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## WORKING PAPER NO. 646

### *Income Losses, Cash Transfers and Trust in Financial and Political Institutions: Survey Evidence from the Covid-19 Crisis*

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# ***Income Losses, Cash Transfers and Trust in Financial and Political Institutions: Survey Evidence from the Covid-19 Crisis***

**Giovanni Immordino<sup>\*</sup>, Tommaso Oliviero<sup>†</sup>, and Alberto Zazzaro<sup>‡</sup>**

### **Abstract**

Using a survey of Italian households, we find that large income losses suffered during the first wave of the Covid-19 pandemic in 2020 are associated with a decline in trust towards political (i.e., Italian Central Government and the EU Parliament) and financial (i.e., ECB and Italian commercial banks) institutions in the management of the Covid-19. The decline is lower for households who received public transfers in the wake of the pandemic. Our results highlight that household exposure to economic losses if not compensated by government income support measures are an important determinant of mistrust in institutions for the management of an economic crisis.

**JEL classification:** D12, D72, H53.

**Keywords:** Covid-19 crisis, trust in institutions, cash transfers.

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## 1. Introduction

Recent studies investigate the impact of the Covid-19 pandemic on trust.<sup>1</sup> We contribute to this literature focusing on how exposure to the economic consequences produced by the pandemic affects individual trust towards institutions in the management of the Covid-19 crisis and how this relation is shaped by cash transfers from the central government.

We use a representative sample of Italian households interviewed in 2020, towards the end of the first wave of the Covid-19 pandemic, and report two main findings. First, we document a decline in trust in the ability of national and European political and monetary institutions – the Italian Central Government, the European Union Parliament, and the European Central Bank – to respond to the pandemic crisis for households who experienced a drop in income during the first wave of the pandemic. Interestingly, a similar drop in trust has been registered in the Italian private banks, even if they were not directly responsible for the management of the health and economic pandemic crisis. This finding is consistent with Stevenson and Wolfers (2011), showing that an increase in the unemployment rate in the US is associated with lower confidence in public institutions (e.g., the Congress) and financial institutions (e.g., banks).

Second, and in line with studies showing that cash transfer programs impact trust in government (Evans et al., 2019), we find that households who were compensated from income losses through public transfers report a lower decline in trust. On the contrary, households who, being entitled to cash transfers, received them late or did not receive them at all, register the

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<sup>1</sup> A non-exhaustive list of studies on this topic include: Amat et al. (2020), Bækgaard et al. (2020) Daniele et al.(2020a), Daniele et al.(2020b), Esaiasson et al. (2020), Gambetta and Morrisi (2021), Bol et al. (2021), Schraff (2021), Aassve et al. (2022). For a discussion of this literature, we refer the reader to section OA1 in the Online Appendix. For a more general review of the early literature on the bilateral link between trust and the Covid-19 pandemic we remind the reader to Devine et al. (2020).

largest drop in trust, especially towards national institutions, that is the central government and commercial banks.

## **2. The survey data**

The sample used in this paper merges two household surveys on Covid-19. The first source is a set of surveys run by Doxa – a leading Italian polling agency with extensive experience in managing household surveys – between March and June 2020. The interviews were conducted at bi-monthly frequency and collected information on households' response to the pandemic during the first wave of Covid-19. From this source we retrieve information concerning trust in the ability of institutions to manage the Covid-19 crisis (the Online Appendix reports the survey questions). For the empirical analysis, we create a dummy variable equal to 1 if the respondent declares to trust the institution (e.g., the Central Government) “high” or “moderate”, and zero otherwise (“low” or “very low”) and estimate a probit model.<sup>2,3</sup>

We match this information with an ad-hoc survey on the economic consequences of Covid-19 crisis that we designed and commissioned to Doxa. The survey was administered to a representative sample of 3,000 households at the end of October 2020, and has qualitative information on income, consumption and saving response to the crisis.<sup>4</sup> From this source, we get information on changes in household disposable income during the first wave of the pandemic and on the eligibility and receipt of cash transfers by the government to compensate

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<sup>2</sup> For the trust data we use five waves of the survey: one in April, two in May, and two in June. The regression analysis includes dummies that identify each of these waves. The variable measuring trust in banks has been collected only in the first three waves.

