (see Kinder and Kiewiet 1981; Lewis-Beck and Stegmaier 2000).

Recession Effects and Incomplete European Integration

Sociotropic reactions to recession in Europe could be especially intense under particular institutional conditions. The Great Recession has caught many European countries in the middle of an incomplete process of economic and political integration. Having renounced to a great deal of economic sovereignty for the benefits of currency unification, national governments belonging to the European Monetary Union (EMU), currently find themselves lacking the standard monetary policy instruments to combat recession (e.g. devaluation). This makes national governments in the Euro zone objectively less efficacious than those outside, which can in turn lead to further economic deterioration. If citizens perceive that their governments are powerless to combat recession, discontent with the economic situation of the country could soon spur wide-spread feelings of political distrust and disaffection. I therefore posit that the attitudinal impact of recession on public support for the existing political institutions could be significantly stronger in Euro-zone countries, as feelings of governmental inefficacy could be particular marked inside the EMU.

*Support for Social Cohesion through Welfare Policy*

Socialization and political-economy arguments can also be distinguished within the existing literature on attitudes towards social cohesion and the welfare state.
Socialization approaches stress the key role that citizen’s core values play in determining the degree of support for welfare policies. Again such values are seen as the product of political socialization in both families and schools (see e.g. Hasenfel and Rafferty 1989; Hyman and Wright 1979; Robinson and Bell 1978). Consonant with this literature, formal education, political ideology, party identification and attitudes towards egalitarianism have been shown to have a significant effect on public support for welfare policies and the redistributive principles they embody (see e.g. Feldman and Zaller 1992; Hasenfeld and Rafferty 1989; Jacoby 1994; Kam and Nam 2008).

Advocates of the political-economy argument stress the role of individual economic interests in shaping support for welfare policy (see e.g. Meltzer and Richard 1981). In line with this view, there is abundant empirical evidence showing that the most vulnerable citizens are consistently more likely to favour redistributive policies than those better-off (see e.g. Andress and Heien 2001; Blekesaune 2007; Edlund 1999; Hasenfeld and Rafferty 1989; Kam and Nam 2008; Svallfors 1997). This evidence speaks clearly in favour of the existence of egocentric pro-distribution effects. But what about sociotropic effects? Does recession also affect the preferences for redistribution of those citizens who do not experience economic hardship directly? Are potential welfare contributors more or less inclined to support welfare policies in times of economic strain? Unfortunately, the existing literature does not allow us to make any clear prediction in this respect.

Authors such as Alt (1979) and Axinn and Stern (2005), for instance, have argued that the economic worries that recession brings should make potential contributors less inclined to support redistributive policies since redistribution runs against their own short-term economic interests. In contrast, Blekesaune (2007) and Blekesaune and
Quadagno (1999) *inter alia* content that both self-interest and altruistic motives should make contributors *more* willing to support welfare policies in time of economic duress (see also Kam and Nam 2008). According to these latter authors, altruistic motives could emerge if recession generates a genuine concern amongst potential contributors for those worse-off; whereas self-interest motives would be triggered by contributors’ perception that they might become potential recipients themselves.

Still a third argument could be made if we consider that recession could reduce support for redistribution for altruistic reasons. As leaders across Europe repeat the mantra that today’s austerity is a necessary precondition for tomorrow’s growth, many truly altruistic Europeans could reduce their support to welfare spending for unselfish reasons. What is the overall sociotropic impact of recession on public attitudes towards redistributive policies is therefore an open empirical question.

To summarize, I have argued that the Great Recession could have affected public attitudes about the political system both by eroding citizen’s objective economic conditions (*egocentric* effect) as well as by spurring widespread anxiety about the country’s future even amongst individuals who do not experience economic hardship directly (*sociotropic* effect). Both egocentric and sociotropic effects are likely to increase citizen’s perception that the existing political institutions are incapable of meeting the pressing demands and needs of the people in times of economic strain. This should lead to an increase in political distrust and political dissatisfaction with the existing democratic institutions. These effects should be logically stronger the greater the depth of recession and possibly also stronger in countries belonging to the EMU, as in these countries governments lack standard monetary policy instruments to combat recession. Whether recession enhances or erodes the degree of public support for
redistribution through the welfare state is theoretically undetermined. Yet I expect to find higher support for redistribution amongst the most economically vulnerable respondents, as well as amongst those holding solidaristic and egalitarian attitudes, values and ideologies.

