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Accepted for publication in the Journal of Common Market Studies

https://doi.org/10.1111/jcms.70126

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Abstract

We analyse the management of the financial crisis in Greece and Cyprus as an example of different domestic settings of Europeanisation. We use generalised trust as a cultural feature that underlies the domestic administrative reform processes towards EU integration. We employ a difference-in-differences analysis of trusting effects on public administration and compare these effects over the pre-to-post 2008 financial crisis period. We argue that it is differences in the culture of administration between countries that paved the different pathways to exiting the crisis. Using a comparison between a cooperative governments' democracy and a political polarization democracy we verify the effects of trusting levels on the distinct pathways to exiting the crisis. The implications of our findings relate to the challenges of administrative reforms associated with Europeanisation and the importance of trust in building qualitative institutions.

Keywords: Europeanisation, financial crisis, administrative reform, generalised trust, Greece, Cyprus

1. Introduction

Europeanisation is largely used to describe the processes and impacts associated with European Union (EU) integration. A key aspect of the term refers to member states adapting their national laws, administrative structures and procedures, and public policies, in order to meet specific EU requirements and standards (Featherstone and Kazamias 2000). In that sense, Europeanisation is asymmetrical. The 'power of Europe' is experienced differently in the national contexts as manifested by domestic politics and institutional arrangements, government procedures, administration structures, etc. (Featherstone and Radaelli 2003). The process of structural change that entails Europeanisation depends on the fit between the domestic and EU-level settings and commitments (Accornero and Kousis 2024; Bornemann 2025). For each member state the distance (proximity) to the integration requirements and standards involves a specific Europeanisation path.

Here we analyze the management of the financial crisis in Greece and Cyprus in light of different domestic settings of Europeanisation (Ongaro and Kickert 2019). Greece and Cyprus have been most affected by the 2008 financial crisis. The political decisions to seek for assistance were taken at different times and radically different courses were taken. In 2009, Greece started to deal with a long-term debt crisis negotiating on a substantial bail-out program, while in 2013 Cyprus agreed on a novel bail-in rescue plan to deal with a mainly banking crisis driven by an oversized financial sector and high exposure to Greek debt (Hardouvelis 2016, Hardouvelis and Gkionis 2016, Papadimitriou and Pegasiou 2023). Along with the source of the crisis, each country's 'readiness' to solving the problem was different, and so were the lenders' responses to their quests for help (Bitros 2013, Baltas 2013, Hardouvelis 2016, Maris et al. 2022, Challoumis et al. 2024). Lenders were faced with a timely response in the case of Greece and a delayed one in the case of Cyprus.

Differences in the quality of governance institutions and the administrative systems prevailing in the two countries have been the key to the observed differences in their degree of success in managing the crisis (Baltas 2013, Rapanos and Kaplanoglou 2014, Orphanides 2016, Spanou 2018, Venizelos 2022). Overall, there is an 'opposite directions' pattern where the initial reluctance of Cyprus (MoU with lenders in 2013) turned into a 'short rescue story' (a success story) while the eagerness of Greece (1st MoU with lenders in 2010) caused the initial success of the country to be followed by a second crisis and end up into a 'decade long rescue story' (Hardouvelis and Gkionis 2016). Understanding the two paths is interesting given the EU context interdependence of the two countries and the fact that both countries resorted to the same rescue mechanisms, the so-called Troika (IMF, EC, and ECB). We analyze the two patterns as embedded on different Europeanisation paths, i.e., different national challenges in terms of structural transformations associated with the EU integration processes.

Societal consensus towards Europeanisation facilitates the adoption of common EU standards featuring integration success. The degree in which a society embraces certain goals and actions interacts with the building and restructuring of institutions that deliver the anticipated outcome. In that sense, efficient (intelligent) institutions are the outcome of social intelligence that pervades the building of institutions in a society and reflects the individuals' ability to assess needs and demand qualitative institutions to address them (Tabellini 2010, North 1990, Smith 2017). Here, we utilise institutional intelligence theory and social trust theory and analyse citizens' assessments of governance in light of the 2008 financial crisis management. We use generalised trust as a distinguishing social intelligence feature of the two countries and evaluate peoples' perceptions of governance as related to their high and low trusting levels. To do so we apply a difference-in-differences (DiD) model that is able to capture the trusting differences in state efficacy evaluations. We estimate our models for two time slots (pre-crisis/crisis and crisis/post-crisis period) covering the whole financial crisis period in the two countries, and investigate the cultural background that allowed for the two different tales in terms of managing the 2008 financial crisis, to unfold. Our data draw from the European Social Survey (ESS) database and cover the 2008-2020 period for Greece and the 2010-2018 period for Cyprus. In line with our goal here, the ESS Rounds have been chosen to cover the pre- to post-financial crisis periods as experienced in the two countries. Governance is approximated with two composite indicators involving peoples' satisfaction with administrative quality and institutional trust. After controlling for the socio-demographic and economic profile of the respondents and their political preferences, support is provided to the empirical hypothesis proposed here. In particular, trusting levels are found to affect perceptions of public state efficiency while differences are observed between Greece and Cyprus.

Our comparative analysis makes an important contribution to the literature analysing the conditional effects of trust on institutional quality (Putnam 1993, Zak and Knack 2001, Bjørnskov 2018). In particular, we provide evidence of how generalised trust corresponds to a cultural background and underlines societal decisions. Generalised trust is a persistent human trait (Dawson 2019) and drives structural adaptations and adjustments, in our case, generalised trust affects crisis outcomes. In addition, the current analysis provides concrete evidence on the role of elections and peoples' ideology as determinants of good governance evaluations. Under the principal – agent theory the quality of state services is much related to elections that make legislators and bureaucrats accountable to voters (Druckman and Lupia 2016). Ideology is the mechanism that intervenes with administration decisions and institutional formation and the vehicle for the consequent pursuit of the socio-economic goals that are embraced by the majority of citizens (Bitros et al. 2017, Quaranta and Martini 2017). So, good governance evaluations depend on both tangible outcomes (Rotberg 2014) and peoples' perceptions of bureaucrats' capability to meet citizens' preferences (Fukuyama 2013).

