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Dualized Trust:
Risk, social trust, and the welfare state

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Abstract

This article examines how labour market vulnerability and social policy interact to shape generalised trust. Building from the literature on dualisation, I suggest that: (1) labour market outsiders will have lower levels of generalised trust due to their increased risk exposure; and (2) active labour market policies, by conditioning labour market vulnerability, can mitigate the impact of outsiderness on trust. The study thus leverages within-country differences between insiders and outsiders, in the process mitigating some of the confounding issues that afflict the existing trust literature. Analysis of data from the 2008-2014 waves of the European Social Survey then provides evidence of both the impact of outsiderness on trust and the ability of social policy to moderate that effect. The investigation sheds light on an additional consequence of dualisation while also highlighting the potential influence of social policy (holding the broader culture constant) on generalised trust.

Keywords: trust, social capital, welfare state, social policy, Europe
JEL Classification: H53, government expenditures and welfare programs

Labour market dualisation has been shown to have a wide array of negative consequences: outsiders are subject to frequent job loss, poorer working conditions and, in many instances, reduced access to the welfare state (e.g. D'Addio and Rosholm, 2005; Gash and McGinnity, 2007; Palier and Martin, 2007). This paper explores whether a lower level of social trust should be added to the list.

Focussing on the insider-outsider divide also allows us to gain insights into the ways in which institutions impact social trust. Although research broadly supports the claim that generous welfare states are associated with higher levels of generalised trust (e.g. Larsen, 2007; Gelissen et al., 2012), there is continued debate as to the mechanisms driving that relationship (cf. Uslaner, 2008; Nannestad et al., 2014). It is here that the literature on dualisation can be instructive: outsiderness is associated with a variety of consequences that, on the one hand are correlated with lower trust, but on the other might be mitigated by social policy. Leveraging intra-country insider-outsider cleavages thus permits us to assess the mechanism behind the welfare state's generation of trust, while at the same time holding cultural context and broader trust levels constant. What is more, this approach also allows us to draw out implications about how labour market institutions might matter for social trust.

In order to carry out this analysis, the first step is to focus on labour market vulnerability *per se* (i.e. "outsiderness"), rather than related concepts such as class, skill-set, or even employment status at a given moment. Importantly, this requires us to consider country-level patterns in labour markets, given the impact of labour market regulations and economic factors on risk exposure. While more involved, this approach permits a more direct investigation of how the risk of unemployment and atypical employment impact generalised trust, controlling for related factors such as income, education, and current employment status.

Establishing that labour market vulnerability negatively impacts trust then allows us to examine whether welfare states can mitigate that effect. There are two reasons to think that active labour market policies in particular should matter. First, insofar as these programmes protect outsiders and reduce social exclusion (see Anderson and Pontusson, 2007), they should mitigate risk among the vulnerable and its ensuing negative effects on trust. Second, these policies can also erode the insulation of insiders from labour market risk (see Rueda, 2014, pp. 388-389), in the

process further levelling out trust across the insider-outsider spectrum. The difference in the trust-levels of insiders and outsiders should therefore vary with welfare state design.

This article begins by laying out the relevant literature and its implications for the relationship between trust, labour market vulnerability, and the welfare state. It then applies the continuous insider-outsider measure developed by Schwander and Häusermann (2013) to the 2008, 2010, 2012, and 2014 waves of the European Social Survey, incorporating data from 16 Western European countries. The findings suggest that social policy can indeed impact trust-levels: outsiderness is associated with lower trust, but active labour market policy expenditure seems to mitigate the size of that effect. The study thus sheds light on both an additional consequence of dualisation and the potential influence of social policy on generalised trust.

Trust, risk, and the welfare state

Research on trust suggests that more generous welfare states are broadly associated with higher levels of social trust (e.g. Gelissen et al., 2012), although the direction of the causal arrow remains under debate (c.f. Bergh and Bjørnskov, 2011; Brewer et al., 2014). There is a consensus, however, that welfare states are not all created equal: social policy programmes may either produce or destroy social capital, depending on their design.

In particular, much has been made of the distinction between universal and means-tested benefits (e.g. Kumlin and Rothstein, 2005). By leaving room for partiality, means-tested benefits open up more space for perceptions of corruption and cheating (Rothstein and Stolle, 2008); these programmes also have a much poorer record in reducing inequality, which could negatively impact trust by deceasing optimism and shared values and increasing social distance between classes (Uslaner, 2003; Larsen, 2007). Conversely, universal programmes might increase trust by enhancing equality, optimism, and the perception of individual opportunity (Uslaner, 2002).

Yet it seems likely that different segments of society experience these sorts of effects in different ways. This variation is most apparent in discussions of immigrant groups, as they have both distinct cultural backgrounds and different experiences from “natives” within their destination countries (e.g. Dinesen, 2012). But this dynamic should also apply to the division between

insiders and outsiders, given their different experiences of both labour market vulnerability and the welfare state.

Here the work of Lee (2013) serves as our starting point: seeking to explain the high levels of generalised trust in Nordic welfare states, he stresses the importance of active labour market policy (ALMP) and high public investment in skill provision. Lee argues that these policies are key to increasing social trust, since they combine generous benefits with monitoring and better allow workers to manage life chances and risks. He suggests that the weak labour market position of manual and agricultural workers make them particularly prone to low trust – save for where social policy reduces their vulnerability (Lee, 2013, p. 609).

