

# ECONOMIC PERFORMANCE AND POLITICAL TRUST: THE IMPACT OF THE FINANCIAL CRISIS ON EUROPEAN CITIZENS

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**ABSTRACT:** Trust links ordinary citizens to the institutions that are intended to represent them, and thereby enhances both the legitimacy and the effectiveness of democratic government. In this article we investigate whether economic performance affects political trust and if the 2007–2008 financial crisis has decreased confidence levels due to the severity of its consequences. We employ multilevel modeling to analyze data from 25 European countries taken from the European Social Survey, combined with economic indicators from the World Bank and the international Monetary Fund. Our results show that economic performance is an important decider of people's levels of trust. We are also able to conclude that the financial crisis has reduced citizen's trust in political institutions in those countries where the crisis has had a severe impact on the economy.

**Key words:** political trust; economic indicators; multilevel analysis; financial crisis

## 1. Introduction

Athens burns – and the crisis strikes at heart of the EU.<sup>1</sup>

1. *The Guardian* (2010) 'Greek bailout: Athens burns – and crisis strikes at heart of the EU', May 5: <http://www.guardian.co.uk/world/2010/may/05/greek-bailout-economic-crisis-deaths>

The bankruptcy of the investment bank, Lehman Brothers, in the fall of 2008 marks the beginning of the ongoing financial crisis. Due to increased financial globalization, a crisis that originally started with the collapse of the US housing market soon spread to the rest of the world, Europe being no exception. The crisis resulted in negative economic growth, high levels of unemployment, and weak macroeconomic prospects for a number of European countries. Following the crisis the frustration amongst European citizens is rising. As the European countries have responded to the crisis with austerity policies, thousands of people have hit the streets and demonstrated against their governments. As illustrated in the opening quote, Greece is one of the countries that have been hardest hit.

The crisis has caused millions of people to lose their jobs, and it has set the world economy back years (Krugman 2009). In this article we set out to disclose both the relationship between economic performance and political trust, as well as financial crisis' effect on levels of trust. Several studies on how economic performance affects levels of political trust have focused on economic performance in general. However, others have stressed that economic performance might have a different effect in a crisis, compared to a non-crisis. Our contribution is to test how an economic crisis, in this case the current financial crisis, affects levels of political trust.

What makes economic performance important to levels of trust? And why are high levels of trust important? People trust governments more if they have shown a capacity to generate economic growth, create jobs, provide access to social services and perform in a transparent manner (Fiorina 1978; Mackuen, Erikson, and Stimson 1992). If there is doubt that the authorities are capable of managing the national economy and respond to the challenges of an economic crisis, it may create mistrust. Because political trust is essential for the stability of democracy and a basic prerequisite for the legitimacy of those entrusted with political power, it is important that there is not a decline in the level of trust (Hardin 1998; Levi 1998). High political trust signals that the institutions function properly and effectively, and helps to keep democracy alive (Listhaug and Ringdal 2008).

While several studies have been concerned with the nature of and variation on individuals' political trust (e.g. Levi 1998; Miller and Listhaug 1999; Norris 1999; Uslaner 2002; Dalton 2004; Newton 2008), we will focus on the political trust shared by the population of a given country. The data employed are from the European Social Survey (2004, 2006, 2008, and 2010). Between the collection of the 2008 and 2010 rounds, the financial crisis had made a global impact, which makes the use of 2010 data compared to the earlier rounds advantageous for our purpose. It should however be mentioned that much previous research finds that political trust has been decreasing for some time (Dalton 2004). Rounds

2004 and 2005 are included to reduce the possibility that the evidence found in our analysis only is a continuation or exacerbation of an earlier trend. The method employed is a multilevel regression analysis with three levels; individual, country-year, and country. To measure economic performance we use the variables GDP GROWTH RATE, GDP PER CAPITA, and GROSS DEBT IN PERCENT OF GDP.

Figure 1 illustrates the expected causal relationship. We assume that as a consequence of the financial crisis, the macroeconomic measures will have changed in a negative direction, which again will lower citizens' trust in political institutions. The financial crisis is viewed as a natural experiment in which 15 September 2008 and the following repercussions represent a shock on the equilibrium of political trust in capitalist states around the world. Therefore, it can be argued that the negative fall in confidence after 2008 can be attributed to the financial crisis. Our findings suggest that economic performance *does* impact levels of trust. Also, in the countries severely affected by the financial crisis, it has led to a decline in political trust.

## 2. Theory and previous research

Political trust is essential for the stability of democracy, and a basic prerequisite for the legitimacy of those entrusted with political power (Hardin 1998; Levi 1998). The concept of political trust is multidimensional, and different terms are often used to describe the same phenomenon. Political trust can be divided into three forms: thick, interpersonal, and systemic or institutional trust (Levi 1998; Newton 2001). In this study we are concerned with the third form of trust, because this part of the phenomenon is connected to political institutions. Another way to classify political trust is according to Norris (1999) in a hierarchy that ranges from specific to general. Norris' fivefold conceptualization draws a line between political actors, regime institutions, regime performance, regime principles, and political community. Political community is the most diffuse level while political actors is the most concrete. Using this classification we have focused on