Important policy level implications relate to the current findings. Greece and Cyprus share common features in terms of their political (democratic governance) and economic (members of the Eurozone area) environment but differ in terms of political culture (e.g. multi-party governments) and public sector administration quality (Katsanidou and Lefkofridi 2020). Trusting effects suggest that the opposite directions in the management of the financial crisis observed in the two countries, are culturally embedded phenomena. Thus, Greece and Cyprus are illustrative examples of how public administration, institutional, and cultural differences, might work as a problem accelerating mechanism, as in the case of Greece, and a problem solving mechanism, as in the case of Cyprus. In other words, the political setting of a society evolves as the outcome of the society's distinct cultural background and reveals either a steady commitment to advancing the quality of institutions (Cyprus) or the prevalence of ideological preferences (Greece). Now that stability is re-gained for both countries we may focus on the cultural background of the two distinct pathways and its effect on the provision of state services and policy interventions. Strengthening a society's trust in institutions is critical for democracies to mature in terms of political cooperation and social consensus. Cyprus was able to solve critical socio-economic and political dilemmas via institutionalized procedures that are not disputed or subject to political manipulation (e.g. through cooperative governments). Greece on the other hand, is left with political polarization and manipulation as the status quo that might only temporarily give way to higher level cooperation with questionable results in terms of strengthening a cooperation trend. To that extent the challenge for Cyprus is to further sustain the quality of governance outcomes whereas the challenge for Greece is to focus on the steady pursuit of excellence in administration as the prerequisite of good governance. The Greek and Cyprus debt crises highlighted the key challenges that the EU faces in terms of handling a variety of administrative systems across the euro-zone area (Featherstone 2015). In that context, Europeanisation of the national administrative systems and the demand of domestic institutional arrangements that meet strict requirements (Kassim 2003, Featherstone and Papadimitriou 2008) is an ongoing request shaped by national specificities.

The study is organized in five sections. Following this introductory section, Section 2 presents the background knowledge and the empirical hypotheses of the study. Section 3 presents the empirical model and the data and variables used for the analysis. Section 4 presents the study's results. Section 5 concludes the study and discusses the implications of our findings.

2. Background knowledge and hypothesis

Europeanisation is defined as "*Processes of (a) construction, (b) diffusion, and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things', and shared beliefs and norms which are first defined and consolidated in the making of EU public policy and politics and then incorporated in the logic of domestic discourse, identities, political structures, and public policies*." (Radaelli 2003, pp. 30-31). This definition of Europeanisation focuses on the processes of institutionalization in the sense of modes of governance and the making of policy that involves both structures and individuals (Radaelli 2003). Europeanisation progresses in terms of national convergence to EU common standards, procedures and norms, i.e. integration in modes of governance.

Governance is about the way decisions are made in a complex world, how governments and other social organizations interact, and how they relate to citizens (Fukuyama 2016). Governance is about the interaction and coordination of social life involving the key actors of government, markets and network entities (Fukuyama 2016). Producing tangible social and economic outputs is the result of efficacy in governance as income growth, social services, economic opportunities, etc., are widely acknowledged principles of good governance (Addink 2019). In that sense good governance is a political good that owes to deliver not only qualitative democratic operations and decisions (Rothstein 2012), and bureaucratic capacity and autonomy (Fukuyama 2013) but also actual services that raise peoples' standards of living (Rotberg 2014).

Once this is achieved trust is established between political and administrative institutions and the society. Trust is the outcome of good governance, evidenced by transparency in the public space (Heald 2018), and efficiency in public administration (Oomsels and Bouckaert 2014). Generalised trust, defined as trust to strangers, is generated by a radius of experiences and predispositions (Freitag and Traunmüller 2009). Evidence verify the cultural perceptive on trust, i.e., generalised trust being a relatively stable and persistent intergenerational human trait (Dawson 2019). This approach is complemented by the institutional approach to trust proposing and verifying the existence of an indirect positive link between generalised trust and efficient institutions (Kaina 2011). Notwithstanding the role of ideology and people's perceptions of the advantages (disadvantages) of an extended (limited) role of the state (North 1990, La Porta et al. 1999), good governance assumes trusting citizens that cooperate among them and with the government in order to promote commonly accepted goals and certain functions of the administration. In that sense, citizens' satisfaction with their government is the key policy design leverage and a politically malleable tool of support to government practices and interventions.

Within this context we might view the governance – trust interrelationship as a national Europeanisation path and indeed one that paved the unique crisis management patterns of Greece and Cyprus. External conditionality as a rescue mechanism, initiated very different adjustment procedures in Greece and Cyprus. Greece entered its rescue plan early and with political determination, acknowledging the long-due reforms that the country's administrative system requires. This political determination did not materialize into timely and effective reforms. The rescue plan for Greece gained societal support only at the beginning of the crisis when the society was still in shock and expecting the 'adventure' to end shortly. Societal support was waived as structural adjustment progressed owing to the crafting of the conditionality strategy (extent and severity of measures), on the one hand, and an alternative political proposal that deemed the rescue plan as harsh and unnecessary, on the other. At the time, Greece was (and to a large extent still is) struggling to exceed its reform capacity limits rooted in striking paradoxes of governance (Featherstone 2011). These paradoxes refer to the distance between the high constitutional strength of government and the presence of liberal democratic formal structures, as contrasted with a low implementation strength of public administration, widespread statism, and a political culture of clientilism, rent-seeking and corruption (Featherstone 2011). A break with such a model of governance is difficult and requires dealing with conflicting domestic interests, administrative traditions and cultural norms (Featherstone 2015, 2016). The capacity to negotiate with the lenders and implement the loan programs is a key determinant of the pace of adjustments initiated in such a context (Hardiman et al. 2019). In the case of Greece politicization and polarization featuring the Southern European political system of the country (Sotiropoulos 2017), caused distrust to the country's determination and capacity to implement the bail-out programs (Featherstone 2016). Compared to the outcomes of other loan programs, involving the EU and the IMF, the case of Greece is documented as a notable failure, as the bail-out plan did not succeed in improving the state's finances and worsened economic recession (Visvizi 2012, Dullien et al. 2019, Kickert & Ongaro, 2019). Ultimately, external pressure brought the political system to transform loan constraints into reforms. In economic terms the even worse depression scenario has been avoided (Economides et al. 2021), but the inherent side-effects of the reform constraints and country specificities hardly allowed for a change in the pattern of political operation in Greece (Spanou 2018).