Yet this argument can be further refined and explored by incorporating a nuanced understanding of insider-outsider distinctions. Specifically, exposure to risk and the ability to use the welfare state to manage that risk vary according to more than just skill-level. This is the case due to both labour market regulations and the relationship between non-standard employment histories and benefit access and generosity (delineated below).[1]

This focus on the interaction between labour market vulnerability, welfare state access, and risk suggests that the literature on dualisation can be especially valuable. Work on labour market dualisation highlights the divide between a primary sector characterised by higher quality employment and a secondary sector of lower pay, temporary contracts, and part-time work (Berger and Piore, 1980). While this secondary sector of atypical, nonstandard employment was originally rather small, it has grown substantially in recent decades, especially for women, youth, and immigrants (e.g. Gash and McGinnity, 2007).

It is important to note that within this paradigm, labour market vulnerability and education- or skill-levels do not necessarily overlap (see Häusermann et al., 2014). Older manual workers in Continental and Southern Europe, for example, may well be *less* at risk of unemployment or atypical employment than younger, more educated individuals. As a result, rather than treating all labour markets as if they share a common distribution of risk, we should consider the interplay of diverse labour market and social policy contexts.

There are three key trust-related features of dualisation to consider. First, outsiders are likely to experience repeated bouts of unemployment, as they go from one nonstandard job to another

(e.g. Gash and McGinnity, 2007). This pattern has clear potential implications for social trust: job loss is associated with a number of negative knock-on effects that have been tied to lower social trust, such as loss of economic and social status, shrinking social networks, worsened psychological well-being, and reduced optimism (e.g. Carroll, 2007; Putnam, 2000). And importantly, previous research suggests that the consequent impact of unemployment on trust persists well after re-employment (Laurence, 2005).

Second, outsiderness is not just potentially problematic because of its connection to more frequent stints of unemployment; even during employment, it is correlated with problems such as decreased perceptions of fairness and increased social exclusion (e.g. Anderson, 2009; D'Addio and Rosholm, 2005). Given that these sorts of outcomes are themselves associated with lower levels of trust (e.g. Dinesen, 2012; Uslaner, 2002; Putnam, 2000), one would also expect employed outsiders to be negatively affected by their labour market vulnerability.

Third, and most centrally for present purposes, outsiders often have a far weaker welfare safety net to rely upon, since access to generous unemployment benefits typically depends on a standard employment history. In the most egregious of cases, labour market regulations further worsen this inequality by providing strong protections for some while leaving others vulnerable (e.g. Palier and Martin, 2007; Häusermann and Schwander, 2010). Note that these unequal protections should matter for several reasons that transcend the employed/unemployed divide. Most obviously, access to more generous welfare state benefits should shape both the perceived costs of unemployment (for the employed) and the actual experience of job loss (for the unemployed). At the same time, just as economic inequality appears to impact trust by shaping pessimism and anxiety (Wright, 2014), so too might perceptions of unequal opportunities and protections. Finally, exclusion from the generous benefits that might otherwise engender greater trust could also play a role, and may even lead individuals to feel cheated by the system.

Research on dualisation thus highlights that labour market vulnerability can, over time, have profound effects on both one's exposure to negative, trust-related outcomes and one's access to the welfare state. When combined with the argument that high vulnerability negatively affects generalised trust by increasing (among other things) pessimism and social exclusion, we arrive at Hypothesis 1: that greater outsiderness (*ceteris paribus*) will lead to a lower level of generalised trust. Importantly, long-term experiences of labour market vulnerability are expected to have an

impact on trust that is independent of related factors, such as education, income, and even current employment status. This means, for example, that in light of their employment histories and perceived positions in the labour market, two unemployed persons with vastly different degrees of outsiderness are expected to: (1) exhibit divergent levels of optimism and social exclusion; (2) draw upon very different welfare state benefits; and (3) consequently have distinct levels of social trust.

Insofar as social policy design is able to counteract some of the consequences of outsiderness that are associated with lower trust, the welfare state should also play a role. In particular, ALMP expenditure, which includes spending on programmes such as job training, vocational rehabilitation, and recruitment incentives for employers, is likely to have an important impact (see Anderson and Pontusson, 2007). As previous research has demonstrated, these types of policies have clear implications for the labour market vulnerability of outsiders. While this is most obviously true for outsiders with lower levels of education, research suggests that the effect may extend more broadly, as ALMP expenditure has been shown to generally increase outsiders' perceptions of social mobility and inclusion (cf. Anderson, 2009; Sage, 2015). What is more, ALMP expenditure likely also shapes the vulnerability of insiders, since as more outsiders are brought into standard employment, insiders find their bargaining position progressively weakened (see Rueda, 2014, pp. 388-389).

Taken together, these points lead us to Hypothesis 2: that (*ceteris paribus*) the negative effect of outsiderness on generalised trust will be mitigated by social programmes (namely, ALMP) aimed at reducing outsider vulnerability. In other words, the greater the amount of ALMP expenditure, the more similar the trust levels of insiders and outsiders.

Overall, this reasoning suggests that if welfare states impact individual-level trust by mitigating risk and related negative outcomes, we should find (1) that differences exist in trust-levels across insiders and outsiders, and (2) that the size of these differences should vary by welfare state design, with ALMP expenditure likely to have an effect. By leveraging within-country cleavages, this approach allows us to explore the relationship between the welfare state and generalised trust in more detail.

