Protected by complexity?

The Effect of Austerity on Trust in the European Union

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Author's Declaration

I, the undersigned, **Felix Kreis**, hereby declare that I am the sole author of this thesis. To the best of my knowledge this thesis contains no material previously published by any other person except where due acknowledgement has been made. This thesis contains no material which has been accepted as part of the requirements of any other academic degree or non-degree program, in English or in any other language.

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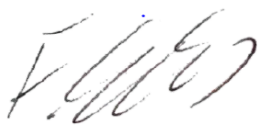
Signature:	

Abstract

How do austerity measures impact trust in the European Union (EU)? This thesis examines the relationship between restrictive fiscal policy and citizens' trust in the EU by building on economic voting and bounded rationality theory. In addition, it sheds light on how trust in national governments, knowledge about the EU and corruption shape the effect of austerity on trust in the EU. The undertaking controls for macroeconomic factors and individual characteristics on the country and the individual level. Multilevel logistic regression models are employed to identify relevant determinants that affect the complex relationship between austerity and trust in the EU. The models are fed with a large-N dataset ranging from 2006 to 2021 which comprises 27 EU member states. The study finds that higher levels of austerity lead to a decrease in trust in the EU. This supports recent studies that highlight the negative effect of austerity on trust in the EU and adds to the literature by revealing moderating and mediating effects. Trust in the national government acts as a positive mediator. While higher EU knowledge does not moderate citizens' austerity-induced loss of trust in the EU, national corruption somewhat limits the loss of trust through austerity.

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List of Abbreviations

CAPB	Cyclically Adjusted Primary Balance
CPI	Consumer Price Index
EC	European Commission
ECB	European Central Bank
EMU	Economic and Monetary Union
EU	European Union
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IMF	International Monetary Fund
NGEU	NextGenerationEU

1. Introduction

The Global Financial Crisis (GFC) of 2007 and the following economic and debt crises of several EU member states (MS) had negative consequences for the lives of many Europeans. Unlike the USA which spent its way out of the crisis, most EU MS employed austerity policies (Ramey, 2019). The austerity measures failed to spur sufficient growth and secure employment in most countries (Gechert & Rannenberg, 2015; Rayl, 2020). Instead, some of the programmes increased unemployment and fostered the emigration of skilled workers, caused a collapse in property markets and fuelled social unrest in multiple EU MS (Cohen *et al.*, 2015). Consequently, poverty and homelessness increased across the EU (Ball *et al.*, 2013). Greece and Spain, for instance, could not stabilise demand through public investments due to lacking financial resources and limited access to financial markets (Romer & Romer, 2019; Dullien, 2022). In addition, the restrictive fiscal policy included cuts in public health spending that diminished public and individual mental health, excluded people from care and increased the number of suicides (McKee *et al.*, 2012; Reeves *et al.*, 2015; Mcgrath *et al.*, 2016; Stuckler *et al.*, 2017).

EU MS, and Euro area MS in particular, no longer have full discretion over the design and implementation of fiscal and economic policy. Not to mention monetary policy. Their policies are guided by the EU fiscal rules and its corresponding monitoring economic governance regime "Economic and Monetary Union" (EMU) (Howarth & Verdun, 2020). Limits were placed on the decision-making and policy implementation abilities of MS to improve the coordination of fiscal policies throughout the EU (Begg, 2017; Kalbhenn & Stracca, 2020). Especially for the Euro area members, the aim of this policy streamlining is to achieve a higher efficacy of the European Central Bank's (ECB) policies (Costantini, 2020; Blanchard *et al.*, 2021). Within the framework of the European Semester, the European Commission (EC) can even proscribe certain policies and theoretically punish MS for not implementing them by suspending their access to five European funds (European Parliament, 2020). This has a significant impact on the leeway and choices of policymakers in EU MS about the fiscal response in crisis moments and pushes them towards austerity (Romer & Romer, 2019).

The (self-)imposed restrictions by the EU on national governments became visible in Europe after the GFC. Many EU MS could no longer fulfil the Maastricht Criteria (e.g. 3% budget deficit of GDP) and had to consolidate their fiscal expenditures (Kickert *et al.*, 2015). During the sovereign debt and euro crisis the Troika marked the most visible and somewhat exceptional force. The combined power of the EC, the ECB and the International Monetary Fund (IMF) gave leeway to national advocates of spending cuts and neoliberal structural reforms that were supposedly without alternatives (Moury & Standring, 2017). They promised that the public expenditure cuts would stabilise public finances and to bring back growth (Cohen *et al.*, 2015). The result was widespread austerity in Europe that caused economic stagnation for multiple years.

The damaging effects of European austerity has likely contributed to the overall loss of trust in the European institutions (Brosius *et al.*, 2019). European voters tend to oppose austerity programmes that cut back on public expenditure. This is hardly surprising given the devastating effects such programmes have had across the European continent. The spending cuts are even less popular than budget deficits and tax increases (Hübscher *et al.*, 2021). Hence, austerity programmes can increase the support for populist parties and reduce voter turnout which results in heightened polarisation and political instability of national political systems (Hübscher, Sattler & Wagner, 2023). However, the effects of austerity measures can extend beyond the national realm. For instance, Fetzer (2019) finds that British voters who were severely affected by austerity policies showed greater support for Brexit. Moreover, EU citizens strongly responded to the austerity programmes enforced by the Troika and through EU law. The Troika was criticised for a lack of transparency and democratic legitimacy (Katsikas, 2021). A majority of EU citizens were critical of the Troika and perceived the issued austerity packages as non-functional at the time (Gallup, 2013).

When the COVID-19 pandemic reached the EU, its economic policy response contrasted the harsh austerity measures imposed after the GFC. The EC seemed to have learned from past failures and was ready to employ a more flexible approach to fiscal policy making (Miró, 2021). The fiscal rules were suspended and the negotiations for the Multiannual Financial Framework 2021-2027 as well as the NextGenerationEU (NGEU) promised counter-cyclical spending. The encouragement for national spending programmes constituted a diametrically different approach to the austerity measures enforced over a decade ago. So far, the borrowing-powered recovery has stabilised national economies and avoided additional negative consequences for citizens and the EU. For instance, a majority for an Italexit could be prevented despite the near collapse of Italy's economy. If EU rescue funds linked to austerity demands and structural reform requirements were chosen instead, Italy would have left the EU (Baccaro *et al.*, 2021). In addition to the devastating economic effects of the worst recession since the great depression in the 1930s (IMF, 2020), the Russian invasion of Ukraine created an increased shortage of key commodities and cut across supply chains (Ozili, 2022; Prohorovs, 2022). The resulting soaring energy prices and fuelling overall inflation caused further pressure on European citizens, who are already suffering from the health and economic impacts of COVID-19 (EIB, 2022). In turn, many Europeans demand to be protected by the state which puts officials under great pressure to deliver in order to maintain public support (Do Rosario, 2022; Natili & Visconti, 2023).

Despite the Russian invasion of Ukraine and other recent threats to the well-being of Europeans, the turn away from austerity seems to have been only an intermission. The negotiations of the Multiannual Financial Framework and the NGEU resulted in an agreement to return to the EU debt and deficit rules in 2024, allowing once again only a national public debt of 60% of GDP and a deficit of 3% of GDP (Scherer *et al.*, 2021). MS are obliged to commit to a reduction of the distance between the debt-to-GDP ratio and the 60% limit by on average 1/20 per year over three years (Larch & Malzubris, 2022). The average national sovereign debt across the EU-27 rose from 77% in 2019 up to 84% at the end of 2022 with Greece still standing at 171.3% (Eurostat, 2023). For countries with debt levels way beyond the 60% reference value, such as France, Portugal, Spain, Italy and Greece, a return to the former fiscal rules would leave hardly any space to avoid a return to austerity policies. In practice, this would force policymakers to implement austerity measures with grave implications for employment and economic growth without a clear perspective to ensure debt sustainability (Regling, 2022). Nonetheless, Austria leads an alliance of MS, the so-called Frugal Four, set to prevent any deviation from the fiscal rules set out in the Maastricht criteria (Smith-Meyer, 2021). Due to recent support from Germany, a significant reform seems unlikely (Chazan & Fleming, 2023).

The forthcoming reinstatement of the fiscal rules which de facto force MS to return to austerity puts many countries in a dilemma. Either the MS rebel to serve their citizens' wellbeing and face the pressure of peer MS governments and the EC, including potential lawsuits and cuts of EU funds. Or they comply and introduce austerity measures with social hardship for many of their citizens as well as restrictions on their economic potential and prospects. This might cause a massive loss of trust in national governments but also the EU. Without their citizen's trust, reform undertakings, especially unpopular ones, are difficult to implement and risk-averse governance styles become more likely (OECD, 2013). Trust is also related to support for government spending, preferences over the environment, accepted levels of immigration, participation in elections and voting for anti-establishment parties (Devine, 2022).

Political trust is important because it forms the foundation on which public institutions in democratic societies rest – it gives legitimacy to governments and authorities (Faulkner &

Simpson, 2017). Low political trust is linked to an increased use of alternative, anti-establishment media sources (Colleoni *et al.*, 2014). In addition, low political trust results in lower voter turnout and a higher likelihood of voting for challenger parties (Devine, 2022). Furthermore, a lack of political trust can lead to lower governability as tax evasion increases and support for policy reform declines (Boda *et al.*, 2018). It results in lower acceptance of and compliance with national law (Marien & Hooghe, 2011). As a consequence, low trust increases the likelihood of social unrest, which is correlated with budget cuts in Europe (Ponticelli & Voth, 2011).

Political trust is of great importance for the EU as lower levels of trust indicate a low legitimacy as a polity and it requires a sufficient number of supportive national governments for its survival (Brosius *et al.*, 2020b). The EU suffers from multiple democratic deficits that are part of its DNA (Scharpf, 1999; Kratochvíl & Sychra, 2019) and policy-making that is perceived as apolitical and technocratic (Schmidt, 2009). Recently, the Quatargate corruption scandal has highlighted the lack of sufficient accountability mechanisms and has caused a loss of trust in the European Parliament (Hegewald & Schraff, 2023). In addition, a recent study found that the EC's Regulatory Scrutiny Board has a biased influence on policies behind closed doors and lacks proper accountability (Pircher, 2023). These examples of democratic deficits can confirm negative sentiments and have a corrosive effect on the overall trust in the EU. A loss of trust in the political institutions of a democracy benefits far-right parties as it removes the deterrents for the non-ideological nationalists and the angry for voting for far-right parties (Erisen & Vasilopoulou, 2022; Vasilopoulou & Halikiopoulou, 2023). In addition, austerity has contributed to the rise of right-wing populists which can have severe consequences for the EU as many far-right parties want to leave or at least obstruct the EU (Bieling, 2022). Consequentially, a return to austerity could be seriously threatening the future of the EU. To retain the capability to tackle long-term challenges and to remain a meaningful geopolitical actor, Europeans need to be able to both trust national governments and EU institutions. Trust represents the base on which the EU can lead the way in the transformation towards climate-neutral economies, uphold democracy and social justice.

To understand the consequences of austerity policies for the future of the EU, this paper aims to better assess the impact of austerity policies on Europeans' trust in the EU. Consequently, the endeavour is guided by the following research question:

How does austerity affect Europeans’ trust in the EU?

2. State of Research

2.1 Austerity and trust in the EU

This section reviews the literature on austerity and trust in the EU and discusses whether, to what extent and how austerity measures have impacted trust. Generally, there is still little evidence of this relationship as most studies do not sufficiently separate the effects of the economic crisis from the effects of austerity on trust.

Some researchers find a clear, negative impact of austerity policies on trust in the EU (Drakos *et al.*, 2019)**.** Moland's research (2018) on the long-term effects of austerity measures on trust in and support for the EU reveals that countries with austerity programmes have a significantly lower rate of trust in the EU. This is confirmed by Dotti Sani and Magistro (2016) who additionally find that individuals with lower socio-economic status had lost most trust during the financial crisis. The sovereign debt crises have detached many citizens from the national and European political system, especially in countries which introduced austerity due to external forces (Armingeon *et al.*, 2016). Armingeon and Ceka (2014) come to similar conclusions and claim that the main determinant for trust in EU institutions is trust in national governments. For Europeans who are more knowledgeable about the EU, the effect is somewhat lower as they generally show more support for the EU. In addition, Kumlin (2009) finds that dissatisfaction with public services on the national level has direct negative effects on EU trust. During crisis times, economic factors generally have greater explanatory power about the support for the EU (Braun & Tausendpfund, 2014).

Other researchers cannot confirm a significant relationship between austerity and trust in the EU. In contrast to the abovementioned studies, Kalbhenn and Stracca (2015) find that fiscal austerity barely impacts the attitude towards European institutions and that such changes mainly occur because of their effect on the macroeconomy. They conclude that fiscal austerity does not necessarily reduce the popularity of national authorities and European institutions (Kalbhenn & Stracca, 2020). Their findings are partly upheld by Biten et al. (2022) who show that an awareness of the EU as the cause of austerity is central to the attribution of the loss of trust towards the EU. Without this attribution of the cause of austerity to the EU, austerity does not predict trust in the EU successfully. However, it remains unclear to what extent EU citizens attribute the austerity measures to the EU. The question remains whether EU citizens have mostly attributed austerity measures to national governments or whether they identify the EU as an actor that played a significant part in the rollout of austerity measures. Surprisingly, even in bailout countries, citizens tended to continue to support the Euro as a central European institution (Hobolt & Wratil, 2015).

2.2 Austerity and trust in national government

Similarly to the EU level, there is a debate on in how far austerity has caused a loss of trust in the national government.

A direct, negative impact of austerity measures on trust in the implementing national political parties and governments, especially in hard-hit and bailed-out countries, can be identified (Bosco & Verney, 2012; Papadopoulos & Roumpakis, 2018; Bojar *et al.*, 2022; Roth, 2022). This was reflected in diminishing support for incumbent parties (Marsh & Mikhaylov, 2014; Talving, 2017). Many citizens in Western democracies have turned away from participating in elections and some have started to vote for non-mainstream parties thus increasing polarisation (Hübscher, Sattler & Wagner, 2023). Although strategic timing can shield the government from a loss of support over several months, austerity measures affect their approval rates negatively in the long term (König & Wenzelburger, 2017). Effects were particularly great when unemployment went up and external creditors were involved (Veiga & Veiga, 2004; Friedrichsen & Zahn, 2014; Bojar *et al.*, 2022). Unemployment can be considered one of the key predictors of trust in government (Hudson, 2006; Laurence, 2015) and if austerity policies cause an increase in unemployment, the trust in governing institutions will likely suffer. Foster and Frieden find that "an increase in unemployment from 10% to 15% is associated with a 9 percentage point reduction in the probability of trusting national government" (2017). The exception seems to be religious or liberal parties, which can even gain votes through austerity measures that aim at the limitation of welfare policies (Giger & Nelson, 2011).

