

# **Satisfaction with Democracy and Perceived Performance of the Welfare State in Europe**

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## **Abstract**

This paper tests several hypotheses to explain the link between satisfaction with democracy and welfare state performance. In conducting multilevel analysis we use data on the contextual and institutional conditions including the welfare state regimes as well as data from European Social Survey 2012 special module on democracy. Our results show that a discrepancy between the desired policy goal and perceived policy outcome of the welfare state (policy deficit) influences the perceptions of citizens of how democracy works. In particular, social policies aimed at reducing poverty correlates positively with one's satisfaction with democracy.

Key words: satisfaction with democracy, welfare state, policy deficit, welfare regimes, post-communist countries

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## Introduction

The issue of democracy has been a central theme for the social sciences, and satisfaction with the political system represents an important aspect for analyzing how well a democracy functions. Among the democracies in the industrialized world, social policy and welfare issues have become a key issue, over which democratic political contestation takes place. Therefore, it is fruitful to investigate the relationship between welfare-state performance (WSP) and satisfaction with democracy (SWD) in order to understand whether satisfaction with democratic institutions can be increased through improvements in welfare policy. Since studies show that economic downturns undermine SWD, while we expect WSP to alleviate the negative effects of downturns on the political system (Offe 1984), this issue seems to be increasingly relevant in post-crisis times.

This article contributes to the discourse on the interplay between social policies and SWD, in that it takes the issue of welfare performance beyond the welfare-state typology. We propose new measures of WSP that combine an objective measure with subjective assessments. The objective indicator, *policy efficiency*, measures the percentage of persons lifted out of poverty by social transfers. The subjective measure is the *policy deficit*, which captures the gap between one's expectations towards the actual performance of the welfare state and one's assessment of welfare state performance. We expect that the larger the discrepancy between what citizens expect, and what they perceive the government provides them with, the more negative will be their SWD. Policy efficiency can mediate the negative impact of policy deficit on SWD so we test this mechanism as well. If our study shows that policy efficiency and policy deficit matter, then it implies that governments can support democratic institutions by making improvements in their welfare systems. The recent financial crisis made it more difficult to finance the European welfare states, inducing many governments to make cutbacks in welfare spending. However, austerity policies can reduce overall WSP and lead to a drop in SWD (Armingeon and Guthmann 2014). Our article adds new information about the influence of the austerity climate on SWD. In addition, we investigate how the worsening of economic conditions and labour market development in post-crisis times interact with SWD.

In what follows, we first discuss our theoretical assumptions about the link between the welfare state and democracy. We then describe our data, explain our empirical approach, discuss our findings, and present our conclusions.

## **Satisfaction with democracy: theory and previous research**

### ***Theoretical assumptions***

In general, SWD reflects how the political system appears in the eyes of citizens (Quaranta and Martini 2016). It is a byproduct of (dis)satisfaction with government (Kestillä-Kekkonen and Söderlund 2017), and it varies with (perceived) outcomes of government policies (Armingeon and Guthmann 2014:17). Previous studies have concentrated on the interplay between SWD and economic performance, the political system, and the production of political goods. Recent studies show the salience of economic performance for SWD (indicated by GDP/capita level, growth, unemployment, public debt, or subjective assessment of economic wealth), particularly during economic downturns (Armingeon and Guthmann 2014, Kim 2009, Polavieja 2013, Quaranta and Martini 2016, Schäfer 2013, Wagner et al. 2009). Some studies conclude that economic variables are positively related to SWD in western Europe, but that the link is weak in post-communist countries (e.g., Schäfer 2013). So far, little research has been undertaken on how welfare regimes and social policy influence SWD (see Kumlin and Stadelmann-Steffen, 2014a).

We hypothesize that the influence of the welfare state on SWD operates through three main mechanisms: 1) the economic security of citizens, 2) the attitudes and expectations of citizens, and 3) the subjective assessments of WSP. Welfare regimes interact with all three of these factors, so we also hypothesize that SWD depends on the type of welfare regime.

### ***Economic Performance and Economic Security***

Previous studies show that SWD varies with the degree of protection against economic fluctuations (Armingeon and Guthmann 2014; Kang 2015; Kumlin 2002). By strengthening the economic security, the welfare state can also stimulate SWD. Second, although increases in social inequality have led to lower SWD (Anderson and Singer 2008; Lister 2007), strong WSP can reduce poverty and social inequality (Lühiste 2014), thereby preventing SWD from falling. Previous studies have also shown that the welfare state influences *social stratification* (Korpi, 1983; Korpi and Plame 2003; Esping-Andersen, 1990; Rothstein, 1998). Specifically, this paper looks at how individual-level variations explain citizens' SWD. Several authors have argued that people with lower social status will feel less economically secure and, therefore, will exhibit lower SWD than will those with a higher status (for the arguments, see Schäfer, 2013; Singer, 2008). Similarly, SWD decreases when welfare states decrease their

protection against economic fluctuations by introducing austerity policies that cut benefits, raise taxes and shrink the public sector (e.g., Armingeon and Guthman 2014: 5).

This leads to the *government-protection* hypothesis (e.g., Blekesaune and Quadagno, 2003; Vis et al., 2011). We expect that, in countries harder hit by the financial crisis, citizens will feel more need for government intervention. On the other hand, these countries face greater pressure to carry out austerity measures in order to bring their budgets into balance (as a slowing economy means falling revenues).

In this paper we examine the above assumptions: social stratification effect (see Hypothesis 2 and 3), government protection hypothesis (see Hypothesis 4) and social status effects (see Hypothesis 5),

### ***Formative Effects of the Welfare Regime***

Some theorists claim that the welfare state has a formative effect in that it influences the attitudes and expectations of citizens (e.g. Dallinger 2010, Pierson 2001). The welfare state acts as socializing force that shapes citizens' political and ideological beliefs (Jaeger 2009). Thus, Kumlin and Stadelmann-Steffen (2014a: 7-8) conclude that the welfare state teaches citizens political lessons concerning deservingness, a sense of entitlement, and norms relating to participation and policies. People's experiences with the impact of welfare policies thus form their expectations about government policies. In our article we discuss that welfare regimes play a central part in forming both the expectations and the evaluations of citizens.