Data

The analysis is based upon survey data from the 2008, 2010, 2012, and 2014 waves of the *European Social Survey* (ESS). The ESS is ideal for this study since it includes the standard generalised trust questions as well as fine-grained occupational data (using *International Standard Classification of Occupations* (ISCO) codes). The latter are required for the use of an occupation-specific approach to measuring risk of unemployment and atypical employment (see below for further discussion). The investigation is restricted to the four most recent waves since the others lack a standardised income measure (a central control given the role of vulnerability) and in a number of cases also suffer from issues related to occupational and educational classifications. (Note that although the 2012 and 2014 waves employ a substantially altered ISCO coding, the categorisations are converted to align with the earlier scheme.[2])

The study focusses upon the 16 West European cases included in any of these survey waves.[3] The Eastern European cases are excluded for two reasons: first, past research suggests that Eastern and Western European respondents interpret survey questions gaging generalised trust in fundamentally different ways (e.g. Badescu, 2003; Delhey et al., 2011); second, Eastern Europe is marked simultaneously by large informal economies and by extensive informal welfare systems that complement and (often) replace government benefits (e.g. Kuitto, 2016: Polese et al, 2014; Schneider et al., 2010).

Online Appendix Table 1 (OA1) lists the number of observations in each case, as well as the wave years. After excluding observations with missing data we are left with 77099 observations, with a minimum of 440 respondents per country-wave (in Italy) and a maximum of 2230 (in Germany).

Dependent Variable

The dependent variable in the analysis is individual-level generalised trust. To that end, the study employs the standard approach in the literature (e.g. Hooghe et al., 2009; Sønderskov, 2011), performing factor analysis on three trust-related questions in the ESS to generate a single index.[4] The three questions assess expectations about trustworthiness, helpfulness, and fairness, and are respectively worded as follows: ‘generally speaking, would you say that most people can be

trusted, or that you can't be too careful in dealing with people?'; 'would you say that most of the time people try to be helpful or that they are mostly looking out for themselves?'; and 'do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?'. Response categories range from zero to ten. Taken together, the questions load onto a single factor, and the resulting index ranges from -2.47 to 2.00, with a (weighted) mean of -.054.

Although this approach is widely used, there is some debate as to whether these survey questions can accurately assess general trust. Respondents may well think of members of their community or cultural group when asked about 'most people' (see Nannestad, 2008, pp. 417-418). Importantly, however, the measure does show stability over time (Reeskens and Hooghe, 2008) and also has a strong relationship to other measures (Bjørnskov, 2007). And while this approach may pose issues across very distinct countries and cultural groups (Nannestad, 2008, p. 417), Delhey et al. (2011) find that in the Western world, the extent of the imagined trust circle prompted by questions about 'most people' is quite large. Given the present focus on Western Europe, the impact of these issues on our investigation should therefore be relatively circumscribed.

Independent variables

The key explanatory variable is degree of outsiderness, i.e. exposure to the risk of atypical employment and unemployment, which is subsequently interacted with ALMP expenditure (as a percentage of GDP) in the full model.

In analysing outsiderness, the goal here is to move beyond past research on trust by focusing more expressly on labour market vulnerability. The traditional approach to categorising insiders and outsiders would be to create a dummy variable using solely the employment status of the respondent at the time of the survey; unemployed respondents and those in involuntary part-time or fixed-term jobs would then be coded as outsiders, while those in full-time permanent employment are coded insiders (e.g. Rueda, 2007). Although this approach has its benefits, there has been some criticism of dichotomous insider-outsider divisions (e.g. Jessoula et al., 2010). As Schwander and Häusermann (2013, p. 251) have argued, in light of the fluidity of employment

status in modern economies, this binary approach is most appropriate for investigations directly connected to employment status at a given moment. They therefore argue instead for a risk-based measure constructed on the basis of occupational categories, building on previous work by Kitschelt and Rehm (2005) and Oesch (2006). This approach is especially suited to the present investigation due to the centrality of risk, the fluidity of labour market status in modern economies, and the strong connection between atypical employment histories and benefit access for many welfare state programmes. The analysis thus utilises Schwander and Häusermann's (2013) classificatory scheme to categorise outsiderness.

These classifications are built using ISCO occupational codings. Workers are then further parsed within the various categories by country, gender, and age group (separating out those aged up to 40 from those over 40, with this cut-off chosen because most European countries boast a considerable number of 30-somethings still in education (see Couppié and Mansuy, 2003)). Gender and age divisions are employed in light of the large body of literature that suggests they are strong predictors of labour market disadvantages (even holding skill levels constant), with women and the young more likely to be labour market outsiders (e.g. Oesch, 2006; Kitschelt and Rehm, 2006; Emmenegger et al., 2012): for women, this vulnerability typically stems from childrearing and other care-giving obligations; while for the young, it is the result of their status as relatively new labour market entrants. The intuition here that is that gender and age are the key "sociostructural determinants" of atypical employment and unemployment (see Schwander and Häusermann, 2013, p. 253; Häusermann et al., 2016, p. 1051).

Once the primary categorisation is complete, each individual is assigned a 'degree of outsiderness'. [5] This is calculated – using micro-level data from the European Union Statistics on Income and Living Conditions (EU-SILC) – as the difference that results from subtracting the mean workforce rate of unemployment and atypical employment from the group specific rate.[6] As a consequence, outsider status is determined not by a snapshot based on one's employment contract, but rather by exposure to labour market risk. As Rovny and Rovny (2017) discuss in their comparison of various measures of labour market vulnerability, this is a key advantage of looking beyond specific individual-level characteristics (e.g. occupational group, contract-type, age, gender) and instead considering them in tandem: the process allows us to say something about one's general experience of vulnerability. Insofar as we are concerned about outcomes –

like generalised trust – that are potentially shaped by long-term experiences (rather than, for example, momentary contract type), this is a major benefit.