Other scholars have contributed more differentiated results on the effect of austerity on trust in national governments. According to Alesina et al. (2019), there is a relevant difference between expenditure- and tax-based austerity programmes. While the former only merely affect economic output, the latter cause long-lasting recessions. Consequently, tax-based austerity comes with significant costs for government parties. However, in the short term and especially during economic downturns, spending cuts decrease the support for the national government while tax increases have only limited effects (Jacques & Haffert, 2021). Cuts to social welfare programmes are associated with the electoral successes of populist parties (Foster & Frieden, 2019). Moreover, austerity measures implemented during a stable economic situation can positively moderate the negative electoral impacts (Alesina *et al.*, 2021). For left-wing governments, expenditure-based austerity poses a particular challenge as it undermines their credibility and support while right-wing governments benefit from it (Alesina *et al.*, 2021). On the contrary, Jacques and Haffert (2021) find that both left-wing and right-wing governments tend to lose approval similarly. Trust lost through austerity and economic downturns is not gone forever. On the national level, a return to pre-crisis levels of trust could be found in most countries after economic recovery (Drakos *et al.*, 2019; Hooghe & Okolikj, 2020).

Governments are not necessarily at the mercy of austerity. They can influence in how far austerity measures are perceived as negative influence from Brussels or as necessary national measures. Barnes and Hicks (2018) show that austerity measures are successfully framed by governments to get and sustain the necessary support for their implementation. Governing parties can significantly influence their ideological backers to support austerity when they endorse it (Bansak *et al.*, 2021). National governments or elites can provide negative cues to shift blame to the EU (Kumlin, 2009). For some governments, such a practice was necessary because trust in national governments, which had to accept the terms of the Troika consolidation programmes, has suffered considerably (Magistro *et al.*, 2021). This influence of the national perspective on trust in EU political institutions has also been found to play a role in the trustworthiness of the ECB (Wälti, 2012). Similarly, the media can successfully undertake such framing efforts. Jurado et al. (2020) find for Greece that, during times of high uncertainty the consequences of a Euro-exit, the opportunities for framing and support for austerity measures are greater than post-crisis where support declines.

3. Theoretical Framework

Political trust constitutes a concept that filters many aspects associated with the general concept of trust. While the broader concept of trust is strongly influenced by everyday language and application in multiple scientific fields (Hupcey *et al.*, 2001), political trust revolves around trust in politicians, political parties, satisfaction with democratic performance and support for democratic principles (Wroe, 2014). This paper narrows the multidimensional concept of political trust down by focussing on trust in political institutions. It follows Zmerli's institution-centric definition of political trust which highlights its conditionality as "citizens assess […] the core institutions of the polity [and their] credibility, fairness, competence, transparency in [their] policy-making, and openness to competing views" (2014).

The development of political trust depends on multiple factors. Generally, citizens build trust by relating to decision-making processes and actors (Melios, 2021). Multiple approaches to political trust towards policies exist in the literature. The cultural approach emphasises the centrality of exogenous, underlying cultural norms and socialisation for the establishment of trust which is often linked to interpersonal trust (Mishler & Rose, 2001; Uslaner, 2002). In contrast, the rationalist or institutional approach suggests an endogenous process of subjective evaluation of political institutions by citizens. The rationalist path has received more support through evidence in the literature and is thus followed in this thesis (Mishler & Rose, 2001; Campbell, 2004; Nannestad *et al.*, 2014; Shaleva, 2016). It further states that citizens mainly judge political institutions' performance but also their legitimacy to credit their trust (van der Meer, 2017). A principal-agent relationship can be applied to demonstrate this approach. Citizens act as principals that credit their agent, the legislator with trust depending on its performance (Ehrmann *et al.*, 2012). In case they are not satisfied with it, they withhold trust and reward the legislator with trust when the country or policy is performing well (Newton & Norris, 2000; Mayne & Hakhverdian, 2017). This underlines the fact that political trust is considered an ephemeral state rather than a disposition. To emphasise this, it has been found that the responsiveness of institutions to citizens' economic demands is crucial to political trust (Alesina & Wacziarg, 2000). Recessions, for instance, can cause a loss of trust in political institutions such as the national parliament (Armingeon & Guthmann, 2014) and in national democracy itself (Armingeon *et al.*, 2016). Furthermore, political corruption and the responsiveness of governing institutions have been found to have a significant influence on citizens' trust in national institutions (Torcal, 2014).

The relationship between political trust in national institutions and trust in EU institutions is complex but in the area of institutional trust, citizens do not make a big difference between the national and EU level (Muñoz *et al.*, 2011). Overall, citizens assess the trustworthiness of political institutions to be somewhat congruent. It is unlikely that this is due to limited political sophistication or education differences (Hooghe, 2011). What explains this phenomenon is that EU citizens form at least a part of their stances on the EU through a national lens as the national level is usually their point of reference (Reif & Schmitt, 1980; Hobolt & Wittrock, 2011; Schmitt & Teperoglou, 2015; Bright *et al.*, 2016). EU referendums, for instance, are influenced by domestic issues (Franklin *et al.*, 1995; Garry *et al.*, 2005; Taggart, 2006; Vasilopoulou, 2016; Hodson & Maher, 2023). This phenomenon can also be confirmed in single policy areas such as economic governance and for concrete policies on the EU level such as the NGEU fund (Bauhr & Charron, 2023). Harteveld et al. (2013) test three main ways in which trust in the EU is theorised in the literature. First, the logic of extrapolation means that trust is an extension of national trust and therefore unrelated to the EU itself. It is based on the limited knowledge most citizens have about EU politics and policies as their main frame of political discourse is on the national level. Second, the logic of rationality states that trust originates from evaluations of the performances and procedures of the EU. Third, trust in the EU that is established according to certain identities following the cultural approach. This means trust depends on citizens' socio-cultural influences and respective emotional attachments to the EU. Overall, the logic of extrapolation finds the most statistical support while some evidence that suggests the logic of rationality plays a role in citizens' assessment of the EU's trustworthiness (Harteveld *et al.*, 2013).

Due to the limited differentiation in assessing the trustworthiness of political institutions (Camões & Mendes, 2019), the EU is conceptualised as a unified polity in this thesis and it is the main unit of analysis. Additionally, national governments are understood as the governing cabinet or parties in power at the national level of EU member states that can issue laws and regulations.

Austerity is a multifaceted term with broadly varying definitions. The most prominent (economics) journals have preferably published papers in which the term "fiscal consolidation" has been used (Gründler & Potrafke, 2019). However, this term suggests a depoliticised, technocratic governance process that resides outside the realms of ideology. As "fiscal consolidation" measures are widely contested, the term "austerity" will be used instead as the focus of this contribution is on the political implications of restrictive fiscal policy. The different definitions of "austerity" and "fiscal consolidation" also explain why scholars have come to different conclusions when it comes to the effect of austerity on economic well-being. Some scholars have strategically used the concept to come to a specific conclusion (Gründler & Potrafke, 2019). Austerity even has been used as a discursive frame in a struggle over hegemony (Maesse, 2018). To avoid such pitfalls, austerity is defined as policy changes aimed at improving the state's balance sheet which can take various forms.

In the following, three forms of austerity policies will be differentiated following the classification of Kickert et al. (2015). The first is most commonly associated with austerity: the reduction of government spending. The government might decide to cut expenditures for programmes such as unemployment benefits, education programmes and social insurance allowances. Another exemplary expenditure cut would be lower health care benefits, in case they are part of the government budget. Austerity can also take place in the form of the reduction of investments and result in the underinvestment in public infrastructure, typically in the areas of social welfare, health, transport or communications. The case of underinvestment in Germany provides an excellent example of this. For instance, Germany experiences a crumbling infrastructure and thus misses out on significant infrastructural resources that are essential to future wealth (Nyikos & Ermasova, 2022). Rapid progress in reducing government operating expenditures can be achieved by cutting the wages, benefits and working hours of government employees or by a general reduction in staff. Another, way to reduce government spending is to introduce a higher eligibility age for retirement. Often, this first form of austerity has a particularly negative impact on the lives of economically disadvantaged people – depending on what spending items are cut (Campoy-Muñoz *et al.*, 2022). The second form of austerity focuses on raising the government's income. It mainly consists of tax-related measures. For instance, governments can rise the income tax, corporate tax or value-added tax, or make taxes more progressive. Further, taxes on alcohol, tobacco or energy might be increased to make more revenue. Alternatives are non-fiscal revenues. The third form of austerity is centred around reducing tax evasion and social security fraud. In case these measures do not suffice, government-owned businesses like utilities, transportation and telecommunications could be privatised to ensure solvency. All of them have a positive impact on the government balance sheet.

To function effectively, austerity measures need to be issued by an institution that already enjoys a high level of trust (Györffy, 2008). This can result in a vicious cycle: low trust leads to low reform capacity of the respective authority which then fails to improve the economic situation and loses more trust (Exadaktylos & Zahariadis, 2014). It is important to note that over time cutbacks tend to increase in severity if fiscal stress does not reduce. Often a first phase characterised by a denial of the problems by the responsible decision-makers can be identified. In this phase only symbolic measures are implemented which can worsen the problem as additional loans have to be taken up and trust in the government to resolve the issue is further lost (Levine, 1979, 1985).

3.1 Trust in national government

Building on the economic voting theory, this study assumes that citizens can assess the impact of government policies on their socio-economic situation and form rational opinions about their governing institutions (Dalton & Klingemann, 2009). In order to trust a governing institution, citizens require basic knowledge about its policies and the national economic situation. According to the theory of economic voting, citizens reward politicians in office when the economy performs well and punishes them when there is an economic downturn. Indeed, economic factors significantly influence the level of trust that citizens place in their national governments and the EU and its institutions (Foster & Frieden, 2017). The economic voting model has been validated for European democracies in the aftermath of the GFC (Hernàndez & Kriesi, 2016).

It is important to note that it is challenging for citizens to discern the effects of austerity measures from broader changes in the economic situation and to attribute them correctly to a "responsible" issuer. Due to limited cognitive and time resources, citizens rely on heuristics to understand and categorize political institutions and policies, especially when assessing their overall economic impact or when policies are overly complex as stated by the bounded rationality theory (Jones, 1999). Citizens are mostly rational when it comes to assessing the consequences of policy measures on their personal economic situation. However, the rationality of their evaluations is limited by their perception accuracy and by the values they hold (van der Meer & Hakhverdian, 2017). When they have to assess the overall economic impact of a policy or assess an implemented policy that is very complex (e.g. a change in the progressiveness of the income tax), they are likely to make wrong assumptions about the economic effects of the policy (Luskin, 2002).

The outcomes of austerity that affect citizens negatively range from a loss of disposable income through tax raises, unemployment to poverty and homelessness (Kickert *et al.*, 2015). Further, lower levels and higher taxation of pension payments are often part of austerity programmes (Zohlnhöfer *et al.*, 2013) and have caused an increase in old-age poverty (Estes, 1982; Loopstra *et al.*, 2016). Another detrimental effect has been the reduction of government-sponsored healthcare; programs that disproportionately affect low-income earners at a time when they're financially vulnerable. The restriction of access to healthcare services negatively impacts physical and mental health and has caused a rise in suicides (Ball *et al.*, 2013; Reeves *et al.*, 2015; Stuckler *et al.*, 2017; Mattheys *et al.*, 2018).

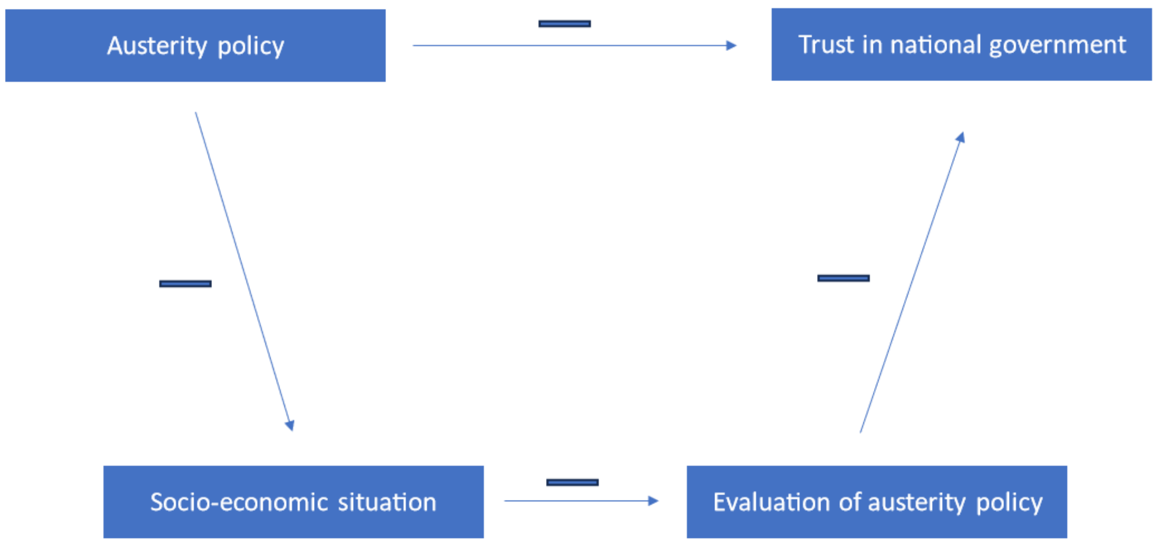

Figure 1: The theorised causal link between austerity policies and loss of trust in national government illustrated via Coleman's "bathtub" model of social change (1990). Source: Own visualisation.

The causal mechanisms of the relationship between citizens and governments are illustrated by applying Coleman's "bathtub" model of social change (Coleman, 1990). The advantage of this model is that macro-changes can be explained via individual decisions on the micro-level which constitutes a good fit as fiscal austerity programmes affect many citizens daily. On the macro level, fiscal austerity programmes are assumed to lead to a loss of trust in national governments. This can be explained by the citizens' constant monitoring of their economic situation and changes of it induced by government policies. As outlined above, austerity policies often lead to a change of citizen's socio-economic situation. This results in an evaluation of the respective austerity policy. In case the austerity policy is perceived to negatively impact their personal or the national socio-economic situation, the effects are attributed to the austerity policy instead of an attribution to general socio-economic trends. Ultimately, this evaluation spills over in a negative perception of the performance and trustworthiness of their national government. The policy is traced back to its assumed source – the national government, to which citizens develop an increasingly disapproving stance.

Hypothesis 1: The more austerity policies have been implemented in a country, the lower is the citizens' trust in the national government.