**Data and methods**

I investigate the impact of economic recession on political trust, satisfaction with democracy and attitudes towards welfare-state redistribution using a pool of the 2004 and the first-released 2010 European Social Survey datasets. I restrict my analysis to respondents aged between 20 and 64. The resulting analytical sample comprises over 53,200 individuals belonging to 19 different European countries, namely: Belgium, the Czech Republic, Denmark, Estonia, Germany, Finland, France, Greece, Hungary, Ireland, the Netherlands, Norway, Poland, Portugal, Slovenia, Slovakia, Spain, Sweden and the United Kingdom. For most—but not all—countries in this pooled dataset, 2004 is a pre-recession year, whilst 2010 is either a recession or a post-recession year.

I use a two-step regression approach: in the first step, I test for individual-level predictors of the three attitudes of interest and calculate country-level differences in the impact of time, measured as the change in net average attitudes between 2004 and 2010. These time effects are estimated by fitting 19 different pooled regressions, one for each country in the dataset. If changes in the economic environment experienced in each country between 2004 and 2010 had any impact on the attitudes of their typical citizens, such impact should be captured by these first-step time estimates. In a second stage, first-step estimates for the net impact of time are used as the outcome variable, whilst countries become the unit of analysis (N=19). The fact that countries differ in the size of the economic contraction experienced between the two observation points provides a
crucial source of variation for the identification of country-level recession effects in this second step. I use two country-level predictors for the second-step regression: the change in GDP growth observed between 2004 and 2010 in each of the 19 countries studied and a dummy variable capturing whether such countries were members of the Euro zone by 2010. Figures for GDP change are obtained from Eurostat (2012). They measure the actual change in the economic environment experienced by each country between 2004 and 2010 (i.e. the size of recession). This second-step regression allows us to investigate what is the impact of recession on net average political trust, satisfaction with democracy and attitudes towards redistribution, as well as whether this impact is, as expected, stronger in countries inside the European Monetary Union, using a flexible and intuitive framework.

**Outcome Variables**

The ESS pooled dataset includes three different questions that measure respectively respondents’ degree of trust in party politics, trust in the national parliament and trust in politicians using self-placement interval scales. Responses to these questions are highly correlated and hence they have been combined into one single trust index. The political trust index ranges from 0 to 10, is normally distributed and shows very high levels of reliability (Krombach’s coefficient=0.9). The political trust index is our first measure of support for national democratic institutions.

The ESS also includes an indicator of democratic satisfaction. Each respondent is asked “*how satisfied are you with the way democracy works in [your country]?”*. This is

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In order to account for differences in sampling error across first-stage estimators, I use Feasible Generalized Least Squares estimation, as proposed by Lewis and Linzer (2005), using the program developed by Lewis (2000).
measured using a self-placement scale ranging from 0 to 10. Responses to this scale are again normally-distributed. Traditionally, satisfaction with democracy has been interpreted as measuring Easton’s conceptualization of diffuse support (Easton 1975).

Our last dependent variable measures support for income redistribution through governmental action using a five-point interval scale that captures respondents’ degree of agreement with the assertion “the government should reduce differences in income levels”. Income redistribution is an essential policy instrument for the promotion of social cohesion as well as a defining element of European Welfare states. Yet it is obviously not the only policy instrument governments use to combat social exclusion. Unfortunately, this is the only question tapping on citizens’ support for welfare state principles that is present in both the 2004 and 2010 ESS rounds. Respondents are provided with five possible answers to this question, ranging from “disagree strongly” to “agree strongly”. Roughly 70 per cent of European respondents agree or strongly agree with this assertion. This already shows that support for redistributive principles is strong in Europe. In order to have a comparable metrics with the previous two indices, responses to this question have been re-scaled from 0 to 10.

Explanatory Variables

Individual-level models for pooled data include estimates for respondents’ age, years of schooling, marital status and number of children (not shown) plus class position,

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4 A number of scholars have contested the validity of this scale as a measure of core democratic values (see e.g. Canache et al. 2001, Linde and Ekman 2003; Ruiz-Rufino 2012). They recommend interpreting the scale as measuring evaluations of democratic performance only. Note, however, that this latter form of democratic dissatisfaction could still pose a challenge to regime stability if it is widely spread across the population.
unemployment experience and financial distress. The latter three capture egocentric effects. Class is measured using the Eurosec class schema;\textsuperscript{5} unemployment experiences are captured using information about respondents’ current employment status combined with retrospective information about past unemployment spells; financial distress is self-reported and refers to the household level.\textsuperscript{6}

All individual-level models include estimates for political ideology, measured using the standard self-placement left-right scale, as well as for three core values: altruism, egalitarianism and support for a strong state. These latter values are measured using six-point interval identification scales.\textsuperscript{7} I also introduce controls for two personality characteristics possibly associated with the outcome variables. The first one measures the stable component of individual happiness.\textsuperscript{8} This could be an important control variable to the extent that individuals’ propensity to pessimism and dissatisfaction could

\textsuperscript{5} For the sake of presentation efficiency, tables below only show estimates for two particularly vulnerable occupational classes: lower technical workers and routine manual workers.