Cyprus delayed in entering an official borrowing agreement (crisis hit the country in 2011 and MoU signed in 2013) and did so only after extended negotiations highlighted the necessity of the rescue plan (Hardouvelis 2016). At the policy level, reluctance to take action towards seeking a rescue plan owed to a disagreement as to what the problem actually was. In 2012, the Cypriot President Christofias argued that a banking system management problem exists, whereas the Central Bank Governor Orphanides, suggested that there is a fiscal policy laxity problem and governmental inefficiency facing the Cypriot economy (Hardouvelis 2016). Negotiations revealed that the vulnerabilities of the Cypriot economy required assistance to be dealt with and ensured the country' determination to support a rescue plan in light of the risks associated with these vulnerabilities. The delay in taking action allowed for severe measures to be imposed in Cyprus, e.g. deposit haircuts, capital controls, cuts in civil service salaries, increases in taxes, etc. However, the Cypriot society showed firm support to the bail-in program and did not divide into those who are in favor and those who are against the MoU (Hardouvelis 2016). Cyprus exited the crisis shortly after signing the MoU agreement.

To analyse these distinct paths we adopt an institutional intelligence theorization of the social trust and governance interrelationship (Smith 2017). This theorization allows for a leadership – beneficiary (stakeholder) approach to the relationship between citizens and those in power. Governance is the performance of leadership in view of leading an organization to the successful fulfilment of its mission. In that sense, governance is about those who are trusted that an organization's *' mission is happening*' (Smith 2017: 62). Citizens on the other hand, are the stakeholders of all institutions, i.e. they are '*… those who have a vested interest in the outcomes of the organization--a genuine and legitimate interest'* (Smith 2017: 38). Within this framework the relationship between governance evaluations and social trust is not limited to 'hard' indicators of public administration performance (Bouckaert and Van de Walle 2003). An expanded view of the relationship is proposed as one that refers on how effective an institution is in leveraging the overall stock of wisdom, talent and resources that a society endows toward the fulfilment of a common cause or purpose (Smith 2017). Second generation collective action theories identify social capital as the trust enhancing feature that facilitates collective actions under heterogeneous preferences (Ostrom and Ahn 2009). Thus, good governance evaluations are associated with a country's stock of social capital. This link is positive when a country's social capital reserve facilitates the cooperation of government bureaucrats in carrying out their duties and the cooperation between political elites and bureaucrats (Putnam 1993). Then direct and large-scale effects, such as macroeconomic stability (Sangnier 2013), economic growth (Dasgupta and Serageldin 2000, Knack and Keefer 1997), government responsiveness, i.e. provision of accessible, qualitative, and citizen-oriented public services (OECD 2013; Putnam 1993), and enhanced institutional efficiency are possible (La Porta et al. 1999; Tabellini 2010).

In light of the above discussion the following hypothesis is proposed:

H1. Differences in social trust predict differences in good governance evaluations

Differences in societies, as embedded in their institutions, reflect cultural differences that might explain much of the conflicting findings in the field. Good governance is a path dependent process wherein smart societies will succeed subject to a conscious and long term orientation towards transparent rules of law, and a focus on socio-economic equality and inclusion (Tabellini 2010). Trust is a construct that facilitates good governance. Differences in the perceptions of good governance are explained as differences in trust among individuals and between individuals and the institutions (particularly political, e.g. government, parliament, political parties, and administrative / social welfare institutions, e.g. justice system, police, etc.) that prevail in society (Yamagishi 2001; Tabellini 2010).

Via H1 we analyse the interrelationship between peoples' trusting levels and their evaluations of governmental administration and the trustworthiness of institutions. We expect H1 to provide different insights as the comparison context employed here involves two countries that have different cultural backgrounds in terms of their trusting levels. In line with our theoretical contextualisation institutional intelligence is about getting the right things done (Smith 2017) and social trust is decisive of both the missions identified and the accomplishments achieved. Furthermore, we expect trusting levels to differentiate good governance evaluations as reported in the pre-crisis / crisis period and the crisis/post-crisis period. These findings relate in turn to the interrelationship between trusting levels and policy interventions in light of managing the 2008 financial crisis. Overall, the results of the above mentioned analysis addresses a gap in our knowledge over the cultural underpinnings involved in the way that different countries have managed the financial crisis.

3. Materials and methods

3.1. Model and estimation methods

In line with the discussion presented above, we formulate the quality of governance evaluations as manifested for those who tend-to-trust (high trusting levels) in comparison to those who tend-not-to-trust (low trusting levels) using the following DiD formulation (1):

$$Governance_{it} = a + \beta_1 GT_i + \beta_2 Crisis_t + \beta_3 (GT * Crisis)_{it} + \beta_4 Controls_{it} + \varepsilon_{it} \qquad (1)$$

where *Governance* is our dependent variable approximated by peoples' satisfaction with bureaucratic quality (*QoG)* and institutional trust *(IT),* and our independent variables are: *GT,* the treatment dummy variable that equals one for individuals who tend-to-trust and zero for individuals who tend-not-to-trust; *Crisis,* a dummy time variable taking the value of one for the treatment period (crisis when the analysis involves the pre-crisis to crisis period and post-crisis when the analysis involves the crisis-post-crisis period) and zero otherwise; *GT*Crisis,* a variable that captures the difference-in-differences with regard to governance evaluations as affected by trusting levels; and *Control,* is a vector of variables accounting for the socio-demographic, economic and political profile of individuals as related to their governance evaluations. Given the theoretical propositions discussed earlier we expect people who tend-to-trust and people who tend-not-to-trust to manifest their governance evaluations as two distinct groups of citizens, holding different spheres of trust and interacting differently with those in power. High trusting individuals is the group of people for which a treatment effect might be identified in contrast to low trusting individuals that see crisis as verifying the presence of an untrustworthy administration.

