Economic Development and Social Capital in European Democracies

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1. Introduction

In the aftermath of the global economic and financial crisis, also termed as the “Great Recession” in 2008, there has been a newly flourishing debate on the extent to which economic performance in general, and crises in particular, affect social capital. The consensus acknowledges the staggering initial consequences of the collapse: the stock market witnessed a depreciation exceeding fifty percent of its total capitalization (Farmer 2012: 694-695), that housing prices fell dramatically and that banks stopped lending (Gertler/Gilchrist 2018: 7-9). The ripple effects swiftly permeated the entire economy, as unemployment soared to as high as 10 % and tax revenues dwindled in tandem with declining employment and income levels (see e.g. Bozio et al. 2015; Bianco et al. 2015: 5-8). In the corresponding scholarly discussion, the prevailing narrative regarding the distributive repercussions of the Great Recession often characterizes it as an exogenous shock, thus allowing scholars to identify its effects in ways that rely on relatively frugal assumptions.

Considering the context of the far-reaching and, in recent times, unprecedented scope of the economic crisis, one of the primary points of contention is the extent to which the expected impact of the economic downturn on social capital can be expected to be primarily a transitory phenomenon, or if it indeed needs to be examined through the lens of its many-faceted enduring ramifications. It this sense, it is an attractive time to break up the discussion and take a closer look at various way in which the crises may have taken its toll on social capital and social well-being, because a relatively long series of post-recession data is now available, and also because that series is extensive enough to distinguish between crisis, recession, and recovery stages. Furthermore, with enough time passing between the onset of the economic crises and the at which this study is conducted, some of the potentially lagged effects proposed by the literature can be begun to be detected and evaluated. Overall, the Great Recession provides new opportunities for such research and the timing of the economic downturn coincides with the growing commitment to new approaches to inferring causality of the individual and extra-individual effects of economic, social and political factors on social capital.

At the centre of the discussion is the proposition that social capital constitutes a network of collaborative ties among individuals, fostering the resolution of collective action dilemmas.

Within this framework, all human societies grapple with collective action challenges, and their collective prosperity hinges upon members' cooperative endeavours toward shared objectives and common goals. While Putnam (1993) and Coleman (1990) intend the concept of social capital to refer to a property of aggregate communities, wherein heightened community involvement engenders a dense fabric of social interactions and enhanced mutual trust, it stands to reason that analogous effects should manifest at the individual level within these communities. After all, it is not the abstract notion of a "community" that engages in participation or nurtures trust, but rather the individuals comprising said community, actively engaging in civic organizations and fostering positive sentiments toward one another (Putnam 2000). Thus, the conceptualization of social capital espoused here pivots on the fundamental premise that social bonds possess a transferable value, transcending mere social outcomes.

Previous studies have shown that the Great Recession's impact extended far beyond mere economic ramifications. For example, studies have highlighted its adverse effects on individuals' health (Stuckler et al. 2009; Karanikolos et al. 2013), the erosion of social cohesion (Andrews et al. 2014; Armingeon/Guthmann 2014), increased societal pessimism (Steenvoorden/van der Meer 2017), and its contribution to the rise of protest movements and political populism (Bermeo/Bartels 2014; Grasso/Giugni 2016). In dealing with the consequences of the Great Recession from the point of view of its social and political impacts, it is instructive to focus on social capital since it is often regarded as a social resource for those lacking economic assets. It should be also pointed out, that social capital can play a fundamental role in securing successful development alternatives where the economy has failed (Sabatini 2008: 85-88). Focusing on social capital a resource, that those disadvantaged by the economic downturn can draw upon underscores its significance in shaping the variability of interpersonal relationships across different individuals. While previous research has predominantly focused on explaining the decline of social capital in the United States, particularly examining aggregate-level changes (Putnam 1995a) a complementing micro-level perspective holds promise in unravelling the dynamics of social capital components impacted by such crises at a broader societal level.

The economic and financial crisis has reignited social tensions, manifesting not only in public discourse but also in tangible societal dynamics, including resurging conflicts between rich and poor, and putting various social classes against each other, and different demographic groups at odds[1]. Heightened unemployment rates have fuelled grievances regarding wealth distribution, sparking debates surrounding the sustainability of existing welfare state frameworks (Vis et al. 2011: 338-341). Mass layoffs, encroachments on the collective bargaining rights of public sector workers, and the slow post-recession recovery have reignited class struggles, revitalizing long-standing social conflicts now articulated through slogans such as “we are the 99%”, which highlighted the disparity between the very richest in society and everyone else. Numerous instances can be brought forward to substantiate the notion, that from a cultural standpoint, social capital serves as the adhesive reconciling individualistic drives propelling economic growth with the cohesive force of social networks mitigating social fragmentation (see e.g. Sabatini 2007; Woolcock 1998; Skidmore 2001; Van Staveren/Knorriga 2007). Particularly during periods of financial and economic crises, the disillusionment and estrangement found expression through protests against economic disparity, especially as embodies by movements such as Occupy Wall Street, which commenced in New York City’s financial hub in September 2021 and later gained traction globally (Calhoun 2013: 27-29; Jensen/Bang 2013). In Europe, mobilizations against austerity measures found – among others – its expression in the so-called Plazza Protests of the Spanish “Indignados” (Castañeda 2012) movement or the activists organised by the “Direct Democracy Now!” movement that organised protests in major Greek cities between 2010 and 2012 (Sotirakopoulos/Sotiropoulos 2013: 444-447).

This brief survey of mobilizations amidst economic adversity underscores a growing resistance against the backdrop of a deepening crisis across financial, economic, and political realms. In many ways, delving into the structural shifts within the socio-economic landscape and its institutional framework inevitably circles back to the discourse on the influence of modernization on social capital. Putnam and Fukuyama (Putnam 1995a, 1995b; Fukuyama 1995) for example have noted the erosion of traditional bonds and the proliferation of anomie and alienation, resulting in the decay of communal values and institutions. Moreover, social disorganisation theories (Kornhauser 1978; Warner 2003) have long posited that the quality of interpersonal and inter-group relations serves as a barometer of a community’s resilience over

[1] The assertion regarding the re-emergence of social tensions in the aftermath of the 2008 economic and financial crisis is supported by various documented instances. For instance, the Occupy Wall Street movement, which gained momentum in 2011, highlighted the growing discontent with income inequality and corporate influence on economic policies. Moreover, the mortgage crisis disproportionately affected minority communities, leading to increased scrutiny of discriminatory lending practices and contributing to discussions on racial and ethnic economic disparities in the USA.

time. When tensions between social factions become ingrained within a community's fabric, individuals arguably find it increasingly challenging to uphold shared objectives and values, such as sustainable health, family cohesion, and social harmony. In fact, these tensions often foster a self-perpetuating cycle of adverse feedback effects (Markowitz et al. 2001; Steenbeek/Hipp 2011). The strains induced by the financial and economic crisis potentially exacerbate these detrimental dynamics, further entrenching societal divisions and undermining collective well-being.

1.1 Relevance of Social Capital

As has been established, there is no shortage of claims regarding the positive benefits for individuals holding social capital or even for those lacking in social capital but living in social capital-rich environments. Beyond enhancing health, happiness, and safety (Putnam 2000: 290), social capital appears to bolster government efficacy by facilitating public engagement in policymaking processes, thanks to heightened political acumen and societal cooperation (Hawes et al. 2012: 122; Putnam 2000; Tavits 2006). Although many normatively desirable outcomes are known, recent research hints at a caveat: not all segments of society may equally benefit from these positive externalities. Findings suggesting the limited benefits of social capital (e.g. Hero 2003; 2007) have prompted scholars to delve deeper into the conditions dictating its efficacy, whether positive or negative, and its magnitude (Hawes et al. 2012: 122).

While some argue for a strictly positive conceptualization of social capital, that identifies it as a resource fostering a broad range of positive outcomes (see e.g. Helliwell/Putnam 1999; Putnam 2000), others advocate for a more nuanced perspective (see e.g. Gargiulo/Benassi 1999; Portes 1999). Three considerations are pivotal in achieving a balanced view of social capital's externalities and potential drawbacks. First, investments in social capital, not unlike investments in physical capital, are irreversible and non-convertible; thus, imbalanced or excessive investments can transform a potentially fruitful asset into a constraint and liability (Gabbay/Leenders 1999; Gargiulo/Benassi 1999, 2000; Hansen et al. 2001). In studies dealing with "corporate social capital" for instance, unequal or imbalanced distribution of social capital and access to social networks is hypothesized to negatively impact opportunities for cooperation and productivity (Gabbay/Leenders 1999: 4). Second, while social capital may benefit certain individuals, it can yield adverse consequences for broader aggregates within which these individuals are embedded. As a case in point, Putnam (2000) suggests that certain types of social capital are either intentionally or unavoidably inward-focused, thereby fostering exclusive identities and homogeneity within groups (also see Rostila 2010: 312). The resulting 'bonding' social capital occurs in social context that bring "together people who are like one another in important respects (ethnicity, age, gender, social class, and so on)" (Putnam/Goss 2002: 11). As a result, multilevel analyses that take into account both, the societal levels of social capital as well as the individual endowment with its different forms are indispensable when scrutinizing complex organizations through the lens of social capital. And third, the values of a given set of direct benefits and risks vary for each actor, contingent upon various moderating factors (Adler/Kwon 2002: 28-29).

Social capital offers a plethora of direct benefits, foremost among them being improved access to information. Acting as a gateway, social capital enables individuals to tap into a diverse array of information sources, enhancing the breadth, relevance, and timeliness of the knowledge acquired. This advantage is aptly exemplified by Coleman (1988: 104), showcasing how social scientist remain up to date with cutting-edge research through daily interactions with their peers. Network studies further underscore the instrumental role of social connections in uncovering job prospects and innovative ideas (see e.g. Erickson 2001; Mouw 2003: 877-978). Moreover, a body of research collectively showcases how network ties provide invaluable insights into job markets and emerging trends (see e.g. Adler/Kwon 2002: 29; Boxman et al. 1991; Burt 1997; Fernandez/Weinberg 1997; Granovetter 1973).

Extending beyond individual benefits, social capital's influence extends to ethnic entrepreneurship and firms (see e.g. Portes/Sensenbrenner 1993), community connections play a pivotal role in furnishing newly arrived immigrants with crucial information, significantly shaping their prospects for mobility. Viewed from the perspective of economic sociology, such a view highlights that social capital and its embeddedness in community-based relationships is beneficial in terms of upholding collective values fostering cooperation (Portes/Sensenbrenner 1993: 1337). In the domain of interorganizational research (Powell/Smith-Doerr 1994; Podolny/Page 1998), studies consistently emphasize how interorganizational networks empower firms to acquire new skills and knowledge. Additionally, Uzzi (1997) sheds light how social embeddedness facilitates the exchange of nuanced information among firms, further amplifying the informational dividends derived from social capital (Adler/Kwon 2002: 29).

In certain instances, the informational advantages accrued at the individual or community level can yield positive 'spillover' effects for the broader aggregate. In his analysis of network data, Burt (1997: 365-366) illustrates how social capital facilitates brokering activities, enabling the flow of information from external actors to others, otherwise uninvolved individuals, or groups. This reciprocal exchange of information within the network engenders a diffusion effect, benefiting the entire network (Burt 1997: 370). Studies with a specific economic focus further demonstrate how the exchange of nuanced information among firms enhances their ability to forecast future demands and anticipate customer preferences (also see Uzzi 1997; Adler/Kwon 2002: 29). Additionally, social capital among independent units within multinational corporations facilitates information transfer (Chen/Lovvorn 2011; Walter et al. 2007). Weak ties[2] facilitate the cost-effective search for new information by product development teams, while strong ties facilitate the efficient transfer of complex information and tacit knowledge. Collectively, these dynamics, under unchanged conditions, promise significant positive outcomes for the economy as a whole (Hansen 1999: 105).

Another significant benefit of social capital lies in its capacity to bestow influence, control, and power upon individuals or groups. Coleman (1988: 89-103) illustrates this phenomenon through the example of the 'Senate Club', where certain senators wield greater influence due to the accumulation of reciprocal obligations from their peers, enabling them to navigate legislation more effectively (see also Adler/Kwon 2002; Jackman/Miller 1998: 63-64). This example in particular sheds light on how power advantages empower actors to accomplish their objectives efficiently. Particularly in the context of entrepreneurs bridging disconnected groups, scholars argue that such individuals possess the authority to determine whose interests the bridge serves, negotiate favourable terms, and consequently emerge as influential figures (see e.g. Burt 2014; Salancik 1995). In a related study, Burt (1997: 363-365) contends that managers

[2] The concept of "weak ties", as explored in the social capital literature, carries both positive and negative implications (Granovetter 1973; Putnam 2000; Newton 1997: 579). On the positive side, weak ties can serve as valuable bridges between disparate social networks, facilitating the exchange of diverse information, resources, and opportunities (Putnam 2000). This can enhance individual access to a broader range of knowledge and connections, fostering creativity and innovation (Hauser et al. 2007; Filieri/Alguezaui 2014). However, it is essential to acknowledge the potential negative aspects, as weak ties may lack the depth of trust and reciprocity found in strong ties. This could result in limited emotional support and may hinder the development of strong social bonds. Additionally, the reliance on weak ties for critical information may lead to a more fragmented social fabric, raising concerns about the overall cohesion and resilience of communities (Gargiulo/Benassi 1999). Hence, while weak ties offer advantages in terms of information diffusion and access to diverse resources, a balanced consideration of their limitations is crucial for a comprehensive understanding of their role in social capital dynamics.

bridging structural holes[3] wield greater power, as they can oversee projects that link disparate groups. These power advantages can also yield positive spillover effects for the broader collective under certain circumstances, as power facilitates the effectiveness of collective action. Again, drawing on the argument put forward by Coleman (1988), the senate serves as a pertinent example, where members with accumulated power can assume leadership roles, thereby enhancing the legislative body's overall effectiveness.

The third advantage of social capital lies in the solidarity it fosters, particularly associated with the "norms" component. As also pointed out by Adler and Kwon (2002) strong social norms and beliefs, often found in tightly knit social networks, encourage adherence to local customs and regulations, thereby reducing the necessity for formal controls. This phenomenon is exemplified by sociological studies highlighting the effectiveness of rotating-credit associations (Geertz 1962; see also Lee 1988) and the minimal dropout rates observed among students in Catholic schools (Coleman 1988). Similarly, in organizational culture studies, strong solidarity is evident in organizations with cohesive cultures. Nelson's (1989) examination of intergroup ties in organizations supports this notion, illustrating how frequent interactions between groups facilitate dispute resolution and prevent the accumulation of grievances. In what he proposes as the 'contact hypothesis', cross-cutting contacts between social groups reduce conflict because recurring interaction fosters the development of positive sentiments and increases internal group cohesion over time (Nelson 1989: 378, 384-385). Moreover, research suggests that trust networks can transmit more nuanced and sensitive information compared to other network types due to the solidarity they nurture (see e.g. Krackhardt/Hanson 1993; Ricken/Seidl 2010; Adler/Kwon 2002: 30).

Most notably, forms of solidarity conductive towards social capital can also arise from weak ties, particularly those that bridge otherwise disconnected groups. Granovetter (1983) discusses studies of larger organizations tasked with integrating subgroups characterized by strong internal ties, such as schools with tightly connected subgroups (Karweit et al. 1979), hospitals with robust departmental structures (Blau 1982), and community movements centered around cohesive cores, such as women's grass-root level movements (Steinberg 1980). In each

[3] "Structural holes", a concept in social capital literature by Ronald S. Burt (1997), refers to gaps in social networks where connections are absent. Bridging these gaps provides individuals with unique advantages, fostering innovation and access to diverse resources. This concept highlights the dynamic nature of social capital, emphasizing the strategic positioning of individuals within networks to enhance information flow and collaboration (see also Coleman 1990: 310; 1988: 104; Granovetter 1992: 44).

scenario, Granovetter (1985; 1992) argues, that even weak ties between subunits significantly contribute to the integration of individuals in the context of communities or the society as a whole.

For the broader aggregate, positive externalities from the internal solidarity of collective actors become evident in heightened civic engagement on a societal scale and enhanced organizational citizenship behaviour within the broader context of social networks (Adler/Kwon 2002: 30). Putnam elaborates on how the expected effects occur in his exploration of civic engagement, noting how associations cultivate cooperation, solidarity, and civic-mindedness among their members: "[i]nternally, associations instil in their members habits of cooperation, solidarity, and public-spiritedness" (Putnam 1993: 89-90). These ingrained habits extend beyond individual associations, fostering greater involvement in other groups and nurturing a heightened sense of generalized trust (Rothstein/Stolle 2008: 441). In the corporate realm, cohesive subunits are likely to exhibit reduced involvement in parochial conflicts, allowing employees to focus more on the overarching objectives of the organization (Adler/Kwon 2002).

Social capital, despite its notable benefits, also carries inherent risks that can sometimes outweigh its advantages for individuals and communities (Gabbay/Leenders 1999; Hansen et al. 1999; Leana/Van Buren 1999). Moreover, benefits accruing for some actors may inadvertently pose risks for other stakeholders (Portes/Landolt 1996). Overall, however, while a substantial body of research delves into the benefits of social capital, literature addressing its risks remains comparatively scarce. For instance, the power benefits associated with social capital may, in certain scenarios, come at the expense of its informational benefits. Ahuja (1998) argues that although an actor may derive informational advantages from a wide network of contacts with extensive connections, their direct contacts may exhibit reduced dependence based on their levels of social capital as compared to those with fewer connections.

Furthermore, from the perspective of studies dealing with solidarity benefits, solidarity advantages of social capital available to some may inadvertently pose challenges for others. Although this argument pertains mostly to the analysis of economic transactions from a sociological perspective, nevertheless it is instructive in terms of understanding the dynamics of adverse effects of social capital. Strong solidarity with ingroup members can result in the so called 'overembedding' of individual group members within a given group or community. This overembeddedness stifles the influx of fresh ideas, fostering parochialism and inertia within the group[4] (Gargiulo/Bernassi 1999). As Powell and Smith-Doerr put it, "The ties that bind may also turn into ties that blind" (Powell/Smith-Doerr 1994: 393). As far as the mechanism of the underlying relationship is concerned, Kern (1998: 209-211) provides a notable example of how such dynamics can lead to potentially adverse outcomes in industries with high levels of social capital, such as the inter-firm networks in the German industrial sector. He highlights how excessive interfirm trust in Germany impedes radical innovation, as firms exhibit unwavering loyalty to established suppliers or "intimate partners from within the network" (Kern 1998: 211), thereby delaying the exploration and adoption of novel ideas.

To summarize the main arguments proposed by the literature, it stands to reason that social capital exhibits both positive and negative externalities, and both are heavily influenced by contextual variables. On the positive side, it facilitates the dissemination of information through both strong and weak ties (Granovetter 1973), fostering innovation and bolstering organizational effectiveness (Burt 2014; Salancik 1995). Additionally, the power benefits stemming from social capital aid in goal achievement and cooperation (Coleman 1988: 90-91). Moreover, solidarity, characterized by shared norms and trust, promotes heightened civic engagement and organizational citizenship behaviour (Portes/Landolt 1996). Nonetheless, caution is advised, as the risks associated with social capital come to light. Overreliance on information benefits may weaken the dependency of direct contacts, while excessive solidarity can lead to overembeddedness, impeding the flow of new ideas, fostering parochialism (Powell/Smith-Doerr 1994) and impeding innovation (Kern 1998; see also Adler/Kwon 2002: 30-31).

1.2 Circumstances Shaping Social Capital

In addressing a central point of contention regarding the factors underlying the emergence of social capital - specifically, the lack of awareness surrounding the structural socio-economic conditions of society (Skocpol et al. 2000; Knack/Keefer 1997; Costa/Kahn 2003a) - Putnam (1993), drawing on his study of Italian regional governments, offers an explanation of varying

[4] The core ideas and assumptions of this argument is also neatly summarized by Uzzi and Gillespie (1999: 449) who, in dealing with corporate social capital, stress that "[s]tructural embeddedness refers to the concrete social ties between and among actors and focuses on material exchanges of resources and information as the basis of the exchange. The argument posits that different structural conditions set in motion either self-interested or cooperative interests and motives among banks and borrowers, which in tum affect the cost and availability of capital."

levels of social capital rooted in medieval history. He posits that the contemporary deficit in social capital in Southern Italy can be traced back to the absence of medieval towns in the twelfth and thirteenth centuries. This historical context sheds light on the current dearth of social capital, a connection which critics have challenged based on the observation that Putnam's “his historical reconstruction rests largely on qualitative data; but it also rests on a set of comparative inferences about individual values and community cohesiveness in the two regions that is of questionable historical validity and innocent of structural grounding” (Tarrow 1996: 389).

In the same line of reasoning as Putnam (1993) and his explicit reference to “path dependency” theory - that is, the notion that future outcomes are contingent on past trajectories, with certain destinations being unattainable from certain starting points or as Putnam (1993: 179) puts it “(…) where you can get depends on where you’re coming from, and some destinations you simple cannot get to from here” - a significant portion of the discourse on social capital’s emergence is linked to the longstanding debate on its role in sustaining democratic political systems. As highlighted by Paxton (2002), social capital, with its ambiguous nature, has often been portrayed as a potential remedy to rejuvenate democracy. Critiques of Putnam’s work predominantly revolve around what Portes (1998: 19) refers to as an “elitist stance of the argument, where responsibility for the alleged decline of social capital is put squarely on the leisure behaviour of the masses, rather than on the economic and political changes wrought by the corporate and governmental establishment”. Furthermore, critics also highlight the limited attention paid by Putnam (1993; 2005) to economic inequality and the potentially supportive role of state institutions and note those as significant drawbacks of Putnam’s explanatory framework[5] (see e.g. Skocpol 1996: 26, Halpern 2005: 230).

In contrast to Putnam’s approach, a more promising avenue could consist of assessing the historical and institutional evolution of social capital by interpreting broader socio-economic conditions and observing resultant outcomes. Building on Tocqueville’s insights, Putnam and others contend that nations require robust social participation to ensure the functioning of democratic institutions. However, Putnam (1993) did not take into account de Tocqueville’s primary explanation ([1838]; 2015, 6-9) of the high levels of social participation in 1830s America, namely the widespread condition of equality. Consistent with this argument, empirical

[5] As pointed out by several reviewers of Putnams (1996; 2000) study, the fundamental problem pointed out is the logical circularity of the fundamental argument (Skocpol 1996: 25; Portes/Landolt 1996). Summarized by Portes (1998: 19) “As a property of communities and nations rather than individuals, social capital is simultaneously a cause and an effect.”

research extensively explores the varied impact of income inequality and economic development on social capital (Costa/Kahn 2003b; Knack 2002, 2003; Keefer/Knack 2008; Beugelsdijk/Van Schaik 2005b; Beugelsdijk et al. 2004; Ferragina 2013), consistently concluding that increasing socio-economic inequality tends to have a detrimental effect on social capital.

With particular attention directed towards individual economic activity, it has also been argued that the ability to work provides a sense of participation and membership in social activities among citizens (Leana/van Buren 1999: 544-545). The influence of labour market engagement often factors into explanations of individual economic status, as access to resources like time and money significantly impacts citizens' ability to engage in social and political spheres (Verba et al. 1995). In the study of social capital, the relationship between social capital and the labour market is notably complex. A wealth of evidence supports the assertion that effective utilization of social networks is pivotal in job acquisition (see e.g. Granovetter 1985; Flap/Völker 2008; De Graaf/Flap 1988). In what is usually summarized under the term of "organizational social capital", employment is viewed as a central mechanism that facilitates and supports the efficacy of stable network relationships and reciprocity (see e.g. Leana/van Buren 1999: 544). In this literature, social capital is frequently regarded as an independent variable capable of reducing transaction costs by facilitating the matching of labour supply and demand. Conversely, one might question whether states with higher labour market involvement exhibit denser social capital especially considering the fact that preceding the crisis, there was a steady uptrend in labour market activity (Marelli et al. 2012), coinciding with structural reforms that purportedly bolstered social capital.

Broadly speaking and with particular relevance in view of the impact of the financial and economic crisis on social capital, what can be categorized under the umbrella of activation policy, initiatives aimed at enhancing social protection systems' responsiveness to citizens' needs have gained traction as a response to crisis developments (Marelli et al. 2012; Sarfati 2013). The implementation of activation policies stems primarily from two motives: rectifying inefficiencies and addressing lacklustre outcomes associated with passive benefit distribution and fostering a new paradigm of social citizenship aimed at enhancing societal and institutional productivity. The notion of fostering an active society has been central to Denmark and other Scandinavian countries, where programs are universally designed to promote citizen participation in the labour market (see e.g. Larsen 2013; Lee/Koch 2023).

1.3 Impact of the Economic Crisis

With the onset of the economic crisis the labour market, in particular, experienced a sharp decline across many European countries, albeit with varying degrees of severity. While substantial recovery has been witnessed, as of 2024, nations such as Greece, Spain, Italy have yet to return to pre-2008 levels of unemployment (see e.g. Gökten et al. 2024: 2-3). This point of course relates back to the relationship between labour market participation and social capital. Reintegrating the long-term unemployed, starting with small roles within local communities, offers individuals the chance to forge new social connections and reinvigorate themselves. The advocacy for activation policies stems from dual objectives: rectifying inefficiencies and addressing the shortcomings of benefit distribution without reciprocal active involvement by recipients and fostering a new paradigm of social citizenship aimed at enhancing societal and institutional productivity (Marelli et al. 2012; Winkelmann 2009).

The economic strain individuals endure serves as a gauge of their ability to sustain their current lifestyle on their existing income (Whelan et al. 2001). Thus, individuals' subjective perceptions of their economic standing may not necessarily align with their actual social income or standard of living. For instance, those considered part of the 'squeezed middle' might perceive themselves as facing greater financial pressure than their working-class counterparts, whether accurate or not. Nonetheless, these subjective assessments can significantly influence individuals' cognitive processes and shape their attitudes toward society. According to reference group theory, individuals tend to compare their own circumstances with those of others, leading experiences of economic strain to evoke psychological responses similar to those associated with actual poverty and hardship (Runcimann 1966). Apart from potential declines in cognitive abilities (Mani et al. 2013), individuals under economic stress may feel constrained in their pursuit of desired social status, fostering feelings of discontentment when observing others' perceived successes (Elster 1983; Hedstrom 2005). Furthermore, in understanding the civic effects of the economic crises Colloca (2017) links a generalized feeling of economic insecurity with anxiety about social decline and proposes that an unexpected economic downturn could prompt individuals to perceive that the crisis has impacted them more severely than others in society (Colloca 2017: 381-382).

In scenarios characterized by economic strain, it is plausible that the resulting anxiety might be associated with diminishing social cohesion, where individuals perceive a lack of shared solidarity and believe that certain groups or individuals are benefiting at the expense of others (Andrews et al. 2014: 561-562). The aforementioned reference group theory posits that the tendency for individuals to unfavourably compare their own circumstances with those of others can breed hostility towards out-groups, thereby impeding the cultivation of collective goals and values essential for cohesive social coexistence (Merton 1957) and by extension, social capital (Putnam 2000). Given the established link between the economic opportunity frameworks and individuals' well-being in developed societies (Hagerty 2000), disparities between economic aspirations and actual achievements are likely to foster discontent and animosity, particularly towards out-groups. Furthermore, although the experience of economic strain differs from that of severe poverty, it can induce similar effects. Apart from potentially eliciting feelings of alienation and animosity, individuals enduring economic strain may lack the resources and motivation to engage in resolving collective action challenges. For instance, those affected by economic adversity as a result of the crisis, may feel incapable or disinclined to invest the necessary time and resources to participate in civil associations that promote intergroup connections (Smith 1994). Additionally, they may encounter difficulties in establishing diverse social networks and supportive relationships, crucial for mitigating out-group hostility and fostering societies rich in social capital (Putnam 2007).

In European societies, besides the economy, political institutions significantly shape individuals' attitudes, beliefs, and behaviours (Oskamp/Schultz 2005). Civic republican theories[6] propose that a populations trust and confidence in its political institutions reflects shared political values and moral principles, thus influencing their perceptions of fellow citizens (Putnam 1993). High institutional trust can be interpreted as indicating the presence of a robust civic culture within a nation (Almond/Verba 1963; Letki 2008). In such cultures, individuals are more adept at expressing, endorsing, and pursuing common objectives, while also demonstrating increased confidence in public authorities' responsiveness to their needs (Almond/Verba 1963: 106-110). This heightened engagement with the political system correlates with various positive outcomes, including greater resilience to perceived social challenges posed by immigration and ethnic diversity (Andrews 2009; Putnam 2007).

[6] The underlying interpretation related to what is perhaps the most influential strand of modern civic republicanism. In this view civic virtue retains its significance, though primarily in a functional sense. Civic republicanism asserts that freedom is shaped by institutions, implying that it can only be realized within a properly structured institutional system (Lovett 2022: 22; Dumitru 2024: 1). Civic virtue is functionally relevant, as it can "bring about the right sort of laws, institutions and norms, and in ensuring their durability and reliability" (Lovett and Pettit 2009: 22).

In the realm of social science research, institutional trust and the strength of civic culture are often perceived as intertwined elements contributing to social capital (Letki 2006). Previous research has frequently utilized institutional trust as a key indicator of social cohesion, alongside various other metrics (see e.g. Dickes/Valentova 2013; Green et al. 2011; Vergolini 2011). However, the corresponding relationship between different dimensions of institutional confidence on one hand and social capital on the other has received scant attention in the expanding empirical literature. Thus, besides evaluating the impact of the economic and financial crisis a secondary goal for the present analysis should consist of investigating the link between institutional trust and different form of social capital. Some studies within the realm of social capital research have explored the interconnectedness of its diverse dimensions, such as participation in membership organizations and political engagement (for instance, participation in membership organisations and political participation see e.g. Van der Meer/Van Ingen 2009; Wollebæk/Strømsnes 2008).

Nonetheless, trust in political institutions serves not only as an individual-level basis of broader societal attitudes but also reflects individuals' perceptions of institutional responsiveness to their needs and preferences (Scharpf 1999). Consequently, institutional trust can be reasonably well be expected to demonstrate a distinct and significant relationship with perceptions of social conflict within European societies during times of economic hardship. Although the corresponding literature is not entirely certain on whether the negative impact of deteriorating economic conditions is produced by individual-level economic hardship or if it stems from the institutions' inadequate response to the growing needs and demands of citizens (see e.g. Newton/Norris 2000; Torcal 2014) findings of empirical studies tend to agree that "trust, both in other people and in public institutions, tends to deteriorate when economic conditions worsen" (Torrente et al. 2019: 632; see also Brooks/Manza 2007; Polavieja 2013).

When individuals exhibit high levels of trust in their political institutions, they are more likely to extend that trust to their fellow citizens. The specific conditions and mechanisms can be argued to be underpinned by a bidirectional flow of causality. On the one hand, confidence in government might stem from a broader sense of interpersonal trust or be and extension of trust placed in authority figures who are personally more familiar (Brehm/Rahn 1997: 1003). On the other hand, the relationship from confidence in government to interpersonal trust is also plausible based on the contribution of political institutions "to the development of trust by bearing the information and monitoring costs individuals would otherwise have to pay" (Levi 1996: 8).

As a result, confidence in political institutions fosters trustworthy behaviour (Irwin 2009), acting as a repository of the 'meta-trust' within any given society, which bolsters citizens' belief that social and political conflicts can be effectively resolved. Trust in institutions creates a conducive environment for extending trust to others, as there is an assurance that transgressors will face repercussions. Once individuals place trust in institutional entities like courts, police, or other regulatory institutions, they feel encouraged to take the risk of trusting others, confident that any breach of trust will be met with appropriate consequences (see e.g. Andrews et al. 2014: 563; Farrell/Knight 2003; Newton/Norris 2000). In addition, in contexts characterized by high institutional trust, citizens exhibit confidence in the ability of institutions to effectively address societal issues (Rothstein/Stolle 2008: 451-453). Specifically, they trust that institutions possess the capacity to resolve conflicts between various societal groups, thereby mitigating potential social tensions. The presence of high levels of institutional trust streamlines the process of policy development and implementation for governments by reducing the transaction costs associated with garnering public support and compliance (see e.g. Cook et al. 2005; Fukuyama 1995).

However, the 2008 financial and subsequent economic crises have precipitated a significant deterioration in public finances across numerous OECD countries (OECD 2024). With the imperative to rescue banks and preserve employment, public debt has surged in all OECD nations except Norway, Sweden, and Switzerland (Streeck 2014; Acemoglu 2009). In many cases, public debt has more than doubled since the onset of the crisis, exceeding 100 percent of GDP in nearly half of EU countries by 2012 (Buti/Carnot 2012: 902). This surge poses significant challenges, as high levels of public debt constrain the reallocation of resources from existing to new priorities, with mandatory expenditures often consuming a substantial portion of the budget. Consequently, governments face mounting pressure to make unpopular decisions, potentially leading to tensions between fiscal responsibility and meeting citizens' needs and demands, thereby diminishing their responsiveness to constituents (Callan et al. 2010: 4-6; Schäfer/Streeck 2013: 2).

Concurrently with the waning ability for discretionary spending, there has been a noticeable increase in public disillusionment with democratic processes and core institutions. Voter turnout in parliamentary elections has witnessed a pervasive decline (Franklin 2004), coupled with a rise in electoral volatility (Drummond 2006) and a diminishing trust in politicians, political parties, and parliamentary systems (Putnam et al. 2000). Moreover, there has been a stark reduction in party membership (van Biezen et al. 2012), alongside a discernible disjunction between democratic ideals and satisfaction with the practical functioning of democracy (Norris 2011). In addition, extensive deliberation persists regarding the origins of the prolonged accumulation of public debt across various nations (Schäfer/Streeck 2013: 4).

During the pre-crisis period, public expenditure continued to rise, while the upward trend in taxation that had previously accompanied it began to taper off. Especially if viewed from the perspective of a historical review, the literature largely agrees that the 1970s were marked by high inflation across industrialized capitalist economies, which temporarily alleviated national debt burdens, akin to the preceding period of economic growth (Estes 1997; Cochrane 2011). However, it was during the 1970s and 1980s that the fiscal challenges of capitalist political economy were redefined by the emergence of the theory of 'public choice' (Ostrom 1975). Rather than attributing the impending fiscal crisis to a shortfall in fiscal resources in view growing societal needs - such as the need to regulate, to redistribute income and provide goods as services (Self 1993: 38) - public-choice theorists argued that the crisis stemmed from societal demands on public finances exceeding what was economically viable and sustainable in a market-driven economy (Abbott/Jones 2013). Contrary to the notion of a fiscal crisis arising from societal reluctance to finance essential needs, public-choice theorists blamed society and its political structures for excessively extracting resources from a private economy, positing that the economy would fare better if left to operate independently and undisturbed (Schäfer/Streeck 2013).

The main interest of the following discussion does not however pertain to provide an in-depth analysis of the causes of the economic and financial crisis, but rather in delineating the repercussions of deteriorating public finances as part of the crisis development on social capital, rather than exploring the inverse relationship. Nevertheless, it is noteworthy that the escalation of public debt since the 1970s did not correspondingly coincide with a parallel surge in political engagement and societal pressure on governments and markets. Notably, voter turnout exhibited a decline rather than an uptick during the period under scrutiny (Franklin 2004) - a decline that disproportionately affected individuals from the lower echelons of society, who typically harbour greater propensity to advocate for government expenditure. Concurrently, trade union membership witnessed a decline across democratic capitalist nations, often attributed to successful union-busting endeavours by governmental bodies and employers (Visser 2006). This decline in collective bargaining was accompanied by a suppression of wages at the lower strata of the labour market, while shareholders' earnings, thereby exacerbating inequality within democratic capitalist societies (Salverda/Mayhew 2009; Evans et al. 2019; Schäfer/Streeck 2013: 9).

1.4 Research Design

Scholarly discussion regarding the determinants that give rise to social capital usually distinguishes between society-centered approaches and institutional approaches. The society-centered approach, at its core, assumes that regular social interaction is a crucial prerequisite for the emergence of generalized forms of trust and reciprocity (Putnam 2000; Hooghe 2003). However, the empirical findings from studies on these proposed connections are, at best, mixed. While some studies do show that active participation in voluntary organizations strengthens trust (Uslaner 2002), it is questionable whether the resulting forms of social capital are beneficial for the overall society (Delhey/Newton 2003; Robbins 2011). As pointed out by Portes (1998) in this regard, "the same strong ties that bring benefits to members of a group commonly enable it to bar others from access" (Portes 1998: 15).

Institution-centered explanatory approaches, which form the theoretical core of a large part of the discussion on the impact of the economic crisis on social capital in the discussion presented there, propose the idea that social capital is associated with functioning political and economic institutions (Rothstein 2013) and depends on their performance and governance capacity (Rothstein/Stolle 2007). At the macro level, the underlying argument is that institutions provide structures and opportunities that foster the emergence of cooperative relationship structures and generalized forms of trust (Tarrow 1996: 395; Levi 1998: 83-85). At the micro level, studies confirm that citizens' attitudes, such as social trust, are closely linked to trust in institutions by virtue of being related to the same underlying individual characteristics and perceptions (Newton/Zmerli 2011). From the theoretical standpoint of political psychology, the underlying argument according to the 'the psychological propensity model' stresses that "trust is a core personality characteristic, learned mainly in early life and intimately linked with other personality characteristics, especially a sense of control over life, a belief in interpersonal cooperation and a sunny and optimistic disposition" (Newton/Zmerli 2011: 173). Regarding the question of which institutions are necessary for the emergence and maintenance of social capital, the literature offers various answers. These can be summarized in three lines of argumentation, which will be examined in more detail below.

At the core of the investigations into the influence of economic institutions on social capital is the "double finding" that economic development affects social capital and, conversely, social capital has an impact on economic development (Durlauf/Fafchamps 2005; Westlund/Adam 2010). In this context, social capital exerts its influence on economic growth by reducing transaction and information costs of market economies (Adler/Kwon 2002: 25). Conversely, in economically wealthier and more capable countries, structures are formed that promote mutual trust and societal participation (Berggren/Jordahl 2006: 5-7). At the individual level, it has also been widely documented that the level of individual income and employment status are related to the availability of the resource of social capital (Freitag/Kirchner 2011).

The overall argument underlying the economic crisis has resulted in a decline in social capital can be rooted in literature that highlights the typical correlation between favourable economic growth and heightened levels of social capital (Clark 2015, Costa/Kahn 2003b). Numerous studies have demonstrated that during periods of economic prosperity, individuals tend to have more resources and opportunities to engage in social interactions, which in turn fosters trust, cooperation, and community engagement (Anderson/Mellor 2008, Berggren/Jordahl 2006).

For instance, research has shown that higher GDP per capita is often linked to greater civic participation, volunteerism, and overall community involvement. Additionally, flourishing economies often provide a sense of stability, reducing stress and enabling individuals to dedicate more time to social relationships (Bartolini/Bonatti 2008). Conversely, economic downturns can strain social networks as financial hardships may limit people's ability to participate in communal activities or contribute to the collective welfare (Bartolini/Sarracino 2014). The economic challenges associated with the 2008 economic and financial crisis underscore the importance of understanding this relationship, as declines in economic performance could potentially contribute to the erosion of the social fabric that underpins strong and cohesive communities. The primary research question of the following enquiry can thus be stated as follows:

(Q1) To what extent and why does a decline in economic performance lead to the erosion of social capital?

Viewed from the perspective of institution-centred approaches towards social capital generation, the main finding regarding the influence of the performance and governance capacity of political institutions (Quality of Government) on social capital suggests that "government policies and political institutions create, channel, and influence the amount and type of social capital" in a society (Rothstein/Stolle 2007: 7). The governing capacity of state institutions is relevant in various areas, such as creating conditions in which contracts can be concluded, ensuring legislative oversight, establishing mechanisms for enforcing state power monopoly, and actively promoting citizen integration and participation (Levi 1998: 85-87; Uslaner 2004: 502). At the individual level, the opinion is often held that citizens' experiences with inefficient, corrupt, and unfair institutions do not provide a suitable basis for the emergence of social capital (Rothstein 2013: 1012-1014). This is due to the fact that in the context of ineffective and corrupt actions by state institutions, individual incentives to contribute to collective goods (such as social capital) decrease significantly (Rothstein/Stolle 2007: 14-15; Freitag/Bühlmann 2005: 583).

(Q2) How does the effectiveness of government policies and institutions influence the development and accumulation of different forms of social capital within a society during times of economic crises?

In addition to the general performance of state institutions, welfare states and the nature of their institutions and policies has been proposed to have a significant impact on social capital as well (Bergh/Bjørnskov 2014; Gelissen et al. 2012; Rothstein/Stolle 2003). When it comes to the impact of welfare state arrangements on the generation of social capital, two central theses come to the forefront. On one hand, it is argued that fairness and impartiality within welfare state institutions are "inherently intertwined" with generalized forms of trust, norms, and social networks (Rothstein/Stolle 2003: 199). For instance, within the framework of the so-called "crowding-in" hypothesis, it is assumed that this positive impact arises from the universal provision of services for social security (Scheepers et al. 2002: 188), or the promotion of voluntary organizations (Kuhnle/Alestato

2000; Salamon/Sokolowski 2003). The opposing notion is expressed by the "crowding-out" hypothesis. This suggests that higher social expenditures erode social network relationships, as well as systems of self-help and reciprocity, leading to increased social isolation of individuals and a general decline in adherence to civic norms.

> *(Q3) How does the design and implementation of welfare state policies influence the development and accumulation of different forms of social capital within a society during times of economic crises?*

As a general summary, the particular relevance of engaging with the developmental dynamics of social capital and its potential decline arises from the well-documented positive externalities of high levels of social capital (Knack/Keefer 1997; Ostrom 2000a; Stadelmann-Steffen/Freitag 2011). As Putnam (2000: 290) fittingly stated, "social capital makes us smarter, healthier, safer, richer, and better able to govern a just and stable democracy." Especially if viewed from the perspective of participation-centered theories of democracy, competent citizens are considered an important prerequisite for the functioning of modern democracies. Active societal and political participation, the cultivation of trust, and the learning of social norms are essential for nurturing civic competencies. The significance of analysing points of crisis is additionally underscored by Knowles and his colleagues, who emphasize that a crisis offers "a rare opportunity to learn how existing social systems function under duress. If lessons are adequately documented and effectively communicated to policymakers, the experience gained during the Crisis can provide a useful guide to needed policy reforms" (Knowles et al. 1999: vii).

1.5 Plan of the Dissertation

In answering the proposed research questions, the following discussion proceeds in five chapters and a final conclusion. The *second chapter* provides a conceptual discussion on the *different understandings of social capital.* Despite its recognized importance in shaping societies (Putnam 1993; Grootaert/van Bastelaer 2002), it is a concept that has sparked considerable debate and contention within the research discourse (Serageldin/Grootaert 2000; Farr 2004; Ostrom 2000b). The complexities of its definition, measurement, and causal relationships have led to diverse interpretations and varying viewpoints among scholars as well as disagreements based on different understanding of its constituent elements. In line with Putnam (1993; 1995a; 2000) the discussion focuses on its core elements: generalized social trust, civic norms, and social networks which leads to social capital being defined as the collective value derived from relationships and networks among individuals that can be explored through these fundamental components.

The chapter begins by unpacking the concept of generalized social trust, emphasizing its role as a crucial component that binds societies together and structures social interactions, with the underlying understanding of trust referring to the shared belief in the reliability and integrity of others, fostering cooperation and reducing transaction costs (Alesina 2002; Anderson/Mellor 2008). It highlights how trust operates as a valuable societal resource, contributing to improved communication, collaboration, and overall social well-being (Bjørnskov/Méon 2013). Moving on, the discussion shifts to civic norms, which are the unwritten rules and shared expectations that guide individuals' behaviour in a community. These norms establish the framework for interactions, shaping how people engage and cooperate within their social environments. Finally, the chapter explores the significance of social networks in the realm of social capital. Social networks represent the overall sum of relationships connecting individuals, groups, and organizations, which networks facilitate the exchange of information, resources, and support, enhancing individuals' access to opportunities and collective efficacy (Bekkers et al. 2008; Lin 2008).

The subsequently following *chapter three* examines in more detail the potential *repercussions of the financial and economic crisis* on social capital and its respective constituting components. In order to be able to derive specific expectations regarding the impact of economic decline on social capital, the chapter starts with an assessment of the different varieties of crises and their manifestations in European countries (see e.g. Basu et al. 2017; Crotty 2009). The discussion then proceeds with considering the impact of the crisis on social trust, revealing how the erosion of economic stability can undermine individuals' confidence and diminish trust, but also considers the possibility that economic hardship can be a catalyst for increased relevance of social trust (Francois/Zabojnik 2005; Tonkiss 2009; Torrente et al. 2019).

With special attention placed on civic norms, the chapter proceeds by questioning whether economic hardship alters individuals' commitment to shared values and norms of engagement in activities that contribute to the common good. It examines whether economic and financial strains lead to a reconsideration of collective responsibilities or if community resilience strengthens civic norms in times of adversity (Kotzian 2014; Colloca 2018). In outlining specific expectations regarding the relational structure between the state of the economy and social capital, the chapter further also investigates the influence of the crisis on social networks, probing whether economic constraints disrupt social connections or prompt the emergence of new, adaptive forms of social networking offering a buffer against economic shocks and adversity.

Chapter *four* focuses on the *measurement of social capital* and discusses the methodological approach applied towards identifying the main constituting components at the micro- and the macro-level of analysis. Focusing on data from the European Social Survey (ESS), the chapter elaborates on utilizing ESS data to assess individual-level social capital through established metrics, accounting for factors generalized social trust, civic norms, and social networks. Shifting the perspective to the macro-level, the chapter further explores indicators such as NGO and trade union density intended and argued to be able capture the broader state of social capital within different European nations. The measurement approach is largely based on Confirmatory Factor Analysis (CFA), which offers a robust framework to validate and refine the measurement model for social capital and provide nuanced information on the interrelationship between observed variables and underlying latent constructs.

The *examination of the macro-level* expectations follows in the *fifth chapter.* Divided into three main steps, the chapter provides a comprehensive analysis of how economic decline influences social capital dynamics. In a first step, the chapter investigates the implications of the economic and financial crisis on the quality of government and the welfare state and explores how economic downturn can potentially erode institutional trust and weaken the capacity of governments to provide essential public services (Starke et al. 2013, Busch 2010). The chapter also further explores the interplay between economic performance and the functioning of the welfare states, shedding light on potential declines in social safety nets and public support systems as a result of the economic and financial crisis. In the second step, the chapter employs a series of time-series cross-sectional regression models to discuss the primary findings concerning the fundamental components of social capital. It uncovers shifts in levels of generalized trust, civic norms and social networks that contribute to the overall transformation of social capital in the wake of the crisis experience. In a third step, the chapter offers an integration of the results from the previous stages, providing a comprehensive overview of the complex relationship between economic crisis and macro-level social capital variations.

Turning to the *micro-level social capital* dynamics in *chapter six*, the chapter starts with a discussion of the individual-level antecedents of social capital and delves deeper into the discussion on how individual perceptions the economic situation, the effectiveness of state institutions, and the extent of welfare state provisions influence social capital. Based on a time-series linear regression approach, the chapter starts by evaluating and discussing individual-level models for each of the fundamental components of social capital (generalized social trust, civic norms, and social networks). Furthermore, the methodological approach also involves multi-level analyses that intertwine both micro- and macro-level explanations discussed in the preceding sections. By combining individual perceptions with broader contextual factors presented in chapter five, this analysis further elaborates on how economic hardships can sway individuals' perceptions, either fortifying or eroding trust in their communities and institutions. In a similar fashion, the evaluation of state institutions and the availability of context-level specific provision of welfare state benefits, in combination with the corresponding individual-level perceptions, ensures that the results for both levels of analysis are put into comparison.

In the concluding chapter, the interrelations between macro- and micro-level factors are brought together based on the underlying proposition, that both levels of analysis are fundamentally intertwined. By drawing together the strands of research from different areas, the final conclusion further elaborates on how individual perceptions and macro-level contexts influence social capital dynamic in times of economic crisis. By situating the results within the broader context of existing literature, it highlights how the results and findings discussed align with and advance established knowledge. The discussion of the synergies between macro- and micro-level factors, especially with regard to all of the specific conceptual dimensions of social capital, provides a new and original perspective on established theories, enriching our understanding of social capital formation.

2. Investigating Social Capital in Time and Space

The appeal of the social capital concept to scholars and policymakers alike can be attributed to its frequently discussed and diverse assumed positive consequences. Wide-ranging implications for the effective functioning of democratic institutions (Putnam 1993b; Paxton 2002) and social inclusion (Oxoby 2009) are often considered to be as important as small-scale positive externalities of social capital in people's everyday lives. Social capital is argued and has been shown to be associated with phenomena ranging from the improvement of schooling (Dika/Singh 2002), prevention of violent crimes (Buonanno et al. 2009), enhancement of citizens' health (Rocco et al. 2014) to solidarity, tolerance, and overall well-being (see e.g. Sarracino 2013; Winkelmann 2009). However, sceptical views sometimes question the theoretical plausibility of across-the-board claims regarding the benefits of social capital and rightfully criticise that it "has evolved into something of a cure-all for the maladies affecting society" (Portes 1998: 44).

Interpretations of empirical evidence on the positive consequences of social capital are based on a view of the concept in which it operates as a predominantly *exogenous* factor. Proponents of this perspective stress that social capital - even after considering numerous other factors - is a key ingredient in creating communities that are better places to live in and plays an important role for the effective functioning democratic governance (Fukuyama 1995). This interpretation of social capital also highlights the main problems of the conceptual discussion, namely to what extent it is best interpreted as an individual attribute or if a view that understands social capital as a collective characteristic is more fitting. Because both of these interpretations are related to each other by a variety of theoretical arguments and cross-cutting linkages, it is easy to miss that they are, in actual fact, not identical. For example, at the micro-level, communities are better places to live because social trust and engaged individuals participate more and accrue pro-democratic values. Even though the assumed direction of the causality between the participation in voluntary associations and generalized social trust is is disputed, empirical findings show that "[t]hrough voluntary associations, citizens get to know specific others, whom they (eventually) learn to trust" (Dinesen/Bekkers 2017: 87). In a similar vein, at the macro-level, “if a nation has high stocks of social capital at its disposal, citizen engagement will be high and its government will be better controlled” (Roßteutscher 2008: 209).

If we therefore accept that social capital has profound positive consequences for the functioning of societies and political systems, the important question is how it emerges and what can be possibly done to create it. As a conceptual starting point, Jackman and Miller (1998: 48) based on Coleman’s social capital theory (Coleman 1990, Ch. 12) have argued that social capital is *endogenous* and stress that, as a contextual characteristic, it is created by certain arrangements of social structures and political and economic institutions and policies (Levi 1998). This line of argument was picked up by a number of scholars establishing a research field that deals primarily with the comparative analysis of the determinants of social capital. They however inherited the same conceptual problem in that arguments regarding the specific significance of micro- and macro-level explanatory factors are often not clearly separated.

This chapter therefore has the goal of clearing the analytical ground for the investigation of the impact of societal and institutional factors on social capital generation at both, the micro- and macro-level. To this end it proceeds is two consecutive steps. First, it discusses the ambiguities of the term “social capital” and provides a conceptual discussion on the different meanings and interpretations of its dimensions at both levels of analysis. Second, it takes up commonly held expectations about the potential influence of economic, political and societal determinants of social capital and further specifies and develops them into an integrated conceptual and theoretical framework. This framework then creates the basis that makes it possible to classify specific hypotheses (in later chapters) based on the underlying theoretical arguments and findings of previous studies.

2.1 Social Capital: Between Theory and Concept

The works of Robert Putnam (1993; 1995a; 1995b; 2000) and Pierre Bourdieu (1983; 1996) in particular, have facilitated the emergence of a rich literature in political science, sociology, and economics aimed at investigating the causes and consequences of social capital. Such a wide use of the concept and, as some have noted, a “typical lack of communication within the academic world” (Ferragina 2012: 19) have resulted in vast differences in how exactly the term social capital is defined. On closer inspection, despite some continuing controversies (van Deth 2003; van Deth 2008), it is possible to observe a definitional convergence towards certain characteristics of social systems that help to solve cooperation and coordination problems in society (see also Coleman 1990: 306).