\textsuperscript{6} Respondents reporting that it is “difficult” or “very difficult” to live on current household income are considered financially distressed. Those who claim to be” living comfortably on “, or “coping with” current income are considered not distressed.

\textsuperscript{7} Altruism is measured as the importance individuals assign to helping people and caring for others; egalitarianism measures respondents’ degree of identification with the principle that people be treated equally and have equal opportunities; and support for the state is measured as the importance individuals assign to having a strong government that ensures safety.

\textsuperscript{8} This component is estimated as the residual from a model where self-placement in a 10-point happiness scale is regressed against age and its squared term, schooling, self-reported family financial strain, subjective well-being, life satisfaction, country and, crucially, observation year. The resulting happiness residual thus captures the individual propensity to happiness net of transient and contextual factors.
permeate their views about the political system. The second personality trait captures individuals’ degree of hedonism.\textsuperscript{9} Hedonism is expected to reduce support for redistribution. Having such a rich set of values and traits as controls is rare in the study of political attitudes.

A key attitudinal variable tested in all individual-level models is respondents’ degree of satisfaction with the general situation of the economy in their respective countries. This is measured using a self-placement scale that ranges from 0 (maximum dissatisfaction) to 10 (maximum satisfaction). Respondents’ views about the general shape of the national economy net of individual-level economic experiences capture sociotropic effects for the average citizen.

**Findings**

Table 10.1 below shows the results of fitting a series of three nested models on the political trust and satisfaction with democracy scales, whilst Table 10.2 shows the results of fitting the same three models on support for income redistribution. Model 1 for each of these outcome variables includes age, gender and family characteristics (not shown) plus years of schooling, class and the above-mentioned attitudinal controls. Model 2 adds information on unemployment history and financial distress and model 3 introduces respondents’ views about the general situation of the country’s economy.

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\textsuperscript{9} Hedonism is measured using a 6-point interval composite scale combining responses to four questions, which measure respectively the importance that respondents assign to: 1) trying new and different things in life; 2) seeking adventures and having an exciting life; 3) seeking fun and things that give pleasure; and 4) having a good time (Krombach’s coefficient=0.76).
In all models the effect of time is measured as the difference in net average values between 2004 and 2010. Since models control for country of residence, this estimate can be interpreted as the net average change in each of the outcome attitudes observed between 2004 and 2010 for the typical European respondent. In other words, it measures the net average change across all countries in the sample.

[Table 10.1 about here]

Several findings reported in Table 10.1 and Table 10.2 are consonant with political culture explanations. First, we observe a positive and significant effect of years of education on political trust, satisfaction with democracy and attitudes towards redistribution. This is consistent with the so-called enlightening hypothesis, which links democratic culture and pro-redistribution views to political socialization via schooling (but see Jackman and Muha 1984). We also observe a positive and significant effect of core egalitarian values on all three indicators. Unsurprisingly, this effect is particularly strong in the case of attitudes towards income redistribution, which are also significantly enhanced by altruistic values and attitudes in favour of a strong government. Personality traits also seem to have interesting effects: happiness-propensity increases political trust and satisfaction with democracy, but not attitudes to redistribution, whilst hedonism reduces all three. Finally, we observe that right-wing respondents tend to be more trusting and more satisfied with the way democracy works in their respective countries than left-wing ones, but less supportive of redistributive policies.

[Table 10.2 about here]
The economic interest perspective also finds strong empirical support. As expected, class is significantly associated with all three dependent variables. Lower technical and routine workers show significantly lower levels of political trust and satisfaction with democracy, as well as higher levels of support for redistributive policies, than large employers, managers and professionals, which is the reference category. These findings are fully consistent with political economy arguments linking support for both political institutions and redistributive policies to stable socio-economic interests.

Transient experiences of unemployment also seem to leave a very visible trace on the three variables of interest. Currently unemployed respondents, as well as those employed respondents who have experienced unemployment less than five years back, show lower levels of trust and satisfaction with democracy and higher levels of support for redistribution than employed respondents with no previous unemployment record. Interestingly, we also find the same significant differences, albeit roughly half as strong, between employed respondents who experienced unemployment more than five years back and employed respondents who have never experienced unemployment. This suggests that the experience of unemployment could have long-lasting consequences on political attitudes.