<sup>3</sup> Alternatively, we estimate an ordered probit model for the four levels of trust and obtain consistent results. The ordered probit estimates for the baseline analysis are reported in the Online Appendix, Table A3.

<sup>4</sup> See Immordino et al. (2022) for a detailed description of the survey and a comparison of the sample with the most recent wave of the Bank of Italy Survey of Households Income and Wealth.



for the income losses. For each respondent we also have data on gender, age, marital status, education, occupation, homeownership, and geographical location.

Table 1 reports summary statistics. About 50% of respondents trust the Central Government ability to manage the crisis. European institutions and Italian commercial banks record, on average, lower levels of trust. 47% of households report a drop in income during the pandemic (mild for 32%, large for 14%). Of these, 12% were entitled to cash transfers and received full compensation (either immediately or with some delay). About 14% received partial or no support, even though they were entitled, and 19% were not entitled even though they reported an income drop.

### **3. Regression analysis**

Table 2 reports the marginal effects of probit regressions where the dependent variable is the dummy variable that measures trust in ability of the Italian Central Government to manage the Covid-19 crisis.<sup>5</sup> The main independent variable, Income drop, measures the occurrence of a negative change in income registered at the onset of the Covid-19 crisis. This drop in income is arguably sudden and unexpected for most individuals, especially for those working in sectors that suffered from restrictions due to lockdown measures (e.g., non-essential sectors). To limit the endogeneity concerns, the regressions always include household characteristics described above, survey wave dummies to control for time effects, and province dummies, which allow to control for the geography of contagion rates and the provision and efficiency of local public health care. However, absent an experimental setting, we cannot exclude that there still exist omitted variables affecting the income drop (or, relatedly, the eligibility to receiving a transfer

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<sup>5</sup> The tables report marginal effects, that is the change in the probability for an infinitesimal change in each independent, continuous variable, and the discrete change in the probability of dummy variables.

by the government) and are, at the same time, correlated with the individual trust towards institutions in coping with the crisis.

Regression estimates in Table 2 show that Trust in Italian Central Government is 12 percentage points (pp) lower for households who report an income loss during the first wave of the pandemic (column 1). The coefficient of income drop is negative and statistically different from zero for regressions that have trust in EU Parliament (column 2) and ECB (column 3) but is the largest when the outcome is trust in Italian commercial banks. The probability of high trust is significantly lower for the unemployed, positive for households with a college degree – especially with respect to EU institutions. Trust in commercial banks is also larger for homeowners.

If income loss impacts negatively on trust, one should observe a larger decline in trust for households who report more substantial income drops. With reference to trust in central government, Table 3 shows that larger income drops are associated with a drop in trust of about 20 pp, while for milder drops trust declines only by 7 pp. These findings are confirmed for all institutions. Again, the negative coefficient attached to households with large income drop is bigger when the dependent variable is trust in EU Parliament, in ECB and banks.

To partially compensate Italian households for the losses produced by the lockdown and social distancing measures introduced to deal with the Covid-19 emergency, the Italian government presented a series of policies to support household income. Did this government safety net affect trust in those who experienced an income drop? To answer this question, we create five dummies, depending on the eligibility to at least one of the cash transfer programs enacted by the Italian government in response to the crisis and to the actual receipt of the transfer (either fully or partially, on schedule or not). The baseline group includes households whose income was not affected and therefore were not eligible for cash transfers.

Table 4 shows that the coefficient of income drop is not statistically different from zero for eligible households who received the cash transfer in full and on schedule; this is true for all institutions. Households who received the transfer with delay record a significant drop in trust with respect to the central government --- which was responsible for the policies --- and with respect to the commercial banks --- which oversaw the actual payment of many of the indemnities and of other forms of aid provided by the law (such as, for example, admission to the "first home" mortgage solidarity fund). The drop in trust is stronger and similar for those who received a partial transfer but on time, and for those who were not eligible. However, households eligible for transfers but who did not receive it, report the largest reduction in trust, that is between -13 and -24 pp.