**Figure 1.** Theoretical model of the expected causal relationship

the two most specific levels of trust; regime institutions (TRUST IN POLITICAL PARTIES and TRUST IN COUNTRIES PARLIAMENT) and political actors (TRUST IN POLITICIANS). Sztopka (1999) views trust as a strategy to deal with an uncertain and unpredictable future. If one has a functioning set of institutions the danger for the individual is reduced, and trust levels are high. According to Hardin (2009) conceptions of distrust is not simply the opposite of conceptions of trust. However, distrust can, just as trust, be viewed as a rational response to protect individuals against harm. Distrust in government has led to the establishment of checks and balances to limit government power. Further, Hardin (2001: 495) describes both trust and distrust as a three-part relation ‘*A* distrusts *B* with respect to *X*. *A* might trust *B* on many matters, but not on others’. Levi (1998) argues that citizens are more likely to comply with norms if they perceive the government as credible. Thus, in order to produce and achieve outcomes it is important that trust is present. A decline in confidence can have negative consequences for democracy and the political institutions. High political trust signals that the institutions function properly and effectively (Listhaug and Ringdal 2008), and it also facilitates social and economic exchange and reduces transaction costs in markets. Trust reduced the need for control and supervision, which saves money for the government as well as for firms and other actors in the private sector. This implies that countries with high levels of trust will have an advantage in attracting investments, trade, and tourism.<sup>2</sup>

### 3. Political trust: trends and comparisons

Politicians often speak of a crisis in democracy due to constantly declining trust in government. However, it is not certain whether empirical evidence support this conclusion (Norris 1999). According to Newton (2001: 205) an abrupt or steady decline of trust from the long-term trends should be regarded as worrying. Dalton and Wattenberg (2000) find that the trust in government and political institutions has been falling in advanced industrialized democracies since the late 1960s. They also show that in

2. Hardin (1998) problematize whether it is possible to generalize and apply psychological and normative individual behavior to institutional behavior. Trust in institutions and trust in other individuals is thus not the same. If trust does not generalize to institutions, it is of limited interest in political theory. Nevertheless, the encapsulated-interest conception of trust can be generalized to fit institutions. In actual life we might not trust an institution, but depend on its apparent predictability from its past behavior. Then, we might have an expectation of the organization’s behavior (Hardin 1998: 152f).

industrialized democracies trust in political parties is eroding. Related to this, public confidence in parliaments has similarly decreased in the last decade (Dalton 2004).

However, research that rejects the hypothesis of a universal decline of trust in the public sector also exists (e.g. Van de Walle, Van Roosbroek, and Bouckaert 2008). These authors argue that there is little evidence of an overall long-term decline in trust in government, and that there are fluctuations rather than a stable trend. McAllister's (1999) research suggests that there are few consistent trends in popular support for the political community, but high and perhaps even growing support for democratic values. But he also indicates that there is a declining support for regime institutions and political leaders.

Table 1 shows the mean values of political trust in the sample countries in 2004, 2006, 2008, and 2010. Political trust is a scale created by collapsing the three measures TRUST IN COUNTRIES PARLIAMENT, TRUST IN

**TABLE 1. Political trust (0–30) – average trend**

	2004	2006	2008	2010
Belgium	13,2	13,7	12,6	12,2
Bulgaria	–	5,6	5,1	6,4
Switzerland	14,8	15,3	15,2	15,6
Cyprus	–	14,2	14,1	11,7
Czech Republic	8,5	–	8,6	8,6
Germany	10,4	10,5	11,5	10,7
Denmark	17,6	17,7	17,8	16,1
Estonia	10,5	11,5	10,4	11,3
Spain	12,5	12,0	11,7	9,8
Finland	15,9	15,9	15,8	14,4
France	11,2	10,8	11,3	10,4
United Kingdom	11,3	11,0	11,4	10,9
Greece	11,9	–	8,5	4,8
Croatia	–	–	7,4	5,6
Hungary	9,1	8,5	6,5	10,5
Ireland	12,8	12,5	10,3	9,7
The Netherlands	14,0	15,4	15,8	15,8
Norway	14,0	14,6	15,2	15,9
Poland	6,2	6,9	7,6	8,6
Portugal	7,9	9,0	8,4	7,0
Russia	–	8,9	10,4	9,7
Sweden	13,9	14,7	15,2	16,5
Slovenia	10,4	10,7	11,3	7,5
Slovakia	8,2	11,4	11,5	9,1
Ukraine	11,1	6,5	4,5	5,9

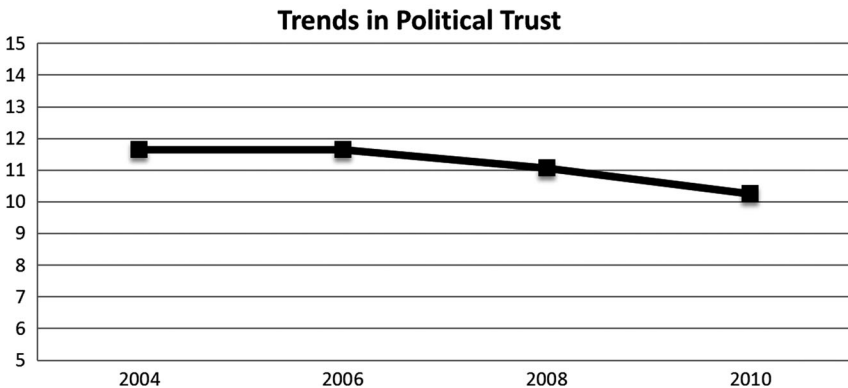
Note: Numbers marked in red are countries that have experienced reduced political trust between 2008 and 2010. In columns without values the countries haven't taken part in the survey.