This advantage does not come without costs, however: the measure is more complex to construct than going alternatives (in the process necessarily introducing some arbitrariness related to the choice of categorisation criteria); runs the risk of assigning to individuals a level of vulnerability that applies well to their subgroup but poorly to them; and could potentially lead researchers to confuse the effects of labour market risk with those of age and gender (Rovny and Rovny, 2017, p. 6).

To address these risks, the analysis incorporates various sensitivity tests to ensure the robustness of the empirical investigation. The most central of these relate to alternative constructions of the outsiderness measures, whereby the subgroup categorisation components are altered. This involves several variants: (1) employing alternative age cut-offs (30 and 35 rather than 40); (2) incorporating a potentially curvilinear relationship between age and labour market risk, with both older (i.e. 55 and over) and younger (i.e. 35 and under) individuals potentially more vulnerable than the middle-aged; (3) removing the gender division from the variable, to ensure that we do not confuse the effects of vulnerability with those of gender; and (4) adding immigrant status, which itself may be a major marker of labour market vulnerability, to the subgroup categorisation scheme (using EU-SILC data on country of birth).[7] While Schwander and Häusermann's outsiderness scores are based on an older version of the EU-SILC (2007) dataset (v3), the values here are calculated using the most recent revision (v6) – though the results remain consistent even when using their original scores. As will be demonstrated in the section laying out the main analysis, the key results are robust to each of these changes.

Table OA2 provides an overview of the (weighted) distribution of the baseline outsiderness variable, listing the mean, standard deviation, and minimum and maximum values for each of the cases and on average. The mean level of outsiderness ranges from about -0.5 Finland to 0.3 in Germany – with a negative (positive) mean indicating a sample of respondents, on average, less (more) exposed to unemployment and atypical employment. The overall mean is just under zero (at -.01). Continental and Southern European countries have the largest standard deviations, suggesting that there are large numbers of individuals who are either quite exposed to risk or

quite insulated from it. The opposite is true in the Nordic countries, where mean outsiderness is consistently below zero and the standard deviations are the smallest.

[Figure 1 about here]

Figure 1, in turn, graphs the weighted mean levels of trust both overall and for individuals that are above or below one standard deviation from the mean level of outsiderness in a given country. Here a dichotomous insider-outsider division is employed for ease of visualisation and to avoid ignoring the large cross-country differences in the spread of outsiderness. Countries are presented in descending order of generalised trust. The Southern European and Continental countries are in the bottom half of the distribution, while the Nordic states take the four highest placements. The UK and Ireland, in turn, lie in the middle. Differences in mean trust levels across countries are substantial, ranging from -.81 in Greece to .59 in Denmark (with a total range from -2.49 to 2.00). The difference is even starker when we compare Greek outsiders, at -.92, with Norwegian insiders, at .59.

More generally, the mean outsider, insider, and overall trust levels also follow the expected alignment, increasing as we move from outsiders to the overall average to insiders alone. The only exceptions are Austria, where the means essentially overlap, and Denmark, where insiders appear to be slightly less trusting than outsiders (though their trust level is still higher than any group in any other country, save for Norwegian insiders). Pooling data across the cases, the mean outsider and insider trust levels are statistically distinct, though this is not the case in several of the countries individually. Clearly, there are numerous other important influences at work. We therefore turn to the required controls before proceeding to the main analysis.

The choice of controls is based upon the standards of pre-existing work examining generalised trust (e.g. Brewer et al., 2014). At the individual level, these include: education level (using the five-category harmonised ISCED-97 scheme); household income decile; household size, which may have an indirect effect (by changing the meaning of household income) or a direct one (insofar as individuals living alone may have lower trust); gender (with males coded as 1); age and its square, to incorporate a potentially curvilinear effect; trade-union membership; marital status; (self-described) status as a minority (minorities coded as 1); religion, included primarily to capture the Catholic/Protestant divide (with Catholics generally less trusting than Protestants);

labour market status controls (unemployment, part-time employment, self-employment; non-employment (i.e. those outside of the labour market)); and a dummy variable for survey wave.[8]

Controls for factors closely related to labour market vulnerability – namely education, trade-union membership, labour market status, and income – are particularly important here. Each of these variables is connected to labour market vulnerability conceptually, while at the same time being distinct from the employed measure of it: i.e., risk of unemployment and atypical employment. If the hypotheses above are correct, the long-term experience of labour market risk exposure should have an effect independent of not only other risk-related factors, but also momentary employment status.

While education, trade-union membership, and labour market status are relatively straightforward to incorporate empirically into the models, income is somewhat more complicated. A sizeable proportion (22%) of respondents did not answer the question, and since non-response may itself be related to trust, its use may bias our results. To address this potential problem, we employed an alternative four-category ordinal question on feelings of income satisfaction (with only a 1% non-response rate) to confirm that the findings remain consistent regardless of specification. Since the key findings are unaffected and household income decile provides a more fine-grained control (given the present focus on risk), the analysis below employs only the direct income measure.