3.2. Data and variables

The analysis is based on individual micro-level data drawn from the European Social Survey Rounds R5, R6 and R9 covering the 2010-2018 period for Cyprus and the pre-crisis (R5-2010), crisis (R6-2012) and post-crisis (R9-2018) phases, respectively. For Greece the ESS Rounds R4, R5 and R10 are used covering the 2008-2020 period and the pre-crisis (R4-2008), crisis (R5-2010) and post-crisis (R10-2020) phases, respectively. The total sample for Cyprus is N = 2980 observations and for Greece is N = 7586 observations. Given data availability from the ESS database the following variables are used in our analysis. Definitions, measurement and the basic descriptive statistics of all variables are presented in Table 1.

Table 1 here

Dependent variables

We approach the latent constructs referring to individual's perceived quality of governance and trust in key institutions by the quality of governance (QoG) and institutional trust (IT) variables, respectively.

Quality of governance (QoG): Following our theoretical context and empirical orientation, peoples' perceptions of good governance are analysed as both public sector outcomes and institutional quality (Fukuyama 2013; Rotberg 2014; Rothstein 2012). Thus, the variable of perceived quality of governance is constructed as the mean of four items measured on a 0-10 positive Likert scale and referring to accountability and responsibility, i.e., satisfaction with the (i) national government and the present state of (ii) the economy, (iii) education and, (iv) healthcare services in the country.

Institutional trust (IT): Institutional trust is synonymous with trust in the system (Luhmann 1979), meaning that people are more likely to trust institutions if they believe that everything is in 'proper order' (Lewis and Weigert 1985). It follows that trust in the system is crucial for the effective functioning of political power (Lewis and Weigert 1985). In view of that we use here the variable of institutional trust (IT) as a proxy to citizens' support to administration services, reflecting their evaluations of how well institutions perform in areas such as health, safety, justice, etc. (Grönlund and Setälä 2012, Marozzi 2015). Our IT variable is calculated as the mean of four items, each rated on a 0-10 positive Likert scale, and capturing respondents' trust in: (i) the country's parliament, (ii) the legal system, (iii) the police, and (iv) the European parliament.

To verify the internal consistency of the variables capturing quality of governance (QoG) and institutional trust (IT), we carried out Cronbach's Alpha reliability tests in the sample. The reliability statistics, as shown in Table A1 in the Appendix, indicate that the internal composition ranges from acceptable to very good, which is important given the small number of four items in both the QoG and the IT variables.

Treatment variable

We approximate social trust via the generalised trust (GT) variable. Generalised trust is used as the 'standard' proxy of trust in a society (Uslaner 2002; Inglehart et al. 2004) and is widely studied as a mechanism conducive to higher levels of human cooperation and progress (Kocher et al. 2008). Furthermore, we assume trust to be a persistent cultural feature of societies. The way social trust is generated is analysed under two distinct strands of research (Dinesen and Sønderskov 2018). The cultural perspective assumes social trust to be a deeply rooted disposition of individuals that is socially generated and rather stable across various experiences in a person's lifetime (Uslaner 2008). In contrast, the experiential perspective emphasises the effect of individuals' experiences as the conditions that define social trust via personal impressions (Glanville and Paxton 2007; Uslaner 2008; Dinesen 2012). Here we adopt a cultural explanation to social trust as a stable human trait that is socially formed in the early life of a person and changes temporarily in response to subsequent experiences. Recent empirical evidence support the presence of social trust as solid cultural trait (Dawson 2019) that is crystallised in early adulthood (Abdelzadeh and Lundberg 2017).

In view of the above, generalised trust is expected to capture consensus effects as embodied in democratic governance and qualitative administration services i.e., efficiency and accountability of both the government and the civil sector. In line with our research hypothesis we are interested in identifying the causal effects of trust on governance evaluations in different time and place contexts, i.e., under different political regimes handling the financial crisis in Greece and Cyprus with different policy agendas.

The interaction term between GT and our independent variables is denoted as Treatment. As our treatment variable, generalised trust distinguishes between high-trust and low-trust individuals. It is a dummy variable recoded from a 0-10 positive Likert scale item, which asks respondents to rate their agreement with the statement "most people can be trusted, or you can't be too careful". It takes the values of 1 (High Trust - individual score ≥ 5), and 0 (Low Trust – individual score ≤ 4).

Controls

Our control variables include the typically accounted for socio-demographic and economic characteristics of individuals. Based on available knowledge regarding the effects of good governance on the well-being of citizens (Kaufmann 2003; Van de Walle 2006) we expect the socio-economic profile of individuals to affect individuals' evaluations of quality of governance and institutions. However, the sign of these effects can be either positive or negative suggesting personalized experiences of individuals with their government and the institutions in their country. In particular we account for Age (measured in years), Education (measured by the number of years of full-time education that the respondent has completed), Gender (a binary variable where 0 denotes male and 1 denotes female respondents), and Income satisfaction (an ordinal variable ranging from 0 –very difficult to live on present income- to 3 - living comfortably on the present income-).

