The economic foundations of democratic legitimacy: Exploring the relationship of changes in macroeconomic inequality and trust in democratic institutions in Europe

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Rising economic inequality in Western societies and its potential social and political consequences are at the centre of attention in social science research. With levels of populism, support for radical parties, and political alienation rising in parallel (Norris and Inglehart, 2019), the question arises whether economic inequality is at the roots of political turmoil in Western democracies. Against this backdrop, we seek to analyse how changes in country-level economic inequality trigger individual-level political responses in the form of loss of trust in the political system. To date, empirical evidence has been mixed, leaving it up to debate whether controversial findings are due to cross-sectional study designs unable to identify the effects of macroeconomic and institutional changes or due to different conceptualisations of macro-level inequality. Most studies use GDP per capita and the Gini of disposable household incomes (Lipps & Schraff, 2021, Goubin & Hooghe, 2020). Only few studies include the unemployment rate as an indicator for labour market performance (Mingo & Faggiano, 2020) or poverty rates (Hutalagung et al., 2019). By contrast, indicators capturing the redistribution of wealth or changes in the structure of the labour market have so far not been tested explicitly. Addressing this gap in the literature, we ask *which indicator of macroeconomic inequality affects individual political trust*.

Theoretically, there are at least three ways in which macroeconomic inequality can impact citizens' political trust. First, the trust-as-evaluation approach regards inequality as one dimension of economic performance that affects political trust through the individual's (correct) perception of the state of the economy based on which citizens evaluate the trustworthiness of the political system (Lee et al., 2020; van der Meer, 2018). Second, economic inequality often translates into unequal political resources and power (Hacker & Pierson 2010, Solt 2010). As a consequence, citizens increasingly perceive that not all interests are equally heeded and become cynical about their ability to influence the political process (cf. Norris 2015). Because representative democracy draws legitimacy from the responsiveness of the political system, negative assessments of responsiveness will ultimately erode confidence in its core political institutions (Goubin 2018). Thirdly, economic inequality may increase distributional conflicts, which limit a state's effectiveness and lead to the perception that the state is less capable to solve social and political conflict resulting in a loss of confidence (cf. Magalhães, 2014). While we cannot test these mechanisms, each provides a reason for why it is sensible to investigate the direct association between inequality and fundamental democratic attitudes.

We combine survey data from the European Social Survey and macroeconomic data from different sources for 32 European countries over the past two decades. We explicitly incorporate a vast array of economic inequality indicators into our analysis including the Gini of market and disposable incomes. Furthermore, we explore different specifications of national poverty, the share of top incomes and wealth to get at the tails of the distribution of economic resources. We include welfare state functioning with the difference between market and disposable household incomes as well as labour market polarisation, with an indicator based on Oesch's occupation classification scheme (Oesch, 2006). Moreover, we systematically account for GDP per capita unemployment rates.

We fit a series of hierarchical mixed models for each macroeconomic inequality indicator separately: In a first step, we control for period fixed effects and the individual-level covariates (education, social class, age, household income, gender) to inspect the difference between cross-sectional and over-time variation. In a second step, we include country fixed-effects to obtain an estimate of the within-country change. Finally, we add controls for the material prosperity in terms of GDP per capita and labour market performance using the national unemployment rate. Summing up, we find that the inequality of market incomes is the primary factor to create repercussions at the level of the basic democratic order of societies even after controlling for national levels of economic prosperity and unemployment rates. Many other indicators of economic inequality, from rising poverty levels to rising top income shares may all constitute relevant policy issues, but do not call democratic fundamentals into question.