### ***Perceived Welfare State Performance***

Since the *level of the protection and redistributive effect* on the one hand, and the *formative effect* of the welfare regime on the other hand, may work in opposite directions in influencing both assessment of WSP and SWD, we try to capture both effects when using the concept/measure of the (subjective) *policy deficit*. We assume that the subjective assessment of WSP is a critical factor in forming the degree of satisfaction among citizens with how democracy is working in their country (Offe 1984, 1987; Rothstein 1998). If a persistent discrepancy emerges between citizens' expectations and the actual policies implemented by the government, rising levels of distrust will likely result (Oskarsen, 2007: 127). Policy (dis)satisfaction points to a central feature of the mechanisms by which the welfare state affects SWD. We define the policy deficit here as the difference between citizens'

expectations for social policies and their assessment of government performance (Ringen, 1987; Polavieja, 2013). In other words, the subjective assessments of WSP are indicated by a discrepancy between what citizens expect, and what they perceive is provided by the government assuming that the degree of legitimacy enjoyed by the democratic system depends ultimately upon the capacity of the state and its institutions to meet citizens' needs and demands. One advantage of this indicator of policy deficit is the ability to account for lower expectations towards WSP (or even cuts in welfare-state provisions<sup>1</sup>) in the context of a climate of austerity. Therefore, the policy deficit may decrease and even become negative when WSP exceeds the expectations of citizens.

Since subjective assessments are based on the actual performance of social policies, we also hypothesize that greater policy efficiency leads to the higher levels of SWD (Ringen, 1987; Polavieja, 2013), see Hypothesis 1 below.

### *The SWD under different welfare regimes*

Scholars have often found that support for redistribution is highest under social-democratic regimes, somewhat lower under conservative regimes, and lowest under liberal regimes (e.g. Larsen, 2008 and Schmidt-Catran, 2014). Yet, they have not investigated the connection between welfare regimes and SWD. Nevertheless, we can hypothesize this relationship, coming from the above discussion. These findings indicate that SWD is higher where protection against social risks is better, social inequality and poverty is lower, and social and political trust is higher. Hence, the welfare regimes that both provide better protection, that generate less inequality and poverty, and that also create more social and political trust, may be expected to generate also higher degree of SWD. Moreover, empirical studies show that a social democratic welfare regime, which fulfils the expectations of better protection, and lower social inequalities and poverty, creates more social and political trust (e.g. Arts and van Oorschot, 2005). Furthermore, we expect a strong link between social and political trust and SWD (e.g. Rothstein, 1998).

From this perspective, we may expect a higher level of SWD to emerge in social-democratic countries with broad social rights and universal coverage, and a lower level of SWD in conservative countries characterized by social rights tied to prior contributions to the social-insurance system. Liberal-regime policies of providing selective means-tested benefits may be expected to generate lower SWD than the other two regimes. In the case of the

Mediterranean regime, we can expect people to be less satisfied with how their democracies function, due to incomplete social rights and selective coverage, which makes them more critical of the state for its inability to meet their perceived needs. In post-communist countries, finally, the link between welfare attitudes and SWD is not straightforward, because the welfare regime in those countries combines Bismarckian, universalist, and means-tested elements (Inglot, 2008; Cerami and Vanhuyse, 2009). While post-communist countries often provide universal coverage,<sup>3</sup> their welfare provisions, however, are rather modest, as indicated by their low level of social spending. Finally, a low level of satisfaction with the actual results of social policies (Roosma et al., 2012; van Oorschot et al., 2012) may cause SWD in post-communist countries to be rather low, compared to that in other welfare regimes.

This mechanism, however, does not imply that more generous welfare support warrants high SWD. This is because the *formative effect* of welfare regime shapes the beliefs and expectations of those living under it. Under liberal regimes, for instance, citizens may be more satisfied with WSP, since they have lower expectations about wealth redistribution and they rely less on welfare support. More generally, smaller/less generous welfare states (like in liberal regime countries) are easier to remain compatible with the citizens' expectations. Thus liberal countries may attain relatively high SWD because welfare regime meets people's expectations of what the state will do. In contrast, demands for social protection in post-communist countries may be high, because people's expectations were formed by the state-paternalism of the communist regime and these expectations continue to exist in the post-communist era (Dalinger, 2010; Andreß and Heien, 2001; Lipsmeyer and Nordstrom, 2003). Thus, welfare regime adds an element that differs from simpler explanations of social spending, etc. (see Hypothesis 3 on welfare regime effect).

## **Hypotheses**

Based on the above discussion, we formulate our hypotheses as follows:

H1. Policy-deficit hypothesis (political dissatisfaction)

We hypothesize that SWD is negatively correlated with policy deficits. A lower policy deficit indicates either higher satisfaction with WSP or lower expectations regarding WSP, or both (see discussion above).

H2. Policy-efficiency hypothesis

According to this hypothesis, the policy efficiency is positively related to the SWD. We measure policy efficiency by the effectiveness of social policies in reducing poverty. We expect the link between policy efficiency and SWD to be more important in countries with a larger policy deficit, due to a greater need to increase policy efficiency.

### H3 Welfare-regime hypothesis

Based on the theoretical discussion above, we expect SWD to be higher in social-democratic countries than in conservative countries. Furthermore, we expect it to be lower in Mediterranean countries than in either conservative or social-democratic countries. The impact on SWD of post-communist and liberal regimes is not clear, because the welfare-state *stratification effect* stemming from the redistribution of resources and the equalization of opportunities may run athwart the *formative effect* of the welfare regime, with its influence on the beliefs and expectations of citizens. Citizens may thus have differing expectations regarding stratification effects, and value them differently. The performance/stratification effect of welfare regime overlaps with the effect of policy efficiency (hypothesis 2), but the interaction with the formative effect makes this hypothesis distinct.

### H4. Government-protection/compensation hypothesis

Austerity policies will likely go against public expectations and reduce satisfaction with the welfare state, and thus SWD as well (Armingeon and Guthmann, 2014; Schäfer, 2013). Similarly, countries with a declining GDP, a high rate of unemployment, and cuts in social spending are likely to reduce the overall WSP, followed by a drop in public perceptions of policy efficiency and functioning of democratic institutions (Kumlin and Stadelmann-Steffen, 2014b).