Following extant knowledge in the field we use citizens' political ideology as a predictor of good governance evaluations. Studies analysing the quality of political representation indicate that perceptions about state services and institutions are affected by political ideology (Teixeira et al. 2014; Ariely 2015). However, perceptions of good institutions might differ from those of a good government, thus giving room to administrative systems that are structured on different logics and support different goals to emerge. To that extent we control here for the political profile of individuals, approximated by their self-reported position on an eleven-grade Likert variable of self-reported positions from left (0) to right (10) scale. We expect a person's ideological position to capture distance from or closeness to an elected government effects while, with regards to institutional quality a propensity to identify qualitative operation of public sector services might be correlated to ideological position with regards to the ruling party at a given point in time. Finally, the *Crisis* effect is captured by a Time binary variable that takes the values of 0 and 1 to account for the pre-crisis (0) – during crisis (1) and the during-crisis (0) - post-crisis (1) periods of analyses.

Instruments

To ensure the robustness of our results we need to test and control for 1) a possible violation in the parallel trends assumption and 2) for endogeneity bias in our estimation models. The violation of the parallel trends assumption was graphically detected (see Figures A1 and A2 in the Appendix) as lack of panel data did not allow for a formal examination that would cover the whole 2002-2020 period using interaction terms between the treatment variable and the pre-treatment time dummies (Beatty and Shimshack 2011). However, given concerns about the low power of 'pre-trends' tests the use of alternative robust inference methods in estimating difference-in-differences models is recommended (Rambachan and Roth 2019; Bilinski and Hatfield 2019). Rambachan and Roth (2019) suggest the use of sensitivity analysis in order to evaluate the type and degree of deviation from the parallel trends and then solve a nested optimization problem to identify treatment effects. Bilinski and Hatfield (2019) suggest the estimation of simple DiD model and a DiD model that includes a linear trend difference in order to assess the magnitude of the difference in treatment effects as specified by the two models. Another approach and the one used here is proposed by Freyaldenhoven et al. (2019). Freyaldenhoven et al. (2019) suggest the use of a covariate in order to adjust the estimates for the possible effect of the confounding parameter (the covariate needs to be affected by the confounding parameter and not be affected by the analyzed treatment). Using a TSLS or GMM estimator this approach provides robust treatment effects (Freyaldenhoven et al. 2019). This solution is more appropriate here as it allows us to also correct for possible reverse causality effects drawn from the generalised trust variable, the treatment variable and the ideology variable.

In view of the above our final models involve the use of five instruments namely, (i) Behaviour, measured by 'Important to behave properly' variable, (ii) Tradition, measured by

'Important to follow traditions and customs', variable, (iii) Equality, measured by 'Important that people are treated equally and have equal opportunities' variable, (iv) Compassion, measured by 'Important to help people and care for others well-being' variable, and (v) Empathy, measured by 'Important to understand different people' variable. All variables are ordinal positive classifications of a 0 -not like me at all- to 5 -very much like me- range.

These instruments have been chosen in view of available knowledge that links generalised trust with honesty (Platteau 1994) and trustworthiness (Uslaner 2002) towards unknown others. Also, peoples' perceptions of the importance to behave properly relates to moral values. Studies show that ideology is linked to specific moral values that people identify with (Voelkel and Brandt 2019; Hatemi et al. 2019) and which reflect their preferences over law and order in a society.

4. Results

4.1. Model diagnostics

Our final estimations draw from the best models estimated among alternative model specifications and estimation techniques. As regards the choice of the appropriate estimation technique, i.e., OLS versus Limited Information Maximum Likelihood (LIML), was made on the basis of Hausman tests (significance at p-value < 0.05). These tests account for possible endogeneity of the trust, treatment and ideology variables as mentioned in the previous section. By estimating various models, the singular variable that consistently emerges as endogenous is trust. In the model presented within this text, we exclusively designate trust as an endogenous factor. The lower part of Tables 2 and 3 present the results of these tests and justify the choice of LIML over the OLS technique in the case where the trust independent variable has been found endogenous. When correction for endogeneity is needed the corresponding Sargan test and weak instruments tests were also performed. Regarding the Sargan test, the null hypothesis is that the overidentifying restrictions are valid. If the p-value is below the standard cutoff (0.05), then we reject the null hypothesis, and conclude that our instruments are not valid. For the weak instruments test, F-value greater than 10 is a commonly used rule of thumb indicating that the instrument is not weak. The refinement of the $F > 10$ rule by Stock and Yogo (2005) introduces critical value tables for testing the null hypothesis that instruments are weak. These criteria include comparing IV estimator bias with least squares estimator bias and evaluating the maximal size of a 5% test for endogenous variable coefficients. The maximal size criterion is pivotal in gauging instrument strength in both 2SLS and LIML methods. It assesses whether the instruments yield dependable estimates when dealing with endogeneity. Maximal size surpassing 25% suggests weak instruments, risking false positives. Exceeding 10% raises concerns of instrument weakness and liberal tests, underscoring the need for robust instruments for credible hypothesis testing. Thus, the selection of instruments should not only be statistically appropriate but should also reflect the practical significance of the chosen variables. The selection made here is grounded in the domain knowledge relevant to the assumptions of our model. All our estimations and tests were conducted using the Gretl software.

Table 2 here

Table 3 here

4.2. Empirical results

Table 2 summarizes our final estimations for Cyprus. The generalised trust variable exerts positive effects on the quality of governance and institutional trust indicators in both periods of the analysis. The time effect and the treatment effect of trust are negative in the first period following the shock of the crisis outbreak. However, in the post crisis period trust in the administration remains strong and a positive time effect is observed. The treatment effect of trust is not significant in the second period when Cyprus has managed to leave the crisis behind. We find therefore that, Cypriots' confidence in their government diminishes during the first period of the analysis, covering the outbreak and the first years of the crisis, while this treatment effect is no longer important in the during-post crisis period where time is related with positive changes in people's evaluations of governmental quality. The shock of the financial crisis in Cyprus is found to relate with distrust in the government's ability to deal with it in the first place. Our results support the argument of an ideological solution to crisis in Cyprus. Trust is ascribed to policies that are effective in dealing with market problems. The 2008-2013 AKEL government firmly resisted action towards addressing these problems (Michaelides and Orphanides 2016, Hardouvelis and Gkionis 2016). Extant analyses show that the 2008-2013 government adopted an expanding spending plan, involving unproductive expenditures, e.g., on wages and social transfers (Michaelides 2014, Hardouvelis and Gkionis 2016), proceeded with a more than a year delay in asking for a support program, causing pressure to the economy to reach a pick, and did not sign it until the February 2013 elections took place (Orphanides 2016). We observe here that citizens' trust in government is restored quickly after a rescue plan was signed and implemented, leading Cyprus out of the crisis. The profile of respondents is important and shows steady positive effects of age and income satisfaction levels and negative effects of education and female gender. Ideology shows mixed effects as quality of governance is negatively evaluated for right-wing citizens throughout the period of analysis, while institutional trust is higher for right-wing citizens in the crisis / post-crisis period.