The primary concern of this section lies in discussing common features of the social capital concept that have branched of Putnam's initial and most widely used definition that understands social capital as a combination of networks, social norms and trust: "social capital refers to features of social organizations such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit" (Putnam 1995a: 67). This definition is chosen as a starting point not only because of its prevalence but also because Putnam developed it by taking recourse to classic democratic theory as well as transaction costs economic views (Braun 2001: 339). Furthermore, his underlying normative position on the overwhelmingly positive societal status of social capital is closely linked to de Tocqueville's (Foley/Edwards 1998) concept of civic society and civic associations that function as "schools of democracy".

There are three areas of research that can be distinguished with regard to the conceptual discussion on social capital. The first area focuses predominantly on the *conceptualization* of social capital and deals with different ways of understanding the importance of community in building trust and shared identity as well as the relevance individual citizen's free choice. The second area is concerned with discussing at which *level of analysis* – macro or micro – social capital plausibly can and practically should be studied. The third area is concerned with the question of *dimensionality* of social capital and elaborates on the question whether social capital is a single socio-cultural phenomenon or rather a combination of different aspects. In order to be able to derive specific theoretical expectations, an explication of the underlying conceptualization, level of analysis and dimensionality of social capital is required.

2.1.1 One Concept, Different Perspectives

A widespread use of the concept of social capital in different fields of study – such as political science, sociology and economics – has resulted in a social capital concept that is far from being homogenous. Different conceptual interpretations, however, most commonly revolve around the "double nature" of social capital, namely the question if it is best understood as an individual attribute or rather as a collective good (Gabriel et al. 2002: 26-30). Esser (2008: 24-26) argues that many classical definitions of the term implicitly incorporate this dual nature. On the one hand, social capital refers to "personal relationships people have developed over time with each other through a history of interaction" (Nahapiet/Ghoshal 1998: 244). On the other hand, social capital can be also understood as a collective good and therefore it is available to each citizen of a given community or society regardless their individual actions or behaviour (van Deth 2001: 9).

Table 2.1: Overview of Conceptual Interpretations of Social Capital

Author	*Conceptual Interpretation*	
	Individual Resource	Collective Good
Bourdieu (1983, 1996)	Connections and resources that results from membership in a social group.	"(…) aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (1983, 190)
Coleman (1990)	"set of resources that inhere in family relations and in community social organization" (1990: 300)	Social-structural resources that facilitate individual actions
Esser (2008)	Value of resources an actor can employ and use through direct or indirect personal relations with others	Emergent characteristic of an entire network such as functioning social control, system trust and comprehensive system morality
Knack/Keefer (1997)		Civic cooperation in groups and associations and patterns of repeated interactions (1997, 1987)
Lin (2001)	"investment in social relations with expected returns in the marketplace" (2001: 19)	Social asset by virtue of actors' connections and access to resources in the network or group (2001: 20)
Ostrom (2009)	Social networks characterized by shared obligations, reciprocity and cooperation as well as resources inherent in the networks.	"(…) set of relationships and shared values created and used by multiple individuals to solve collective problem in the present and future" (2009: 22).
Putnam (1993; 2000)	Social capital as a resource that facilitates interpersonal cooperation; reciprocity and civic engagement	Intensity of interaction in civil society and community networks

Source: Own compilation of definitional aspects and conceptual interpretations of social capital based on the literature shown in table.

Those lines of argument that invoke social capital as an individual resource portray it as an aspect of relationships between individuals. As such, it is embodied in networks of individual citizens and individuals can draw on it to achieve certain objectives (Adler/Kwon 2002: 17-18). Esser captures this property of individual social capital by referring to it as "relational" social capital that can be understood as an actor's personal resource (Esser 2008: 26). Based on this resource-based view, social capital is seen as "embedded in social structure and accessed and/or mobilized in purposive action" (Lin 2001: 29) or as being "owned by members of an individual's personal social network" (Van der Gaag/Snijders 2004: 200). The actual characteristics of personal relationships and social interactions that are interpreted as being relevant include e.g. trustworthiness and its benefits, exchange of obligations or the transmission of information (see also Table 2.1 above).

As a collective good, social capital cannot be possessed by individual actors. Rather it is an attribute of social contexts such as groups, communities or even society as a whole. This view emphasizes the structural embeddedness of social capital and the fact that it can well be also understood as the "impersonal configuration of linkages among people or *units*" (Nahapiet/Ghoshal 1998: 244; emphasis added). The reason why these linkages are interpreted as attributes of broader collectives (not individuals) is that the societal prevalence of network ties, norms of cooperation and trust constitutes a self-reinforcing social equilibrium. As a collective good, its production does not depend merely on the individual actors' investments and also its benefits can be experiences by all members of a society regardless their individual contribution towards its creation (Roßteutscher 2008).

To summarize the different conceptual aspects that are summarized under the term "social capital", table 2.2 provides an overview of several major contributions and their line of argument on this issue (for an alternative overview see e.g. van Deth 2008: 154-158). It demonstrates that from the individual perspective, the main conceptual focus is on the "use of social capital by individuals – how individuals' access and use resources embedded in social networks to gain returns in instrumental actions" (Lin 2001: 21). Prevalent interpretations of social capital as a collective good often acknowledge that individual interactions represent the essence of collective social capital and argue that it is the aggregate of institutionalized network-based relationships and norms. Therefore, social structure itself is a type of capital (Putnam 2000: 19) that facilitates or contains individual and collective action (Ostrom 2009: 17).

Accompanying the conceptual discussion and despite the often-lamented conceptual ambiguity of the term "social capital" there is great number of applications and empirical studies that work with an often-limited operational definition. Although research strategies involve both, analyses of micro- and macro-level of social capital, a separation between the level of analysis from the conceptual discussion is often addressed only implicitly in the literature or blurred altogether (Lin 2001: 21; for an exception see van Deth 2001: 10; van Deth 2008: 157). It is far more common that micro-level analysis is equalled with individual-level social capital and macro-level analysis with its conceptual collective level aspect (Paldam 2000: 631; Kunz 2010: 378-380).

In order to analytically separate these two aspects with regard to the social capital concept it is possible to interpret micro-macro differences as differences that are related solely to the location and scale of the object of inquiry. A review of different meaning of the micro-macro nexus reveals that it is by no means self-evident that differences between individual- and collective interpretations are the same as micro-macro differences. As with the "double nature" of social capital, some authors start with the observation that "social action is inherently and inseparably dual in nature" (Gerstein 1987: 88). Micro-perspectives deal with individual behaviour predominantly in cultural or psychological terms or social relations between persons in different social positions (Blau 1987: 75). Furthermore, an economic interpretation suggests that microanalysis should deal predominantly with the decision-making behaviour of economic units such as producers, investors, workers, etc. (Gerstein 1987: 90). Macro-perspectives deal with patterns of social relations in terms of structures such as collective networks. An economist's point of view stresses the scope and stability of general societal equilibria that are generated by the reciprocal relationships of major aggregate components of the system (Gerstein 1987: 91).

As noted by Blau (1987: 71), the micro-level entails individuals in their social setting, whereas the macro-level incorporates the interaction of nation states and/or their regional units. As a result, we can differentiate between attributes of citizens and aspects of social relations such as social interaction, communication, exchange and dependence on the one hand, and emergent properties of populations such as the structure of different positions in a population on the other. With regard to social capital this means - for example - that individuals can be more or less engaged and trusting, but only collectives can exhibit more or less participatory inequality. Furthermore, with this conceptual framework it is possible to explain some of the mutually contradictory and paradoxical findings of previous research, such as that members of voluntary associations are more trusting overall, but increased activity of those organizations at the state level does not necessarily increase generalized social trust (Rothstein 2003: 50). Also, Stadelmann-Steffen (2011: 149-150) has demonstrated the added value of explicitly differentiating between country-level and individual-level effect thus minimizing the risk of potentially not finding correct micro explanations for macro results.

A separate distinction between the level of analysis (micro- vs. macro) and the underlying conceptual interpretation of social capital (individual resource vs. collective good) creates four conceptual combinations (van Deth 2001: 10). The summarizing overview presented in table 2.2 highlights the conceptual meanings of the concept of social capital for each of those combinations. It also tentatively shows sources of data that can be used to deepen our understanding of the sources of social capital at the micro- and macro-level thus stressing that alongside a conceptual and normative perspective, an empirical point of view is just as important.

Table 2.2: Social Capital between Conceptualization and Level of Analysis

		Conceptual Interpretation	
		Individual resource	Collective good
Level of Analysis	Micro-Level	Forms of social capital interpreted as individual attributes and resources (*survey data*)	Structuring effect of institutional design and public investments; public choice-arguments (*macro-level indicators*)
	Macro-Level	Generalized (aggregate) forms of individual micro-level forms of social capital (*aggregated individual-level data*)	Opportunity structures for participation and the structural aspects of stocks of social capital (*macro-level indicators*)

Source: Table adapted based on (van Deth 2001: 11), own additions.

Starting with *individual-level* social capital in *micro-level* interpretations, social capital is most prominently understood as citizen's beliefs in the trustworthiness of others. Also, judgements about the likelihood that other fellow citizens cohere to norms of social reciprocity and cooperation as well as individual membership in voluntary associations, networks of family, friends and colleagues are relevant points of reference within the scope of this interpretation (Brehm/Rahn 1997; Kaasa/Parts 2008; Van der Gaag/Snijders 2004). The underlying understanding of social capital is strongly oriented towards Coleman's interpretation. In particular, he argued that at the micro-level social capital is a particular kind of resource that an actor can use to achieve certain goals that are predominantly rotted in rational self-interest

(Coleman 1988, 98). Coleman explicates his viewpoint in terms of the creation of "credit slips" that emerge as a result of repeated cooperative interaction: "If A does something for B and trusts B to reciprocate in the future, this establishes an expectation in A and an obligation on the part of B" (Coleman 1988: 102). Such a functional definition of social capital is not only used is political science and sociology but is also used in economic theory when dealing with cooperation and trust in social dilemmas (Diekmann 2007: 56).

An *individual-level* conceptual interpretation in *macro-level* analyses of social capital is usually based on studying and explaining relationships between simple aggregates of previously discussed individual level characteristics. Although clearly based on self-reported attitudes and actions regarding individual-level social capital, the aggregated survey data are used as characteristics of social contexts. The use of aggregated survey data in social capital studies unequivocally dominates the empirical literature (Adam 2008: 160-163; Alexander 2007: 376; Ferragina 2013: 50). In the economic branch of the academic discussion, this trend is even more prevalent. Knack (2002: 774) traces this line of reasoning back to Putnam (1993b) who has shown that an index of social capital is related to democratic responsiveness of governments in Italian regions. Potential problems of this approach are mentioned by Durlauf (2002: 468-470) as well as Beugelsdijk and Van Schaik (2005a: 1054) who both argue, from an empirical point of view, that the identification of causes and consequences of social capital based on aggregate data is problematic. The interpretation of compositional effects that is directly related to this kind of aggregate-level interpretation of the concept is potentially misleading since it is based on observations regarding group averages (e.g. country mean values) and therefore does not necessarily inform us about what and how individuals are actually doing.

Macro-level analytical strategies that conceptualize social capital as a *collective good* refer to social capital, most commonly, as the density of civil society associations or overall membership figures (Grootaert 2001: 14-15). From the viewpoint of sociological theory, this interpretation of social capital comes very close to Durkheimian social facts[7] consisting of "any way of acting, whether fixed or not, capable of exerting over the individual an external

[7] One of the most prominent of Durkheim's work focuses on the "social fact" of suicide rates. Social facts, as defined by Durkheim, are patterns of behavior, thinking, and feeling that exist outside the individual and exert a coercive influence over them. By analyzing police suicide statistics across different districts, Durkheim demonstrated that the suicide rate in Catholic communities was consistently lower than in Protestant communities. He attributed this pattern to social, rather than individual, causes, emphasizing the role of collective values and social integration. He ascribed this to a *social* (as opposed to individual) cause.

constraint" (Durkheim 1982: 59). Based on this interpretation, social capital is a collective good consisting of ways of engaging in public conduct that are shared among citizens' because they have been socialized in a given community. In this regard van Deth (2001: 10) also notes that this interpretation explains "social phenomena without returning to individualistic interpretation lying 'behind' or 'underneath' macro-level explanations". Interpretations of trust, values of reciprocity and norms of good citizenship are based on the argument that their generalized forms that constitute a collective good at the macro-level have been created by the relationships and interactions of individuals in the past and became externalized (Ostrom 2000b) or evolved over time (Ostrom 2000a). More specifically they are mutually shared patterns of trustworthiness and cooperation that operate at the societal level as credit or lending arrangements or the prevalence and density of cooperatives (Narayan/Pritchett 1999: 873).

Conceptualizing social capital as a *collective good* in *micro-level* explanations and interpretations implies that "individuals are confronted with a stock or amount of social capital and that their individual behavior does not affect this situation" (see also van Deth 2001: 803-804; Maloney et al. 2000). As a matter of fact, social capital is argued to be subject to the same dilemma as any other public good when it comes down to its generation, namely that one can benefit from it without ever contributing to its production (Roßteutscher 2008: 213). In social capital theory and research, this conjecture is described in terms of the so called "rainmaker effect". Based on a neo-institutionalist position, Putnam and his colleagues (Putnam et al. 2000: 26) coin this term with particular focus on the significance of the quality of government and civic participation:

> "Metaphorically speaking, no citizen (no matter how high his or her own trust or civic engagement) can escape the rain produced by poor governmental performance, which is perhaps produced in part by the social disaffection or civic disengagement of his or her neighbours" (Putnam et al. 2000: 26).

From the perspective of an interpretation that contends that social actions and behaviors do not necessarily have the capacity to directly change the stocks of social capital of the societies they live in, the main implication of such an interpretation is that governments, by designing institutions or implementing policies, can invest in social capital instead (Kumlin/Rothstein 2005: 360-362). The main question of the collective-good micro-level interpretation then becomes what real-world phenomena this conceptual combination entails. A close real-world approximation can be found in measures that interpret social capital in terms of public-choice theories and institutional design. The fundamental argument is that state agency shapes conditions in which voluntary organizations thrive and thus directly affects its mobilization (Lowndes/Wilson 2001: 631). Examples of this kind of “social capital” include regulatory provisions securing citizens’ freedoms to socially participate or policy measures intended to facilitate citizens’ engagement.

The main weakness of this interpretation consists of using potential outcomes as indicators of collective-good social capital, because such approaches “risk confusing consequences [of social capital] with sources” (OECD 2001: 43-44). Nevertheless, even if this conceptual category does not encompass a genuinely new way of measuring social capital, it has profound implication for further theoretical considerations. Based on the notion of Maloney and his colleagues (2000: 817) who emphasize that “institutional design and political opportunity structure are critical variables in social capital analysis” this conceptual category opens up the concept of social capital to theoretical reasoning - that will be explored further on - and that reaches beyond straightforward assumption of standard explanations. To provide an example, it is possible that social capital as an individual-level resource in micro-explanations emerges as a result of country- or community-specific developments or citizen predispositions and values even in contexts with missing macro-level collective good social capital and civic infrastructure. Also, conflicting expectations and inconsistent empirical finding of previous studies can be potentially explained by considering the differentiated impact of state-level characteristics on different manifestation of individual and collective good social capital.

Another main area of social capital conceptualization focuses on its dimensionality. Several authors provide overviews of definitions social capital (e.g. Freitag 2001: 93; Portes 1998: 3-6; Adler/Kwon 2002) that essentially conclude that social capital is based on affiliation and membership of individuals in social networks and organizations. Also, many authors agree, that besides networks, social trust, and civic norms (reciprocity) are just as important (Franzen/Pointer 2007: 66-72; Diekmann 2007: 52). The underlying question therefore is whether social capital is best understood as an umbrella term that can be used for similar socio-cultural phenomena. Or is it more precise to study social capital not as a singular concept but based on the analysis of its specific components (Narayan/Cassidy 2001; Kaasa/Parts 2008).

From an empirical perspective, at the micro-level, studies mostly conclude that indicators of associational engagement, individual generalized social trust, and compliance with social norms converge towards their latent dimensions in a theoretically expected fashion. The latent aspects as such, however, show only weak or non-existent empirical connections that would allow for a single-dimensional solution; a finding that that is confirmed for a variety of data sources (for an overview see Gabriel et al. 2002: 90-96; Kunz 2005: 151; 2010: 386; Roßteutscher 2008: 223; Van Oorschot et al. 2006: 158; Whiteley 2000: 40-41). A comparison of national-state or regional social capital contexts at the macro-level concludes that - when concentrating on samples of democratic countries - moderate or even strong correlations between the dimensions of social capital which point to a single underlying social capital structure exist (Gabriel et al. 2002: 30-34; Roßteutscher 2008: 223; Van Oorschot et al. 2006: 157-158).

2.1.2 Aspects of Social Capital

The previous discussion has established that the definitions of social capital utilized in the literature can be very distinct from each other. For some, social capital is a stock that is accumulated at the societal level through individuals' investment. For others, social capital is a more personal aspect of individual citizens and relates to their beliefs and attitudes. Overall, the discussion relies on a fairly undifferentiated notion of social capital as far as its specific manifestations are concerned. However, an overarching interpretation of social capital as a singular concept has been often criticised for neglecting the conceptual richness and for assuming that the consequences and effects of specific aspects social capital are comparable or even the same.

The interpretation of social capital as a singular concept is based on imposing structural constraints on how it actually works in different countries via assumptions (Bjørnskov/Svendsen 2003) and is thus always accompanied by information loss due to summarizing original variables into a smaller set of dimensions (factors). Franke (2005) in particular is referenced to stress that collapsing social capital into a single index comes at the price of losing overall explanatory power (Field 2016; Huber 2006:163-165). As a result, the argument can be made that multidimensional analysis is preferable with regard to social capital in order "to achieve an accurate and suitable understanding of the broad contrast and its effects" (Requena-Parra et al. 2013: 65). The following section therefore discusses key characteristics and theoretical perspectives on three main dimensions of social capital that are usually identified in the literature – social networks, norms and trust.

2.1.2.1 Social Networks and Volunteering

Referring to social networks as a structural aspect of social capital, Putnam (1993: 107-109) in particular has highlighted the relevance of civic community networks consisting of local leisure organizations as well as social and cultural associations. According to social capital theory, the primary function of social networks is to create and maintain opportunities for social contact (Kunz 2010: 382). The network component of social capital therefore refers to “general patterns of connections between actors, representing who is reached and how this is achieved” (Requena-Parra et al. 2013: 70). The resulting embeddedness of actors that emerges as a result of voluntary active citizen participation reduces incentives for opportunistic behaviour. The main aspects of this dimension of social capital can be categorized according to the conceptual distinction between individual- and collective-level interpretations in micro- and macro-approaches (see Table 2.2 on “Conceptualization and Level of Analysis”).

As an individual resource in micro-level approaches to social capital, this component is best understood in terms of networks of individual actors (ego-networks) and their position in the network. Mutual relationships are characterized by the diversity of an actor’s contacts and the strength of relationships between all agents (Burt 1982). This conceptual interpretation is most closely related to the *relational dimension* of networks in which “the ego-network consists of a set of individuals the actor (ego) has direct relation to and the relations among these persons” (Häuberer 2011: 89). The core idea of this interpretation is straightforward and suggests that individuals with large and diverse networks of contact - thought repeated social interaction - accumulate social capital. Individual social interactions in networks include both, regular interactions with family, friends, or coworkers as well as volunteering.

With regard to networks as an individual resource in macro-level approaches, it has to be considered that social capital is being constituted “by the network members, their resources, and the availability of these resources” (Van der Gaag/Snijders 2004: 204-205). Network-based social capital can be quantified by summing over network members based on the assumption that the quantity of social capital is directly related to the size of the network (Flap 2002; Flap/DeGraaf 1986). As far as this interpretation reflects the embeddedness of individual participatory resources in the collective (Lin 2001: 33), it inevitably captures the prevalence of organizational participation and the mobilization capacity of interpersonal networks of a given community or society (Sampson/Groves 1989: 782-784).

Macro-level collective-good interpretations of the network and volunteering dimension of social capital most commonly refer to (Neo-)Tocquevillian arguments regarding the macro-sociological functional performance of civil society (Nollert et al. 2004: 113). The main idea is that civil society is a part of society that has a life of its own and is distinctly different from the state and the market, and also lies beyond the boundaries of everyday social interaction (Shils 1991: 3). From this conceptual perspective, it is comprised of complex and largely autonomous civic institutions that can be exemplary accounted for by studying the density of voluntary associations. However, in order to be able to interpret the density of associations as a form of social capital, they should be able to guarantee positive externalities. Some authors argue that there are three preconditions regarding their structure that have to be met: networks (a) have to be tied to *voluntary* associations that (b) pursue predominantly *cultural* goals and (c) emerging connections have to imply *face-to-face* interaction (see e.g. Putnam 1993b; Nollert et al. 2004: 117).

Micro-level collective good interpretations stress that prospects for collective action in social networks that are related to network size and aggregate participation greatly depend upon the motivation and behavior of network members (Siegel 2009, 123). Most closely related to this kind of interpretation is *system control*, a term coined by Esser (2008, 38) to specifically pinpoint that collective action can be effectively achieved if "information on the behavior of network members circulates fast and completely, making it unlikely that deviant behavior will go unnoticed". Aspects of institutional design that can be interpreted in terms of social capital should be structured in such a way as to enable and ensure information flow. Specific examples can be found in regulations that structure internal affairs of voluntary organizations and ensure civilized conduct.

2.1.2.2 Interpersonal and Generalized Social Trust

As the first and main component of the cultural aspect of social capital, generally speaking, trust is always based on the interaction of at least two actors: "one of whom places faith, belief, or goodwill in the other" (Botzen 2015: 315). It is disputed in the literature whether social trust refers to a relationship where the trustor knows the trustee very well or if it can be used even if the trustor does not know the trustee at all (Delhey et al. 2011; Freitag/Bauer 2013; Reeskens/Hooghe 2008; Reeskens 2013). This consideration leads to a distinction of at least two forms of social trust: generalized and particularized (sometimes also interpersonal) trust (Stolle 2002; Uslaner 2002). For social capital theory and conceptualization generalized social trust is the most important aspect due to its expected benefits for society as a whole:

> "Generalized trust is based on inherent personal predispositions or acquired in early childhood and provides a mind map with which to judge the trustworthiness of people we do not know. Because we do not have past experiences with strangers, there is no basis on which to predict behavior. Hence, we access a more general conceptual framework on the trustworthiness of unknown people and how to interact with them" (Botzen 2015: 315).

Based on a rational-choice theoretical position, social trust in micro-level approaches is most commonly conceptualized as an individual resource in conformity with Coleman's (1995: 369-399) notion of "credit slips". These establish an expectation of obligation of the trustee to justify the trust that has been placed in him. Readily repaid obligations and the exchange of help then constitute the trustworthiness as an individual attribute (Häuberer 2011: 42-43). As trust capital "it is the *expectation* that trusting in *ego* is justified and one's trust will not be misused" (Esser 2008: 34, emphasis in original). A psychologically oriented point of view understands social trust as an individual attitude that has long been viewed as beneficial for cooperation by helping to solve the conflict between one's own interest and the interest of the others (Dawes 1980). As an "expectation of cooperation" (Pruitt/Kimmel 1977: 375) social trust facilitates cooperation in social dilemma situations (Sønderskov 2011). Whereas the first rational-choice interpretation is commonly used in economic research on the causes and consequences of trust, the second psychological view was picked up by socialization research. It is also more closely related to individual attitudes towards human nature as originally conceived by Rosenberg (1956: 690; 1957: 340).

Macro-level approaches that utilize an individual-level interpretation of social trust understand it primarily in terms of the average level of trust in a society. Its substantial meaning is therefore closely related to a "baseline expectation" of the trustworthiness of others (Ahn/Ostrom 2008: 88). Therefore, it is best defined as the generalized prevalence of social trust among citizens of a given society. From this perspective, generalized social trust is seen as a guiding principle that specifies what behavior is acceptable and advisable in new situations or if interaction with "strangers" (Berg et al. 1995: 124). As a result, generalized social trust arises when "a community shares a set of moral values in such a way as to create regular expectations of regular and honest behavior" (Fukuyama 1995: 153).

Macro-level collective good interpretations of generalized social trust are not fully developed in the existing social capital literature. A view that expands upon psychological and attitudinal conceptualizations discussed thus far has to take into account that this conceptual interpretation sees generalized social trust as an intersubjective social reality. The approach taken by Lewis and Weigert (1985: 967) is in instructive in terms of their ambition of extracting and combining conceptualizations of trust from the works of Luhmann, Barber, Parsons and Simmel. They argue that generalized social trust as an aspect of social contexts is build and "activated by the appearance that everything seems in proper order" (Lewis/Weigert 1985: 974). Given that macro-level collective good interpretations concentrate on its prevalence, it is "the essential [socially accepted] assumption that makes it possible to enact fiduciary relationships in pursuit of shared goals" (Lewis/Weigert 1985: 979).

A micro-level collective good interpretation can be approached from the viewpoint of forms of trust that are related to the overall functioning and effectiveness of the entire system. The conceptualization of what Esser (2008: 38) refers to as "system trust" is based on the observation that modern societies are characterized by widespread anonymity and structural complexity. As a result, system trust is created based on well-functioning overall system control. Public trust in the reliability and legitimacy of social and political institutions as well as trust in cultural symbols is vital for the structural integrity of societies (Parsons 1967, 1968). From the perspective of institutional design aspects of social capital that can conceptualized either as components of social capital or its outcome-related consequences include the effectiveness of bureaucratic sanctions and safeguards (Sønderskov 2009).

2.1.2.3 Civic Norms and Reciprocity

The second cultural component of social capital that is constituted by civic norms emphasizes the intangible character of social capital. Civic norms are usually interpreted in terms of moral obligations "to pursue the common good, social engagement, and political activism and have been interpreted as prerequisites of good citizenship" (Coffé/van der Lippe 2010: 483). In both, the economic and the sociological perspective, norms of reciprocity and norms of cooperation draw the main focus of scholarly attention. Although they substantially differ in their assumption about the driving force of norm adaptation, both agree that "for norms to be social, they must be shared by other people and partly sustained by their approval and disapproval" (Elster 1989: 99).

An individual-level interpretation of social capital in micro-level analysis considers norms as idiosyncratic attitudinal and cognitive structures that are acquired and possessed by individuals, but also firmly grounded in groups and sets of relationships those individuals belong to. They "guide an individual's behavior but also (…) allow an individual to anticipate other's behavior" (Bicchieri 1990: 846). In social cognition research, several different social norms that actors cohere to are discussed. Social norms that are relevant as part of the social capital concept include norms of reciprocity that ensure that favors done to us by others are returned. Furthermore, norms of cooperation are centered on the idea that a particular choice of action is conditional upon cooperative behavior of others. The norm of cooperation however does not prescribe unconditional cooperation, rather cooperation is adequate "if other group member also cooperate, whereas the defection of others is a legitimate excuse for individual defection" (Fehr/Fischbacher 2004: 186).

From the individual-level resource perspective on social capital in macro-analyses, society's stocks of social norms are considered to be regular behavior patterns that are relatively stable and expected by members of a given community or society. The underlying idea is that based on social interaction, shared experience is created, upon which expectation about future interactions can be based (Bettenhausen/Murnighan 1991: 25). As compared to the previous discussion, the crucial difference is that norms acquire a significance that is independent from purely individual attitudes and behaviors. Instead, as an internalized script they are followed even when their violation would be unobserved (Elster 1989: 104) because public acceptance of social norms is widespread (Kotzian 2014: 61). Therefore, in this interpretation social norms no longer only regulate what behavior is appropriate in a given situation but also what "ought to be done" in certain social situations or scenarios (Pillutla/Chen 1999: 86).

The macro-level collective good aspect of civic norms and reciprocity is usually seen as based on the proposition that public participation and deliberation should be considered a defining element that structures government action (Dalton 2008: 78). As a result, the production and monitoring of norms that constrain and facilitate behavior attain an institutionalized form by defining the structure of incentives for individuals situated in their social setting (Nee/Ingram 1998: 19). Based on a neo-institutionalist position, social norms operate as institutions at the level of the social system, i.e. social networks or the entire society.

In contrast with the previous interpretation, in which the norms of reciprocity and cooperation are not explicitly codified, this interpretation deals with specific institutional representations of norms such as voting turnout and tax compliance (Barry 1970; Putnam 1993b).

With regard to the interpretation of social norms as a collective good in micro-level analysis of social capital Esser's (2008: 39) concept of system morality is instructive:

> "System morality, in general is the 'morality' of reciprocal commitments and the 'validity' of the norms and values comprising all actors. System morality consists of a specific, orientating attitude that directs action simply because actors conform automatically without considering 'egoistic' consequences. The perception of the entire system is coloured by this attitude, which subordinates actors to their actions under the imperatives of respective values."

His account clarifies to a particular degree that as a general system-level characteristic system morality decisively influences individual-level orientations towards cooperation and reciprocity in collective transaction. Specific examples of this interpretation of social capital that can be found in the literature include a widespread sense of citizenship (Esser 2008: 39) or, more importantly and related to aspects of institutional design, externally imposed institutionalized rules devised to structure cooperation with regard to the attainment of common-pool resources (Ostrom 2000b: 148).

2.2 Determinants of Social Capital

In order to be able to derive specific expectations regarding the impact of the financial and economic crisis on social capital, this section offers a conceptual discussion of explanations that have been proposed in the literature with regard to their influence on social capital emergence. It also discusses the underlying theoretical arguments and mechanisms that are relevant for linking diverse explanatory factors to social capital. The respective explanatory complexes will be discussed separately from each other and considered in terms of their direct impact on social capital (see section 1.2.1). Although there are several attempts to integrate these perspectives into a single explanatory model (Alexander 2007: 371; Freitag/Kirchner 2011: 391-393; Doh 2014; Halman/Luijkx 2006; Brehm/Rahn 1997: 1001-1004), they are more usually treated separately in distinct literatures. The discussion on social capital generating factors can be meaningfully structured along the distinction between society-centered approaches (Hooghe/Stolle 2003) and institution-centered accounts of social capital theory (Rothstein/Uslaner 2005; Rothstein/Stolle 2007).

The *society-centered approach* is based on the bottom-up premise that “the capacity of a society to produce social capital among its citizens is determined by its long-term experience of social organization anchored in historical and cultural experiences” (Rothstein 2013: 1013). Accordingly, social capital is mainly created by voluntary associations because they offer opportunities for learning civic virtues and democratic attitudes. The respective micro-foundational hypothesis argues that memberships in associations and networks influence values and attitudes of individuals (Stolle/Hooghe 2004: 424). In order to differentiate different kinds of explanatory models proposed in the literature a useful distinction can be made between attitudinal arguments and network-based arguments (Stolle/Hooghe 2003a: 233).

The attitudinal argument centers around explanations of social capital formation that primarily deal with the relevance of pro-social attitudes that citizen’s attain through socialization and that uniquely enable and facilitate their ability to socially participate. The literature highlights that youth experiences are particularly important for social capital generation because “by interaction with others you people will become imbued with more civic and more egalitarian attitudes” (Stolle/Hooghe 2004: 430). This argument is very closely related to Putnam’s (2000) interpretation who has in particular highlighted the importance of face-to-face interaction. The argument can be expanded by contending that such forms of social interactions have a strong socialization effect that leaves a persistent attitudinal imprint throughout one’s life course.

Based on research and findings in mobilization research the general starting point of the network–based argument is that participation is a self-reinforcing activity, i.e. those who are integrated in social networks tend to be much more active in future (Diani/McAdam 2003). With regard to social capital the theoretical expectation is that repeated social interaction has a self-reinforcing effect on voluntary participation. Positive externalities in terms of tolerance, reciprocity and trust arise especially if the composition of the network that underpins patterns of social interactions is diversified. The empirical record on the proposed relationships between network participation and social capital, however, is mixed at best. Although some studies demonstrate that people participating in voluntary organizations tend to be more trusting (Uslaner 2002), empirical evidence does not necessarily suggest that individual associational membership creates forms of social capital that would be beneficial for the broader society (see e.g. Delhey/Newton 2003; Robbins 2011).

The *institution-centered approach* towards social capital generation arose as a response to the limitations of the society-centered approach. In its essence, the institutions-centered account of social capital theory adapts a top-down perspective and claims that social capital needs to be linked to well-functioning political and economic institutions in order to flourish (Rothstein/Stolle 2007: 1014; Rothstein 2013). At the micro-level, studies dealing with citizen's *attitudes* argue that trust in other fellow citizens and their confidence in political institutions, are closely related to each other. At the macro-level the underlying argument is that institutions provide *structures* and opportunities for the creation of cooperative relationships and generalized social trust (Tarrow 1996: 395; Levi 1998: 83-85).

The main idea of the attitudinal argument states – in its simplest form – that citizens create their assessment of the trustworthiness and fairness of other fellow citizens based on the experiences they make with state institutions. It is argued that citizen's draw cognitive inferences from institutional actions of the state. By directly or indirectly perceiving equal treatment in the context of the provision of social security services or an active labour market policy, individual citizens draw conclusions about the nature of society (Rothstein/Stolle 2003: 199-201; Scheepers et al. 2002: 188-189). The associated causal mechanism is mostly based on cognitive inference: "if citizens have evidence that their public policy system is corrupt and that public school principals, social workers, etc. cannot be trusted, they will extend this perception of people to the "generalized other." (Rothstein/Stolle 2003: 199). In addition, attitudes that are discussed as antecedents of social capital notably include different aspects of political trust and confidence. Although contested (e.g. by Newton/Zmerli 2011), a bidirectional relationship between political and social trust seems plausible as institutions "influence civic behavior to the extent they elicit trust or distrust [of citizens] towards themselves" (Levi 1996: 51).

An institutional-structural perspective concentrates on investigating the impact of state institutions on social capital from a perspective that sees said institutions as opportunity structures for social capital generation. Perhaps the most general structure of political systems that this approach refers to is democracy itself. It is seen as conductive for social capital generation due to the fact that it enables the establishment of channels of information exchange that facilitate the ability of citizens to monitor governments, sanction lawbreakers and support participation and integration of citizens (Stolle/Hooghe 2003b: 34). Another fairly straightforward proposition suggests that we can expect more associations "to exist when governments allow them to exist" (Paxton 2002: 259). Well known examples that are usually brought in to substantiate the supposed interrelation between institutional structure and social capital are related to political transformation in Central- and Eastern Europe. Based on a review of the literature, Tong (1994: 334) summarized the issue at hand: "Given the totalitarian tendencies of state socialist systems, an autonomous civil society rarely emerges in a bottom-up fashion, except when the regime is in serious crisis. Instead, its emergence is often the results of top-down efforts, that is, through tolerance, encouragement, or sponsorship by state policies".

There are three main content-specific variants of arguments that are proposed by the institution-centered approach towards social capital generation that will be elaborated in the following section. Due to the absence of a general theory of social capital generation, these three theoretical perspectives are best understood as broad areas of research that propose a wide array of arguments. Therefore, it is important to emphasize two particular points here. First, the mechanisms that constitute a link between social capital and its antecedents are considered in terms of a direct relationship. Second, the following discussion focuses predominantly on one direction of the assumed causal relationship only, namely from factors that can be identified as sources of social capital towards social capital itself as a consequence. For many of the theoretical propositions about the structuring effect of social capital determinants, it is often equally plausible to put forward arguments that deal with a reversed direction of causality. To what extent we are presented with a reciprocal relationship should be not overlooked, however, here it will be considered primarily as an empirical question.

2.2.1 *Influence of Economic Development on Social Capital*

Interpretations that refer to social capital as a collective good elaborate on its link to economic development by concentrating on its function as an aspect of social structure (Coleman 1990: 305). Especially higher levels of generalized social trust are theorized to depend upon favorable economic conditions due to their risk mitigating effects (Ostrom/Ahn 2009: 23). In this respect, Berggren and Jordahl explain that mechanisms of a well-functioning free market economy ensure that mutually trusting behavior becomes more likely, because financial and economic security creates an environment in which misplaced trust does not have far-reaching negative consequences (Berggren/Jordahl 2006: 147-149). Considerations on the implications of economic development for volunteering and civic norms and values are, generally speaking, less developed. Nevertheless, based on public policy analyses, the idea has been conceived that economic wealth and a favorable economic development create a suitable environment for community investments, facilitating the development of civic infrastructure (Putnam 1993a: 102) and improve the productivity and efficiency of voluntary organizations and community services (Warner 1999: 375).

In aggregate-level interpretations of social capital, trusting attitudes are expected to be more common in societies with a better economic development because the material needs of members of a society are satisfied and therefore, they are more willing to take risks in trusting others (Bjørnskov 2007: 7). The prevalence of trusting attitudes can be explained in terms of incentives that arise in a free market economy. Berggren and Jordahl (2006: 143) demonstrate that if we concentrate on economic producers, trustworthiness is required in order to attain high long-term profits. Based on the assumption that producers and consumers strive to attain mutually beneficial outcomes, trust is an equilibrium strategy that helps to avoid suboptimal outcomes. At the same time, untrustworthy conduct is sanctioned and becomes less rewarding (Delhey/Newton 2005: 312). Functioning market economies that generate economic growth can be expected to stimulate generalized trust because internalization of trust helps to avoid opportunistic behavior "on the conditional expectation that other will do likewise" (Berggren/Jordahl 2006: 144).

Furthermore, theorists also argue that reciprocity is more easily created in environments – such as economic wealth – in which reciprocity-related obligations can be expected to be honored and trust credit 'repaid'. This, in turn, increases the likelihood of the emergence of credible commitments and cooperative arrangements (Keefer/Knack 2008: 706-709). This effect is usually explained by considering that a well-functioning free economy is characterized by the rule of law and the protection of property rights. Rothstein (2000: 491-492) provides a compelling argument explaining how exactly such institutions reinforce a climate of reciprocal relationships:

> „In a civilized society, institutions of law and order have one particularly important task: to detect and punish people who are 'traitors', that is, those who break contracts, steal, murder and do other such non-cooperative things and therefore should not be trusted. This, if you think (i.e. if your cognitive map is) that these particular institutions do what they are supposed to do in a fair and effective manner, then you

> also have reason to believe that the chance people have of getting away with such treacherous behavior is small."

Individual-level theories broaden the proposed arguments by suggesting a micro-mechanism that either can help to explain the nature of the macro-link or incorporates the implications of individual or household economic situation. Most of the arguments proposed are a specification of a rather straightforward observation which is summarized by Stolle and Hooghe (2004: 35): "[p]oor people typically lack 'real capabilities', including the capability to realize their own lives and to stand up against any undue government interference in their lives." Newton (Newton 1999) explains this in terms of inequality that leads to "the winners" (in terms of financial, economic, cultural and educational resources) being privileged in society. The theoretical underpinnings of this argument can be found in theories that consider socio-economic differences as primary causes for differences in individual-level engagement, volunteering and civic participation (e.g. Verba et al. 1995).

In accordance with the society-centered approach towards social capital generation, the emergence of the cultural components of social capital, namely trust and social norms can be attributed to the operation of voluntary groups and associations. At the same time, these voluntary groups and associations are considered as a structural component of social capital to the extent to which they facilitate cooperation with the aim of solving problems of collective action. Therefore, the main question that needs to be addressed is what the exact mechanisms are that explain why citizens participate in associations and by extension form trusting attitudes and norms of reciprocity. In social capital research the predominant theoretical perspective that is called upon (Roßteutscher 2008; Stolle 1998) is the civic voluntarism model proposed by Verba, Schlozman and Brady (Verba et al. 1995). Although the complexity of their theoretical model is not fully mirrored in the literature on social capital generation, it contributes substantially toward elaboration the impact of socio-economic status on individual social capital. From the perspective of the civic voluntarism model, income, education or occupational status are key resources that allow individuals to participate in voluntary associations and acquire communicative and social competences (Roßteutscher 2008: 211).

2.2.2 *Influence of the Quality of Government on Social Capital*

In order for social capital to flourish, it has to be embedded in and linked to political and legal institutions (Rothstein 2013: 1014; Rothstein/Uslaner 2005: 46). The general line of argument is that performance and effectiveness of state institutions extends – in the form of citizen expectations – to the individual level as well, because political trust depends upon the capacity of state institutions to represent and meet citizen's needs and demands that are predominantly rooted in socio-economic interests (Polavieja 2013: 258).

As previously discussed, the collective good interpretation of social capital is focused on the ability of state institutions to create conditions in which contracts are kept and mechanisms of effective enforcement and control of the state power monopoly are put in place (Tarrow 1996: 395). With regard to social trust, the mechanism addressing the effects of institutional arrangements on social capital presumes that binding regulations enforced by the state create a trusting environment (Freitag/Bühlmann 2005: 581; Levi 1998: 79; Offe 2001; Hardin 1993: 515). Government agencies, depending on their nature and the conduct of their personnel can influence social capital through the implementation of policy instruments or effective decision-making. Because states create the environment in which social, political and economic transactions take place, in this interpretation the quality of government can facilitate or potentially destroy social capital. Especially based on the communitarian view, some have argued that centralized states and governmental intervention in people's lives drives out spontaneous coordination (Fukuyama 1995: 62-63).

Based in a position that highlights the importance of well-functioning state institutions for social capital generation, the role of state agency is usually confined to a two-way relationship between civil society and government. As such, it is argued that governments "shape conditions [such as civil rights] in which voluntary associations – and social networks more generally – thrive" (Lowndes/Wilson 2001: 631). As for social norms, arguments focus on the implementation side of political decisions embodied in institutions that are manifestations of principles and norms prevalent in a given political culture and thus have the potential to influence citizen beliefs, values, and norms (Rothstein/Stolle 2007: 11).

In aggregate-level interpretations of social capital it is argued that the state, above all, should actively promote citizen participation and system integration through its institutions (Levi 1998: 85-87; Uslaner 2004: 502). A well-functioning political-administrative system facilitates the creation of social trust, but also facilitates civic engagement and volunteering by investing in citizen education and the provision of community facilities, design of public places or approaches towards the reduction of poverty and social exclusion (Lowndes/Wilson 2001: 631). A more strongly empirically grounded argumentation deals with the role of procedural justice as a principle that should guide the action of state institutions (Rothstein/Stolle 2007: 11-13). The main argument is that norms of cooperation can develop only if institutions offer incentives to act collectively and create an environment in which they can credibly assure that the prevalence of such norms is widely shared (Freitag/Bühlmann 2005: 582).

The logic behind the impact of institutional arrangements is often sorted out by referring to individual-level processes. Analogous to the previous discussion, but concentrating on detrimental corrupt practices, it is argued that citizens' experiences with inefficient, corrupt, and unfair institutions do not provide a suitable basis for the development of social capital (Rothstein 2013: 1012-1014), because ineffective and corrupt institutions can no longer guarantee that actions that damage society as a whole (such as breach of contract, clientelism, fraud, bribery, etc.) are effectively sanctioned. The primary implication of this is related to social trust: if citizens structure their expectations regarding social interaction based on the assumption that administrative-governmental institutions themselves are not effective and not able to act fairly, they will be more cautions and less generous in showing trust towards their fellow citizens (Rothstein/Stolle 2007: 14-15; Freitag/Bühlmann 2005: 583). The actual mechanism involved is summarized by Levi (1998: 84):

> "If a friend tells you to trust a friend of hers whom you have never met, you are likely to do so. If trustworthy agents of government vet an individual or institution as trustworthy, your trust is facilitated. The obverse is obviously also the case. Because of your confidence in your friend or the government agents, you rely on their information about the other party. Should the information prove false, you are likely to reevaluate the trustworthiness of the initial party."

Complementary, the potential of state institutions to generate trust depends on whether citizens view these institutions as trustworthy (Levi 1998: 9). The argument involved unfolds in two steps. As with the impact of impact of institutions on interpersonal and generalized social trust, well-functioning state institutions in general are able to generate higher levels of political trust and confidence. The impact of the institutional order on attitudes in explained by cognitive inference based on interactions with street-level bureaucracy that connects institutions and people with each other (Rothstein/Stolle 2007: 15). In a second step, we can more closely examine the relationship between political trust and social trust. A lower willingness to trust public officials is argued to be associated with a lower willingness to trust others (Hall 1999: 452). The main mechanisms involved is that well-functioning political institutions that deal primarily with the implementation of political decisions "reveal messages about the principles and norms of the prevailing political culture that mold and shape people's beliefs and values (Rothstein/Stolle 2007: 11). Influence on social norms is sometimes argued to emerge in a diffuse manner and to happen as the result of a "spillover effect" (e.g. Narayan/Pritchett 1999). As with trust, institutions provide a framework along which individuals align their actions and attitudes to the extent to which they actually trust these institutions, which in turn positively influences their willingness to engage in voluntary activities and trust other people (Stolle 1998: 498-502).

2.2.3 Influence of the Welfare State on Social Capital

The discussion of the impact of welfare state institutions on social capital is usually focused on the creation of equal opportunities for citizen participation and the development of trust and social norms (Kääriäinen/Lehtonen 2006: 31-32). The underlying principles of fairness and equality – that are also relevant for the evaluation of the overall quality of government – are often interpreted as being realized in encompassing and universal welfare states (Rothstein/Stolle 2003: 194). Comprehensive in scope, these states include all citizens and apply uniform rules throughout society. Therefore, in their actual implementation: "[u]niversalistic welfare states reduce fears that one is either being exploited by other members of society or robbed of the equal opportunity to lead a successful life" (Freitag/Bühlmann 2009: 1545; see also Rothstein/Stolle 2003: 197).

Implications of welfare state arrangements for collective good social capital at the macro-level are commonly discussed along the lines of two competing hypotheses. On the one hand, welfare states are expected to have a promoting effect on social capital due to their ability to create conditions for developing a thriving pluralistic civil society. They facilitate the incorporation of voluntary organizations into the system of provision of welfare services, invest in them and even more broadly, provide social and financial security by protecting against life's contingencies (Van Oorschot/Arts 2005: 6). An important source of social trust is seen in social policies: "the legitimacy of the political system appears to depend in part on the system's ability to create procedural justice in concrete encounters between citizens and public institutions responsible for implementing public policies" (Kumlin/Rothstein 2005: 348). With regard to volunteering, welfare states promote civic institutions and practices (Kääriäinen/Lehtonen 2006; Rothstein/Stolle 2003) by creating specific incentives and opportunities, or "structural and cultural conditions" for citizen participation (Gundelach et al. 2010; Van Oorschot/Arts 2005: 9).

With regard to the impact of welfare states on social norms, some authors argue, that welfare states encourage social trust and the development of norms of reciprocity and solidarity between citizens (Rothstein 2001: 212-215). On the other hand, proponents of the 'crowding-out hypothesis' point out that there has been an encompassing acquisition of tasks related to social assistance and support – that have been previously residing with voluntary organizations, families and other personal networks – by the welfare state (Van Oorschot/Arts 2005: 6; Gundelach et al. 2010: 631; Kääriäinen/Lehtonen 2006; Freitag/Bühlmann 2009). Therefore, a strong and well-developed welfare state "reduces the need for privately organized initiatives and thus leads to a 'crowding out' (...) of voluntary networks" (Gundelach et al. 2010: 631). This leads to forms of "individualistic independence" from participation in voluntary networks (Scheepers et al. 2002: 188; Stadelmann-Steffen 2011: 136-138) making it more difficult to create conditions for the emergence of norms of reciprocity and generalized social trust (Kumlin/Rothstein 2005: 340).

At the individual level, universalistic welfare states are argued to "reduce fears that one is being exploited by other members of society (…). They do so by reducing inequality and providing certain key resources" (Freitag/Bühlmann 2009: 1545). In explaining how citizens extend inferences from their experience with welfare state institutions to their fellow citizens, the links proposed by Rothstein and Stolle (2003) are instructive (see also van Oorschot/Finsveen 2009; Scheepers et al. 2002; Bjørnskov/Svendsen 2013).

The first link is based on "cognitive inference" and works as a direct relationship: "if [citizens] perceive that the political system that implements public policies does act fairly, honestly and responsively, they feel more secure and encouraged to trust others" (Rothstein/Stolle 2003: 199). The second link is based on the system of incentives a welfare state offers. Especially in conservative and selective welfare states, are able to extract favors from the state thus making them less sensible to exert trust towards other people. The third link is based on direct experience, stating that unfairly and disrespectfully treated citizens will be negatively influenced in their judgments about the trustworthiness of others (Rothstein/Stolle 2003: 200). As for the individual decision to participate, Gundelach and her colleagues (2010) argue, based on a neo-institutionalist position, that voluntary (social) engagement decreases as a function of the responsibility of the welfare state "to guarantee social benefits in times of need" (Gundelach et al. 2010: 631). Influence on social norms is also plausible based on the expected influence on trust and voluntary participation. Irrespective of potentially conflicting expectations, if welfare states positively influence trust and volunteering, these influences most likely also extend to social norms.

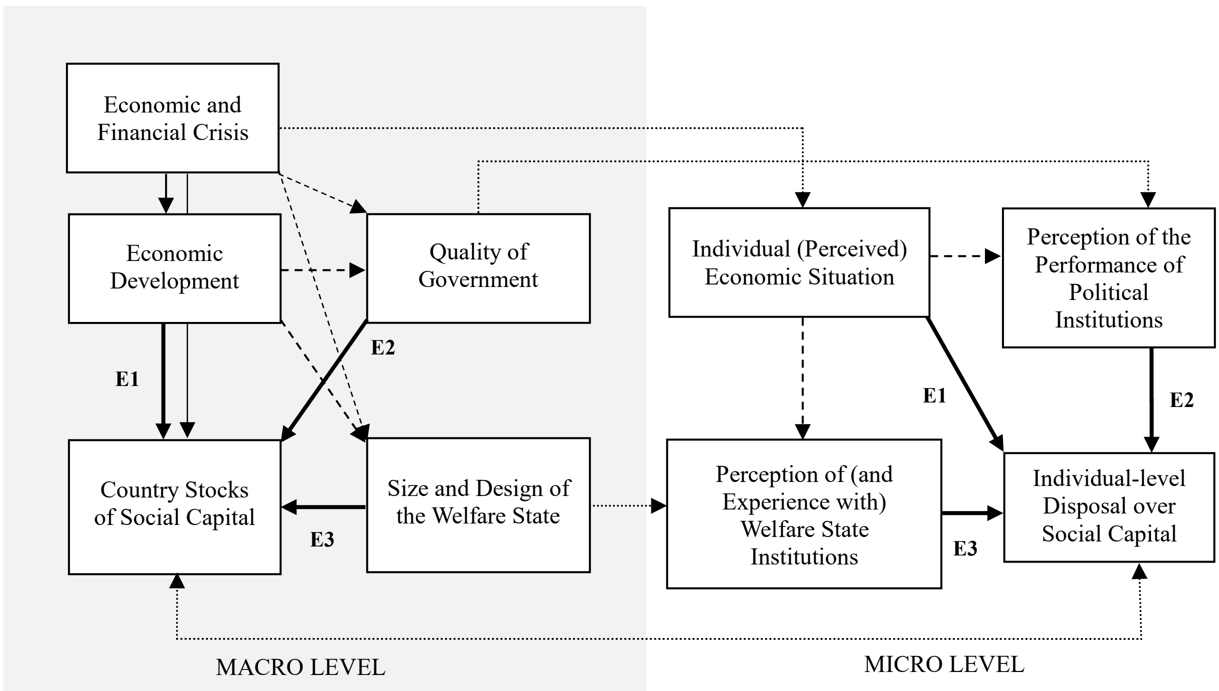
2.3 Summary: Theoretical Perspectives of a Multidisciplinary Debate

The overall theoretical model that will be the main reference point in identifying specific hypotheses is composed of three explanatory approaches that can be summarized under the broader term of institutions-centred approaches towards social capital generation. Based on the level of analysis and the underlying conceptual interpretation of social capital, it combines diverse mechanisms that link institutional and social-structural components with collective-good and individual-level social capital. At the same time, the review of the main mechanisms proposed by the literature has revealed that the exact nature of the causal relationship is often sorted out by referring to the individual-level, i.e. citizen attitudes and behaviours.