At the national level, in turn, the key variable is ALMP expenditure as a percentage of GDP (with data from the OECD).[9] The ALMP measure used includes spending on five key areas: direct job creation for the long-term unemployed or other "difficult to place" individuals; employment incentives designed to facilitate hiring (i.e. funding for recruitment, employment maintenance, and job rotation/sharing schemes); vocational rehabilitation and job subsidies for persons with reduced work capacities; start-up incentives offered to the unemployed or persons from other targeted groups, with the intention of encouraging them to create their own businesses; and training, whether via an apprenticeship or in an educational/training institution and/or a workplace. Overall, levels of ALMP spending across the countries vary considerably: expenditure ranges from 0.3 percent (in the UK) to 1.6 percent (in Denmark), with a mean of just over half a percent and a standard deviation of 2.7 (see Table OA3).

[Figure 2 about here]

Yet even countries with similar levels of ALMP outlay may vary considerably in the types of programmes they direct their funding towards. Figure 2 illustrates this variation using programme averages over the 2008-2014 period as a percentage of total ALMP expenditure.[10] Almost all countries (save for the Netherlands and Sweden) devote a substantial proportion (over 20 percent) of their ALMP expenditure to training, and the vast majority also dedicate at least 10 percent toward employment subsidies; by contrast, start-up incentives, direct job creation, and vocational rehabilitation/job subsidies are notably less popular, with many countries spending nothing whatsoever on the programmes. This cross-country variation necessarily introduces some slipperiness into discussions of the effects of overall ALMP expenditure, especially since even policies within a given programme type likely differ substantially across countries (see Bonoli, 2010). Given that the above theoretical expectations remain broadly applicable across the programme types, however, the analysis follows previous work (e.g. Anderson and Pontusson, 2007; Lee, 2013) and focusses on the impact of ALMP expenditure as a whole.[11]

In order to test Hypothesis 2, ALMP expenditure is then interacted with outsiderness in the main empirical analysis. While the measure of outsiderness assesses risk related to the structure and regulation of the labour market itself, its interaction with ALMP allows us to incorporate the effect of the social policy programmes most likely to influence labour market vulnerability.

The analysis also follows previous work (especially Lee, 2013) in selecting national-level variables to control for context: inequality (as measured by the Gini coefficient), with the expectation that greater inequality increases stratification and undermines social trust; changes in migrant stock (as a percentage of the population), with increases generally thought to weaken social trust by increasing heterogeneity in civil society; and the harmonised unemployment rate, which has the potential to affect not only risk but also ALMP expenditure.[12] The overall number of country-level controls is restricted due to limitations related to both degrees of freedom and high collinearity. As a robustness check, however, measures of employment protection legislation, passive labour market policy expenditure, GDP per capita, and a Protestantism dummy, were substituted in to confirm no notable impact on the main results.[13] Finally, with both the individual- and national-level variables, variance inflation factor indices confirm that

multicollinearity poses no particular issues. Table OA3 provides descriptive statistics for all variables included in the main analysis.

Analysis and Discussion

The analysis proceeds in three stages, with all models built step-wise. The section begins with the simplest model, presenting results from the (generalised least squares) analysis with only individual-level variables and country fixed effects.[14] It then explores mechanisms that might link outsiderness to trust, with major strands in the existing literature pointing toward the potential role of optimism, social exclusion, and recent job loss. Finally, it incorporates country-level variables into the investigation, constructing a hierarchical model (using maximum likelihood estimation and incorporating weights) in which 77099 respondents are nested within 54 country-year clusters, which are in turn nested within 16 country clusters. This three-level approach, coupled with the use of survey wave dummies, provides more accurate (i.e. conservative) results than alternative setups (see Schmidt-Catran and Fairbrother, 2016). In running these models, only the intercepts are allowed to vary in the first set of models, with random slopes then added afterward. This final step provides a stricter test of our hypothesis, with the effect of outsiderness permitted to vary by country. Here the intuition is that various, unobserved country-level factors (e.g. culture) may lead the impact of outsiderness on trust to differ across countries.

[Table 1 about here]

Table 1 presents the results of the country fixed-effects model, with outsiderness as the key explanatory variable. Model 1 includes only outsiderness, while Model 2 adds education and the control for ESS wave. Models 3 and 4 add first the core standard and then additional common controls. This provides some assurance that the findings are not simply artefacts of a specific model construction. To confirm that the main effect does not rely entirely on our chosen measure of labour market vulnerability, an alternative model employs the standard binary outsider measure (separating out those with standard employment from those who are either unemployed or in atypical employment) in lieu of outsiderness (see Table OA4).

Turning to the results presented in Table 1, outsiderness retains significance regardless of which set of controls is employed, supporting the claim that greater labour market vulnerability is associated with lower generalised trust. Results are not driven by any particular country or survey wave and are robust to changes in the variables and cases incorporated in the analysis. Controls take their expected signs, save for part-time employment status, which is correlated with higher rather than lower trust. This may be driven by the distinction between voluntary and involuntary part-time employment, which the ESS data do not capture.

In the full model, an increase of one additional point of outsiderness is associated with a decrease in trust comparable to many of the standard control variables. Degrees of outsiderness range from -1.7 to 2.3, and the difference between the scores at the 25th and 75th percentile is approximately 1; thus, moving across the interquartile range is associated with a decrease in trust of just under 0.06. The shift from the 10th to the 90th percentile, in turn, is associated with a drop of about 0.11. To put these values in perspective, moving across the interquartile range of generalised trust scores involves a change of just over 1 point. While the effect is therefore relatively modest, it is nevertheless comparable to most of the key controls: unemployment and Protestantism, for example, are associated with impacts of about -0.11 and 0.09 respectively; similarly, movement from the 3rd to the 7th household income decile is associated with an increase in trust of 0.10.