POLITICAL PARTIES, and TRUST IN POLITICIANS, each ranging from 0–10. This variable includes both regime institutions and political actors.

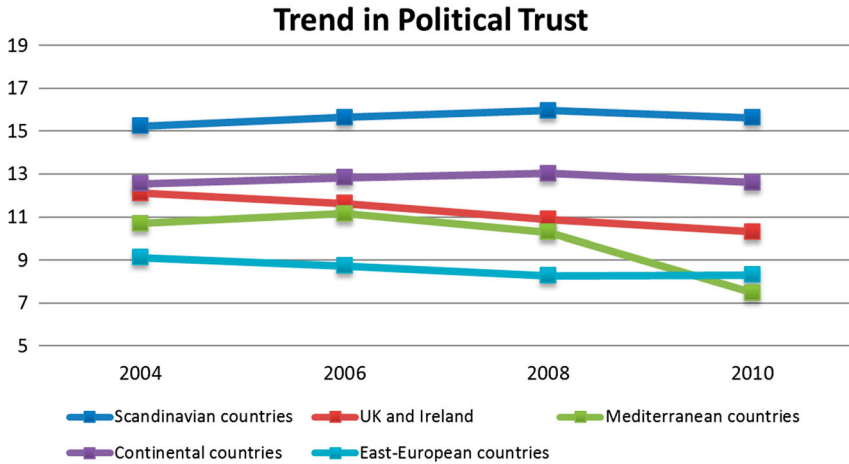
The table shows that 15 out of the 25 countries in the sample have experienced decreased trust between 2008 and 2010. Eight countries are experienced increased trust, while two countries have the same levels of trust. Out of the 15 countries that experienced a decrease in trust, it is only Cyprus, Denmark, Spain, Finland, Greece, Croatia, Ireland, and Slovenia we can argue have had an abrupt decrease after the financial crisis. In Belgium, a small decline in trust has been evident for each year the survey has been conducted. However, the decline from the before and after measures is not severe enough for it to be argued that it stems from the financial crisis. In Germany, France, Portugal, Russia, Slovakia, and the UK, trust has both decreased and increased through each survey-year.

Figure 2 illustrates the mean value of political trust combined for all the countries in the sample. The graph shows that trust is unchanged from 2004 to 2006, while it decreases between 2006 and 2008, and from 2008 to 2010. The latter decrease is larger than the former, yet it is still not severe enough to argue that the economic crisis is the only cause for the decline, or if it is a continuation of an earlier trend. As the crisis have affected countries differently, it is necessary to study the change in trust when divided into subgroups, as is shown in Figure 3.

Figure 3 illustrates trends in mean political trust in the sample countries when categorized by subgroups. The levels of trust in the Mediterranean countries drops severely between 2008 and 2010, a fall that it is possible to argue is an effect of the crisis.



**Figure 2.** Trends in political trust – all countries combined  
Note:  $N = 169,400$  individuals in 25 countries.



**Figure 3.** Trends in political trust – countries divided into subgroups  
 Note:  $N = 169,400$  individuals in 25 countries.

#### 4. Economic performance and political trust

Several authors relate trust to good performance of government. The performance approach has two main parts: the first deals with macro-performance, like unemployment, economic growth, and inflation (Brown and Coulter 1983; Kornberg and Clarke 1994; Anderson 1995; Zussman 1997; Miller and Listhaug 1999); while the second deals with micro-performance, that is, government service delivery (Norén 2000; Rose and Pettersen 2000). If there are variations in trust across countries, this may be due to variations in unemployment rates, the stability of governments etc. (Listhaug and Wiberg 1995). However, Blind (2006) argues that symptoms do not explain the causes of declining trust, and many different factors may be behind a decline. Public fear that governments are incapable of dealing with previous current fiscal and financial challenges, in addition to period of low economic growth, could be causes of a decline (Blind 2006; Mansbridge 1997; Newton and Norris 2000). It can also be argued that the current crisis is an effect of long-term structural incapacities of states in Southern and Eastern Europe, and that the crisis has just captured this underlying effect. Putnam (1993) viewed trust as the explanatory factor predicting the condition of politics and the economy. With regard to why the north of Europe had higher levels of trust than the south was explained by the absence of wars and turmoil in the former. Papakostas (2012) has investigated the reverse causal relationship, that is, what is the reason for different trust levels. He highlights the importance of a well-functioning public sphere and the strength of the state as factors influencing trust as

a dependent variable. This argument is supported by several others who state that high social trust is associated with a strong state with stable democracy, little corruption and a low degree of economic inequality (Inglehart 1999; Rothstein 2005).