Figure 2.1 provides a summarizing overview of the relationships and the main direction of the assumed causal sequence between the specific explanatory factors and social capital. From a theoretical perspective the discussed theoretical approaches share the goal of explaining the emergence of social capital. Furthermore, all three approaches (focusing on the impact of (a) economic development, (b) quality of government and (c) welfare state) show more or less the same degree of conceptual abstractness such that is it not plausible to assume that one perspective has an overriding area of application compared to the others. Therefore, the proposed theoretical approaches can be can be combined in terms of an "end-to-end" or "sequential integration". Messner and Krohn (1989: 8) explain that this kind of theory integration "refers to conceptualizing a dependent variable in one theory as an independent variable in another, an independent variable in one theory as a dependent variable in another, or both".

In addition, the depiction of the explanatory framework also helps to clarify the assumed status of the economic crisis in theorizing social capital generation. The impact of the economic crisis is theorized to be an external shock that unfold its influence on social capital due to declining economic development, welfare state reform pressures and a declining quality of government. By observing the dynamics and mechanisms of social capital generation under duress, the crisis offers a unique chance to re-evaluate crucial questions of the social capital literature concerning the potentially reciprocal relationship between economic development and social capital. The following chapters will derive specific hypotheses based on all three aspects of the institutions-centred approach for the respective conceptualizations and components of social capital. With main focus on the direct relationships there are three key expectations (see figure 2.1) each referring to one of the previously discussed explanatory complexes of the institutions-centred approach.

Figure 2.1: Overview of Theoretical Expectations



Note: In figure 1, solid arrows constitute main links which will be addressed in more detail in the theoretical section. Dashed lines constitute auxiliary relationships that are relevant in demonstrating linkages between economy and the political-administrative system. Dotted lines represent cross-level relationships. The figure only depicts the previously mentioned primary direction of causality.

The first expectation (E1) suggests that, overall, economic growth – at the macro level – should lead to a continuation of social equilibria that generate and maintain social capital. On the other hand, a declining economy can be expected to lead to the erosion of social capital. Especially generalized social trust is argued to be highly contingent on dynamics of the crisis (Uslaner 2010: 116). Inductively derived expectations about social cohesion also suggest that the economic crisis has led to increased social distance and social exclusion (Hanan 2012: 17; Frazer/Marlier 2011: 2). By implication, this might result in mutually supportive activities and volunteering being undermined as well (Wong 2013: 112) and replaced by individual self-help initiatives and activities. As for the effect of individual-level economic strain, its impact is analogous to the macro-economic effects. Its analytical added value lies in disclosing individual processes lying 'behind' or 'underneath' macro-level explanations.

The second expectation (E2) highlights that in order for social capital to flourish, it has to be embedded in and linked to political and legal institutions (Rothstein 2013: 1014; Rothstein/Uslaner 2005: 46). At the same time, however, government effectiveness and performance are highly contingent upon favorable economic development (e.g. Rothstein/Teorell 2008). The general line of argument with regard to the impact of the economic crisis is that countries experiencing severe economic decline can be expected to face a decline of their quality of government. This expectation extends to the individual level as well, because political trust depends upon the capacity of state institutions to represent and meet citizen's needs and demands that are predominantly rooted in socio-economic interests (Polavieja 2013: 258).

As far as the third expectation (E3) is concerned, studies that deal with the impact of the crisis on welfare states show that initially no major reforms of the welfare state or cutbacks in social expenditures can be observed (Vis et al. 2011). With a prolonged continuance, social policy measures (such as extra spending on low-income households and activation and training measures) played an important role in the response to the crisis in many states (Starke et al. 2013: 138). As a result, a negative impact on social capital can be derived from theoretical arguments discussed earlier. If state capacity to provide social transfers universally across all those reliant on them is negatively affected by declining budgetary discipline, an erosion of social capital can be expected.

3. The ‘Great Recession’ and Social Capital

The onset of the financial and subsequent economic crisis in 2007, catalysed by the collapse of the subprime mortgage market in the US, rapidly escalated into one of the most profound economic downturns witnessed in decades. Much more than a single event, what researchers have labelled the “Great Recession” (see e.g. Grusky et al. 2011; Reinhart/Rogoff 2009; Rosenberg 2012; Treas 2010) this multifaceted crisis goes far beyond singular events, enveloping diverse developments in the realms of the real and financial economy, labour markets, public finances, and, notably in Europe, the stability of the common European currency as well (Giebler/Wagner 2015: 9). The extant literature comprehensively addresses the manifold economic shifts that unfolded during and in the aftermath of the Great Recession, including declines in economic growth and their redistributive implications (Walter 2013), as well as governments’ adaptive responses (Kollmann et al. 2013). Furthermore, given that the crises are thought to have led to a “politically critical situation” (Tosun et al. 2014: 196), a growing body of literature acknowledges their social impact and concentrates primarily on the effects of individual income loss and economic strain (Sarfati 2013; Wong 2013; Cordero/Simón 2016; Hernández/Kriesi 2016; Redbird/Grusky 2016).

At the time of writing, it is widely accepted that the European Union’s economy had largely recovered from the Great Recession by approximately 2017, returning to conditions resembling those before the crisis. This recovery has been supported by structural reforms, monetary policies, and gradual stabilization of financial markets. However, debates persist in the academic literature regarding the long-term impacts of the crisis on political and economic institutions. While some scholars emphasize the resilience demonstrated by EU economies and institutions (Doukas et al. 2025), others point to enduring vulnerabilities, including income inequality and public debt dynamics, as legacies of the crisis that continue to challenge stability (Onofei et al. 2022). Further exploration below reveals a trend toward sustainable economic recuperation even in the European countries most severely impacted by the crises. However, many policy interventions initially enacted during the crisis remain in force as of 2025, prominently featuring austerity measures such as reductions in bureaucratic spending, public sector programs, and social services (Basu et al. 2017: 203).

This chapter expands upon the previously undifferentiated notion of an economic crisis, develops a deeper understanding of the impact of the interpretations of the "Great Recession" and evaluates theoretical and conceptual arguments that link these developments with social capital. To the extent to which the financial crisis of 2007 has also led to a recession of the real economy in affected countries in subsequent years and has caused an increase in economic inequality (Perugini et al. 2015), varied social and political consequences can be expected. The main goal of this chapter thus is to account for the mechanisms that connect the state of the economy and social capital. Generally speaking, it is expected that financial and economic crises are not only directly responsible for further and more rapid increase in income inequality within countries (see e.g. Dotti/Magistro 2016: 254-255). They may also deepen already existing inequalities in income, educational outcomes and social capital between richer and poorer countries. The investigation of the dynamics linking economic development and social capital is therefore important because, based on previous research (Caselli et al. 2016; Stockhammer 2015; Kern et al. 2015; Roth et al. 2014; Uslaner 2010; Tonkiss 2009), we would expect a declining economy to be correlated with a deterioration of generalized social trust, norms and networks. However, at the same time, we know little about the specific channels through which financial and economic crisis can harm the various dimensions of social capital.

Drawing from the initial premise that financial and economic crises extend beyond their macroeconomic repercussions to significantly impact human and social well-being, the main line of the subsequently presented argument delineates between structural (or functional) and individual consequences. Structurally, diminished growth rates and mounting government debt constrain states' capacity to provide collective goods like education and welfare expenditures, recognized as pivotal for social capital development in prior research (Bjørnskov/Meón 2013; Sarracino 2013; Winkelman 2009). On the individual front, unemployment, income loss, and increasing private and household debt curtail individuals' ability to engage socially to their fullest potential. The degradation of labor conditions and the implications associated with the fallout of crises serve as a catalyst for heightened social exclusion. Consequently, individuals find themselves with fewer resources to navigate their social spheres. This implies that individuals have to rely on fewer resources overseeing their social lives and that "the anxieties associated with doing so have profound negative effects for people's outlook on the world"

(Basu et al. 2017: 203). Consequently, the constrained civic participation of citizens potentially undermines attitudes of trust and solidarity towards fellow citizens, foundational to the concept of social capital.

3.1 The Great Recession in European Countries

In order to understand the ways in which the Great Recession may have affected social capital, it is important to delineate the sequence of events following the financial upheaval of 2007. There are several reasons why an assessment of the impact of the crises in European countries is particularly attractive. There is a relatively extensive series of data available that makes it possible to comprehensively evaluate the diverse consequences economic decline during and beyond the crises. This is true for both, the temporal as well as spatial sense of the word. As a result, a sufficiently long period of time has passed since the outbreak of the crisis such that it is possible to distinguish between the crises, the recession and the recovery. With particular focus on social capital, which has been previously argued to remain rather stable over time and emerge and change as a result of a path-dependent process (Putnam 1993; Putnam 1995a), this also means that some of the potentially protracted and lagged effect of the social consequences of the crises can be detected and studied. Furthermore, European countries comprise a set of countries with pronounced differences in both, pre-crises levels of social capital as well as very different crises experiences.

Viewing the Great Recession as a confluence of structural state-level crises highlights the fact that a declining economy has revealed gaps in the self-sufficient functioning of the market. Underpinned by the premise that states are an integral component of any capitalist economic framework, their response to market failures also comprises an endeavour to bridge the emerging gaps, rectify ensuing economic and financial imbalances, and mitigate adverse impacts on the state economy. As the challenges posed by the described developments tangibly impact the functioning of state administration, prompting interventions to address the structural risks inherent in the market economy, these macro-level manifestations collectively delineate a "functional crisis" framework. The conceptual specification of a functional crisis can be grounded in theories of late capitalism. It is characterized by (a) states being unable to diminish their regulatory capacity without compromising market integrity and functionality (Offe 1972: 29), (b) them grappling with escalating demands from recipients of transfer payments (Schäfer

2009: 160) and (c) the pervasive politicization of macroeconomic processes necessitating sustained state interventions to stabilize capital accumulation (Bell 1972: 32).

At the individual level, the argument aligns with the initial observation that the structural weaknesses within the economy, and the corresponding effectiveness (or lack thereof) of state adaptive responses, are recognized and evaluated by citizens. Drawing on both macroeconomic perceptions and personal experiences within the economic framework, individuals formulate opinions and attitudes regarding the overall economic condition and their own financial well-being (see e.g. Winkelmann 2009). The work of Habermas (1973) offers insight into the underlying mechanisms through which macro-level structural-functional impacts resonate at the individual level. The resultant "legitimacy crisis" encompasses (a) citizens' perceptions that the state inadequately fulfils its regulatory role in the economy and (b) uncertainties arising from austerity measures perceived to undermine social safety nets, particularly if construed as directives from external entities beyond immediate democratic oversight.

In order to ascertain the implications of the economic and financial crises for social capital development, a chronology of the sequence of events unfolding in European countries after the initial economic shock in 2007/2008 therefore needs to evaluate the impact of the multiple crises from a comparative perspective. Comparing developments during and after the crises entails considering how a growing economy boosts government revenue, thereby ensuring the sustainability of public finances. However, disruptions caused by crises in the real and financial economies disrupt the routine functions of economic, political, and social systems. Challenges arise when governments strive to maintain a balanced budget amidst economic decline, often resulting in the adoption of fiscal austerity measures. These measures entail reductions in overall government spending, potentially impacting areas crucial for fostering income equality and social capital.

3.2 Varieties and Types of Crises

As far as different content-related dimensions of the economic crises that have important implication at both, the macro and micro level are concerned, a preliminary differentiation is offered by Shambaugh (2012; see also Tosun et al. 2014: 198), who differentiates between three mutually intertwined dimensions or "interlocking crises": a banking crisis, sovereign debt crisis and a growth crisis. A complementary attempt at systemising the impact of crises influences stresses that, in addition to the already mentioned dimensions of the financial and real economy, increasing economic inequality is one of the most profound social changes of the recent years (Stockhammer 2015: 936). In this view the Great Recession can be interpreted as an interaction of the deregulation of financial markets and rising inequality (Wright 2015: 643) due to the fact that many private households – encouraged by a deregulated financial system – reacted to stagnating real income with an extensive accessing of credit opportunities (Guerrieri/Lorenzoni 2017; Perugini et al. 2015). Explicitly including changes in the aggregate income distribution in addition to the developments of the financial and real economy outlined by Shambaugh (2012) is important, because it focuses on the economic well-being of individuals and groups in a population or amongst countries (Jordahl 2009; Lin 2000). According to O'Connell (2003: 244) the distribution of income and economic inequality is "one of the key economic forces in shaping social life."

A key benefit of such a distinction lies in its acknowledgment and emphasis on the heterogeneous nature of the economic and financial crises in terms of its origins, manifestations, and outcomes. It's evident that not all European nations experienced all three dimensions of the crises in the same way, and that the impact varied across the continent (Kriesi/Pappas 2015). In fact, in several European countries, the macroeconomic repercussions of the crisis were minimal and were perceived as problematic only by a minority of the population. Conversely, other countries, particularly those in Southeast Europe, were faced with challenges such as excessive sovereign debt, rising unemployment, and significant GDP decline (Roth et al. 2014: 304).

How to empirically identify a crisis is an open-ended question. In practice, researchers rely on a diverse array of qualitative and quantitative indicators, often supplemented by their own expert judgment, to identify and categorize crises (Claessens/Ayhan 2013: 22). The subsequent section mainly deals with a more detailed explanation of the diverse impacts of crisis phenomena utilizing established classification and dating methodologies (Reinhart/Rogoff 2009; Laeven/Valencia 2012). Initially, the framework delineates the chronology of pivotal events and the implications and consequences stemming from the downturn in the financial sector. Subsequently, it examines the evolution of the real economy, with a particular focus on economic growth and unemployment rates. Lastly, attention is directed towards shedding further light on the interconnectedness between crisis developments and their implications for heightened income inequality.

3.2.1 *Crisis of the Financial Economy*

While the crisis's roots are commonly attributed to the collapse of Lehman Brothers in 2008 within the United States, its rapid transmission to Europe is widely acknowledged by various authors (see e.g. Mian/Sufi 2015; Kotz 2009; Sora et al. 2014; Reinhart/Rogoff 2009). As per the criteria outlined by Reinhart and Rogoff (2009) for defining crises, Europe witnessed a financial downturn that initially manifested as a banking crisis in 2008, followed by subsequent episodes of external and domestic debt crises, the repercussions of which persisted for well over a decade and some are still relevant as of time of writing. From this standpoint, while the US subprime mortgage crisis did not singularly precipitate the economic challenges in European nations, it did however serve to exacerbate pre-existing structural vulnerabilities within the European financial and economic framework (see also Riehle 2016: 20).

The primary conduit linking the stability of the European Monetary Union to the US financial market lies in the US collapse triggering an escalation in fiscal deficits across numerous European nations. Particularly concerning for certain Eurozone peripheral countries was their diminished competitiveness within the Eurozone, which hampered their access to international bond markets (Lapavitsas 2012). In accordance with Reinhart and Rogoff's (2009: 10) characterization, a banking crisis can be identified by "the closure, merging, or takeover by the public sector of one or more financial institutions." Applying this criterion, it became evident around the conclusion of 2009 that several Eurozone members (including countries such as Greece, Portugal, Ireland, and Spain), were grappling with challenges in repaying government debt or refinancing banks under national supervision (Sinn 2014: 220-224). With debtors unable to meet their obligations, creditors ceased extending credit, resulting in a downturn in tax revenues and near standstill of financial activity in the peripheral states (Krieger et al. 2016: 13).

Their fiscal burdens were compounded by the necessity to establish bailout funds for the banking sector, which was reeling from financial instabilities. This situation was aggravated by the absence of structural reforms during the years of economic expansion following their entry into the Eurozone. In response to the financial challenges, the European Financial Stability Facility (EFSF) was established through an intergovernmental agreement among European Union member states (Closa/Maatsch 2014). Alongside the European Central Bank, its primary objective was to provide financial guarantees totalling more than €500 billion, marking a crucial step towards a unified crisis response. However, as the costs of public sector financing escalated in Ireland, Portugal, and Greece, the financial crisis propagated further, fuelled by market participants' uncertainty regarding the willingness and capacity of European financial institutions to sustain investments in government bonds (Frieden/Walter 2017).

The assessment of the depth and duration of financial crises in Europe can be conducted through an examination of compliance with the criteria outlined in the Maastricht treaty regarding government budget and spending. A central inquiry pertains to the extent to which European states adhere to these treaty provisions and any potential deviations. Table 3.1 offers an overview of this evaluation, focusing on criteria such as the general government debt-to-GDP ratio, which should not surpass 60%, and the government budget deficit, which should not exceed 3% of the preceding fiscal year.

The nominal convergence criteria outlined in the Maastricht treaty serve as a robust framework for comparing the fiscal health of European states. These criteria, including limits on government debt-to-GDP ratios and budget deficits, were established with the aim of fostering macroeconomic stability (Bayoumi/Eichengreen 1997). "They were to prevent the situation in which the excessive growth of budget deficits and public debt would not lead to an increase in interest rates in the entire Union's area to the detriment of the countries of lower interest rates" (Bukowski 2006: 6). The implementation of these convergence criteria was pivotal in shaping the economic governance framework of the European Union. By establishing clear thresholds for fiscal indicators, policymakers sought to foster confidence in the stability of the euro and promote sustainable economic growth across the region. By adhering to these criteria, member states were expected to uphold fiscal discipline and prevent destabilizing effects on the broader European economy.

Interpreting the figures shown in table 3.1 as indicators of the depth and duration of the financial crisis in European countries, it becomes apparent that the challenges related to the ability of states to service their public debts persisted well beyond 2008. First, there are only few countries that managed to comply with the Maastricht criteria after the onset of the financial crisis. Second, increasing government debt is still a major issue for many countries, despite a general trend towards economic recovery. The main reason for such persistence of financial decline can be traced to the extent of financial instabilities of the Eurozone that became apparent in July 2011, when the doubts of financial markets regarding the ability of Greece to repay its obligations led to speculations about the overall stability of the Eurozone.

Table 3.1: Developments of the Financial Economy in Europe 1995 – 2016

Country	Debt-to-GDP ratio (2016)	General government debt exceeding 60% of GDP	Government budget deficit exceeding 3% of the preceding fiscal year
Austria	84.6 %	1995 – 2016	2005, 2008-2009, 2014
Belgium	105.2 %	1995 – 2016	2008-2009
Bulgaria	29.5 %	1997 – 2001	1999, 2014, 2016
Croatia	84.2 %	2011 – 2016	2009-2014
Cyprus	107.8 %	2003 – 2005, 2011 – 2016	1997, 2002-2003, 2009, 2011-2014,
Czech Republic	37.2 %	complied with criterion	2001-2002, 2009-2010, 2012
Denmark	37.8 %	complied with criterion	2008-2009, 2011
Estonia	9.5 %	complied with criterion	2012
Finland	63.6 %	2014 – 2016	2009-2010, 2012, 2014-2015
France	96.0 %	1997 - 1999, 2002 – 2016	2003, 2008-2009, 2011-2012
Germany	68.3 %	1999, 2003 – 2016	2003, 2009-2010
Greece	179.0 %	1995 – 2016	2000, 2005, 2008-2012, 2013
Hungary	74.1 %	1995 - 1998, 2005 – 2016	2002, 2006, 2008-2009
Ireland	75.4 %	1995 - 1997, 2009 – 2016	2008-2012
Italy	132.6 %	1995 – 2016	2009, 2012-2013
Latvia	40.1 %	complied with the criterion	1999, 2008-2010, 2016
Lithuania	40.2 %	complied with the criterion	1999, 2009-2010
Luxembourg	20.0 %	complied with the criterion	2008, 2010
Malta	58.3 %	1999 – 2015	1996-1999, 2001, 2003, 2009
Netherlands	62.3 %	1995 - 1998, 2011 – 2016	2008, 2012
Poland	54.4 %	complied with the criterion	2002-2003, 2009-2010, 2016
Portugal	130.4 %	2004 – 2016	2001, 2004-2005, 2008-2012
Romania	37.6 %	complied with the criterion	1996-1997, 1999, 2001, 2009-2012
Slovakia	51.9 %	complied with the criterion	1996, 1999, 2009-2010, 2012
Slovenia	79.7 %	2013 – 2016	1996, 2009-2014
Spain	99.5 %	1995 - 1999, 2010 – 2016	1996, 2008-2014
Sweden	41.6 %	1995 – 1999	2009, 2014
United Kingdom	89.3 %	2009 – 2016	2008-2012
EU 28	83.5 %	2003 - 2006, 2008 – 2016	

Source: Eurostat. Own compilation and presentation.
Notes: The indicator considered in the table is the general government gross debt as percentage of gross domestic product.

The impact of the prevailing circumstances on European countries becomes evident when examining the case of Italy around mid-2012. Italy faced significant challenges during the financial crisis, particularly as the cost of public borrowing surged amid market uncertainties.

In response, the government, led by Berlusconi at the time, implemented a €24 billion austerity package aimed at reducing government debt. However, this austerity measure resulted in cuts to investments (León/Pavolini 2014). Some scholars argue that such austerity measures contributed to the structural transmission of the financial crisis across national borders in Europe. This is especially noteworthy considering that countries experiencing financial difficulties had to adopt adjustment programs, primarily comprising fiscal austerity measures, in exchange for financial assistance from the European Financial Stability Facility (Petmesidou/Guillén 2017).[8]

Established in late 2012, the European Stability Mechanism (ESM) was designed to address budgetary imbalances as a permanent solution, building upon the framework of the European Financial Stability Facility (EFSF). A key provision of the ESM was its requirement for countries seeking financial support to ratify the Fiscal Stability Treaty. This treaty mandated compliance with Economic and Monetary Union rules, including maintaining a balanced budget and implementing fiscal austerity measures if the debt-to-GDP ratio exceeded 60%. Consequently, by leveraging the ESM and the commitment of the European Central Bank (ECB) to stabilize states by purchasing government bonds, the acute phase of the crisis appeared to be resolved by the end of 2012 (Caselli et al. 2016). This alleviated the threat of state bankruptcy resulting from unsuccessful bond sales in financial markets (Basu et al. 2017).

During the subsequent phase of stabilization and normalization, the focus shifted to providing financial assistance to crisis-affected states experiencing ongoing recession. Starting in 2013, the ECB supported Southern European states by purchasing government bonds and extending bank credits through its Emergency Liquidity Assistance (ELA) program. Initially targeting Cyprus, Spain, and Portugal until early 2016, the ECB continued its support into 2017, notably increasing the ELA ceiling for Greek banks in March of that year (Petmesidou/Guillén 2017).

[8] From a short-term perspective, austerity measures did not necessarily produce the desired effect. Due to a general decline of the real economy, the remaining debt burden expressed as a proportion of the actually GDP increased. For Greece, Italy and Portugal this meant e.g. that their relative government debt actually increased despite the fact that they made no new debts.

3.2.2 Crisis of the Real Economy

By nature of being part of the Great Recession, effects of the financial difficulties outlined above did not remain limited to the financial economy only. De Grauwe (2009: 3) highlights the “Keynesian savings paradox” as the primary mechanism driving the spread of the financial crisis, characterized by a coordination failure in collective market action. Typically, when companies and governments seek to increase savings, they can achieve this by reducing expenditures while keeping revenues constant (Narayan/Narayan 2006). However, due to the financial crisis, a general reduction in expenditures results in decreased overall economic productivity and macroeconomic revenues. The extent of the spill-over of financial difficulties into the real economy can be evaluated by examining the trajectory of GDP growth, a widely used indicator of economic output. Additionally, the unemployment rate serves as a crucial indicator of labour market performance, offering insights into the subsequent impact of financial and economic challenges.[9]

A suitable approach towards identifying recession periods is to track the decline of GDP in two succeeding periods based on quarterly data (See Table 3.2). There are several observations worth highlighting. First, the table suggest that although economic decline is nearly universal across European countries during the crisis, at the same time, it is by no means evenly distributed. Analogous to the financial difficulties, Southern European countries were hit harder and experienced a more substantial economic decline. This is also expressed by the Economic Forecast of the European Commission in early 2009 (EC 2009b: 35) that stresses that since “the second half of 2008, the world economy has been experiencing an increasingly sharp, synchronous economic slowdown that is providing to be far worse than expected.”

[9] As a „lagging” indicator, from an econometric perspective, unemployment can be expected to decline in the wake of changing economic conditions during the Great Recession: “as the level of economic activity falls, for example, it is usually more feasible for employers to initially adjust work schedules of existing workers than it is to discharge workers employed for some time” (Lovati 1976: 6).

Table 3.2: Development of the Real Economy and Periods of Economic Recession

Country	GDP growth (2016)	Unemployment rate (2016)	Recession periods during 1995-2016
Austria	1.5 %	6.0 %	Q4 2008 – Q2 2009 (9 months)
Belgium	1.2 %	7.8 %	Q4 2008 – Q2 2009 (9 months)
Bulgaria	3.4 %	7.6 %	Q3 2011 – Q4 2011 (6 months)
			Q2 2013 – Q3 2013 (6 months)
Croatia	3.0 %	13.3 %	Q4 2008 – Q1 2009 (6 months)
			Q4 2011 – Q2 2011 (9 months)
			Q1 2013 – Q1 2014 (15 months)
Cyprus	2.8 %	13.0 %	Q4 2008 – Q1 2009 (6 months)
			Q3 2011 – Q1 2013 (21 months)
			Q3 2013 – Q1 2014 (9 months)
			Q4 2014 – Q1 2015 (6 months)
Czech Republic	2.6 %	4.0 %	Q1 2012 – Q3 2015 (9 months)
Denmark	1.7 %	6.2 %	Q3 2006 – Q4 2006 (6 months)
			Q3 2015 – Q4 2016 (6 months)
Estonia	2.1 %	6.8 %	Q3 2008 – Q3 2009 (15 months)
Finland	1.9 %	8.8 %	Q4 2008 – Q2 2009 (6 months)
France	1.2 %	10.1 %	None
Germany	1.9 %	4.1 %	Q3 2004 – Q4 2004 (6 months)
Greece	0.0 %	23.6 %	Q4 2008 – Q1 2009 (6 months)
			Q1 2010 – Q4 2013 (48 months)
			Q4 2014 – Q3 2015 (12 months)
Hungary	2.0 %	5.1 %	None
Ireland	5.1 %	7.9 %	Q2 2007 – Q3 2007 (6 months)
			Q1 2008 – Q2 2008 (6 months)
			Q4 2008 – Q4 2009 (15 months)
			Q3 2012 – Q4 2012 (6 months)
Italy	0.9 %	11.7 %	Q4 2011 – Q1 2013 (18 months)
Latvia	2.0 %	9.6 %	Q3 2008 – Q3 2009 (15 months)
Lithuania	2.3 %	7.9 %	Q4 1998 – Q1 1999 (6 months)
			Q3 2008 – Q4 2009 (18 months)
Luxembourg	4.2 %	6.3 %	Q3 2002 – Q4 2002 (6 months)
			Q4 2008 – Q2 2009 (9 months)
Malta	5.0 %	4.7 %	None
Netherlands	2.2 %	6.0 %	Q4 2008 – Q2 2009 (9 months)
Poland	2.7 %	6.2 %	Q4 2012 – Q1 2013 (6 months)
Portugal	1.4 %	11.2 %	Q3 2008 – Q1 2009 (9 months)
			Q4 2010 – Q4 2012 (27 months)
Romania	4.8 %	5.9 %	None
Slovakia	3.3 %	9.7 %	None
Slovenia	3.1 %	8.0 %	Q4 2008 – Q2 2009 (9 months)
			Q4 2011 – Q1 2013 (18 months)
Spain	3.2 %	19.6 %	Q3 2008 – Q4 2009 (15 months)
			Q1 2011 – Q3 2013 (33 months)
Sweden	3.2 %	6.9 %	Q3 2012 – Q4 2012 (6 months)
United Kingdom	1.8 %	4.8 %	Q2 2008 – Q3 2008 (6 months)

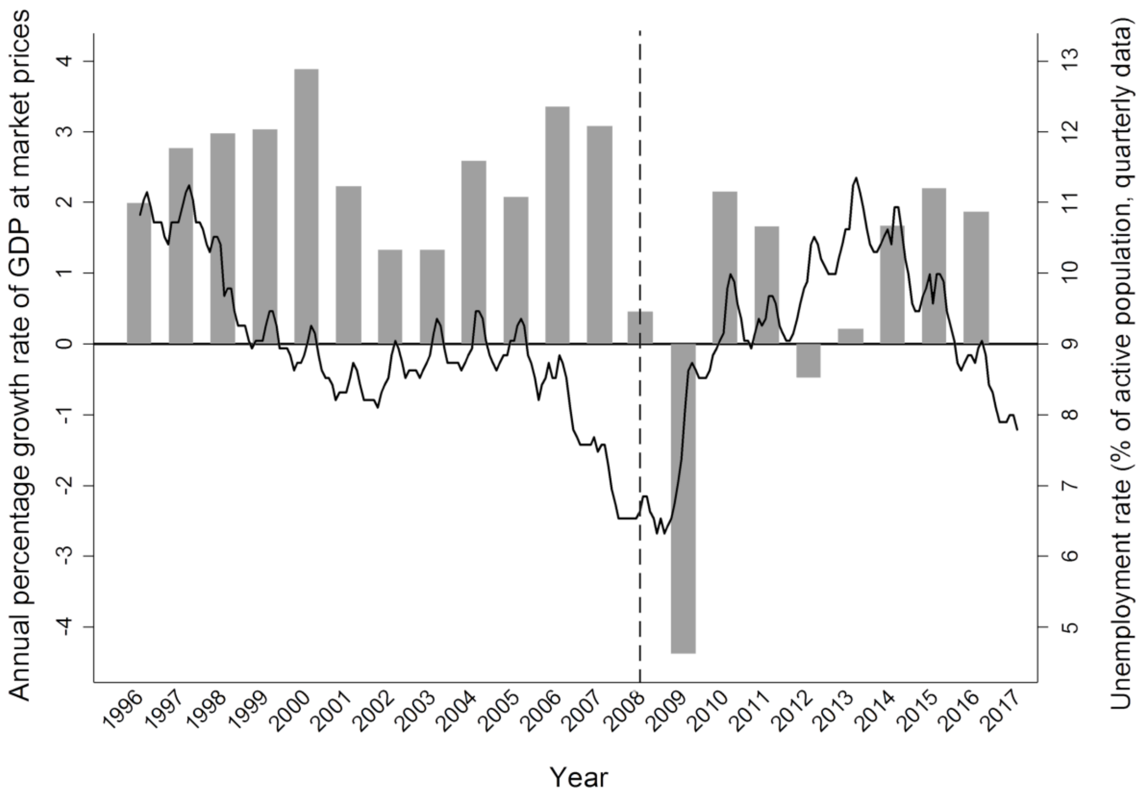
Source: Eurostat. Own compilation and presentation.
Notes: Recession periods indicated by qarter-on-quarter changes of seasonally adjusted data on real GDP.

Second, as shown in the table 3.2, the onset of the crisis of the real economies is somewhat time-shifted as compared to the financial crisis. Whereas financial difficulties spread from the global markets to the European financial system almost immediately after the onset of the crisis in the US, economies in European states kept expanding in 2007 following strong economic activity in the years before. As a matter of fact, in 2007, the overall output growth reached an annualized 3% in the EU. The economies of European countries started to decline in the third quarter of 2008 and for the year as a whole GDP expanded just by 0.9 % compared to 2.9 % in from the previous year.

Third, in some countries (e.g. Finland, Germany, Poland, United Kingdom), a relatively rapid recovery can be observed, with the recession lasting no longer than three consecutive quarters. Conversely, countries like Greece, Italy, and Spain grappled with economic difficulties for an extended period of time, enduring up to two or three years of hardship. Furthermore, despite achieving financial stabilization, some European nations experienced a continuation or resurgence of recession between 2011 and 2015. The diminished growth momentum and contracting economic activity in these instances can be attributed to several factors, including a weaker-than-anticipated global recovery and concerns surrounding the banking sector and sovereign debts of European states (Petmesidou/Guillén 2017). This heightened market volatility creates a feedback loop: the slower-than-expected revival of the real economy prompts businesses and consumers to defer spending decisions due to prevailing uncertainty, thereby dampening domestic demand and impeding economic growth (Basu et al. 2017).

A second notable aspect of the economic downturn following the real economy crisis was the marked increase in unemployment rates. Initially, employment benefited from ongoing growth momentum after the onset of the financial crisis. However, its response to declining GDP growth was delayed, leading to a deterioration in employment conditions starting in 2009. This trend is evident in Figure 3.1, which illustrates a continuous decrease in the unemployment rate throughout 2007 and 2008, followed by a significant increase that persisted until around mid-2013. The dynamics of the labour market during this period can be attributed to firms seeking to mitigate costs, including labour expenses, amid financial constraints. Consequently, from 2009 to 2011, employment either stagnated or declined as firms adjusted to anticipated sustained weakness in demand for their goods and services. With the partial recovery of GDP in late 2010, labour market conditions stabilized and showed signs of improvement.

Figure 3.1: GDP Growth and Unemployment Rate in EU countries 1996 – 2017



Source: Data from Eurostat.
Notes: The figure shows averages for EU-28 countries starting in. Bars in the graph refer to the GDP growth rate (in %) and the line depicts the development of the unemployment rate based on quarterly data for the time period 1996 – 2017.

While initially marked by resilient employment figures, the economic recession eventually led to a surge in unemployment between 2011 and 2014, driven by contractions in GDP alongside slow growth of real income and high household debts (Bianco et al. 2015). According to the European Commission "this is explained by continued labour shedding in sectors that had grown unsustainably in the pre-crisis yeas and the fact that the scope for the adjustment in working hours has largely been used up" (EC 2013: 52). The overall increase of unemployment shown in figure 3.1 does not account for substantial cross-country differences. Whereas some countries recovered rather quickly and the development after 2009 can be characterized in terms of gradually declining unemployment, in more vulnerable Member States a rapid deterioration of the labour market persisted for a substantial period of time.

Since 2015, there has been a gradual decline in unemployment rates, indicating a strengthening economic recovery. This trend is further supported by an uptick in household disposable income, which is expected to foster robust employment growth. However, despite these overall positive indicators, vulnerable demographics such as low-skilled workers and youth have yet to reap the benefits of improved labour market performance. Their continued disconnect from employment and learning poses a significant risk of permanent exclusion from the labour market (Sarfati 2013; Bianco et al. 2015).

3.2.3 Economic Inequality

Whereas the previous discussion dealt with the structural patterns of the Great Recession in terms of its financial and economic consequences, with a particular eye on economic inequality, this section highlights the socio-economic dimension of the crises. Defined in terms of the distributional characteristics of income and wealth, by examining the changes in economic inequality during and beyond the crises, it helps us to understand the potentially changing level of material deprivation in society. In relative terms, increasing inequality would suggest that the share of people who are worse-off than the majority of population, either in terms of their access to goods and services or in terms of an acceptable standard of living, has increased (Marsh 2015). In addition, understanding changes in people's incomes "gives a strong sense of whether or not they can meet their bills and are able to make long-term investments in education, housing and so on" (OECD 2017: 10).

The nexus between changes in the financial and macroeconomic landscape and shifts in income distribution and inequality presents two contrasting viewpoints. One perspective views alterations in income and wealth distribution as pivotal factors driving the onset and trajectory of crises. In addition to the financial-macroeconomic viewpoint, which attributes the primary cause of the crises to financial deregulation and the formation of a speculative financial and property market bubble, attention to income distribution and escalating inequality underscores the correlation between heightened inequality and increased household debt: "higher household debt as working-class families have tried to keep up with social consumption norms despite stagnating or falling real wages" (Stockhammer 2015: 935). Based on the work of Acemoglu (2009), the literature argues that that such a scenario fosters a detrimental cycle wherein growing inequality fuels mounting household debt through diminished savings rates and wage declines (Treeck 2014), further exacerbating the gap between affluent and impoverished segments of society (Barba/Pivetti 2011: 81; Jordahl 2009; Smeeding/Thompson 2011).[10]

[10] Such a line of reasoning is by no means universally accepted. The discussion on the tendency towards gradually increasing income inequality over time can be traced back to approximately mid 80's, the main argument being that there is a positive relationship between income inequality and (broadly defined) economic development. Such

In its core, this section focuses on an alternative perspective that contains the causes of the crisis to the financial sphere and therefore argues that increasing inequality is a consequence of a declining economy rather than its cause. Drawing lessons from past economic recessions (Atkinson et al. 2011: 8) a preliminary expectation arises from the observation that crises, which are affecting both the financial and real sectors tend to disproportionately impact individuals at the lower end of the income spectrum as compared to those at the higher end. To comprehend the shifts in distributional patterns brought about by the crisis, it is imperative to scrutinize the functional distribution of labour and profit income at the national level across European countries, alongside examining the disparity between high and low incomes at the individual level (see e.g. Callan et al. 2010; Evans et al. 2019). With this analytical lens, the central query revolves around the extent to which the crisis led to a redistribution of income that predominantly favoured profit income and high-income earners.

Two of the most widely used indicators of economic inequality, disposable income and the Gini coefficient, and their changes from the perspective of a pre-crisis post-crisis comparison are presented in figure 3.2. It is important to contextualize these changes by recognizing that rising inequality is not a novel phenomenon; since the 1980s, European countries have witnessed gradual increases in economic disparities driven by shifts in labour markets and redistribution policies. Drawing on the established correlation between national wealth and income inequality (Simpson 1990; Marsh 2015; Huber/Stephens 2014) the expectation is that a deep economic and financial crisis and the often-slow recovery has led to a further increase in inequality. This is primarily attributed to the widening disparity in wage and income distribution, evident not only in the growing gap between the top and bottom strata of the income hierarchy but also in the divergent trajectories observed among different nations. Such a development can be not only attributed to austerity measures implemented by government to mitigate fiscal deficits but in addition, the contraction of credit markets and reduced access to financing further marginalize disadvantaged groups, hindering their ability to invest in education and skill development, perpetuating income inequality in the long term (see e.g. Huber/Stephens 2014).

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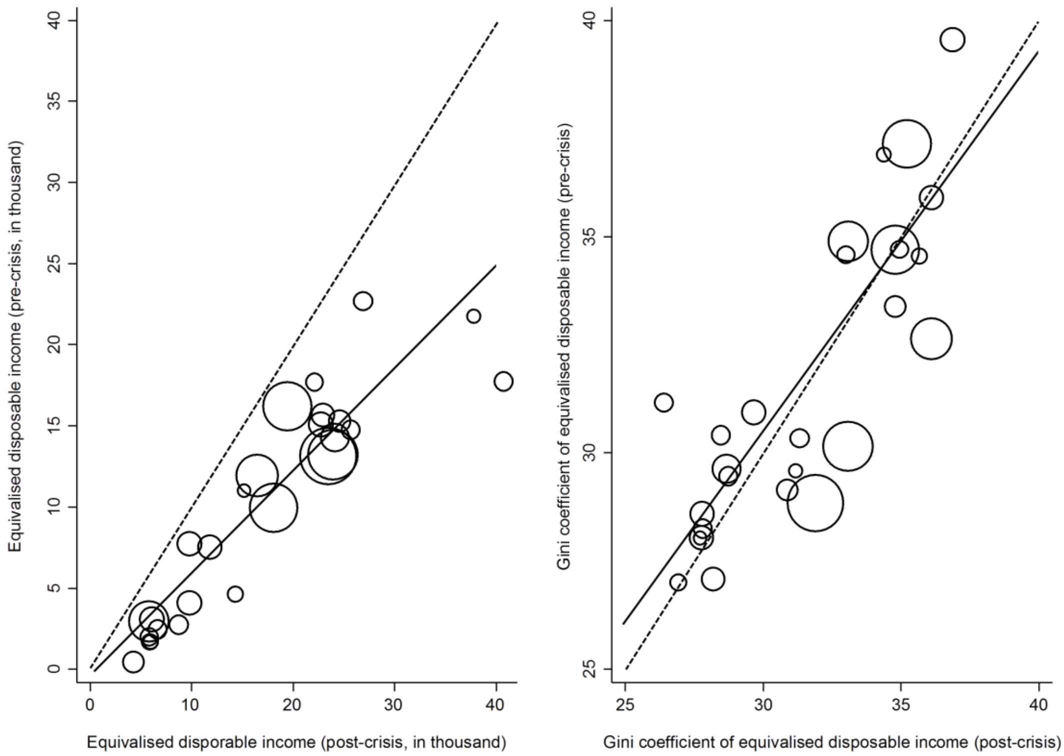
a conclusion may seem paradoxical, however political interventions aim at reducing inequality were considered harmful and thought to lead to increasing unemployment.

Figure **3.2**: Income and Income Inequality (Pre- and Post-Crisis Comparison)



Source: Data from Eurostat and the World Development Indicators database. Own depiction.
Notes: Figure shows changes in pre-crisis (1996-2006) and post-crisis (2009-2015) average values of median equalized income and income inequality (Gini coefficient). Size of the data points is proportional to the population weight. Bivariate linear regression fit showed as solid line. Dashed line as a 45 degree angle separates countries that experienced a decline of income and increase of inequality (under the line) from those in which these did not change or improved in a pre-crisis post-crisis comparison.

There indeed is such a divergence from the perspective of a cross-country comparison. As suggested by the first panel of figure 3.2, in many European countries, the picture is one of growth of personal income. The fact that all of the bubbles are under the dashed line indicates that the average equivalised disposable income in the post-crisis time period was higher than the corresponding income pre-crisis. During the crisis, a strong decrease in disposable income can be detected in countries worst hit by the crisis (such as Greece, Portugal and Spain), although they managed to slowly recover. More importantly however, the second panel of the figure shows that there is considerable divergence when considering the impact of the crises *across* the income distribution. As indicated by the Gini index of disposable income, according to the latest data available, the Nordic countries are some of the most equal European countries and inequality decreased despite the crises. At the same time, income inequality is above the

European average in almost all Central Eastern European and Southern European countries and increased in an over-time comparison.

As will be discussed in further detail in the subsequent sections, major factors contributing towards holding back the increase of income inequality is redistribution (Callan et al. 2010) and the increase of social assistance benefits. In Ireland for instance, during the time period between 2009-2010, the Gini figure rose dramatically to 31.6 (from a previously below EU-average of 28.8) meaning that it became one of the most unequal EU country in terms of its income distribution. However, similarly to France, due to the redistributive nature of the Irish tax and transfer system and discretionary actions aimed and reducing their budget deficit that included a top income tax rate increase, the incomes of the bottom 10 per cent of the income distribution grew faster than in the top bracket thus effectively decreasing income inequality.[11]

3.3 Impact of the Crises on Social Capital

This section offers a discussion of the main theoretical argument and mechanisms of the relationship between economic decline, as experienced during the recent 'Great Recession' along the lines of the causal links established in the previous chapter (sections 2.2 and 2.3). Following the main line of reasoning, that in countries, in which different crises overlapped, and economic decline affected all three previously mentioned aspects – financial economy, real economy and economic inequality – the potentially negative impact on social capital can be expected to be most pronounced. In turn, countries that experienced a decline of some aspects of the real economy but managed e.g. to successfully battle unemployment and through suitable policies also hold inequality in check can be, generally speaking, expected to fare better in terms of their social capital development. In addition, the analysis incorporates institutional-structural factors that moderate and mediate the relationship between financial and economic conditions and social capital. It underscores the notion that states are not passively subject to the whims of the global economy and unregulated financial systems. Rather, through strategic interventions such as investment, redistribution, and social protection, they can adapt and mitigate or counteract the social consequences of economic decline.

[11] In line with the argument that instead of a uniform development there are diverging development across European countries is best demonstrated by considering the examples of e.g. Bulgaria and Hungary. In contract with the described measures that helped to decrease inequality, in both countries a regressive flat income taxes and increase in VAT hit poor people the hardest (Hanan 2012: 16).

Building upon the arguments presented in the previous chapter in the discussion of linkages between different explanatory factors and social capital, this section further specifies the corresponding theoretical expectations. At the macro level, the general idea is that the dynamics and developments of social capital as a collective good need to be understood in the context of the economic situation and the institutional regulatory frameworks of states that can "strengthen or undermine the capacity of independent groups in civil society to organize in their own collective interest" (Woolcock 1998: 176). It is thus particularly relevant to inquire how differences in the way countries experiences economic decline during the crises affect the nature and the extent of their stocks of social capital. Analogously, at the micro level, the main task is to demonstrate how income loss, increasing inequality, and more generally, concern and anxiety with regard to economic outcomes affect individual-level behaviour that is crucial for social capital development.

3.3.1 Direct Impact of the Financial Crisis

During and beyond the course of the financial crisis, many European countries struck by its adverse effects have been forced to adapt comprehensive structural measures in order to consolidate their finances and reduce their budget deficits. The degree to which pressures for fiscal consolidation intensify depends fundamentally on each states' capacity to manage their public debts. As a consequence, recommended or partially mandated reforms have often entailed fiscal measures, prominently featuring expenditure reductions (Visser et al. 2018). The pursuit of fiscal sustainability encompasses diverse strategies, ranging from the "rationalisation" of public services, as observed in Hungary and Portugal, to "efficiency-enhancing" public reforms, typically entailing cuts in redundant bureaucratic expenditures (see e.g. Bozio et al. 2015). Alternatively, fiscal adjustment imperatives may manifest in substantial slashes to public sector programs and systems, effectively depriving individuals of "essential forms of social support while also eliminating the very programs that people need during economic crisis" (Basu et al. 2017: 203).

Various perspectives exist regarding the mechanism linking financial developments during and beyond the financial crisis and macro-level social capital that are contingent upon the point of departure of the corresponding arguments. When examining how worsening public finances and escalating indebtedness may have impacted macro-level social capital, it is crucial to discern that not all discretionary spending items in public budgets significantly foster social capital generation. Those contributing to an environment conducive to social capital generation, based on theoretical arguments, encompass primarily measures aimed at mitigating the impact of fiscal austerity on poverty and social exclusion (Armingeon 2013; de Mello 2000). The main mechanism that can be abstracted is straightforward. During financial economic crises, governments face pressure to safeguard public and social investments from fiscal strains. If their ability to effectively fulfil this task is limited or remains subdued, citizens are more inclined to opt for the private market, deemed better equipped to address their demands, instead of actively contributing towards the provision of collective goods (Woo et al. 2018).

An alternative yet complementary perspective on explaining the relationship between a deteriorating financial economy and macro-level social capital is closely linked to what Stiglitz (2003) has called "social conflict management" strategy employed by state actors amidst declining public finances. One such strategy involves balancing severe cuts in social spending with the introduction of new avenues and opportunity structures for citizens to accrue debt, effectively substituting public debt with private debt (Crouch 2009). Such a shift however, coupled with governments' increasing inability to provide benefits and services that are vital for households and citizen welfare during adverse conditions, poses a significant challenge. Citizens are compelled to resort to private debt mechanisms to access essential amenities such as housing, education, and skill development for employability (Streeck 2014). Viewing these dynamics through the lens of an institution-centered approach of social capital generation suggests diminishing levels of social capital in the face of constrained resources and heightened time investments required to secure societal well-being. This is particularly evident in institutionalized forms of social capital and social interaction, given their inherently time-intensive nature (see e.g. Rodrigues et al. 2023).

Another line of reasoning begins with the initial observation that diminishing finances and escalating indebtedness result in reduced stocks of public and private material and financial resources within any given society. If accompanied by an economic downturn and reductions in public services, the burden often falls on the voluntary sector to handle increased demands. This poses challenges when the resources available to the public sector for allocating toward the production of public goods are constrained, hindering its ability to respond effectively. In the European context, generally speaking, a "significant increase in demand on emergency social services and their efforts to expand their support" has been reported (Frazer/Marlier 2011:

7). This phenomenon is exemplified by Greece, where civil society organizations were compelled to provide social services to those in need. However, due to traditional ties between voluntary organizations and the state, their capacity to fulfil these tasks was limited. Instead of state support, they had to rely on financial assistance from charitable and philanthropic organizations like the Stavros Niarchos Foundation and the Leventis Foundation, as well as contributions from individuals and sponsors (Sotiropoulos/Bourikos 2014: 40-44). The dominant research opinion therefore suggests that regarding macro-level social capital - considered both as a societal aggregate and as a structural characteristic - the following expectation can be proposed:

> *Expectation 1a*: Functional and distributional consequences of declining fiscal discretion such as increasing public deficits and declining public investments limit the capacity of societal actors to provide collective goods that are indispensable for the sustainability of social capital.

To what degree the resource-related argument can be extended beyond the impact of the financial crisis on the structural conditions of social capital generation as well as the institutionalised forms of voluntary participation is an open-ended question. Explanations beyond the scope of assumptions regarding the uniform impact of fiscal austerity and increasing indebtedness on macro level social capital argue that contrary effects can be expected for informal social contacts. Based on such a perspective, it is plausible to assume that bottom-up informal social networks of self-help emerge as alternative form of social organization in order to provide goods and services in times of crises (see e.g. White/Williams 2017). Such a view challenges the proposed expectation but is not necessarily a direct contradiction. Rather than being a conceptual problem, it is more of an empirical question to determine if, and if yes under what conditions corresponding dynamics emerge, in which deficiencies of the financial system can lead to collective efforts that attenuate the impact of the crises.

The specific mechanisms underlying the described relationships between macro-level developments of the financial economy and macro-level social capital can be further clarified and validated by inspecting the corresponding micro-level explanations. A prominent approach in explaining trusting attitudes and behaviour that resonates with civic norms takes into account individual well-being and success. The corresponding theoretical argument is based on the fundamental assumption that trust as such is always accompanied with taking risks. This is in particular due to the fact that trust placed in others, if abused, can entail negative externalities for the trustor. The main implication as highlighted by Delhey and Newton (2003: 95) is that the "poor cannot afford to lose even a little of what they have if their trust is betrayed; the rich stand to lose comparatively less".

The structural side of the argument concerning the repercussions of the financial crisis on individual-level social capital focuses primarily on the absolute material deprivation experienced by lower strata of the income distribution. A precarious financial situation and limited participation in economic activities can be expected to manifest in social capital patterns especially when resource scarcity constrains an individual's ability to compensate for potential losses in cases where trust is not reciprocated (Narayan/Pritchett 1999). Complementary to this, Putnam (2000: 147-148) argues that "haves", i.e. those that have access to sufficient resources "are treated by others with more honesty and respect", thus extending the argument beyond the narrow scope of material deprivation.

The related structural argument pertains to voluntarism and social participation, which are integral aspects of the literature on social and political participation (Verba et al. 1995; Welzel et al. 2005; Magee 2008). Key resources for investment in participatory activities include time and financial means. These resources are significant components of the socio-economic status model, as research consistently shows that individuals with higher income, education, and overall resources tend to engage more frequently (Verba et al. 1995). The mechanisms driving this relationship involve skills, civic norms, attitudes, and psychological commitment. In the context of social capital, individuals from lower-income groups, with limited access to financial and material resources, may encounter challenges in participating in organized forms of voluntarism thus leading to a decline of the social networks' component of social capital (Onyx/Bullen 2000).

Only a handful of scholars have broadened the scope of the argument beyond the outlined structural explanation. While expressing trust or distrust towards anonymous others involves objective material considerations, it also encompasses subjective perceptions. The literature on motivated social cognition sheds light on the role of individual perceptions, thereby introducing a psychological dimension to the previously discussed resource-based explanation. Central to this literature is the exploration of the "forces that govern social judgment" (Dunning 1999: 1). Scholars in this field argue that individuals rely on cognitive structures to form judgments about themselves and others, drawing upon information available to them (Fiske/Taylor 2013: 98). Building upon the initial observation of the preceding structural argument, which suggests that relationships based on trust and reciprocity entail an inherent risk component, this perspective posits that heightened perception of threat and uncertainty leads individuals to adopt a more conservative stance and prioritize identity-enhancing values (Jost et al. 2003: 345-347).

The heightened uncertainty during times of financial and economic crisis, stemming from the threat posed by limited resources, prompts individuals to prioritize existential motives and self-realization over trusting attitudes and social norms, according to the key arguments of this theoretical perspective. Furthermore, such a shift in attitudes may encompass other conservative traits, including risk-aversion and a focus on minimizing potential future negative outcomes. The main conclusion of both lines of reasoning, structural and psychological, despite emphasizing different aspects is mostly the same leading to the following expectation regarding the relationship between financial scarcity and individual-level social capital:

> *Expectation 1b*: The deterioration of citizens' financial situation inhibits the propensity of citizens' to trust others and their capability to participate socially due to a lack of resources that are crucial for the development of social capital.