Consonant with political economy approaches, we also find a very strong effect of household financial distress on the three outcome variables. As expected, individuals experiencing financial difficulties at home show significantly lower scores on political

10 Political trust and satisfaction with democracy is also low amongst small employers and self-employed respondents, whereas their support for welfare redistribution is only a little bit higher than that of large employers, managers and professionals (available on request).
trust and satisfaction with democracy and significantly higher preferences for income redistribution.

The effects of time are captured by the variable ‘YEAR’. Recall that this time estimate captures the difference in net average attitudes observed between 2004 and 2010 for the typical European citizen, net of all the variables included in the model. This net coefficient shows an average decrease of roughly one-fifth of a point in political trust and of one-fourth of a point in satisfaction with democracy between 2004 and 2010 (see Table 10.1). The effect of time on attitudes towards redistribution for the typical European citizen is comparatively much smaller (roughly ten times smaller) and only significant at the 90 per cent level (see Table 10.2). This already suggests that redistributive attitudes in Europe as a whole have remained mostly stable across the two observation points.

Model 3 for each dependent variable adds sociotropic views about the economy. Note that when we introduce public opinions about the economic situation of the country, the effect of survey year on political trust and satisfaction with democracy is fully explained away. This indicates, first, that the change in net political attitudes observed between 2004 and 2010 is actually driven by recession effects; and, secondly, that recession (measured as time change) has not only egocentric but also sociotropic effects on political legitimacy, as it affects all types of citizens regardless of their own objective economic experiences. In other words, increasing distrust and dissatisfaction...
with democracy does not seem to be confined to the most vulnerable segments of society. These are important findings.\footnote{Note that introducing sociotropic views also yields a significant reduction in class, unemployment history and financial distress coefficients. This suggests that individual experiences of economic vulnerability shape their views about the general situation of the national economy.}

My estimates for the effect of recession (measured as the change between 2004 and 2010) on attitudes towards redistribution offer a much less clear picture. As noted above, I find only negligible average changes between 2004 and 2005 for Europe as a whole. This is partly due to significant country differences in time effects (see below). According to the estimates presented on Table 10.2, European respondents with a better perception of the economic situation of their countries seem to be on average less supportive of income redistribution, but this sociotropic effect is indeed very small: a full-range ten-point increase in satisfaction with economy would yield a reduction of less than half a point in pro-redistribution views. Overall, the evidence on recession effects on attitudes to redistribution seems extremely weak.

\textbf{Explaining Country Differences in the Average Change in Public Attitudes between 2004 and 2010}

Table 10.3 below shows the estimated time-change coefficients and the 2004 values for all three dependent variables and all the countries in the dataset. Recall that first-step estimates for the effect of time come from 19 different country-specific regressions identical to model 1 on tables 10.1 and 10.2. The first thing to note is that there are very significant differences in the time effects found across different European societies.
Cross-country variation is the largest in the case of attitudes towards redistribution, although the size of these time effects is generally very small (with the exception of France, where we observe a one point increase in support for redistribution between 2004 and 2010).

We also observe divergent patterns for the effect of time on both political trust and satisfaction with democracy. Greeks stand out as showing the largest erosion in political trust and democratic satisfaction of all respondents, with average decreases of two and three points respectively out of an 11-point scale. These are dramatic changes by all accounts. The erosion in political legitimacy, as measured by these two crucial indicators, is also very sizeable in France, Spain, Slovenia and Ireland. France shows average drops of roughly one point in political trust and as much as two points in satisfaction with democracy. As we shall see, such drops are much larger than expected given the actual GDP losses experienced by France between 2004 and 2010. Drops in trust and satisfaction with democracy in Spain, Slovenia and Ireland are roughly between two-thirds of a point and one point (see Table 10.3). Yet we find an increase in net average values of political trust and satisfaction with democracy between 2004 and 2010 in the Netherlands, Norway, Sweden, Poland and Slovakia, whilst no change in either trust or satisfaction with democracy is observed in Germany. The rest of the countries show changes in one indicator but not the other. How can we explain these divergent patterns in time-change coefficients?