Indeed, only education appears to have a markedly greater impact. Completing tertiary education is associated with an increase in trust of 0.27 compared to an individual with less than lower secondary education, and an increase of 0.16 compared to someone with upper secondary education. Note, however, that large differences in outsiderness have the potential to offset a sizeable portion of this effect.

What mechanisms might be behind this negative effect of outsiderness on trust? To address this question, the next set of models incorporate three additional variables into the analysis: optimism, social exclusion, and recent job loss. In light of existing research (e.g. Putnam, 2000; Uslaner, 2002), these three factors are prominent candidates for mechanisms linking outsiderness and generalised trust, and the ESS makes it possible to examine all of them. The measure of optimism, following previous work (e.g. Sønderskov and Dinesen, 2016), is based on a question about life satisfaction: “All things considered, how satisfied are you with your life as a whole

nowadays?" Potential answers range from 0 (extremely dissatisfied) to 10 (extremely satisfied). Social exclusion, in turn, is measured using the question "how often do you meet socially with friends, relatives or work colleagues?", with answers ranging from 1 (never) to 7 (every day). Finally, the effect of recent experiences of unemployment is examined using a question asking whether respondents have "been unemployed and seeking work for a period of more than three months" within the past five years. The fact that this variable captures unemployment experiences rather than current employment status is key, since bouts of job loss have been tied to both outsiderness and lower generalised trust (e.g. Laurence, 2005; Gash and McGinnity, 2007).

These three survey items allow us to examine whether there is any evidence that optimism, social exclusion, and job loss serve as mechanisms by asking: (1) whether outsiderness significantly affects optimism and socialising (job loss is excluded here since its connection to outsiderness is definitional, not psychological); (2) whether the three potential mechanisms significantly affect generalised trust in the absence of the outsiderness variable; and (3) whether outsiderness's effect on trust is diminished after adding the potential mechanisms to the model. In each case the mediators are examined both together and separately.

To begin, we should confirm that outsiderness does indeed seem to impact optimism and social exclusion, as suggested by previous research (e.g. Carroll, 2007; Anderson 2009). This is done via two additional sets of regressions, in which the standard dependent variable (generalised trust) is replaced by "life satisfaction" and "frequency of meeting socially" (while still controlling for all of the standard controls listed above, alongside self-assessed health). Regression results highlight a statistically significant effect of outsiderness on both life satisfaction (see Table OA5) and frequency of social meeting (see Table OA6). To test whether the effect is reliant on ALMP expenditure, the analysis is repeated on a divided sample, with below- and above-average ALMP expenditure (based on country-year observations) separated out (also in Tables OA5 and OA6). Doing so suggests, as expected, that the effect of outsiderness on both of these variables is either erased or weakened considerably in high-ALMP contexts. Having confirmed these effects, we must investigate whether life satisfaction, socialising, and recent job loss have independent impacts on trust. The findings provide evidence

of an effect, regardless of whether the variables are included together or examined separately (see Table OA7).

[Figure 3 about here]

Finally, we must add these three variables to the full individual-level model that was laid out in Table 1 and compare the coefficients. The key results of this analysis are illustrated in Figure 3, which presents the regression coefficients of outsiderness across models with and without the mechanism variables (full regression results are listed in Table OA8). The panel includes the coefficients and 95% confidence intervals for the standard full model (in black) and the standard full model with life satisfaction, frequency of meeting socially, and/or recent job loss (in grey) – all run on the same sample. The findings suggest that, in all instances, the mediator variables reduce the impact of outsiderness on trust; the most notable decreases, however, are limited to models that include life satisfaction. While these results are only suggestive, they point to the likelihood that the relationship between outsiderness and trust may well be driven by the mechanisms discussed above, with pessimism an especially likely candidate.

On average, then, outsiderness does appear to affect generalised trust, and there is evidence to suggest that optimism in particular (as measured by life satisfaction) may be an important mechanism. But does the impact of outsiderness on trust vary across countries, with ALMP expenditure shaping the effect? The next set of regressions investigate this question: Models 1 through 4 gradually introduce control variables into the core model (random-intercepts only). Models 5 and 6, in turn, allows the impact of outsiderness to vary across countries (i.e. adding random slopes), thereby controlling for unobserved factors and acting as a robustness check on the primary analysis. Key results are presented in figures below, with the full regression results reproduced in Table OA9.[15]

The findings from the full (random-intercepts only) model, presented in Figure 4, suggest that the welfare state shapes the effect of outsiderness on trust. The figure overlays two graphs: a marginal effects plot (with 95% confidence intervals) of the impact of outsiderness on generalised trust across a range of values of ALMP expenditure; and the distribution of respondents across various levels of ALMP expenditure, illustrated via a dotted line. Extreme

values of ALMP are excluded from the graphs, with marginal effects shown for the range of ALMP values that are between the 10th and 90th percentile.

[Figure 4 about here]

Looking at the marginal effects plot based on Model 4, one notes that the effect of outsiderness decreases as ALMP expenditure increases, eventually becoming statistically indistinguishable from zero at around 0.75% of GDP (around the 75th percentile of ALMP values). The interaction effect is significant ($p < 0.001$) and suggests that the pattern noted in Table 1 obscured variation in the extent to which outsiderness matters for trust. At the 10th percentile of ALMP values, for example, one notes a negative effect of about 0.08, but this effect drops to around 0.05 at the median (effects reflect movement across the interquartile range). In the former instance, moving from the 10th to the 90th percentile on outsiderness values would therefore be associated with trust scores about 0.14 points lower. Once again, while the size of the effect is not as large as the potential effect of education, it is comparable to or larger than all other controls.