3.3.2 Direct Impact of the Crisis of the Real Economy

Turning to the impact of the crisis of the real economy expressed in terms of declining GDP growth, economic recession and a perilous labour market situation, the literature on macro-level social capital has highlighted several complementary explanations. What we know about the direct impact of economic prosperity on macro-level social capital is largely based upon empirical studies that investigate the conditions under which social capital is prevalent in any given society. The key aspects can be discussed along the lines of models rooted in a comparative institutionalist perspective.

A significant analysis and discussion of the subject presented by Berggren and Jordahl (2006:144-147) who outline how the prevalence of collective social capital - accessible to all members of society - is shaped by the efficiency and productivity of the economy. Central to their understanding of the underlying mechanisms is the discussion is Putnam's concept of the "transitivity of trust" (Putnam 1995a: 169), which suggests that trust extends beyond its original domain through bidirectional and transitive pathways of social interactions. Viewing the entirety of economic interactions as a subdomain of society, one must consider whether the economic decline during the crisis and subsequent recession disrupts the extension of trust between domains. Overall, the literature proposes two main compelling reasons to believe this may be the case.

First, according to Zak and Knack (2001), a well-functioning market economy cultivates trust amongst its agents, including producers and consumers, who rely on trust to reduce transaction costs in exchange relationships. These social ties also serve to sanction untrustworthy behaviour. If therefore economic decline leads to either fewer transactions being made or the disruption of social structures that determine the "reward for cooperation or penalties for deviation", a general decline of social trust can be expected (Zak/Knack 2001: 299). Second, the disruption of established patterns of goods and services across different locations can be expected to lead to a breakdown in cooperative patterns and shared norms regarding interactions with unfamiliar individuals (Henrich et al. 2001) thus also leading to the expectation of trust decline.

A growing body of literature focuses on employment as a significant factor affecting social capital dynamics. Evaluating the broader employment context, the anticipation of unemployment's adverse effect on social capital aligns with its role as a primary avenue for securing material well-being for many individuals, similar to the previous argument. In this perspective, employment is seen as one of the primary means of securing material prosperity for substantial parts of the population. In order to explore such a perspective in more detail, two respective consequences of material deprivation, observed alongside rising unemployment rates during and post-crisis recovery, should be taken into account when considering its potential impact on social capital.

Firstly, the rise in overall uncertainty stemming from insecure job prospects and labour market instability deepens the segmentation of the workforce. Certain societal groups, such as low-skilled workers, youth, and women, are particularly vulnerable during periods of labour market turbulence and decline. The increase in unemployment alters access to income-generating opportunities for these groups, thereby limiting their ability to engage socially and trust others in situations where they perceive themselves as disadvantaged (Sarfati 2013; Winkelmann 2009). Secondly, labour market volatility contributes to the proliferation of non-standard employment arrangements, including temporary, part-time, or on-call work, and dependent self-employment (Freitag/Kirchner 2011). This trend is expected to negatively impact on social capital as these forms of employment often hinder career advancement and relegate workers to "secondary labour markets", where they face disadvantages compared to full-time employees. This highlights that resource scarcity and material deprivation, which precede declines in social capital, are not exclusively linked to unemployment.

In addition, several studies emphasize that the primary mechanism driving the relationship under consideration may not solely be material deprivation resulting from income loss. These studies argue that collective perceptions are shaped by social structures within the economic sphere, such as teams, organizations, or labour markets (De Cuyper et al. 2009). The escalation of uncertainty fosters a "climate of job insecurity" (Sora et al. 2013: 384), which, as a collective phenomenon, comprises shared individual apprehensions about potential job loss and also "reflects the collective concern of the possible loss of jobs in an organization" that is arguably "as stressful for workers as the loss of jobs itself" (Sora et al. 2014: 19; Sverke et al. 2002). The prevalence of such insecurity during and after crises can impede the development of social capital by eroding organizational commitment and inhibiting the formation of collective cooperation norms due to widespread fears of unemployment. With regard to macro-level social capital, this leads to the following theoretical expectation:

> *Expectation 1c*: The decline of economic growth and a precarious labour market situation limit the development of and access to a trusting and engaged civic community thus leading to a social capital decline.

The corresponding micro-level arguments contribute to a deeper understanding by focusing on the attitudinal and motivational elements that form the foundation of the macro-level relationships under discussion. Research focused on the repercussions of economic decline and precarious labor market conditions often suggests that to comprehend their impact on individual-level social capital, one must scrutinize individual perceptions and attitudes rather than solely considering structural changes. For instance, Scott and Pressman (2011: 334-335) highlight the case of middle-class households, contending that the pressures stemming from issues like servicing private and household debt, along with large interest payments, are perceived as significant concerns. This holds particularly true for individuals at a heightened risk of financial insecurity or those who have already experienced losses in their economic stability as a result of the economic and financial crisis. As a result "people's subjective assessment of their economic situation may not correspond very well with their actual income or standard of living" (Andrews et al. 2014: 561-562).

The primary mechanism linking perceptions of economic adversity to individual-level social capital reinforces the earlier argument with a slight conceptual refinement. Unlike the direct experience of material deprivation, the inclination and readiness to actively contribute to collective welfare rather than resorting to free-riding, hinge upon feelings of societal exclusion or the inability to maintain social positions deemed rightfully deserved. Psychologically, the anticipated adverse impact on social capital can be best understood through reference group theory. This theory posits that individuals construct their perceptions of society based on comparisons between their own circumstances and those of others. Perceived economic hardship can induce similar cognitive effects as actual poverty and resource scarcity (Wong 2013). As a result, potential reductions in cognitive capacity resulting from perceived or genuine economic strain (Mani et al. 2013) may hinder individuals' ability to participate in civic engagement. Moreover, feelings of uncertainty, anxiety, and a general perception of some individuals benefiting at the expense of others could precipitate a decline in trusting and cooperative attitudes (Andrews et al. 2014).

A related argument is often being made with reference to individual employment and income status. The social ramifications of the aforementioned structural shifts in the labour market and escalating unemployment for individual-level social capital can be more closely examined through the concepts of "inclusion" and "exclusion" (Magnin et al. 2007: 15). From a theoretical standpoint rooted in the sociology of work, occupational engagement inherently entails social interaction. Securing stable employment not only affords individuals the opportunity to perceive themselves as valued contributors to society by participating in the economy but also ensures access to social networks, whether through work-related relationships or social connections outside the workplace (Paugam 1995: 63). Addressing the question of what occurs when individuals, due to exclusion from the workforce, no longer have access to work-related social contacts aids in better understanding what can be anticipated concerning individual-level social capital.

One potential answer is that unemployment status can lead to social exclusion, either by severing ties with former colleagues or by limiting the ability to engage in social activities due to unstable income. Another possible answer emphasizes the significance of occupational status in allowing individuals to feel valued within society, since the opportunity to actively contribute to the economy goes in hand with the "opportunity to experience themselves as valued members of society" (Wilkinson 2006: 226). This perspective underscores the quality of social interactions rather than their mere occurrence, suggesting that stable employment fosters cooperative attitudes and positive social behaviour. Accordingly, "[e]mployees who feel bitterness and antagonism towards their employer will be much less productive than people who are appreciated as members of a co-operative team and feel purposeful about their work" (Wilkinson 1996: 226). This results in the following expectation:

> *Expectation 1d*: Declining employment and a pessimistic perception of the economic situation accentuate perceived differences in individual resources and opportunities and thus inhibit the capability of citizens to participate fully in the social life that is crucial for the development of micro-level social capital.

3.3.3 Direct Impact of Economic Inequality

Another crucial aspect of the Great Recession is the increase in economic inequality across numerous European nations. This section delves into the repercussions of increasing income inequality for social capital, along the lines of a rather straightforward theoretical argument. Extensive literature underscores that environments rich in social capital are typically characterized by diminished social distance among individuals and social groups (e.g. Knack/Keefer 1997; Zak/Knack 2001; Berggren/Jordahl 2006; Jordahl 2009). Accordingly, the relationship between economic inequality and macro-level social capital can be explained in terms of a widening disparity between various income strata. Analogous to the preceding discussion on the financial and real economy, the anticipated adverse effects of mounting income inequality can be rationalized through either structural material deprivation among the impoverished or a complementary social-psychological mechanisms.

It is crucial to reiterate a key point from the preceding discussion here: the social reproduction of trust, civic norms, and voluntarism is inherently linked to the financial and economic prosperity of nations. Consequently, countries boasting higher incomes, enhanced economic productivity, and a stable or a growing labor market are generally anticipated to exhibit higher levels of social capital. A focus on income inequality underscores the significance of wealth distribution alongside overall prosperity. Studies supporting this viewpoint indicate a robust negative correlation between a wider rich-poor gap and macro-level social capital, with nations characterized by higher and more equitable incomes demonstrating stronger norms of trust and civic engagement as compared to those with less egalitarian income distributions (Knack/Keefer 1997; Alesina/La Ferrara 2002).

The structural rationale underlying the significance of income equality posits it as a crucial determinant in mitigating societal conflicts and fostering social cohesion. Hardin (2006: 39) outlines a potential mechanism for this relationship, emphasizing the role of social ties and trust among diverse socioeconomic strata. Trust tends to flourish in environments characterized by permeable boundaries between social groups, facilitating cooperative interactions that reinforce such attitudes. As income gaps widen, the likelihood of meaningful social encounters diminishes, leading to segregated social circles and reinforcing existing divisions within society. Thus, increasing income inequality diminishes the likelihood of recurring social exchanges between disparate socioeconomic segments, thereby eroding shared norms and values across society (Coffé/van der Lippe 2010; Coffé/Geys 2006).

An additional perspective within the structural argument is offered by Zak and Knack (2001) who argued that diminishing disposable income stemming from declining wages undermines trust. Their model conceptualizes economy-wide trust as the aggregate time agents allocate to productive activities instead of monitoring others for trustworthiness or deceit. Individuals with limited resources, such as low wages, find trust costly due to associated risks, prompting them to opt for monitoring others' behaviour instead. Conversely, those with ample resources maintain trusting attitudes as the equilibrium strategy (Zak/Knack 2001: 303). The aggregate level implication is that during times of economic crises, a decline in trust is anticipated if it results in a significant expansion of the low-income sector or widens the gap between different income groups in the income distribution hierarchy.

As far as the social-psychological explanation is concerned, in his review of the literature on economic inequality, Jordahl (2009) has observed that economic inequality shapes a society's ethical framework concerning appropriate social interactions during conflicts over resources. This perspective accentuates the relative income position within the overall income distribution. With increasing income inequality potentially triggering disputes over resource allocation (see also Boix/Posner 1998; Rothstein/Uslaner 2005), it diminishes economic incentives for trustworthy conduct and cooperative behaviour among individuals in the lower echelons of the income hierarchy. This phenomenon aligns with behavioural economics, where resource scarcity, stemming from economic hardship in this case, fosters utility-maximizing behaviours (such as free-riding) at the expense of the provision of collectively shared goods. As a result, "[i]f inequality makes people with fewer resources less trustworthy, it will make people with more resources less inclined to trust them" (Jordahl 2009: 325). Together with the initial observation that the Great Recession has widened the gap between rich and poor and economic recovery has not been fairly shaped, this sums up to the following theoretical expectation:

> *Expectation 1e*: Inequalities in the distribution of wealth, income and consumption create an environment in which the structural and perceived distance between social groups and individuals' increases thus leading to a decline of social capital.

In line with preceding sections, a closer examination of individual-level processes is essential to better understand and substantiate the mechanisms that connect economic inequality with social capital. Uslaner (2002) advocates an approach centered on "moralistic" trust to shed light on this connection. In his line of reasoning, the distribution of resources and economic equality play pivotal roles in fostering egalitarian values, which serve as the cornerstone of social capital formation. However, the precise mechanism remains somewhat vague in Uslaner's framework and is primarily associated with the proliferation of pessimism and self-centric behaviours among individuals, construed as consequences of escalating economic inequality. Consequently, to the extent to pursuits of self-interest, isolationism, and inward-focused values become more prevalent "generalized trust gives way to particularized trust, where we only have faith in our own kind" (Uslaner 2002: 10).

On a more fundamental level, the impact of increasing economic inequality on social capital can be understood through the functional premise that high economic inequality undermines cooperation, reciprocity, and mutual trust (Bergh/Bjørnskov 2014). This premise and its implications can be more thoroughly examined with recourse to critical pragmatism, initially introduced to social capital discourse by Dewey (1920). Dewey's contention that associations, viewed as integral to social action and societal structure, are sustained through shared experiences that are enhanced and affirmed by communal engagement, underscores that the perpetuation of egalitarian norms is not self-evident but rather results from their continual validation through collective conduct, or as a matter of fact "any form of experience which is augmented and confirmed by being shared" (Dewey 1920: 196). In line with such a perspective Farr (2004: 15-16) suggests that the critical re-evaluation of established norms, initiated by questioning prevailing social practices, often stems from perceptions of societal issues and crises.

The critique arising from the prevailing social order can serve as a catalyst for constructive change, prompting either the validation or modification of individual norms and attitudes. However, it can also lead to the realization that certain aspects of norms and structures associated with social capital may no longer accurately reflect the prevailing social dynamics. This realization arises from a functional and pragmatic perspective, where economic inequality is perceived as a signal of exploitation by a significant portion of the population (Jordahl 2009: 325), thereby diminishing trust and cooperation. The underlying rationale driving this process of social exclusion and differentiation is that escalating inequality and wealth redistribution amplify the proportion of individuals dependent on societal support for their welfare rather than actively contributing to the economic well-being of a given society (Taylor-Gooby 1991, Glyn/Miliband 1994).

A perspective that combines the presented arguments in order to derive a theoretical expectation with regard to the role of individual perceptions of economic inequality on social capital should therefore take into account the societal significance of participation in social and economic transactions as an essential organizing principle. In contexts marked by resource scarcity for certain social strata, further worsened by economic and financial crises, a decline in social capital can be expected. Such a decline stems primarily from the displacement of trusting attitudes and communal sentiments by self-interest and cynicism, as articulated by Wilkinson "instead of being people with whom we have social bonds and share common interests, others become rivals, competitors for jobs, for houses, space, seats on the bus, parking places" (Wilkinson 1996: 226). In addition, perceptions of injustice and the palpable socio-economic disparities further contribute to the distancing of individuals from each other, resulting in diminished levels of trust (Olivera 2015: 24).

Drawing from social-psychological research, another mechanism that links perceptions of economic inequality to social capital underscores the growing awareness, prevalent in modern societies, of the disparity between material affluence and social shortcomings (Deutsch 1985). Within the boundaries of such a theoretical framework, distributive justice pertains to the fairness of outcomes within the allocative system, encompassing the distribution of privileges, opportunities, and rewards. Particularly in economic contexts, inequality in distributive justice has been argued and can be demonstrated to undermine the perceived legitimacy of social institutions, thereby eroding the moral fabric of the community (Wilkinson 1996: 221). The consequence for social capital research is that as citizens become increasingly sceptical about the equitable distribution of benefits across society, they are less inclined to adhere to established norms of trustworthiness and reciprocity:

> *Expectation 1f*: Increasing economic and financial inequality accentuates perceived differences in economic positions and individuals' life chances and thus negatively influences perceptions of fairness and equality that are both crucial for the development of micro-level social capital.

3.4 Contextualizing the Impact of State Institutions

The discussion presented thus far was based on the assumption that in order to understand the forces that induce changes in societal and individual-level social capital during times of crisis, we have to closely examine the changes in the availability and distributional aspects of economic resources. However, the market does not exist in a pure state, it is rather shaped by the cultural and institutional arrangements of states that give it direction through regulation or intervention. The straightforward premise of this section therefore is that an analysis of social capital has to look outside of economic factors in order to describe the mechanisms that produce or disturb the reproduction of social capital.

This principle holds true for both macro and micro levels of analysis. On a macro-level, states aren't passive recipients of market forces; rather, they can mitigate economic strain caused by various crises through pre-existing institutional frameworks or by adapting these institutions. For instance, governments might implement social welfare programs, job training initiatives, or financial aid packages during times of economic downturns. At the individual level, citizens observe and evaluate how effectively state institutions respond to crises, which influences their perceptions of fellow citizens. For example, if a government swiftly implements policies to support unemployed workers during a recession, citizens may develop a more positive view of their society's resilience and solidarity.

A number of analytically distinct facets of institutions and their performance can be seen as relevant for social capital (Kotzian 2014: 65-66). First, as previously suggested by the institutions-centred approach towards social capital generation (section 2.2.2), *institutional performance* creates the foundation on which acceptance of any given social and political order can be built. Well-functioning institutions help to cultivate civic norms and promote social capital because they facilitate the extension of trust towards others by reducing uncertainty (Newton 2006; Robbins 2012: 237). Second, in addition to the instrumental role of the effectiveness of governmental monitoring and sanctioning, considering the quality of the *political process* takes into account that the importance that individuals attach to civic norms and trustworthiness is a consequence of the perceived relevance of such norms for the functioning of public institutions and conduct of public servants. The underlying reasoning is that the legitimacy and relevance of shared norms increases if these are reflected in the political process (Tyler 2006). Third, in particular view of the *content of policies*, the main question to be investigated is whether the importance that citizens attach to certain aspects of social structures and norms changes as a function of government policy. The main prediction of the corresponding literature is that features of the societal domain such as interpersonal trust, equality and solidarity are shaped by government policy (Kumlin/Rothstein 2005; Rothstein/Uslaner 2005).

According to Kotzian (2014: 66), alienation from societal norms and institutions is likely to occur "[i]f there are large disparities in income, institutions as well as the law are perceived as being made for and run by the wealthy". Therefore, a critical aspect in the discussion of state institutions' impact on social capital, as explored in subsequent sections, is the converging theme among various arguments applicable to both macro-level structures and individual attitudes. Specifically, institutional frameworks that shape individual perceptions within the public domain of egalitarian and cohesive societies entail the capacity of state entities to formulate and enforce fair allocation decisions in delivering public services, thereby fostering a sense of procedural justice. Understanding the role of institutions in the context of economic downturns and their impact on social capital depends primarily on their effectiveness in maintaining high standards of governmental quality, characterized by accountability (performance), transparency (political processes), and regulatory efficacy (policy implementation).

3.4.1 *Quality of Government*

On the structural side of things, scholarly consensus indicates a strong correlation between government structures and political institutions with social capital (Gabriel et al. 2002: 218-223; Hooghe/Stolle 2003; Lowndes/Wilson 2001; Rothstein/Stolle 2003). However, the literature also highlights a lack of systematic work into the causal pathways linking institutional frameworks on the one hand and social capital on the other (Freitag 2006: 129), which is particularly pressing when considering the interplay of states with the repercussions of the economic and financial crises. For instance, it has been proposed that the economic crisis has strained states' capacity to foster civic values and disseminate information conducive to trust-building (Farrell 2009). The examination of the interaction between economic decline and state institutions takes precedence in the following discussion, as underscored by Robbins (2012: 236), who notes shared themes among state-centered perspectives alongside their emphasis on distinct "trust-producing elements of the state".

Starting with the performance-related aspects, a prominent argument from studies in political philosophy and economic history (North 1990; Fukuyama 1995) underscores the state's role as a custodian of contractual agreements. According to this perspective, state intervention significantly influences economic performance by safeguarding investments and ensuring contractual compliance, thereby fostering trust between sellers and buyers (Levi 1998: 84). Norms and values stemming from environments with robust institutional safeguards are, by extension, expected to cultivate cooperation and a propensity to trust anonymous others which is a main component of generalized social trust (Farrell/Knight 2003).

The central premise of this perspective is that trust-based interactions among citizens do not necessarily arise solely from repeated social encounters. Instead, generalized social trust can emerge when state institutions incentivize collective action towards shared goals and ensure the dissemination of common attitudes and behaviours among citizens. In such a scenario, individual decisions to trust others are informed not only by personal experiences but also by awareness of institutional frameworks shaping others' actions (Freitag/Bühlmann 2005: 582). As Levi (1998: 84) succinctly summarizes: "[i]f trustworthy agents of the government vet an individual or institution as trustworthy your trust is facilitated. However, should the information you rely on prove false, you are likely to reevaluate the trustworthiness of the initial party".

A second argument that is more closely related to the political process primarily concerns the efficacy of institutional monitoring and sanctioning. Analogous to the preceding argument, there is a widely shared consensus that state institutions offer incentives that are conducive towards fostering trust and cooperation (Deakin 2006; Kenworthy 1997; Sønderskov 2011). However, the crucial distinction lies in this perspective's emphasis on the role of institutions in creating such effects when they operate with fairness and incorruptibility, thereby fostering societal expectations of credible commitment that mitigate uncertainty (Robbins 2011: 305).

Political processes possess certain attributes that can foster the development of social capital. One such attribute involves the state's ability to ensure safety and security through law enforcement and the imposition of penalties for legal infractions. Concurrently, state institutions contribute to the cultivation of generalized social trust when they are able to provide "information and guarantees about those seeking to be trusted" (Levi 1998: 85). On the other hand, state-centric scholars emphasize the importance of institutional designs that counteract discrimination and favouritism. In this perspective it is suggested that the proliferation of social capital depends on the effective operation of legal and administrative frameworks. As a result, the implications for societal networks and trust dynamics are evident: in the absence of well-functioning regulations, a system based on particularism and clientelism may emerge, paving the way for corruption and personal favours (Hadenius 2004: 56-57). The underlying mechanism can be specified by referring to Rothstein and Stolle (2008a), who propose that a political landscape in which corruption is prevalent fosters a culture of distrust. Confidence in others wanes when citizens perceive that engaging in corrupt practices is a prerequisite for success, particularly if such perceptions are reinforced by observations of similar conduct within social networks and dealings with state entities (Robbins 2011: 312).

The third aspect of macro-level interpretation of the impact of political institutions on social capital underscores the significance of policies. According to the institutional-structural perspective, conducive state policies for fostering social capital are typically aligned with democratic governance norms. These norms, fundamental to nurturing cooperation and trust among individuals, include safeguarding minority rights and civil liberties (Levi 1998: 94). By facilitating access to information, such policies empower citizens to assess both state bureaucracy actions and the conduct of their peers. However, the democratic foundations of societies, wherein human rights and fundamental freedoms are upheld, are expected to remain relatively stable in European countries, unaffected by economic fluctuations during crises.

Another pathway linking government policy to social capital pertains to regulatory measures that influence the costs associated with monitoring and enforcing economic and property contracts (Robbins 2011: 308). Effective state policies are anticipated to promote cooperation and trust within society by fostering positive interactions among citizens, which otherwise would "have reasons to be wary each other" (Levi 1998: 84). This may involve ensuring fair treatment in worker-employer relations or providing a safety net through social assistance programs for those in need.

In view of the impact of the economic crisis, the overall theoretical expectation can be derived from a specification of the role of state in producing trust and cooperation in social relationships. If government institutions uphold their ability to foster the development of trust directly through state incentives or indirectly through subsidizing civic engagement (Herreros 2004), economic strain during the crisis should have no impact. If the capacity of states to provide collective goods declines as a function of public investment cuts, this diminishing capacity is likely to disrupt the expected mechanisms of social capital generation and lead to its decline.

> *Expectation 2a*: Strong and well-functioning institutions are better able to absorb the shock associated with the economic and financial crises with adequate policy responses and thus better able to sustain conditions that are crucial for the development of macro-level social capital.

An examination of the micro-level explanations that lie behind or underneath of the proposed macro-level relationships, can help to shed further light on the mechanisms of influence of the quality of government on social capital. Commonly associated with the attitudinal approach of institution-centred arguments towards social capital generation (see e.g. Hooghe/Stolle 2003; Kaase 1999; Newton 1999, 2006), this interpretation stresses that not only institutional structures, but perhaps even more importantly, individual perceptions of and attitudes towards political institutions play a major role in explaining the willingness of citizens to engage in voluntary associations and trust others.

A significant portion of the discourse revolves around perceptions of trustworthiness concerning state institutions and government. To comprehend the impact of trust in institutions on social capital, as outlined by Rothstein and Stolle (2008b: 445), it proves insightful to reverse the main question to be asked and consider: “Why would unfair, corrupt, inefficient, and biased practices in the administrative machinery of the state influence people’s propensity to trust others in their society?” The prevailing explanation rests on the concept of cognitive (or causal) inference (Coleman 2000; Durlauf 2002; Keele 2007), highlighting that individual experiences in dealing with state institutions and government bureaucracy can be transferred to social interactions. In essence, if citizens perceive corruption as pervasive and encounter it in dealings with institutional bodies, they may extend such experiences to broader societal interactions. Consequently, upon recognizing corruption as commonplace in engagements with political entities, this perception is likely to extend to fellow citizens, engendering scepticism towards both government and societal peers (Levi 1998).

In examining the broader framework of a political community, democratic citizenship attitudes such as political interest and propensity for participation emerge as notable precursors of trusting attitudes (Mouffe 1993; Newton 1997; Roßteutscher 2008). The mechanism proposed by Hadenius (2004: 48) proposes that trust in political institutions plays a pivotal role in fostering citizens’ confidence in their ability to influence political decisions. Considering citizens’ perceptions of political efficacy, the democratic citizenship argument posits that such experiences contribute to openness, tolerance in fundamental pro-social attitudes, and approaches to political and social matters. Thus, generalized social trust and civic norms are rooted in subjectively perceived attributes of the political system and are shaped by interactions with responsive and transparent governmental entities.

A separate path that connects citizen attitudes toward political institutions and social capital concentrates on the conceptual aspect of civic norms. Here, individual evaluations of institutional performance influence citizenship norms, particularly when institutions demonstrate efficacy, signalling that norms sustaining the institutions are efficient (Bowler/Karp 2004). The individual-level interpretation explicitly allows for individual perceptions to deviate from objective facts and complements system-level performance indicators with subjective satisfaction. The expected negative impact on social trust and civic norms can occur if citizens think that institutions are not trustworthy, keep their distance from such a system of institutions and from the norms produced by the system (Kotzian 2014; Levi/Stoker 2000). The main implications of the individual-level arguments run in parallel to the previously described macro-level propositions:

Expectation 2b: Confidence of citizens' regarding the ability of state institutions to function effectively and thus create conditions for public action or democratic stability are crucial for the development of micro-level social capital.

3.4.2 Welfare State

A key question of the debate on the impact of state institutions that has been thus far excluded for the discussion for analytical reasons, emphasizes the effectiveness of state institutions and their functional ability to foster economic equality and equality of opportunity, e.g. via the redistribution of economic resources. Prior research exploring the relationship between welfare states and social capital has suggested that comprehending the underlying mechanisms necessitates a close examination of how welfare state interventions shift prevailing social obligations from private to public spheres (Van Oorschot/Arts 2005: 6). The anticipated impact of welfare states can be further clarified by focusing on the structural conditions and social status of diverse interpersonal connections associated with varying institutional configurations of welfare states. In essence, the degree to which welfare states facilitate or impede the generation of social capital depends on (a) their institutional framework and (b) the distributive outcomes of welfare state mechanisms (Bjørnskov/Svendsen 2013).

An instructive point of departure in analysing the impact of welfare state arrangements involves the differentiation between various models of welfare states. Initially proposed by Esping-Andersen (1990), despite some criticism regarding its conceptual clarity (Rothstein 2001; Kumlin/Rothstein 2005), his typology serves as a valuable heuristic for more closely examining the core societal ramifications of distinct welfare state configurations. Grounded in the predominant Western European and American political ideologies of contemporary history, Esping-Andersen's framework delineates between Social democracy, Christian democracy, and Liberalism.

The social-democratic welfare state model is widely recognized for its encompassing provision of social security benefits to all citizens, often at relatively high levels compared to other welfare regimes. In essence, social policies within this framework aim to bolster individual autonomy by mitigating the market's influence on wealth distribution, typically through direct social transfers (Scheepers et al. 2002: 188). Within the social capital literature, it is anticipated that the attributes of this welfare state model foster individual autonomy from traditional social networks. This outcome, known as the crowding-out effect, suggests that the functional significance of networks of family and friends diminishes as the state assumes responsibility for providing the resources necessary for societal participation. Consequently, a decline in civic engagement and social trust is expected.

The Christian-democratic welfare state model is shaped by the Church and places a strong emphasis on traditions and the principle of subsidiarity. State interventions in terms of social transfers primarily occur when individual citizens' resources for providing assistance have been exhausted, with social security benefits typically based on their previous earnings and status. Consequently, the primary source of solidarity lies not with the state but rather with pre-existing social networks, with the family playing a crucial role (Scheepers et al. 2002: 188-189). Given this characterization, studies on social capital generally tend to conclude that the level of social capital generated by this welfare state regime is likely higher than that of the Social-democratic type, as crowding-out effects are less probable.

In the liberal welfare state model, the market serves as the primary mechanism for resource distribution, and state-provided social security transfers are relatively minimal. Consistent with liberal ideology, a high degree of independence from the state is valued, encouraging reliance on networks of family and friends to address life's contingencies. Regarding the crowding-out effect, this welfare state type is least susceptible to it, as it cultivates robust social networks of family and friends, which facilitate social participation. Consequently, the liberal welfare state is expected to have a positive impact on social capital (Scheepers et al. 2002: 188).

The classification of welfare states and the level of social security benefits they typically offer provide an incomplete picture. Beyond the sheer amount of resources allocated, it is crucial to examine how and for what purpose these social transfers are dispensed. Kumlin and Rothstein (2005: 348-349) propose an impartiality argument, suggesting that the equality fostered by welfare states through the provision of social benefits contributes significantly to social trust and drives the development of social capital. A theoretically grounded response to the question of which welfare state types uphold the principle of impartiality underscores variations in the economic assistance provided to potentially impoverished individuals and distinguishes between universalism and means-testing within welfare state frameworks (Larsen 2013).

Research on the welfare state provisions suggests that in universalistic welfare systems, where social spending is based on principles of equality, there is a propensity to foster egalitarian participatory norms. In such systems, individuals are provided with resources that enable them to adhere to civic and cooperative norms and engage in informal organizations (Gelissen et al. 2012). A related argument, rooted in resource-based explanations, puts forward the idea that engagement in social life and associations is contingent upon the labour market situation. It is expected that unstable employment leads to lower levels of voluntarism and trust due to increased uncertainty and resource constraints. Consequently, greater equality in welfare state provisions is associated with higher levels of social capital, particularly elevated levels of trust and increased civic participation (O'Connell 2003: 244).

The impact of selective, means-tested policies within welfare state studies is a topic of theoretical exploration. The prevailing argument focuses on how selective benefits influence the social distance between different societal groups. Larsen (2007: 88) notably proposes the argument and demonstrates that "the very act of separating out the needy almost always stamps the as socially inferior, as 'others' with other types of social characteristics and needs". This increased social distance, arising from the delineation between "us" and "those" in need, diminishes trust levels among fellow citizens, as selective policies are perceived as manifestations of arbitrariness within the social security system (Kumlin/Rothstein 2010; Rothstein/Teorell 2008). According to this perspective, which highlights the impact of social divisions and class hierarchies, the overarching expectation for social capital is a decline in states with selective welfare benefit provision.

In dealing with the impact of the economic and financial crisis, the primary implication of the preceding discussion is that social protection schemes play a major role in cushioning the impact of socio-economic adversity, especially for those most at risk. Due to the decline of state revenues and the introduction of fiscal consolidation measures, some have observed a growing trend to limit social transfers, e.g. in terms of cutting the level of payments or restricting access to social benefits (Caselli et al. 2016; Dukelow/Considine 2014; Vis et al. 2011). According to the presented arguments, the potential way to overcome the adverse socio-economic effects of the crisis that pose a threat to social capital are government institutions that foster economic equality, equality of opportunity by enacting universal distribution of social transfers. The corresponding general theoretical expectation can be therefore summarized as follows:

> *Expectation 3a*: States with encompassing and universalistic welfare states are better able to absorb the shock associated with the economic and financial crises due to public

social spending and are thus better able to sustain conditions that are crucial for the development of macro-level social capital.

The link between the nature and extent of welfare states and social capital, along with the suggested causal pathways, warrants a deeper examination of the individual-level mechanisms involved. Gelissen and colleagues (2012: 2) advocate for this scrutiny, asserting that the connection between welfare state provisions and social capital "is only properly understood if it can be shown that the welfare state positively affects the resources, attitudes and behaviour of individuals that are conductive to their social capital".

Conceptually speaking, when considering individual perceptions and attitudes towards welfare state institutions, public services, and social transfers can be regarded as "secondary institutions" that, through their functioning "become an instrument of establishing and constructing identities" (Gundelach et al. 2010: 631). This perspective suggests that the ways in which welfare state arrangements shape individual attitudes and behaviors closely mirror macro-level processes in both their patterns and outcomes. For instance, if one argument highlights that welfare state provisions foster civic engagement by redistributing material resources to those in need, the corresponding individual-level interpretation suggests that these structures influence individuals' decisions regarding civic volunteering and trusting attitudes.

Advocates of the crowding-out perspective regarding the influence of welfare state arrangements assert that the extensive social benefits offered by the social-democratic welfare regime diminish the necessity of forming private reciprocal ties. When citizens no longer rely on personal reciprocal relationships, they "will lose their moral sense of collective and communal duties and responsibilities" (Van Oorschot/Arts 2005: 6). Therefore, if social benefits compete with support from family and friends within the realm of social interaction, a decline in individual-level social capital can be anticipated as a result (Stadelmann-Steffen 2011; Bergh/Bjørnskov 2014; Bertilsson/Hjorth-Andersen 2009).

The competing crowding-in perspective presents a contrasting view, suggesting a relatively balanced relationship between the welfare state and private social obligations, along with trusting attitudes. Aligned with the macro-level argument, welfare state arrangements are believed to establish structural conditions conducive to voluntary engagement, because they "help to provide circumstances of social peace and trust that afford people social security, thereby assuaging concerns over maintaining a living" (Van Oorschot/Arts 2005: 6). Therefore, it is anticipated that comprehensive welfare state provisions, particularly if universalistic, do not replace social networks and volunteering but rather facilitate civic participation and the cultivation of trusting attitudes (Gundelach et al. 2010: 632; Van Oorschot/Finsveen 2009).

In view of conflicting theoretical perspectives regarding the effect of welfare state arrangements, the following expectation is informed by empirical studies showing, that crowding-out effects do not necessarily occur in states in which they can be expected to be most likely, i.e. social-democratic state of the Scandinavian type (Stadelmann-Steffen 2011; Stadelmann-Steffen/Bühlmann 2008). Instead, it seems more plausible to expected that when faced with challenges posed by economic decline, encompassing and universalistic welfare state are better able to provide social protection against its negative effects:

> *Expectation 3b*: Confidence of citizens' regarding the ability of states to provide social security and thus protect them against life's contingencies and ensure social integration is crucial for the development of micro-level social capital.

3.5 Summary

This chapter explored the main arguments and theoretical expectations regarding the relationships between social capital and the impact of state institutions and economic developments within the context of the Great Recession. By examining the distributional characteristics of income and wealth, it sheds light on the impact of economic disparities on material deprivation on access to social support within a community. Two main perspectives are explored: one posits that changes in income distribution played a fundamental role in precipitating and shaping the crises (Basu et al. 2017), while the other argues that increasing inequality is an outcome of economic decline rather than its root cause (Stockhammer 2015; Treeck 2014). Viewed from the perspective of social capital, it is argued that these developments can lead to social isolation, limited opportunities for social interaction, and a breakdown in trust and cooperation among community members (see e.g. Zak/Knack 2001; Sora et al. 2013). This can ultimately diminish social capital, making it more difficult for individuals and communities to mobilize resources, solve collective problems, and achieve positive social outcomes.

More specifically, arguments related to specific differences and the impact of income and income inequality across European countries during and after the crisis reveal distinct patterns. Most notably, a divergence in personal income growth is observed, with certain nations experiencing an upward trajectory, while others face a decline (Wright 2015). Nordic countries exhibit lower levels of inequality, which have even shown a decline over time. In contrast, Central Eastern European and Southern European countries grapple with higher levels of income inequality that have been on the rise. Viewed from the perspective of social capital theory, the main argument is, that with growing inequality, the concentration of wealth and power in the hands of a few can diminish the sense of shared responsibility and solidarity among members of society, further eroding social capital (Rothstein/Uslaner 2005). Consequently, an increase in income inequality can exacerbate social fragmentation, reduce social cohesion, and undermine the collective capacity for addressing common challenge (see e.g. Hardin 2006; Coffé/van der Lippe 2010; Boix/Posner 1998).

The chapter also further considers the repercussions of the financial and economic crises on social capital by emphasizing that countries grappling with multiple crises and economic decline are more likely to face a more pronounced negative impact of declining economy on social capital. In addition, it also acknowledges the mediating role of institutional and structural factors in shaping this relationship. Welfare states, with their policies and programs aimed at providing social protection and reducing inequality, can positively impact social capital by promoting a sense of solidarity and trust among citizens (Scheepers et al. 2002; Bjørnskov/Svendsen 2003). The specific design and implementation of these welfare state policies, as well as the broader institutional and structural context in which they operate, can influence the respective outcomes (Kumlin/Rothstein 2005). Factors such as the accessibility, effectiveness, and inclusivity of welfare programs, as well as the level of social and economic inequality, can either strengthen or weaken social capital within a society (Van Oorschot/Arts 2005; Stadelmann/Steffen 2011). Governments thus in fact can counteract the social consequences of economic decline through strategic measures such as targeted investment, redistribution of resources, and robust social protection systems. These interventions might play a crucial role in supporting the development and maintenance of social capital.

Overall, this chapter underscores the complexity of the relationships between economic, societal and structural factors in shaping the developments of social capital during the Great Recession. It highlights the far-reaching implications of income distribution and rising inequality on the financial and macroeconomic systems, as well as their potential effects on social and economic disparities. The chapter also underscores the crucial role of institutional factors in shaping the dynamics between economic decline and various dimensions of social capital. By delving into these dynamics, it provides theoretical and conceptual insights into the multifaceted consequences of the crises on society, thereby contributing to our understanding of this transformative period in economic history.

4. Research Design

The previous chapters detailed theoretical expectations regarding the impact of the economic downturn experienced – to varying degrees - by many countries and its citizens and provided a baseline reasoning for the overall research puzzle at the hearth of this contribution. The subsequent chapters now turn to empirical data. In this regard, the general proposition of the theoretical model is that the impact of the economic crisis can potentially exerts its influence on social capital both, at the country-level as well as at the individual-level. In order to do justice to the previously discussed theoretical expectations, the empirical investigation matches this in that it comprises three major parts: a macro-level analysis, a micro-level analysis and a multi-level analysis that combines explanations from both levels of inquiry.

More specifically, at the macro-level the aim is to examine the structural impact of a declining economy on country-levels of social capital that arise as a result of resource scarcity in term of investments into opportunity structures for civic cooperation. At the micro-level the main goal is to ascertain to what extent individuals affected by a declining economy during the Great Recession are more likely to express views that correspond with indicators of lower levels of social capital. Furthermore, the individual-level analysis in conjunction with the combined analysis of both levels also allows to review and check if conclusions drawn based on the macro-level view can be confirmed when taking into account individual-level data.

In order to meet the outlined goals, it is however first necessary to provide further information on the measurement and operationalization of all of the relevant concepts. To this end, in its first section this chapter details the measurement of the concept of social capital used throughout all of the analyses. It is followed by a discussion of the measurement of all of the relevant economic indicators in the second section. The third section then discusses how these indicators are used and provides further insight on the overall analytical strategy.

4.1 Measuring Social Capital

In keeping scope with the distinction between different levels of analysis, previous research has also proposed the idea, that social capital involves aspects on both: the individual level of citizen attitudes (micro) as well as the collective level of institutional structures of countries (macro) (Snijders/Bosker 1999; Lin 2001). There are several contributions that proposed theories and measurement models focusing on the macro-level. On this level, social capital is predominantly seen as a collectively produced and owned phenomenon, from which every member of a given society can benefit (Coleman 1990; Putnam 1995a). Given that it is mainly represented by collectively shared norms, trust, social cohesion, and institutionalised forms of social conduct, some of its proposed benefits include facilitating cooperation towards reaching collectively shared objectives, which would remain otherwise unobtainable (Flap 2002), or enabling the provision of collective goods. Other scholars treat social capital as a individual resource or pool of resources that can be brought into action in order to more easily attain an individual´s objectives (Van der Gaag/Snijders 2004). Individual-level outcome variable that have been proposed and can be empirically shown to go in hand with higher levels of individual-level social capital include higher income, better health and higher overall social prestige (Coleman 1990).

Before proposing a measurement model based on the available data, there are some general choices that have to be made. These are necessary especially because social capital is regarded as a latent construct, which has been deemed by some, such as Dasgupta and Seragelding (2000: x-xi) to be too diverse to be "nailed down sufficiently to be usable in quantitative research". Such a view alludes to something which is interpreted as a major shortcoming of the concept of social capital by some, namely that it opens up itself to a wide variety of different measures (Van der Gaag/Webber 2008). General problems related to the measurement of social capital and the choice made with regard to them, that will be addressed in the following include: (a) the dimensionality of social capital and its key components, the (b) the feasibility of single indicator measurement as compared to the use of multiple indicators and (c) the feasibility of outcome measures of social capital and.

First, to analyze the social capital construct, the literature has identified different sets of dimensions: Halpern (2005) presents in his work other three different components of social capital which include the network structures, norms, values and expectations that are shared in the network. Another perspective, derived from the approach of Putnam (2000), presents social capital as a construct that includes three dimensions: network, norms and trust. Despite this fact a notable characteristics of most studies is, that they look into certain aspects of social capital only (specifically into volunteering, trust and informal sociability), or they used a composite, additive measurement model of the various aspects of social capital. What is important here is that in the more recent literature on social capital there is a growing consensus that is a multifaceted phenomenon, containing various dimensions and forms which may not necessarily correlate highly among each other (Rothstein 2001; Van Oorschot/Arts 2005).

Second, early-stage social capital research has focused on investigating the relationship between individual social capital and its productivity, yielding meaningful - albeit not highly specific - results through the use of a single indicator. However, in most cases a single-item measurement cannot be considered as reliable for the simple reason that “persons do not produce responses that are consistent over time” (Spector 1992: 4). Individual responses can vary substantially over time, and this variance is reduced by using multiple indicators to survey a latent construct. Furthermore, single-item measurements lack precision, as for cognitive reasons the number of answering categories is limited, and thus also the statistical power of that variable.

Employing multiple indicators offers several advantages. Firstly, it enables the creation of a more accurate and continuous measurement scale, enhancing precision in assessing the attitudes or structural characteristics under investigation. Secondly, employing multiple indicators facilitates the identification of the specific aspect or quality of social capital driving any observed effects. Developing diverse social capital indicators, each tailored to specific sub-dimensions, is crucial for comprehending individual-level changes stemming from various crisis experiences. This approach is equally pertinent for understanding the distribution of social capital across the population (Van der Gaag/Webber 2008: 32).

Third and with regard to institutions as a form of social capital, while many scholars limit their focus in social capital to the role of network structure, it is certainly reasonable to ask how institutions at the macro-level might contribute to social capital. In order to derive macro-level indicators of social capital, here, institutions are treated as a form of social capital rather than just an outcome of social capital. Much scholarship supports the observation that institutions play a significant role in fostering cooperation (North 1990; Evans 1996; Rothstein 2005).

Furthermore, Ostrom also has shown how diverse forms of institutions may enhance shared norms of trustworthiness, trust and reciprocity (Ostrom 2009: 26; Ahn/Ostrom 2008).

In summary, the described measurement of social capital is based on the conceptual notion, that it is a conceptually and empirically complex phenomenon consisting of several different dimensions. To which extent these dimensions can be represented by a single latent variable is treated as a predominantly empirical question. However, even in cases in which there is corresponding evidence that shows, that is can be represented by a single measure, it might be best to take a closer look at its sub-dimensions in order to gain a deeper understanding about its structure and changes over time. The overall approach will rely on measurement using multiple items since this reduces the risk of measurement error and the generated index can be expected to be more discriminating than a single variable.

4.2 Micro-level Indicators of Social Capital

As outlined above, the structure and dimensionality of social capital is an important theoretical issue that has received considerable attention. A standard method used to examine the question whether social capital can be studies as a single latent construct of rather as a sum of different variables is a principal component analysis or a factor analysis. In developing a measurement model of social capital Van Oorschot and Arts (2005) rely on a principal component analysis of wide range of survey variables showing the need for an empirical distinction between trust and social networks. This observation is widely accepted and has been repeatedly confirmed in much of the empirical literature (Helliwell/Huang 2014; Wright 2015; Doh 2014; van Beuningen/Schmeets 2013).

The acceptance of the measurement of social capital nevertheless requires confirmation that it indeed explains and measures the citizen’s trust, networks, and norms. Based on the European Social Survey (ESS) 2002-2016 this dissertation therefore seeks to use confirmatory factor analysis in order to test alternative models of underlying factor structure and also in order to assess the reliability and validity of the factors and items used. Overall, the results provide support for a measurement model of social capital with three distinct first-order factors that are correlated with each other.

Confirmatory factor analysis (CFA) entails the specification and estimation of various models of factor structure, each proposing a set of latent variables (or factors) to examine the covariances among a given set of observed variables. Various specifications of the underlying factor structure are employed to outline alternative models and evaluate their fit to the sample data. Model specification involves aligning empirically observed variables with the expected three-factor pattern (generalized social trust, civic norms, and social networks). The analysis proceeds in three stages. Initially, plausible alternative models of the underlying data structure are proposed based on theory and prior research. Confirmatory factor analysis is then utilized, alongside several goodness-of-fit indices, to compare the fit of these models to the data and assess the evidence for a higher-order construct. Subsequently, CFA evaluates the reliability and validity of the factors and items within the selected models. Lastly, the results undergo cross-validation using goodness-of-fit indices across the plausible alternative models. The necessity to explore alternative models stems from the diverse measurement strategies employed in existing literature, as well as the variability in datasets utilized across studies.

4.2.1 Comparing Alternative Models of Individual-level Social Capital

Model 1 (statistics on all of the models discussed is presented in table 4.2) hypothesizes one first-order factor of social capital that accounts for all the common variance among of the items used in the analysis. Theory as well as substantive research studies using user the social capital instrument typically assume that social capital is a single first order construct. This assumption is implicit in the typical practice of scaling the social capital construct by adding individual items to obtain a total score (Delhey/Newton 2003; Glaeser et al. 2000; Van der Veld/Saris 2018). The plausibility of one first-order factor structure of the underlying data by using an additive or multiplicative score reduces the complexity of the construct but also comes at the price of information loss due to differently structured correlations between the included factors (Brown 2015).

Model 2 hypothesizes that all of the included items form into three uncorrelated or orthogonal first-order factors. The use of varimax (orthogonal) rotation is reported to result in three uncorrelated factors (Requena-Parra et al. 2013; Freitag/Bauer 2013); thus, Model 2 is considered a plausible alternative of underlying data structure. The main advantage of examining this model is that is also provides a test of the necessity of incorporating correlated factors by enabling a comparison of the increase in fit between uncorrelated and correlated models.

Model 3 hypothesizes that the three first-order factors are correlated with each other. More precisely, the factor scores from a varimax rotation are orthogonal, but the subscales are not necessarily orthogonal (uncorrelated). The estimation of this model is based on the underlying assumption that if the items have a large amount of common variance, scales based on these items may be correlated. This perspective is based on the measurement approach proposed by e.g. Bjørnskov and Svendsen (2003) who have previously shown that generalized social trust, civic participation and civic norms can be meaningfully identified as three main latent components of the social capital construct, but they also share commonalities (see also Doh/McNeely 2012; Paxton 2002).

Model 4 as the final model hypothesizes three first-order factors and a single second-order factor. The rationale for examining the three factors is the same as that described above for Model 3. Since substantive research studies using the social capital instrument sometimes treat social capital as a single construct, implying theoretical consensus on this issue, it is also considered to be appropriate to test for the existence of a single second-order construct.

4.2.2 Evaluating Individual-Level Measurement Model of Social Capital

The confirmatory sample use for the analysis consists of the European Social Survey (ESS) dataset 2002-2016 as it is one of the very few large-scale surveys that includes a substantial catalogue of social-capital questions that are consistently measured in many different countries over time. Overall, the sample consists of individual-level observations from 28 European countries and thus yields a wide-ranging sample which encompasses a substantial portion of the variability in the social capital concept[12].

[12] Overall, the European Social Survey encompasses 36 countries, for this analysis several countries were excluded based on the fact that (a) they are substantially different as compared to the European Context (Russia, Turkey and Israel) and (b) the European Social Survey was conducted in these countries only a few select times and larger time-spans are missing from the dataset (Albania, Kosovo, Serbia, Luxembourg). This results in a sample that includes 28 countries.

Table 4.1: Individual-level Social Capital Variables

Expected Dimension	ESS-Variable	Mean	Std. Dev.	Min.	Max
Social trust	ppltrst	5.062	2.401	0	10
	pplhlp	5.649	2.288	0	10
	pplfair	4.921	2.325	0	10
Social networks	wrkorg	0.153	0.360	0	1
	sclmeet	4.886	1.590	1	7
	sclact	2.706	0.936	1	5
Norms	impfree	2.196	1.092	1	6
	ipudrst	2.388	1.063	1	6
	iphlppl	2.219	0.992	1	6
	ipeqopt	2.071	1.034	1	6

Source: Own table based on the ESS-Dataset 2002-2016
Notes: The table includes information on the individual-level variables used in the confirmatory factor analysis. Provided information include the mean, standard deviation, the minimum and maximum of all of the variables. The mean of a 0/1-variable is the percentage share of respondent representing the value "1" in the dataset.

Because no one statistic is universally accepted as an index of model adequacy in confirmatory factor analysis research, the following interpretation of results emphasizes substantive issues, practical considerations, and several measures of fit. Absolute indexes of goodness-of-fit such as chi-square and log-likelihood are complemented by adjusted goodness-of-fit index. As an absolute goodness-of-fit index, the ratio of chi-square to the degrees of freedom provides information on the relative efficiency of competing models in accounting for the data.

These adjusted goodness-of-fit indexes include the comparative fit index (CFI) which analyses the model fit of the hypothesized factor structure while adjusting for issues that are related to the sample size (and is thus more strict that the chi-squared test). Root mean square error of approximation (RMSEA) furthermore avoids issues of sample size by analysing the discrepancy between the hypothesized model and the overall population covariance matrix with lower values indicating a better model fit. Finally, the standardized root mean square residual (SRMR) reflects the average residual obtained by taking the difference between the model-generated and sample variance/covariance matrices. Smaller values are associated with better fitting models with scores below 0.05 considered as evidence of good fit. The selection of this model fit indices is based on Kline (2010).

The goodness-of-fit indexes for the alternative models and the null model are summarized in Table 4.2. The primary purpose of the null model is to establish the baseline comparison for the confirmatory factor analysis. As expected, the null model provides a poor fit to the data as evidenced by a ratio of chi-square to degrees of freedom. Models 1 and 2 have substantially better fit, as compared to the null model for all indexes of goodness-of-fit. By the criteria described above for comparing model-data fit, neither Model 1 nor Model 2 demonstrate a reasonable fit with the sample data.

Model 3 and Model 4 compare favourably with Model 1 and Model 2 on all indexes of goodness-of-fit. In the case of three correlated first-order factors, a second-order model with three first-order factors has the same degrees and freedom. The ration of chi-square to degrees of freedom indicates a reasonable fit and the CFI is above 0.90 required for a "well-fitting" model. The root mean square residual (0.017 for Model 3 and 0.018 for Model 4) are both within the range of a reasonable fit (below the 0.05 score that is considered as evidence of good fit). In term of overall model fit, there are only minor differences between Model 3 and Model 4 which suggest that social capital at the individual level can be considered as a single latent construct as well as a sum of three major components included in the factor analysis. Model 3 also provides a slightly better model fit, although the differences are rather minor.