The estimations for Greece are summarized in Table 3. As shown generalised trust turns from a negative predictor of both governance indicators in the first period to a positive predictor of governance in the second period of the analysis. An important finding refers to the crisis treatment effects that are positive in the pre-crisis / crisis period and negative in the crisis / post-crisis period. For Greece therefore we find that, unfavourable initial evaluations of governmental and institutional quality combine with a negative shock to produce a positive treatment with respect to the adequacy of both governance indicators. In other words, untrustworthy institutions seem to manage, what was to become the initial phase of the crisis adequately. In the second phase of the crisis in Greece an opposite narrative is observed. Both government and the institutions are granted with trust, and the time is favorable yet a negative treatment is what the citizens receive. The shock of the financial crisis in Greece seems to have built more trustworthy institutions and risen peoples' demand for governmental and institutional efficacy. Our analysis provides micro-level evidence on the need to dismantle the 'insiders – outsiders' behavioural dichotomy characterising the Greek society (Kollintzas et al. 2012) and causing inefficient fiscal policies to continue on a deeply rooted path of gains to power groups (Kollintzas 2000; Alogoskoufis 2012; Baltas 2013; Bitros 2013; Christodoulakis 2016). With respect to the control variables we see that quality of governance is higher for older, income satisfied and left-wing citizens and lower for highly educated citizens. All these effects remain the same in both periods of analysis.

Overall, our results support the hypothesis proposed here. After controlling for the socio-demographic characteristics, the economic profile and the political preferences of the respondents in the two countries, support is provided to the hypothesis that social trust predicts differences in governance evaluations. In particular, trusting levels are found to affect perceptions of public state efficiency while differences are observed between Greece and Cyprus. In particular, in the case of Greece, the treatment effects of trust are observed for both governance indicators (bureaucratic quality and institutional trust) and for both periods of the analysis. In the case of Cyprus the treatment effects of trust are only relevant for perceived administrative quality during the crisis period. The corresponding signs of these effects verify extant knowledge that renders the differences in the two countries' crisis management paths as resulting from differences in the quality of institutions and the efficacy of public governance (Rapanos and Kaplanoglou 2014; Spanou 2018; Maris et al. 2022, Pagoulatos 2021), the latter being so vast as to distinguish between a 'short rescue story' and a 'decade long rescue story' for Cyprus and Greece respectively (Hardouvelis and Gkionis 2016).

4.3. Robustness tests

A final note relates to the robustness of our findings with regard to different model specifications. As mentioned above our final estimations draw from the best models estimated among alternative model specifications. These alternative specifications involve the choice of exogenous variables that need to be tested for possible inverse causality and the choice of instrumental variables (IVs) to deal with endogeneity issues. In addition alternative estimation techniques were examined.

As regards the set of instrumental variables alternative estimations were made using a set of ten IVs so as to tackle the issue of endogeneity in the structural model and obtain reliable estimates of our model parameters. These IVs were carefully chosen to satisfy the crucial criteria of being exogenous, relevant, and having a valid instrument strength (Kennedy 2008) among the variables that are available in the ESS databases. The set of the five IVs presented in section 3.2 (data and variables) involves the ones giving the best results with regard to the weak instruments tests. The alternative IVs that were also tested for their ability to improve our models are: 1) Order, measured by 'Important to do what is told and follow rules', 2) Security, measured by 'Important to live in secure and safe surroundings', 3) Loyalty, measured by Important to be loyal to friends and devote to people close, 4) Respect, measured by 'Important to get respect from others', and 5) Authority, measured by 'Important that government is strong and ensures safety'. All variables are measured on a positive ordinal 0-5 scale, where 0 indicates -not like me at all-, and 5 indicates -very much like me-. The appropriateness of the alternative IVs was tested via the use of several estimation techniques that can be applied to address endogeneity, including 2-Stage Least Squares (2SLS), Generalised Method of Moments (GMM), and Limited Information Maximum Likelihood (LIML) technique (Hill et al. 2011). Tables S1-S10 in the supplementary file present all estimated models. In addition, apart from trust, the treatment variable and ideology were also tested for inverse causality effects, which have not been verified. Our parameter estimates are sensitive to the alternative estimation methods and the various combinations of instrumental variables that have been tested, however the rejected models are the ones that did not yield substantial improvements in mitigating the weak instruments problem (Stock et al. 2002). Also, when needed, the LIML estimation technique was adopted to address endogeneity in the models given that the LIML estimator is asymptotically efficient in higher order (compared to the 2SLS estimator) (Kunitomo 1987) and shows asymptotic optimality even with many weak instruments (Anderson et al. 2010).

5. Conclusion

Our study builds on the strand of research that analyses the cultural foundations of governance and institutions as affecting Europeanisation. We control for trust as a distinguishing feature of people's evaluations of administrative quality and institutional efficacy. Using a Cyprus – Greece comparative perspective we report on the trusting effects underlying the distinct pathways out of the 2008 financial crisis as followed by the two countries. Our findings provide additional evidence regarding the cultural background effects on a country's institutional arrangements and governmental outcomes. In particular, we analyse generalised trust as a distinguishing cultural feature that explains peoples' perceptions of administrative quality using a comparative Cyprus versus Greece framework. We apply a difference-in-differences (DiD) model that is able to capture the trusting differences in state efficacy evaluations, i.e., how and low trusting effects in a crisis situation. We estimate our models for two periods, the first one referring to the pre-crisis – during-the-crisis period and the second one referring to the crisis – post-crisis period, and investigate the cultural background that allowed for the two different financial crisis management stories to unfold. Individual level data for the two countries are drawn from the European Social Survey (ESS) database and cover the 2008-2020 period for Greece and the 2010-2018 period for Cyprus. Governance is approximated with two composite indicators involving peoples' satisfaction with administrative quality and institutional trust.