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12 Note that eight countries show no significant change in attitudes to redistribution between 2004 and 2010 (Estonia, Denmark, Hungary, Spain, Slovenia, Slovakia, Sweden and United Kingdom); in nine other countries we observe a significant increase in average support for redistribution (Belgium, Czech Republic, France, Finland, Germany, Ireland, Netherlands and Portugal); whilst three other countries show a significant decrease (Greece, Norway and Poland).
First of all, it must be noted that there is a high degree of variation in the way different countries experienced recession (see chapters 1 and 2 of this book). I approximate these experiences by comparing the rate of GDP growth across the two observation windows, 2004 and 2010, in each country, using official Eurostat figures (Eurostat 2012). Greece stands out again as the country that has experienced by far the largest drop in GDP growth between 2004 and 2010, amounting to more than nine per cent points. Ireland, Hungary, Spain, Norway, Slovenia and Estonia follow suit with GDP losses between five and three points. The observed change in GDP growth between the two observation years has been much more moderate in the Czech Republic, Belgium, Poland, France, Denmark and Slovakia (with losses roughly between one and two points) and very small in Finland, the Netherlands and Portugal. In Sweden and Germany the GDP growth rate was actually higher in 2010 than it was in 2004. Can country differences in the way public attitudes changed between 2004 and 2010 be explained by different recession experiences?

**Macro-Level Recession Effects**

In order to answer this question, I next regress the first-step estimates for the effect of time on the typical citizen in each of the 19 countries of the sample on the above-commented changes in GDP growth observed between 2004 and 2010. Note that the resulting estimate for changes in GDP growth will capture macro-level recession effects on attitudinal change between the two observation points *directly*. I further test whether this direct impact of recession on political attitudes differs by membership in the European Monetary Union. Results are presented on Table 10.4 below.
Macro-level estimates yield significant recession effects for all three attitudinal variables studied, although the effects for attitudes towards welfare redistribution are again very small. According to the estimates of a simple linear model (models 1), a one-point reduction in GDP growth between the two observation years would reduce net average political trust and net average satisfaction with democracy by roughly one-sixth of a point in an 11-interval scale. In the case of net average support for redistribution, the same drop in GDP would yield a reduction of as little as 1/25 of a point. Recall that the estimated coefficients for attitudinal change between 2004 and 2010 are net of individual-level predictors. In this sense, the GDP change coefficient should be interpreted as the effect of recession on the attitudes of the typical citizen in each country. It must therefore be noted that the estimated macro-level effect for attitudes to redistribution is not only very weak in size but, most importantly, runs in the exact opposite direction to the individual-level effect of socio-tropic views presented on Table 10.2. Whilst the former effect suggests that recession decreases average support for redistribution in Europe, the later indicated that citizens’ awareness of recession increased average support for redistribution. In light of this contradiction, our results for recession effects on redistributive views must be considered both negligible and inconsistent.

Two-step regression estimates for GDP change in model 1 assume that the attitudinal effects of recession are the same across the 19 countries studied. Yet I have posited that the erosion of political legitimacy should be actually greater in countries belonging to the Monetary Union, since the governments of Euro-zone countries lack standard policy instruments to combat recession, which should make their economic policies objectively
less efficacious. I test this prediction by fitting an interaction term between membership in the Euro zone and GDP contraction (see models 2). This interaction is significant at the 90 per cent level for political trust and at the 95 per cent level for satisfaction with democracy but insignificant in the case of attitudes towards redistribution.

Interaction effects show that the average level of political trust and democratic satisfaction are lower on average in countries belonging to the EMU. Most importantly, they suggest that all the impact of recession on both indicators of political legitimacy could have actually been concentrated in Euro-zone countries. Figure 10.1 below graphs these observed effects. Note that France appears clearly as an outlier, with decreases in political trust and democratic satisfaction that are much larger than predicted given the actual change in GDP growth experienced between 2004 and 2010 in this country.13

[Figure 10.1 about here]

Robustness Tests for the Eurozone Interaction

Countries in the Euro zone might differ from those outside in many important institutional characteristics unrelated to the currency and which could also mediate the effect of recession on political legitimacy. Two such characteristics are of particular concern. First, countries in the Euro zone sub-sample could provide less generous welfare benefits on average than countries outside. This could constitute an important source of estimation bias if welfare generosity cushions the impact of recession on

13 France experienced escalating problems of highly visible political corruption during the analysed period, with major successive scandals involving first Jacques Chirac, president of France until 2007, and then Nicolas Sarkozy. Such scandals could have affected the observed change in political trust and satisfaction with democracy between 2004 and 2010.
political attitudes. Secondly, there could be differences in the quality of democratic representation between the two sub-samples contrasted. If countries with comparatively weaker political institutions happen to be over represented in the Euro-zone sub-sample, and if recession effects on political views are significantly stronger in low-quality democracies, then our Euro-zone effect could be again an artefact of omitted variable bias.