In order to answer our research question, we will focus on macro-performance and its impact on political trust. What governments are able to accomplish is important for political trust. This is especially true for economic performance (Listhaug and Ringdal 2008; Nannestad and Paldam 1994). People trust governments more if they have shown a capacity to generate economic growth, create jobs, provide access to social services, and perform in a transparent manner (Fiorina 1978; Mackuen *et al.* 1992). When the government works well, citizens have confidence in those who govern, whether this is institutions, people, or political parties. In a recession, however, the opposite will occur, and support for the government will be affected in a negative way (Nannestad and Paldam 1994; Miller and Listhaug 1999; Uslander 2002; Listhaug and Ringdal 2008; Roth, Nowak-Lehman, and Otter 2011). According to Fiorina (1978), Mackuen *et al.* (1992), and Roth *et al.* (2011), economic growth and access to work and social services makes citizens rely more on the government. If there is any doubt that the authorities are capable of managing the national economy, or respond to possible challenges in the event of an economic crisis, it may create mistrust. An argument against this is that, if trust has in fact declined, it has done so over a period of economic growth. However, political trust is influenced by many factors, and it may be the case that if growth had not increased, the levels of growth would have been even lower. Nye (1997) argues that citizens' doubts regarding their national economy and governments' ability to respond to these challenges could create even more distrust now, compared to earlier, as the economy is becoming more and more globalized. According to Listhaug and Wiberg (1995) a lower gross national income will lower confidence in political institutions. From these arguments we can deduct the following hypotheses:

*H1:* A decrease in GDP per capita will result in reduced political trust.

*H2:* A decrease in GDP growth rate will reduce citizens' political trust.

Several researchers find that increased unemployment correlates with reduced political trust (e.g. Earle 2009; Roth *et al.* 2011). Research on the effects of increased unemployment from earlier periods also finds that many countries that have experienced an increase in unemployment levels also have experienced reduced trust in politicians, political parties, and political institutions (Listhaug and Wiberg 1995). Veiga and Veiga



(2004) performed a case study on Portugal, and found a strong effect of unemployment on a government's popularity. Another study of the UK by Sanders (2000) shows that voters decide on the basis of government results regarding unemployment and inflation, as well as on expectations about the economic future. From this we can assume that in countries where the unemployment rate is high, levels of political trust are low. This would reflect citizens' dissatisfaction with government's capability to manage the national economy, and respond for example to an economic crisis. From this reasoning our third hypothesis appears:

*H3: An increase in unemployment reduces citizen's political trust.*

In a recent study on trust in political institutions Roth *et al.* (2011) investigates the relationship between debt and trust in political institutions. They looked at 27 European countries with data from both before and after the financial crisis, and concluded that an increase in GDP debt reduces trust. Increased government debt often decreases spending, and when states tighten budgets and the banks become less willing to give out loans, the economic activity goes down. This happens in a situation where economic growth is already low and unemployment high. Therefore, it is reason to believe that for countries where the debt has increased, the citizen's trust will be reduced. Hence, the following hypothesis is deduced:

*H4: An increase in GDP gross debt leads to reduced political trust.*

An alternative hypothesis could, as previously mentioned, be that the financial crisis captures states' long-term structural incapacities, creating the stagnation that leads to a decline in trust.

## 5. The financial crisis

The European experience of the 2007–2008 financial crisis was experienced differently from one country to another. To be able to see if economic performance affects levels of trust, we need to control for the actual economic situation by employing macroeconomic indicators. We argue that by looking at the actual situation in the economy, and not only individuals' perceptions of the economic situation, we are able to get a greater understanding of how economic performance influences political trust.

GDP is an indicator for total value added in a country, and also provides us with an expression of gross income from domestic production activity (World Bank 2013). From Table 2 we see that GDP per capita is lower in 13 out of 25 countries in 2009 compared to 2007.

**TABLE 2. GDP per capita (current US\$)**

	2003	2005	2007	2009
Belgium	30,039.09	36,011.47	43,255.40	43,848.00
Bulgaria	2,641.79	3,733.26	5,498.04	6,403.15
Croatia	7,689.96	10,090.37	13,376.01	13,461.40
Cyprus	18,428.93	22,430.61	27,860.28	29,427.91
Czech Republic	9,335.68	12,705.62	17,467.42	18,805.66
Denmark	39,443.27	47,546.59	57,021.17	56,226.58
Estonia	7,270.28	10,330.24	16,392.72	14,264.01
Finland	31,508.88	37,318.80	46,538.17	44,837.71
France	28,794.17	33,819.14	40,342.24	40,477.06
United Kingdom	31,152.99	38,121.56	46,330.25	35,331.28
Germany	29,367.41	33,542.78	40,402.99	40,275.25
Greece	17,494.44	21,620.72	27,288.33	25,832.21
Hungary	8,247.00	10,936.95	13,534.71	12,634.55
Ireland	39,814.93	48,866.39	59,573.57	45,873.19
The Netherlands	33,177.36	39,122.29	47,770.80	48,173.91
Norway	49,263.51	65,767.02	83,556.25	77,610.02
Poland	5,674.74	7,963.02	11,157.27	11,293.85
Portugal	15,509.13	18,185.62	21,845.24	22,015.92
Russia	2,976.14	5,337.07	9,146.42	8,615.66
Slovakia	8,520.59	11,384.53	15,583.40	16,100.08
Slovenia	14,607.20	17,854.64	23,441.00	24,051.04
Spain	21,041.54	26,056.39	32,118.10	31,714.24
Sweden	35,131.21	41,040.67	50,558.40	43,639.55
Switzerland	45,588.62	51,734.30	59,663.77	65,790.07
Ukraine	1,048.52	1,828.72	3,068.61	2,973.98

Note: For Croatia, Greece, Ireland and Ukraine, 2010 levels of GDP are used instead of 2009, and for Ireland in 2007 we used 2008 levels. Numbers marked in red indicates a reduced GDP from 2007 to 2009.