3.2 Trust in the EU

The economic voting model cannot be applied in an identical manner to the relationship of austerity on trust in the EU. However, following the rationalist approach described above, citizens still rationally evaluate, at least in some instances, the performance of the EU and change their trust in the EU accordingly. This can be facilitated by the media reports that make the EU visible, for instance during the sovereign debt crises in the early 2010s. Alternatively, the national government can shift blame to the EU and thereby increase its visibility. As this happened in several countries, in particular those subject to EU fiscal adjustment programmes (Traber *et al.*, 2020), this thesis assumes that citizens tend to lose trust in the EU when austerity policies are enacted.

The relationship between austerity and citizens' trust in the EU is more complex compared to national governments. There is more diversity in how the EU is assessed in the citizens' evaluation process of austerity policies. Often, EU citizens experience their national governments and the EU differently because of, for instance, differences in the level of development, economic growth model, important economic sectors, and governance styles. It is important to note that citizens in creditor and debtor countries start from a different level of trust in the EU. While the financial crisis has only slightly diminished trust in the EU in creditor countries, trust in the EU took a hard hit in debtor countries (Foster & Frieden, 2017). Resultingly, the level and mechanism of trust in national governments compared to EU institutions among a majority of citizens of a member state can significantly differ from one another. Armingeon and Ceka differentiate the following types of citizens (2014).

1. "The 'escapist'— someone who thinks that the national government is not trustworthy; so all hopes are put on the EU."
2. "The 'nationalist' — someone who thinks that the national government is particularly trustworthy while the EU, as a supranational body, does not merit any trust."
3. "The 'trusting' citizen — someone who trusts both their national government and the EU. Basically, she thinks that governments are doing fine — both at the national and the supranational level."
4. "The 'detached' citizen — someone who is convinced that neither the national nor the supranational government merits any trust."

Although the share of the abovementioned types in the EU population is unknown, a significant proportion of citizens evaluate policies to assess their level of trust in the EU. This requires especially the escapist and nationalist type to periodically reassess their relationship with the EU. Those types are most likely learning about and understanding the EU's fiscal rules and involvement in the direct and indirect issuing of austerity policies. They follow a similar assessment process as outlined in figure 1 with the only difference being that they undertake this evaluation for the trust in the EU. Their experience of a changing socio-economic situation caused by the austerity measures leads to an evaluation of austerity policies which they can attribute to the EU level. As a consequence, they alter their level of trust in the EU.

Hypothesis 2: The more austerity policies have been implemented in a country, the lower is the citizens' trust in the EU.

However, there is evidence that this theorised trajectory does not fully apply to all EU citizens. The trusting and detached citizens might be less likely to change their trust in the EU directly but use the national level as a proxy.

3.3 Trust in the EU as extrapolation effect of trust in the national government

Many citizens seem to follow a logic of extrapolation when it comes to trusting the EU (Armingeon & Ceka, 2014). As the EU is not easy to understand, they evaluate its trustworthiness based on how much they trust their national political institutions (Anderson, 1998; Harteveld *et al.*, 2013). However, the extrapolation effect could be partially overestimated because of faulty survey design. The effect occurs in surveys with a non-randomised order of institutions, where items on trust in national governments precede items on trust in the EU. When this order is being used in surveys, primarily unsatisfied respondents extrapolate from their governments to the EU (Brosius *et al.*, 2020b). For instance, this is the case in the Eurobarometer which is widely used in the literature that explains trust in the EU. Nonetheless, this thesis assumes that the extrapolation effect genuinely occurs for the effect of austerity policies on trust in the EU.

Figure 2: The theorised mediation relationship of trust in national government between austerity policies and trust in the EU. Source: Own visualisation.

It is theorised that the aforementioned trust in the national government serves as the central mediator for trust in the EU following the "congruence hypothesis" by Andersson (1998). This means that most citizens use their evaluation of the national government and their trust in it as a proxy for determining in how far they trust in the EU. They extrapolate from their national trust to their trust in EU institutions for which Harteveld et al. (2013) find the most statistical support in a comparison of the logics of trust in the EU. This relationship or spillover is stronger in times of high polarisation or crisis (Ares *et al.*, 2017; Talving & Vasilopoulou, 2021); Talving & Vasilopoulou, 2021). For instance, the member states hit harder by the financial crisis lost trust in their governments but also to a greater extent in EU institutions (Torcal & Christmann, 2019).

Hypothesis 3: The relationship between austerity policies and trust in the EU is mediated by the level of trust in their national government.

3.4 EU knowledge as moderator

Citizens with a higher degree of knowledge about EU institutions have higher trust in them, particularly in times of crisis (Ehrmann et al., 2012). They are also better at evaluating policies stemming from the EU (van der Meer & Hakhverdian, 2017). There is evidence that EU knowledge can soften the negative effect of austerity on trust in the EU (Armingeon & Ceka, 2014). Thus, it is assumed that higher EU knowledge moderates the negative relationship between trust in the national government and trust in the EU positively. For citizens with a low level of awareness about the EU's role in economic governance, the extrapolation logic applies – attitudes about trust in the EU are more likely to match national trust attitudes.

Hypothesis 4: The more citizens know about the EU, the smaller is the negative impact of austerity policies on trust in the EU.

3.5 Corruption as a moderator

Political corruption is theorised as a relevant factor in the formation of political trust at least on the national level (Torcal, 2014). In practice, corruption has been found to have a consistently negative impact on political trust (Anderson & Tverdova, 2003; van der Meer, 2010; van der Meer & Hakhverdian, 2017; Kołczyńska, 2021). Countries with a high level of corruption on the national level require their citizens to find other institutions they can trust. Thus, it can be assumed that in MS with high corruption levels, the trust extrapolation logic is much less likely to apply. Instead, citizens decouple trust in national governments from their trust in the EU as they perceive the EU as a more reliable watchdog and regulator (Arnold et al., 2012).

Overall, it can be expected that citizens in MS with high corruption put more trust in the EU while they have less trust in their national governments. On the national level, the combined presence of corruption and austerity have detrimental mutually reinforcing effects (Melios, 2021). It is assumed that corruption overshadows austerity measures that stem from European fiscal rules but are enacted by the national government. This is why the negative impact of austerity policies on trust in the EU is more toned down in countries with higher corruption. Corruption functions as a positive moderator on the negative relationship between austerity and trust in the EU.

Hypothesis 5: The more corruption citizens experience, the smaller is the negative impact of austerity policies on trust in the EU.

4. Data and Method

This section outlines how the variables are operationalised and presents the full multilevel logistic regression model used to assess effects. Overall, a positivist paradigm is followed to find statistically significant cross-case differences within a variance-based methodology. The analysed dataset encompasses data on the individual citizen level and country level for 27 EU countries over the timespan from 2006 until 2021. Croatia is excluded as it joins the EU in 2013. Bulgaria and Romania are included for the whole timespan although they only receive EU membership in 2007 because the Commission had already significant leverage over their fiscal policy due to the EU accession procedure (Steunenberg & Dimitrova, 2007). In addition, the UK, including Northern Ireland, is retained in the dataset although Brexit is decided in 2016 and exercised partly in 2020 and comprehensively in 2021. However, only the part of Cyprus that is de facto part of the EU is considered while the observations from the Turkish part of Cyprus are excluded. The period of 16 years and the inclusion of 27 EU countries were chosen to maximise the variance that can be analysed. It allows to take the economic situation in the MS before and after the GFC as well as part of the effects of the COVID-19 pandemic into account.

4.1 Trust in national government and in the EU

The data for the main dependent variable, “Trust in the EU”, and for the variable “Trust in national government” stem from the Standard Autumn Eurobarometer. The Standard Eurobarometer is a rolling cross-sectional dataset and its sample is based on a complex stratified random selection process via standard random route procedures to identify the addresses of national citizens (Gesis, 2022). Trust is measured for both trust in the EU and in the national government by asking respondents whether they “tend to trust” or “tend not to trust” them. Alternatively, the answer “don’t know” is provided which is here deleted from the dataset during the data preparation phase. Despite the limited precision of this item, it has been widely used in the literature to estimate effects over long periods of time (Fischer & Hahn, 2008; van Erkel & van der Meer, 2016; Brosius *et al.*, 2019; Biten *et al.*, 2022). Harteveld et al. (2013) find that this measure of trust in the EU is robust compared to alternative operationalisations. To capture a great variety of variables reliably for 16 years, there is barely any alternative to the Standard Eurobarometer (Fischer & Hahn, 2008).

4.2 Austerity

Operationalising and measuring austerity poses a delicate undertaking. There is no consensus on how to define austerity, nor has an overarching instrument or method emerged so far with which austerity can be sufficiently gauged. To measure as precisely as possible, cyclically adjusted primary balance (CAPB) data provided by the International Monetary Fund (IMF) were chosen for the analysis. The budget balance constitutes of a calculation of the total government expenditure minus the total government revenue in a specific year. This means a negative balance indicates a deficit while a positive balance stands for a surplus in the annual governmental balance sheet. Further, the primary (budget) balance component excludes interest payments from actual government expenditures. Thereby, it gives a clearer picture of how much the government is spending as it disregards the consequences of liabilities created earlier. The “cyclical adjustment” or “structural” component helps to identify actual budget balance trends and to subtract any cyclical component or other one-off government expenditures. It estimates the revenues, expenditures and deficits of the potential output of the economy and compares it to the real economy (Escolano, 2010). Consequently, CAPB has a major advantage compared to simple measures of government expenditure: it separates how cyclical movements influence the primary balance to investigate the government’s actions in changing fiscal expenditure (Gründler & Potrafke, 2019).

4.3 Moderators and Mediator

The indicator for EU knowledge is taken from the Eurobarometer where respondents are asked three knowledge-questions about the EU such as whether Switzerland is an EU MS. The number of correct answers reaches from zero to three. Unfortunately, in the 2007, 2008 and 2009 versions of the Standard Autumn Eurobarometer (68.1, 70.1, 72.4) there were not three but four EU knowledge questions. The first three questions were used to calculate the EU knowledge score. More severely, in 2011 there were only 2 EU knowledge questions (76.3). To have comparable score ranges, the score was scaled up by a factor of 1.5. NAs only occurred in some years (such as in 2017, 2018 and 2021) and were deleted listwise.

Corruption is operationalised as a perception of to what degree public power is utilised for private gain and how far the state has been captured. Originally, it is based on averaged survey responses and ranges approximately from -2.5 to 2.5 in units of a standard normal distribution with higher values representing less perceived corruption for each country. For interpretation purposes, the data has been inversed so that the higher the value the more corruption there is in a country. The data is taken from the Control of Corruption indicator from the World Governance Indicators. The indicator aggregates data on corruption from multiple surveys with responses from public sector employees, citizens and experts from think tanks, NGOs, international organisations and private sector firms (Kaufmann *et al.*, 2010).

4.4 Control Variables

Several variables are employed in the model to control for the effects of other factors that influence political trust in the EU. On the individual level, the controls encompass the variables age, gender, education level, and an individual assessment of the national economic outlook. Age cohorts can differ in their trust in government and thus should be controlled for (Dalton, 2005). Younger citizens have suffered from austerity measures as education received less funding and fewer jobs were available after the financial crisis resulting in high youth unemployment. Age is measured in years. Women are working to a higher proportion in worse-paid jobs and public service jobs, or are not employed at all which makes them more reliant on the state and its welfare programmes. Through cuts to these services, austerity affects women more adversely (Rubery, 2015). In contrast, recent research suggests that humans with more feminine personality traits are more inclined to trust governing institutions (McDermott & Jones, 2022). Due to data limitations, gender is still coded in a binary male/female category. Citizens with higher levels of education tend to trust EU MS governments more as they have gained from integration than other groups (Ehrmann *et al.*, 2012; Foster & Frieden, 2017; Mayne & Hakhverdian, 2017). In consequence, controls for the individual level of attained education are employed. In addition, the higher educated are more likely to successfully capture and attribute changes in the economic situation, which tend to threaten them less compared to the lower educated (van Erkel & van der Meer, 2016) Education is operationalised by asking citizens at what age they have left school which gives an indication what level of formal education they have achieved.

Economic performance has a significant influence on citizens' trust in the EU (Fagerland Kroknes *et al.*, 2015). Changes in GDP growth, unemployment and inflation impact the political trust in national political institutions in 15 EU countries (van Erkel & van der Meer, 2016). On the EU level, increased inflation is found to have a negative effect on trust in the ECB (Fischer & Hahn, 2008). Negative perceptions of the economic situation as well as job insecurity are linked to lower levels of political trust and dissatisfaction with democratic performance (Wroe, 2014). Increased unemployment rates have been found to have a significant and lasting negative impact on political trust in national and European institutions, leading to greater support for populist parties (Algan *et al.*, 2018). This is why the perceived national economic outlook by individuals is used to control for the effects of the economic performance on trust in the EU. The Eurobarometer provides data on this item which is measured by asking citizens whether they expect the economic situation in their country to stay the same, improve or get worse within the next 12 months. On the country level, economic indicators from the World Bank are added to the model to control for the effect of the macroeconomy on trust. The dataset includes the consumer price index (CPI) to control for inflation, the GDP growth rate to control for economic success and the unemployment rate of the total workforce for each country-year.

4.5 Multilevel Logistic Regression Model

To serve the dependent variable, which consists of two categories, and to account for the clustered structure of the data across country lines, the following multilevel logistic regression model is ran as the central model. Individuals with the same characteristics, in this case residing in the same country or having the same nationality, are likely to cause within-cluster effects. The country frame provides differences in mentality, history and national economic institutions that causes net political trust to vary across the EU (Fischer & Hahn, 2008). Due to the nested structure of the data, one major assumption of single-level models, the independence of residuals, is no longer fulfilled which is why a multilevel model was chosen. Alternative regression models that do not account for the nested structure of the data would increase the likelihood of type 1 errors (Gelman & Hill, 2006). Applying a single-level model could cause issues such as the underestimation of standard errors, non-constant variance or the neglection of clustering (Steenbergen & Jones, 2002). The multilevel model was chosen to account for the variability within countries and between countries by including random intercepts for each country. All other predictors of the models are included as fixed effects. The dependent variable trust in the EU is measured at the lower level. Further advantages of the multilevel model are that it can correctly estimate the standard errors of hierarchical data structures and that it can deal with unbalanced datasets which is the case here. Germany has slightly over 20,000 observations while Malta only has slightly under 5,000 observations. On average countries have about 12,600 observations and a median of about 13,000. The dataset comprises 337,871 observations in total. These considerations lead to the following formula:

$Y_{ij} = ß_0 + ß_1\, Austerity_j + ß_2\, Trust\ in\ national\ government_{ij} + ß_3\, EU\text{-}knowledge_{ij} + ß_4\, Corruption_j + ß_5\, Austerity_j * Corruption_j + ß_6\, Austerity_j * EU\text{-}knowledge_{ij} + ß_{7...9}\, Macro\ level\ controls_{ij} + ß_{10...13}\, Micro\ level\ controls_{ij} + u_{ij}$

Y_{ij} represents the level of trust in the EU of an individual i within a certain country j. The variable *Austerity* stands for the level of austerity all individuals i nested in a country j are subject to. *Trust in national government* indicates the level of trust an individual i nested in a country j credit their national government within a certain year. The variable *EU-knowledge* represents the level of knowledge about the EU an individual i nested in a country j has. *Corruption* represents the level of corruption prevalent in a country j. There is an interaction term with austerity and corruption ($ß_5$) and austerity and EU-knowledge ($ß_6$). *Macro level controls* reflects the macro level economic situation in a country j that affects all individuals i nested in the respective country j while *Micro level controls* affect each individual i nested in a country j individually. u constitutes the residual term.