Our findings suggest that trust changes in the case of Cyprus were temporary and a quick return to the pre-crisis situation was possible. This finding is further supported by peoples' trust in the quality of institutions in the country as measured during the crisis period. On the other hand, in the case of Greece the treatment effects of trust are relevant for both periods and show that a negative crisis shock that was meant to build a stronger governance through a positive treatment of trust (administration and institutions) has failed to fulfil its promise. Thus trust in post crisis administration involves a negative treatment effect. Another important finding refers to the role of individuals' self-reported ideological position on the left to right scale which is also different between the two countries. In Cyprus right scale ideological positions are found to negatively affect perceptions of administrative quality in both periods of the analysis despite that the first period involved a left to right change in the political setting while in the second period the right wing government has been re-elected after addressing the financial crisis. In the case of Greece right scale ideological positions positively affect perceived state efficiency in both periods of the analysis although in the first case the political setting involved a centre-left government gaining power from a centre-right office while in the second period the left-wing government lost the office by a centre-right political party.

Overall, culture and the administrative background of the two countries have paved the way of two distinct out-of-the-crisis stories. Cyprus has managed to address a welfare fallacy that caused a late-in but quick-out of the crisis process based on high quality democratic processes, such as cooperative governments, administrative efficacy and a culture of trust. On the other hand, Greece had to deal with an ideological fallacy that caused the country a two phases' decade-long crisis built upon political polarization, inefficient public sector institutions and a culture of division (distrust). Our comparative analysis provides support to the theoretical argument that personal human traits underlie the cultural background of societies and peoples' perceptions of qualitative institutions and good governance. Taken together with time, the treatment effects of trust show that it is the cultural background of societies that drives structural adaptation and adjustments in times of crisis. Thus, further evidence is provided on the well-reported relationship between trust and institutional quality (Bjørnskov 2018). In particular, our findings advance extant knowledge in the field by identifying generalised trust effects as the mechanism underlying institutional quality in times of crisis.

At the policy level, clear evidence over the importance of trusting and treatment effects on peoples' perceptions of governance is provided. The decade long crises in the EU initiated systemic national and supranational reform processes in this direction (Stark 2013, Bitros et al. 2017, Matthijs 2020). At the supranational level, the strengthening of institutions to coordinate economic and financial integration, e.g. the establishment of the European System of Financial Supervision (ESFS), is a notable positive step towards more coordinated governance (Matthijs 2020, Moro 2014, Dabrowski 2010). At the country level, different steps were taken which verify the importance of domestic politics and national specificities in determining responses and outcomes of crises and rescue plans (Bitros et al. 2017, Spanou 2018, Matthijs 2020). In the case of Greece, for example, the results of the rescue plan could have been better (Dullien et al. 2019), but the absence of official bailouts could have led the country to an economic depression worse than that experienced (Economides et al. 2021).

Within this context, our analysis verifies the importance of political culture and public sector administration quality in shaping country level responses of crises and rescue plans. The treatment effects of trust, as evidenced here, suggest that the opposite directions in the management of the financial crisis observed in the two countries, are culturally embedded phenomena. This is evidence that Europeanisation involves distinct administrative reform procedures as domestic settings and structures entail a variety of integration paths (Featherstone 2015, 2016). Thus, more effort is needed towards enhancing the administrators' and institutions' trustworthiness as a long lasting feature of culturally intelligent societies that generate spheres of generalised trust. Advancing institutional efficacy is a qualitative property that interacts with citizens' everyday action and the generation of such spheres of trust. Efficiency is understood not only as a clear and well-justified mission for public administration organisations but also a mission that is closely monitored by citizens.

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Table 1. List of variables: definitions, measurement and basic descriptive statistics.

Name	Definition		Greece		Cyprus	
		Measurement	Mean	St. dev	Mean	St. dev
QoG	Dependent variable: Quality of Governance	Mean of four 0-10 positive Likert scale items. How satisfied with: national government, present state of economy in country, education in country nowadays, state of health services in country nowadays	3.57	2.034	4.85	1.904
IT	Dependent variable: Institutional Trust	Mean of four 0-10 positive Likert scale items. Trust in: country's parliament, legal system, police, European parliament	4.83	2.247	5.01	2.135
GT	Treatment variable: Generalised Trust	Dummy variable: 1 for high trust individuals (>=5), 0 for low trust individuals (<=4). Recoded from a positive 0-10 Likert scale variable 'most people can be trusted or you can't be too careful'.	.43	.494	.44	.497
Controls						
Age	Age of the respondent, calculated	ln(Age)	3.80	.416	3.78	.423

Education	Years of full-time education completed	Education in years	11.02	4.542	12.19	4.478
Gender	Gender of the respondent	0 =Male, 1 = Female	0.55	.497	0.54	.499
Income satisfaction	Feeling about household's income nowadays	Ordinal variable 0 - 3, 0 = very difficult to live on the present income, 3 = living comfortably on the present income	1.37	.873	1.79	.879
Ideology	peoples' self-reported ideological position	Placement on left to right scale (0-10 Likert scale variable)	5.37	2.116	5.23	2.902
Instruments						
Behaviour	Important to behave properly	Generalised trust covariate. Ordinal variable 0-5, 0 = not like me at all, 5 = very much like me	3.72	1.117	3.78	1.048
Tradition	Important to follow traditions and customs.	Generalised trust covariate. Ordinal variable 0-5, 0 = not like me at all, 5 = very much like me	3.96	1.086	4.09	.996
Equality	Important that people are treated equally and have equal opportunities.	Generalised trust covariate. Ordinal variable 0-5, 0 = not like me at all, 5 = very much like me	4.18	.918	4.27	.765