Table 4.2: Goodness-of-fit Comparison for Alternative Models of Individual-level Confirmatory Analyses

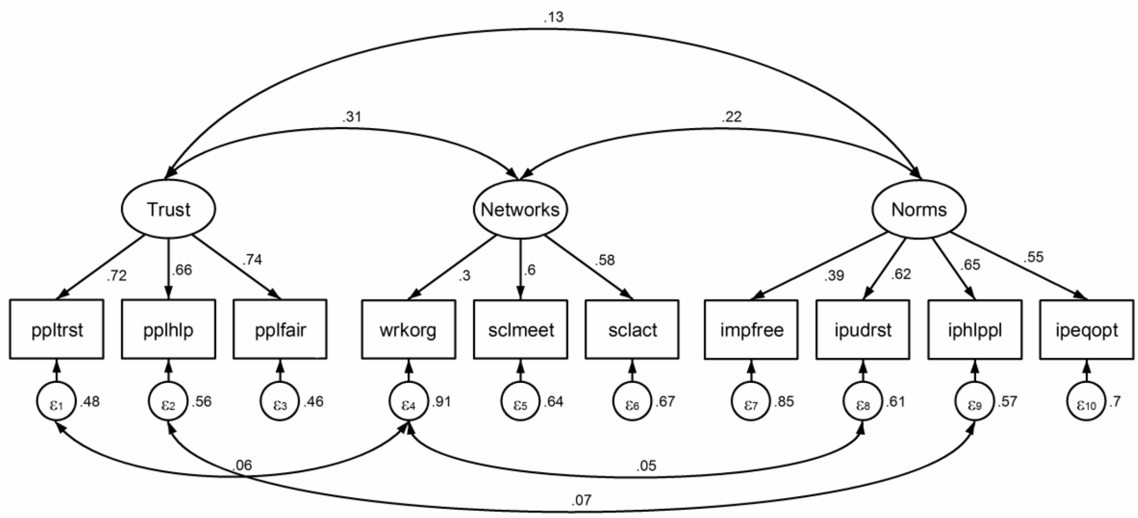
Model	$\chi 2$(df)	$\chi 2$/df	Log-likelihood	CFI	RMSEA	SRMR
Null Model	283381.2(49)	5783.3	-4968270	-	0.241	0.382
1. One First-order factor	185483.4(35)	5299.5	-4789748	0.599	0.132	0.103
2. Three First-order factors (uncorrelated)	23481.1(35)	670.88	- 4708747	0.949	0.047	0.056
3. Three First-order factors (correlated)	**5207.0(29)**	**179.55**	**- 4699610**	**0.982**	**0.021**	**0.017**
4.Three 3 First-order factors, 1 Second-order factor	4361.4(29)	155.39	- 4699187	0.991	0.023	0.018

Source: Own table based on the ESS-Dataset 2002-2016
Notes: The table includes information on the model fit of different configurations of variables for the individual-level social capital confirmatory analysis shown in figure 4.1 below.

Of the alternative models tested, Model 3 can be considered to demonstrate the best fit with the sample data. Since theory on social capital dimensionality and its individual-level structure suggested the existence of three separate components (as suggested by Putnam 1993; 2000), this model is of greater theoretical interest than Model 4. In this study therefore, there is good evidence (the CFI-coefficient equals 0.982) of three first-order factors that are correlated. More importantly, the validity and reliability of this findings are not sensitive to the addition of a second-order factor (Model 4) which suggests that the conclusions regarding the dimensional structures of the 10 included factors would remain the same regardless of which of the models was selected.

For these reasons, the model and the correlation matrix of the included model components reported in figure 4.1 will provide the basis for the individual-level analysis of social capital. As represented in the figure, the empirical findings suggest that at the individual-level the included latent factors are weakly correlated with each other. While there is a moderate correlation between trust and networks (coefficient equals to 0.31), this finding is not surprising. Theoretical research has previously suggested that social networks provide structural opportunity structures for citizen engagement and social interaction and can be interpreted as a crucial for the creation of generalized social trust through repeated interaction and cooperation (see e.g. Delhey/Newton 2005).

Figure 4.1: Confirmatory Factor Analysis of Individual-level Social Capital



Source: Own estimation based on ESS-Data 2002-2016.
Notes: Figure is a representation of the individual-level measurement variables as summarized by three latent constructs trust, networks and norms.

Especially bridging social capital, a term coined by Putnam (1995a) is created by horizontal ties created by heterogeneous groups of people with different backgrounds. The term bridging refers to the ability of such networks to create "bridges" connecting sectors of society that, otherwise, would have never come into contact. The common claim is that bridging social capital has positive effects on the diffusion of information and trust (Bekkers et al. 2008; Flap 2002; Sabatini 2009). For example, Levi (1996: 48) and Newton (1999: 16) point out that experiences and institutions can be assumed to have a greater influence on the origins of trust, reciprocity and cooperation than most people´s limited and sporadic involvement in voluntary organizations. In this vein, it might be necessary to examine other types of social interaction that associational attachment with regard to their potential to facilitate civic attitudes and behavior (Stolle 2003: 35).

Social capital has aspects on both the individual (micro) and collective (macro) levels, and its quantification therefore involves phenomena on both levels of analysis. Theory development and empirical research have taken place on separate, sometimes diverging levels, however. Some authors (Coleman 1990; Putnam 1995a) elaborated theories specifically on the macro level, where social capital is seen as a collectively produced and owned entity, from which the whole community may benefit. On the collective level, social capital is often taken to be represented by norms, trust, and social cohesion. Other scholars (Flap 1999, 2002; Flap/Völker 2008; Lin 2001) focused on social capital as an additional pool of resources for the individual, which may be helpful for the individual's goal attainment (Van der Gaag/Snijders 2004: 199-200).

4.3 Macro-level Social Capital

As compared to the individual level, more recently, attention has shifted to how levels of social capital have changed over time. One of the important contributions of later research has been to study a possible a decline in a variety of indicators of social capital in the United States (Putnam 1995a, 1995b, 2000; Paxton 1999; Costa/Kahn 2003b). Focusing on how a society moves from one level of social capital to another over time requires better macro measurement of social capital. Current analyses of the decline of social capital rely not on an over-time index of social capital but on inspection and analysis of a wide variety of disparate trends in empirical indicators, such as club memberships, voting, attendance at public meetings, volunteering, time spent visiting friends, whether one trusts strangers, and other survey items. While such evidence may connote a general decline, it is also possible that only particular indicators are declining, whereas others might have moved not at all or even in the opposite direction.

Social capital as an aggregate property of societies, has been suspected for a while to change over time. But other than glimpses seen through isolated indicators, there is little evidence as to whether social capital is a set of trends that are unconnected beyond the association apparent in a visual inspection. In this section, empirical measures of social capital in the form of time series measures are developed. In line with the differentiation of the two interpretations of macro-level social capital outlined in chapter 2 (social capital as an individual resource vs. social capital as a collective good), in developing a macro measure, this section relies on aggregated survey data on the one hand and on macro-indicators of social capital on the other. For a survey item to be included in the analysis, it must meet two criteria. First, the survey item must measure some aspect of one of the expected dimensions of social capital: networks, norms and trust. Second, the survey item must also be repeated in identical form at least once. As a result of these criteria the previously outlined individual level analysis can be replicated on the macro level, but instead of using individual-level data, all of the estimated models rely on aggregated survey marginals.

As far as the methodological approach is concerned, the overall logic of the model estimation is equivalent to that outlined in the section on individual-level data. That is, it is based on the differentiation of four different interpretations of the underlying factor structure and compared the model fit to a null model in which there is no association between the studied factors.

Table 4.3 presents the results of this analysis. As can be expected, a null model that assumes that all of the included aggregate-level variables are independent of each other and there are no mutual correlations between the factors displays a rather poor model fit. Each of the confirmatory factor models is a better representation of the underlying structural complexity of aggregate-level social capital. As compared to the individual-level analysis at the level of aggregated survey marginals, it becomes even more apparent that social capital is better understood as a sum of its parts rather than a single underlying construct. This can be seen by the rather poor model fit of a confirmatory factor model that only includes one first-order factor (social capital) and all of the factor loadings of the included variables. Model 2 that includes the aforementioned three factors that can also be seen in figure 4.2 (trust, networks and norms) is a much better representation of the actual dynamics of social capital. The best model fit as indicated by all three indexes (CFI, RMSEA and SRMR) can be found by fitting a model that includes three first-order factors that are correlated with each other.

Table 4.3: Goodness-of-fit Comparison for Alternative Models of Macro-Level Aggregated Survey Data

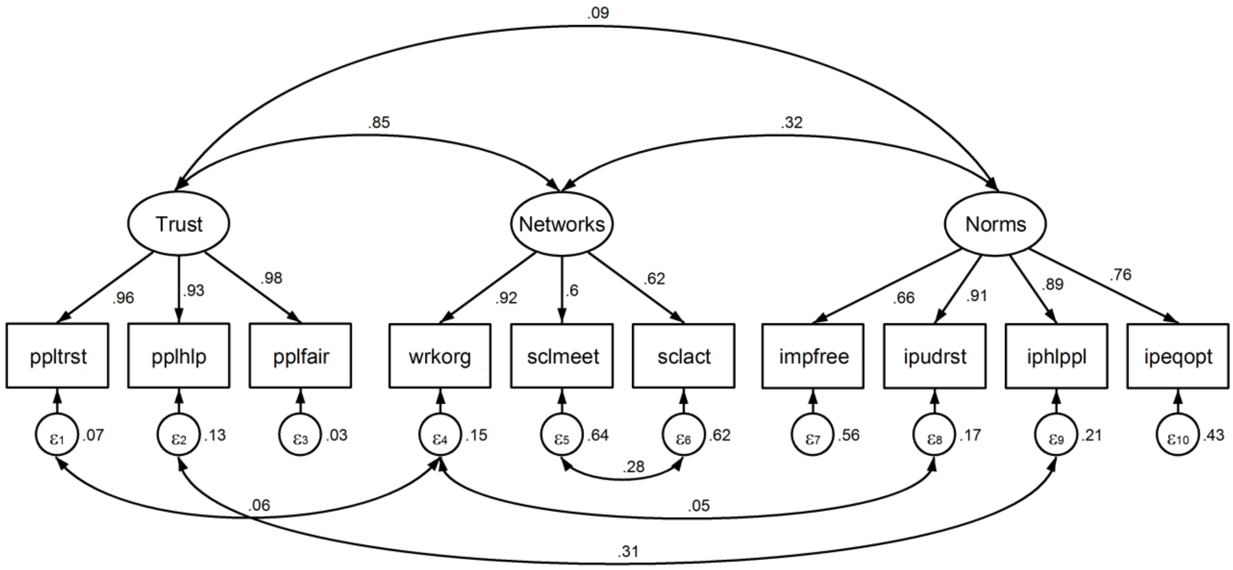
Model	χ2(df)	χ2/df	Log-likelihood	CFI	RMSEA	SRMR
Null Model	856.86(49)	17.49	-108.85	0.513	0.396	0.255
1. One First-order factor	659.57(35)	18.84	- 76.88	0.594	0.332	0.216
2. Three First-order factors (uncorrelated)	426.68(35)	12.18	57.56	0.759	0.256	0.241
3. Three First-order factors (correlated)	**240.82(28)**	**8.57**	**150.49**	**0.869**	**0.211**	**0.092**
4. Three 3 First-order factors, 1 Second-order factor	250.73(28)	8.95	145.54	0.863	0.216	0.109

Source: Own table based on the ESS-Dataset 2002-2016
Notes: The table includes information on the model fit of different configurations of variables for the macro-level social capital confirmatory analysis shown in figure 4.2 below.

The resulting model of aggregate-level social capital is represented in figure 4.2. There are two main observations that deserve special attention here. First, as compared to the individual-level model, the loadings of the included variables with their corresponding latent factors are much higher than before indicating a stronger relationship between the respective variables and their confirmatory-factors model representation. Second, as reported in the individual-level analysis there is a rather strong correlative relationship between generalized social trust and social networks.

The idea at the core of the theory of social capital theory in this regard is that social capital is derived from resources embedded in social relations (Coleman 1988, 1990; Lin 2001; Portes 1998). In this respect, scholars often express social networks and the associated norms of reciprocity as social capital, because social networks, like physical and human capital, create value – both individual and collective – and because on can ´invest´ in networking (Putnam/Gross 2002: 8). Beyond a variety of social networks, there exists some forms of formally organized social capital such as voluntary associations, which once brought into existence for one set of purposes, can also aid others, this constituting social capital in the form of generalized social trust available for use (Coleman 1988: 108). Furthermore, as far as trust-based relationships are concerned, civic actors interested in organizing collective action will benefit from forming strong relationships that build trust and a common sense of purpose. Such relationships facilitate collective action by mitigating incentives to shirk strategically in group interactions (Coleman 1990; Putnam 1993). In particular, higher-risk collective action, such as action requiring the sharing of sensitive information is often supported through stronger bonds (Berardo/Scholz 2010; Feiock et al. 2010; McAdam 1986).

Figure 4.2: Confirmatory Macro-level Factor Analysis (Aggregated Survey Data)



Source: Own estimation based on ESS-Data 2002-2016
Notes: Figure is a representation of the individual-level measurement variables as summarized by three latent constructs trust, networks and norms.

The discussion implies that researchers should be careful to separate out the effects of trust and civic engagement; however, doing so is difficult. In clarifying the theoretical distinction between trust and engagement, Uslaner and Brown (2005) concede that the two are highly related empirically. Their research suggests that high levels of trust cause individuals to take part in communal activities. Brehm and Rahn (1997) make a different causal argument, but nevertheless stress the close tie between engagement and trust, stating "civic engagement and interpersonal trust are in a tight reciprocal relationship, where the connection is stronger from participation to interpersonal trust rather than the reverse" (Hawes et al. 2013: 123).

The main weakness of a measurement model that is based on aggregated survey data is that cross-national contributions to the social capital literature are vulnerable to fundamental methodological criticism: the equivalence and hence comparability of measurements of dimensions of social capital in different countries cannot be taken for granted a priori but rather should be tested empirically. Some recent contributions drew attention to measurement problems in cross-national studies. Yet, these studies neglect the methodological question on the equivalence and/or comparability of the structure of the measurements of particular aspects of social capital (Gesthuizen et al. 2013: 910). Especially in view of the fact that a latent, complex construct with several dimensions offers many opportunities for measurement – in the case of social capital perhaps even too many, social capital researchers are often confronted with the fact that they do not really know which indicators could be essential to explain their studies outcomes: will an hypothesized effect stem from the presence of a specific types of relationships; social resources; the structure or size of the social network or all of these, or some of these aggregated into some useful combination? (Van der Gaag/Webber 2008: 32).

In order to gain a more complete understanding of social capital and especially based on the discussed general observations from previous research, there is an additional measurement strategy for macro-level social capital. In line with the proposed collective-level conceptual interpretation such a measure needs to rely on data that are not based on individual-level responses but rather representation genuine macro-level characteristics of the country-level context. There are only very few attempts in the literature to measure macro-level social capital without relying on survey. Helliwell and Putnam (2000) for example propose a measure of "civic community" that relies on turnout in referenda, newspaper readership and the incidence of preference voting. Besides this, based on previous work pioneered by Putnam (1993b; 2000) they also include a number of measures on the comparative political performance of regional governments mainly based on their responsivity. Another notable measure of macro-level social capital proposed by Paxton with special focus on the context of the United States (Paxton 2002, 1999) also includes indicators on the number of nonprofit organizations per 1,000 of population, attendance at public meetings on town or school affairs. Yet another approach lies in the combination of aggregated survey data coupled with data on civic behaviour and corruption as provided by civic organizations such as Transparency International (Doh/McNeely 2012; Doh 2014). The variables selected for the measurement of the dimensions with their respective sources are shown in Table 4.4. The selection of these variables is based on data availability and on their expected relationships with the underlying social capital dimensions.

Table 4.4: Macro-level Social Capital Variables

Expected Dimension	Variable	Source	Mean	Std. Dev.
Social trust	eacb_fms	European Association of Cooperative Banks - Market Share of Full member organizations in the Association (in %)	12.28	11.02
	ilo_bar	International Labour Organization - Collective bargaining coverage	30.21	20.11
Social networks	oecd_tud	OECD Statistics - Trade Union Density	30.89	20.34
	gds_ngo	Global Civil Society - Number of International non-governmental organisations; organisational density	534.36	4734.13
Norms	wgi_donat	World Giving Index – Donating Money	15.29	11.05
	turnout	European Election Database – Turnout in national elections	69.21	13.54

Source: Own table based on the ESS-Dataset 2002-2016.
Notes: The table includes information on variables for the measurement of social capital in line with the collective good macro-level social capital proposed in the conceptual section (see section 2.1.1).

As in both previous cases, the underlying dimensionality and the structure of macro-level social capital can be determined by comparing several different models with regard to their overall model fit. As compared to the null model which assumed that all of the factors are independent of each other, every model that includes some form of latent structure performs better in term of overall model fit. The two models that show the best representation of the underlying data structure are Model 3 and 4, i.e. a model that represents the included variables in term of three correlated latent factors and a model that includes the same three first-order factors and one common second-order factors that can be labelled as “social capital”. Since based on the CFI and SRMR Model 3 is a better representation of the overall data structure and provides a measurement that is consistent with the already discussed dimensionality of social capital, this model is chose in order to proceed further.

Table 4.5: Goodness-of-fit Comparison for Alternative Models of Macro-Level Aggregate Data

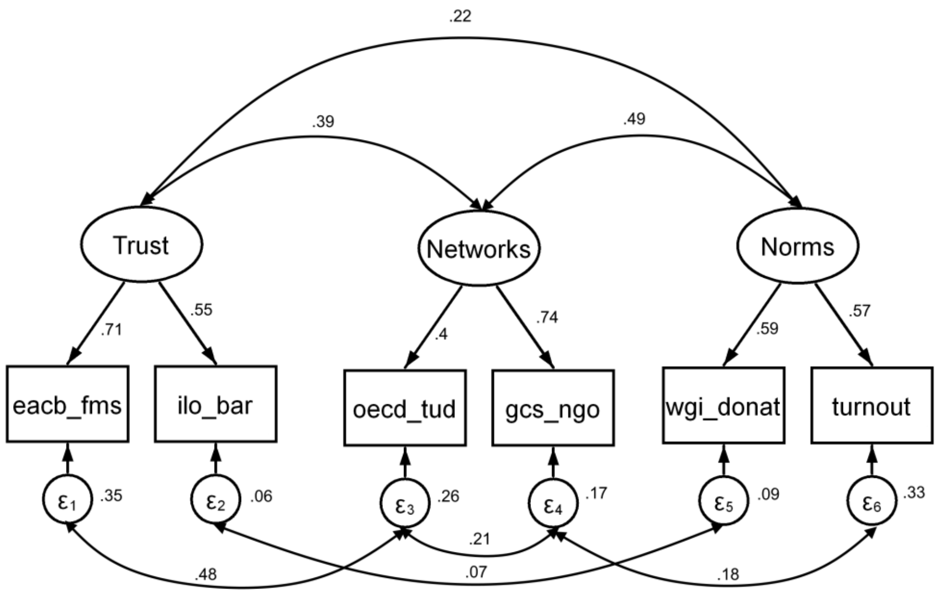
Model	χ2(df)	χ2/df	Log-likelihood	CFI	RMSEA	SRMR
Null Model	452.36(34)	13.31	-82.63	0.721	0.327	0.299
One First-order factor	358.18(31)	11.55	- 76.88	0.773	0.259	0.182
3 First-order factors (uncorrelated)	373.61(29)	12.88	57.56	0.788	0.244	0.285
3 First-order factors (correlated)	**123.97(26)**	**4.76**	**150.49**	**0.882**	**0.223**	**0.059**
3 First-order factors, 1 Second-order factor	126.16(26)	4.88	145.54	0.874	0.215	0.063

Source: Own table based on the data sources listed in table 4.4.
Notes: The table includes information on the model fit of different configurations of variables for the macro-level social capital confirmatory analysis shown in figure 4.3 below.

A visual representation of this model is shown in figure 4.3. The structuring effect of the identified latent constructs is rather strong judging from the coefficients or factor loadings between the variables and the latent constructs. The strongest relationships can be found between variables that pertain to generalized social trust and to a lesser extent to social norms. As far as the macro-level measurement of social networks is concerned, the measure via trade-union density shows only a moderate relationship with the underlying latent construct.

This is, however, best understood as an expression of additional correlations between all of the other included raw variables. Since the measure of trade union density correlated moderately with the percentage market share of cooperative banks and somewhat weakly with the number of international NGO´s its relationship to the factor labelled as “networks” is slightly weaker. Even though such a measure is rarely found in the literature, this finding is largely consistent with the work Paxton (1999, 2002), who in her study on the relationship of social capital and democracy includes statistics on international NGO´s and is best explained by the fact that such organisations do not necessarily represent exclusively ties among associations or citizens in a single country but also account for the linkages to the larger global community.

Figure 4.3: Confirmatory Factor Analysis Based on Macro-level Indicators



Source: Own estimation based on variables show in table 4.4
Notes: Figure is a representation of the individual-level measurement variables as summarized by three latent constructs trust, networks and norms.

4.4 Discussion

In the field of social capital study that deals with the measurement of the concept of social capital, it is generally acknowledged that social capital is best understood as a multifaceted and inherently complex construct. Described as a major component of social interaction that fosters trust and enables collective action, social capital encompasses a range of different meanings and interpretations. As a result, however, it has also been pointed out as a matter of critique, that measuring the social capital phenomenon presents challenge, one rooted in the diversity of conceptual understandings and the array of measurement approaches or as Engbers and his colleagues put it (2017: 538): “Given the breadth of this definition, social capital has come to mean many things to many people.” Nevertheless, at its core, social capital is generally acknowledged to comprise three dimensions, including generalized social trust, civic norms, and social networks (Putnam 1993, 1995a). How these dimensions relate to each other, especially regarding the question if social capital is best understood as a single concept or rather by approaching it through the study of its components is a contested topic (see e.g. Bjørnskov/ Svendsen 2003).

Various paradigms within social capital theory emphasize different dimensions, ranging from the structural viewpoint accentuating networks to the cognitive stance highlighting trust and shared values. Consequently, measuring social capital presents a formidable challenge, given the vast theoretical complexity juxtaposed with empirical constraints given by the availability of data. This complexity is compounded by two primary issues identified by Markowska-Przybyla (2012: 97). Firstly, traditional quantitative analysis techniques may inadequately capture the relational structure inherent in social capital indicators. Econometric methods, characterized by simplifications and assumptions, risk information loss when handling these relationships.

A second significant challenge stems from the divergent approaches adopted by scholars investigating the origins and ramifications of social capital, leading to a lack of consensus in its conceptualization. This absence of agreement manifests in a wide array of measurement methodologies. For instance, concerning group participation and social networks, they may be viewed and interpreted as both a cause and an effect of social capital. Individuals who join groups often cultivate social capital, which proves beneficial in various aspects of their lives (see e.g. Goette et al. 2006). On the other hand, in the traditional conceptualization put forth by Putnam (1995), group membership is considered an outcome of social capital, with individuals displaying higher levels of trust also becoming more likely to engage in social networks.

Despite the prevailing uncertainty regarding the metrics to employ and the utilization of social capital proxies, this chapter considers various measurement models. It accounts for diverse measures encompassing all identified facets of social capital. Crucially, the findings remain robust across different specifications. This consistency prevails when examining different metrics of individual-level social capital and when identifying social capital components through alternative approaches, whether by assuming distinct a priori dimensions or altering assumptions about the underlying correlations among individual indicators of social capital at both analytical levels.

The findings remain consistent across different model specifications, whether considering various indicators of subjective individual-level social capital or employing alternative approaches to identifying social capital components and strengthen the case for categorizing social capital variables into three distinct dimensions (‘trust’, ‘networks’, and ‘norms’) but also suggesting that a single underlying second-order latent dimension of social capital can be identified based on the data. Nevertheless, it is also worth noting that certain dimensions encompass distinct components, as exemplified by the 'networks' dimension, which potentially encompasses both 'social networks' and 'institutional networks'. Overall, the analysis offers sufficient evidence for measuring and interpreting social capital as a singular dimension with its constituting components relating the overall concept. At the same time, it but also suggest that a greater share of the empirical dynamics can be studied by looking at its individual dimensions. Therefore, the analysis will proceed by examining the impact of the antecedents of social capital for each of its constituting dimensions separately as well as evaluating the impact of relevant explanatory variables for the overall social capital dimension.

4.5 Summary: Towards a Differentiated Understanding of a Complex Phenomenon

In line with the scope of the analysis of measurement models of social capital, this chapter placed particular emphasis on the different conceptual interpretations of the overall concept as well as different approaches towards its empirical measurement. Prior research on the empirical indicators of social capital has often relied on a limited number of variables as proxies, and it has generally adopted either an individual-level or aggregate perspective (e.g. Halpern 2005; Van der Gaag/Webber 2008). Here, underlying relationships are explored in more detail and different variables that pertain to various aspects and dimensions of social capital are considered.

By introducing the need to distinguish between different levels of analysis, the importance of understanding the relationship between various indicators of social capital is highlighted. Furthermore, a measurement approach based on confirmatory factor analysis is used to empirically identify the underlying latent correlational structure of the various social capital indicators (Brown 2015). While the analysis is, first and foremost, grounded in individual-level data, an aggregate macro-level perspective is taken into account as well. At the micro level, the chapter explores how social capital manifests within individuals' immediate social circles. It investigates indicators such as interpersonal trust, reciprocity, and community involvement, among others. At the macro level, the analysis widens its scope to encompass societal and structural elements of social capital. This involves scrutinizing indicators such as organisational or trade union density or charitable donations within country-level contexts. Similar to the micro level, the chapter employs confirmatory factor analysis to uncover latent relationships among these macro-level indicators.

The results offer two main implications. First, by shifting focus to the relationships between the micro and macro level and the apparent differences in the approach towards measurement, the findings consistently suggest that macro-level characteristics should be distinguished from individual-level (and aggregated measures) of social capital. This distinction is empirically demonstrated through the analysis of how variables at both levels relate to the identified dimensions of social capital as well as the overall latent construct. Specifically, the examination of different solutions for exploratory factor analysis highlights variations in the structural organization of social capital, while the analysis of individual variables reveals their relationships to each other and to their respective latent dimensions, underscoring the necessity of this differentiation.

The corresponding findings are particularly relevant in view of the underlying expectation that different types of relationships might be found whenever differentiating between the levels of analysis. For example, while a connection between civic engagement and interpersonal trust can be presumed to exist at the individual level, the precise causal relationship at the macro level often remains uncertain (Uslaner/Brown 2005; Wollebæk/Strømsnes 2008). Such considerations also extend toward the evaluation of explanatory factors related to the state of the economy, quality of government and welfare state examined in the subsequent chapters. Second, a measurement approach encompassing three correlated first-order factors offers the most comprehensive solution for quantifying the underlying dimensions of social capital. These three dimensions are identified as generalized social trust, civic norms, and social networks. This analytical solution effectively captures the essence of social capital, encompassing both micro and macro aspects, thus providing a robust framework for further analysis.

5. Explaining Macro-Level Social Capital Variation across Europe

In this chapter, social capital is viewed first and foremost as an aggregate property of societies and as has been detailed above, it is suspected that it has declined as a result of the economic and financial crisis and that the decline affects a variety of social and political outcomes. But other than glimpses seen through isolated indicators, comparatively speaking, very little is known thus far, to what extent the impact changes across different social capital indicators. The measures constructed here allow us to gain a deeper understanding of the nature of the underlying changes.

5.1 How Economic Development Affects State Governance Capacity

Economic development is often considered as being the objective for virtually all economies, not merely as an end in itself but also as means of achieving increased welfare. A nation's prosperity is commonly quantified through indicators such as GDP per capita, adjusted for purchasing power parity (PPP). However, the conceptualization of economic development goes beyond mere monetary metrics, encompassing broader socio-economic dimensions such as access to education, healthcare, infrastructure, and environmental sustainability. Therefore, while GDP per capita remains an important benchmark, a comprehensive assessment of economic development necessitates a multifaceted approach that considers diverse aspects of societal well-being. From the perspective of understanding the dynamics of social capital generation during times of crises, it is particularly relevant to show, that even predominantly economic approaches increasingly take into account the broader social context in explaining economic growth.

The conventional measure of GDP per capita, while widely used, falls short in providing a comprehensive evaluation of the true developmental status across different economies. As an alternative, the Human Development Index (HDI) emerges as a more encompassing metric, integrating sub-indices of GDP, life expectancy, and education to take into account the human aspect of development. However, even the HDI has its limitations, as it does not fully encapsulate the multifaceted nature of development. Contemporary perspectives on development emphasize the broadening of individual and societal freedoms and choices. This encompasses not only economic growth but also encompasses health, social, and cultural dimensions (Sen 1999). Hence, the notion of sustainable development arises, where economic progress must be balanced with social and environmental considerations to ensure the well-being of present and future generations (WCED 1987: 43). Sustainable development, therefore, entails the maintenance or enhancement of societal welfare over time while preserving the capacity for future generations to meet their own needs. This more refined approach to development underscores the imperative of ensuring enduring prosperity while safeguarding environmental and social resources for the benefit of all.

In practical terms, sustainability is conventionally perceived by the sustainable utilization of natural resources. However, beyond safeguarding natural capital, it is imperative for societies to also ensure the provision of adequate human and social capital for future generations. To evaluate complexity of the relationships between human and natural capital, the World Bank advocates for the use of an index that adds net investment into human capital. This metric, derived from GDP, accounts for the depletion of physical and natural capital through consumption and amortization, while incorporating investments in human capital (World Development Indicators). Nevertheless, this measure overlooks the critical dimension of social capital, which gains significance as societies progress towards higher levels of welfare. Recognizing this problem, the World Bank has introduced the concept of "responsible growth", which extends beyond sustainable development to encompass social equity and inclusion (World Bank 2004). As such, a society can be deemed to be developing sustainably when the accumulation of wealth across all forms of capital is maintained or enhanced.

In addition to conventional growth determinants such as physical capital and technology, human capital - both in terms of its quality and quantity - stands as a uniquely important factor in a society's overall development. Romer (1986) and Lucas (1988) integrated human capital into endogenous growth models, with subsequent empirical studies affirming its substantial explanatory power in growth regressions. However, the cultivation of human capital necessitates significant investment. Expenditures on health and education lead to diminished levels of current consumption, thereby constraining the choices available to individuals with low incomes (Boxman et al. 1991). While some degree of income inequality may be inevitable due to inherent differences in individuals' abilities upon entering society, theoretical frameworks suggest that redistributing a society's resources is inefficient from a growth standpoint, at least in the short term (Coleman 2000). Nonetheless, such redistribution could mitigate income inequality and foster social cohesion, which, as will be discussed later, typically fosters economic development. Consequently, the overall expectation in the corresponding literature is that states should implement policies aimed at redistribution to mitigate excessive inequalities and ensure universal access to essential services - such as education and healthcare that are imperative for the creation, maintenance, and enhancement of human capital (Cyrek 2019; Evans et al. 2019).

In addition to human capital, the availability of social and institutional resources plays a pivotal role in fostering economic growth and sustaining the development process. This issue gained prominence in the 1990s within the framework of conditional convergence theory, which recognized a multitude of structural barriers to growth and development. These barriers include incomplete property rights, transaction costs, ineffective government policies, income inequality, weak legal and business institutions, capital market imperfections, and cultural disparities (Yeager 1999). The discussion gains importance especially because of the fast that many of these impediments to development stem from, or contribute to, deficiencies in social capital.

5.1.1 Welfare State During and After the Crisis

The economic crisis has posed considerable challenges to welfare states, particularly because welfare spending represents a significant share of public expenditures in European Union member states (Hemerijck et al. 2012). Efforts to reduce government spending inevitably lead to cutbacks in welfare provisions, as governments strive to balance budgets and address growing public debt burdens. For instance, during the economic crisis of 2007–2008, several European countries, including Greece and Spain, implemented austerity measures that significantly reduced social welfare benefits and public sector salaries as part of broader fiscal consolidation efforts (Zapico- Goñi 2015: 2012). Even so, it is essential to acknowledge that social protection measures, such as unemployment benefits and minimum income support, have been instrumental in alleviating the crisis's negative impacts on a substantial number of individuals. At the same time, the global recession has cast doubt on the financial sustainability of these programs in the long term, with some seeing the crisis as an opportunity to enact lasting reductions to welfare structures. This discussion explores both the challenges confronting welfare states and the opportunities for reform in the post-crisis context (see e.g. Gelissen et al. 2012; Gundelach et al. 2010).

For welfare states within the European Union, where the provision of social risk coverage is extensive and welfare expenditure ranges from 16 to 30 percent of GDP, the financial crisis of 2008-2012 has posed a significant challenge (Hemerijck 2012). This period marked a significant shift in the equilibrium between state-led welfare policies and market-driven approaches. The intensification of the euro crisis after 2010 in particular, highlighted the interdependence of European economies and underscored the difficulties in coordinating EU institutions during periods of economic turmoil (Olaskoaga et al. 2013). Responses to the crisis, including stringent austerity measures, policies for stimulating demand, and initiatives to establish banking or fiscal unions, have been subject to intense debate and disagreement among member states (Scheepers et al. 2002; Starke et al. 2013).

In this context, the policy responses adopted by individual states become particularly relevant for understanding the impact of welfare arrangements on social capital. Measures that reduced social investment or curtailed welfare spending risk undermining the trust and cohesion that underpin social capital (Larsen 2007). For instance, austerity policies in countries such as Greece and Portugal led to reductions in public services and benefits, potentially eroding the collective trust and networks that form the basis of social capital (Gelissen et al. 2012). This highlights the need for a nuanced examination of how different crisis management strategies influence the broader social fabric within and across European societies.

When dealing with the relationship between welfare state policies, economic competitiveness, and their impact on social capital, three key sequences of policy responses have been implemented since 2008. Analyzing the performance of EU member states during the crisis reveals that strong welfare states are not inherently incompatible with economic competitiveness. On the contrary, this underscores the need to view social policies as productive assets that contribute to economic growth and resilience (Clemente et al. 2012). A critical aspect in this discussion is the role of macroeconomic symmetry, highlighting the growing necessity of achieving consensus on the concept of “a social Europe,” which is increasingly recognized for its macroeconomic significance (see e.g., Marlier/Natali 2020). The effectiveness of social protection measures and the scale of social investment are pivotal to the stability of the eurozone, as they enhance the capacity of states to manage the fallout from economic and financial crises. This becomes particularly evident when considering proposals such as a social investment pact for the EU. Such initiatives, aligned with the goals of the Europe 2020 Strategy, offer a strategic framework to balance fiscal discipline with the need for sustainable long-term social investment. The success of these efforts, however, relies on the integration of EU macroeconomic governance with priorities that emphasize social investment as a foundational element of economic and social stability (compare also to Hemerijck et al. 2012: 200).

European welfare states have undergone three distinct phases of crisis management, as delineated by Hemerijck and colleagues (2012). In the immediate aftermath of the Lehman Brothers collapse in 2008, the first phase was characterized by the adoption of largely Keynesian policy measures designed to address the sharp contraction in global demand. Fiscal authorities, together with the European Central Bank (ECB), undertook a range of interventions, including liquidity provision and credit-enhancing strategies, to stabilize the eurozone economy during a period of acute vulnerability (Roth et al. 2014). Between 2008 and 2010, automatic stabilizers were utilized to cushion the recession's effects, allowing welfare mechanisms to absorb some of the economic shocks (Schmidt 2018). Additionally, several EU member states introduced policies to extend short-term employment arrangements, often integrating these with training and activation incentives, as part of their broader crisis management strategies (Hemerijck et al. 2012: 201).

The second phase of crisis management began in December 2009 and was significantly shaped by the Greek debt crisis (Bourikos 2013). After European governments intervened to rescue systemic banks, the financial crisis was reframed as one rooted in fiscal irresponsibility, necessitating rigorous and extended public austerity measures (Kollmann et al. 2013). Countries facing severe financial strain—such as Greece, Ireland, Portugal, and Spain—adopted austerity programs that included labour market deregulation, cuts to civil servant salaries, freezes on pension benefits, increases in retirement age, and reductions in social transfers and services. By contrast, in the United Kingdom, the Cameron coalition government justified its social retrenchment measures through an ideological focus on welfare dependency, setting it apart from the primarily economic rationale in other nations (Akinsoyinu 2015; Hemerijck et al. 2012: 202).

By 2011, the European Union found itself in a critical phase of crisis management, as the financial turmoil stemming from the sovereign debt crises in Greece, Ireland, and Portugal began to pose significant threats to the viability of the euro (Frieden/Walter 2017; Hemerijck et al. 2012: 5). The rising cost of borrowing for the EU's most vulnerable nations made it clear that the crisis had expanded beyond isolated incidents and was now a broader systemic risk. In response, the December 2011 agreement to implement a comprehensive "fiscal compact" aimed to restore fiscal discipline in the eurozone, but it failed to gain the confidence of the markets, being viewed by many as a delayed and insufficient remedy (see e.g. Calliess 2012). There were also widespread concerns that the austerity measures, which involved extensive cuts in public spending, could lead to a prolonged economic downturn, with predictions of a double-dip recession for 2012. The situation was worsened by the limited options available to both national governments and EU monetary authorities: national budgets were under severe strain, and with interest rates already near zero, traditional economic tools were rendered ineffective (Hemerijck et al. 2012). On the political front, governments found themselves in a difficult position, balancing the need to reduce deficits—thereby limiting their ability to enact social policies—with mounting public opposition to austerity, as citizens increasingly rejected the promises made by political leaders in the context of EU-backed rescue plans (Clemente et al. 2012; Cyrek 2019).

Before the onset of the financial crisis, significant shifts were already underway in the policy frameworks of European welfare states. Demographic changes, such as an aging population, declining birth rates, and increasing early retirement, had begun to place substantial pressure on pension systems (Schwarz et al. 2014). At the same time, advances in technology led to a reduced need for low- and medium-skilled routine jobs. The move towards post-industrial labor markets created more employment opportunities for women but also contributed to a reduction in the number of stable, long-term positions due to deindustrialization (see e.g. Schubert et al. 2016). More specifically "[c]hanging family structures and gender roles, with longer education spells, later childbirth and single parenthood, have created new tensions between work and family life and raised new demands for care for children and the frail elderly" (Hemerijck et al. 2012: 203). This shift also raised the demand for better care services for both children and aging adults. These social transformations have resulted in growing income disparity, with high-skilled dual-earner families benefiting from economic growth, while low-skilled and single-parent households are facing increased vulnerability (Whelan et al. 2001; Chai et al. 2015). Simultaneously, the ability of states to respond to these changes through policy became more limited. While the integration of European economies and the mobility of capital did not lead to the widespread social dumping some had predicted, the pressure on member states' finances, driven by the Stability and Growth Pact and broader economic integration, has nonetheless been significant (also see Hemerijck et al. 2012).

The challenges faced by welfare states across Europe stem from similar underlying factors, but the ways these challenges influence policy systems and provoke responses differ widely from one country to another. While some nations have effectively modernized their welfare systems to address pre-crisis societal changes, others have struggled to implement effective adjustments (Vis et al. 2011). These reforms do not fit neatly into a binary of either expansion or retrenchment (Taylor-Gooby 1991; 2005). Instead, they exhibit substantial diversity and inconsistency among EU member states. A common trend has been the prioritization of employment-related policies, with a focus on incentivizing work through social insurance schemes and fostering a more flexible labour market (Anxo/Ericon 2015). However, the approach to this employment focus varies significantly, ranging from measures that reduce social protections and deregulate labour markets to initiatives aimed at enhancing workforce participation and productivity by supporting families, providing training, and improving employment services (Hemerijck et al. 2012).

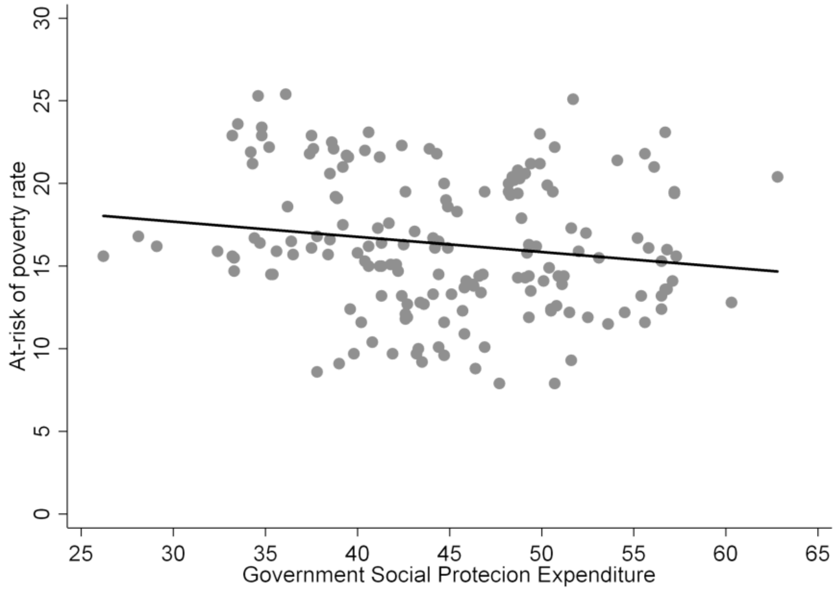
Northern European countries, while not without their own issues, have leveraged long-term investments in their social policies to sustain their economic competitiveness both before and after 2008. Conversely, southern eurozone nations face ongoing challenges, including entrenched labour market divides and outdated welfare models that prioritize pensioners at the expense of broader social inclusion. This imbalance hinders progress in creating equitable job opportunities and providing necessary support for groups such as women, younger workers, and single-parent families (Guillén & Pavolini, 2015).

Social policy programs offer multiple societal and economic benefits that extend beyond their immediate role of providing support to individuals. For example, “short-term unemployment can reduce search costs for new jobs and foster efficient employment matches” (Hemerijck et al. 2012: 204). Universal social protection systems, when thoughtfully implemented, can actually promote labour market adaptability rather than hinder it (Lee & Koch, 2023; Visser et al., 2018). In addition, collective bargaining frameworks support the establishment of wages that reflect broader economic conditions, while moderate employment protection measures and structures like works councils can boost competitiveness by involving employees in skill development and production processes (Moberly, 1985). Social spending plays a stabilizing role in the economy by maintaining consumer demand during recessions, as observed during the global financial crisis following the collapse of Lehman Brothers in 2008. This form of indirect Keynesian intervention underscores the broader value of social policies in fostering economic resilience (Narayan & Narayan, 2006; De Grauwe, 2009). Beyond their economic impact, social protections serve as a safeguard against poverty and inequality, reducing the risk of societal instability by providing security in times of illness, unemployment, or other life challenges (Hjerm, 2005). While there are inherent tensions between the goals of social protection and activation-focused policies, well-designed welfare systems can reconcile these priorities by improving both economic efficiency and social equity, provided that barriers to labour market access are minimized.

Contemporary social policy must address demographic realities that are far less favorable than those faced during the post-war expansion of social insurance programs (Zavras et al. 2013; Huber/Stephens 2014). A key challenge is the aging population, which increases demand for pensions, healthcare, and elder care while simultaneously shrinking the working-age population and placing financial strain on welfare systems (Crampton 2011). These demographic shifts are compounded by rising income inequality, fiscal constraints, and the need to integrate diverse migrant populations into social systems (Razin/Sadka 2005).

The future economic stability of welfare systems is intricately tied to both the productivity levels and the size of the taxpayer base. While its primary function remains the provision of care and protection, social policy must also actively enable individuals to reach their full productive potential. This involves mitigating the challenges posed by precarious work arrangements, extended unemployment, low-income employment, family disruptions, and barriers to accessing the labor market (Hemerijck et al. 2012: 204). Decisions regarding workforce engagement engagement, participation and retirement are deeply influenced by the availability of resources such as education, healthcare, and care services. In this sense social protection expenditure and its impact on reducing the at-risk-of-poverty rate by providing financial assistance and support to vulnerable individuals and households is a useful indicator (see figure 5.1). By alleviating financial strain and providing a safety net during times of unemployment, or other adverse life events, social protection expenditure helps prevent individuals and families from falling below the poverty line. Overall, social protection expenditure not only addresses immediate financial needs but also fosters resilience and empowers individuals to escape poverty and achieve economic security (Narayan/Narayan 2006; Visser et al. 2018).

Figure 5.1: Comparison of Social Protection Expenditure (%GDP) and At-risk of Poverty Rate



Source: Own depiction based on data provided by Eurostat 2011-2020
Notes: Figure depicts the mutual relationship between Government Spending on Social Security Funds as percentage of the gross domestic product (GDP) compared to the persistent at-risk-of-poverty rate (based on equivalized disposable income).

However, policy decisions are not independent from the institutional frameworks in which they are made, because institutions shape the targeting, financing, and implementation of social provisions (Breznau 2010; Busch 2010; Esping-Andersen 1990). Institutions play a crucial role in determining how social programs address specific risk groups, their funding mechanisms embedded within tax systems, and the involvement of public and/or private entities in their administration. The ability of policy legacies to integrate innovative social investments varies, with some better equipped than others: "It is, for instance, impossible to assess the impact of early childhood education and care in isolation from mothers' access to training and opportunities to participate in the labour market, supported by policies of gender equality and parental leave arrangements" (Hemerijck et al. 2012: 203). As welfare states increasingly emphasize service provision, there is a growing need for professionalization and enhanced public administration, particularly in tax collection processes (Ferrer et al. 2014).

The literature extensively examines various models and mechanisms of welfare states, reflecting the diverse institutional approaches to social policy worldwide. As has been previously noted (see Esping-Andersen 1990) these models are typically categorized based on shared policy indicators among countries. Regarding state intervention methods, Di Gioacchino and his colleagues (2014) assert that social public expenditures and market regulations represent distinct forms of social protection, illustrating different societal institutional preferences. In a similar line of reasoning, Ferrer et al. (2014: 55) highlight social spending and tax policy as pivotal aspects of social policy that reflect a country's overall development strategy. However, the primary objectives of public intervention across nations consistently aim to alleviate poverty and reduce inequality (Huber/Stephens 2014).

There is a mostly shared consensus within scholarly discourse that social expenditure significantly influences both inequality and poverty levels. Fiszbein et al. for example (2014: 169–170) assert that social policy plays a crucial role in addressing both inequality and poverty, mainly through the "direct reduction of income poverty through transfer of purchasing power" (Fiszbein et al. 2014: 19) and by providing direct benefits including safeguards against risks or unexpected shocks, as well as creating opportunities for additional income. However, it is conceivable that while social spending can mitigate inequality, it may not necessarily affect poverty rates if income redistribution occurs primarily between the affluent and the middle class. Conversely, social expenditure could effectively reduce poverty without a commensurate impact on inequality if it facilitates uniform income growth (see e.g. Cyrek 2019). The first part of the proposed relationship between government social spending and the at-risk-of-poverty rate is considered in figure 5.1 above. As can be seen by examining the data between 2010 and 2020 there is a negative relationship, that shows than increased government social spending indeed has an impact on reducing poverty. It should however also be noted that the overall strength of the respective association in terms of a correlative relationship is moderate at best.

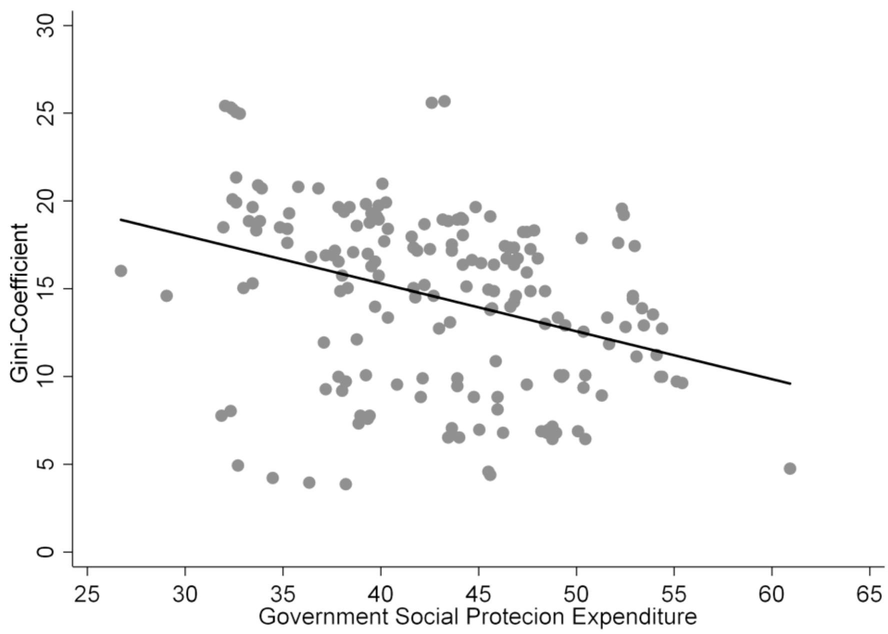
In addition to the general trend considered in figure 5.1, the empirical dynamics reveals a more complex relationship, wherein high levels of government social spending do not uniformly translate into reduced poverty rates across countries. Indeed, amidst economic downturns triggered by the financial and economic crisis, a significant portion of economies (18 out of 27) witnessed a decline in the efficacy of social spending in alleviating poverty (see e.g. Celikay/Gumus 2017). This observation underscores the increase of social tensions resulting from the crisis and its adverse repercussions, particularly impacting the impoverished segments of society. Notably, Romania exhibited the most pronounced decrease in efficiency, followed by Slovakia, Sweden, and Poland. Conversely, several nations experiencing severe economic downturns and enacting public sector reforms, such as Spain, Ireland, Italy, Greece, and Portugal, achieved enhanced efficiency in addressing poverty. Additionally, efficiency gains in addressing poverty were noted in the United Kingdom, Cyprus, Malta, and Bulgaria (Cyrek 2019: 412).

Additionally, the impact of welfare programs on poverty is contingent upon both the total funds available, known as budgetary adequacy, and their targeting efficiency, which often exhibit a trade-off relationship (Fiszbein et al. 2014: 168, 171–172). Similarly, Anderson and his colleagues (2018) contend that the influence of government spending on inequality and poverty is shaped by several factors, including the sector of spending, the effectiveness of targeting, and the method of financing. Moreover, the efficacy of welfare policies hinges on the size, composition, and progressivity of taxes and transfers (also see Joumard et al. 2012). Government social spending and its impact on inequality and poverty evolve over time, particularly during periods of deep economic downturns or crises.

In their study of changes of social spending and social policy Clemente et al. (2012: 2895-2896) suggest that government social spending is highly responsive to fluctuations in economic growth, with sharp cuts occurring almost immediately during crises. Notably, the nature of spending transitions from a discretionary luxury good in lower-income nations to a necessity in affluent societies. Conversely, Savage (2019: 123-126) argues that the 2007-2008 crisis led to the resurgence of partisan policymaking in social spending. More precisely: "[i]n accordance with classic theories of economic policy making, left-wing governments are more likely to increase social spending when unemployment is higher and right-wing governments restrain social expenditure when the budget deficit is greater." (Savage 2019: 123). Most OECD countries implemented expansionary policies, increasing social expenditures. This perspective is further supported by Ferrer et al. (2014: 63), who assert that during economic crises, public spending tends to surpass levels observed in favourable economic conditions to meet the population's needs and safeguard their welfare (see also Cyrek 2019: 408).

In addition to poverty dimension, it is also equally important to consider the impact of government social spending in reducing income inequality (Figure 5.2). Here, it appears that nearly a half of the EU countries under research for which the corresponding data is available (11 out of 23) experienced improvement in efficiency in inequality reduction. Once again, the most substantial increases, surpassing 30%, were predominantly observed in states that, prompted by the crisis, undertook significant efforts to reform their public sectors - namely, Greece, Ireland, Portugal, and Spain (see e.g. Meghir et al. 2010). Conversely, in Slovakia and Estonia, the effectiveness of government spending in reducing inequality experienced the most pronounced decline, indicative of escalating social tensions within these economies: "The efficiency improvement was mainly induced by institutional progress reflected by implementation of new model solutions, new programs and instruments aimed at poverty and inequality reduction" (Cyrek 2019: 414). Positive "technological" changes were evident across nearly all EU countries concerning poverty alleviation and across all countries concerning inequality reduction, underscoring the favourable outcomes of the instituted public reforms (Cyrek 2019: 414).

Figure 5.2: Comparison of Social Protection Expenditure (%GDP) and Income Inequality (Gini)



Source: Own depiction based on data provided by Eurostat 2011-2020.
Notes: Figure depicts the mutual relationship between Government Spending on Social Security Funds as percentage of the gross domestic product (GDP) compared to the Gini-coefficient.