### H5. Social-status hypothesis

Those, who are less educated, less affluent, more likely to be unemployed, etc. will be more likely to exhibit both lower SWD and lower WSP than will those of their peers who are more educated, more affluent, and less likely to be unemployed.

## **Methodology**

Our empirical data comes from the 2012 round of the European Social Survey, which contains a special module with questions on the performance of the welfare state and of democracy. The dataset covers 29 countries; for our analysis, however, we take the 24 countries for which

the relevant country-level data are available (thus we drop Albania, Israel, Kosovo, Russia, and Ukraine). We also drop 3,451 of the observations in the sample, because they are missing values in key variables (i.e., SWD, social-policy preferences, and assessment). We further drop 1,241 observations with incomplete information in other explanatory variables. The final sample includes 40,321 respondents and the number of observations ranges from 670 in Iceland to 2,764 in Germany.

Our dependent variable is based on the question: “On the whole, how satisfied are you with the way democracy works in [country]?” Responses on the 11-point scale vary from extremely dissatisfied (0) to extremely satisfied (10).<sup>4</sup> The distribution of responses has a skewness value of -0.39, and a kurtosis value of 2.44. These values fall within an acceptable range, and we can regard the distribution as reasonably close to normal.

To assess WSP, we take the difference between citizens’ preferences in regard to social policy and their assessment of government efforts in carrying it out. We construct two key variables to capture the difference between citizens’ expectations for government policy and their assessment of it: one in connection with attempts to reduce poverty; the other in connection with efforts to reduce inequality. The poverty-reduction policy variable is constructed by taking the difference between two survey questions, as measured on an 11-point scale: (i) “Thinking generally rather than about [country], how important do you think it is for democracy in general that the government protects all citizens against poverty?”; and: (ii) “To what extent do you think the following statement applies in [country]: the government in [country] protects all citizens against poverty?”

We calculate the inequality-policy deficit variable based on the difference in responses to two survey questions, as measured on an 11-point scale: (i) “Thinking generally rather than about [country], how important do you think it is for democracy in general that the government takes measures to reduce differences in income levels?”; and: (ii) “To what extent do you think the following statement applies in [country]: the government in [country] takes measures to reduce differences in income levels?”

At the **individual level** we control for gender; age (15–29 years, 30–44 years, 45–59 years, and older than 60); level of education (lower secondary, upper/post-secondary vocational, upper-secondary general, and tertiary); subjective household-income assessment in four categories (since objective income has a high non-response rate); and experience of unemployment within the last 5 years.



At the **country level**, we take unemployment rate and GDP per capita (measured by purchasing-power parities) in 2011 from the Eurostat database. To analyse the effect of the crisis on SWD, we construct two variables: the percentage change in both GDP and the unemployment rate between 2007 and 2011. To construct the austerity measure variable, we take Eurostat data on expenditure on social-protection benefits (in EUR per capita in constant prices), and we exclude expenditure on unemployment benefits and on old-age benefits and survivor benefits, since these expenditures are influenced by the business cycle or changes in demography rather than by austerity measures. Our variable measures the percentage change in adjusted social expenditure between 2007 and 2011. We further use Eurostat data to construct the policy-effectiveness variable, based on the percentage of persons lifted out of poverty by social transfers (excluding pensions).<sup>5</sup>

We group the 24 countries in our study according to the following typology of welfare regimes: *conservative* countries, including Belgium (BE), Germany (DE), France (FR), the Netherlands (NL), and Switzerland (CH);<sup>6</sup> *liberal* countries, including Great Britain (GB) and Ireland (IE); *social-democratic* countries, including Denmark (DK), Finland (FI), Iceland (IS), Norway (NO), and Sweden (SE); *Mediterranean* countries, including Cyprus (CY), Italy (IT), Portugal (PT), and Spain (ES); and *post-communist* countries, including Bulgaria (BG), the Czech Republic (CZ), Estonia (EE), Hungary (HU), Lithuania (LT), Poland (PL), Slovakia (SK), and Slovenia (SI). There is a broad consensus in the welfare-state literature to keep post-communist countries in a single cluster, since these countries are different from the rest of Europe. Some authors do argue that no distinct post-communist welfare regime has emerged, and that the individual countries of central and eastern Europe can instead be classified as “liberal,” “conservative,” or “social-democratic” (Deacon, 1992; Ferge, 2001; Fuchs and Offe, 2009). Others claim that a distinct hybrid between several different welfare types has emerged in the region (Aidukante, 2011; Cerami and Vanhuysse, 2009; Orenstein, 2008; Saxonberg and Sirovátka, 2009). Scholars tend to agree, however, that differences within the post-communist cluster are less pronounced than they are vis-à-vis the other welfare models (Aidukante, 2011; Bohle and Greskovits, 2007; Fenger, 2007). We would contend, moreover, that the theoretical basis for distinguishing different welfare models in the region is weak. Recent comparative studies treat the post-communist countries as a single cluster (Bohnke, 2008; Kulin and Meuleman, 2015; Lipsmeyer and Nordstrom, 2003; Roosma et al., 2012; Roosma et al., 2014; van Oorschot et al., 2012). We judge this approach to be sound.

In the next section, we provide a descriptive analysis of the dependent and key independent variables, after which we present the results from multilevel linear regressions. In order to control for cross-country differences in sampling design, we have weighted our cases in accordance with the design and population weights suggested by the ESS manual.

## **Descriptive Analysis**

### ***Assessment of how democracy is working***

Figure 1 shows average values of SWD, which we take as a measure of how citizens assess the working of democracy in European countries. A clear divide emerges here between northern and western Europe on the one hand, and southern and eastern Europe on the other. We observe favourable assessments of the functioning of democracy (around 7 or above 6 on a scale of 0–10) among the social-democratic countries, except in the case of Iceland (which scores below 6). Mean values for the conservative group are around 6, except in the case of Switzerland (which scores above 7) and France (with a score close to 5). Scores are above average in the liberal group, and below average in the post-communist and Mediterranean groups. Mean satisfaction in most post-communist countries is around 5, but falls below 4 in Slovenia and Bulgaria. Several countries in the Mediterranean group score around 4 (but mostly below that figure), save for Cyprus (which comes close to 5).