I have tested for interaction effects between countries with high and low levels of net social expenditure and GDP losses between 2004 and 2010 on our estimates for net average change in political trust and democratic satisfaction. These interactions are clearly non-significant (available on request). This suggests that the observed recession effects on both political trust and satisfaction with democracy found in the Euro zone are not artificially driven by unobserved country differences in welfare generosity by EMU membership. I have also tested an interaction between the quality of democratic institutions, as assessed by external expert evaluations, and GDP losses. This interaction is clearly not significant for political trust but reaches statistical significance at the 90 per cent level in the case of democratic satisfaction (available on request). This suggests that recession effects on democratic satisfaction could indeed be higher in countries where levels of democratic quality are low. The key question to assess,

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14 Social expenditure figures are for 2007 and have been obtained from the OECD database (see: http://www.oecd.org/document/24/0,3746,en_2649_33933_2671576_1_1_1,00.html). I have also tested an interaction between countries with high and low levels of social expenditure on the working-age population and GDP losses and results were again non significant.

15 Quality of democracy has been measured using the 2006 Quality of Democracy Index published by the Economist Intelligence Unit (The Economist 2006, pp.3-6). I distinguish between high and low quality democracies.
however, is whether this statistical association is the real driver of the Euro zone interaction in the case of democratic satisfaction. Two further pieces of evidence suggest it is not: First, the Euro-zone interaction provides a significantly better prediction of the data structure than the quality-of-democracy interaction with the same number of parameters;\textsuperscript{16} secondly, and most importantly, the Euro zone interaction coefficient remains significant even after controlling for democratic quality (results available on request).

These robustness tests provide further support to the argument that there is something particular to Euro-zone countries that makes the political attitudes of their citizens more reactive to economic recession. I believe this peculiarity has to do with the objective economic-policy limitations that Euro-zone governments face in their fight against recession. These limitations make Euro-zone governments less responsive to the pressing demands and interests of their citizens in times of economic hardship. Moreover, they can aggravate the depth of recession itself, as the painful experiences of peripheral EU economies currently illustrate. Both effects combined could explain why we observe a much greater erosion of political trust and satisfaction with democracy in EMU countries.

Note that this explanation fully admits the possibility of recession-threshold effects. According to this interpretation, citizens’ support for democratic institutions could remain largely stable until a certain threshold of economic deterioration is surpassed, after which, support could experience a precipitous decline. Greece is the country that experienced the largest deterioration in its economic environment between 2004 and

\textsuperscript{16} The Euro zone-interaction model explains 55 per cent more of the variance than the quality-of-democracy interaction.
2010 (followed by Ireland). If we remove Greece from the data, neither the Eurozone interaction nor the direct effect of GDP contraction reaches statistical significance (albeit the coefficients for both parameters remain in the expected direction). This suggests that threshold effects could actually be part, perhaps an essential part, of the observed EMU interaction.

**Summary and discussion**

This study has investigated the effects of economic vulnerability and economic recession on political trust, satisfaction with democracy and attitudes to welfare redistribution using the 2004 and 2010 European Social Survey datasets. I have argued that these attitudes express the degree of public support for the two essential elements of the European model of social capitalism, namely, national democratic institutions and extensive welfare provision.

Individual-level regression modes have provided clear evidence that both political values and individual economic experiences play a key role in shaping Europeans’ support for democracy and welfare-state redistribution in Europe. Consonant with political culture approaches, I have found significant effects for schooling and ideology, as well as for several attitudes and values on all three indicators analysed. In line with political-economy approaches, I have found that experiences of economic vulnerability are associated with lower levels of political trust and satisfaction with democracy and higher levels of support for redistributive polices. This latter findings show that public support for the democratic and redistributive principles of the welfare state has clear micro-level economic foundations.
Net average support for national democratic institutions eroded fast in several European countries between 2004 and 2010. This erosion is less consistent with political culture explanations, as it shows that democratic legitimacy is to a considerable extent contingent upon economic performance. In many (but not all) of the 19 countries analysed in this study both political trust and satisfaction with democracy decreased sharply. I have shown that such trends can be explained by a parallel increase in average levels of dissatisfaction with the economic situation of the country (i.e. sociotropic effects). This suggests that recession decreases public support for the existing political institutions even amongst those citizens who do not experience economic hardship directly. I have also shown that the changes in average political trust and satisfaction with democracy in the 19 countries studied are significantly correlated with the changes in GDP growth observed between 2004 and 2010, although this overall correlation seems mainly driven by the experiences of Euro-zone countries.