Overall, considering the complexities of the underlying empirical dynamics of the relationship between economic development and welfare states underscores the significance of institutional complementarities, a concept extending to the interaction between domestic social policy and EU governance. Since 1958, European integration has significantly contributed to the development and enhancement of welfare systems within member states. Ferrera (2005: 92) describes the post-war institutional compromise as "Keynes at home, Smith abroad," encapsulating the dual focus on domestic economic management and international market liberalization. Initially, the absence of comprehensive EU-level macroeconomic coordination, combined with the economic growth spurred by market liberalization, enabled national welfare systems to evolve independently after 1945. However, as pointed out by Hemerijck et al. (2012:): “Now, the euro crisis has exposed this earlier division of labour - home-grown social Keynesianism and progressive supranational market integration - as no longer sustainable. Current levels of economic integration, without the possibility of reverting to country-specific strategies based on currency devaluations, imply that welfare policy proficiency (or deficiency) in one country strengthens the prosperity (or stagnation) of the EU economy as a whole and vice versa“ (see e.g. Hemerijck et al. 2012: 203).

The shortcomings of the economic policy framework are central to the challenges faced by the eurozone. The initial design of the Economic and Monetary Union (EMU) relied on the assumption that the European Central Bank’s (ECB) focus on price stability (Hemerijck et al. 2012: 203), coupled with a firm commitment to fiscal consolidation by member state governments as mandated by the Stability and Growth Pact, would heighten competitive pressures among member state economies (Beetsma/Uhlig 1999). This increased competition in financial and product markets was anticipated to drive greater tax and labour market competitiveness. As a result, national governments were expected to implement significant welfare and labour market reforms, potentially framing these reforms as unavoidable consequences of EU-level policies. (Kennedy 2018; Meghir et al. 2010): “The architects of EMU, in short, conceived that the new macroeconomic policy regime would naturally trigger structural reform” (Hemerijck et al. 2012: 203).

However, the eurozone crisis has laid bare the inadequacies of this policy paradigm. Rather than fostering stability, the crisis has led to severe imbalances: persistent current account deficits in countries such as Greece, Spain, Portugal, Ireland, and Italy (Petmesidou/Guillén 2017; Petrakis 2012; Guillén/Pavolini 2012); real estate market bubbles in Ireland, the Netherlands, and Spain, and substantial current account surpluses in economies like Germany and the Nordic nations (see e.g. Priemus/Whitehead 2014; Hemerijck et al. 2012: 203). Low interest rates tied to the euro appear to have slowed the pace of welfare reforms in states with entrenched, insider-oriented welfare systems and rigid labour markets. Interestingly, nations with current account surpluses, including Germany and the Nordic countries, demonstrated a contrasting trend by accelerating their social policy reforms after the 1990s, motivated by a focus on maintaining and enhancing competitiveness (Hemerijck et al. 2012: 203).

The current institutional framework of the Economic and Monetary Union (EMU) is not inherently equipped to manage significant economic imbalances within the eurozone. Instead, the EMU has adopted a strategy centered on the proactive oversight of national budgets and wage policies (Buti/Carnot 2012). This preventive approach aims to curtail asymmetries among member states, thereby reducing the reliance on mechanisms such as economic flexibility or fiscal transfers to address disparities. This strategy is reflected in measures like the "six-pack" regulations and the fiscal compact agreements, which seek to enhance fiscal discipline and coordination across the European Union (Laffan/Schlosser 2016). At the heart of these efforts lies the delicate balance between "symmetry, flexibility, and the availability of fiscal support" (Hemerijck et al. 2012: 205). The ability of both EU-level and national institutions to mitigate destabilizing divergences through rigorous oversight, the willingness of member states to embrace internal reforms, and the parameters under which financial support is extended to struggling economies are all pivotal. These decisions are not merely technical but represent fundamental choices that shape the broader social and economic framework of the European Union (see e.g. Callies 2012; Hemerijck et al. 2012: 203-205).

5.1.2 Quality of Government During and After the Crisis

Besides the overall complex relationship between the state of the economy and economic regulatory frameworks during times of economic hardship, the economic and financial crisis has also reignited discussions regarding democracies' ability to withstand economic upheavals, drawing parallels with the Great Depression of the 1930s (Krugman 2011; Lindvall 2012). One of the main points of departure for the study of the impact of quality of government in this regard, is the observation that nations with lower bureaucratic quality, such as e.g. Greece, have borne more severe political consequences from the Great Recession compared to neighbouring countries with higher bureaucratic standards (Kennedy 2018; Meghir et al. 2010). However, the broader idea that public administrations play a crucial role in maintaining democratic stability during economic crises remains largely unexplored in comprehensive empirical analyses.

Research consistently demonstrates a correlation between economic crises and the risk of democratic breakdown, since economic downturns tend to elevate this risk (Bernhard et al. 2001; Przeworski/Limongi 1997; Svolik 2008). However, not all democracies succumb to the pressures of economic turmoil equally; some manage to withstand the challenges posed by crises, while others falter even under less severe conditions (Haggard Kaufman 1997; Przeworski et al. 2000). This discrepancy underscores varying levels of resilience among democracies in the face of crises (Andersen/Krishnarajan 2019). The mechanisms through which economic crises affect democracy can be complex, involving factors such as public discontent, political polarization, government instability, and challenges to the legitimacy of democratic institutions (Acemoglu 2009). Additionally, economic downturns may exacerbate existing social inequalities, fuelling grievances and social unrest, which in turn can undermine democratic norms and institutions (Elster 1989; Fehr/Fischbacher 2004).

In existing analyses, one prevailing notion is that high levels of economic development offer a protective shield for democracies facing economic crises (Przeworski/Limongi 1997: 167-169). However, empirical evidence challenges this assumption, as it is not always the wealthiest democracies that emerge unscathed from crises (Ertman 1998). Another significant line of inquiry deals primarily with institutional factors, including characteristics of the party system and the structure of legislative and executive powers (Bernhard et al. 2001; Svolik 2008: 161). A third approach scrutinizes political strategies and policy reforms, particularly in response to varying class configurations (Capoccia 2005). Despite these perspectives, a common underlying assumption across these studies is that the state bureaucracy mechanically implements the directives of politicians without undergoing significant changes. Although certain studies acknowledge the significance of state-related phenomena like 'corruption', 'politicization', and 'inefficiency' as catalysts for anti-democratic mobilization, these aspects are often overlooked or only briefly mentioned in explanatory models (Andersen/Krishnarajan 2019: 716).

During times of economic and financial crises, the public standing of democratically elected officials becomes particularly vulnerable. To safeguard their reputations, politicians must devise effective solution in order to address the complex social and economic challenges posed by the crisis. Failure to do so may jeopardize their chances of re-election or, in more dire circumstances, lead to the erosion of democratic principles (Piattoni 2015). This erosion could manifest in various forms, such as a populist figure winning an election and dismantling democratic norms, or the military staging a coup aimed at restoring economic stability. Central to this argument is the recognition that politicians, when confronted with the looming threat of such scenarios, tend to heighten their engagement with the civil service. This is because the bureaucracy plays a pivotal role in navigating economic crises (O'Donnell 1973: 30–31, 71).

Therefore, the efficacy of crisis management hinges significantly on the quality of the bureaucracy.

The main argument to be presented in this context is that the destabilizing impact of economic crises on democracies is mitigated in contexts with higher levels of bureaucratic quality (Kotzian 2014: Hooghe/Stolle 2003). The main expectation presented by the literature is that the quality of state administration, characterized by more proficient, effective, and autonomous civil servants, fosters the implementation of prudent policies and ensures disciplined, expedient, and impartial execution (Hadenius 2004; Rothstein/Teorell 2008). This mechanism renders democracies equipped with high-quality bureaucracies more resilient to economic crises: rather than exacerbating the duration of economic downturns, a high-quality bureaucracy with functioning mechanisms of control of corruption shields citizens from the adverse effects of crises, such as impoverishment and escalating inequality, thereby reducing the propensity for mass mobilization against the regime (Rothstein 2011; Svolik, 2013). Regardless of political will to address immediate poverty through financial relief and inequalities via redistribution of public goods (such as healthcare) and social benefits, a high-quality bureaucracy is indispensable for alleviating these hardships (Evans 1998; Haggard/Webb, 1993). Consequently, a high-quality bureaucracy diminishes the likelihood of anti-systemic mass mobilization during crises (Cornell/Lapuente, 2014; Haggard/Kaufman, 1997).

Economic crises are recurrent occurrences within democratic systems, often stemming from various factors such as bank failures, housing market collapses, or the saturation of domestic and international markets. Despite their diverse origins, these crises consistently result in heightened unemployment, increased poverty rates, and the exacerbation of pre-existing inequalities (Bernhard et al. 2001). However, traditional analyses of democratic destabilization suggest that the presumed direct link between economic crises and democratic breakdown may oversimplify the complex dynamics at play. Although assuming the possibility of a complete democratic breakdown as a consequence of the economic downturn during the Great Recession does not necessarily seem practical, the overall arguments presented in this field of research nevertheless might be useful in understanding the causal mechanisms at play here.

For examples, in Linz's (1978) seminal work discussing the emergence of military dictatorships in Latin America during the 1960s and 1970s, as well as the democratic breakdowns in interwar Europe, he emphasizes that democratic crises stem from the ineffective responses of successive governments when confronted with significant challenges necessitating immediate action (Linz 1978: 50). However, Linz does not explicitly explain how the state bureaucracy influences efficacy or effectiveness, despite the apparent relevance of such connections. Similarly, Przeworski (1991: 33) suggests that the survival of democracy amid adverse economic conditions is a product of both contextual factors and institutional arrangements. Moreover, Bermeo (1997: 19), in her examination of 'economic crises' impact on democracies during the interwar period, suggests that the distinguishing factor between democratic casualties and survivors lies in the state's capacity to maintain "civic order." However, the precise relationship between state capacity and civic order remains largely unexplored (see also Andersen/Krishnarajan 2019: 719).

However, proficient state institutions can play a pivotal role in mitigating the adversities of crises. Firstly, competence fosters the formulation of policies, enabling the acknowledgment of pressing issues such as deficiencies in healthcare provision and equipping politicians with informed strategies to address financial challenges like bank insolvencies, debt burdens, and inflationary pressures (Torrente et al. 2019). Disparities in democratic breakdown rates are evident between nations where collaborative interactions between politicians and bureaucrats yield prudent, often termed 'developmental,' crisis response policies, and those characterized by 'predatory states' where bureaucrats prioritize personal gains over public welfare (Evans 1995). This proactive approach bolstered public confidence in the compatibility of democracy with sustained economic development (Moon/Kim 2000: 149, 160; Haggard 2004).

Secondly, efficient civil servants play a crucial role in attenuating the impact of crises by ensuring the disciplined and timely implementation of budgetary measures, tax collection, and the provision of public goods and social benefits, thereby minimizing a waste of otherwise potentially limited resources (Dahlström et al. 2012). As a result, inefficiencies within the civil service can result in unchecked expenditures and the compromised delivery of social benefit programs (Dahlström et al. 2012). For instance, Estonia's experience in the 1990s and beyond exemplifies the significance of effective public administration during economic upheavals. Despite facing substantial distributional inequalities, Estonian democracy maintained a high level of legitimacy, largely attributed to the perception of efficient state fund management (Hopf 2002: 418; Møller/Skaaning 2010: 328).

The third crucial aspect is the impartiality in policy implementation facilitated by civil servants operating autonomously from arbitrary political influences (Cornell/Lapuente 2014).

Bureaucratic autonomy ensures equitable treatment of similar cases, a particularly vital attribute during crises when resource scarcity may otherwise incentivize elites to exploit vulnerable citizens in resource allocation and austerity measures (Rothstein/Teorell 2008: 170). The impartiality in administration has historically differentiated democracies, regardless of ideological orientation, in their capacity to shield the populace from the economic inequalities further worsened by crises, spanning from the 1930s to the present (Cornell/Lapuente 2014). While the rule of law is closely linked to bureaucratic impartiality, it specifically pertains to judges abstaining from manipulating or circumventing laws. However, during economic crises, the focus shifts to the qualities and conduct of the ordinary civil service, as politicians seek assistance from bureaucrats in navigating the complexities of crisis management across various ministries (Andersen/Krishnarajan 2019: 720-722).

5.2 How Economic Development Affects Social Capital

The main objective of the empirical analysis is to examine the joint effects of intense economic downturn on the outlined dimensions of social capital: generalized social trust, social networks and civic norms. The extent to which different European countries experienced the intensity of the recession are particularly suited to investigate the differential impact on the consequences of the economic and financial crisis. The general expectation is that that economic factors gain greater significance, in relation to perceived institutional performance and other contributing factors, in explaining fluctuations in levels of different indicators of social capital. In other words, the degree to which a crisis affects different European states and also the extent to which they react by adapting in terms of institutions and policy should be a dominant factor in explaining the differential impact the crisis has had on their societies and the respective changes in their levels of social capital.

Several indicators of economic downturn are considered as the independent variable (Rothstein, 2011). Firstly, as an indicator of the general state of the economy and economic wealth, the GDP growth rate is particularly suited to detect changes by virtue of reflecting the percentage change in the value of all of the goods and services produces in a nation based on annual comparison. Secondly, the measurement of the unemployment rate is based on the generally accepted definition provided by the OECD, because estimates based on national definitions of unemployment show only a limited amount of comparability. The measurement of the indicator defines unemployed people as those „of working age who are without work, are available for work, and have taken specific steps to find work" (OECD 2022). The unemployment rate then measures the number of unemployed people as a percentage of the labour force, where the labour force is defined as the total number of unemployed people plus those in employment. Thirdly, the indicator maps the annual changes of interest rates of 10-year government bonds. In terms of the financial economy, this indicator can be used when valuing the markets or individual security of the studies countries. Tracking its annual changes during and after the crisis then offers insights on how hard the financial markets of any given country were hit by the crisis and how fast those managed to recover afterwards (Kunze et al. 2014, Knot/Verkaart 2013, 37).

As has been previously outlined the presumed impact of the economic downturn can be thought as having a direct impact on social capital, or its impact can be propagated through indirect channels relation to the quality of government and welfare state institutions. From the viewpoint of the performance and functioning of state institutions, two main indicators are used in the analysis. On the one hand, the control of corruption estimate based on the Quality of Government Database measures the „perceptions of corruption, conventionally defined as the exercise of public power for private gain" (QoG 2021), although it is also pointed out by this particular measurement approach, that the „particular aspect of corruption measured by the various sources differs somewhat, ranging from the frequency of ‚additional payments to get things done', to the effects of corruption on the business environment, to measuring ‚grand corruption' in the political arena or in the tendency of elite forms to engage in ‚state capture'" (QoG 2021).

On the other hand, based on data provided by Eurostat, changes in government expenditures on general public services as percentage share of the gross domestic product are used. Based on the classification of government functions developed by the OECD, the spending summarized under the category of general government spending includes e.g. spending on executive and legislative organs, financial and fiscal affairs, external affairs, foreign economic aid, general services, R&D related to general public services and general public services (OECD 2024). This indicator is particularly suited because it allows tracing developments in relation to government reactions to squeezing public finances during the recession and the impact of austerity policies that emerged as a result.

The following discussion of the results investigates the differential impact of the described indicators on social capital by considering each of its dimensions – generalized social trust, social networks and volunteering and civic norms – separately first, and is then followed by a summarized analysis of their impact on the social capital index.

5.2.1 Determinants of Generalized Social Trust During and After the Crisis

The effects of the crisis experience are analysed by estimating pooled time-series cross-section models. Because of the fact that the underlying dataset consists of pooled cross-sectional data for different points in time, it is clear that important requirements for conducting simple OLS analysis are not met. Pooled time-series cross-section models typically suffer from temporally and spatially correlated errors as well as panel-level heteroskedasticity (Beck/Katz 1995: 636; Plümper et al. 2005) rendering estimates of statistical significance meaningless (Stadelmann-Steffen/Bühlmann 2008: 39). In order to correct for the differences in error variance across units due to characteristics unique to the units (countries in the case of the subsequently presented macro analyses) and spatial auto-correlation, panel-corrected standard errors are applied (Beck/Katz 1995: 638) and the temporal correlation of errors within units, is treated first (Stadelmann-Steffen/Bühlmann 2008: 39).

Starting with the analysis of generalized social trust as the main dependent variable, table 5.1 shows the estimated coefficients. As to the main variables of interest regarding the economic development, the results show that – as expected – the degree of severity of the crisis impact is negatively related to the country levels of generalized social trust. In particular, a negative development of interest rates has a statistically significant impact, both in model 1 which solely focuses on the impact of economic variables as well as model 4, in which all relevant variables are investigated. This result is particularly revealing in terms of the impact of the financial economy of generalized social trust. Generally speaking, the results largely conform with findings of previous studies (see e.g. Bjørnskov 2007; Uslaner 2010; Casson/Giusta 2006), suggesting that the performance of the financial economy, especially in terms of low levels of volatility can translate into greater feelings of societal trust. With economic growth, improved quality of life and higher employment rates suggested as causal links explaining the impact of economic performance on social trust, the presented findings also suggest, that insofar as economic downturn during the crisis results in job losses and increased economic inequality, a negative impact on generalized social trust can be expected.

Table 5.1: Determinants of Country-level Changes of Generalized Social Trust

	Model 1	Model 2	Model 3	Model 4
Economic Development				
GDP Growth rate	0.748			0.556
	(0.412)	-	-	(0.391)
Δ Unemployment rates	-0.256**			-0.140
	(0.094)	-	-	(0.077)
Δ Interest rates	-1.726***			-0.534**
	(0.184)	-	-	(0.145)
Functioning of State Inst.				
Control of corruption		0.363***		-0.019
	-	(0.061)	-	(0.077)
Δ Public service		-0.032		-0.111
expenditures	-	(0.064)	-	(0.140)
Welfare State				
Social-democratic			0.336***	0.337
	-	-	(0.091)	(0.118)
Liberal			0.513***	0.483***
	-	-	(0.071)	(0.072)
CEE			0.441	0.225
	-	-	(0.291)	(0.188)
Δ Welfare effort			0.437	0.165*
	-	-	(0.015)	(0.071)
Δ Gini			-0.485	0.073
	-	-	(0.262)	(0.485)
Δ At-risk-of-poverty rate			-0.478***	
	-	-	(0.078)	
Constant	-5.814	-1.625*	0.899	0.510
	(1.097)	(0.790)	(0.611)	(1.695)
N	156	180	180	156
Adjusted R^2	0.231	0.115	0.095	0.368

Source: Own table based on estimated linear regression model of generalized social trust changes (ESS Data 2002-2016).
Notes: Cell entries are unstandardized regression coefficients with standard errors in parentheses.
Significance levels: *p<0.05, **p<0.01, ***p<0.001

More specifically, the results of the statistical analysis suggest that there is a negative relationship between changes in interest rates and generalized social trust as indicated by the statistically significant negative coefficient (β = -0.534, $p < 0.01$). In order to explain the relationship in terms of its impact on generalized social trust, one possibility considered by the literature is that higher interest rates may lead to decreased economic growth this leading to a decline in overall well-being due to the limited capacity of business and individuals to access credit, leading to financial strain (Narayan/Pritchett 1999: 873).

A second set of factors considers the overall functioning of state institutions in terms of the control of corruption and the changes in public service expenditures. Surprisingly, in the full model (Model 4) both factors do not reach accepted levels of statistical significance despite the fact, that especially control of corruption has previously been established as a major influence on generalized social trust (Rothstein 2013; Uslaner 2009). As far as the impact of the variables measuring the overall functioning of state institutions is concerned, in the fully specified combined model (Model 4) no statistically significant impact can be detected, suggesting that there is only limited evidence (Model 2) regarding theoretical arguments that link the erosion of generalized social trust to corruption. Although it has been previously suggested that in terms of its interaction with the overall state of economy, corruption can undermine the legitimacy of economic and political institutions and systems (Abed/Gupta 2002; Rothstein 2013) by allowing individuals and organizations to benefit from practices that - in most cases - may be deemed illegal, a positive impact of the ability of states to control corruption, e.g. by promoting transparency, accountability and fairness can only be detected in Model 2 with control of corruption having a positive and statistically significant impact ($\beta = 0.363$, $p < 0.001$) on generalized social trust.

Turning to the impact of welfare state institutions, they are expected to have a significant impact on generalized social trust due to the fact that they are designed to provide social protection and support to those in need (Savage 2019; Celikay/Gumus 2017; Clemente et al. 2012). In studying the role of universal or means-tested social programs on the formation of trust, Rothstein and Uslaner (2005) argue that generalized trust is caused by two different, though interrelated, types of equality: economic equality and equality of opportunity. The authors identify three ways on how universal programs can increase trust. These programs are more redistributive than programs targeted to the poor and hence can increase economic equality. Furthermore, universal programs can increase the perception of a shared fate in society (Gelissen et al. 2012).

In order to empirically investigate the underlying dynamics of the impact of welfare states on generalized social trust during times of economic crisis, the estimation strategy provided in Table 5.1 aims at evaluating two interrelation arguments. One argument is that welfare state institutions can contribute to higher levels of generalized social trust by reducing economic inequality and providing social protections that create a sense of solidarity among individuals (Kanitsar 2022; Bergh/Bjørnskov 2014). According to this argument, the provision of social protections through welfare state institutions, depending on the type of welfare state, can create a shared sense of social responsibility, leading to a greater sense of social trust. The second argument, which is more strongly related to times of economic hardship, stresses the fact that the impact of welfare state institutions on social trust during times of economic crisis may also depend on the effectiveness and responsiveness of these institutions (Torcal 2014, Ezrow et al. 2020). If welfare state institutions are perceived as inefficient or unresponsive to the needs of individuals and society during times of crisis, this may lead to a decline in social trust (Torcal 2014).

Based on the estimations, the results suggest that social-democratic ($\beta = 0.336$, $p < 0.001$) and liberal ($\beta = 0.483$, $p < 0.001$) welfare states in particular are better suited to alleviate the negative impact of the economic crisis, although in the fully specified model, the impact of the social-democratic type is no longer statistically significant. This result is particularly interesting in view of the typically specified focus of welfare state efforts. Social-democratic welfare states are usually expected to have more comprehensive and generous welfare programs, including universal healthcare, education, and social security systems aimed at reducing income inequality (van Oorschot/Arts 2005).

During times of economic crisis, these programs can act as a safety net for individuals, helping to mitigate the impact of economic shocks and reduce economic hardship. Liberal welfare states on the other hand tend to have less comprehensive welfare programs but focus more on providing targeted support to individuals in need. During times of economic crisis, these programs can provide individuals with the support they need to avoid falling into poverty and financial hardship. In terms of the analysis, the findings suggest that during the economic and financial crisis, especially the latter, as demonstrated by the positive impact of welfare state effort in liberal welfare states can contribute to higher levels of social trust, as individuals feel that the state is working to alleviate their economic hardship and support their well-being (see also Vis et al. 2011). Although somewhat surprising, the overall finding can be supported by previously reported empirical evidence put forward by Kääriäinen/Lehtonen (2006: 37) who show, that liberal regime countries exhibit second largest levels of bridging social capital - which is conductive for the development of trust and reciprocity – surpassed only by Nordic countries.

5.2.2 *Determinants of Networks and Volunteering During and After the Crisis*

As far as the impact of the economic crisis on social networks and volunteering is concerned, the previously reviewed arguments highlighted, that as a result of economic and financial hardship, a decline of social networks can be expected due to increasing financial strain and insecurity, which in turn lead to participation and engagement in social and community networks becoming more costly (Iglič 2014: 8-10).

Especially if viewed from a resource-based perspective on participation and the potential of state institutions to maintain opportunities for participation in social networks and volunteering (see e.g. Verba et al. 1995), a macro-level impact of economic decline on social networks might result as a consequence of organizations reducing or eliminating volunteer positions due to funding cuts or even reduced demand for their services, resulting in a decline in volunteering rates and a reduction in the capacity of organizations to support their communities. On the other hand, some studies have also suggested, that the economic and financial crisis might have provided or created opportunities for the development of social networks and community organizations, in particular in response to the challenges posed by the crisis (Gundelach et al. 2010; Sotiropoulos/Bourikos 2014). This particular point can be demonstrated by more closely examining the case of Greece, where after the onset of the crisis "NGOs active in social solidarity started catering to newly impoverished Greek citizens seeking social services and basic consumer goods. In parallel, informal social networks and self- help groups emerged and became active in exchange and distribution of goods and services" (Sotiropoulos/Bourikos 2014: 33). In this line of reasoning, economic decline might have a positive impact if it results in new initiatives aimed at supporting their communities.

The results of the analysis presented in Table 5.2 suggest that, as far as the indicators of the overall state of the economy is concerned, a statistically significant negative impact can be shown for the change in interest rates ($\beta = -0.012$, $p < 0.05$), meaning that as far as the substantive interpretation is concerned, increasing interest rates lead to a decline of social networks and volunteering. Since increasing unemployment rates and the overall state of the economy as measured by GDP growth do not show any statistically significant impact, one of the conclusions that can be drawn from the results of the analysis is, that it is not primarily economic downturn being the driving force behind a structural decline of social network, but rather financial considerations. Increasing interest rates as a measure implemented by governments and central banks with the goal of stabilizing the economy (Farrell 2009; Kunze et al. 2014) might result in less disposable income for the funding of social networks on the one hand, but also in a decline of the number of citizens participating in social networks and volunteering activities, as they prioritize their financial stability and focus on reducing expenses.

Table 5.2: Determinants of Country-level Changes of Social Networks

	Model 1	Model 2	Model 3	Model 4
Economic Development				
GDP Growth rate	0.042			0.029
	(0.0532)	-	-	(0.058)
Δ Unemployment rates	0.012			0.009
	(0.012)	-	-	(0.012)
Δ Interest rates	-0.200***			-0.012*
	(0.024)	-	-	(0.006)
Functioning of State Inst.				
Control of corruption		0.042***		0.027*
	-	(0.008)	-	(0.013)
Δ Public service		-0.037		-0.024
expenditures	-	(0.085)	-	(0.022)
Welfare State				
Social-democratic			0.008	0.011
	-	-	(0.019)	(0.027)
Liberal			0.036***	0.062***
	-	-	(0.010)	(0.018)
CEE			0.012	0.042
	-	-	(0.013)	(0.028)
Δ Welfare effort			0.178***	0.202**
	-	-	(0.043)	(0.070)
Δ Gini			-0.007***	0.016
	-	-	(0.002)	(0.017)
Δ At-risk-of-poverty rate			-0.178***	-0.202***
	-	-	(0.043)	(0.020)
Constant	0.421***	0.434*	0.899	0.510
	(0.145)	(0.127)	(0.611)	(1.695)
N	156	180	180	156
Adjusted R^2	0.157	0.094	0.253	0.374

Source: Own table based on estimated linear regression model of social networks (ESS Data 2002-2016).
Notes: Cell entries are unstandardized regression coefficients with standard errors in parentheses.
Significance levels: *p<0.05, **p<0.01, ***p<0.001

With particular focus on the impact of state institutions on social networks, the analysis further suggests that the ability of governments to control corruption has a strong and statistically significant impact on social networks in the model that includes explanatory factors pertaining to the functioning of state institutions only (Model 2), while at the same time the effect is attenuated when including other explanatory factors, but still remains positive and statistically significant in the fully specified model 4 ($\beta = 0.027$, $p < 0.05$).

From the viewpoint of a macro-level interpretation, this suggests that the ability of governments states to uphold standards of control of corruption can result in the development of a strong institutional framework, as suggested by previous studies, where state institutions are better equipped to serve the needs of their society (Rothstein/Uslaner 2005, Rothstein 2013, Uslaner 2009). In addition, the positive impact on social networks can be explained in terms of a greater strength of social networks that are resistant to decline during times of economic hardship being the result of effective control of corruption measures creating an environment in which public institutions result in greater confidence in the system thus also strengthening the community's social networks.

Including welfare state types and welfare effort in the analysis further shows, that liberal welfare states have a positive impact on social networks during an economic crisis, which holds true for both, a simple model including explanatory factors focusing on welfare state types as well as the fully specified model ($\beta = 0.062$, $p < 0.01$), suggesting that welfare policies and programs implemented by these states can provide a cushion for social networks (van Oorschot/Arts 2005). Strikingly, contrary to expectations found in the literature, the analysis does not reveal any separate positive effect for social-democratic welfare states which are traditionally thought to be associated with higher levels of overall social capital as well as stronger networks and volunteering. Although surprising, this can be explained by considering the development trajectories of welfare state programs during the financial economic crisis and its aftershocks, especially when considering that "The liberal regime also went in another direction than expected, by preventing income inequality from rising more sharply and protecting employment at the expense of budgetary restraint" (Vis et al. 2011: 339).

This finding is particularly interesting in view of the long-standing debate in social capital literature dealing with the crowding-in and crowding-out hypothesis of the impact of welfare states on social capital. To summarize the perspectives briefly, the crowding-in hypothesis posits that welfare provision, through programs that foster social support and cohesion, such as unemployment benefits or healthcare, can strengthen social networks by providing a safety net that encourages individuals to invest more in community ties. Conversely, the crowding-out hypothesis suggests that extensive welfare provision may reduce the need for individuals to rely on social networks for support, potentially leading to a decline in social capital as people become less reliant on community connections (Akaeda 2021). The findings presented here suggest evidence for the crowding-in effect and fall in line with more nuanced interpretations focusing on government spending, which suggest that "the more governments spend on social protection, the more likely people within those countries are to have social and intimate contact" (Visser et al. 2018: 257).

Another possible explanation for this effect might be derived from the also included changes in at-risk-of-poverty rates, which show a strong negative and statistically significant impact ($\beta = -0.202$, $p < 0.001$). Compared to other types of welfare states, liberal welfare states tend to prioritize policies that promote social equity and community resilience (Brenzau 2010). By providing a safety net for individuals and promoting community-based initiatives that foster social inclusion during economic downturns, liberal welfare states can mitigate the negative effects of economic hardship on social networks (for further context see e.g. Hicks/Kenworthy 2003). This can prevent social isolation and promote community engagement. Furthermore, liberal welfare states tend to have a higher welfare effort (Olaskoaga et al. 2013), meaning that they allocate more resources towards social policies and programs, which during the economic and financial crisis included measures such as the expansion of volunteer income tax assistance, social investment funds and promoting and funding neighbourhood support networks.

5.2.3 Determinants of Social and Civic Norms During and After the Crisis

Now turning towards the examination of the impact of the economic and financial crisis on the civic-norms dimension of social capital, the analysis reveals compelling evidence supporting the hypothesis that social democratic welfare states have a positive effect on civic norms. Additionally, it demonstrates that welfare state effort is positively associated with civic norms, while an increase in the at-risk-of-poverty rate has a detrimental effect. Overall, compared to the previous analyses of the impact of the determinants on social networks and social trust, the presented findings complement these and are largely consistent, however in contrast with the previous results, the specific impact of the functioning of state institutions remains largely confined to the structures of welfare states.

The statistical analysis shown in Table 5.3 provides supporting evidence that social democratic welfare states have a positive impact on civic norms. In model 3, the regression coefficient is estimated at ($\beta = 0.077$, $p < 0.01$), indicating a positive relationship between social democratic welfare states and civic norms. This finding suggests that countries with social democratic welfare systems tend to exhibit higher levels of norms conductive towards civic engagement, trust, and participation (see also Rothstein 2001; Hjerm 2005). The positive impact observed is statistically significant, highlighting the robustness of the relationship. Further reinforcing this positive association, model 4 reveals an even larger regression coefficient of ($\beta = 0.150$, $p < 0.01$), indicating a more substantial positive effect of social democratic welfare states on civic norms. This coefficient is also statistically significant, providing further support for the argument that social democratic welfare states contribute to the development of strong civic norms within a society (Moon 1993).

Table 5.3: Determinants of Country-level Changes of Civic Norms

	Model 1	Model 2	Model 3	Model 4
Economic Development				
GDP Growth rate	0.202			0.213
	(0.150)	-	-	(0.177)
Δ Unemployment rates	0.039			0.046
	(0.034)	-	-	(0.035)
Δ Interest rates	-0.133			-0.252**
	(0.067)	-	-	(0.111)
Functioning of State Inst.				
Control of corruption		0.000		0.067
	-	(0.018)	-	(0.035)
Δ Public service		-0.025		-0.068
expenditures	-	(0.0191)	-	(0.064)
Welfare State				
Social-democratic			0.077**	0.150**
	-	-	(0.037)	(0.065)
Liberal			0.002	0.103
	-	-	(0.029)	(0.054)
CEE			0.006	0.048
	-	-	(0.038)	(0.085)
Δ Welfare effort			0.014*	0.157**
	-	-	(0.006)	(0.049)
Δ Gini			-0.092	0.214
	-	-	(0.128)	(0.219)
Δ At-risk-of-poverty rate			-0.138***	-0.284***
	-	-	(0.003)	(0.006)
Constant	1.315**	2.334***	1.645***	0.981
	(0.400)	(0.060)	(0.252)	(0.766)
N	156	180	180	156
Adjusted R^2	0.083	0.031	0.148	0.256

Source: Own table based on estimated linear regression model of social networks (ESS Data 2002-2016).
Notes: Cell entries are unstandardized regression coefficients with standard errors in parentheses.
Significance levels: *p<0.05, **p<0.01, ***p<0.001

Overall, the findings largely conform with theoretical expectations, especially considering that these welfare states prioritize the establishment of robust social safety nets (see e.g. Celikay/Gumus 2017; Clemente et al. 2012; Petmesidou/Guillén 2017). By offering unemployment benefits, healthcare systems, and social assistance programs, they provide a sense of security to citizens during economic downturns (Sora et al. 2014; Starke et al. 2013). This safety net ensures that individuals feel supported and protected by the state, leading them to maintain their engagement in civic activities and uphold civic norms. In addition, social democratic welfare states uphold a strong social contract between the state and its citizens (Starke et al. 2013). The provision of welfare benefits and social services is seen as a reciprocal arrangement, where citizens support the state through taxes and adherence to norms, while the state ensures their well-being and social protection. This mutual understanding and trust fostered by the social contract contribute to the preservation of civic norms, even during challenging economic circumstances.

In addition to the impact of social democratic welfare states, the analysis also demonstrates a positive relationship between welfare state effort and civic norms. In particular, with the corresponding effect coefficient in model 4 indicating a positive impact ($\beta = 0.157$, $p < 0.01$), the statistical results indicate that an increase in welfare state effort is associated with higher levels of civic norms. This finding suggests that countries that allocate more resources and efforts towards welfare programs and social services tend to foster stronger civic norms among their citizens.

Furthermore, the analysis reveals a negative impact of the at-risk-of-poverty rate on civic norms. An increase in this rate is associated with a decrease in the level of civic norms within a society ($\beta = -0.284$, $p < 0.001$). This finding suggests that higher rates of poverty and income inequality may undermine civic engagement, trust, and participation (see e.g. Verba et al. 1995). It implies that efforts to reduce poverty and ensure income equality are crucial for maintaining and promoting robust civic norms within a society (Cyrek 2019; de Mello 2000). This shows, that when poverty rates rise, individuals and communities face numerous challenges that hinder their participation in civic activities. Scarce resources and time constraints limit their ability to engage actively. The struggle to meet basic needs diverts attention away from civic involvement, eroding civic norms. Access to quality education and information is limited by poverty (Dika/Singh 2002; Bjørnskov/Meón 2013). Lack of education stifles civic knowledge, democratic values, and critical thinking skills (Strandbrink 2017). Additionally, restricted access to information sources hinders awareness of civic issues and opportunities for engagement. Such knowledge and information gaps contribute to reduced civic participation and adherence to civic norms (Dalton 2008).

5.2.4 Determinants of Social Capital During and After the Crisis

In the preceding sections, the specific components of social capital, namely generalized social trust, social networks, and civic norms have been thoroughly examined, along with the corresponding results of the macro-level analyses. Building upon this foundation, the attention of this section now turns towards to the analysis of overall social capital levels and their changes in the context of state institutions and economic developments during the economic crisis. By synthesizing the findings from previous sections, the analyses presented in table 5.4 below aims at providing a concise summary of the relationships between state institutions, economic conditions, and the broader construct of social capital. The overall measure of social capital was constructed based on a confirmatory factor analysis and is the latent variable comprising all three components of social capital as previously reported in figure 4.3. Through this integrated analysis, it is possible to examine how these factors collectively shape social capital dynamics and contribute to our knowledge of the dynamics of social capital during times of economic hardship.

Starting with the evaluation of the impact of economic development indicators on social capital changes, the results indicate that GDP growth rate exerts a positive influence on social capital, while a negative change in interest rates is associated with a decline in social capital (see e.g. Sarracino 2013; Whiteley 2000). With none of the previous models dealing with the impact of economic growth on the specific components of social capital, the results of model one ($\beta = 0.618$, $p < 0.001$) that show a statistically significant positive impact, this finding might suggest that the overall underlying dynamics are more complex when considering the latent construct of social capital, instead of dealing with its constituting components. At the same time, these finding does not seem to be robust against the inclusion of additional explanatory factors thus providing only limited evidence on the underlying reasoning that economic prosperity is conductive for the emergence and stability of social capital (Beugelsdijk et al. 2004, Beugelsdijk/van Schaik 2005b).

Table 5.4: Determinants of Country-level Changes of Social Capital

	Model 1	Model 2	Model 3	Model 4
Economic Development				
GDP Growth rate	0.618***			0.213
	(0.002)	-	-	(0.177)
Δ Unemployment rates	0.116			0.046
	(0.091)	-	-	(0.035)
Δ Interest rates	-0.981***			-0.252**
	(0.100)	-	-	(0.111)
Functioning of State Inst.				
Control of corruption		0.201***		0.067
	-	(0.034)	-	(0.035)
Δ Public service		0.006		-0.068
expenditures	-	(0.036)	-	(0.064)
Welfare State				
Social-democratic			0.245***	0.150**
	-	-	(0.051)	(0.065)
Liberal			0.279***	0.103
	-	-	(0.039)	(0.054)
CEE			0.276***	0.048
	-	-	(0.052)	(0.085)
Δ Welfare effort			0.032**	0.157**
	-	-	(0.009)	(0.054)
Δ Gini			-0.339***	-0.156***
	-	-	(0.044)	(0.071)
Δ At-risk-of-poverty rate			-0.005	0.450
	-	-	(0.178)	(0.266)
Constant	4.246***	2.334***	1.645***	0.765
	(0.595)	(0.060)	(0.252)	(0.930)
N	156	178	178	156
Adjusted R^2	0.229	0.171	0.182	0.357

Source: Own table based on estimated linear regression model of the overall latent dimension of social capital (ESS Data 2002-2016).
Notes: Cell entries are unstandardized regression coefficients with standard errors in parentheses. Significance levels: *p<0.05, **p<0.01, ***p<0.001

Conversely, the analysis also suggests a negative impact of the change in interest rates on social capital with the estimated coefficient being statistically highly significant in model 1 (β = -0.981, $p < 0.001$) and retaining its negative impact, although at a lower level of statistical significance in the fully specified model 4 (β = -0.252, $p < 0.01$). The negative impact of a change in interest rates on social capital can be explained by the financial strain and uncertainty it may introduce into individuals' lives (Skocpol 1996; Salamon and Sokolowski 2003; Gelissen et al. 2012). As suggested by previous research, a significant increase in interest rates can lead to higher borrowing costs, reduced consumer spending, and increased financial burdens on households (Chai et al. 2015). Such adverse economic conditions may erode trust, weaken social connections, and hinder civic engagement. The resulting financial stress and insecurity can diminish individuals' capacity to invest time and resources in social relationships and community activities, ultimately leading to a decline in social capital.

Turning towards the evaluation of the impact of state institutions on social capital, the results presented in the table above uncover a statistically significant impact of higher levels of control of corruption on the change of social capital during the economic and financial crisis, thus highlighting the critical role that effective governance and institutional integrity play in fostering social cohesion and trust within a society. With the associated effect coefficient showing a positive and statistically significant impact in model 2 ($\beta = 0.201$, $p < 0.001$) it can be argued, in line with the literature the capacity of state institutions to demonstrate a strong control of corruption might instil confidence among citizens that public resources are managed transparently and are conducting towards the provision of collective goods (see e.g. Rothstein/Uslaner 2005; Rothstein 2013; Uslaner 2009). This is particularly due to transparency and accountability contributing to a sense of fairness and equity, promoting trust and cooperation among individuals (Uslaner 2004; Rothstein/Uslaner 2005). Moreover, when corruption is effectively controlled, at the macro-level it reduces the perception of favouritism and unequal access to resources, which can undermine social capital by eroding trust in institutions and impeding civic participation (Grießhaber/Geys 2012). This finding emphasizes the importance of prioritizing and strengthening mechanisms to control corruption within state institutions and underscores the potential benefits of investing in anti-corruption measures, promoting transparency, and enhancing institutional accountability (Abed/Gupta 2002). By doing so, policymakers can foster an environment that nurtures social capital.

Examining the impact of welfare states on changes of social capital during times of economic hardship, the analysis reveals intriguing findings. Initially, when considering a statistical model (Model 2) that includes different types of welfare states as variables, it can be observed that all of the different types of welfare states are associated with positive changes in social capital during the economic and financial crisis. This suggests that welfare state interventions, regardless of their specific design, contribute to the strengthening of social capital amidst economic challenges. However, a more nuanced analysis in a separate model (Model 4) reveals that when other variables are taken into account, social-democratic welfare states exhibit a particularly robust ability to promote social capital with the corresponding effect coefficient showing a positive and statistically significant impact ($\beta = 0.150$, $p < 0.01$). This finding highlights the unique characteristics of social-democratic welfare systems, which emphasize universal access to social benefits, extensive public services, and active labour market policies (see e.g. Gundelach et al. 2010; Hemerijck et al. 2012).

Social-democratic welfare states' emphasis on reducing inequality, providing comprehensive social safety nets, and promoting equal opportunities (Hicks/Kenworthy 2003) therefore seems to play a crucial role in fostering social capital. By addressing socio-economic disparities and ensuring equal access to resources, these welfare states cultivate an environment of trust, solidarity, and cooperation among individuals. The provision of high-quality public services, such as education, healthcare, and social support, strengthens social connections, promotes civic engagement, and nurtures a sense of community.

In contrast, other types of welfare states may vary in their focus and strategies. For instance, conservative welfare states often prioritize targeting benefits to specific groups, emphasizing self-reliance and individual responsibility (Seeleib-Kaiser 2016). Liberal welfare states tend to emphasize market-driven solutions and individual choice in accessing social benefits (Mishra 1994). These variations in welfare state models can have differing impacts on social capital, with social-democratic welfare states displaying a particular advantage in generating positive social capital outcomes. This distinction underscores the importance of not only the presence of welfare state interventions but also their specific design and orientation. It suggests that welfare state policies emphasizing social solidarity, equal opportunity, and extensive public provision contribute significantly to the promotion of social capital during times of economic hardship. Recognizing the impact of welfare state models on social capital outcomes can inform policymakers in crafting effective social policies that strengthen social cohesion, trust, and the overall collective well-being.

5.3 Summary

The main focus of this chapter was empirical analysis of macro-level social capital and its changes as a function of key explanations related to the state of the economy, the functioning of state institutions and welfare states. Overall, the findings suggests that measures of economic development have a somewhat limited impact on changes of the macro-level social capital during the economic and financial crisis, except the notable exceptions of changes in interest rates, which were found to have a negative and statistically significant impact on social capital as well as increasing economic inequality which also shows a statistically significant negative impact, especially if estimating models that view social capital as a single underlying latent construct.

When examining determinants related to the functioning of state institutions, the findings further suggest that the "control of corruption" factor had a positive and statistically significant impact on social capital. This aligns with theoretical expectations, indicating that lower levels of corruption within a society can lead to higher levels of social capital (Rothstein 2013; Rothstein/Uslaner 2005; Rothstein/Stolle 2008b). This effect is particularly strong when examining one of the underlying first-order factors of social capital: social networks. At the macro-level this finding suggest that resource allocation plays a crucial role. To the extent to which corruption diverts resources away from productive and socially beneficial activities, in a society with strong control of corruption, resources are more likely to be allocated efficiently and equitably, leading to more opportunities for social participation. This, in turn, can also be expected to enhance social networks by reducing economic disparities and promoting social mobility.

With regard to the impact of different welfare state arrangements on macro-level social capital, the findings overall suggest that presence of an encompassing welfare state has a statistically significant positive impact on social capital (Stadelman-Steffen 2011; van Oorschot/Arts 2005). This is shown first, in terms of welfare state expenditure, where the main expectation being confirmed by the findings is that by welfare states funding programs that provide a safety net for citizens, such as unemployment benefits, healthcare, and social assistance, they reduce the risk of individuals and families falling into poverty during times of economic hardship (Visser et al. 2018). A more nuanced explanation also directly related to the impact of economic inequality: welfare state policies often aim to reduce income and wealth inequality by redistributing resources and providing support to vulnerable populations thus narrowing the wealth gap (Callan et al. 2010; Wright 2015). Reduced economic inequality is, in turn, associated with higher levels of trust and social cohesion within a society. When people perceive that the welfare system is fair and equitable, it can enhance their sense of social justice and strengthen social bonds.

6. Micro-level Variations of Social Capital and Multilevel Analyses

The main aim of this chapter is to evaluate hypotheses that are related to the impact of the crisis (or rather the related economic decline) and social capital. From the perspective of the previously discussed theoretical model (see figure 2.1), the empirical analysis and interpretation of the results relates primarily to the right-hand side of the overall model. Viewed from this perspective, the main basis for understanding changes in social capital at the individual-level are processes related to citizens attitudes towards the state of the economy and the performance of state institutions. The goal is to ascertain whether explanatory approaches related to the impact of economic developments, the welfare state and the performance of political institutional can help us to understand the effect of the economic crisis that emerged in 2008 on social capital. The crisis provides us with an extraordinary opportunity to test the impact of economic indicators on social capital patterns. In order to test whether economic grievances are indeed associated with higher or lower levels of social capital cumulative data from the European Social Survey (ESS 2002–2016) are used.

There is substantial anecdotal evidence suggesting that the economic crisis has precipitated a decline in social capital, particularly evident in Southern European countries hardest hit by economic distress and escalating unemployment rates. Demonstrators in Greece, Spain, Portugal, and Italy have taken to the streets to give voice to their frustration over the handling of the economic crisis by their respective governments (Kern 2015). The theoretical framework of Grievance theory offers valuable insights into the correlation between economic adversity and social capital (Gurney/Tierney 1982; Gurr 1972). According to the grievance model, grievances serve as potent catalysts for collective action, provided they are channelled into political demands (van Stekelenburg/Klandermans 2013; Wilkes 2004). Consequently, escalating levels of poverty and unemployment may precipitate social isolation and a potential decline in participation in social networks. The grievance model, however, transcends mere absolute hardship levels and encompasses the relative perception of deprivation (Klandermans et al. 2008). Relative deprivation denotes the perceived dissonance between actors' expectations regarding the attainable standard of living they are entitled to on the one hand and their perceived ability to obtain and maintain these standards on the other (Gurr 1972).

One of the main theoretical insights of such models is that individuals engage in comparisons between their present circumstances and various reference points such as their past experiences, anticipated future conditions, or the situation of comparable others, alongside normative standards like principles of social justice or equity norms (Klandermans et al. 2001; van Stekelenburg/Klandermans 2013). When such comparisons reveal a perceived disparity between what one believes they are entitled to and what they actually receive, a sense of relative deprivation is the result. Relative deprivation can stem from diverse factors including absolute or relative declines in social and economic advancement, disruptions in established community structures and belief systems, or a perceived governmental inability to maintain social order or implement necessary corrective measures (Gurr 1972). It is plausible to assume that economic crises exacerbate feelings of relative deprivation. The rapid onset and severe socio-economic repercussions of such crises often go in hand with "suddenly imposed grievances", which are expected to significantly fuel protest behaviour (Walsh 1981: 2). Within the European Union, the average unemployment rate surged from 6.7 percent in March 2008 to 8.9 percent in May 2009, leaving a staggering 21.5 million EU citizens unemployed. Escalating unemployment rates and heightened job insecurity can contribute to feelings of relative deprivation through two distinct pathways (Kelly/Breinlinger 1996; Klandermans et al. 2001, 2008; Runciman 1966; Kern 2015).

On one hand, individuals grappling with deteriorating job market conditions may experience individual relative deprivation, characterized by personal setbacks resulting from the economic crisis such as income loss, job insecurity, housing instability, and diminished social standing. This form of deprivation stems from an individual's comparison of their circumstances to a generalized standard, perceiving themselves as deprived relative to others. On the other hand, rising unemployment can also foster group or collective relative deprivation, wherein a social group perceives that its entitlements are unjustly limited compared to other groups. This collective sense of deprivation emerges when group members believe that societal dynamics hinder them from achieving their collective interests (Van Dyke/Soule 2002: 499). Collective relative deprivation tends to increase the propensity for various forms of political engagement, while individual relative deprivation primarily prompts individual responses (Kelly/Breinlinger 1996; Smith/Ortiz 2002).

6.1 Individual-level Economic Strain and Social Capital

This section includes the core of the empirical analyses and evaluates the impact of individual-level economic strain on individual-level social capital along the lines of the established differentiation of the aspects of social capital. Similar to the previous section, the analyses are conducted for each of the aspects of social capital separately. The empirical analyses rely mainly on individual-level models and proceed sequentially. Based on the discussed observations there are three main hypotheses that will be tested for each of the identified individual-level components of social capital.

Decreasing employment rates and a prevailing pessimistic economic outlook significantly influence individuals' perceptions of their societal resources and opportunities (Freitag/Kirchner 2011). When individuals perceive a scarcity of resources or opportunities, they may withdraw from social interactions, reducing their participation in community activities and social networking (Winkelmann 2009; Bianco et al. 2015; Freitag/Kirchner 2011). The related dynamics are expected to arise primarily due to psychological factors, such as feelings of relative deprivation, where individuals perceive themselves as disadvantaged compared to others, leading to frustration and disengagement from communal and civic activities (Gurr 1972). Viewed from the perspective of social capital generation, this withdrawal can be expected to hamper the formation of social connections and trust, vital for resource exchange, support, and opportunities within communities, perpetuating a cycle of diminishing social capital. The resulting hypothesis to be examined can be thus states as follows:

H1: Declining employment and a pessimistic perception of the economic situation both accentuate perceived differences in individual resources and opportunities, and thus inhibit the capability of citizens to participate fully in the social life that is crucial for the development of micro-level social capital.

Furthermore, the erosion of citizens' financial stability, characterized by factors such as income reduction and increasing indebtedness, can significantly hinder their ability to engage in social activities due to critical resource constraints crucial for the development of micro-level social capital. When individuals undergo financial strain, they are often confronted with reduced disposable income, constraining their capacity to take part in social gatherings, community functions, or other forms of social engagement conducive to fostering and sustaining social ties (Verba et al. 1995). In contrast with the previous perspective related to perceptions, this argument focuses primarily on the structural impact of resources. The scarcity of resources resulting from deteriorating financial conditions impedes individuals' involvement in social interactions, thereby impeding the accumulation of social capital necessary for accessing opportunities within their communities. Thus, the second hypothesis reads as follows:

H2: The deterioration of citizens' financial situation, such income loss and increasing indebtedness, inhibit the capability of citizens to participate socially due to a lack of resources that area also crucial for the development of micro-level social capital.

In addition, considering relative deprivation theory, the escalation of economic and financial inequality amplifies perceived differences in individuals' economic statuses and life prospects, consequently undermining the sense of fairness and equality crucial for fostering micro-level social capital. As economic disparities widen, individuals become increasingly aware of the unequal distribution of resources and opportunities within society, leading to heightened feelings of injustice and inequity (Kelly/Breinlinger 1996; Klandermans et al. 2001). These perceptions of unfairness can erode trust and collaboration among community members, as those who perceive themselves as disadvantaged may feel marginalized or resentful toward those deemed more privileged. The third hypothesis examines this aspect more closely:

H3: Increasing economic and financial inequality accentuates perceived differences in economic positions and individuals' life chances and thus negatively influences perceptions of fairness and equality that are both crucial for the development of micro-level social capital.