Compassion	Important to help people and care for others well-being.	Generalised trust covariate. Ordinal variable 0-5, 0 = not like me at all, 5 = very much like me	4.00	.917	4.20	.806
Empathy	Important to understand different people.	Generalised trust covariate. Ordinal variable 0-5, 0 = not like me at all, 5 = very much like me	3.72	1.091	3.86	.965

Source: European Social Survey (ESS) data. Note: Country level data can be found at the ESS data wizard portal: https://ess-search.nsd.no/CDW/RoundCountry

Table 2. Governance in Cyprus: trusting effects

	pre-during crisis period		during-post crisis period	
Dependent variable	QoG	IT	QoG	IT
Constant	4.210*** (0.523)	-1.340 (1.362)	3.503*** (0.618)	-0.244 (0.692)
Trust	0.916*** (0.126)	7.709* (3.983)	0.300** (0.132)	0.563*** (0.147)
Time	-0.719*** (0.111)	2.075 (1.649)	0.230* (0.136)	0.086 (0.155)
Treatment	-0.580*** (0.173)	-6.998* (3.907)	0.010 (0.203)	-0.127 (0.228)
Age	0.468*** (0.118)	1.171*** (0.228)	0.263* 0.140	1.034*** (0.157)
Education	-0.068*** (0.011)	-0.084* (0.047)	-0.075*** (0.013)	-0.019 (0.014)
Gender	-0.191** (0.085)	-0.000 (0.176)	-0.204** (0.100)	-0.083 (0.112)
Income satisfaction	0.279*** (0.050)	0.067 (0.156)	0.378*** (0.058)	0.275*** (0.065)
Ideology	-0.182*** (0.015)	-0.024 (0.034)	-0.042** (0.017)	0.066*** (0.019)
Model diagnostics				
Method of estimation	OLS	LIML	OLS	OLS
N	1,459	1,352	1,270	1,215
Adj. R^2	0.252		0.083	0.090
F-test (df) (sig.)	62.418 (8) <0.0001		15.324 (8) (<0.0001)	16.059 (8) (<0.0001)
Chi-square (df) (prob.)		121.648 (8) <0.0001		
Sargan Overid. test				
LR-Statistic (prob.)		1.908 (0.753)		

Weak instruments test				
F-value (maximal size)		1.429 (>25%)		
Hausman test				
Asymptotic test statistic $\chi^2(1)$	0.018	5.668	2.555	1.371
p-value	0.893	0.017	0.110	0.242

Notes: This table presents the estimated values of the Quality of Governance (QoG) and Institutional Trust (IT) determinants for Cyprus. Standard errors are reported in parentheses. Decision on the appropriate estimation technique, i.e., OLS versus Limited Information Maximum Likelihood (LIML) on the basis of Hausman tests (significance at p-value < 0.05). Significance levels: ***\ p <0.01; **\ p < 0.05; *\ p <0.10. Time equals 1 for crisis in the pre-crisis / crisis comparison (0 = pre-crisis) and 1 for post-crisis in the crisis / post-crisis comparison (0 = crisis).

Table 3. Governance in Greece: trusting effects

	pre-during crisis period		during-post crisis period	
Dependent variable	QoG	IT	QoG	IT
Constant	4.377*** (0.986)	3.436*** (1.010)	0.322 (0.330)	0.165 (0.354)
Trust	-4.908*** (1.772)	-4.786*** (1.694)	0.665*** (0.080)	0.899*** (0.085)
Time	-2.768*** (0.683)	-3.317*** (0.661)	2.060*** (0.076)	2.354*** (0.080)
Treatment	5.513*** (1.750)	5.623*** (1.676)	-0.346*** (0.107)	-0.497*** (0.114)
Age	-0.049 (0.123)	0.464*** (0.136)	0.140* (0.075)	0.485*** (0.080)
Education	-0.037*** (0.012)	-0.004 (0.013)	-0.019*** (0.007)	-0.001 (0.007)
Gender	-0.085 (0.083)	-0.013 (0.092)	-0.070 (0.053)	-0.063 (0.057)
Income satisfaction	0.347*** (0.061)	0.245*** (0.062)	0.188*** (0.033)	0.015 (0.035)
Ideology	0.135*** (0.023)	0.163*** (0.024)	0.238*** (0.014)	0.189*** (0.014)
Model diagnostics				
Method of estimation	LIML	LIML	OLS	OLS
N	3,452	3,462	4,111	4,168
Adj. R^2			0.306	0.304
F-test (df) (sig.)			227.039 (8) (<0.0001)	228.751 (8) (<0.0001)
Chi-square (df) (prob.)	338.773 (8) (<0.0001)	355.872 (8) (<0.0001)		
Sargan Overid. test				
LR-Statistic (prob.)	8.398 (0.078)	1.930 (0.749)		

Weak instruments test				
F-value (maximal size)	4.815 (15%> maximal size >10%)	4.625 (15%> maximal size >10%)		
Hausman test				
Asymptotic test statistic $\chi^2(1)$	12.087	14.645	1.030	2.011
p-value	0.001	<0.0001	0.310	0.156

Notes: This table presents the estimated values of the Quality of Governance (QoG) and Institutional Trust (IT) determinants for Greece. Standard errors are reported in parentheses. Decision on the appropriate estimation technique, i.e., OLS versus Limited Information Maximum Likelihood (LIML) on the basis of Hausman tests (significance at p-value < 0.05). Significance levels: ***\ p <0.01; **\ p < 0.05; *\ p <0.10. Time equals 1 for crisis in the pre-crisis / crisis comparison (0 = pre-crisis) and 1 for post-crisis in the crisis / post-crisis comparison (0 = crisis).