5. Results and Discussion

To test the hypotheses, several multilevel logistic models were employed which can be categorised into two groups. To respond to the first hypothesis, the models in Table 1 test the effect of austerity on trust in the national government. All other models focus on the effect of austerity on trust in the EU to cover hypotheses 2 to 5 which can be found in Table 2. All models are multilevel logistic models and have varying intercepts for each country to account for country differences. As outlined above austerity is measured via CAPB which is not necessarily intuitive to understand. Broadly speaking, a higher CAPB value represents a positive budget balance which can be interpreted as higher fiscal discipline or less government borrowing. To achieve it the government must raise taxes or cut spending.

To test hypothesis 1, Table 1 employs three models. Model 1 tests the effect of austerity on trust in the national government independently. Model 2 adds control variables for corruption, unemployment, GDP, inflation on the national level and education, age, gender as well as the evaluation of the national economic outlook on the individual level. Model 3 excludes the GDP and inflation variables which are not significant in Model 2.

The effect of austerity is statistically significant, however, the size of the effect is comparatively small. More importantly, the direction is surprising. The model results suggest that, for all EU countries, the more austerity policies are implemented in a country, the more trust citizens have in their national government. This contradicts the first hypothesis which expected a negative impact of austerity on trust in national government. However, the effect should be treated cautiously as it disappears entirely in Model 3. Taking a closer look at differences among individual countries explains this phenomenon. Individual member states massively vary in their citizens' reactions to austerity measures, while in some countries such as Luxembourg, Sweden, Finland, Austria, Estonia, Denmark and the Netherlands austerity seems to have a positive impact on citizens trust in the national government, in others, such as Greece, Spain, Slovenia, Romania, Latvia, France, Italy, it negatively impacts this trust.

Table 1: Comparison of National Multilevel Logistic Regression Models

	Dependent variable:		
	Trust in national government		
	(1)	(2)	(3)
Austerity (CAPB)	0.030**	0.034***	-0.001
	(0.012)	(0.010)	(0.002)
Corruption		-0.395***	-0.406***
		(0.036)	(0.028)
GDP		-0.005	
		(0.007)	
Inflation (CPI)		0.025*	
		(0.014)	
Unemployment		-0.072***	-0.086***
		(0.007)	(0.002)
Age		0.011***	0.010***
		(0.0002)	(0.0002)
Gender		-0.051***	-0.051***
		(0.008)	(0.008)
Education		0.069***	0.066***
		(0.002)	(0.002)
Econ evaluation		0.747***	0.715***
		(0.006)	(0.005)
Constant	-0.503***	-2.685***	-2.437***
	(0.037)	(0.101)	(0.089)
Observations	337,871	337,871	337,871
Log Likelihood	-206,839.300	-195,980.600	-199,027.500
Akaike Inf. Crit.	413,684.600	391,983.200	398,073.000
Bayesian Inf. Crit.	413,716.800	392,101.200	398,169.500
Note:			*p<0.1; **p<0.05; ***p<0.01

Note: The table consists of logistic multilevel regression models with the dependent binary variable being trust in the national government. Standard errors are in parentheses.

Table 2: Individual Country Effects

Country	Random Intercept
Austria	0.533206076249492
Belgium	0.13830921014144
Bulgaria	-0.196363016513972
Cyprus	-0.0214413122580252
Czech Republic	-0.495355472518819
Denmark	0.681884076365149
Estonia	0.656639947272185
Finland	0.809782340664596
France	-0.56131921407772
Germany	0.273079510065873
Greece	-0.752432954650384
Hungary	0.00986737544405782
Ireland	-0.116351877170769
Italy	-0.487818571542928
Latvia	-0.577155635699706
Lithuania	-0.381752293987381
Luxembourg	1.35114934081892
Malta	0.780594283267573
Netherlands	0.653285944190972
Poland	-0.329881844616073
Portugal	-0.0480092137857323
Romania	-0.606648493217369
Slovakia	-0.193811188656456
Slovenia	-0.621219781811809
Spain	-0.751854889692912
Sweden	0.824132077081873
United Kingdom	-0.56848439216322

Note: The table displays the random effects of all countries that were included in the full national multilevel logistic regression models (no. 2) with the dependent binary variable being trust in the national government.

Consistent with the literature is the highly significant and negative effect of corruption on trust in the national government. Similarly, the variable for the evaluation of the national economic outlook predicts higher trust in the national government positively. The better the economic outlook is perceived to be, the more citizens trust in the government. All other predictors and control variables are statistically significant at the 1%-level, except GDP and inflation, and have the expected sign. Unemployment reduces the trust in national government while with higher age the trust rises. Higher educated citizens trust their government more and men appear to trust their national government more than women.

Overall, hypothesis 1 cannot be confirmed. It only holds for countries which have experienced a structural adjustment program or faced grave consequences as a result of austerity in other ways. Surprisingly, other countries with voters with a higher deficit-sensitivity and potentially less drastic cuts in spending for essential services, seem to gain trust in national government from austerity.

The predictors that impact trust in the EU are tested via the models that can be found in Table 3. Model 1 tests the baseline effect of austerity on trust in the EU. Model 2 adds controls for corruption, unemployment, GDP, inflation, on the national level and trust in the national government, knowledge about the EU, education, age, gender as well as the evaluation of the national economic outlook, on the individual level. Model 3 removes the controls and tests the interaction effects of corruption and EU knowledge while Model 4 reintroduces all the abovementioned controls but keeps only the interaction effect with corruption which is on the country level. Model 5 represents the full model with all 11 available predictors and controls plus 2 interaction terms. Model 6 is a reduced version of Model 5 that considers less relevant and less significant variables to optimise the model fit and to reduce collinearity. It does not consider the interaction term with EU knowledge and removes the control for GDP.

Table 3: Comparison of EU Multilevel Logistic Regression Models

	Dependent variable:					
	Trust in the EU					
	(1)	(2)	(3)	(4)	(5)	(6)
CAPB (Austerity)	-0.047***	-0.057***	-0.112***	-0.076***	-0.071***	-0.075***
	(0.009)	(0.009)	(0.013)	(0.013)	(0.014)	(0.013)
CAPB:Corruption			-0.087***	-0.026**	-0.026**	-0.026**
			(0.013)	(0.013)	(0.013)	(0.013)
CAPB:EU know			-0.001		-0.003*	
			(0.001)		(0.002)	
Trust in nat. gov.		2.007***		2.007***	2.007***	2.007***
		(0.009)		(0.009)	(0.009)	(0.009)
Corruption		0.420***	0.064*	0.406***	0.407***	0.409***
		(0.036)	(0.035)	(0.036)	(0.036)	(0.036)
EUknow		0.179***	0.238***	0.179***	0.177***	0.180***
		(0.005)	(0.004)	(0.005)	(0.005)	(0.005)
GDP		0.007		0.006	0.006	
		(0.007)		(0.007)	(0.007)	
CPI (Inflation)		0.066***		0.062***	0.062***	0.064***
		(0.014)		(0.014)	(0.014)	(0.014)
Unemployment		-0.021***		-0.017**	-0.017**	-0.019***
		(0.007)		(0.007)	(0.007)	(0.007)
Age		-0.006***		-0.006***	-0.006***	-0.006***
		(0.0003)		(0.0003)	(0.0003)	(0.0003)
Gender		0.056***		0.056***	0.056***	0.056***
		(0.008)		(0.008)	(0.008)	(0.008)
Education		0.074***		0.074***	0.074***	0.074***
		(0.002)		(0.002)	(0.002)	(0.002)
Econ evaluation		0.320***		0.319***	0.320***	0.320***
		(0.006)		(0.006)	(0.006)	(0.006)
Constant	0.053*	-1.415***	-0.337***	-1.446***	-1.441***	-1.423***
	(0.028)	(0.100)	(0.047)	(0.101)	(0.101)	(0.098)
Observations	337,871	337,871	337,871	337,871	337,871	337,871
Log Likelihood	-222,098.100	-186,139.000	-220,360.300	-186,137.000	-186,135.500	-186,137.400
Akaike Inf. Crit.	444,202.100	372,304.000	440,734.500	372,301.900	372,301.000	372,300.700
Bayesian Inf. Crit.	444,234.300	372,443.500	440,809.600	372,452.100	372,461.900	372,440.200
Note:						*p<0.1; **p<0.05; ***p<0.01

Note: This table contains multiple multilevel logistic regression models with the dependent binary variable being trust in the EU. Standard errors are in parentheses.

Model 1, which tests the relationship between austerity and trust in the EU, reports a small negative effect which is statistically significant at the 1%-level. Further, Model 2, which adds control variables, confirms the negative sign but reports a slightly bigger effect. All control variables added in Model 2 are statistically significant at the 1%-level, except GDP. In Model 3, with the two interaction terms added, only the interaction of austerity is with a positive sign and is statistically significant. In Model 4 this stays the same for the interaction term while all control variables are statistically significant, except GDP. In Model 5, all signs stay consistent, but the interaction term of austerity and corruption loses its statistical significance. All control variables are continuously statistically significant at least on the 1%-level, except the unemployment rate which is at the 5%-level and GDP which is not statistically significant.

All models in Table 2 show a consistent, negative effect of austerity on trust in the EU and are all at least on the 5% significance level. They generally support the second hypothesises which suggests a negative effect of austerity on trust in the EU. When governments show a higher fiscal restraint and thus reach a higher CAPB value, trust in the EU tends to decrease. For each unit increase in Austerity (CAPB), the odds of having trust in the EU decrease by a factor of approximately 0.93, holding all other variables constant (see Appendix Table IV Odds Ratios). The results support the idea that citizens lose their trust in the EU when they experience austerity policies.

Hypothesis 3 cannot be directly evaluated from the models in Table 3. However, the literature and the strong effect of trust in the national government on trust in the EU hints at the possibility of a mediation effect. In addition, trust in the national government is the most consistent predictor in all models. Citizens who tend to trust the government compared to citizens who do not tend to trust are 7.45 times more likely to trust the EU. Through a causal mediation analysis with 1000 simulations (see Table 4), the mediation effect of trust in national government is assessed. The mediation effect is positive and significant. Overall, trust in government mediates approximately 43% of the total effect of austerity on trust in the EU. Resultingly, the third hypothesis can be cautiously confirmed. Trust in national government mediates the relationship between austerity and trust in the EU. However, this result should be validated via further studies as the analysis did not account for the hierarchical structure of the model and thereby might ignore confounding and lead to distorted results (Zhang et al., 2009).

Table 4: Causal Mediation Analysis

Nonparametric Bootstrap Confidence Intervals with the Percentile Method

	Estimate	95% CI Lower	95% CI Upper	p-value
ACME (control)	0.00275	0.00188	0.00	<2e-16 ***
ACME (treated)	0.00277	0.00189	0.00	<2e-16 ***
ADE (control)	-0.00923	-0.00980	-0.01	<2e-16 ***
ADE (treated)	-0.00921	-0.00978	-0.01	<2e-16 ***
Total Effect	-0.00645	-0.00749	-0.01	<2e-16 ***
Prop. Mediated (control)	-0.42662	-0.71482	-0.26	<2e-16 ***
Prop. Mediated (treated)	-0.42985	-0.71973	-0.26	<2e-16 ***
ACME (average)	0.00276	0.00189	0.00	<2e-16 ***
ADE (average)	-0.00922	-0.00979	-0.01	<2e-16 ***
Prop. Mediated (average)	-0.42824	-0.71728	-0.26	<2e-16 ***

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

Sample Size Used: 337871

Simulations: 1000

Note: The table displays the causal mediation analysis with the treatment austerity and mediator trust in national government.

Hypothesis 4 cannot be unequivocally confirmed as the moderation effect of corruption is statistically significant, but the effect has a standard error of half its size in the full model (5). More research needs to go into this to clarify whether corruption actually reduces the negative impact of austerity on the trust in the EU as suggested by the model output. This model only delivers a cautious indication that citizens who live in a more corrupt country appear to lose less trust in the EU compared to less corrupt countries. This could be due to an attribution of responsibility towards their corrupt national government even when the austerity measure stems from the EU and a higher level of trust and more steadfast trust in the EU.

Hypothesis 5 cannot be confirmed. Despite the fact that EU knowledge consistently and significantly predicts austerity values as an independent predictor, it does not appear to moderate the relationship between austerity measures and trust in the EU. The effect sizes are very close to zero and not statistically significant. As a result, the interaction term is excluded from Model 6 to verify the robustness of other effects. It may be that more knowledge about the EU does not necessarily result in a more favourable evaluation of its policies, especially when it comes to austerity and the fiscal rules. In addition, it could be that citizens are aware of the EU's role in economic and fiscal matters, but are divided about its role. However, most questions with which EU knowledge was measured did not encompass the EMU, the EU's role in fiscal and economic policies, the "euro crisis", or the troika which limits the predictor's ability to grasp the austerity issue comprehensively.

Almost all control variables are significant and most show the expected sign. Hereby, trust in the national government represents the strongest predictor of EU trust and remains stable in all models in which the variable is employed. The higher the trust in the national government, the greater the trust in the EU. Corruption is consistent in its positive impact on trust in the EU and is almost as stable. Apparently, the idea of Arnold et al. (2012) of citizens that decouple their trust from national governments and credit it to the EU as perceived reliable watchdog instead receives support. Knowledge about the EU has a positive and highly significant effect on trust throughout the models. More knowledge about the EU increases trust in it which confirms the findings in the literature (Ehrmann et al., 2012; van der Meer & Hakhverdian, 2017). Another influential predictor is the evaluation of the national economic outlook which is highly significant and stable. The better the individual citizen perceives their national economic outlook, the more they trust the EU. This underlines the relevance of the economic voting theory in explaining trust in the EU. Initially surprising is the positive and highly significant relationship between inflation and trust in the EU. Higher inflation seems to be connected to a greater trust in the EU which is puzzling and should be further explored. This does not seem to be necessarily an exception, even if the slow response of citizens is controlled for via lagging (van Erkel & van der Meer, 2016). Moreover, the models show that younger people have slightly more confidence in the EU. In contrast to the situation at the national level and expectations, women have slightly more trust in the EU than men. Despite the fact that they are more affected by the austerity measures than men. This might be related to the male-dominated populist Eurosceptic parties that appeal predominantly to male voters (Immerzeel et al., 2015; van Elsas, 2017; Fowler, 2022). Another peculiarity is the lack of statistical significance of the GDP predictor, which should be tested in future studies. Less surprisingly, citizens with higher levels of education have more trust in the EU and higher unemployment has a negative impact on trust in the EU.