6.1.1 Economic Strain and Social Trust

Institutional economists, economic sociologists, political economists, and other scholars concerned with the social organization of economic life have consistently emphasized the critical role of trust and confidence in facilitating effective economic functioning (Skocpol et al. 2000; Knack/Keefer 1997; Costa/Kahn 2003b). Trust serves as a foundational element not only for individual exchanges but also for the broader socio-economic system (Andrews et al. 2014; Anderson/Mellor 2008). From an instrumental perspective, trust resources enhance economic efficiency by mitigating the transaction costs associated with economic interactions (Tonkiss 2009: 196; Coleman 2000; Berggren/Jordahl 2006: 144), under the assumption that individuals will adhere to established norms of economic behaviour.[13] While it is conceivable to engage in transactions without a foundation of trust, particularly in contexts characterized by rampant cheating, fraud, or corruption, the associated risks and costs are significantly higher compared to situations where individuals anticipate honest dealings (Rothstein 2000: 491-492). In formal economies, legal frameworks often codify trust relations; in the event of contractual breaches, legal recourse provides a means of redress (Kahan 2003).

However, resorting to legal mechanisms inevitably entails additional costs. Transaction expenses are minimized when economic transactions occur under implicit rather than explicit contracts, avoiding the need for complex legal frameworks for each agreement. This highlights the deeper significance of trust in economic life, as it relies on the implicit belief that others will uphold shared understandings of transactions and conform to societal norms. Trust plays a crucial role in mediating the risks inherent in socio-economic interactions (Keefer/Knack 2008: 706-709; Rothstein 2000). By reducing economic uncertainty and facilitating exchange relations, trust management contributes to macroeconomic efficiency and enhances efficiency within individual transactions. Thus, trust serves a dual purpose as both a social value and an economic asset, bridging social arrangements with economic outcomes (Ostrom/Ahn 2009; Berggren/Jordahl 2006).

Numerous scholars have explored the underlying relationships between social trust and economic prosperity in more detail, yielding a consensus on the positive correlation between trust levels and national wealth (see e.g. Kahan 2003; Knack 2003; Olivera 2015). Individuals residing in affluent economies exhibit higher levels of trust, both in interpersonal social relations as well as in economic and political institutions, a phenomenon referred to as systemic trust. Trust emerges as a critical determinant of economic well-being across a spectrum of economic conditions, playing pivotal roles in transitional and developed economies alike

[13] This argument is primarily related to theories of cooperation, in which the proposition is that trust facilitates economic exchange due to its function in reducing transaction costs (Fukuyama 1995: 26-27). In demonstrating the inner workings of the impact of trust, Coleman (1998) draws on the example of diamond traders of Antwerp, where personal relations and informal norms play a pivotal role in ensuring the smooth functioning of transactions. These traders rely on trust-based networks to enforce agreements and resolve disputes without formal legal mechanisms, thereby reducing transaction costs and fostering economic efficiency within the community.

(Uslaner 2010; Zak/Knack 2001). Notably, research indicates that the distribution of wealth, rather than merely its abundance, is closely linked to trust levels, with lower income inequality associated with higher levels of trust. As has been discussed previously, this argument is mainly suggested by Knack and Keefer (1997: 1251) who observe that "(...) trust and civic norms are stronger in nations with higher and more equal incomes." Building on this, Delhey and Newton (2005: 318) underscore the importance of economic factors, suggesting that income plays a pivotal role in fostering trust. Empirical evidence from the European Social Survey reported in the literature corroborates these findings, revealing that respondents in wealthier nations consistently report elevated levels of interpersonal and systemic trust. For instance, Finland and Denmark exhibit the highest levels of systemic trust, whereas transitional economies such as Poland, Hungary, and the Czech Republic, characterized by relatively lower GDP per capita, demonstrate the lowest levels of systemic trust in Europe (Delhey/Newton 2005; see also Delhey et al. 2011).

In response to the limitations of macro-level analyses in explicating the causal relationship between economic development and social capital, scholars have turned their attention to micro-level mechanisms. Notably, Brehm and Rahn (1997) in their analysis of trust argue that "scarcity increases the risks of misplaced trust, so hard economic times may lead people to be less generous in their views of others, who may instead be viewed as competitors. When society's rewards become more inequitably distributed, people may begin to feel exploited by others, thus diminishing their faith in their fellow citizens" (Brehm/Rahn 1997: 1009). Additionally, Kaasa and Parts (2008: 149) note that unemployment diminishes individuals' engagement in voluntary organizations, as it significantly shapes their opportunities and incentives for participation (see also Christoforou 2005: 13-16). Consequently, this decline in participation may cause a loss of trust both in fellow citizens and in the society at large (Stolle 1998: 502-504; Botzen 2015). Botzen further argues that individuals with better economic standing are more inclined to participate in civic activities due to factors such as time availability, financial security, and access to social networks (Botzen 2015; see also Putnam 2000). While there exists extensive literature on the relationship between individual economic conditions and social trust, a comparable examination of their impact on civic norms remains largely unexplored.

6.1.2 Results: Economic Crisis and Changes of Generalized Social Trust

Communities can be confronted with various shocks, including economic crises causing unemployment and diminished economic opportunities, the construction or closure of nuclear power plants, natural disasters, and infrastructural projects altering daily life. Responses to these shocks may vary. While some communities experience an increase in social capital and an enhancement of living standards following a shock (Couch/Kroll-Smith 1994), others witness a decline in social cohesion and overall quality of life, particularly when the event exacerbates existing social divisions and conflicts. Collective threats often prompt communities to unite, fostering the development of community networks, interpersonal assistance, and cooperative efforts to address challenges and mobilize resources. However, shocks can also strain social ties and diminish quality of life by fuelling social divisions and tensions within the community (see e.g. Freudenburg/Jones 1991). The response of a community to a shock is largely determined by how residents interpret the event while managing its aftermath. Impacts of crisis on social capital that can be expected to erode its existence and availability occur when the benefits, costs, and risks associated with the shock are unevenly distributed, and when the management process reinforces differences in residents' values and social status (Besser et al. 2008).

Despite inducing economic uncertainty at the individual level, an economic crisis can have varying effects on social capital, often leading to its degradation. Numerous studies investigating the determinants of generalized trust have found that lower GDP, particularly when accompanied by reduced social welfare, impedes trust formation, as trust is perceived as a 'luxury' not accessible to all (Knack/Keefer 1997; Zak/Knack 2001; Beugelsdijk et al. 2004; Steijn/Lancee 2011). Especially individuals with limited resources face greater challenges in recovering from potential breaches of trust, leading to heightened caution in trusting others. Moreover, social inequality, exacerbated during economic crises, is associated with opportunism and disregard for others, fostering a general climate of distrust. Conversely, greater equality and material well-being foster optimism and the belief that social interactions can create opportunities, while inequality and resource scarcity undermine this perception (Knack/Zak 2002; Uslaner 2002; Rothstein/Uslaner 2005; Uslaner/Brown 2005; Berggren/Jordahl 2006; Leigh 2006; Bjørnskov 2007; Gustavsson/Jordahl 2008).

In contrast to the aforementioned studies, Searing (2013) conducted an analysis of the social repercussions of the recession in Latin American states and discovered a positive correlation between the economic downturn and social capital. She observed that the prolonged duration of the recession corresponded with an increase in social capital, although significant shocks such as steep declines in GDP slowed this growth (Searing 2013: 74-75). One key driver behind the rise in social capital during economic crises was institutional trust, reflecting a favourable appraisal of how elites managed the crisis situation: "the existence of trust between individual or institutional actors reduces the amount of fact-finding that one must regarding history of a potential economic partner, thus reducing transactions costs and facilitating economic activity" (Searing 2013: 69). The quality of political institutions, particularly the extent to which the rule of law is upheld, the absence of corruption among public officials, and the level of democratic development, foster generalized trust by signalling the trustworthiness of politicians, their commitment to universalistic norms, and their concern for the well-being of the overall society and its members (Rothstein 2001; Iglič 2014; Delhey/Newton 2005).

In addition to institutional trust, the fluctuations of social capital during an economic crisis are influenced by positive and negative feedback loops, acting as mechanisms for perpetuating inequality in social capital (Bourdieu 1983; Lin 2000). When confronted with a shock, communities with initially low levels of social capital are more prone to unequal distribution of the shock's costs thus further pushing along social divisions, both of which further diminish social capital. As a result, residents of communities with high initial levels of social capital tend to respond to shocks by striving for equitable distribution of costs and fostering cooperation across social divisions. In such cases, the experience of the shock can bolster the community's social capital. A study by Helliwell and Huang (2014) examining national responses to the 2008 crisis among OECD countries revealed that high levels of social capital influenced countries' ability to navigate the crisis in a manner that reinforced their social capital, leading to increased satisfaction among the general population (see also Clark/Lisowski 2018; Rodríguez-Pose/Berlepsch 2014).

As a part of the individual-level analysis it is important to determine to what extent individual-level perceptions of the overall economic situation as well as the perceived inequality impact upon the capacity of people to trust each other. To achieve this goal, several measures of such perceptions are available in the ESS 2002-2016 cumulative dataset that will be used in the following analysis. Among crucial determinants relating to the perceptions of the state of the economy that are regularly included in the European Social Survey and can be used in estimating over time developments are variables reported in table 6.1.

There are of course some limitations in using these variables, it is nevertheless reasonable to assume that they correspond to different aspects of the evaluation of the economy. For the general state of the real economy the variable "stfeco" can be used, which indicates to what extent respondents tend to report to be satisfied with the overall state of a country's economy. The expected effect on generalized social trust here is positive, i.e. a higher satisfaction should correspond with higher levels of social trust (Zak/Knack 2001). As far as the crisis of the financial economy is concerned an adequate representation of citizens perceptions can be accomplished by including two separate variables that tap into this dimension.

Table 6.1: Overview of Individual-level Variables Measuring Citizens Perceptions of the State of the Economy and Expected Effects (ESS 2002-2016)

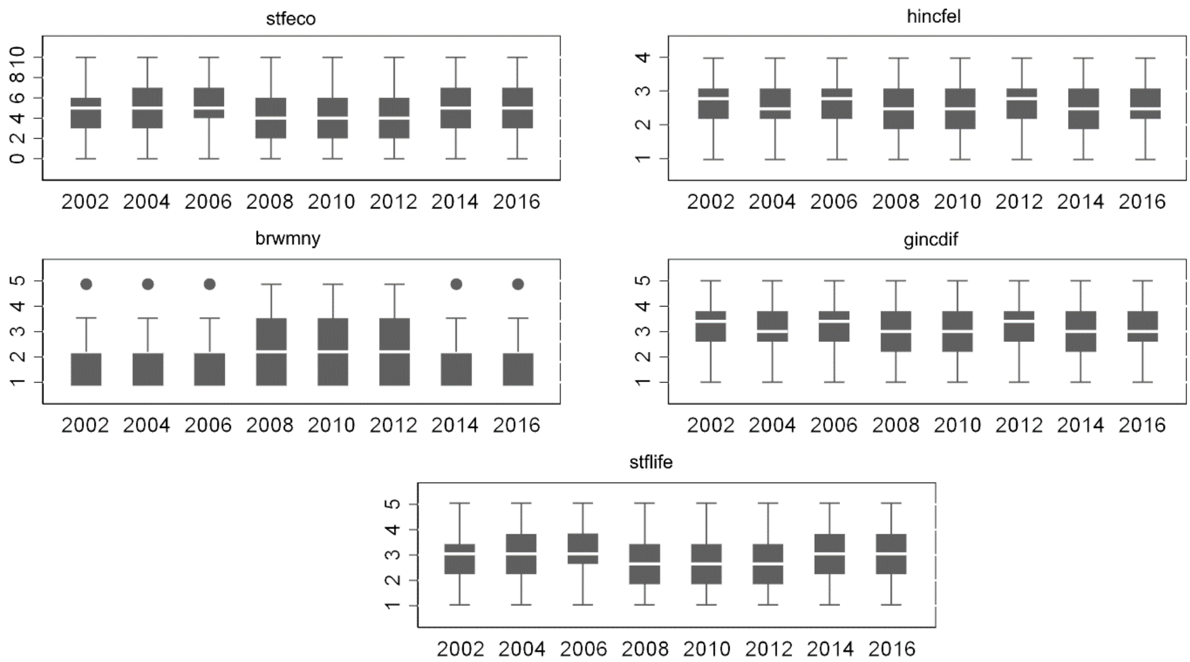
Independent Variable	Operationalisation	Expected Effect
stfeco	Satisfaction with the present state of the economy in a given country	+
hincfel	Feelings about household´s income nowadays	+
brwmny	Need to borrow money to make ends meet is difficult or easy for the respondent	-
gincdif	Government should reduce differences in income levels	-
stflife	Satisfaction with life as a whole	+

Source: Own table based on the data and codebook of the ESS-Dataset.
Notes: The table includes information on the variables regarding individual-level perception of economic conditions, the corresponding operationalization and the expected effect based on theoretical considerations.

On one hand, there is an expected association between higher levels of satisfaction with household income and elevated levels of social capital, as evidenced in previous studies (see e.g. Steijn/Lancee 2011). On the other hand, an increased frequency of respondents reporting the need to borrow money to meet expenses is likely correlated with lower levels of generalized social trust. Additionally, perceived economic inequality plays a crucial role in shaping these perceptions (see e.g. Wright 2015; Bergh/Bjørnskov 2014; Evans et al. 2019). However, in the European Social Survey, there is only an indirect question that can be used to represent this dimension, namely the question to what extent respondents tend to think that the government should reduce differences in income levels. To further capture the subjective dimension of individual well-being during times of economic hardship and its potential influence on social trust, an additional variable measuring the "satisfaction with life as a whole" is included, as overall life satisfaction may reflect broader evaluations of personal and societal circumstances that are closely tied to trust in others.

Before using these variables in an empirical estimation, it has been made sure, that each of the included economic variables accounts for a unique share of the overall variance. As can be expected some of the included explanatory factors are related to each other. The strongest (but still rather weak) correlation persists between the reported need to borrow money and the overall feelings about a household's income ($r = -0.4263$, $p < 0.001$). The reported need to borrow money also correlates with the self-reported overall life satisfaction (-0.2385, $p < 0.001$). The relationships between all the other included factors are statistically significant, but do not cross the 0.2 threshold and can thus be interpreted as weak correlations.

Figure 6.1: Descriptive Overview of Individual-level Perceptions of Economy over Time (2002-2016)



Source: Own estimation based on ESS-Data 2002-2016.
Notes: Figure is a representation of the individual-level variation of the variables over time described in table 6.1.

In order to understand the overall expectations and the actual empirical dynamics of the included variables, it is most useful to actually look at their changes over time. If therefore the expectation outlined in table 6.1 suggest that there is a positive relationship between the satisfaction with the present state of the economy and generalized social trust, a decline of such satisfaction can be reasonably expected to lead to a decline of social trust in times of crisis (see e.g. Francois/Zabojnik 2005; Hanan 2012; Iglič 2014). As can be seen in figure 6.1 above, for some of the included variables, there indeed is a decline beginning with the onset of the economic crisis in 2008 that extends even as far as 2012, and in case of the need for government to reduce income inequality even further beyond. Also, there is – as could be expected – a increased reported need to borrow money this indicating substantial financial strain on the respondent's households between 2002-2012.

The proposed hypotheses consider the question, which individuals are most likely to be report higher or lower levels of social capital in conjunction with economic variables. At the individual-level, with particular focus of citizen perceptions, the first hypotheses would suggest that citizens with a pessimistic view of the economic situation will tend to report lower levels of generalized social trust. Furthermore, among citizens that report a bad or worsening financial situation (H2) and report that they tend to think that income inequality has become a more pressing matter (H3) we can expect to find lover levels of generalized social trust. The analysis begins by analysing these relations in more detail in a linear regression analysis presented in table 6.2 below. As a useful starting point for determining the impact of the outlined variables, they are firstly considered on their own, and then in a summarizing model containing each of the proposed variables. All of the models include a number of control variables that have been previously reported to be relevant for controlling the impact of economic perceptions of individual-level social capital, name age, gender and education (Collier 2002; Musso/Weare 2015; Uslaner 2008).

Model 1 puts forward the idea that individuals with a higher reported satisfaction with the overall state of a country's economy also will tend to display higher levels of generalized social trust. As expected, the coefficient for this variable ($\beta = 0.279$, $p < 0.001$) confirms the expectation, which in turn also means that individuals that report a lower satisfaction will tend to also express less trust in others. The explanatory power of this variable is, with a share of 11.6% of explained variance, also quite considerable. The second model turns attention towards the state of the financial economy and the corresponding individual perceptions. Here too, both effects align with expectations, with perceived household income showing a generally stronger influence ($\beta = 0.428$, $p < 0.001$). Model 3 then takes into account perceptions of economic inequality as indicated by the necessity for state action in reducing income inequality. The corresponding effect is statistically highly significant (β = -0.223, $p < 0.001$) and corresponds with the expectations put forward.

Table 6.2: Regression Analysis of Micro-Level Generalized Social Trust and the Impact of The Economic Crisis

Predictors	Models							
	Model 1	VIF	Model 2	VIF	Model 3	VIF	Model 4	VIF
Satisfaction with economy (stfeco)	0.279^{***} (0.002)	1.00					0.229^{***} (0.003)	1.47
Perceived household income (hincfel)			0.428^{***} (0.004)	1.22			0.208^{***} (0.007)	1.42
Need to borrow money (brwmny)			-0.384^{***} (0.004)	1.18			-0.144^{***} (0.005)	1.34
Need for reducing income inequality (gincdif)					-0.223^{***} (0.005)	1.36	-0.058^{***} (0.005)	1.26
Overall life satisfaction (stflife)					0.321^{***} (0.013)	1.25	0.154^{***} (0.003)	1.09
N	324610		324613		315753		315753	
R^2	11.64		13.69		8.77		16.39	

Source: Own table and own estimation based on the ESS (2002-2016) dataset.
Notes: Cell entries are standardised regression coefficients, standard errors (SE), and model performance statistics from linear regression analysis using generalized social trust as dependent variable. In order to control for potential multicollinearity the variance inflation coefficient (VIF) ist reported for all the estimates. All models include age, gender and education as control variables; *$p < 0.05$., **$p < 0.01$, ***$p < 0.001$.

With particular focus on the model that summarizes the findings and comparing the effects of the included variables, two main observations can be made. First, the statistical significance of all of the included variables remains unchanged and the overall explanatory power of the economic model in terms of citizen's self-reported generalized social trust is substantial. Second, as indicated by the variance inflation factor that ranges from 1 upwards and showing the percentage share of variance that is inflated for each coefficient, it can be said, that multicollinearity is not problem, and the regression results are reliable.

6.1.3 Economic Strain and Social Networks

The next step in the analysis involves observation of the self-reported engagement in social networks. The primary challenge in establishing a connection between individual economic perceptions and involvement in social networks lies in understanding the dynamics of social network evolution over time. Putnam's work highlights the collective benefit nature of norms and networks, emphasizing that they "increase with use and diminish with disuse" (Putnam 1993: 170). Social bonds weaken if not nurtured, and norms rely on ongoing communication and interaction among individuals and groups. Trust, frequently cited as the most important facet of social capital in various studies, facilitates cooperation, since it "lubricates cooperation. The greater the level of trust within a community the greater the likelihood of cooperation. And cooperation itself breeds trust" (Putnam 1993: 171).

Thus, the generation and erosion of social capital are characterized by cycles of virtuous and vicious cycles. However, such a perspective alone fails to comprehensively shed light on the emergence or dissolution of norms and networks; it overlooks additional factors beyond feedback loops or path dependency mechanisms that influence the accumulation of social capital. Such a perspective gains prominence in the scholarship of Levi (1996), who highlights the role of governments: trust in governmental institutions is pivotal in fostering generalized interpersonal trust and mitigating the detrimental impacts of self-serving organizations. This is achieved through the establishment of rules and institutions that ensure transparency, fairness, and credibility among government actors. Empirical findings by Rothstein and Stolle (2001) corroborate the positive and statistically significant influence of the institutional impartiality of government officials on generalized trust.

Others, exemplified by Glaeser and his collaborators (2000), emphasize the significance of individual attributes such as income and education in shaping the reservoir of social capital that individuals invest in to gain influence, social standing, and access to networks. Empirical studies validate the impact of individual characteristics on group affiliation (e.g. Glaeser et al. 2000; Costa/Kahn 2003b). As has been previously discussed the expected causal mechanism relies on higher levels of income and education correlating with an increased likelihood of group membership and interpersonal trust among individuals. This suggests that not all individuals may have equal access to the social capital available in a society, due to factors such as low income or other attributes that contribute to social exclusion and impede their inclination to cooperate (see also Deakin 2006).

Income distribution and poverty are regarded as crucial factors in this context, with relatively high-income inequality and elevated poverty rates being related to diminishing individual incentives for cooperation and collective action (see e.g. Knack 1999). This perspective suggests that such conditions exert a negative influence on social capital, not solely due to absolute poverty, which impairs individuals' physical capacity to engage as social actors within groups (for a related argument see Verba et al. 1995), but also because of relative poverty. Relative poverty heightens feelings of discrimination and injustice, fostering distrust towards individuals, collective endeavours, and society as a whole (see e.g. Giugni/Grasso 2016; Gurney/Tierney 1982).

An important consideration in this regard that deserves mention revolves around the potential of state-society collaboration to foster the accumulation of social capital and promote equitable growth, even amidst significant social divergence and conflict. Fine (2001), an economist critical of the social capital concept, contends that addressing social capital necessitates an understanding of the context of conflict and power relations in which social capital emerges. He expresses scepticism regarding whether the prevailing notions of social capital, characterized by widespread trust and civic engagement, can surmount conditions of conflict and power dynamics, and withstand the influence of social group exclusion.

A response to such scepticism is proposed by Heller (1996), who contends that the collaboration between the state and society fosters the development of institutional structures and political mechanisms necessary for negotiating group compromises, essential for reconciling redistribution efforts with economic growth. He acknowledges that "not all collective action is conducive to developmentally useful forms of state intervention" (Heller 1996: 1057). He highlights the influence of communal politics, which prioritize particularistic interests and foster patronage dynamics, hindering positive-sum agreements. However, he notes that unique characteristic of states or communities might play a role in understanding the shift from fragmented societal demands to more comprehensive and programmatic demands, fostering transformative projects associated with development, particularly those aimed at redistribution (Heller 1996: 1057).

In line with the previously proposed hypotheses, the overall expected impact of the citizen's perceptions of the state of the economy, income and income inequality remains the same as with generalized social trust. The results of these analysis are shown in Table 6.3. In comparison to the analysis of generalized social trust, the main finding that deserves particular attention is the fact that the explanatory power of the model is slightly lower with 13,7 percent of explained variance as indicated by R^2.

Table 6.3: Regression Analysis of Micro-Level Social Networks and the Impact of The Economic Crisis

Predictors	Models							
	Model 1	VIF	Model 2	VIF	Model 3	VIF	Model 4	VIF
Satisfaction with economy (stfeco)	0.019*** (0.000)	1.00					0.010*** (0.003)	1.49
Perceived household income (hincfel)			0.049*** (0.002)	1.24			0.034*** (0.001)	1.42
Need to borrow money (brwmny)			-0.023*** (0.003)	1.20			-0.019*** (0.001)	1.34
Need for reducing income inequality (gincdif)					-0.012*** (0.005)	1.03	-0.004*** (0.001)	1.28
Overall life satisfaction (stflife)					0.020*** (0.013)	1.00	0.026*** (0.005)	1.09
Intercept	0.068*** (0.001)		0.183*** (0.004)		0.126*** (0.002)		0.071*** (0.001)	
N	321430		320869		315753		314753	
R^2	7.22		3.08		8.6		13.73	

Source: Own table and own estimation based on the ESS (2002-2016) dataset.
Notes: Cell entries are standardised regression coefficients, standard errors (SE), and model performance statistics from linear regression analysis using social networks as dependent variable. In order to control for potential multicollinearity the variance inflation coefficient (VIF) ist reported for all the estimates. All models include age, gender and education as control variables; *p < 0.05., **p < 0.01, ***p < 0.001.

Furthermore, the impact of the individual variables included in the model, although all statistically significant have an overall lower impact. Since the overall interpretation is largely similar to the findings discussed with regard to the analysis of generalized social trust, focusing on the summarizing Model 4, the results show that higher levels of reported satisfaction with the economy, a better-perceived state of household income, and greater overall life satisfaction are all positively associated with increased network engagement. This finding aligns with theoretical expectations derived from social and political participation theories, which propose that individuals who feel economically secure and satisfied with their overall circumstances are more likely to engage in social networks and community activities (see e.g. Verba et al. 1995; Magee 2008; Musso/Weare 2015). Since the regression model includes linear effects only, this also means that lower levels of the reported variables mean a lower overall participation in social networks confirming the underlying theoretical expectations. In a similar vein, the same holds true for the indicator of household income and income inequality. Increasing financial strain goes in hand with lower reported social networks engagement as well as stronger perceptions of need for government action in terms of reducing income inequality.

6.1.4 Economic Strain and Civic Norms

During periods of crisis, the decline in living standards becomes pervasive across a significant portion of the population, accompanied by a sense of pessimism and disillusionment regarding the future. In the years following the onset of the financial and economic crisis 2008, numerous research studies have highlighted the individual ramifications of this phenomenon and its adverse effects on people's well-being. For instance, it has been associated with self-rated health deterioration (Zavras et al. 2013), unhappiness (Gudmundsdottir 2013) as well as anxiety (Rodriguez et al. 2023). Despite these psychological consequences, there has been limited exploration into the influence of the recent economic crisis on various civic attitudes, such as solidarity and tolerance. Moreover, the existing empirical evidence in this domain is insufficient, considering prior literature that has underscored the potential for economic deprivation to contribute to significant anti-democratic outcomes in public opinion, impacting political attitudes and participation (e.g. Bermeo 2003).

During times of crisis, the proliferation of negative attitudes can significantly destabilize the social order and stability of countries, especially those already under considerable strain due to economic challenges starting with the onset of the crisis in 2008. Prior research indicates that crises are particularly prone to generating frustration when they abruptly follow an extended period of stability or prosperity, during which individuals internalize high expectations regarding their economic future (Davies 1962). Hence, the analysis presented here seeks to assess the civic repercussions of the recent crisis within the context of European countries, where a prolonged period of economic expansion preceded the onset of the economic downturn.

The nexus between economic growth and social as well as democratic advancement has long been a focal point in social research. Numerous studies underscore that economic growth, as measured by GDP, yields benefits that extend beyond mere material prosperity. According to this perspective, its ramifications do not merely enhance living standards for a substantial portion of the population, but also exert a positive influence on civic attitudes. Rapid and substantial economic growth, inclusive of a broad spectrum of citizens, is posited as a means to counteract the erosion of a country's social and civil fabric (Friedman 2005).

If viewed from this perspective, there are studies that have provided substantive evidence supporting this view. The expected positive correlation between economic prosperity and civic engagement can be traced back to discussions on economic development as a foundational element for participatory and democratic societies (Lipset 1959, Smith 1972). Specifically, within the context of the onset of democratization processes, the classical modernization thesis (Lipset, 2003) highlights that democracy and active citizenship are fostered by economic advancement, to the extent that it is contended that dictatorships struggle to endure politically amidst high economic growth (Dahl 2008: 78).

The positive civic ramifications of economic growth are expected to occur, because economic growth "fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness, and dedication to democracy" (Friedman 2005: 4). Understandably, as societal economic prosperity and existential security elevate, individuals undergo shifts in their daily experiences, prioritizing objectives such as freedom of expression and social tolerance that were previously relegated (Welzel/Inglehart 2005). Amidst growth phases, the proliferation of job opportunities mitigates labour market competition, fostering more tolerant attitudes among individuals (Kehrberg 2007). Moreover, numerous studies underscore a positive correlation between GDP per capita and social trust (Knack/Keefer 1997, Zak/Knack 2001, Delhey/Newton 2005). This relationship is often attributed to the idea that higher GDP per capita reflects greater economic stability and wealth distribution, which can foster a sense of security and fairness within society (Alesina/Ferrara 2000). These conditions are believed to reduce competition for scarce resources and promote cooperative norms, thereby enhancing social trust.

The cyclical nature of economic events can lead to both positive and negative outcomes. Prior research underscores the significance of examining the potential influence of severe economic occurrences, such as crises and recessions, on public sentiment. Drawing parallels to the Great Depression of the early 1930s, scholars have characterized macroeconomic shocks as "beliefs-twisting events" (Cogley/Sargent 2008), suggesting that economic crises exert enduring effects on attitudes, fostering long-term pessimism (Friedman/Schwartz 1963), with individuals who endure greater hardships during such periods experiencing slightly more pronounced effects on their outlook.

Economic growth is often associated with increased optimism, openness, tolerance, and democratic values. Conversely, economic downturns can negatively impact the civic culture of a community. Numerous studies have explored the civic and democratic repercussions of sudden and unexpected economic declines, such as those precipitated by economic crises. These studies highlight that public reactions to economic crises can be profound and far-reaching

(Lindvall 2012). During times of crisis, there is a risk of democratic erosion, with potential for widespread disillusionment with democratic processes (Bermeo 2003), and retrospective voting patterns could lead to significant electoral and political shifts (Achen/Bartels 2005). Research on political attitudes confirms that macroeconomic events can influence trust in political institutions and incumbent governments, potentially fuelling anti-democratic sentiments (McAllister 1999; Mishler/Rose 2001), thus underscoring the importance of economic stability for democratic governance (Armingeon/Guthmann 2014). Furthermore, historical analyses suggest a direct link between the legitimacy crisis of capitalism, triggered by the global economic depression of 1929, and the rise of totalitarian regimes preceding the Second World War (Rothermund 2002).

Simultaneously, alongside the potential decline in political legitimacy, economic crises may also pose risks to the broader civic culture (Friedman 2005). The loss of social capital, encompassing aspects of social cohesion and community solidarity, is highlighted as a consequence of deteriorating economic conditions. For instance, longitudinal research by Besser et al. (2008), conducted across nearly 100 small towns, illustrates the detrimental effects of even minor economic shocks on residents' quality of life and social capital. Similarly, another study indicates that during recent economic downturns, there is a tendency for bridging social networks (e.g., neighbours, co-workers) to weaken, while bonding networks (e.g., family and close friends) may be strengthened (Iglič 2014). This shift towards increased trust within familial networks coincides with a decline in generalized trust, providing crucial social support amidst uncertainty and distress (Iglič 2014). This finding underscores the significance of material security in fostering bridging social capital. Ultimately, communities and nations endowed with robust social capital and trust are better equipped to navigate crises and transitions with resilience and efficacy (Helliwell/Huang 2014).

The analysis in a linear regression model confirms that relationships are in line with the overall theoretical reasoning, however as a somewhat surprising result, the financial crisis as indicated by the self-reported need to borrow money does not have any statistically significant impact. Considering this variable separately (Table 6.4, Model 2) in conjunction with the perceived household income shows that this finding remains the same. Only when estimating a model (not reported in the table) that includes this variable only in a bivariate relationship with civic norms, the corresponding negative effects becomes statistically significant. As for the overall model fit, the explanatory power is rather poor and economic variables improve the model fit only marginally as indicated by an 4.74 percent of explained variance. In this analysis, there is some evidence that points towards the confirmation of the proposed hypotheses, i.e. economic strain in terms of the real and financial economic situation indeed causes a decline of civic norms, the overall impact however is rather limited, especially when compared to the previous analyses of generalized social trust and social networks.

Table 6.4: Regression Analysis of Micro-Level Civic Norms and the Impact of The Economic Crisis

Predictors	Models							
	Model 1	VIF	Model 2	VIF	Model 3	VIF	Model 4	VIF
Satisfaction with economy	0.014^{***}	1.00					0.062^{***}	1.47
(stfeco)	(0.001)						(0.011)	
Perceived household income			0.076^{***}	1.22			0.052^{***}	1.42
(hincfel)			(0.002)				(0.003)	
Need to borrow money			-0.005	1.19			-0.004	1.33
(brwmny)			(0.004)				(0.027)	
Need for reducing income					-0.052^{***}	1.03	-0.058^{***}	1.26
inequality (gincdif)					(0.002)		(0.003)	
Overall life satisfaction					0.051^{***}	1.01	0.040^{***}	1.09
(stflife)					(0.001)		(0.001)	
Intercept	4.552^{***}		4.749^{***}		4.374^{***}		4.597^{***}	
	(0.004)		(0.011)		(0.007)		(0.016)	
N	318968		318754		318925		314569	
R^2	1.13		2.31		3.22		4.74	

Source: Own table and own estimation based on the ESS (2002-2016) dataset.
Notes: Cell entries are standardised regression coefficients, standard errors (SE), and model performance statistics from linear regression analysis using civic norms as dependent variable. In order to control for potential multicollinearity, the variance inflation coefficient (VIF) is reported for all the estimates. All models include age, gender and education as control variables; $^*p < 0.05.$, $^{**}p < 0.01$, $^{***}p < 0.001$

6.2 Individual-level Economic Strain, Welfare State Support and Confidence

In order to evaluate the two main connections between self-rated perception of economic conditions and perceptions of economic strain, the theoretical section proposes the idea, that in times of economic crisis, people become more reliant on welfare state provisions and the way states cope with the crisis influence their attitudes towards political institutions. Both of these factors are proposed and have been empirically shown in the literature to be important determinants of individual-level social capital (see e.g. Kääriäinen/Lehtonen 2006). The central question here is whether solidarity organised by the state is supplanting the solidarity created within family networks, local communities and civil society organizations.

According to the communitarian argument discussed in the theoretical section and in line with the "crowding-out" hypothesis of social capital generation, the development of the welfare state caused personal responsibility to be replaced by social responsibility which greatly weakened the role of intermediary organizational and communal social structures. In short, when social obligations become public, citizens refer their needs for help to the state instead of to their co-citizens, which makes social bonds and networks lose their meaning, and isolated individuals, who no longer need each other, lose their ability for self-organisation, moral sense of responsibility for the community in which they live, and capacity to place trust in each other (Van Oorschot/Arts 2005; Etzioni 1995; Fukuyama 2000; Putnam 2000).

The interdependence of individuals within social networks is regarded as the primary adhesive that binds these networks together, underpinned by an explicitly instrumental conception of social relations. This perspective is advocated not only by proponents of communitarianism but also by welfare state researchers proposing the 'third way', who argue for a recalibration of the modern welfare state to reinvigorate the potential of civil society (Bowden 2006). They propose solutions through the concept of the enabling welfare states, which seeks to empower individuals and communities to cultivate self-help mechanisms. However, some scholars express scepticism toward this proposition, contending that in recent decades, the supportive functions of families and local community networks have eroded to such an extent that they are no longer equipped to fulfil the role of providing welfare to their members (Mau 2004; Taylor-Gooby 1991).

Examining this concern further, a study focusing on social policy in Portugal highlights that although the Mediterranean model of welfare state places the responsibility of care on families, this doesn't always translate into the actual performance of this task by primary networks (Wall/Aboim et al. 2001). The lack of public systems for social security provision doesn't guarantee that, in times of economic uncertainty, social networks will indeed step in to provide care.

The contrasting liberal perspective highlights that instead of being replaced by the welfare state, intermediary structures are often encouraged by it. This is notably exemplified in Scandinavian countries, where the welfare state fosters the development of the third sector by delegating responsibility and allocating financial resources for social welfare activities (Kuhnle/Alestato 2000; Rothstein 2001). Furthermore, the welfare state is seen to positively influence individuals' engagement and active participation in civil society organizations. Those who aren't in an economically precarious situation, having more time and resources, tend to enhance their social capital by engaging in diverse formal and informal networks. Consequently, they exhibit higher levels of trust in others, assume responsibility for fellow citizens, and demonstrate solidarity rather than opportunism in their actions (Skocpol 1996, Salamon/Sokolowski 2003, Gelissen et al. 2012).

Thus, rather than constraining individuals, the state facilitates their engagement in social networks by safeguarding their entitlement to social security. Social connections are perceived to hold intrinsic or expressive significance, beyond mere instrumental value (Van Staveren/Knorriga 2007). Empirical investigations consistently reveal a positive statistical association between various indicators of social capital and the welfare state. This association is often measured by the proportion of GDP allocated to social security or categorized according to welfare regime types (universalistic, liberal, conservative, Mediterranean, post-socialist). Nations allocating a substantial portion of GDP to social security and those with universalistic welfare regimes tend to witness higher rates of voluntary association membership, increased involvement in voluntary activities, and greater trust in both individuals and institutions (Costa/Kahn 2003b; Hooghe/Stolle 2003; Van Oorschot/Arts 2005; Kääriäinen/Lehtonen 2006; Pichler/Wallace 2007; Kaasa/Parts 2008).

This is best highlighted and understood by considering the distribution of social capital in European countries. As a matter of fact, the Mediterranean and post-socialist welfare regimes, characterized by low levels of social spending, exhibit the lowest levels of social capital (Van Oorschot/Arts 2005; Kääriäinen/Lehtonen 2006) and Scandinavian countries some of the highest (Larsen 2013). Rather than evaluating social capital as a unified construct, some scholars propose distinguishing between bonding and bridging social capital. Bonding social capital denotes individuals' integration into networks of strong ties, such as family and close friends, whereas bridging social capital refers to their connection to multiple networks of weaker ties, including co-workers, neighbours, and organization members. The Mediterranean welfare system displays a high level of bonding social capital, as does Slovenia and the Czech Republic, despite being classified as post-socialist regimes. Conversely, the level of bridging social capital is highest in universalistic welfare regimes, followed by liberal and conservative regimes (Kääriäinen/Lehtonen 2006).

Social networks, or social capital in more broad terms, offer access to social support, while the extent of social support needed is influenced by the development of the welfare state.

Contrary to the expectations of communitarian authors, countries with weaker welfare states, characterized by prevalent bonding social capital, do not necessarily ensure high levels of social support. Residents in these countries often exhibit a greater need for social support compared to those in countries with stronger welfare states. For instance, social support tends to be weaker in nations with Mediterranean and post-socialist welfare regimes (Kääriäinen/Lehtonen, 2006). Closed family networks, common in these regions, may limit the availability of social support, as broader social networks are better equipped to offer various forms of support. Consequently, the formal systems of social security established under the welfare state do not prevent the need for social support; rather, they stimulate the development of larger social networks and bridging social capital, which serve as crucial sources of various types of social support (see e.g. Iglič 2014). These considerations lead up to two additional hypotheses to be testes that read as follows:

H4: Confidence of citizens' regarding the ability of states to provide social security and thus protect them against life's contingencies and ensure social integration are crucial for the development of micro-level social capital.

H5: Confidence of citizens' regarding the ability of states to function effectively and thus create conditions for public action or democratic stability are crucial for the development of micro-level social capital.

The literature provides various insights into the impact of citizens' perceptions of the welfare state and the overall efficacy of state institutions. Salamon and Sokolowski (2003) propose direct associations between state support and positive perceptions of welfare state provisions, leading to increased participation and increased levels of social capital. Conversely, other scholars propose indirect pathways, where extensive welfare provision not only fosters greater engagement in formal networks but also encourages participation in informal networks and acts of altruism towards others. Gesthuizen et al. (2008) for example propose the idea that elevated social spending fosters a society-wide shared norm of social solidarity, motivating individuals to assist those in need.

This norm of social responsibility consequently results in increased assistance provided and heightened participation in both formal and informal networks. Studies on intergenerational solidarity indicate that elevated levels of welfare provision afford individuals greater temporal and financial resources. These resources, stemming from factors such as reduced working hours and early retirement policies, as well as welfare benefits and pensions which enable individuals, particularly the elderly, to dedicate more time to familial, social, and community engagements, including participation in clubs and organizations, and offering aid to others (Kohli 1999; Künemund and Rein 1999). An explanatory path that is mostly rooted in resource-based explanations is also proposed by Wallace and Pichler (2007: 50) who argue that "welfare benefits relieve people from the struggle for their existence, and this enables various kinds of social communication, participation and trust to flourish".

In addition to social responsibility and available resources, trust in others emerges as another important factor through which welfare provision can exert influence. As has been discussed previously in more detail, empirical investigations consistently demonstrate higher levels of interpersonal trust among residents of more extensive welfare states (Van Oorschot/Arts 2005; Kääriäinen/Lehtonen 2006; Larsen 2007). Moreover, individuals with greater trust in others exhibit higher rates of participation in voluntary networks.

Various explanations exist for the relationship between increased welfare provision and heightened interpersonal trust. Rothstein and Uslaner (2005) and Rothstein and Stolle (2003) emphasize that the organization of welfare provision, specifically whether it is universal or selective, holds significance rather than solely the degree of social spending. Universal social programs foster trust by reducing income inequality and promoting equality of opportunities. They also entail less bureaucratic complexity, suspicion, and control, fostering greater social cohesion through their impartiality. Uslaner (2003) and Larsen (2007) highlight the importance of increased equality resulting from welfare spending in enhancing trust among individuals. While Uslaner posits a direct effect of equality on trust, Larsen argues that greater equality cultivates trust by minimizing social disparities between socioeconomic classes.

Patulny (2004) introduces another dimension to the impact of welfare provision. He posits that welfare programs mitigate the risks inherent in interactions with strangers, thereby fostering increased trust in others and promoting social participation. While numerous studies confirm a positive association between trust and engagement in social relations (Putnam 1995; Van Oorschot/Arts 2005; Kääriäinen/Lehtonen 2006), the direction of causality remains debated. Putnam (1995) suggests that social involvement enhances trust, a proposition supported by analyses of American panel data spanning from 1972 to 1994 (Brehm/Rahn 1997).

Stolle (1998) argues, based on EU panel data, that individuals with higher trust levels are more inclined to join associations and clubs. This issue remains unresolved, and it seems reasonable to assume some form of reciprocal causality here; however, recent evidence tends to support Stolle's contention that the correlation between participation and trust arises from a self-selection process, wherein individuals predisposed to trust are more likely to engage in organizations and networks (also e.g. Kumlin/Rothstein 2003).

Table 6.5: Overview of Individual-level Variables Measuring Citizens' Perceptions of the State Performance and Welfare State Provisions (ESS 2002-2016)

Independent Variable	Operationalisation	Expected Effect	Mean	Std. Dev.
trstprl	Trust in country´s parliament	+	4.437	2.554
trstplt	Trust in politicians	+	3.566	2.383
trstprt	Trust in political parties	+	3.516	2.389
stfedu	State of education in country nowadays	+	5.643	2.327
stfhlth	State of health services in country nowadays	+	5.348	2.535

Source: Own table based on the data and codebook of the ESS-Dataset.

Notes: The table includes information on the variables regarding individual-level perception of economic conditions, the corresponding operationalization and the expected effect based on theoretical considerations.

Among the explanatory factors (see Table 6.5) measures of institutional confidence and satisfaction with the state of education and health services are included. Institutional confidence is measured by public support for political institutions, understood as those that are most closely associated with the core functioning of the state (including parliament and civil service). Although some propose to summarize these factors into a single measure (Newton/Norris 2000, 54; Gundelach et al. 2010) for the sake of comparison a distinction between various forms of institutional confidence has to be drawn. This is mainly due to the fact, that these diverse forms of institutional trust differ with respect to their ability to create generalized social trust and civic norms (see e.g. Newton/Zmerli 2011).

As far as the measures of welfare attitudes are concerned, a concise measurement of citizens perceptions of welfare state functionality is a, comparatively speaking, recent addition to the European Social Survey (having been collected in a comprehensive fashion in the eight wave). Nevertheless, there are two variables that most closely correspond with the proposed underlying theoretical reasoning, namely the evaluations of the state of education and the state of health services (Rocco et al. 2014; Standbrink 2017). With educational policy being an integral part of welfare state spending and European countries being economies where the welfare state funds governmental institutions for healthcare and education along with direct benefits given to individual citizens, these two indicators enable a comparative analysis over time. As to what extent these measures provide an adequate picture can be validated empirically as well by comparing these with welfare attitudes using the eight wave of the European Social Survey (Table 6.6). Overall, the correlations between factors included in each wave of the ESS and variables specifically tailored to measure welfare state attitudes show moderately strong associations which suggests that the citizens' perceptions of education and health services are both suitable variable that can be used as substitutes when it comes down measuring the development over time.

Table 6.6: Cross-Validation of Welfare State Measures (ESS 2016)

	stfedu	stfhlth	sbeqsoc	dfincac
stfedu	1.000			
stfhlth	0.605	1.000		
sbeqsoc	0.699	0.593	1.000	
dfincac	0.532	0.716	0.632	1.000

Source: Own table and own estimation based on the ESS (2002-2016) dataset.
Notes: Cell entries are bivariate correlation coefficients (Pearson's r). The included variables are: stfedu – State of Education, stfhlth – State of Health Services, sbeqsoc – Social benefits lead to more equal society and dfincac – The differences in the standard of living should be small; Levels of statistical significance are: $*p < 0.05.$, $**p < 0.01$, $***p < 0.001$. N= 42894

Turning to the results of the regression analysis, table 6.7 summarizes the finding for all three identified latent dimensions of social capital. In terms of the overall model fit, the results are largely consistent with the previous findings. For generalized social trust (Model 1) the model performs best with 16.5% variance explained as indicated by R^2, for the other two components social networks (8.1% explained variance) and civic norms (6.4% explained variance) the model-fit is still acceptable, however, there still remains a large portion of variance that is not covered by the included explanatory variables, especially when dealing with civic norms.

Table 6.7: Regression Analysis of the Impact of Perceptions of State Institutions on Social Capital

Predictors	Models					
	Model 1 (trust)	VIF	Model 2 (networks)	VIF	Model 3 (norms)	VIF
Trust in Parliament (prltrst)	0.159*** (0.003)	4.86	0.042*** (0.002)	4.86	0.031*** (0.001)	4.85
Trust in Politicians (plttrst)	0.102*** (0.008)	4.44	0.033*** (0.007)	4.43	0.002 (0.002)	4.43
Trust in political parties (trstprt)	0.075*** (0.007)	2.39	0.038*** (0.006)	2.28	0.007 (0.001)	2.38
Satisfaction with education (etfedu)	0.089*** (0.002)	1.46	0.006*** (0.002)	1.42	0.014*** (0.002)	1.45
Satisfaction with health services (stfhealth)	0.081*** (0.012)	1.43	0.068*** (0.008)	1.23	0.013*** (0.005)	1.44
Intercept	2.851*** (0.012)		4.389*** (0.011)		4.501*** (0.006)	
N	273523		273259		266441	
R^2	0.165		0.081		0.064	

Source: Own table and own estimation based on the ESS (2002-2016) dataset.
Notes: Cell entries are standardised regression coefficients, standard errors (SE), and model performance statistics from linear regression analysis using civic norms as dependent variable. In order to control for potential multicollinearity, the variance inflation coefficient (VIF) is reported for all the estimates. All models include age, gender and education as control variables; *p < 0.05., **p < 0.01, ***p < 0.001

All of the included factors show results that conform to the theoretical expectations. First, in terms of the linear effect of the confidence in political institutions the strongest effect can be identified when dealing with generalized social trust (Model 1). This goes to show that individuals who express high levels of social trust can be also found to express higher levels of generalized social trust, confirming findings of previous empirical research (Newton 1999; 2006). In terms of the impact of the economic crisis, to the extent to which citizens become more distrustful towards the government as a result of the economic decline, a decline of social capital is expected. Its extent will be determined in more detail in a subsequent analysis. These finding remain very much the same (although somewhat weaker) for social networks. In Model (3) however, only one of the three included variables measuring citizen trust in political institutions is statistically significant, namely trust in parliament.

The role of perceptions regarding the welfare state stands as a crucial component in the development of social capital. Scholarly attention often centres on how welfare state institutions facilitate equitable opportunities for citizen engagement and foster the cultivation of trust and social norms (Kääriäinen/Lehtonen 2006: 31-32). Foundational principles such as fairness and equality, which are integral to assessing governmental quality, are commonly associated with comprehensive and inclusive welfare states (Rothstein/Stolle 2003: 194).

Characterized by their broad inclusivity, inclusive welfare states extend coverage to all citizens and apply uniform regulations across society. Consequently, in their actual implementation: “[u]niversalistic welfare states reduce fears that one is either being exploited by other members of society or robbed of the equal opportunity to lead a successful life” (Freitag/Bühlmann 2009: 1545; see also Rothstein/Stolle 2003: 197). Studies assessing the impact of the crisis on welfare states indicate that initially, no significant reforms or reductions in social spending were observed (Vis et al. 2011). However, as the crisis persisted, social policy interventions, including increased spending on low-income households and activation and training initiatives, emerged as vital responses in many nations (Starke et al. 2013: 138). Taken together the implications for the hypothesized impact (H4) of welfare state institutions of social capital are clear. If citizens perceive these institutions as well functioning, they will tend to report higher levels of generalized trust, participate in networks more often and report higher levels of civic norms. In turn, if the perceptions of the effectivity of the functioning of welfare states decline a decline of social capital will follow.

6.3 Summary and Discussion of Main Findings

In discussing the main findings and their implications, it remains to be clarified how the proposed explanations complement each other. Also, the picture has to be completed by showing by exactly how much social capital has declined as a result of the economic crisis and what role the explanatory factors actually played. In order to meet both of these aims, Table 6.8 presents a combined analysis in which the discussed factors are included in a single analysis for each of the three social capital dimensions (generalized social trust, social network and civic norms). Furthermore, in order to be able to show the actual proposed decline of social capital time-fixed effects for each of the years in the analysis have been included. This ensures, that the estimation of coefficient is based on cross-sectional variation within each time period (Plümper/Troeger 2019), or rather as pertaining to the analysis wave of the ESS.

This approach has two main advantages. First, it is a powerful tool that controls for variables that are constant across the studies countries but vary over time. Second, based on the actual coefficients of the included binary variables, in conjunction with the intercept and the included explanatory factors, it shows how the dependent variables developed as a result of the effect of the independent variables over time. Simply put, the expectation is that a decline of social capital has occurred as a result of the economic crisis and its impact on state institutions, and if this truly is the case, the analysis should show negative coefficients for those years in which the crisis has mainly occurred (2008-2010).

Table 6.8: Combined Individual-level Analysis

Predictors	Models					
	Trust		Norms		Networks	
	Model 1a	Model 1b	Model 2a	Model 2b	Model 3a	Model 3b
Economic Indicators						
Satisfaction with economy (stfeco)	0.092^{***}	0.095^{***}	0.017^{***}	0.018^{***}	0.017^{***}	0.018^{***}
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Perceived household income (hincfel)	0.228^{***}	0.230^{***}	0.154^{***}	0.155^{***}	0.053^{***}	0.054^{***}
	(0.005)	(0.005)	(0.004)	(0.004)	(0.003)	(0.003)
Need to borrow money (brwmny)	-0.022^{***}	-0.024^{***}	-0.027^{***}	-0.027^{***}	-0.062^{***}	-0.062^{***}
	(0.003)	(0.004)	(0.003)	(0.003)	(0.003)	(0.003)
Need for reducing income inequality (gincdif)	-0.024^{***}	-0.124^{***}	-0.104^{***}	-0.102^{***}	-0.059^{***}	-0.043^{***}
	(0.004)	(0.002)	(0.002)	(0.002)	(0.004)	(0.004)
Overall life satisfaction (stflife)	0.125^{***}	0.119^{***}	0.146^{***}	0.132^{***}	0.043^{***}	0.042^{***}
	(0.002)	(0.016)	(0.052)	(0.052)	(0.001)	(0.001)
State Institutions						
Trust in Parliament (prltrst)	0.111^{***}	0.112^{***}	0.024^{***}	0.023^{***}	0.029^{***}	0.028^{***}
	(0.003)	(0.005)	(0.002)	(0.002)	(0.002)	(0.002)
Trust in Politicians (plttrst)	0.081^{***}	0.080^{***}	0.039^{***}	0.038^{***}	0.002	0.002
	(0.003)	(0.004)	(0.003)	(0.003)	(0.002)	(0.002)
Trust in political parties (trstprt)	0.057^{***}	0.058^{***}	0.036^{***}	0.018^{***}	0.003^{***}	0.005^{***}
	(0.004)	(0.004)	(0.003)	(0.003)	(0.002)	(0.002)
Satisfaction with education (stfedu)	0.056^{***}	0.055^{***}	0.076^{***}	0.076^{***}	0.016^{***}	0.019^{***}
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)
Satisfaction with health services (stfhealth)	0.037^{***}	0.036^{***}	0.043^{***}	0.045^{***}	0.009^{***}	0.008^{***}
	(0.003)	(0.002)	(0.005)	(0.005)	(0.001)	(0.001)
Year						
2004		0.054^{*}		0.023		0.013^{**}
		(0.023)		(0.018)		(0.008)
2006		0.0113		0.164^{***}		0.028^{***}
		(0.016)		(0.011)		(0.008)
2008		-0.084^{***}		0.051^{***}		-0.007
		(0.015)		(0.011)		(0.006)
2010		-0.161^{***}		-0.021		-0.029^{***}
		(0.016)		(0.011)		(0.008)
2012		-0.182^{***}		-0.073^{***}		-0.029^{***}
		(0.015)		(0.010)		(0.007)
2014		-0.151^{***}		-0.109^{***}		-0.032^{***}
		(0.016)		(0.011)		(0.008)
2016		0.052^{***}		-0.107^{***}		0.016^{***}
		(0.015)		(0.019)		(0.007)
Intercept	2.736^{***}	2.631^{***}	4.272^{***}	4.264^{***}	4.563^{***}	4.546^{***}
	(0.025)	(0.028)	(0.018)	(0.019)	(0.013)	(0.014)
N	263368	263368	263150	263150	257070	257070
R^2	0.194	0.205	0.053	0.064	0.086	0.095

Source: Own table based on estimates from a regression model with time-fixed effects (ESS Data 2002-2016).
Notes: Cell entries are standardised regression coefficients, standard errors (SE), and model performance statistics from linear regression analysis. All models include age, gender and education as control variables; $^{*}p < 0.05.$, $^{**}p < 0.01$, $^{***}p < 0.001$.