GDP growth is the annual percentage growth rate of GDP per capita based on constant local currency (World Bank 2013). Table 3 shows that all countries in our sample had a lower growth in 2009 compared to in 2007. Out of the 25 countries, 22 of them have gone from having a positive to a negative growth rate. Some of the countries experienced a more severe decrease than others, but the overall trend is alarming.

According to Krugman (2012), current unemployment has reached levels that would have seemed inconceivable before the crisis. Low unemployment indicates that there is pressure in the labor market. Wages increase, which may lead to price pressure, high production and generally good times. High unemployment indicates the opposite. Trends in the unemployment rate (World Bank 2013) reflect the state of the economy, but the effect does not manifest itself immediately. From Table 4 we read that out of the 25 countries in our sample 21 experienced increased unemployment.

Because the financial crisis has culminated into a sovereign debt crisis from 2010 and onwards in Europe, it is important to control for the

**TABLE 3. GDP growth (in percent of GDP)**

	2003	2005	2007	2009
Belgium	0.81	1.75	2.88	-2.78
Bulgaria	5.50	6.40	6.40	-5.50
Switzerland	0.02	2.69	3.85	-1.94
Cyprus	1.93	3.91	5.13	-1.67
Czech Republic	3.77	6.75	5.73	-4.51
Germany	-0.38	0.68	3.27	-5.13
Denmark	0.38	2.45	1.58	-5.67
Estonia	7.77	8.85	7.49	-14.07
Spain	3.09	3.58	3.48	-3.74
Finland	2.01	2.92	5.34	-8.54
France	0.90	1.83	2.29	-3.15
United Kingdom	3.81	2.77	3.63	-3.97
Greece	5.94	2.28	3.54	-4.94
Croatia	5.37	4.28	5.06	-1.41
Hungary	3.85	3.96	0.11	-6.80
Ireland	4.16	5.34	-2.97	-0.43
The Netherlands	0.34	2.05	3.92	-3.67
Norway	0.98	2.59	2.65	-1.67
Poland	3.87	3.62	6.79	1.63
Portugal	-0.91	0.78	2.37	-2.91
Russia	7.30	6.38	8.54	-7.82
Sweden	2.34	3.16	3.31	-5.03
Slovenia	2.93	4.01	6.87	-8.01
Slovakia	4.78	6.66	10.49	-4.93
Ukraine	9.40	2.70	7.90	4.20

Note: For Croatia, Greece, Ireland and Ukraine, 2010 levels of growth are used instead of 2009, and for Ireland in 2007 we used 2008 levels. Numbers marked in red illustrates a decreased growth rate.

effect of this as well (Roth *et al.* 2011). We have therefore chosen to include gross debt in percentage of GDP (IMF 2013) in the analysis. Twenty of the 25 countries in our sample have experienced an increase in general government gross debt (see Table 5).

The four measures presented can be viewed as proxies for the extent to which each country have experienced crisis. For example, the Norwegian economy has reacted differently compared to Spain's economy. As a result, the level of political trust may be affected differently from one country to another. The economic measures are thus included in our analysis to capture this cross-national variation of the effect of the crisis.

## 6. Data and method

In order to test our hypotheses we perform a multilevel analysis of pooled data from four rounds of the European Social Survey (ESS) covering 25

**TABLE 4. Unemployment (yearly in percent)**

	2003	2005	2007	2009
Belgium	8.20	8.40	7.50	7.90
Bulgaria	13.70	10.10	6.90	6.80
Switzerland	4.10	4.40	3.60	4.10
Cyprus	4.10	5.30	3.90	5.30
Czech Republic	7.80	7.90	5.30	6.70
Germany	9.30	11.10	8.60	7.70
Denmark	5.40	4.80	3.80	6.00
Estonia	10.70	7.90	4.70	13.80
Spain	11.30	9.20	8.30	18.00
Finland	9.00	8.40	6.80	8.20
France	8.60	8.90	8.00	9.10
United Kingdom	4.80	4.60	5.20	7.70
Greece	9.70	9.90	8.30	12.5
Croatia	-	-	9.60	11.8
Hungary	5.90	7.20	7.40	10.00
Ireland	4.50	4.30	6.00	13.5
The Netherlands	3.60	4.70	3.20	3.40
Norway	4.40	4.60	2.50	3.20
Poland	19.60	17.70	9.60	8.20
Portugal	6.30	7.60	8.00	9.50
Russia	8.20	7.20	6.10	8.40
Sweden	5.80	7.70	6.10	8.30
Slovenia	6.70	6.50	4.80	5.90
Slovakia	17.50	16.20	11.00	12.10
Ukraine	9.10	7.20	6.40	8.70

Note: For Croatia, Greece, Ireland and Ukraine, 2010 levels of unemployment are used instead of 2009, and for Ireland in 2007, 2008 levels are used. Numbers marked in red illustrates increased unemployment rate between 2007 and 2009.

countries (Jowell and The Central Co-ordinating Team 2005).<sup>3</sup> The data for the economic indicators are gathered from World Bank (2013). The use of multilevel modeling is advantageous for this analysis as the data are of a hierarchical structure, as individuals can be considered a subset of country-years, which are considered a subset of countries. When using multilevel analysis we are able to account for variance in a dependent variable measured at the lowest level, by taking the higher levels into consideration (Steenbergen and Jones 2002: 219). In our models the respondents constitute level-1, the country-years level-2, and countries level-3.