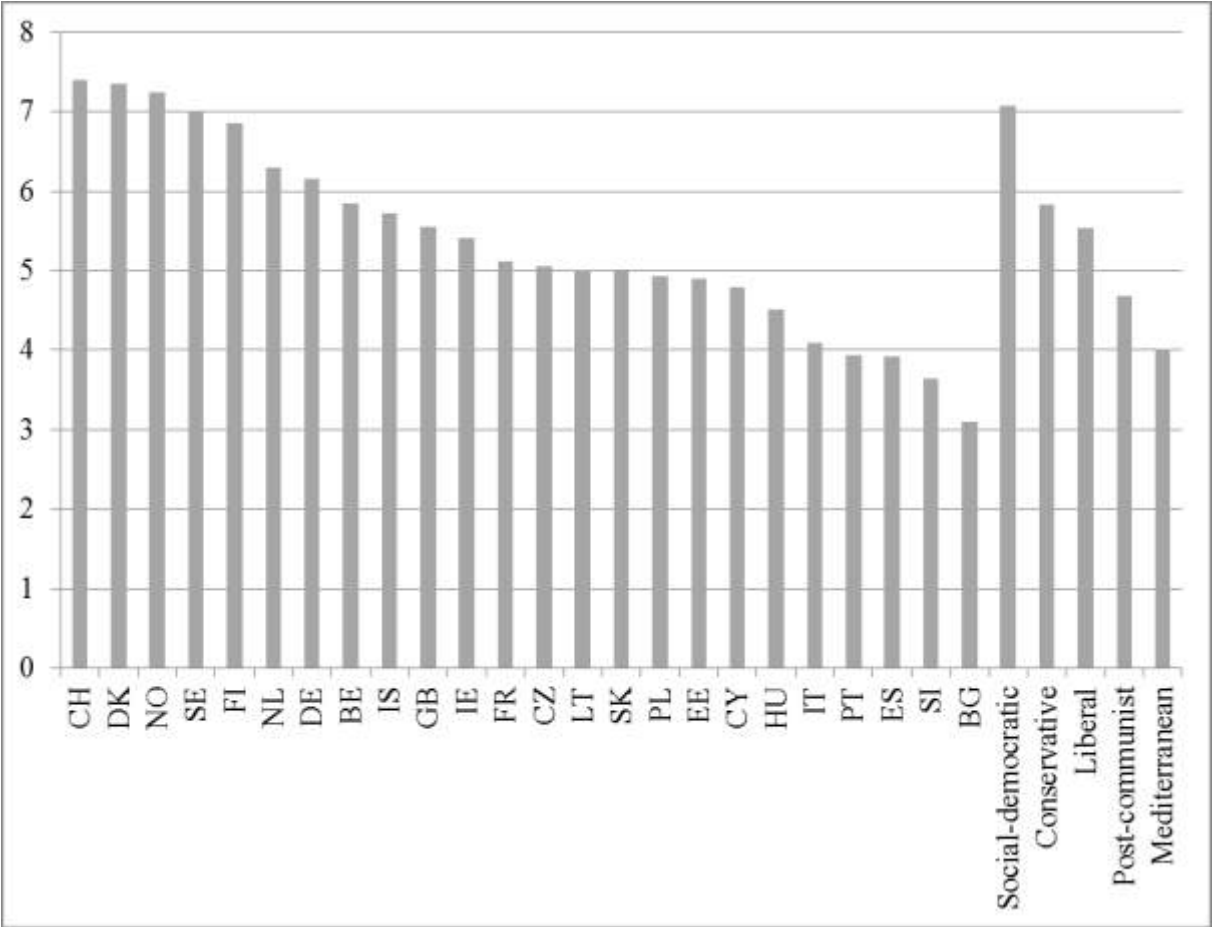
### ***Policy Dissatisfaction and the Policy Deficit***

The *policy deficit* expresses the disparity between on the one hand citizens' preferences regarding social policy, and on the other their assessment of the government's performance in carrying it out. Lower values thus indicate greater satisfaction with the results of social policy.

Figures 2 and 3 show such preferences and assessments in connection with government efforts to reduce poverty and income inequality. The figures represent the mean values of the policy deficit in different European countries. In all of the countries, the average score on expectations exceeds that on assessments, indicating that citizens are more critical than positive about their government's performance in the area of social policy. The large gap between the north-west and the south-east of Europe is again clearly visible. In northern and western Europe, expectations for the reduction of poverty and inequality are significantly lower than in southern and eastern Europe. For reducing poverty, expectations in north-west

are 8.50 compared to 8.71 in the south-east, while for reducing inequality, expectations are 7.75 in the north-west) compared to 8.50 in the south-east. Noteworthy the country differences in poverty reduction are less pronounced than differences in inequality reduction. We assume the formative effect of the welfare state builds a consensus on poverty reduction but (even in liberal regime countries) while consensus on social inequalities is not established yet.

Figure 1. Satisfaction with democracy (country averages, 0–10 scale)