[Figure 5 about here]

Figure 5 uses the primary analysis from Table OA9 to provide an alternative visualisation of the effect of outsiderness on trust at different levels of ALMP expenditure. Once again the x-axis spans the 10th to 90th percentile range of ALMP values, but here the graph presents the predictive margins at three values of outsiderness. This allows us to assess how changing levels of AMLP expenditure would affect the trust of an insider (at the 10th percentile), an outsider (at the 90th percentile) and someone in the middle (at the mean). Results highlight that the difference between insiders and outsiders (holding all other variables constant at their mean) narrows and eventually disappears as ALMP expenditure increases.

Having established that ALMP expenditure appears to have a positive impact on outsiders'trust levels, one final question presents itself: given that some ALMP programmes likely disproportionately benefit lower educated outsiders relative to more highly educated ones, is the interactive effect stronger vis-à-vis the less educated? To test this, the above analysis was repeated with a three-way interaction between outsiderness, ALMP spending, and a binary education variable (split between those who completed any schooling beyond secondary school (38% of the sample) and those who did not (62% of the sample)). Figure 6 graphs the marginal

effects of outsiderness on generalised trust across the 10th to 90th percentile range of ALMP expenditure, separating out the effects on low- (left panel) and high-educated individuals (right panel). (Regression tables are presented in Table OA10). Results suggest that the effect of outsiderness is present among both groups of outsiders – but, with the larger number of cross-level interactions in this model, the interaction between outsiderness and ALMP no longer reaches statistical significance ($p = .10$). The three-way interaction itself, in turn, does not even near statistical significance. The results can thus at best only hint that education may play a role in mediating the relationship: the effect is modestly weaker for the higher educated (-.07 at the 10th percentile of ALMP expenditure) than the lower educated (-.10); and, among the more highly educated, its impact becomes statistically indistinguishable from zero at a lower level of ALMP spending.

[Figure 6 about here]

Finally, a number of supplemental analyses were conducted to confirm the robustness of the direct effect of outsiderness and its interactive effect with ALMP expenditure. First, varying the included battery of individual-level and national-level controls returns similar patterns of results, as does excluding the cases for which we imputed outsiderness or ALMP data. Second, to confirm that the key findings are not driven by any particular case, the model was re-run 16 times, dropping one country per iteration (i.e. remove-one jackknife). The resultant coefficients are equivalent to those in Model 3, and although the standard errors are slightly larger, both the direct effect of outsiderness and its interaction with ALMP expenditure remain statistically significant. Additional analyses confirm that the key effects also remain when the model is estimated allowing for random slopes (i.e. in Model 6 of OA9), using cluster robust standard errors, or looking only at individual survey waves.

Lastly, the main analysis was re-conducted using five alternative variants of outsiderness to ensure that the results are robust to changes in the construction of the measure. This involved: (1) using 30 as the age cut-off, rather than 40 (see Table OA11); (2) using 35 as the age cut-off (Table OA12); (3) incorporating a curvilinear relationship between age and labour market risk, since both older (i.e. 55 and over) and younger (i.e. 35 and under) individuals proved generally more vulnerable than the middle-aged (Table OA13); (4) removing the gender division, to ensure we are not confusing the effects of vulnerability with those of gender (Table OA14); and (5)

adding immigrant status alongside the other subgroup categorisations (Table OA15). Lastly, in line with the standard practice in the dualisation literature, the main analysis was repeated using the traditional (though, as we discussed above, problematic) binary measure of outsider status – i.e. based solely on current contract type (Table OA16). The findings suggest a robust relationship between labour market vulnerability and trust, as the key results are all substantively similar, despite limited variation in effect sizes.

Overall, then, the study's findings are consistent and in line with both Hypothesis 1 and 2: degree of outsiderness is reliably associated with a decreased level of generalised trust; and social policy programmes have the potential to mitigate the effect of that vulnerability on trust. While there is a general divide between trust levels among insiders versus outsiders, ALMP expenditure seems to shape the magnitude of outsiderness's effect.

Conclusion

Combining insights from the literatures on dualisation and generalised trust, this article has sought to draw out the connections between social policy, labour market vulnerability, and trust. Research on dualisation highlights that labour market positions can have profound effects on both one's exposure to labour market risk and one's access to the welfare state. This suggests that institutional effects likely vary across insiders and outsiders – which provides an opportunity to investigate the mechanisms underlying the welfare state's impact on trust.

This article has argued that social policy programmes, by shaping the meaning and experience of labour market vulnerability, can have an important interactive effect with degree of outsiderness. Analyses based on ESS data from 16 Western European countries and the fine-grained, continuous measure of outsiderness developed by Schwander and Häusermann (2013) suggest a robust, negative relationship between outsiderness and generalised trust: dualisation does indeed appear to create a wedge between the trust levels of insiders and outsiders, with an effect size comparable to or larger than almost all other standard potential influences. What is more, the extent of this impact appears to be moderated by ALMP expenditure, with higher expenditure bringing the trust levels of insiders and outsiders closer together.