Turning to the interpretation of the results, one major implication of the findings of this analysis is that the impact of the perceptions of the economic developments is largely consistent with theoretical expectations and the previously discussed findings for the micro- and macro-level. Furthermore, and more importantly, differentiating between three different dimensions of social capital shows how these have changed as a result of the impact of the included explanatory variables. For social trust (Model 1b) the main "bulk" of the decline has not occurred right at the outset of the crisis but rather somewhat delayed over the following six years (with $\beta = -0.182$, $p < 0.001$ in 2012) with a slight recovery in the most recent point in time (2016) included in the analyses. A rather strong impact of the economic strain exerted by the crisis can also be found with regard to social norms, where the substantial part of the decline starts in 2010 and can be found even as late as 2016 ($\beta = -0.107$, $p < 0.001$). In comparison with these two dimensions, civic norms seem to be least susceptible to such changes. To be sure, a slight decline can be detected, this however remains rather limited.

Overall, the results confirm the proposed hypothesis and the logic behind the impact of the individual's perceptions of institutional arrangements. Analogous to the previous discussion, but concentrating on detrimental practices, it is argued that citizens' experiences with inefficient, corrupt, and unfair institutions do not provide a suitable basis for the development of social capital (Rothstein 2013: 1012-1014), because ineffective institutions can no longer guarantee that actions that damage society as a whole (such as breach of contract, clientelism, fraud, bribery, etc.) are effectively sanctioned (Andrews et al. 2014; Newton 1999; Newton/Norris 2000).

The primary implication here pertains to social trust: if citizens form their expectations of social interactions under the belief that administrative-governmental institutions lack effectiveness and fairness, they will exhibit greater caution and reluctance to trust their fellow citizens (Rothstein/Stolle 2007: 14-15; Freitag/Bühlmann 2005: 583). Additionally, the ability of state institutions to foster trust largely depends on whether citizens perceive these institutions as reliable (Levi 1998: 9). In essence, concerning social capital, institutions establish a framework through which individuals shape their actions and attitudes based on their trust in these institutions, thereby positively influencing their propensity to engage in voluntary activities and trust others (Stolle 1998: 498-502).

At the individual level, universalistic welfare states are argued to "reduce fears that one is being exploited by other members of society (…). They do so by reducing inequality and providing certain key resources” (Freitag/Bühlmann 2009: 1545). In explaining how citizens extrapolate their encounters with welfare state institutions to their fellow citizens, the frameworks proposed by Rothstein and Stolle (2003) offer valuable insights (see also Van Oorschot/Finsveen 2009; Scheepers et al. 2002; Bjørnskov/Svendsen 2013). The first link operates through “cognitive inference”, constituting a direct relationship: “if [citizens] perceive that the political system that implements public policies does act fairly, honestly and responsively, they feel more secure and encouraged to trust others” (Rothstein/Stolle 2003: 199). The second link is mostly based on a system of incentives provided by the welfare state. Particularly in conservative and selective welfare states, citizens may extract favours from the state, reducing their inclination to trust others. The third link is rooted in direct experiences, suggesting that citizens treated unfairly or disrespectfully by institutions are predisposed to negatively assess the trustworthiness of others (Rothstein/Stolle 2003, 200). Regarding individual decisions to engage, Gundelach and colleagues (2010), adopting a neo-institutionalist stance, contend that voluntary social engagement declines with the welfare state’s responsibility “to guarantee social benefits in times of need” (Gundelach et al. 2010: 631).

In explaining the evolution of social capital amidst economic adversities, the prevailing argument centres on the recognition that social capital’s configuration is not solely shaped by individual-level socio-demographic attributes and attitudes. Rather, it is contingent upon the contextual nuances of particular country trajectories and their diverse encounters with crises (see. e.g. Acemoglu 2009; Andersen et al. 2019; Caselli et al. 2016, Kern et al. 2015). Social capital change as the main dependent variable can thus be explained by considering the effects of the selected independent variables across different levels. Regarding the matter of estimation of such effects, a multi-level regression approach is commonly regarded as a well-suited alternative for addressing research questions related to interactions of the individual and country-level variables. In comparison to conventional regression analysis, it possesses the statistical prerequisites to investigate micro and macro relationships in one step.

Determining the adequate number of cases at both individual and contextual levels is a contentious issue within multilevel analysis, as noted by Hox (2002: 45) “[a]s usual, it is not precisely known when a sample is large enough to be confident about the precision of the estimates.” Suggestions regarding the minimum and maximum number of groups at the context level vary considerably. Recommendations concerning the minimum and maximum number of groups at the contextual level vary significantly. Van der Leeden et al. (1997) suggest that standard errors become inaccurately estimated with fewer than 100 cases at the contextual level and therefore advocate for a rule of thumb of 100 cases. Maas/Hox (2004), argue that calculations can be conducted with fewer cases, particularly when the primary focus lies on the "fixed part" of the model. Although results may be marginally less precise with only 30 cases at the contextual level, they remain justifiable. In a similar line of reasoning Ditton (1998) asserts that especially when testing interaction effects, individual and aggregate units should be "sufficiently large", and emphasizes that "increasing the number of aggregate units while simultaneously reducing the number of individual units is preferable to the reverse relation" (Ditton 1998: 124). By combining variance components of the cross-sectional dimension and the temporal dimension at the context level and estimating the corresponding variance components and variable effects with 156 context cases, the pre-requisites for multi-level estimation in the following analysis are met and the results of the estimation are robust.

The conventional method for presenting the findings of the multi-level analysis involves two sequential stages: Firstly, a comprehensive analysis of the social capital components is conducted, wherein models incorporating solely individual-level independent variables are presented. This initial step, following the random intercept multilevel model framework, operates under the assumption that the independent explanatory factors at the individual level exert uniform effects across all countries, indicating no further variation between contexts. The independent variables are integrated into the analysis as fixed parameters, thereby ensuring that the "corresponding variance components of the slopes are fixed at zero" (Hox 2002: 51). In contrast with conventional regression solely at the individual level, this approach simultaneously accommodates country disparities, similar to an Ordinary Least Squares (OLS) regression with country dummy variables. In the subsequent stage, beyond assessing the average variation in the changes of social capital components encompassing trust, norms, and networks, random-slope models incorporating individual-level variables are employed to ascertain the extent of variation in the impact strength of individual-level characteristics across countries.

Table 6.9: Multilevel-Analysis: Control Variables (Combined Analysis)

	Models					
	Trust		Norms		Networks	
	Model 4a	Model 4b	Model 5a	Model 5b	Model 6a	Model 6b
Individual-Level Fixed Effects						
Age	0.00	0.00	0.00	0.00	0.00	0.00
	(0.65)	(0.71)	(0.71)	(0.70)	(0.71)	(0.69)
Age (squared)	0.00	0.00	0.00	0.00	0.00	0.00
	(0.52)	(0.52)	(0.55)	(0.54)	(0.49)	(0.51)
Education						
Elementary	0.01	0.01	0.01	0.01	0.02	0.01
	(0.10)	(0.15)	(0.07)	(0.19)	(0.20)	(0.19)
Secondary	0.08	0.08	0.08	0.08	0.08	0.08
	(1.08)	(1.14)	(1.09)	(1.14)	(1.17)	(1.16)
Higher	0.19^{*}	0.19^{*}	0.19^{*}	0.20^{**}	0.20^{**}	0.06^{*}
	(2.40)	(2.43)	(2.36)	(2.45)	(2.50)	(1.68)
Postgradual	0.11	0.11	0.11	0.12	-0.11	-0.08
	(1.07)	(1.11)	(1.10)	(1.21)	(1.07)	(1.07)
Income						
2. Quartile	-0.01	-0.02	-0.01	-0.01	-0.01	-0.01
	(-0.29)	(-0.43)	(-0.31)	(-0.34)	(-0.33)	(-0.31)
3. Quartile	-0.02	-0.02	-0.02	-0.02	0.02	-0.02
	(-0.38)	(-0.53)	(0.04)	(-0.48)	(-0.42)	(-0.42)
4. Quartile	0.01	0.01	0.01	0.01	0.01	0.01
	(0.30)	(0.16)	(0.20)	(0.31)	(0.33)	(0.32)
Employment Status	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	(-0.17)	(-0.17)	(-0.16)	(-0.12)	(-0.13)	(-0.12)
Gender	0.03	-0.04	0.03	0.03	0.03	0.41^{*}
	(0.98)	(1.05)	(0.95)	(1.01)	(1.03)	(1.63)
Intercept	-1.12^{**}	-2.21^{***}	-2.16^{***}	-2.30^{***}	-1.63^{***}	-1.95^{***}
	(-2.94)	(-9.29)	(-13.30)	(-11.31)	(-17.33)	(-18.66)
Variance Components						
Variance (Individuals)	0.676	0.677	0.677	0.677	0.674	0.708
Variance (Countries)						
τ_{u0}		1.008		0.698		0.174
τ_{u1}		0.104		0.104		0.092
τ_{u0u1}		0.324		0.266		0.125
Deviance	9015	9005	9007	9018	8964	11832
N (Individuals)	257070	257070	257070	257070	257070	257070
N (Country/Time)	156	156	156	156	156	156

Source: Own table based on estimates from a regression model with time-fixed effects (ESS Data 2002-2016).
Notes: z-scores in parantheses. Statistical significance levels are *p < 0.05., **p < 0.01, ***p < 0.001

Based on the described approach, the results of the statistical estimation of the effects of the control variables presented in table 6.9 show that higher education (as compared to no formal education background) has a positive effect on generalized social trust, suggesting that individuals with higher levels of education are more likely to exhibit higher levels of generalized social trust. The robust significance of education as a variable in the presented estimated models underscores its pivotal role in shaping individuals' attitudes and beliefs. Education has long been recognized in social capital research as a key determinant (Putnam

1995a; 2000; Glaeser et al. 2002; Alesina/Ferrara 2000), with studies indicating that more educated individuals exhibit higher levels of trust in others (Putnam 1995a; 2000), are more inclined to join social organizations, and engage more frequently in social activities (Uslaner 2002; 2003). Furthermore, individuals with higher education often possess access to broader resources, opportunities, and social networks, fostering a sense of social integration and support within society. This enhanced social connectedness likely amplifies their trust in others, drawing from a wider range of experiences and interactions. The consistent effects of education on civic norms and social networks suggest that education contributes significantly to broader civic engagement and participation.

In the next step, the variation at the contextual level is taken into account by incorporating characteristics of the countries included in the analysis. By including contextual variables, the model estimates country-specific manifestations of the intercept that can be interpreted as the country-specific mean level of change of the corresponding social capital components. In the analysis presented in table 6.10 all contextual variables are centred, similar to individual-level variables, which ensures that the intercept retains its interpretation as the estimated value for an individual with average individual characteristics in a country with average levels of the now included macro-level variables. Furthermore, all of the analyses shown in table 6.10 also include all of the previously discussed control-variables (not shown) with education maintaining its relevance, albeit at a slightly less pronounced level.

A comparison of the individual-level model with random slopes for the explanation of generalized social trust (Model 7a) to the model with additional contextual variables (Model 7b) shows that the coefficients of the individual-level predictors remain largely unchanged and the variance at the first level is unaffected. However, by adding the contextual variables, a portion of the variance at the contextual level can be explained. This indicates that the added contextual variables contribute towards explaining the variation observed between different contexts and they help account for the differences in the country-specific manifestation of the intercept and provide insight into how these contextual factors influence the dependent variable.

Table 6.10: Multilevel-Analysis of Trust, Networks and Norms (Combined Analysis)

	Models					
	Trust		Norms		Networks	
	Model 7a	Model 7b	Model 8a	Model 8b	Model 9a	Model 9b
Individual-Level Fixed Effects						
Satisfaction with economy	0.080^{***} (.008)	$0,100^{***}$ (0.08)	0.013^{**} (0.004)	0.015^{**} (0.005)	0.013^{***} (0.003)	0.012^{***} (0.003)
Perceived household income	0.138^{***} (0.018)	0.134^{***} (0,019)	0.056^{*} (0.023)	0.057^{*} (0.023)	0.059^{***} (0.015)	0.059^{***} (0.016)
Need to borrow money	0.072^{***} (0.007)	0.076^{***} (0.007)	-0.086^{***} (0.009)	-0.083^{***} (0.009)	-0.023^{***} (0.005)	-0.023^{***} (0.006)
Need for reducing income inequality	-0.167^{***} (0.012)	-0.169^{***} (0.009)	-0.094^{***} (0.004)	-0.094^{***} (0.004)	0.024^{***} (0.005)	0.024^{***} (0.005)
Overall life satisfaction	0.008 (0.017)	0.002 (0.064)	0.010 (0.009)	0.007^{*} (0.003)	0.008 (0.009)	0.008 (0.009)
Satisfaction with education	0.023^{***} (0.007)	0.024^{***} (0.006)	0.002 (0.005)	0.002 (0.005)	0.014^{***} (0.004)	0.015^{***} (0.003)
Satisfaction with health	0.059^{***} (0,005)	0.054^{***} (0.004)	0.006 (0.004)	0.008 (0.003)	0.003 (0.063)	0.003 (0.088)
Macro-Level Fixed Effects						
GDP Growth Rate		0.154^{**} (0,009)		0.154^{**} (0.009)		0.373^{***} (0.094)
Interest Rates		-0.220 (0.297)		-0.011 (0.014)		-0.001 (0.011)
Control of Corruption		0.005 (0,217)		0.003 (0.042)		0.009 (0.017)
Welfare Effort		0.100^{**} (0.375)		0.953^{***} (0.019)		0.072 (0.091)
Gini		-0.202^{***} (0.107)		-0.265^{***} (0.038)		-0.088^{***} (0.009)
Intercept	0.306^{**} (0.057)	0.469^{***} (0.102)	0.184^{***} (0.048)	0.260^{**} (0.074)	0.406^{***} (0.088)	0.324^{***} (0.047)
Variance Components						
Variance (Individuals)	0.676	0.677	0.677	0.677	0,.74	0.708
Variance (Countries)						
τ_{u0}	0.172	0.200	0.433	0.698	0.002	0.174
τ_{u1}		0.102		0.101		0.085
τ_{u0u1}		0.093		0.086		0.052
Deviance	29954	29111	10911	9048	15061	15954
N (Individuals)	263368	263368	263150	263150	257070	257070
N (Country/Time)	156	156	156	156	156	156

Source: Own table based on estimates from a regression model with time-fixed effects (ESS Data 2002-2016).
Notes: z-scores in parantheses. Statistical significance levels are *p < 0.05., **p < 0.01, ***p < 0.001

It is noteworthy, that among the country-specific variables GDP growth rate ($\gamma = 0.154$, $p < 0.01$), welfare state effort ($\gamma = 0.100$, $p < 0.01$), and the Gini coefficient ($\gamma = -0.202$, $p < 0.001$) have statistically significant effects on generalized social trust. The positive impact of GDP growth rate suggests that economic factors play a crucial role in shaping generalized social trust in times of crises with countries experiencing higher economic growth tend to increase generalized social trust. This finding aligns with the notion that economic prosperity and opportunities for upward mobility can foster trust among individuals (see e.g. Alesina/Ferrara 2002; Bergh/Bjørnskov 2014; Colloca 2018), as they have more confidence in the stability and future prospects of their society. Especially in view of the fact that times of economic hardship are associated with increased uncertainty, job insecurity and financial strain (e.g. Barba/Pivetti 2011; Basu et al. 2017; Kotz 2008), this however also suggests that in countries hit by the impacts of the crisis the hardest, generalized social trust can erode.

Similarly, the positive impact of welfare state effort on social trust may be even more pronounced during economic hardships. The provision of robust social welfare programs and support systems becomes even more crucial in times of economic downturns to mitigate the adverse effects and provide a safety net for those facing hardship (Akeda 2021; Bjørnskov/ Svendsen 2013). The availability of support and assistance can foster a sense of solidarity and trust among individuals, as they perceive that their society and government are actively working to alleviate their struggles (see e.g. Ferrera 2005).

The analysis also reveals a statistically significant negative impact of the incorporated measure of economic inequality (Gini) on social capital. With the corresponding effect being consistent across all of the considered models, this finding confirms the theoretical expectations and is largely consistent with previous findings. One predominant explanation for the effect can be identified based on literature dealing with social capital. Here, the research proposes the idea, that when economic inequality is high, it often leads to disparities in access to resources, opportunities, and social networks (Jordahl 2009; Smeeding/Thompson 2011; Sora et al. 2014). Individuals in more unequal societies may perceive a lack of fairness and social justice, which can erode trust and reciprocity among community members (Morton 1985; Glyn/Milibrand 1994; Whelan et al. 2001; Berg et al. 1995). Even more importantly, as economic disparities widen and economic inequality increases, social bonds may weaken, as people from different socioeconomic backgrounds may have fewer opportunities for meaningful interactions and cooperation. This can result in decreased participation in community activities, lower levels of civic engagement, and reduced collective efficacy (Verba et al. 1995; Bekkers et al. 2008; Kern et al. 2015).

A different perspective proposes the idea that higher levels of economic inequality may contribute to social fragmentation and polarization (Jordahl 2009). As income gaps widen, it becomes more challenging to bridge the divides between different socioeconomic groups. This can lead to decreased social trust and cooperation (Kanitsar 2022; Leigh 2006). In highly unequal societies, the perception of limited resources and opportunities can lead to a sense of competition rather than cooperation. When people believe that there are limited economic resources, they may view individuals from other income groups as competitors for these resources. Such a perspective is largely supported by empirical findings of previous studies, which have also demonstrated that as social fragmentation and competition intensify, social trust tends to decline (Kanitsar 2022; Olivera 2015; Stockhammer 2015). In unequal societies, individuals may become more sceptical about the intentions and reliability of others, further diminishing social trust. Although the underlying complex causal relationships proposed as explanatory mechanisms cannot fully be explored here, the findings fall in line with this reasoning showing a particularly strong, statistically significant and negative impact of increasing economic inequality and generalized social trust and civic norms.

7. Discussion and Conclusion

With the global financial and economic crisis 2008 having been characterised by profound economic upheaval in many states in Europe and worldwide (Basu et al. 2017), the multidimensional structure of social connections that underpin societies has not remained untouched by its consequences. This his research explores the relationships between economic hardship and social capital - an intangible yet indispensable resource for individuals and societies alike. Focusing on the aftermath of the 2008 financial and economic crisis, the analysis has investigated how declining economic performance potentially undermines social capital, a phenomenon associated with profound implications for social cohesion and social stability (Andrews et al. 2014). By examining the roles of governmental quality and welfare systems, this work also contributes to broader discussions in political sociology about maintaining social solidarity, which is essential for sustaining coexistence within open, democratically organized states.

This is particularly important when viewed from structural-functional theories of society, in which social capital is a cornerstone of the cultural framework that underpins shared experiences and values. It encompasses the networks, norms, and trust that enable individuals to collaborate and engage in collective actions (Coleman 1988; 1990) and reflects the multural infrastructure that binds people together, fostering a sense of belonging and mutual accountability. Moreover, critical pragmatism highlights the role of social capital in empowering marginalized communities by providing access to networks of support and inclusion, enabling equitable participation in societal processes (see e.g. Midtgardem 2012). Shared values fostered through social capital not only enhance interpersonal trust but also promote the legitimacy of social institutions, reinforcing democratic ideals and collective responsibility.

The central idea investigated is based on the observation underpinned by ample empirical findings demonstrating, that a well-functioning economy and well-functioning state institutions are conductive for social capital development (see e.g. Berggren/Jordahl 2006; Doh 2014; Francois/Zabojnik 2005; Kumlin/Rothstein 2010; Rothstein/Stolle 2008b). This relationship can be understood in two complementary ways. On the one hand, viewed from the perspective of the structural impact of the economy and well-functioning institutions, higher levels of social capital at the country level are generally found to be associated with prospering economy, higher levels of GDP and employment (e.g. Sabatini 2009; Skidmore 2001). On the other hand, from the perspective of individual-level attitudes and values, individual level individuals reporting higher levels of trust and civic participation also usually report higher levels of disposable income and a good individual economic situation (Kanitsar 2022; Narayan/Pritchett 1999).

To the extent therefore, to which the economic and financial crisis has been characterized by unprecedented global financial instability, triggering a cascade of far-reaching consequences (Bozio et al. 2015; Bianco et al. 2015) that continue to shape the economic, political and social landscapes to this day, the main question tackled here is: *To what extent and why does a decline in economic performance lead to the erosion of social capital?* Stemming from the key observation, namely that there is a complex interplay between the state of the economy and social capital (Ostrom/Ahn: 23; Berggren/Jordahl 2006; Zak/Knack 2001), an open-ended approach towards answering this question not only takes into account the potential negative impact of declining economy leading to social capital erosion, but also considers that social capital itself, encompassing networks of relationships and social connections, generalized social trust and shared norms that exist within a community (Putnam 1995a; 2000) or society can be a resource fostering economic prosperity.

A perspective in which social capital and its specific components can function as a safeguard against negative impact of economic decline associated with the crisis stresses the fact, that social capital enables smoother economic transactions by fostering trust and reducing transaction costs (Cook et al. 2005; Fukuyama 1995). Furthermore, social networks can be seen and interpreted as conduits for the flow of information that is relevant in terms of economy, with people having high levels of social capital having access to information about job opportunities, market trends, investments, or other potentially important aspects of everyday economic decisions (Boxman et al. 1991; Burt 1997; Fernandez/Weinberg 1997). This perspective puts forward the idea, that economic adversity might not necessarily lead to social capital erosion, but the very same challenges posed by the crisis can stimulate acts of solidarity and cooperation, thereby fortifying the social bonds that tether individuals within communities (Rothstein 2001: 212-215).

Besides the structural impact of a decline of the real and financial economy as a result of the Great Recession, two additional perspectives stemming from arguments related to the institution-centred approach towards social capital generation are considered (Rothstein/Stolle 2007; Levi 1998). In order to better understand the relationship between the efficacy of government policies and state institutions during times of economic adversity, the following research question is considered: *How does the effectiveness of government policies and institutions influence the development and accumulation of different forms of social capital within a society during times of economic crises?* The underlying perspective is that the effectiveness of government interventions during times of economic and financial crises significantly shapes the trajectory of social capital development within a society. The corresponding assumption regarding the influence, through which the impact of quality of government operates considers mechanisms such as trust in public institutions (Rothstein/Stolle 2007), perceived fairness of policies (Kumlin/Rothstein 2010), and the degree of citizen participation in governance processes (e.g. Norris 2011). Crucially, the capacity of states to combat and control corruption and maintain high standards of governance emerges as a pivotal determinant in safeguarding social capital from decline during crises (Rothstein/Uslaner 2005; Rothstein 2013). As can be shown transparent and accountable institutions not only foster trust and cooperation among citizens but also enhance the resilience of social networks and community bonds (Sønderskov 2011).

One of the other main areas of impact suggested by institutional explanations of social capital generation is the role welfare states and their policies (Scheepers et al. 2002; Stadelman-Steffen 2011; Starke et al. 2013). The corresponding research question that provides the basis for further exploring the question of whether states have the ability to attenuate the impact of the economic decline thus reads as follows: *How does the design and implementation of welfare state policies influence the development and accumulation of different forms of social capital within a society during times of economic crises?* During times of economic crises, the design and execution of welfare policies can be reasonably expected to make a difference when it comes down to the formation and reproduction of various forms of social capital within a society. The overall relationship is nuanced, as the effectiveness of welfare provisions can either bolster or erode trust, reciprocity, and social networks (see e.g. Van Oorschot/Arts 2005; Visser et al. 2018). Their impact and effect can be either understood in term of the "crowding-in" hypothesis, which suggests that well-designed welfare policies can enhance social capital by fostering trust in institutions, reducing economic insecurities, creating opportunities and providing ressources for civic participation. The „crowding-out“ hypothesis on ther other hand suggests that overly centralized or paternalistic welfare systems may diminish social capital by displacing community-based support networks and fostering dependency rather than reciprocity (see e.g. Akaeda 2021; Stadelmann-Steffen 2011; Bergh/Bjørnskov 2014; Bertilsson/Hjorth-Andersen 2009).

Most notably, the ability of welfare states to accommodate welfare state provisions as part of their response to the economic crisis, as well as the overall structure of welfare states, play crucial roles in mitigating the decline of social capital (Scheepers et al. 2002; Gelissen et al. 2012; Vis et al. 2011). In particular, a welfare state's capacity to effectively distribute resources, provide social safety nets, and foster inclusivity contributes significantly to the preservation of social capital (Cyrek 2019; Armingeon 2013; Bergh/Bjørnskov 2014; Gelissen et al. 2012).

7.1 Main Findings and Discussion

In answering the research questions emerging from these considerations, previously chapter two and chapter three drafted a theoretical framework, chapter four offered a measurement approach towards social capital that allows it to be studies at both levels of inquiry, the macro and the micro-level. Chapters five and six provided results of the empirical analysis based on a cross-country study of 28 European nation states. This concluding chapter offers a presentation of the most important findings of the respective studies and summarizes their interpretation and discussion. Reviewing the expectations put forward in the theoretical section offers a suitable point of departure for a systematic presentation of the main findings. The following summary and discussion of the findings furthermore serves the purpose of comparing the results of the country-level and individual-level analysis in order to determine to what degree findings obtained in the study of micro-level dynamics replicate and complement macro-level findings. Finally, the concluding section also strives to reflect on the position and importance of the presented results in the broader field of research on social capital and economic development.

7.1.1 Main Findings and Patterns at the Macro-Level

Starting with the macro-level patterns the main expectation put forward was, that the economic and financial crisis exerts a direct impact on the country levels of social capital and as the crisis unfolds an erosion of social capital occurs. Several specific expectations sought to provide a better understanding of the underlying dynamics and mechanisms at play here. A decline of social capital and its specific components can therefore be expected to be a result of strenuous fiscal situation of the state (*E 1a*), declining economic growth or increasing unemployment rates (*E 1c*) or increasing economic and financial inequalities in the overall distribution of wealth (*E 1e*).

Generally speaking, the findings suggest an interpretation in which the financial economy in particular has a substantial impact on social capital, especially if understood in terms of generalized social trust and social networks, the real economy as understood in terms of GDP growth does not show any particularly strong impact on social capital developments during and after the crisis. This is particularly interesting since it shows that it is the financial situation specifically that impacts upon the changes of state-level social capital. In the same line of reasoning, previous research has suggested that financial crises can lead to a pervasive sense of insecurity among communities of citizens (Chung/van Oorschot 2011: 289, Wisman/Baker 2011) and thus lead to an erosion of social capital.

Furthermore, financial crises are typically accompanied by reduced access to resources and cuts in public expenditures (Ferrer et al. 2014; OECD 2024; Savage 2019), especially after the initial few years after the onset of the crisis which for many states were characterizes by a process of fiscal consolidation (Cojocariu/Oprea 2020). For several European states, particularly those hit hardest by the 2008 economic crisis, such as Greece, Spain, and Portugal, fiscal consolidation measures often involved severe austerity policies. These included significant reductions in public sector wages, pensions, and welfare benefits, as well as cuts to essential services like healthcare and education (Bourikos 2013; Cojocariu/Oprea 2020). Such circumstances may limit the ability of states to support community initiatives, volunteer programs and civic engagement in general (Cyrek 2019; Clemente et al. 2012). The theoretical expectation that stressed the impact of functional and distributional consequences of declining fiscal discretion, limiting the capacity of states to provide collective goods, thus leading to a decline of social capital can be seen as supported here. At the same time, at the macro-level, the overall state of the real economy and labour market developments do not seem to show substantially important or consistent impact on social capital.

A second set of expectations regarding the impact of the economic crisis is based on the observation, that states play a pivotal part in mitigating the adverse effects of economic decline on social capital, particularly when bolstered by well-functioning welfare systems (*E 2a*) and robust government institutions (*E 3a*). The main argument here is, that a resilient welfare state can act as a buffer during economic downturns by providing a safety net that ensures citizens have access to essential services, such as healthcare, education, and unemployment benefits (see e.g. Akeda 2021; Bianco et al. 2015; Freitag/Kirchner 2011; Kranikilos et al. 2013). This not only alleviates the immediate financial burden of squeezing finance but also fosters a sense of security and stability within society (Helliwell/Huang 2014; Winkelmann 2009), which is fundamental to the preservation of social capital (Saracino 2013). The argument also extends towards effective government institutions, which can instil confidence in the public, reinforcing trust in the state's ability to manage crises and navigate economic challenges (Newton/Norris 2000; Torrente et al. 2019). Transparent and accountable governance, coupled with responsive policies that address inequality and social disparities (Olivera 2015; Cyrek 2019; De Mello 2000), can help to maintain social cohesion and prevent the erosion of trust and social bonds during difficult economic times. In this way, well-functioning welfare states and government institutions are essential tools for states to proactively respond to economic decline and limit its detrimental impact on social capital (Bergh/Bjørnskov 2014; Gelissen et al. 2012; Kääriäinen/Lehtonen 2006).

The findings presented in the analyses largely support both of these expectations. The extent to which increased welfare state effort and encompassing welfare state programs manage to alleviate the risk of sliding into poverty (see e.g. Knack 2002; Celikay/Gumus 2017), welfare states are able to protect the macro-levels of social capital during the course of an economic and financial crisis. The analyses also show that social-democratic welfare states are particularly well suited in providing programmes that attenuate the impact of the economic crisis, e.g. in the form of social safety nets that offer essential financial support to those in need or fund community services that help to maintain social connections and strengthen social capital.

Rather than being solely based on welfare-state types, different measures implemented by welfare states play a critical role in mitigating the impact of economic crises, primarily by fostering and sustaining various forms of social capital that underpin societal resilience. For instance, the promotion of voluntary civic engagement ("bridging" social capital) is more prevalent in social-democratic and liberal welfare state regimes, where trust and participation in broad social networks enhance societal cohesion and democratic functioning. In contrast, bonding social capital, rooted in family ties, is more dominant in Mediterranean and post-socialist regimes, reflecting cultural and structural dependencies. These distinctions demonstrate that welfare state measures are not solely confined to supporting social capital but also influence its form and function (for a detailed overview see Kääriäinen/Lehtonen 2006)

In terms of the impact of government institutions, control of corruption is shown to have a positive impact on generalized social trust in particular suggesting that in states with robust anti-corruption measures, citizens are more likely to perceive that public institutions operate transparently and fairly, fostering a climate of trust (see e.g. Rothstein/Uslaner 2005; Rothstein 2013; Uslaner 2008). Especially in times of economic crises, trust becomes a crucial asset, with individuals who trust that their government is acting in the best interest of the public are more likely to collaborate, share resources, and engage in collective efforts to navigate the challenges posed by the crisis (Grießhaber/Geys 2012; Uslaner 2009). Conversely, this finding also would suggest, that in states plagued by corruption, a lack of trust in institutions can intensify during crises, leading to heightened social fragmentation, reduced cooperation, and increased social strife (Abed/Gupta 2002; Dahlström et a. 2012).

Going beyond the general inferences gained from the study of macro-level impact of the economic and financial crisis on social capital, considering specific examples of how and why specific measures have been taken as a reaction of the economic downturn can shed further light on the underlying dynamics. In this regard, it is however also important to keep in mind, that each country-specific experience of the economic and financial crisis is unique and largely depends on national characteristics and international factors (Mannar 2017: 1035). Considering Sweden and Greece as examples offers an additional comparative perspective due to their contrasting welfare state regimes and approaches to managing the aftermath of the 2008 economic and financial crisis. Sweden, as a representative of the social-democratic welfare state, implemented measures that emphasized maintaining high levels of social investment, trust, and civic participation, which can be expected to sustain social capital even during economic strain (Anxo/Ericson 2015; Larsen 2013). In contrast, Greece, with its Mediterranean welfare state model, faced severe austerity measures and institutional challenges that exacerbated economic inequalities and thus strained the emergence and development of social capital (Bourikos 2013; Petrakis 2013; Sotiropoulos/Bourikos 2014).

As a first noteworthy example, it is worthwhile to consider Sweden’s response to the 2008 economic and financial crisis in further detail. With the onset of the economic and financial crisis, the Swedish economy rapidly deteriorated including developments such as a 5 per cent decrease in Sweden’s real GDP, drop in aggregate demand and output and an increase of the unemployment rate from 6.2 to 8.3 per cent between 2008 and 2009 (Anxo/Ericson 2015: 4). In response to the challenges posed by the crisis, the Swedish government adopted a comprehensive approach, incorporating fiscal and social policies to mitigate the adverse effects of the economic downturn.

With particular focus on the generation and maintenance of social capital, one of the key measures the government took included a financial and fiscal stimulus package aimed at supporting economic growth and employment, which was particularly relevant in employment sectors pertaining to manufacturing and construction as well as other export-oriented industries (Anxo/Ericson 2015: 4). In addition, stimulus packages aimed at supporting economic growth and employment and maintaining robust economic activity adapted in Sweden included grants to municipalities and allocated more resources for active labour market policies. Especially with regard to the latter, active Labour Market Programme as adopted by Sweden has been generally acknowledged to promote “higher levels of income, well-being and anticipated welfare resulting from increased employment probability, or […] a higher anticipated income in the future” (Kantová/Arltová 2020: 545).

The swift recovery of the Swedish economy following the 2008 financial crisis, marked by a remarkable 6.6 percent increase in real GDP in 2010 and a subsequent 2.6 percent rise in 2011 (OECD 2023), can be attributed to a combination of expansionary fiscal policies and favourable macroeconomic conditions. The Swedish government played a pivotal role by implementing active labour market policies, including training programs, wage subsidies, and entrepreneurship support, which not only contributed to a substantial increase in employment, with a notable rise of 25,000 jobs in 2010 and around 100,000 in 2011 (Eurostat 2023) but also had a positive impact on social capital. By focusing on supply-oriented measures such as tax cuts and reforms in social protection systems, the Swedish government not only facilitated economic recovery but also helped to maintain the means of social capital generation. With its dual approach of economic revival and social investment (including emphasis of active labour market policies focusing on skill development, subsidized employment and entrepreneurial initiatives), the strategy adopted by Sweden helped to maintain economic resilience but also created conditions under which social capital can persist (Lee/Koch 2023).

Contrasting the preceding discussion with the case of Greece, it is first of all worth elaborating on the general developments of the Greek economy in the decade before the onset of the 2008 crisis. Overall, Greece most notably experienced an impressive annual average real GDP growth of nearly 4%, whereby positioning itself as one of the top performers within the European Monetary Union (Baltas 2013: 35). However, the nation had failed to capitalize on favourable financing conditions to reduce the debt-to-GDP ratio to sustainable levels. By the close of the decade, structural deficits were effectively contained, and a more rigorous fiscal policy yielded positive results, culminating in a decrease in the debt-to-GDP ratio to 104%. Up until 2003, public indebtedness had further diminished to 98%, partly attributable to advantageous borrowing terms from international markets. The onset of the 2008 crisis affected an already fragile Greek economy, which had exhausted conventional measures to combat a typical recession. These measures included an expansionary fiscal policy that had led to exceptionally high fiscal deficits in preceding years. Consequently, this situation resulted in a decline in domestic demand, jeopardizing the banking sector and exacerbating challenges in public finances (Petrakis 2012: 275).

As far as the state of the financial and real economy of Greece during the crisis is concerned, resulting from government decisions and policies pertaining to the reduced taxation of personal business profits (Law 3296/2004) and further policies on reductions of tax coefficients over the period of 2007-2009, government revenues and public finances were negatively impacted. Therefore, leading up to 2008, government revenue exhibited slower growth compared to public spending, resulting in a substantial increase in the cash deficit of the general government. Most notably, in 2008, the cash deficit soared to roughly the equivalent to 7.5% of GDP. This marked a significant increase of the economy's financial strain since 2008. The year concluded with a deficit of 10%, and by the end of 2009, the cash deficit had risen to nearly 15% of GDP (Eurostat 2023, Bank of Greece 2023).

With regard to the labour market developments during the crisis, from 2008 to 2013 unemployment levels rose from 7,8 per cent to over 27 per cent, resulting in Greece struggling with meeting the criteria set by the European Union. Structural reforms, implemented under the austerity framework to enhance the flexibility of the Greek labour market (Ioannou 2010) aimed mainly at enhancing employers' discretionary authority to allocate labour within the job market, with the expectation that such measures will lead to higher employment rates and a reduction in unemployment (Kennedy 2018: 281).

Based on the results of the presented macro-analyses of social capital, the sharp decline of the Greece economy, instability of the financial sector, increased poverty and income inequality as well as and previously unprecedented levels of unemployment and job insecurity justify expectations regarding social capital erosion and decline (see e.g. Berggren/Jordahl 2006; Delhey/Newton 2005). Specific developments in Greece, however, offer insights and suggest a more nuanced approach. Although trust in institutions eroded as a results of austerity measures straining the relationships between citizens and government and civic engagement declined as individuals focused on immediate economic concerns, studies on civic society also demonstrate a new resurgence of a diverse array of both formal and informal entities providing social assistance to those affected by the crisis. Collaboration between national and local governments, civil society groups, private donors and professional organization (such as NGOs, churches and business corporations) has been instrumental in delivering services and establishing new frameworks to address the impacts of increased poverty (Kantzara 2014). Most of the concerned dynamics can be found at the local level in Greece, where municipalities - in conjunction with non-profit organizations - have played a role in establishing innovative social welfare initiatives such as e.g. social pharmacies, social grocery shops, and social tuition centres (Simiti 2017: 7). Simultaneously, foundations have initiated funding programs for social welfare NGOs, the church has expanded its welfare structures, and a new wave of solidarity networks has emerged (Bourikos 2013: 13; Sotiropoulos/Bourikos 2014). With these developments in mind, the results suggesting a limited impact of the economic crisis on the social network and civic norms components of social capital becomes much clearer.

7.1.2 Main Findings and Patterns at the Micro-Level

The development of macro-level social capital is also linked to individual-level perceptions and reflects individual choices. It is at the individual level that trust, reciprocity, and a sense of belonging to a community emerge. When individuals perceive that their interactions are characterized by trustworthiness, fairness, and mutual benefit, they are more likely to engage in social exchanges that are conductive towards social capital development (Kumlin/Rothstein

2010; Smith/Ortiz 2002) due to underlying willingness to act cooperative in providing collective goods (Coleman 1988; 1990). Considering that fostering a culture of trust and cooperation is the foundation upon which social capital is built, it is particularly relevant to consider the perceptions of the impact of the economic crisis and individual experiences and their impact on social capital (Rothstein/Stolle 2003). Analogous to the macro-level, the theoretical discussion developed several expectations regarding the direct impact of the economic and financial crisis. The erosion of individual-level social capital is expected as a result of the deterioration of citizens' financial situation during the crisis (*E 1b*) or as a result of the overall perception of the state of the economy and the individual employment situation (*E 1d*).

The micro-level findings suggest across all of the three components of social capital, that individual satisfaction with the overall state of the economy and positive perceptions of household income play pivotal roles in nurturing individual-level social capital. This largely conforms with the findings of previous studies, suggesting that whenever individuals are content with the state of the economy and feel that their households are economically secure, they are more inclined to engage in social interactions and contribute to their communities (Christoforou 2005: 13-16; Stolle 1998).

Contentment with the economy fosters a sense of optimism and trust in societal institutions and overall life satisfaction, encouraging participation in civic activities and community initiatives (Kern 2015; Brehm/Rahm 1997). Similarly, perceived household economic stability reduces financial stress and anxiety, allowing individuals to focus on building social connections and engaging in pro-social behaviours (Knack/keefer 1997, Delhey/Newton 2005). Ultimately, the combination of a positive perception of the state of economy and financial security contributes to a positive atmosphere of trust, cooperation, and community engagement, which strengthens the fabric of social capital within a society (see also Wright 2014; Putnam 2000).

This positive and statistically significant connection, however, has to be seen in the broader context of the crisis experience (see figure 6.1 in Ch 6). With the onset of the economic and financial crisis and well beyond its initial impact, the satisfaction with the state of the economy and the perceptions of household income have both decreased on average (Chai et al. 2015; Whelan 2001), which points towards potentially precarious conditions under which social capital cannot be further accumulated or declines (Beigelsdijk/Van Schaik 2005b). Especially considering that if economic conditions deteriorate, individuals often experience heightened financial stress, job insecurity, and reduced access to opportunities (Flap/Völker 2008). As a result, their satisfaction with the economy diminishes, leading to a pervasive sense of economic dissatisfaction and increasing dissatisfaction with perceived household income or reduced earnings, intensifying financial strain resulting in the erosion of social capital (also see Cassom/Giusta 2006; Cook et al. 2005).

Within the realm of socio-economic dynamics, an analysis of the interrelationships between individual-level perceptions of the economic situation, notably those pertaining to perceived household income, overall satisfaction with the economy and the perceived need for reducing income inequality accounted for in the individual-level components of the study, the results can be interpreted by accounting for each of the individual components of social capital. First and foremost, perceptions of household income shape the dynamics of interpersonal trust within a community (Gabbay/Leenders 1999; Hansen et al. 1999; Leana/Van Buren, 1999). Economic instability tends to instil scepticism about the reliability of others, particularly in economic transactions. The uncertainty associated with economic downturns may lead individuals to exhibit cautious and risk-averse behaviour, thereby diminishing overall trust (Portes/Landolt 1996).

Such a view is based predominantly on arguments related to the pivotal role of trust in shaping the opportunity costs of interactions, influencing the decisions individuals make regarding engagement in various activities, collaborations, and transactions (Fukuyama 1995; Berggren/Jordahl 2006). The level of trust within a social or economic system significantly affects these costs, impacting the willingness of individuals to invest time, resources, and effort in interactions (Beugelsdijk et al. 2004). This relationship undergoes distinct changes during periods of economic crisis. Whereas in times of economic stability, high levels of trust tend to reduce opportunity costs associated with interactions and lead to individuals trusting each other and showing willingness to engage in cooperative endeavours, share resources, and collaborate (e.g. Grießhaber/Geys 2012; Uslaner 2009). During periods of economic crisis, the relationship between trust and opportunity costs undergoes a transformation. Economic uncertainties and heightened risks often lead to a decrease in overall trust within the community. As trust diminishes, the opportunity costs associated with interactions tend to rise. Individuals become more cautious about engaging in collaborative efforts, sharing resources, or entering into transactions. The fear of potential exploitation or default increases, contributing to a higher perceived cost of engagement (Ahuja 2000).

As far as the network components of social capital is concerned, perceived household income serves as a particularly relevant predictor in the relationship between economic conditions and social networks. During times of economic prosperity, perceived household income emerges as a crucial factor influencing the dynamics of social networks within communities. The prevailing economic affluence tends to positively shape individuals' attitudes and behaviours towards social interactions (Anderson et al. 2018). Theoretical perspectives on the relationship between resources and participation in politics and society suggest that higher perceived household income enhances an individual's sense of financial security and confidence. This financial stability provides individuals with greater capacity to engage in civic and political activities by reducing stress associated with economic uncertainty and freeing up resources - both time and money - for participation (Verba et al. 1995; De Grauwe 2009; Kanitsar 2022). This positive economic climate fosters a willingness to engage in various social activities, contribute to communal endeavours, and actively participate in professional networks.

During times of economic crisis, on the other hand, the relationship between perceived household income and social networks undergoes a notable transformation. Economic downturns often lead to financial constraints and heightened stress, prompting individuals to adopt a more cautious approach towards social interactions. The strategic contraction of social networks during economic crises can be seen as a pragmatic response to the increased opportunity costs associated with participation in social activities.

A similar conclusion emerges with regard to the social norms component of social capital, although the results of the analyses suggest that the impact is less pronounced as compared to the previous discussion on generalized social trust and social networks. This, however, can be explained by considering the fact, that norms are strongly correlated with the previous two components. Based on the argument suggesting that perceived household income and the overall positive perception of the economy contribute to the reinforcement of social and civic norms within a community, and such norms tend to emerge as a result of civic participation (see e.g. Keefer/Knack 2008; Kotzian 2014; Mau 2004), economic affluence tends to create an environment where individuals feel secure and optimistic about the future. This sense of financial well-being often translates into a heightened commitment to social and civic norms.

During times of economic crisis on the other hand, the relationship between perceived household income, the overall perception of the economy, and social and civic norms undergoes a certain shift. Economic hardships, as perceived individually, often lead to heightened stress and a sense of economic vulnerability (Smith/Ortiz 2002) and as a result, leads to individuals prioritizing immediate personal interests over communal obligations as a coping mechanism for navigating financial uncertainties (Iglič 2014; Kaase 1999; Searing 2013). Economic and financial crises can result in a divergence from established norms, with individuals focusing on self-preservation and economic survival. This shift in priorities precipitates a gradual erosion of the normative fabric within the community, as the communal adherence to shared norms weakens in the face of economic adversity.

7.1.3 *Integrating the Macro- and Micro-Level Findings*

Drawing upon the analysis of both macro and micro-level data, the presented findings and their implications can be traced back the multifaceted nature of social capital and its responses to economic downturn. Findings indicate that while macro-level policies and institutional frameworks influence the broader socio-economic landscape (Rothstein 2013; Rothstein/Uslaner 2005), individual perceptions of economic stability and household income mediate the development of social capital at the micro-level. While previous research has largely explored the effects of economic crises on social capital separately at the macro and micro levels (e.g. Ostrom/Ahn 2009; Berggren/Jordahl 2006; Keefer/Knack 2008), an integrated approach presented here considers the complex relationships between both of these dimensions and seeks to address the gap by examining how macro-level economic factors and state institutions interact with individual perceptions to shape social capital dynamics during periods of economic turmoil.

Integrating micro and macro-level perspectives offers a comprehensive understanding of social capital dynamics during economic crises. While macro-level policies shape the broader socio-economic environment, individual perceptions mediate the development of social capital within communities. Proactive measures that address economic insecurity and promote trust and cooperation at both levels are essential for preserving social capital resilience. In this sense, the main findings of such an integrated approach provide valuable insights for policymakers and community stakeholders seeking to enhance resilience and cohesion in the face of economic adversity.

The empirical insights offered by the analysis show that at the macro-level, economic crises exert direct and indirect influences on social capital development. Fiscal strain, declining economic growth, and increasing inequality are identified as key drivers of social capital erosion (as suggested e.g. by Narayan/Pritchett 1999; Rothstein 2013; Savage 2019; Celikay/Gumus 2017). Reductions in public expenditures and limited access to resources constrain the capacity of states to support community initiatives, exacerbating social fragmentation and distrust (e.g. Clemente et al. 2012). Contrasting the results, while the macro-level analysis reveals limited evidence for the direct impact of GDP growth rates on social capital, the combined multilevel models demonstrate a statistically significant effect on all three components of social capital. Likewise, increasing income inequality, as measured by the Gini-coefficient, is shown to have a statistically significant negative impact on social capital in both, the macro-level and the combined multilevel models. Both finding combined show that effective government institutions can mitigate these adverse effects by providing safety nets and instilling confidence in public institutions (Beugelsdijk/van Schaik 2005b; Gelissen et al. 2012; Hemerijck et al. 2012). Case studies of Sweden and Greece illustrate the differential impact of macro-level policies on social capital resilience, highlighting the importance of proactive measures in preserving social cohesion during crises.

Individual perceptions of economic stability and household income significantly influence social capital dynamics at the micro-level. Positive perceptions of the economy and financial security foster trust (Zak/Knack 2001; Steijn/Lancee 2011), cooperation, and community engagement (Christoforou 2015), while economic dissatisfaction and financial strain diminish social capital. The findings align with expectations derived from the literature, demonstrating that satisfaction with the economy has a statistically significant impact on overall social capital and its components. Similarly, a positive perception of household income enhances interpersonal trust and broadens social networks, whereas economic instability often leads to risk-averse behavior and a contraction of social ties (see e.g. Wright 2014). Additionally, economic conditions influence adherence to social and civic norms, with prosperity reinforcing communal obligations and crises prompting divergence from established norms (Helliwell et al. 2014).

The latter is demonstrated most clearly with regard to income inequality. The finding is that perceptions regarding the need for government action to reduce income inequality (as shown in the individual-level analysis) have a statistically significant negative impact on social capital is consistent with theoretical expectations. This effect being confirmed when viewed in conjuction with the macro-level measure of economic inequality in the comnined multi-level analysis suggests that whenever individuals perceive a strong need for government intervention, it often reflects dissatisfaction with the current state of inequality and erodes trust in existing institutional and social structures and thus also leads to a decline in social capital (see e.g. Joradhl 2009; Evans et al. 2019).

7.2 Final Conclusion

Based on the discussion of the findings from both macro and micro levels in this study on the impact of economic crises on social capital, it is evident that the relationship between economic downturns and social cohesion is nuanced and multifaceted. The findings underscore the complexity of different forms of relationships between macro-level policies, institutional frameworks, and individual perceptions, thus also highlighting the importance of considering both dimensions in understanding the dynamics of social capital during periods of economic turmoil.

Politically, these findings carry significant implications for policymakers tasked with navigating economic crises. At the macro level, proactive measures aimed at safeguarding social capital, such as robust welfare systems and effective government institutions, emerge as critical tools for mitigating the adverse effects of economic downturns (as previously suggested e.g. by Callan et al 2010; Kern et al. 2015). Investments in social programs and policies that promote transparency, accountability, and social cohesion can help bolster resilience and minimize social fragmentation. Case studies like those of Sweden and Greece illustrate the differential impact of policy responses on social capital resilience, emphasizing the importance of tailored interventions suited to specific national contexts.

From the perspective of importance of the analysis for communities and societies, the findings further underscore the importance of community resilience and solidarity in times of crisis (Closa/Maatsch 2014; Kantzara 2014). While economic adversity may strain social bonds and erode trust, the emergence of grassroots initiatives and collaborative efforts highlights the capacity of communities to adapt and support one another. The revitalization of local networks and the proliferation of social assistance programs underscore the resilience of social capital in the face of economic challenges, emphasizing the role of civil society in fostering cohesion and collective action (as shown e.g. in the case of Greece by Sotiropoulos/Bourikos 2014).

In view of the long-standing scientific discourse on social capital, and the many contentious claim associated with its conceptual tradition and empirical relevance, the presented research findings aimed at contributing to a deeper understanding of the complex dynamics underlying social capital formation and erosion. By integrating macro and micro-level analyses, the research provides new insights into the mechanisms through which economic conditions influence social capital and its constituting components. The findings underscore the importance of adopting a holistic approach to studying social capital dynamics, considering both structural factors and individual perceptions. Future research in this area could further explore the long-term effects of economic crises on social capital and identify strategies for promoting resilience and cohesion in vulnerable communities as well as the differential impact of different types of varieties of crisis experience.

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