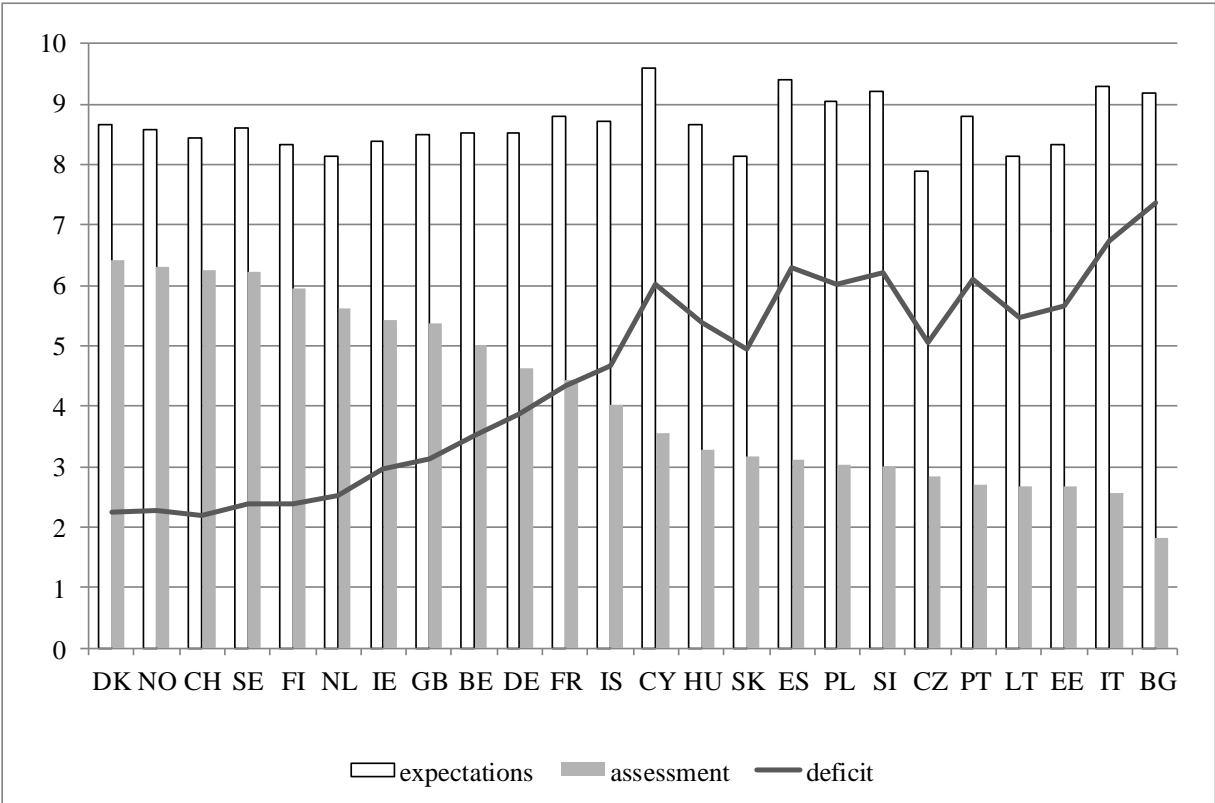


Note: Figures weighted by design and population. Source: ESS 2012

When it comes to assessments of social-policy performance the results are very different, with the Mediterranean countries and the post-communist countries showing very low scores compared to Europe’s northern and western reaches. The policy deficit is thus larger in the south and east of Europe. Interestingly, expectations for poverty reduction and

inequality are lower in Slovakia and the Czech Republic, yet the policy deficit is high there, due to a more negative assessment of the results of social policy.

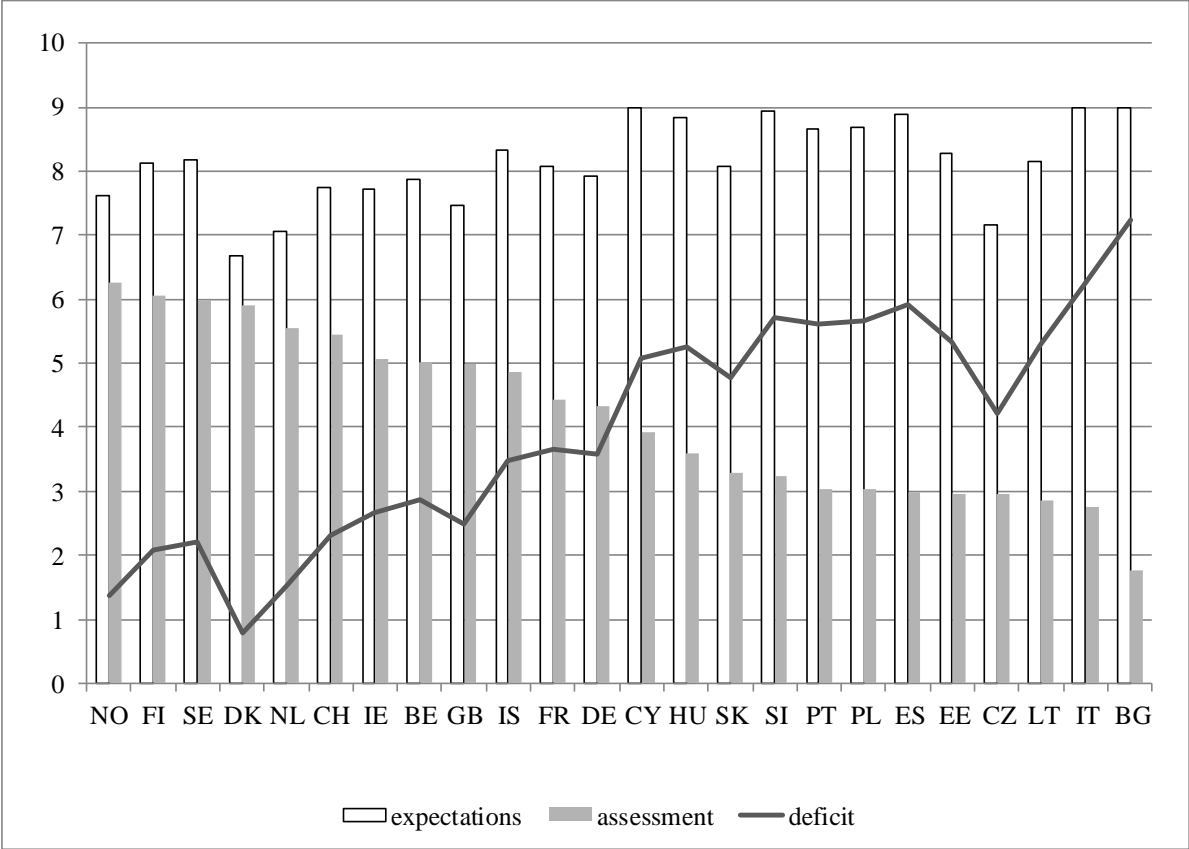
Figure 2. Policy deficit regarding the reduction of poverty: expectations for government attempts to reduce poverty, and assessments of the government’s success in this area (scale of 0–10, country averages)



Note: Countries ranked according to citizens’ assessment of how well government performs in reducing poverty. Figures weighted by design and population. Source: ESS 2012

The ranking of the countries on assessments of government success in reducing poverty and income inequality is not identical with their ranking on satisfaction with the working of democracy. Nevertheless, a division between the north-west and the south-east is clear.