The pattern of change in the case of attitudes to redistribution at the country level is, however, much less clear. Macro-level evidence seems to suggest that Europeans’ net average support for income redistribution decreased with recession in Europe. Yet the size of this effect is minuscule. Furthermore, these macro-level estimates do not square well with the individual-level evidence, which shows that negative evaluations of the economic situation of the country’s economy increase support for redistribution for the typical European citizen, although again the estimated effect of sociotropic views on attitudes to redistribution is very small. Overall, macro-level findings seem too negligible and inconsistent to grant any firm conclusion about the association between GDP and attitudes to redistribution. It appears that average attitudes towards
redistribution for the typical citizen have remain mostly stable in the face of economic recession.

**Recession, Monetary Union and Political Legitimacy**

I have argued that the erosion of political trust and satisfaction with democracy could have been particularly strong in countries inside the Euro because Euro-zone governments no longer dispose of the standard monetary-policy instruments to combat recession. In order to join the monetary union, national governments had to give in national sovereignty in exchange for supra-national integration. But the process of European integration remains endlessly incomplete and this makes it inefficacious. Imperfect integration generates huge coordination problems, amplifies financial tensions and opens up the door for speculative attacks on both the periphery’s sovereign debts and the Euro as a whole, which in turn pushes peripheral economies deeper into recession. This is the vicious circle that is currently endangering the European project.

The combination of global economic crisis and incomplete integration at the European level makes up a particularly damaging cocktail for democratic legitimacy.\(^{17}\) If recession is deep and citizens perceive their elected representatives are largely incapable of pulling the country out of it, frustration, distrust and disaffection might spread across the board. Discontent spills over from those directly affected by economic vulnerability to the median voter. The evidence presented in this study shows that this

\(^{17}\) To be sure, incomplete supra-national integration poses serious problems for democratic theory on its own, as it reduces both political efficacy and democratic accountability at the national level, whilst providing not fully-working substitute at the supra-national level (see e.g. Claus 2000; Follesdal and Hix 2006; Scharpf 1997). Yet it is in times of economic crisis that the democratic deficiencies of incomplete integration become most apparent.
has already happened in several Eurozone countries. The erosion of democratic legitimacy is particularly sizable in countries such as France, Ireland, Slovenia and Spain. In the case of Greece, this erosion has reached most alarming proportions and deserves special comment.

Figure 10.2 shows the distribution of political trust and satisfaction with democracy in Greece in both 2004 and 2010. The change is dramatic. In 2010, 62 per cent of Greek respondents placed themselves within the four lower values of the democratic satisfaction scale and as much as 85 per cent of them placed themselves within the four lower values of the political trust scale. In both cases, value zero of the scale was the modal value, comprising 22 and 40 per cent of responses respectively. It is against this backdrop of huge political dissatisfaction that one should interpret recent political events in Greece, including the spectacular rise of the left-wing anti-bailout coalition SYRIZA, the crash of the Greek Socialist Party, PASOK, and the entrance of the anti-European neo-Nazi party, the Golden Dawn, in the Greek parliament.\footnote{SYRIZA is currently the second political force in Greece, after seeing its representation increase from only 1 MP (4.7 per cent of the vote) in the 2009 elections to 71 MPs (26.9 per cent of the vote) in the last elections of June 2012. In contrast, support for the socialist PASOK plummeted from 160 seats (43.9 per cent of the vote) in 2009 to only 33 seats (13 per cent of the vote). The neo-Nazi party the Golden Dawn advocates, amongst other things, the incarceration of illegal immigrants in labour camps. This party obtained 21 seats and 7 per cent of the popular vote in June 2012.} Greece has also experienced increasing social unrest. Since 2010, a series of anti-bailout demonstrations have taken over the streets of the main Greek cities. Many of these demonstrations turned into violent riots, some of which lasted for days.

[Figure 10.2 about here]
The signs of growing political disaffection can also be read in many other peripheral countries across Europe. In 2009 mounting protests over the financial crisis in Iceland led to the Busahaldabytingin, or Kitchenware Revolution, which culminated in the prosecution of the former prime minister and the writing of a new constitution (Stjórnlagaráðs 2011). Peaceful mass protests have also swept across South-West Europe. In March 2011 rallies over the economic crisis spread in over ten Portuguese cities organized under the name of Geração à Rasca, Desperate Generation. Portuguese demonstrations were soon followed by the spectacular outbreak of the 15-M movement in Spain. Organised through web-based social networks without the involvement of any major union or political party, the 15-M movement’s cry for “real democracy” has attracted an unprecedented level of popular support.