We make a distinction between micro and macro explanatory variables. Several scholars (Weatherford, 1987; Lockerbie, 1993; Anderson and Guillery, 1997; Taylor, 1997; Miller and Listhaug 1999) have demonstrated the

3. The individual-level data are made available in an anonymous form by the Norwegian Social Science Data Services (NSD).

**TABLE 5. General government gross debt (percent of GDP)**

	2003	2005	2007	2009
Belgium	98.40	92.00	84.00	95.70
Bulgaria	46.50	29.40	18.60	15.60
Switzerland	65.80	70.10	55.60	51.80
Cyprus	69.70	69.40	58.80	58.50
Czech Republic	28.60	28.40	28.00	34.30
Germany	64.40	68.50	65.40	74.70
Denmark	56.60	45.40	34.10	40.60
Estonia	5.60	4.60	3.70	7.20
Spain	48.80	43.20	36.30	53.90
Finland	44.50	41.70	35.20	43.50
France	63.20	66.70	64.20	79.20
United Kingdom	38.70	41.80	43.70	68.00
Greece	101.70	98.60	106.10	129.70
Croatia	35.40	38.20	32.90	42.20
Hungary	58.50	61.70	67.00	79.70
Ireland	30.80	27.10	44.50	92.20
The Netherlands	52.00	51.80	45.30	60.80
Norway	48.40	47.80	56.80	48.90
Poland	47.10	47.10	45.00	50.90
Portugal	55.70	62.50	68.30	83.10
Russia	30.40	14.20	8.50	11.30
Sweden	51.00	50.00	39.70	42.00
Slovenia	27.60	26.80	23.10	35.00
Slovak Republic	43.40	41.50	30.50	27.90
Ukraine	29.40	17.70	12.30	40.50

Note: For Croatia, Greece, Ireland and Ukraine, 2010 levels of debt are used instead of 2009, and for Ireland in 2007, 2008 levels are used. This is because of the ESS collection periods. Numbers marked in red illustrates increased debt in percent of GDP between 2007 and 2009.

individual-level relationship between perceptions of government economic performance and levels of political support. According to Huseby (1999) it has been harder to demonstrate a direct relationship between indicators of real economy like unemployment and inflation, and perceptions of economic performance and political trust on an aggregated level. However, to measure the effect of the financial crisis on political trust, we see it necessary to focus mainly on real economic performance using unemployment, GDP per capita, GDP debt, and GDP growth. To avoid Hauser's contextual fallacy,<sup>4</sup> we have also controlled for individual-level indicators.

4. Hauser (1970) criticized the contextual analysis because he maintained that most alleged contextual effects lacked substance and were artifacts of inadequately specified individual-level models. The term contextual fallacy is used to describe this phenomenon.

## 7. The variables

The dependent variable POLITICAL TRUST (0–30) is a scale made up by collapsing three measures: TRUST IN COUNTRY'S PARLIAMENT, TRUST IN POLITICIANS, and TRUST IN POLITICAL PARTIES.<sup>5</sup> A weakness with this operationalization is that it does not include the public administration. These regulatory agencies can also be perceived to have played a part in the economic crisis. People are able to differentiate between the different types of institutions, and Johnson *et al.* (1998) state that undisciplined bureaucracies creates unfavorable conditions with regard to trust. However, the present dependent variable is the best available in the WVS data. At the individual level we have included the measures POLITICAL INTEREST (1–4), VOTED LAST NATIONAL ELECTION (0–1), UNEMPLOYED (0–1), FEELING ABOUT HOUSEHOLD INCOME (1–4) where high values indicate a positive view, WOMEN (0–1), and AGE. At the country-year level we have included four variables, all of which are economic indicators on the state of economy in a country. These are gathered from the World Bank (2013) and the International Monetary Fund (2013). We have lagged these indicators one year as we argue that it takes some time for the effects to materialize into a change in individual-level trust, and coded them so they show the change from two years ago (in accordance with our sample), and they are as follows GDP PER CAPITA, GDP GROWTH, GDP GROSS DEBT, and UNEMPLOYMENT.

The empty model can formally be defined as:

$$\gamma_{ijk} = \beta_0 + e_{ijk} + u_{0jk} + v_{0k}$$

where  $\beta_0$  is the constant,  $e$  represents the level-1 residual,  $u$  and  $v$  represents the level-2 and level-3 residuals. The subscript  $i$  vary across level-1 units (individuals), while  $j$  varies across the level-2 units (country-year), and  $k$  varies across level-3 units (country). The full model can be defined as:

$$\begin{aligned} Y_{ijk} = & \beta_0 + \beta_1 X_{1ijk} + \beta_2 X_{2ijk} + \beta_3 X_{3ijk} + \beta_4 X_{4ijk} + \beta_5 X_{5ijk} + \beta_6 X_{6ijk} \\ & + \beta_7 X_{7ijk} + \beta_8 X_{8ijk} + \beta_9 X_{9ijk} + \beta_{10} X_{10jk} + \beta_{11} X_{11jk} + \beta_{12} X_{12jk} \\ & + \beta_{13} X_{13jk} + \beta_{14} X_{14jk} + \beta_{15} X_{15k} + e_{ijk} + u_{0jk} + v_{0k} \end{aligned}$$