6. Limitations

This section highlights multiple shortcomings and limitations in the realms of theory, operationalisation, data and method.

The thesis contains certain theoretical shortcomings as there is little to build upon to sustainably theorise the mechanisms of trust in the EU as a multilevel structure. The thesis relies on theoretical constructions which could profit from greater thoroughness to cover the complex interplay of austerity and trust in multilevel governance structures such as the EU. While the theoretical relationship between trust in the EU has been somewhat explored, it remains difficult to theorise the mechanism describing how citizens evaluate and attribute the cause for austerity policies at the EU level and thereby place less trust in the EU. Moreover, it remains unclear to what extent citizens can distinguish whether austerity is voluntary on the part of the national government or involuntary due to pressure from the Commission with reference to EU fiscal rules. It is neither clear whether they make a difference in attributing trust on this basis. The research design of the present work is not able to measure such subtle differences.

Measuring austerity via the IMF's CAPB leaves room for measurement error as this measure is rather imprecise. The CAPB measure cannot account for all changes in the economic environment. A boom in the stock market improves the CAPB by increasing capital gains, extraordinary tax revenues and potentially rising domestic demand (Devries et al., 2011). Also, there is a reverse causality problem with a situation in which governments cut spending in an overheating economy, as the CAPB constitutes a measure designed to exclude cyclical movement, and likely a bias of finding evidence of expansionary effects (Breuer, 2019). This is why Devries et al. argue for a complementing historical approach that confirms data by looking at budget reports and announced initiatives of governments (2011). Unfortunately, this goes beyond the scope of this thesis. Furthermore, the CAPB measure cannot determine whether austerity was increased by cuts in welfare spending or by raising taxes. In order to receive more information on the effects of a particular form of austerity (expenditure-based or revenue-based) according to Kickert et al. (2015) on trust, the independent CAPB-variable could be complemented by a “type of austerity” variable with the feature to differentiate these forms. This would require the self-coding of all austerity measures. However, this is hardly possible for the period of 16 years and all EU MS. A qualitative coding of austerity measures including their estimated spending cut and tax raises in Euros would have been a more precise but unavailable alternative.

Another significant limitation is how the Eurobarometer measures trust. A finer measurement than the binary “tend to trust” or “tend not to trust” would have allowed a more accurate exploration of the variance in trust in the EU and its institutions as well as in the national government. In addition, the order of the question items within a block in the Eurobarometer might cause an overly strong influence of extrapolation of the trust from the national government to the trust in the EU (Brosius et al., 2020b).

Generally, it is important to note that citizens struggle to discern the socio-economic effects caused by austerity measures from broader changes in the economic situation and to attribute them correctly to a “responsible” issuer. While Biten et al. (2022) find that this attribution process is central to the austerity-induced loss of trust in the EU, this thesis cannot control for the attribution of responsibility due to data limitations. Unfortunately, only five survey waves of the Eurobarometer 2013-2015 (79.3, 80.1, 81.4, 82.3, 83.3) include questions on the attribution of austerity measures. Much more controversially discussed is the effect of the extent of globalisation of a country’s economy on trust which again is not controlled for due to a lack of data. Further, it would be interesting to control for the economic success of respective austerity measures that could result in a strengthening of trust in issuing institutions over time.

Multiple researchers highlight the role of perceived responsiveness as a predictor of trust in political institutions (Catterberg, 2006; van der Meer, 2010; Armingeon & Ceka, 2014; Torcal, 2014). However, due to data limitations and the complexity of EU responsibilities, this promising predictor is not considered in this thesis. It is further unclear whether responsive national political institutions are causing a change of trust at the EU level. Similarly, it would be interesting to control for the level of available level and quality of social welfare. If the provision of social welfare is already minimal, austerity measures in this area could lead to a greater marginal loss of trust per unit of reduced funding compared to countries with better social welfare. Moreover, voters nested in certain countries respond very sensitively and on average differently to government deficits (Hübscher, Sattler & Truchlewski, 2023). Thus this would be interesting as the acceptance of austerity might have different extends in different societies with different effects on trust. However, again no data is available on this specific matter.

Similarly, due to a lack of data, it is not controlled for the potential impacts of national media on trust in the EU. By portraying the EU in a certain way, the media can significantly influence citizens' trust in the national government but also in the EU (Brosius et al., 2019; Foos & Bischof, 2022). In times of high uncertainty, the framing of austerity measures can be particularly potent (Jurado et al., 2020). Even if there is negative economic news, the EU tends to be trusted more because it can be framed as a saviour that can provide bailout packages by the news media (Brosius et al., 2020a).

The control variable for education can only insufficiently reflect differences in the socio-economic status of respondents and their response to different forms of austerity. The introduction or increase of a welfare tax, for instance, would fall on rather wealthy people, while welfare state cuts would hit the poor hardest. Unfortunately, the Eurobarometer does not capture differences in socio-economic status. In addition, the available data on austerity does not allow to disaggregate austerity measures into expenditure-based and revenue-based austerity as suggested by Kickert et al. (2015). This limits the possibility of capturing variance in the trust in the EU among citizens of different classes.

Trust in the national government could be subject to reverse causality. For instance, a country with low trust in the EU in the first place could be more likely to have a government that does not follow the EU fiscal rules and thus is more likely to face EU-induced austerity measures. This paper incorrectly assumes that the Fall standard Eurobarometer surveys were all carried out in the same month in fall which increases the risk of measurement error. Fall standard Eurobarometer surveys can be taken in different months which requires to assuming that there no big events or treatments are happening while fieldwork is carried out and data collection takes place. In case this assumption is violated endogeneity problems can occur (Wälti, 2012). No lagging of the dependent variable (or of any other variables) was used in this thesis to control for endogeneity. It is assumed that anything that happens between the beginning of the year and the Eurobarometer fieldwork is not accounted for by citizens. Citizens tend to overweigh recent economic developments when looking back – the so-called recency bias (Cakici & Zaremba, 2023). By choosing the autumn Eurobarometer which is usually collecting data late during the year (typically in October or November), citizens already respond to the recent changes in relevant predictors such as austerity policies or the economic controls for the same year.

With regards to multicollinearity issues, the predictor variables are barely correlated with each other. The highest correlation values are between age and education (-0.37), corruption and unemployment rate (-0.32) and the CPI rate and unemployment rate (-0.22). However, the literature points to a possible interaction of educational attainment and corruption variables. Hakhverdian and Mayne present evidence from 21 European democracies suggesting that higher-educated citizens react stronger to corruption (2012). In corrupt societies, their loss of trust is greater compared to those with less education and in cleaner societies they have a higher trust in political institutions (Hakhverdian & Mayne, 2012). Due to the limited space of this thesis, the interaction of educational attainment and corruption and uneven distributions among the EU countries of both could not be considered. Their influence on the moderating effect of corruption on the relationship between austerity and trust in the EU remains unexplored.

Another limitation of the Eurobarometer is that it collects rolling cross-sectional instead of panel data. Every edition of the Eurobarometer contains different respondents which does not allow to accurately assess developments in trust in the EU over time among individuals and countries. Panel data would have been better to better capture effects over time. However, to cover the period of 16 years, no such panel data for all EU countries is available. Alternatives would have been the European Values Study and the European Social Survey. However, the former has only 5 waves in total with 9 years in between each while the latter only captures changes in the lives of Europeans biyearly. Neither of them provides panel data either.

There are only 27 level 2 clusters, meaning 27 countries, while at least 50 level 2 units are recommended to accurately estimate standard errors (Moineddin et al., 2007; Paccagnella, 2011). There is also an indication that fixed effects estimations suffer from a number of level 2 units lower than 50 even for small differences in intercepts and one should have at least 80 to estimate cross-level interaction effects (Schoeneberger, 2016). Especially effects on the country level are often inflated and lead to the assumption of significant effects where there are none (Bryan & Jenkins, 2016). This points to the limited robustness and reliability of the regression results displayed above which should be treated with caution.

Finally, it should be noted that this undertaking focuses on the EU and constitutes an explicitly Eurocentric approach to the assessment of the relationship between austerity and trust in political institutions. This applies to the underlying literature and the data used. Thus, any attempts to generalise the findings of this paper beyond EU realms should be guided by caution.

7. Conclusion

This work scrutinises how austerity impacts trust in the EU. In addition, the role of trust in national government and moderating effects of EU knowledge as well as corruption on the national level are explored. It is assumed that European citizens evaluate austerity policies according to the economic voting theory and are limited by their bounded rationality and knowledge about the EU. The underlying dataset comprises 27 EU countries from 2006 until 2021. Effects are assessed by numerous multilevel logistic models.

The study finds that austerity policies across the EU have an overall robust but limited negative impact on Europeans' trust in the EU. Trust in the national government positively mediates the relationship. Furthermore, a slightly positive moderating effect of the moderator variables corruption has been cautiously detected. It can be cautiously assumed that citizens in more corrupt countries experience a smaller loss of trust after the introduction of austerity measures. However, citizens do not necessarily lose trust when facing austerity measures. Surprisingly, the study rather finds a positive overall impact of austerity on trust in the national government. When assessing individual countries, this shows a wide divide between richer and poorer EU countries along the infamous north-south divide. Those who have faced EU-induced structural adjustment programmes have citizens who have lost trust in the national government after facing austerity measures.

The findings point to the high necessity of reforming the EU fiscal rules that foster the introduction of austerity measures. EU officials should become much more sensitive and cautious in which situations recommending fiscal adjustment or austerity policies actually supports the stabilisation of a country and the EU in the long run. If it is decided to propose austerity to a MS, EU officials should try to minimise adverse economic impacts for citizens in order to reduce its negative effects on the trust in the EU.

Future research should further elaborate the underlying theoretical framework on the impact of austerity on trust in the EU in order to capture and identify the mechanisms that constitute citizens' trust in the multi-level context of the EU. Applied to areas unrelated to austerity policy where the EC plays a crucial role, the expanded framework could strengthen the validity and generalisability of the research findings on trust in the EU. Moreover, the potential moderating role of the media in the relationship between austerity and trust in the EU should be explored by future research to provide further insights for EU officials. Finally, it would be interesting to explore the differences in the impact of tax-based and expenditure-based austerity on trust in the EU with a suitable dataset. This could shed more light on the class element of austerity and its effects on trust in the EU.

Appendix

Table 5: List of Variables

Variable name	Item	Data source	Coding
CAPB (Austerity)	CAPB / Austerity in % of potential GDP	IMF Fiscal Monitor	Ranging from approximately -5 to 5 on a continuous scale. Higher values mean greater fiscal discipline and a positive balance sheet. This can be interpreted as more austerity.
T_EU	Trust in the EU	Autumn Standard Eurobarometer 2006: 66.1 (v95 / QA6) 2007: 68.1 (v152 / QA8) 2008: 70.1 (v230 / QA12) 2009: 72.4 (v216 / QA10) 2010: 74.2 (v302 / QA12B) 2011: 76.3 (qa10_8) 2012: 78.1 (qa11_8) 2013: 80.1 (qa10_8) 2014: 82.3 (qa8a_13) 2015: 84.3 (qa8a_10) 2016: 86.2 (qa8a_14) 2017: 88.3 (qa8a_14) 2018: 90.3 (qa8a_14) 2019: 92.3 (qa6a_14) 2020: 93.1 (qa6a_14) 2021: 95.3 (qa6a_10)	"tend to trust", "tend not to trust", "don't know" The category "don't know" was deleted to build a binary variable. "Tend not to trust" was set to 0 and "tend to trust" was set to 1.
T_NAT	Trust in national government	Autumn Standard Eurobarometer 2006: 66.1 (v93 / QA6) 2007: 68.1 (v150 / QA8) 2008: 70.1 (v228 / QA12) 2009: 72.4 (v214 / QA10) 2010: 74.2 (v300 / QA12B) 2011: 76.3 (qa10_5) 2012: 78.1 (qa11_6) 2013: 80.1 (qa10_6) 2014: 82.3 (qa8a_11) 2015: 84.3 (qa8a_8) 2016: 86.2 (qa8a_12) 2017: 88.3 (qa8a_12) 2018: 90.3 (qa8a_12) 2019: 92.3 (qa6a_12)	"tend to trust", "tend not to trust", "don't know" The category "don't know" was deleted to build a binary variable. "Tend not to trust" was set to 0 and "tend to trust" was set to 1.

		2020: 93.1 (qa6a_12) 2021: 95.3 (qa6a_8)	
EUknow	Knowledge about the EU	Autumn Standard Eurobarometer 2006: 66.1 (v143, v144, v145 / QA20) 2007: 68.1 (v290, v291, v292 / QA17) 2008: 70.1 (v284, 285, 286 / QA24) 2009: 72.4 (v266, 267, 268 / QA17) 2010: 74.2 (v335, 336, 337 / QA18) 2011: 76.3 (qa15_1, qa15_3) 2012: 78.1 (qa17_1, 17_2, 17_3) 2013: 80.1 (qa16_1, 16_2, 16_3) 2014: 82.3 (qa18_1, 18_2, 18_3) 2015: 84.3 (qa14_1, 14_2, 14_3) 2016: 86.2 (qa16_1, 16_2, 16_3) 2017: 88.3 (qa15_1, 15_2, 15_3) 2018: 90.3 (qa14_1, 14_2, 14_3) 2019: 92.3 (qc11_1, qc11_2, qc11_3) 2020: 93.1 (qc11_1, qc11_2, qc11_3) 2021: 95.3 (sd20a_1, _2, _3)	A Score ranging from 0 to 3. Compiled from 3 questions asked in every Autumn Eurobarometer to test the participant's knowledge about the EU. Individual questions are recoded so that only the correct answer is set to 1 and wrong answers or "don't knows" to 0.
Corruptrate	Control of Corruption	World Bank Worldwide Governance Indicators (Definition: Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.)	Ranging from approximately -2.5 to 2.5. In the original dataset higher values mean a higher control of corruption. For the purpose of easy interpretation, the variable was inverted. In this thesis, higher values stand for more corruption.
Age	Age of respondents in years	Autumn Standard Eurobarometer 2006: 66.1 (v436 / D11) 2007: 68.1 (v421 / D11) 2008: 70.1 (v671 / D11) 2009: 72.4 (v585 / D11) 2010: 74.2 (v603 / D11) 2011: 76.3 (d11) 2012: 78.1 (d11) 2013: 80.1 (d11) 2014: 82.3 (d11) 2015: 84.3 (d11) 2016: 86.2 (d11) 2017: 88.3 (d11) 2018: 90.3 (d11) 2019: 92.3 (d11)	Age in years, ranging from 15 to 99.