Figure 3. Policy deficit regarding the reduction of income inequality: expectations for government attempts to reduce income inequality, and assessments of the government’s success in this area (scale 0–10, country averages)



Note: Countries ranked according to citizens’ assessment of how well government performs in reducing income inequality. Figures weighted by design and population. Source: ESS 2012

**Multi-Level Analysis and Discussion of Findings**

Now we examine the impact of welfare regime and of other individual- and country-level factors on SWD, with an emphasis on the role of social-policy. We estimate three specifications, in each case we apply OLS, and we report the results in Table 1. In all of the models, our estimates on the individual-level variables remain robust, and consistent with our hypotheses. On average, levels of SWD do not depend on sex, and persons over 60 years of age report higher satisfaction than others. People with higher levels of education express greater satisfaction on average, while people from lower-income households are less satisfied. The impact of these individual-level traits underscores the relevance of social status for SWD (previous studies show that social status also influences levels of satisfaction in other areas,

e.g. Guzi and de Pedraza, 2015). Interestingly, persons who have experienced unemployment during last five years do not show lower SWD. We assume that perceptions of unemployment risk are less dependent on personal experience than on the country's labour market situation.

In **Model 1**, we analyze the impact of country-level variables independently of welfare regime. Our estimates show that, as the *government-protection hypothesis* predicts, persons in richer countries express higher SWD. Both variables measuring the impact of the crisis are significant further confirming the importance of economic conditions on SWD. A fall in GDP and an increase in unemployment between 2007 and 2011 influence SWD negatively. This finding confirms the relevance of material wealth and economic fluctuations for satisfaction with the democratic system. Policy efficiency (i.e., the amount of poverty removed by income redistribution) is positively correlated with SWD, thus confirming the *policy-efficiency hypothesis*. In accordance with the *compensation hypothesis*, a fall in expenditure on social benefits (after expenditure on unemployment and old-age benefits is excluded) during the crisis is associated with lower levels of SWD. Subjective assessments of the policy deficit—on the reduction of both poverty and income inequality—are significant predictors of levels of SWD: thus the *policy-deficit hypothesis* finds support. Figure A1 in Appendix shows the predicted SWD as a function of policy deficits. To give an example, an increase in the poverty-reduction policy deficit from 2.4 to 6.3 (these are the average values for Finland and Spain, respectively) is *ceteris paribus* associated with a decrease of 0.5 in SWD.

In **Model 2** we add welfare-regime indicators, in order to assess how different welfare regimes shape levels of SWD when individual- and country-level variables are controlled for. The estimates on policy-deficit variables are not affected, and country-level variables retain their significance and signs. The estimate of policy efficiency is now negative and significant. Thus, while policy efficiency is positively correlated with SWD, differences in policy efficiency within a given welfare regime are negatively related to SWD. One explanation for this is that policy efficiency is not directly visible to citizens (at least not to the extent that GDP levels or unemployment rates or the overall performance of welfare regimes are). In addition, perceptions about social policy may be influenced by GDP levels or unemployment rates (the standardized effect of GDP is actually the strongest). Nevertheless, the relationship between policy efficiency and SWD merits further investigation.

Table 1 Satisfaction with democracy

	Model 1		Model 2		Model 3	
Poverty-reduction policy deficit	-0.13***	(0.01)	-0.13***	(0.01)	-0.26***	(0.04)
Inequality-policy deficit	-0.09***	(0.01)	-0.09***	(0.01)	-0.13***	(0.03)
Policy Efficiency	2.35***	(0.22)	-1.05***	(0.31)	-2.73***	(0.38)
Policy efficiency x poverty deficit					0.37***	(0.09)
Policy efficiency x inequality deficit					0.1	(0.08)
Log GDP pc	1.18***	(0.07)	2.15***	(0.14)	2.12***	(0.14)
GDP (change 2007-2011)	2.34***	(0.15)	0.95***	(0.2)	1.09***	(0.2)
Unempl. rate (change 2007-2011)	-0.18***	(0.03)	-0.12***	(0.03)	-0.14***	(0.03)
Social expend. (change 2007-2011)	1.46***	(0.18)	0.44**	(0.22)	0.94***	(0.24)
Female	-0.02	(0.04)	-0.01	(0.04)	-0.02	(0.04)
Age 15-29	ref.		ref.		ref.	
Age 30-44	0	(0.06)	0.03	(0.06)	0.03	(0.06)
Age 45-59	0.05	(0.05)	0.07	(0.05)	0.07	(0.05)
Age 60+	0.13**	(0.05)	0.14**	(0.05)	0.15***	(0.05)
Education: primary and lower sec	ref.		ref.		ref.	
Education: upper sec vocational	0.06	(0.05)	0.03	(0.05)	0.02	(0.05)
Education: upper sec general	0.26***	(0.07)	0.27***	(0.07)	0.27***	(0.07)
Education: tertiary	0.36***	(0.05)	0.33***	(0.05)	0.32***	(0.05)
Unemployed in last 5years	-0.08	(0.06)	-0.08	(0.06)	-0.08	(0.06)
Living comfortably on present income	ref.		ref.		ref.	
Coping on present income	-0.29***	(0.04)	-0.28***	(0.04)	-0.28***	(0.04)
Difficult on present income	-0.68***	(0.06)	-0.66***	(0.06)	-0.65***	(0.06)
Very difficult on present income	-1.19***	(0.09)	-1.16***	(0.09)	-1.15***	(0.09)
Conservative			ref.		ref.	
Post-Communist			0.66***	(0.1)	0.69***	(0.1)
Liberal			0.20***	(0.08)	0.27***	(0.07)
Mediterranean			-0.48***	(0.1)	-0.25**	(0.1)
Social-Democratic			0.86***	(0.05)	1.02***	(0.05)
Constant	-6.99***	(0.69)	-15.85***	(1.48)	-14.99***	(1.48)
R-squared	0.247		0.253		0.257	

Source: European Social Survey (2012), Eurostat, own calculations.

Note: Dependent variable in all models: “On the whole, how satisfied are you with the way democracy works in [country]?” Answers recoded on a scale from 0 to 10. OLS coefficients with robust standard errors in parentheses, number of countries=24, sample size=40,321.