5. A principal component analysis showed that these measures share the same underlying factor. We have also tested an additional dependent variable composed of these three measures as well as TRUST IN THE LEGAL SYSTEM and TRUST IN THE POLICE, in order to include measures of public administration. The results from our sensitivity models were similar to the results presented in our paper.

where  $\beta_1, \beta_2 \dots \beta_n$  is the slope for level-1 and level-2 variables  $X_{1ijk}, X_{2ijk}, X_{nijk}$

## 8. Results

In Models 1 through 4 we add the macro measures one by one. The last model is the most complex one, and includes all the individual-level variables and all the macroeconomic measures together. We see from Table 6 models 1 through 4 that an increase in GDP GROWTH is associated with higher trust levels, and an increase in UNEMPLOYMENT and GDP GROSS DEBT leads to less political trust. There is no effect for change in GDP PER CAPITA.

Two of the measures are significant in the final model: change in growth and change in debt. This indicates that in countries where growth has decreased between 2008 and 2010, citizen's trust has also decreased. This is in line with our second hypothesis which stated that *a decrease in GDP growth rate will reduce citizens' political trust*. The table also shows that an increase in debt is linked with a decrease in trust, thus rendering support to our fourth hypothesis: *an increase in GDP gross debt leads to reduced political trust*.

The effect of a change in GDP PER CAPITA seen in Model 2, indicates a positive effect on trust. The effect has the same direction in Model 5. However, since the effect is not statistically significant in either model, we cannot confirm our first hypothesis: *A decrease in GDP per capita will result in reduced political trust*. A change in UNEMPLOYMENT indicates that a decrease is associated with increased trust. The result is significant in Model 3. However, when controlling for the other economic measures the effect is no longer significant. In sum, we can only say that there is some support for our third hypothesis: *An increase in unemployment reduced citizen's political trust*.

It is a possibility that the reason why changes in GDP and unemployment are not significant is because the data used to measure the effect is to lose in time to the crisis. It is a known phenomenon that unemployment moves counter-cyclical with GDP and is a lagging indicator. Yet, since UNEMPLOYMENT is significant when standing as the sole macro indicator (see Model 3), another possibility may be that the effect of unemployment to some extent is shown through the other economic indicators. To summarize, by including measures on economic performance, political trust is better explained compared to when they are not included. Also, from this it is evident that the financial crisis has had an impact on citizen's confidence in political institutions.

**TABLE 6. Random intercept model with three levels: individual, country-year and country. Dependent variable: POLITICAL TRUST**

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Constant	9.748*** (.680)	9.177*** (.574)	9.538*** (.615)	9.484*** (.608)	10.60*** (.734)
Level-1					
Political interest	1.329*** (.018)	1.329*** (.018)	1.329*** (.018)	1.329*** (.018)	1.329*** (.018)
Voted last national election <sup>a</sup>	1.428*** (.039)	1.427*** (.039)	1.427*** (.039)	1.427*** (.039)	1.428*** (.039)
Unemployed <sup>b</sup>	-.428*** (.077)	-.428*** (.077)	-.427*** (.077)	-.428*** (.077)	-.427*** (.077)
Feeling about household's income nowadays	.570*** (.020)	.570*** (.020)	.570*** (.020)	.570*** (.020)	.570*** (.020)
Education	.027*** (.004)	.027*** (.004)	.027*** (.004)	.027*** (.004)	.027*** (.004)
Woman <sup>c</sup>	.329*** (.030)	.329*** (.030)	.329*** (.030)	.329*** (.030)	.329*** (.030)
Age	-.141*** (.005)	-.141*** (.005)	-.141*** (.005)	-.141*** (.005)	-.141*** (.005)
Age squared	.001*** (.000)	.001*** (.000)	.001*** (.000)	.001*** (.000)	.001*** (.000)
Time control					
2004 <sup>d</sup>	.154 (.509)	.563 (.468)	.415 (.374)	.424 (.398)	-.939 (.687)
2006 <sup>d</sup>	.065 (.522)	.536 (.444)	.268 (.387)	.280 (.419)	-1.157* (.702)
2008 <sup>d</sup>	-.247 (.512)	.174 (.474)	-.293 (.439)	-.052 (.414)	-1.675** (.732)
Level-2					



**TABLE 6.** Continued

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
GDP Growth change	.074* (.043)				.103** (.046)
GDP per Capita change <sup>a</sup>		.033 (.043)			.041 (.043)
Unemployment change			-.183** (.076)		-.093 (.083)
GDP Gross Debt change				-.038* (.020)	-.038* (.021)
Random part					
Var ( $e_{ijk}$ )	32.223 (.118)	32.223 (.118)	32.223 (.118)	32.223 (.118)	32.223 (.118)
Var ( $u_{Ojk}$ )	1.340 (.234)	1.408 (.247)	1.263 (.221)	1.327 (.231)	1.182 (.209)
Var ( $v_{Ok}$ )	6.601 (1.978)	6.309 (1.936)	7.055 (2.111)	6.618 (1.983)	6.557 (2.006)
Log Likelihood	-472,388	-472,389	-472,387	-472,388	-472,384

<sup>a</sup>Dummy variable with reference category did not vote last national election.