		2020: 93.1 (d11) 2021: 95.3 (d11)	
Gender	Gender of respondent	Autumn Standard Eurobarometer 2006: 66.1 (v462 / D10) 2007: 68.1 (v420 / D10) 2008: 70.1 (v670 / D10) 2009: 72.4 (v583 / D10) 2010: 74.2 (v602 / D10) 2011: 76.3 (d10) 2012: 78.1 (d10) 2013: 80.1 (d10) 2014: 82.3 (d10) 2015: 84.3 (d10) 2016: 86.2 (d10) 2017: 88.3 (d10) 2018: 90.3 (d10) 2019: 92.3 (d10) 2020: 93.1 (d10) 2021: 95.3 (d10)	"Male" or "female" (binary, with 1 representing male and 2 representing female)
Edu	Education (age categories of the respondent at which full-time education was finished)	Autumn Standard Eurobarometer 2006: 66.1 (v461 / D8) 2007: 68.1 (v419 / D8) 2008: 70.1 (v669 / D8) 2009: 72.4 (v583 / D8) 2010: 74.2 (v601 / D8) 2011: 76.3 (d8r1) 2012: 78.1 (d8r1) 2013: 80.1 (d8r1) 2014: 82.3 (d8r1) 2015: 84.3 (d8r1) 2016: 86.2 (d8r1) 2017: 88.3 (d8r1) 2018: 90.3 (d8r1) 2019: 92.3 (d8r1) 2020: 93.1 (d8r1) 2021: 95.3 (d8r1)	Ranging from category 1 to 9 (where 1 represents up to 14 years, 2 represents 15 years, 3 represents 16 years, …, and 9 represents 22 years and older)
Econeval	(subjective) Evaluation of the economic outlook of the participant's country	Autumn Standard Eurobarometer 2006: 66.1 (v77 / QA4) 2007: 68.1 (v98 / QA5) 2008: 70.1 (v124 / QA6A) 2009: 72.4 (v112 / QA4A) 2010: 74.2 (v109 / QA5A)	Ordinal scale ranging from 1 to 4. Originally, in this order: "Better", "Worse", "Same", "DK". The don't know answer was deleted and the others recoded to "Worse" (1), "Same" (2), and "Better" (3).

		2011: 76.3 (qa5a_2) 2012: 78.1 (qa4a_2) 2013: 80.1 (qa3a_2) 2014: 82.3 (qa2a_2) 2015: 84.3 (qa2a_2) 2016: 86.2 (qa2a_2) 2017: 88.3 (qa2a_3) 2018: 90.3 (qa2a_3) 2019: 92.3 (qa2a_3) 2020: 93.1 (qa2a_3) 2021: 95.3 (qa2a_3)	
GDPrate	GDP growth (annual %)	World Bank (Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2015 prices, expressed in U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.)	Continuous scale (theoretically from –∞ to ∞)
CPIrate	CPI Inflation (Inflation, consumer price index (annual %))	World Bank (Inflation as measured by the CPI reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.)	Continuous scale (theoretically from –∞ to ∞)
Unemplrate	Unemployment rate (% of the total labour force) (modelled ILO estimate)	World Bank (Unemployment refers to the share of the labour force that is without work but available for and seeking employment.)	Continuous scale (theoretically from 0 to 100).

Table 6: Parameter Distribution Overview

	Variable	Mean	SD	IQR	Min	Max	Skewness	Kurtosis	n	n_Missing
1	year	2,013.610	4.591	8	2,006	2,021	-0.007	-1.173	337,871	0
2	econeval	1.904	0.741	1	1	3	0.156	-1.167	337,871	0
3	T_NAT	0.375	0.484	1	0	1	0.515	-1.735	337,871	0
4	T_EU	0.508	0.500	1	0	1	-0.034	-1.999	337,871	0
5	edu	5.823	2.870	5	0	10	-0.196	-1.142	337,871	0
6	gender	1.526	0.499	1	1	2	-0.106	-1.989	337,871	0
7	age	49.571	17.900	29	15	99	-0.014	-0.933	337,871	0
8	EUknow	1.926	0.941	2	0	3	-0.482	-0.700	337,871	0
9	CAPB	-0.760	2.923	3.512	-10.869	8.619	-0.304	1.030	337,871	0
10	corruptrate	1.066	0.794	1.403	-0.381	2.459	-0.013	-1.256	337,871	0
11	unemplrate	8.364	4.405	4.220	2.010	27.470	1.830	3.940	337,871	0
12	GDPrate	1.738	4.101	3.370	-14.839	24.370	-0.429	3.845	337,871	0
13	CPIrate	1.897	1.849	2.160	-4.478	15.402	1.391	6.178	337,871	0
14	country_year	216.769	126.449	220	1	432	0.052	-1.218	337,871	0

Table 7: List of Countries included in the Sample

Countries covered	EU Membership covering 2006 – 2021?	Structural Adjustment Programs
Austria	Complete coverage	-
Belgium	Complete coverage	-
Bulgaria	Since 2007	-
Cyprus	Complete coverage	2013 - 2015
Czech Republic	Complete coverage	-
Denmark	Complete coverage	-
Estonia	Complete coverage	-
Finland	Complete coverage	-
France	Complete coverage	-
Germany	Complete coverage	-
Greece	Complete coverage	2010 - 2017
Hungary	Complete coverage	2009 - 2010
Ireland	Complete coverage	2011 - 2013
Italy	Complete coverage	-
Latvia	Complete coverage	2009 - 2011
Lithuania	Complete coverage	-
Luxembourg	Complete coverage	-
Malta	Complete coverage	-
Netherlands	Complete coverage	-
Poland	Complete coverage	-
Portugal	Complete coverage	2010 - 2016
Romania	Since 2007	2009 - 2011
Slovakia	Complete coverage	-
Slovenia	Complete coverage	-
Spain	Complete coverage	2012 - 2014
Sweden	Complete coverage	-
United Kingdom	Until 2020	-

Table 8: Odds Ratios of the Full EU Multilevel Logistic Model

	Estimate	Std. Error	z value	Pr(>|z|)
(Intercept)	0.2102070	1.112842	4.620673e-07	1.000000
CAPB	0.9302365	1.014685	7.008808e-03	1.000001
corruptrate	1.4878195	1.038703	3.499626e+04	1.000000
EUknow	1.2147741	1.005573	1.593975e+15	1.000000
T_NAT	7.5477470	1.010532	6.115589e+83	1.000000
unemplrate	0.9826376	1.007373	9.215720e-02	1.017261
GDPrate	1.0071260	1.006934	2.794205e+00	1.355490
CPIrate	1.0688050	1.014971	8.803816e+01	1.000008
edu	1.0793162	1.001839	1.100126e+18	1.000000
age	0.9948182	1.000287	1.358718e-08	1.000000
gender	1.0639618	1.009006	1.007287e+03	1.000000
econeval	1.3954830	1.006475	2.656070e+22	1.000000
CAPB:corruptrate	0.9741063	1.013474	1.408448e-01	1.051255
CAPB:EUknow	0.9963176	1.001820	1.314424e-01	1.043353

Table 9: Multilevel Logistic Model with Centred Variables

	Dependent variable:
	Trust in EU
CAPB	-0.076***
	(0.016)
CAPB:corruptrate	0.054***
	(0.015)
CAPB:EUknow_cmc	-0.003*
	(0.002)
T_NAT_cmc	2.007***
	(0.010)
corruptrate	-0.180***
	(0.042)
EUknow_cmc	0.179***
	(0.005)
GDPrate	0.018**
	(0.008)
CPIrate	0.048***
	(0.016)
unemplrate	-0.048***
	(0.008)
age_cmc	-0.006***
	(0.0003)
gender_cmc	0.056***
	(0.008)
edu_cmc	0.074***
	(0.002)
econeval_cmc	0.319***
	(0.006)
Constant	0.571***
	(0.113)
Observations	337,871
Log Likelihood	-186,202.500
Akaike Inf. Crit.	372,435.100
Bayesian Inf. Crit.	372,596.000
Note:	*p<0.1; **p<0.05; ***p<0.01

Note: This model contains country mean centred (cmc) variables on the individual level but gives similar results as the uncentred model above. The effects change slightly while the directions stay identical.

Table 10: Alternative Multilevel Logistic Models

	Dependent variable:		
	Trust in EU		
	(1)	(2)	(3)
CAPB	-0.063***	-0.063***	-0.046***
	(0.014)	(0.017)	(0.016)
CAPB:corruptrate	-0.003	0.008	0.030
	(0.013)	(0.016)	(0.019)
CAPB:EUknow	-0.003**	-0.004**	-0.003
	(0.002)	(0.002)	(0.002)
T_NAT	2.023***	2.215***	1.942***
	(0.010)	(0.012)	(0.019)
corruptrate	0.375***	0.498***	0.082
	(0.036)	(0.052)	(0.075)
EUknow	0.181***	0.172***	0.186***
	(0.005)	(0.006)	(0.009)
GDPrate	0.002	0.007	-0.006
	(0.007)	(0.007)	(0.009)
CPIrate	0.060***	0.049***	0.050***
	(0.014)	(0.017)	(0.018)
unemplrate	-0.021***	-0.033***	-0.050***
	(0.007)	(0.008)	(0.009)
age	-0.005***	-0.004***	-0.003***
	(0.0003)	(0.0003)	(0.0005)
gender	0.058***	0.048***	0.004
	(0.009)	(0.010)	(0.015)
edu	0.071***	0.078***	0.051***
	(0.002)	(0.002)	(0.003)
econeval	0.341***	0.360***	0.366***
	(0.006)	(0.007)	(0.011)
Constant	-1.496***	-1.371***	-1.244***
	(0.100)	(0.133)	(0.141)
Observations	303,266	233,741	97,543
Log Likelihood	-167,692.600	-124,834.900	-54,353.340
Akaike Inf. Crit.	335,415.200	249,699.700	108,736.700
Bayesian Inf. Crit.	335,574.500	249,855.200	108,879.000
Note:			*p<0.1; **p<0.05; ***p<0.01

Note: Model 1 excludes the year 2006, where Romania and Bulgaria were not yet part of the EU and the UK is excluded. Model 2: Only the Euro area countries are included. Model 3: Only countries that faced “Structural Adjustment Programs” are included.

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Thesis Report

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Governed on the edge or protected by complexity?

The impact of fiscal austerity on trust in the European Union.

Introduction and Relevance

After the global financial crisis of 2007 turned into an economic, fiscal and later euro crisis, many Europeans felt far-reaching negative economic consequences in their daily lives. Most EU countries could no longer fulfil the Maastricht Criteria (e.g. 3% budget deficit of GDP) and had to consolidate their fiscal expenditures (Kickert, Randma-Liiv, & Savi, 2015). In some EU countries the Troika, a consortium of the European Commission (EC), European Central Bank (ECB) and the International Monetary Fund (IMF), enacted austerity programmes in exchange for loans. It promised to stabilise the public finances and to accelerate the economy by advising the respective countries to cut back on public expenditure (Cohen, Guillamón, Lapsely, & Robbins, 2015). However, these programmes failed to bring about sufficient economic growth and perspectives (Gechert & Rannenberg, 2015; Rayl, 2020). Instead, some of the programmes increased unemployment and migration of skilled workers, caused a collapse in property markets and fuelled social unrest in multiple EU member states (Cohen et al., 2015). Moreover, the Troika was criticised for a lack of transparency and democratic legitimacy (Katsikas, 2021). Consequently, a majority of Europeans were critical of the Troika and perceived the issued "austerity packages" as non-functional at the time (Gallup, 2013).

The failure of the austerity measures to spur growth and secure employment has likely contributed to the overall loss of public trust in the European institutions (Brosius, van Elsas, & Vreese, 2019). However, the mechanism and the effect on trust in the European institutions has not been robustly established. It remains unclear whether voters attribute the cause of their economic misery to the EU. On the contrary, a direct, negative impact of austerity measures on the trustworthiness of the implementing national political parties and governments, especially in the hard-hit Southern Europe, can be identified (Papadopoulos & Roumpakis, 2018). Voters in Europe oppose austerity programmes that cut back on public expenditure. This is hardly surprising as austerity measures have been found to diminish public health, increase poverty, homelessness and suicides (Ball, Furceri, Leigh, & Loungani, 2013; Reeves et al., 2015; Stuckler, Reeves, Loopstra, Karanikolos, & McKee, 2017). The cuts in spending are even less popular than tax increases and budget deficits among voters (Hübscher, Sattler, & Wagner, 2021). Hence, austerity programmes can contribute to lower voter turnout and higher share for populist parties, which results in polarisation and political instability of national political systems (Hübscher, Sattler, & Wagner, 2020). For instance, Thiemo Fetzer (2019) finds that British voters who were severely affected by austerity measures showed a higher support for Brexit. However, it remains unclear in how far austerity measures cause voters lose trust in the

EU and its institutions. Have the voters attributed austerity measures to national governments which they might be more familiar with or the EU with its set of restraining fiscal rules set out in the Maastricht Treaty?

It is important to note that EU member states, and members of the Euro area in particular, do no longer have full discretion over the design and implementation of fiscal policy. EU fiscal rules and the corresponding monitoring framework limits the member states capability of freely deciding upon and implementing fiscal policies for the benefit of better coordinated fiscal policies across the EU (Kalbhenn & Stracca, 2020). During the sovereign debt and euro crisis, the Troika constituted an even more limiting, external, but also exceptional force which gave leeway to national advocates for spending cuts or neoliberal structural reforms who claimed that their reform plans were without alternative (Moury & Standring, 2017).

The expansionary fiscal policy response to economic fallout of the COVID-19 pandemic, in form of the NextGenerationEU (NGEU) and national spending programmes, constitute a diametrically different approach from the austerity measures enforced over a decade ago. It seemed that European policy makers had learned their lesson from the negative effects of austerity measures during and after the Euro crisis. And so far, the policy change from austerity to borrowing-powered recovery has stabilised national economies and avoided negative consequences for the future of the EU. For instance, the pandemic had put Italy on the verge of economic collapse and EU rescue funds linked to austerity demands and structural reform requirements would have created a majority for an Italexit (Baccaro, Bremer, & Neimanns, 2021).