\*\* p < 0.05; \*\*\* p < 0.01

Our results indicate that SWD varies between different welfare regimes. Taking conservative countries as our reference category, we find higher satisfaction in social-democratic, liberal, and post-communist countries. Conversely, Mediterranean countries – with their under-protective welfare regimes – show lower levels of satisfaction. However, the

underlying processes shaping these effects may be complex. Welfare regimes influence both social structures and living conditions, as well as values/beliefs and public expectations (see the theoretical section). The influence of history, of political culture, and of the broader socioeconomic context can be relevant as well. Social-democratic systems with universal social rights and stronger social protection are associated with more favourable assessments of how democracy is working than are less protective Mediterranean systems. Similarly, the relatively positive assessment given by citizens in post-communist countries stems from the relatively high level and broad coverage of social policies in those nations (Inglot, 2008; Haggard and Kaufman, 2009). In addition, the legacy of communism in central and eastern Europe may contribute to a more positive assessment of the state of democracy (i.e., people are more satisfied with their current governments than they were with the previous communist dictatorships). The higher level of SWD in liberal countries is likely due to lower expectations (relative to those in conservative countries) for redistribution and welfare support, which in turn leads to higher satisfaction with welfare-regime performance.<sup>7</sup>

In **Model 3**, (the full model), we add the interaction of policy efficiency with the two policy-deficit variables. In this way, we explore whether the effect of policy efficiency on SWD changes with the magnitude of the policy deficits for poverty reduction and income-inequality reduction. Estimates on country-level variables change only a little, and policy efficiency is negatively correlated with SWD as in Model 2. The estimate on the interaction term with policy efficiency is positive, and significant for the poverty-reduction policy deficit (thus supporting the *policy-efficiency hypothesis*). This means that policy efficiency mediates the negative impact of policy deficit on SWD more in countries with large policy deficits. In other words, people with the same subjective policy assessment express higher SWD in countries that are more efficient in reducing poverty through redistribution. An illustration of this effect can be seen by considering the example of Italy and Slovenia, which have a similar poverty-reduction policy deficit (6.72 and 6.22 respectively) but which differ in policy efficiency (0.20 and 0.46 respectively). The estimated SWD in Italy and Slovenia is 4.65 and 5.30, respectively. This illustrates the mediating role of higher policy efficiency in Slovenia for SWD. The interaction of policy efficiency with the inequality-reduction policy deficit is not significant.

Our results confirm the impact of crisis and austerity policies on SWD. The GDP variables remain significant and positive, confirming that richer countries and countries less affected by the financial crisis exhibit higher SWD. The importance of labour market



development to SWD is illustrated by the negative estimate on unemployment-rate change. Finally, the positive correlation for adjusted social expenditure and SWD indicates that increases in social expenditure (over 2007-2011) have positive effects on SWD. In other words, countries that introduced austerity policies in order to cope with the financial crisis are more likely to experience a drop in SWD.

The welfare-state indicators confirm that SWD is higher in social-democratic and post-communist countries than in conservative countries. Mediterranean countries show lower levels of SWD, while SWD in liberal countries is slightly higher on average than in conservative countries. This is likely because different welfare regimes do not perform equally well in such areas as poverty reduction. In addition, people living under different types of welfare regime are likely to have different expectations about what the state can and will do.

Overall, Model 3 confirms the strong impact of the policy-deficit variables, and particularly of the poverty-reduction policy deficit. The significant interaction term confirms the relevance for SWD of policy efficiency in reducing poverty. Finally, the effects of welfare-state austerity measures are significant: increasing welfare effort measured by social expenditure (unemployment benefits and pensions excluded) is correlated positively with higher SWD, while welfare cuts bring lower SWD. Similarly, the indicators of the crisis like a drop in GDP and an increase in unemployment are significant predictors of SWD.

## **Conclusions**

In this article, we have confirmed the importance of welfare policy for satisfaction with the state of democracy. We have further showed the relation of economic performance and austerity policy with SWD in the context of the recent financial crisis. In doing so, we have tested five hypotheses:

Hypothesis H1 (*the policy-deficit/dissatisfaction hypothesis*) is confirmed: as predicted, the policy-deficit variables are negatively correlated with SWD.

Hypothesis H2 (*the policy-efficiency hypothesis*) is confirmed only partially, although policy efficiency is indeed a significant predictor of SWD. The estimate is initially positive, but it becomes negative when welfare regime is controlled for. We explain this by the low transparency of actual policy efficiency. The interaction term of policy efficiency with the

poverty-reduction deficit shows a positive relationship that confirms the mediating role of policy efficiency in countries with large policy deficits. This outcome is consistent with our hypothesis, and to some extent it qualifies the conclusion that poverty-reducing efficiency has a negative impact on SWD.

Hypothesis H3 (*the welfare-regime hypothesis*) is confirmed. Welfare regime seems to influence satisfaction with the democratic order. SWD in social-democratic and post-communist countries, and under liberal regimes as well, is higher than in conservative countries (the reference category); while it is lower in Mediterranean countries, with their rudimentary welfare provisions. Our explanation is that universal social rights/coverage and high benefit levels affect SWD positively for those living under social-democratic regimes, and negatively for those living under Mediterranean regimes. In post-communist countries, broad coverage, relatively high benefit levels, and the memory of communist dictatorship disposes the public to assess the current regime positively. For those living under liberal regimes, higher SWD probably reflects the formative welfare-regime effect (that is, low public expectations of WSP and rather low policy-deficit levels).

Hypothesis H4 (*the government-protection hypothesis and compensation hypothesis*) is also confirmed. Contextual variables moderate the relationship between welfare regime and SWD. We observe lower satisfaction with how democracy is working in countries with low GDP levels, cuts in social expenditure, and worsening economic conditions due to financial crisis.

Hypothesis H5 (*the social-status hypothesis*) is confirmed: individuals with higher incomes and more extensive education show greater satisfaction with how democracy works in their country. Neither gender nor age influences levels of satisfaction, although persons over 60 experience higher SWD than younger people. Past experience of unemployment has no influence on SWD. This is probably because working-age people fear the risk of becoming jobless when unemployment rates are high, regardless of their personal experience. Country-level unemployment rates thus matter more than personal experience.