These new social movements illustrate well the growing chasm that separates many disaffected European citizens from their traditional political representatives. The data analysed in this study only cover the first phase of recession. For many European countries things have only gone worse since. Hence it is highly probable that the erosion of political legitimacy that the ESS data reveals has actually deepened. This is indeed a

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19 Iceland constitutes a very interesting case study. The total collapse of its banking system put the country into unprecedented recession. In 2004 Iceland was growing at a 7.8 percent rate; in 2009 its GDP growth rate was -6.8. Yet Icelanders refused to bailout their banks and bond holders had to face considerable losses. Iceland is outside the Euro zone and this allowed its government to devaluate. The main Icelandic bank was nationalised. The country returned to grow at a 3 per cent rate as early as in 2011. Unfortunately data for Iceland is not yet available in the 2010 ESS released dataset.

20 According to a survey carried out in July 2011, between 6 and 8 million Spaniards would have participated directly in at least one public event organised by the 15-M movement, and as much as 76 per cent of Spanish citizens considered its claims as “more than reasonable” (El Pais 2011, August 3).
momentous time for Europe. All the alarms of European democracies should go off. It seems it is much more than the single currency that is currently at stake.
Bibliography


Table 10.1. OLS Regressions on Political Trust and Satisfaction with Democracy: Selected Variables

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Political Trust</th>
<th>Satisfaction with Democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>Class</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large employers, higher managers &amp; professionals</td>
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<td>ref</td>
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<td>Lower Technical workers</td>
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<td>-0.17***</td>
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<tr>
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<td>0.04***</td>
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<tr>
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<td>0.07***</td>
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<td>0.04***</td>
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<td>Happiness propensity</td>
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<td>0.22</td>
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*** p<0.001, ** p<0.01, *p<0.05, (*) p<0.10

Notes: Models control for age, marital status, N of children and country dummies. Several class dummies are not shown. Non significant attitudes not shown. Constant not shown. Weighted. Source: Calculated by the author from Pooled ESS 2004-2010.
Table 10.2. OLS Regressions on Attitudes towards Redistribution: Selected Variables

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<td>Lower Technical workers</td>
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<td>Routine workers</td>
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<tr>
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*** p<0.001, ** p<0.01, *p<0.05, (*) p<0.10 Notes: Models control for age, marital status, N of children and country dummies. Several class dummies are not shown. Non significant attitudes and constant not shown. Weighted. Source: Calculated by the author from Pooled ESS 2004-2010.
Table 10.3. GDP Contraction, Net Coefficients for Time Change (2004-2010), and 2004 Values for Outcome Variables by Country

<table>
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<tr>
<th>Country</th>
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<th>Satisfaction with Democracy</th>
<th>Attitudes towards Redistribution</th>
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<td>Germany</td>
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<td>0</td>
<td>5.24</td>
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</table>

*** p<0.001, ** p<0.01, *p<0.05, (*) p<0.10

Notes: <sup>a</sup> Real GDP growth drop is calculated as the rate of growth in 2004 less the rate of growth in 2010, where growth rates are measured as percentage change over the previous year.

<sup>b</sup> Estimates for 2004 marginal values and for 2004-2010 change in coefficients are obtained from fitting 19 country-specific regression models identical to Model 1 on Table 10.1 and Table 10.2—all other variables constant at their means.

Table 10.4. Two-Step Regression Estimates: The Effect of GDP Contraction and EMU Membership on Estimated Changes in Political Trust, Satisfaction with Democracy and Attitudes towards Redistribution(1) for the Typical Citizen

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Political Trust</th>
<th>Satisfaction with Democracy</th>
<th>Attitudes towards Redistribution</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 1</td>
</tr>
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<td>GDP contraction(2)</td>
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<td>-0.22**</td>
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<tr>
<td>R-squared</td>
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<td>0.59</td>
<td>0.29</td>
</tr>
</tbody>
</table>

*** p<0.01, ** p<0.05, (*) p<0.1

Notes: (1) Estimates for change in dependent variables are obtained from fitting 19 country-specific regression models identical to Model 1 on Tables 10.1 and 10.2. (2) GDP contraction is calculated as the rate of GDP growth in 2004 less the rate of GDP growth in 2010, where growth rates are measured as percentage change over the previous year. (3) EMU membership status as in 2010. Slovenia adopted the Euro in 2007 and Slovakia in 2009.

Figure 10.1. The Effect of GDP Contraction on Net Average Political Trust and Democratic Satisfaction for the Typical Citizen by EMU Membership according to Models 2 on Table 10.4

Figure 10.2. A Greek Tragedy? Political Trust and Satisfaction with Democracy in 2004 and 2010

Source: European Social Survey, 2004 and 2010.