On top of the devastating effects of the worst recession since the great depression in the 1930s (IMF, 2020), the Russian invasion of Ukraine created an increased shortage of key commodities and cut across supply chains (Ozili, 2022; Prohorovs, 2022). This resulted in soaring energy prices and fuelling overall inflation, from which many citizens across Europe are already suffering (European Investment Bank [EIB], 2022). In turn, many Europeans demand state-aid which puts officials under great pressure to act in order to maintain public support and uphold the public order (Do Rosario, 2022).

However, the turn away from austerity seems to only be an intermission. The negotiations for the Multiannual Financial Framework 2021-2027 and NGEU resulted in an agreement that foresees the return to the EU debt and deficit rules in 2024, which only allow a national public debt of 60% of GDP (Scherer, González Briz, & Blázquez Sánchez, 2021). Meanwhile, the average national sovereign debt across the EU-27 rose from 77% in 2019 up to 87% in 2022 (Eurostat, 2022). Austria leads an alliance of member states set to prevent any deviation from the fiscal rules set out in the Maastricht criteria (Smith-Meyer, 2021). This would be devastating for countries with debt levels way beyond the 60% reference value as they would be forced into harsh adjustment programmes, especially in the first years by following the 1/20 rule. Member states are obliged to commit to a reduction of the distance between the debt-to-GDP ratio and the 60% limit by on average 1/20 per year over the previous three years (Larch & Malzubris, 2022). In practice, this would force policy makers to implement austerity measures with grave implications for employment, economic growth and might not even ensure debt sustainability (Regling, 2022).

Thus, to be able to comply to the EU fiscal rules, a return to austerity policies seems hardly avoidable and thus poses a dilemma. The social hardship and rising social tensions as a result of austerity measures across Europe might cause a massive loss of trust in the national governments and the EU as happened before in the aftermath of the financial crisis. This loss of trust should not be taken lightly. Because trust in government matters. Without the trust of the citizens, every democratic government will struggle to implement unpopular policy changes as policy making becomes risk-averse (OECD, 2013). It is related to support for government spending, preferences over the environment, accepted levels of immigration, participation in elections and voting for challenger (anti-establishment) parties (Devine, 2021).

Moreover, once populist or extremist parties lead the governments of (big) EU member states, the future of the EU becomes uncertain. Not only the disintegration of the union but a failure to invest in a transformation towards climate neutral economies and climate adaption constitute threats to the stability and relevance of the political systems in Europe. Thus, in order to be able to tackle long-term challenge and to remain a meaningful geopolitical actor in the future, Europeans need both trust in national governments and in EU institutions.

In order to better assess the consequences of austerity for the future of the European Union, it is crucial to learn more about the impact of austerity policies on Europeans' trust in the EU institutions.

Research Question

Consequently, this endeavour is guided by the following research question:

How does austerity affect Europeans’ trust in the EU?

Literature Review

Overall, there is support for the negative impact on fiscal austerity programmes on trust in EU. Moland's research (2018) on the long-term effects of austerity measures on trust in and support for the EU reveals that countries with austerity programmes have a significantly lower rate of trust in the EU. This is confirmed by Dotti Sani and Magistro who additionally find that individuals with lower socio-economic status had lost most trust during the financial crisis (2016). Armingeon and Ceka (2014) come to similar conclusions and claim that the main determinant for trust in EU institutions is the trust in national governments. For Europeans who are more knowledgeable about the EU, the effect is somewhat lower as they generally show more support for the EU. However, Biten et al. (2022) show that an awareness of the EU as a cause of austerity is central to the attribution of the loss of trust towards the EU.

In contrast, Kalbhenn and Stracca (2015) find that fiscal austerity measures barely impact the attitude towards European institutions and that such changes mainly occur because of their effect on the macroeconomy. They conclude that fiscal austerity does not necessarily reduce the popularity of national authorities and European institutions (Kalbhenn & Stracca, 2020).

Other scholars have contributed with differentiated results on the effect of austerity on trust in national governments. According to Alesina, Favero and Giavazzi (2019) there is a relevant difference between expenditure- and tax-based austerity programmes. While the former only merely affects economic output, the latter causes long-lasting recessions. Consequently, tax-based austerity comes with significant costs for government parties. Also, austerity measures implemented during a stable economic situation can positively moderate the negative electoral impacts (Alesina, Ciminelli, Fuceri, & Saponaro, 2021). For left-wing governments, expenditure-based austerity poses no alternative as it undermines their credibility and thus support while right-wing governments benefit from it (Alesina et al., 2021).

Governments can also influence in how far austerity measures are perceived as negative influence from Brussels or as necessary national measure. Barnes and Hicks (2018) show that austerity measures are successfully framed by governments in order to get and sustain the necessary support for implementation. For some governments such a practice is necessary as trust in national governments that had to accept the terms and conditions of Troika's consolidation programmes suffered significantly (Magistro, Owen, & Wittstock, 2021). Similarly, the media can successfully undertake such framing efforts. Jurado et al. (2020) find for Greece that, during times of high uncertainty the consequences of an Euro-exit, the opportunities for framing and support for austerity measures are greater than post-crisis where support declines. Lower support, in turn, might increase the likelihood of social unrest, which is correlated with budget cuts in Europe (Ponticelli & Voth, 2011).

With these findings in mind, the aim of this thesis is to evaluate whether there is evidence for the negative effect of austerity on the public's trust in the EU. Furthermore, the aim is to analyse the role of national governments as mediators and to identify circumstances and factors that moderate the relationship.

Theory

This section will firstly specify several concepts which are central to this work. Secondly, the process of loss of trust on an individual and societal level will be theorised on the national and EU level. Thirdly, the section sheds light on specific mediators and moderators of trust in the EU.

Conceptualisation

The main unit of analysis constitutes the European Union (EU). The EU will be conceptualised as its perceived entirety by its citizens and, additionally, as European Institutions who constitute central policymakers that can be separately identified by the public because of their actions. In this work, these "acting institutions" will encompass the European Commission (EC), the European Parliament (EP) and the European Central Bank (ECB). Additionally, national government are key to understand how trust in the EU functions. Governments are understood as the governing cabinet or parties in power at the central level of EU member states that are able to issue laws and regulations.

Trust constitutes a concept that is heavily influenced by everyday language and applied in different scientific fields (Hupcey, Penrod, Morse, & Mitcham, 2001). This is why trust is conceptualised here as political trust following Zmerli's definition: "[…] political trust refers to citizens' assessments of the core institutions of the polity and entails a positive evaluation of the most relevant attributes that make each political institution trustworthy, such as credibility, fairness, competence, transparency in its policy-making, and openness to competing views." (2014, p. 4887).

The concept of trust "is central to how citizens relate to political institutions as it reflects citizens' beliefs regarding decision making processes and actors" (Melios, 2021, p. 6). Trust matters as it credits governments and authorities with legitimacy (Faulkner & Simpson, 2017). This legitimacy is what public institutions are built on in democratic societies. Trust also constitutes a relevant concept for governability as countries with higher trust in political institutions have a lower level of tax evasion (VAT gap) and greater public support for policy reforms (Boda, Medgyesi, Fondeville, & Özdemir, 2018). Furthermore, low trust is linked to an increased use of alternative, anti-establishment media sources (Colleoni, Rozza, & Arvidsson, 2014). It results in a reduced likelihood of voting for challenger parties or abstaining from elections (Devine, 2021).

Besides political corruption and responsiveness (Torcal, 2014), trust in national political institutions depends on the subjective evaluations of the economic performance of their policies by citizens (van der Meer, 2017). During recessions citizens lose trust in their political institutions, like their national parliament (Armingeon & Guthmann, 2014) and are overall less satisfied with their national democracy (Armingeon, Guthmann, & Weisstanner, 2016).

Citizens trust in the EU functions slightly differently. Harteveld, van der Meer and Vries test three main ways in which trust in the EU is theorised in the literature (2013). First, the logic of extrapolation meaning that trust is an extension of national trust and therefore unrelated to the European Union itself. Second, the logic of rationality states that trust originates from evaluations about the (actual and perceived) performances and procedures of the European Union. Third, trust as part of identity (Harteveld et al., 2013). This means trust functions within the logic of identity and trust depends on citizens' emotional attachments to the European Union. Thereby, the logic of extrapolation finds most statistical support.

Austerity is a multifaceted term with broadly varying definitions. The most prominent (economics) journals have preferably published papers which used the term "fiscal consolidation" (Gründler & Potrafke, 2019). However, this term suggests a depoliticised, technocratic governance process that resides outside the realms of ideology. As "fiscal consolidation" measures are widely contested, the term "austerity" will be used instead as the focus of this contribution is on the political implications of restrictive fiscal policy. The different definitions around "austerity" and "fiscal consolidation" also explain why scholars have come to different conclusions when it comes to the effect of austerity on the economic well-being. Some scholars have used the concept in a strategic way in order to come to a specific conclusion (Gründler & Potrafke, 2019). Austerity even has been used as discursive frame in a struggle over hegemony (Maesse, 2018). To avoid such pitfalls, austerity is defined as policy changes aimed at improving the state's balance sheet which can take various forms.

In the following, three forms of austerity policies will be differentiated following the classification of Kickert et al. (2015). The first form is most commonly associated to austerity: the reduction of government spending. Austerity as reduced government spending can come in many forms. The government might decide to cut programme expenditures such as unemployment benefits, education programmes and social insurance allowances. Another exemplary expenditure cut would be lower health care benefits (in case they are part of the annual government budget). Easy progress in reducing the state's operational expenditures can be made via the reduction of government employees' wages, benefits and hours or reduce staff overall. Another, less popular, way to reduce government spending is to introduce a higher eligibility age for retirement. Often, this first form austerity has a particularly negative impact on poorer people – depending on what spending items are cut (Campoy-Muñoz, Cardenete, Miguel-Vélez, & Pérez-Mayo, 2022).

The second form of austerity focuses on raising the government's income. It mainly consists of tax-related measures. For instance, governments can rise the income taxes, make them more progressive or rise the VAT. Further, taxes on alcohol, tobacco or energy are increased to make more revenue. Alternatively, the focus of attention is on corporation taxes or non-fiscal revenues.

The third form of austerity is centred around target tax evasion and social security fraud. In case these measures do not suffice, government-owned businesses like utilities, transportation and telecommunications could be privatised in order to ensure solvency. Due to a lack of data, this specific form of austerity will not be considered further in this thesis.

Theoretical models

Economic factors play a central role in determining in how far citizens trust national governments and the EU and its institutions (Foster & Frieden, 2017). Citizens constitute the central actor as they "issue" trust towards the governing bodies. In order to be able to trust a governing institution, citizens need basic knowledge about it, its policies and their own individual and societal socio-economic environment. Additionally, citizens should have the perception that the government serves their interests in order to trust it (Hooghe & Marks, 2005). This work assumes that citizens are able to generally assess the impact of government policies on their socio-economic situation realistically and form rational opinions about their governing institutions. However, it is also assumed that citizens are bound to limited cognitive and time resources to follow and understand government actions and they resort to heuristics in order to categorise policies following the bounded rationality theory by Jones (1999). This work argues that citizens are mostly rational when it comes to assess the consequences of policy measures on their person economic situation. However, when they have to assess to overall economic impact of a policy or if the implemented policy is very complex (e.g. a change of the progressiveness of the income tax) and have indirect effects on their economic situation, they are likely to make wrong assumptions about the real effects of the policy (Luskin, 2002).

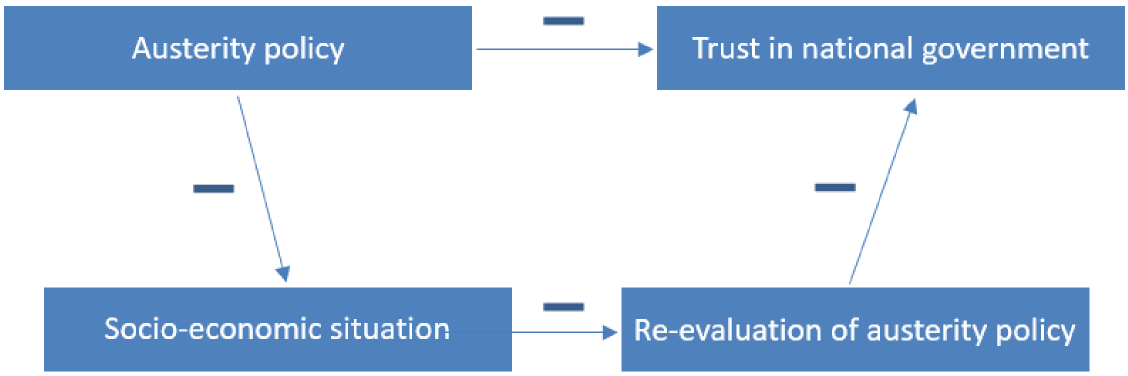

Figure 1: The theorised causal link between austerity policies and loss of trust in national government illustrated via Coleman's "bathtub" model of social change (1990). Source: Own visualisation.

The causal mechanisms of the relationship between citizens and governments will be illustrated by applying Coleman's "bathtub" model of social change (Coleman, 1990). The advantage of this model is that macro-changes can be explained via individual decisions on the micro-level which constitutes a good fit as fiscal austerity programmes affect many citizens on a daily basis. Overall, on the macro level, fiscal austerity programmes are assumed to lead to loss of trust in national governments. This can be explained by the citizens' constant monitoring of their economic situation and changes of it induced by government policies.

The negative economic consequences for citizens range from a loss of disposable income through tax raises, unemployment to poverty and homelessness. Popular targets for spending cuts also include pensions for government workers and wages of government workers (Kickert et al., 2015). Further, an increase in the national retirement age with higher minimum years of contribution and lower levels and higher taxation of pension payments is often part of austerity programmes (Zohlnhöfer, Wolf, & Wenzelburger, 2013) and has caused increased old-age poverty (Estes, 1982; Loopstra et al., 2016). Another detrimental effect has the reduction of government-sponsored healthcare; programs that disproportionately affect low-income earners at a time when they're financially vulnerable. The restriction of access to healthcare services negatively impact physical and mental health and cause a rise in suicides (Ball et al., 2013; Mattheys, Warren, & Bambra, 2018; Reeves et al., 2015; Stuckler et al., 2017).

The negative socio-economic impact of austerity policies on the citizen's life and surroundings results in a re-evaluation of the corresponding policies. The policies are perceived as damaging and traced back to their assumed source – national governments, to which citizens develop an increasingly disapproving stance. Foster and Frieden find that "an increase in unemployment from 10% to 15% is associated with a nine-percentage point reduction in the probability of trusting national government" (2017, p. 530). Unemployment can be considered one of the key predictors of trust in government (Hudson, 2006; Laurence, 2015) and if austerity policies cause such an increase in an unemployment, the trust in governing institutions will likely suffer.