Our findings confirm the importance of the welfare state in shaping citizens' assessment of how democracy works in their country as regime types remain significant even when controlling for economic and state performance factors. A clear division exists in SWD between citizens living under liberal and social democratic welfare states and those living under conservative and Mediterranean ones. The post-communist welfare regime is an

example of how type of welfare regime can have greater impact than poor economic factors. Those living under post-communist welfare regimes exhibit high levels of SWD despite having rather high policy deficits. We attribute this outcome to high probability that citizens compare their current situation to life under the previous dictatorship. Thus, the communist legacy softens the negative impact of the rather high policy deficit in those countries.

Our findings further demonstrate the importance of welfare policies during crisis periods for maintaining the legitimacy of democratic political system. Austerity policies, drops in GDP, and increases in unemployment have a negative impact on SWD. We show that government interventions aimed at poverty reduction have potential to partly alleviate these negative effects as policy efficiency is positively correlated with SWD. At the subjective level, the policy deficit is equally important: aligning government policy with the expectations of citizens strengthens the satisfaction with political system.

More research is needed to investigate the complex mechanism that link SWD, WSP, and such mediating variables as the social stratification effect, economic security effect, and the formative effect including the expectations towards the welfare state, the culture, norms and related preferences, and trust in institutions.

## Notes

- 1 According to the *tax-fatigue hypothesis*, workers with a high degree of job security will oppose higher taxes and contributions during a crisis. This is because they want compensation for foregone income gains – gains foregone because the proportion that contributed by individuals to state revenues increases economic downturns (Dallinger (2010).
- 2 Welfare regimes are ‘social stratification regimes’ (Esping-Andersen 1990).
- 3 Inglot (2008: 308) emphasizes, as a legacy of post-communist welfare states, “the maintenance of the core social insurance programmes, ... and later also wide distribution of these benefits across different occupational groups.” Similarly, Haggard and Kaufman (2009) describe universal coverage as a specific feature of post-communist welfare systems.
- 4 The European Social Survey also includes the following survey question: “How democratic do you think [country] is overall?” We think that our preferred variable better reflects the implications of the democratic policy-making process, including the welfare state and social programs. This is a standard variable in most studies that aim to capture how democracy works in practice (Dalton 2004; Norris 2011).
- 5 Calculated as the difference between the at-risk-of-poverty rate before social transfers (table *ilc\_li10*) and after social transfers (table *ilc\_li02*), divided by the at-risk-of-poverty rate before social transfers (Eurostat, 2015).
- 6 Studies from the 1990s classified Switzerland as liberal; those from the 2000s classified it differently (Arts and Gelissen, 2010). More recent studies recognize the

gradual shift towards a Bismarckian/conservative regime on the part of this latecomer (Häusermann, 2009; Nollert and Schief, 2011).

- 7 Note that the policy deficits are small in liberal countries (see figures 2 and 3). Similarly, expectations regarding government responsibility for the reduction of poverty/income inequality tend to be low.

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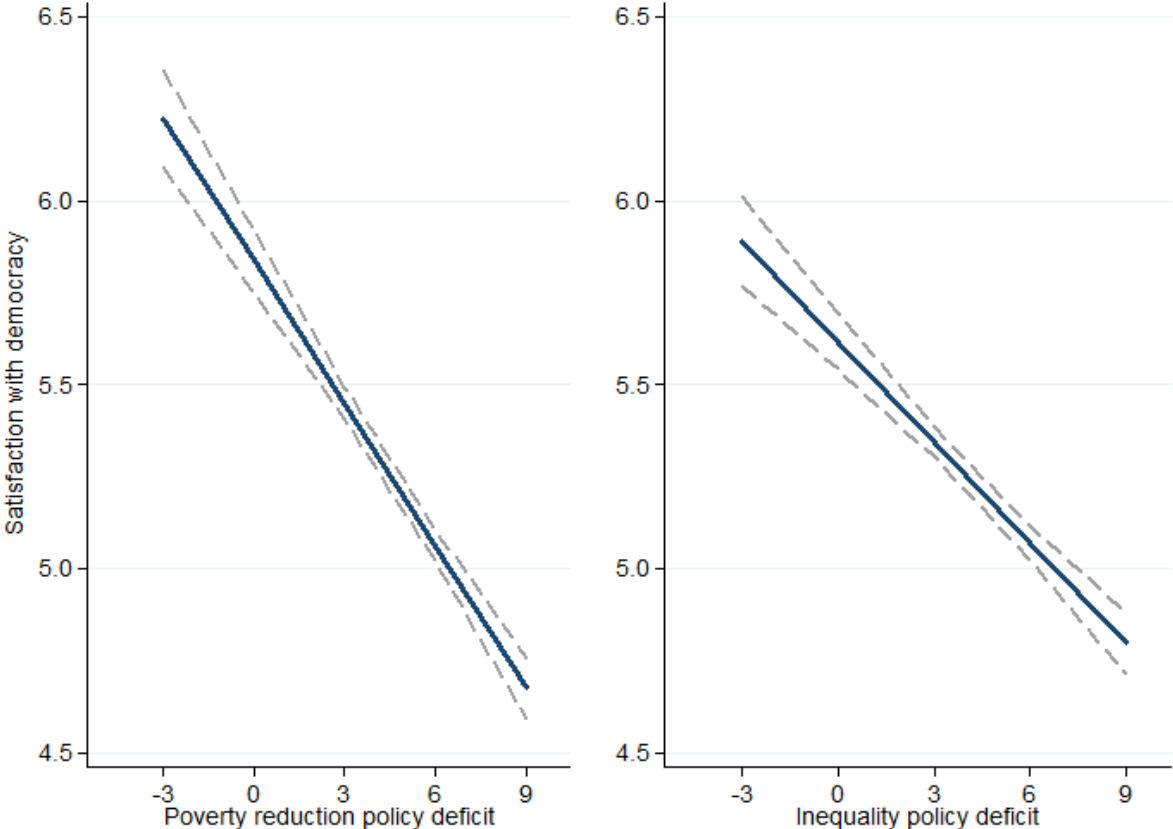
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**Annex:**

Figure A1. Predicted satisfaction with democracy as a function of policy deficit



Source: European Social Survey (2012), Eurostat, own calculations

Note: Predictions are based on estimations in model 1 and presented are 95% confidence intervals.