Two contributions follow from this investigation. First, the analysis points to yet another potential consequence of dualisation, even when controlling for momentary employment status. Given that dualisation will likely continue, both in labour markets and welfare states, one should expect to find a growing divide in trust levels between insiders and outsiders. This has implications not only for the social capital of outsiders, but also for the numerous national-level consequences associated with trust, such as economic growth, democratic performance, and the long-term sustainability of the welfare state (see Nannestad, 2008, pp. 429-431). Although this appears to be a common issue cross-nationally, variation in the size of this effect suggests potential routes to mitigating these negative consequences.

Second, by examining within-country variation in trust and focusing on the finding that an individual's access to social programmes can reduce risk exposure and related negative consequences, this study avoids some of the standard pitfalls in the trust literature. In particular, this approach mitigates concerns related to cross-national cultural differences. The findings therefore support the argument that, at least in contemporary Western Europe, welfare states can influence trust, and they also point to a potential mechanism driving the effect. In addition, the results also suggest the importance of labour market institutions for trust, as they shape not only the distribution and extent of outsiderness in society, but (arguably) also the degree to which these outcomes are deemed to be fair.

Some important caveats nevertheless remain. Most obviously, the findings do not suggest that we should cast aside other theorised mechanisms that might lead the welfare state to impact trust. The results also do not permit us to ascertain whether different sorts of ALMP expenditure have different effects on trust; nor can they answer historical questions about the original relationship between national trust levels and welfare state design. We can, however, point to evidence of a contemporary relationship that likely acts as a feedback mechanism, reinforcing the welfare state over time (see Rothstein, 2010).

Finally, even allowing the impact of outsiderness to vary across countries only permits us to interrogate one aspect of the relationship between trust, outsiderness, and the welfare state. In particular, the possible influence of cultural factors on both the meaning and significance of outsiderness for trust-related consequences is obscured in the analysis. The example of Southern Europe highlights this issue, as there is evidence to suggest that familialism in the region may

blunt not only the connection between outsiderness and precarity, but also its attitudinal impact (e.g. Bentolila and Ichino, 2001; Kevins, 2015; 2017).

Much work clearly remains to be done. Perhaps most promisingly, the use of panel data would serve as a complementary approach to examining the impact of changes in outsiderness over time. Most importantly, such a study would also allow us to better disentangle the effects of outsiderness versus experiences of job loss and atypical employment – a relationship which remains muddled in the present study. Analysis of countries in additional regions is another obvious next step – but future research on the Continental and (especially) Southern European welfare states, where the insider-outsider divide has the most striking implications for benefit access, would also be valuable. Such work might extend the preceding investigation to examine the relationships between family-based access to benefits, particularistic (or even compartmentalised) trust, and social capital generally. Yet in the meantime, the relationship between outsiderness and generalised trust highlighted here suggests a further potential consequence of dualisation, and that, by shaping the significance of outsiderness, social policy does indeed appear to impact trust.

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[1] Note that although there is considerable debate as to the relative influence of socialisation versus experience on generalised trust – and hence the extent to which it is fixed or malleable (cf. Uslaner, 2008; Nannestad et al., 2014) – there are good reasons to believe that outsiderness should matter either way. In particular, one might expect that labour market vulnerability would affect trust through some combination of family socialisation (in situations of limited social mobility) and experiences upon entry to the labour market.

[2] In doing so, we unfortunately lose six occupational classifications (out of a total of 670). Given that they only amount to 0.3% of respondents in waves six and seven, however, the loss is minimal.

[3] Namely: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, the Netherlands, and the UK.

[4] Note, however, that findings are robust to using only the question about trustworthiness as the dependent variable.

[5] For additional details, see Schwander and Häusermann (2013).

[6] Since the latest EU-SILC revision lacks the required data on Switzerland, the scores are constructed using the Continental regime averages for each labour market subcategory. While the added scores are not precisely tailored to the Swiss labour market, this approach provides additional statistical leverage, and I ensure that the findings in each model are not driven by Switzerland.

[7] I thank the authors for generously providing access to their code.

[8] I also tested alternative models excluding employment status (due to post-treatment bias) and including other potentially relevant controls or alternatives (i.e. retired status, self-placement on the left-right scale, and frequency of church attendance). The key findings remained in all instances.

[9] The models employ the OECD's ALMP expenditure measure that includes indicators 20-70. It was selected over the alternative measure that also incorporates indicator 10 (thereby adding expenditure on the costs of benefit administration and placement services) partly due to missing data – most notably, the complete absence of Greek data. Nevertheless, the key findings remain when indicator 10 is included. Furthermore, since ALMP data has not yet been released for 2014, 2013 data for ESS round 7 is substituted instead. Findings are consistent without round 7, however.

[10] Figure 2 is illustrated using the plotplain scheme (Bischof forthcoming).

[11] An alternative approach would be to include each of the ALMP sub-components separately within the models, interacting them individually with outsiderness. Unfortunately, however, we lack the requisite degrees of freedom to undertake such an analysis within this study.

[12] ALMP and unemployment data are from the OECD's *National Accounts Statistics, Labour,* and *Social Protection and Well-being* datasets. Inequality data is from Eurostat, while migrant stock data are interpolated from the UN's *Trends in International Migrant Stock*.

[13] All data are from the OECD (aside from the Protestantism dummy).

[14] Note that weights cannot be included in this model, but an alternative model (using country dummies) confirms that weighting does not alter the findings.

[15] The interaction between outsiderness and ALMP expenditure is central, so the key regression results should be read carefully: specifically, the coefficients for outsiderness and ALMP expenditure on their own point to the effect where the other variable is set to zero, while the interaction coefficient indicates the result of changing either variable by one unit while holding the other constant.