<sup>b</sup>Dummy variable with reference category employed, unemployed not looking for a job, permanently sick or disabled, retired, homemakers under education, community or military service and others.

<sup>c</sup>Dummy variable with reference category men.

<sup>d</sup>Dummy variables with reference category 2010.

<sup>e</sup>The variable is divided by 1000. Level-1 *N*: 25, Level-2 *N*: 93 Level-3 *N*: 149,640, Standard errors in parentheses.

\*\*\* $p < .01$ .

\*\* $p < .05$ .

\* $p < .1$ .

All the level-1 variables are significant in our models. First, high political interest generates high trust levels, and second, citizens who participate politically, by voting in national elections, have higher levels of political trust. The results of UNEMPLOYED indicates that citizens without work, but who are looking for a job, have less trust in political institutions compared to people who are either employed, unemployed, and not looking for a job, permanently sick, or disabled, under education, community, or military service. The demographic variables education, gender, and age also seem to influence the degree of political trust. Increased years of education increase trust, and women have higher levels of trust compared to men. FEELING ABOUT HOUSEHOLD INCOME NOWADAYS has a positive correlation with POLITICAL TRUST, indicating that respondents that are living comfortably on present income have higher levels of political trust compared to respondents feeling that it is very difficult living on present income. The effect of AGE in Model 5 is a decrease up until 70.5 years, and then it starts increasing again.

The time control variables 2004, 2006, and 2008 measures levels of trust in these years compared to 2010. It shows the unexplained variance in political trust when controlling for the other micro- and macro-variables. The effect for 2004 indicates in each of the models, that the trust level is higher in 2004 compared to 2010. The same effect manifests itself between 2006 and 2010 as well. For the comparison between 2008 and 2010 the effect varies when controlling for different measures. In Model 2, where none of the economic measures are included, as well as Model 4 and Model 6, the effect is positive, indicating that levels of trust are higher in 2008. However, when controlling for growth level in Model 3 and unemployment level in Model 5, the effect indicates that trust-levels are lower in 2008 compared to 2010. In the final model the dummy variable 2008, indicate that levels of trust are lower in 2008 compared to 2010. Meaning that the unexplained variance in  $Y$ , the variance not explained in the final model, gives increased trust from 2008 to 2010. The effect of the 2008 dummy variable fluctuates around zero and is not significant.

## 9. Discussion

Our findings suggest that economic performance, which is influenced by the financial crisis, does affect political trust. When the economy is doing well, levels of political trust are higher than when the economy is weak. From the tables presented in this article, it is evident that many European countries have experienced a negative shift in the economy. From our regression models we see that GDP growth rate, which is often used to assess the performance of the economy, does affect political trust. We can

therefore conclude that citizens in countries that have experienced negative or reduced growth in GDP, as a consequence of the crisis, will have lower levels of confidence.

When an economy is affected by a crisis, economic output declines. One would expect that reduced GDP per capita, would influence the levels of political trust. However, we found no significant relationship in our models. When it comes to unemployment, the results are not clear. When controlling for the change in unemployment as the only economic indicator in the model, the results indicate that the financial crisis has had an effect on political trust. However, when controlling for the other economic measures the effect of unemployment is weaker and no longer significant. When it comes to the levels of debt in percentage of GDP the results indicate that countries with higher debt have lower levels of trust. Still, this finding is not statistically significant.

Blind (2006) argues that symptoms do not explain the causes of declining trust, and that many different factors may be behind such a decline. One factor behind a decline might very well be a concern that the government is incapable of dealing with current fiscal and financial challenges. It is a possibility that people are not just upset with the economic outcomes, but also in the way European policy-makers have handled the crisis. Another aspect is that the economic crisis has hit some countries harder than others. Around 10% of the variance on political trust is between countries. According to Roth (2010), the levels of trust have been reduced more in Spain and Portugal than in France and Germany. As seen in Figure 3, the Mediterranean countries have felt the severity of the crisis to a larger extent than for example the Scandinavian countries.

In this study we have chosen to focus on certain measures meant to capture the impact of the financial crisis. Yet, it is important to stress that also political and economic systems could influence states' capacity in controlling the crisis. Future research would be well advised to pick up on this thread.

## 10. Conclusion

Trust links ordinary citizens to institutions that are intended to represent them (Bianco 1994), and thereby enhancing both the legitimacy and the effectiveness of democratic government (Gamson 1968; Braithwaite and Levi 1998; Hetherington 1998). It is therefore an essential part of a democratic system. The findings presented in this article suggest that the financial crisis has in fact reduced citizen's trust in political institutions, at least in those countries where the crisis has made most impact. By employing a multi-level analysis we have been able to investigate several European countries.

In sum, this study contributes to the understanding of the relationship between economic performance and political trust, as well as how citizen's trust is affected by an economic crisis. A severe economic crisis must be taken seriously by policy makers, as it can contribute to reducing citizen's confidence in and support of political institution. It is their responsibility as elected representatives to lead the economy out of the recession. If they do not handle the economic situation in an appropriate manner, this can provide a foundation for higher discontent. At present, several years after the start of the crisis, many Europeans are still unemployed or underemployed. According to Krugman (2012), at recent rates of reaction we will not be back to normal levels of employment until around 2020.

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