However, in order to function effectively, austerity measures need to be issued by an institution that already enjoys a high level of trust (Győrffy, 2008). This can result in a vicious cycle: low trust leads to low reform capacity of the national government which then fails to improve the economic situation and loses more trust (Exadaktylos & Zahariadis, 2014). It is important to note that over time cutbacks tend to increase in severity if fiscal stress does not reduce. Often a first phase characterised by denial of the problems by the responsible decision-makers can be identified. In this phase only symbolic measures are implemented which can worsen the problem as additional loans have to be taken up and trust in government to resolve the issue is further lost (Levine, 1979, 1985).

On the EU-level economic performance has also been identified as a key predictor of trust. For instance, the level of unemployment and perceived inflation is important for the trust in the Euro as an institution and the ECB (Roth, 2022).

The EU struggles with democratic legitimacy – it has a low input legitimacy as it is only partially accountable to citizens demands (Scharpf, 1999) which poses a challenge for the establishment of trust. Thus, before the crisis, the EU was relying on output legitimacy meaning that the quality and responsiveness of delivered programmes and policies ensured a significant level of trust that allowed the EU to govern. With the failing austerity measures output legitimacy was severely damaged and contributed to a loss of attributed legitimacy and trust in the EU (Matthijs, 2014).

However, the relationship between austerity and citizens' trust in the EU is more complex compared to national governments. First, there is more diversity in how the EU is assessed in the citizens' evaluation process of austerity policies. Often, EU Citizens experience their national governments and the EU differently because of, for instance, differences in level of development, economic growth model and important economic sectors, governance styles. It is important to note that citizens in creditor and debtor countries start out from a different level of trust in the EU. While the financial crisis has only slightly diminished trust in the EU in creditor countries, trust in EU took a hard hit in debtor countries (Foster & Frieden, 2017). Resultingly, the level and mechanism of trust in national governments compared to EU institutions among a majority of citizens of a particular member state can significantly differ from one another. Armingeon and Ceka differentiate the following types of citizens (Armingeon & Ceka, 2014, p. 89):

1. "The 'escapist'—someone who thinks that the national government is not trustworthy; so all hopes are put on the EU."
2. "The 'nationalist'—someone who thinks that the national government is particularly trustworthy while the EU, as a supranational body, does not merit any trust."
3. "The 'trusting' citizen—someone who trusts both their national government and the EU. Basically she thinks that governments are doing fine—both at the national and the supranational level."
4. "The 'detached' citizen—someone who is convinced that neither the national nor the supranational government merits any trust."

In this thesis, it is assumed that "trusting citizens" and "detached citizens" combined make up the majority of EU citizens in all EU member states. This work further assumes that, because of the aforementioned, trust in national government serves as the central mediator for trust in the EU following the "congruence hypothesis" by (Anderson, 1998). This means that most citizens use their evaluation of the national government and their trust in it as a proxy for determining in how far they trust in the EU. They extrapolate from their national trust to their trust in EU institutions for which Harteveld et al. find most statistical support in a comparison of logics of trust in the EU (2013). This relationship and state that the connection or spill over is stronger in times of high polarisation or crisis (Ares, Ceka, & Kriesi, 2017; Talving & Vasilopoulou, 2021). For instance, the member states hit harder by the financial crisis lost trust in their governments but also to a great deal in EU institutions (Torcal & Christmann, 2019).

Figure 2: The theorised relationship between austerity policies and loss of trust in EU (institutions). Source: Own visualisation.

However, there is evidence that this theorised trajectory does not fully apply to all EU citizens. Citizens with higher levels of education and higher degree of knowledge about the EU institutions have higher trust in them during normal and in particular times of crisis (Ehrmann, Michel, & Stracca, 2012). Thus, it is assumed that higher EU knowledge moderates the negative relationship between trust in national government and trust in the EU positively. For citizens with a low level of awareness about the EU's role in economic governance the extrapolation logic applies – attitudes about trust in the EU match national trust attitudes.

Additionally, in member states with high corruption levels, citizens tend to decouple trust in national governments from their trust in the EU as they perceive the EU as a more reliable watchdog and regulator (Arnold, Eliyahu, & Zapryanova, 2012). Thus, it is expected that citizens in countries with high corruption trust the EU more while they lose trust in their national governments. Corruption functions as a positive moderator on trust in the EU.

Generally, it is important to note that it is challenging for citizens to discern the effects from the austerity measures from broader changes in the economic situation and to attribute them correctly to an "responsible" issuer. Thus, media portrayal and framing have the power to moderate the relationship between trust in national governments and trust in EU institutions. When the EU is more visible in media and when media tone is positive towards EU citizens trust the EU more (Brosius et al., 2019). This thesis assumes that this is also the case for austerity measures are framed as failure of national government instead of measures forced upon by the EU.

Hypotheses

H1: Implemented fiscal austerity policies affect citizens' trust in national governments negatively.

> H1a: Expenditure-based austerity policies affect the trust of individuals with lower socioeconomic status negatively.

> H1b: Revenue-based austerity policies affect the trust of individuals with higher socioeconomic status negatively.

H2: Implemented fiscal austerity policies affect citizens' trust in the EU negatively.

> H2a: Troika introduced austerity policies affect the trust in the EU particularly negatively.

H3: High trust in national government positively mediates the negative impact of austerity policies on citizens' trust in EU institutions.

> H3a: In successful economic times austerity programmes do affect citizens' trust in EU institutions less.

H4: EU-knowledge moderates citizens' trust in EU institutions positively.

H5: High levels of corruption moderate citizens' trust in EU institutions positively.

H6: Positive national media portrayal of the EU mutes the negative impact of austerity policies on trust in EU institutions.

Research Design and Methods

The research design will follow the positivist paradigm and concentrate on finding statistically significant cross-case differences within a framework of variance-based methodology. A panel regression model will be used to explore the relationship of the independent and dependent variables as the dependent variables are continuous.

Data

The sample encompasses 26 EU member states and the observed period ranges from 2007 to 2021 to include Bulgaria and Romania which joined the EU in 2007. For reasons of completeness, Croatia, which only joined in 2013 and the UK which left in 2020 were removed. This allows to take the economic situation in the member states before and after the financial and euro crisis as well as the effects of the COVID-19 pandemic into account. Overall, the panel is balanced as for all member states every variable can be observed each year.

The annual autumn Standard Eurobarometer survey provides data for the dependent variables which are the extent to which EU citizens trust their national government, the EU as a whole and individual EU institutions. The Eurobarometer respondents sample is based on a complex stratified random selection via standard random route procedures to identify the addresses of national citizens (Gesis, 2022). There are items in the Eurobarometer survey which ask face-to-face whether citizens trust their national government, the EU, the EP, the EC and the ECB. Respondents have the option to answer "tend to trust" or "tend not to trust" for each institution. Also, there is the option to respond with a "don't know" which is deleted from the dataset during the data preparation phase. The measures are admittedly fairly broad but to measure the overall effect of changes in trust over time, the individual level data is aggregated to country level averages. This creates continuous variables in a country-year style. Since the Eurobarometer survey provides data for East- and West-Germany separately, weighed country values were created for the united Germany for each year.

Operationalising and measuring austerity comes with considerable challenges. To measure as precisely as possible, cyclically adjusted primary balance (CAPB) data provided by the International Monetary Fund (IMF) were chosen for the analysis. The (budget) balance constitutes a calculation of the total government expenditure minus the total government revenue in a specific year. This means a negative balance indicates a deficit while a positive balance stands for a surplus in the annual governmental balance sheet. Further, the primary (budget) balance component excludes interest payments from actual government expenditures. Thereby, it gives a clearer picture about how much the government is really spending as it disregards the consequences of liabilities created earlier. The "cyclical adjustment" or "structural" component helps to identify actual budget balance trends and to subtract any cyclical component or other one-off government expenditures. It estimates the revenues, expenditure and deficits of the potential output of the economy and compares it to the real economy (Escolano, 2010). Consequently, CAPB has a major advantage compared to simple measures of government expenditure: it separates how cyclical movements influence the primary balance to investigate the governments' actions in changing fiscal expenditure (Gründler & Potrafke, 2019, p. 10).

Despite this, the CAPB cannot account for all changes in the economic environment. A boom in the stock market improves the CAPB by increasing capital gains, extraordinary tax revenues and potentially rising domestic demand (Devries, Guajardo, Leigh, & Pescatori, 2011). Also, there is a reverse causality problem with a situation in which governments cut spending in an overheating economy (as the CAPB constitutes a measure designed to exclude cyclical movement) and likely a bias of finding evidence of expansionary effects (Breuer, 2019). This is why Devries et al. argue for a complementing historical approach that confirms data by looking at budget reports and announced initiatives of governments (2011). Unfortunately, this goes beyond the scope of this thesis so the aforementioned limitations should be noted.

Furthermore, the CAPB measure cannot determine whether austerity was increased by cuts in welfare spending or by raising taxes. In order to receive more information on the effects of a particular form of austerity (expenditure-based or revenue-based) according to Kickert et al.(2015)on trust, the independent CAPB-variable will be complemented by a “type of austerity” variable with the feature to differentiate these forms.

Model

A (linear regression) panel data model will be run in which the DV are continuous and observed across different years for a stable set of 26 countries.

Outlook

The current cost of living crisis in Europe and the economic fallout of the COVID-19 aftermath will put further strain on EU member state budgets. However, if rising inflation and the threat of joblessness are once again answered with cutting protective state aid programmes, health- and social services and other automatic stabilisers, the socio-economic costs borne by European citizens are likely to result in a loss of trust in the responsible national and EU institutions. Rising unemployment might prove to be particularly dangerous. The resulting loss of trust, especially among the socio-economically disadvantaged who continue to be disenfranchised by the political system, might turn out to be devastating as populist parties could experience a new springtime. The future of the EU as a potent policy maker and geopolitical power would come become seriously endangered.

However, national governments and EU institutions are far from being doomed as alternatives to harmful austerity measures exist. The following consolidation measures are better suited to retain trust in governing institutions. Instead of cutting public expenditure, policy makers could focus their efforts on revenue consolidation by increasing government revenues with socio-economically friendly measures. This could encompass a more progressive income taxation, the introduction of a meaningful financial transaction tax, an effective wealth tax and the reduction of tax evasion (Cavero & Poinasamy, 2013; Mulas-Granados, 2005; Ruckert & Labonté, 2017). On the EU level, a European cohesion fund with significant resources that aims at ameliorating geographical inequalities of austerity measures could be introduced (Ballas, Dimitris, Dorling, & Henning, 2018).

In case revenue consolidation does not suffice, expenditure cuts should not negatively impact, education, health and social sectors in order to protect low-income households who are dependent on public services (Karanikolos et al., 2013; Ruckert & Labonté, 2017). However, the consolidations and public expenditure cuts should not be implemented too hastily. Optimally, consolidations should only take place once the economy has recovered to avoid a deepened recession (Ball et al., 2013; Furceri, Loungani, Ostry, & Pizzuto, 2021).

Finally, reforming the EU fiscal rules with a particular focus on investment in social and sustainable policies would avoid forcing national governments to apply austerity measures altogether when not necessary (Truger, 2020). This reform might prove to be the most effective method to restore trust in the EU as it would improve its governance effectiveness.

Current Shortcomings

At this point, the theory section and the research design are still preliminary and contains shortcomings that will be addressed in the upcoming months. Firstly, the research design is based on not fully sufficient theoretical constructions. More elaboration is needed on the concept of political trust as well as on the mechanism of trust in the European institutions. Secondly, the causal links between austerity measures and changes in trust on the European level have to be explored in greater precision – in particular with a closer focus on potential moderators.

Further, a data set for the forms of austerity variable is missing and must be researched in order to expand research on inequality of austerity measures and how this transcends into trust in EU. It has to be assessed if it would be a realistic option to create my own dataset by coding effects of austerity measures on different socioeconomic groups. Some forms of austerity, such as tax raises, fall on the rich while others fall on the poor, e. g. welfare stat cuts.

The statistical model entails considerable shortcomings. A central issue continues to be the causal connections which possibly influence trust of individuals in the European institutions. Multiple factors could affect trust in the EU. Thus, the statistical model must be refined in order to control for as many factors as possible without becoming "overfitted". Distorting effects, like the level or quality of social welfare spending per capita, deficit-sensitivity of voters, the level of globalisation of a country's economy and the economic success of the respective austerity measures, might be influential and are difficult to consider. So far, data for such control variable has still to be detected. On top, assessing the temporal impact of austerity measures might turn out to be complex.

In case the undertaking fails to provide meaningful results or in case major flaws of my research design become apparent, an alternative would be to replicate the work of Biten et. al (2022) but analysing a greater range of years.

Work plan

Deadlines	Deliverables / Milestones	Comment / Missing / Needed
10.10.2022	Revising the theoretical framework with a specific focus on the causal mechanisms	
15.10.2022	Searching data for additional / control variables	
01.11.2022	Preparing data for all variables	
01.12.2022	Running tests to identify the regression model with the best fit	
01.01.2023	Choosing the final regression model (or multiple models)	
15.01.2023	Producing the necessary code to run the chosen regression model	
01.02.2023	Interpreting the results of the chosen regression model	
01.03.2023	Advancing the theory section	Double check the theoretical foundations on which the statistical analysis rests with regression results in mind.
01.04.2023	Expanding the literature review	Adapting and expanding the literature review with regards to potential changes in the theory section.
15.04.2023	Expanding the research design	The research design section will expand, and research methods will be explicitly related to the theoretical framework and methodology.
01.05.2023	Revising the regression model(s)	Adapting the model(s) to the expanded research design.
15.05.2023	Writing the findings section	Taking the latest regression results into account.
25.05.2023	Re-writing of the theoretical framework, research design and methodology section,	
10.06.2023	Sharpening the policy problem and re-framing of the research question	After the research design has been adjusted, the introduction section will be re-written and expanded to give more information about the policy problem. Also, the research question will be reframed in order to better match the altered research design.
20.06.2023	Writing the limitations section	
30.06.2023	Writing the conclusion	
05.07.2023	Re-writing the findings sections with integrated discussion	
08.07.2023	Update and check all references	
10.07.2023	Update the appendix section	
11.07.2023	Improve integration of literature review, theoretical framework and methods with introduction, findings and conclusion section	
12.07. 2023	Reading the whole thesis and increase textual connections	This serves the overall readability of the thesis.

13.07.2023	Sending out the final draft to friends	Friends will provide feedback on readability, logic structure and in a second-round check for spelling and grammatical errors.
20.07.2023	Altering the thesis according to the comments of revisors	
21.07.2023	Altering - final	
22.07.2023	Reading for errors - final	
23.07.2023	Printing the thesis	
24.07.2023	Submitting the thesis	
31.07.2023	Submission deadline	

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