These findings suggest that efficient cash transfer programs (in terms of size and timing), besides their direct economic effects, help maintaining confidence in the ability of governments and private banks involved in the program's implementation. By contrast, partial allocation or inefficient delivery of those transfers worsen the public's perception of the ability of political and financial institutions to deal with the crisis and to help families in difficulty. In addition, the mistrust generated by an insufficient support to families that have suffered income losses during the crisis spills-over to other institutions, like the EU Parliament and the ECB, not directly involved in the design and implementation of cash transfers programs.

#### **4. Summary**

Using new data from a recent survey of 3,000 Italian households, we study the impact of income drops on trust towards institutions in the management of the Covid-19 crisis. We find that households who recorded large income drops report the largest decline in trust, particularly so for those who did not receive any transfer, although entitled. The crisis has had a negative

impact on the trust in national and supranational public institutions and is especially large for national commercial banks.

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**Table 1. Summary statistics**

	Mean	Standard Deviation
Trust in Central Government	0.503	0.500
Trust in ECB	0.303	0.459
Trust in EU Parliament	0.279	0.449
Trust in Italian Banks	0.385	0.487
Income drop	0.472	0.499
Large income drop	0.144	0.351
Mild income drop	0.328	0.469
Income drop X Full transfer	0.070	0.255
Income drop X Full transfer (late)	0.056	0.231
Income drop X Partial transfer	0.095	0.294
Income drop X Transfer not received	0.043	0.204
Income drop X Transfer not entitled	0.187	0.390
Age (years)	49.90	16.69
Male	0.480	0.500
Married	0.655	0.475
High school	0.504	0.500
College	0.361	0.480
Retired	0.158	0.364
Unemployed	0.0740	0.262
Resident in the Centre	0.204	0.403
Resident in the South and Islands	0.345	0.475
Homeowner	0.808	0.394

Note. Trust variables are from five waves of surveys collected by Doxa in the period April-June 2020. Households' variables are from an ad-hoc surveys of 3,000 individuals collected at the end of October 2020.

**Table 2. Income drop and Trust in Institutions in the management of the Covid-19**

	(1)	(2)	(3)	(4)
	Government	EU Parliament	ECB	Banks
Income drop	-0.119*** (0.020)	-0.070*** (0.017)	-0.070*** (0.018)	-0.151*** (0.024)
Male	0.034* (0.019)	0.015 (0.017)	0.062*** (0.017)	0.027 (0.024)
Age (years)	-0.000 (0.001)	-0.002*** (0.001)	-0.001* (0.001)	-0.001 (0.001)
Married	0.000 (0.021)	-0.014 (0.019)	-0.014 (0.019)	-0.014 (0.026)
High school	0.002 (0.030)	0.014 (0.027)	0.017 (0.027)	-0.043 (0.037)
College	0.033 (0.031)	0.088*** (0.029)	0.099*** (0.029)	0.001 (0.039)
Unemployed	-0.105*** (0.037)	-0.014 (0.033)	-0.090*** (0.031)	-0.065 (0.044)
Retired	-0.037 (0.032)	0.041 (0.030)	0.088*** (0.031)	-0.012 (0.038)
Homeowner	0.030 (0.025)	0.022 (0.021)	0.019 (0.022)	0.086*** (0.031)
Wave dummies	Yes	Yes	Yes	Yes
Province dummies	Yes	Yes	Yes	Yes
Observations	2,979	2,954	2,980	1,872

Note. The dependent variable is trust in institutions. The table reports marginal effects from probit estimates with robust standard errors. \*\*\* p-value  $\leq 0.01$ ; \*\* p-value  $\leq 0.05$ ; \* p-value  $\leq 0.1$



**Table 3. Trust in institutions in the management of the Covid-19: mild and large income drop**

	(1)	(2)	(3)	(4)
	Government	EU Parliament	ECB	Banks
Mild income drop	-0.082*** (0.022)	-0.044** (0.019)	-0.056*** (0.019)	-0.122*** (0.025)
Large income drop	-0.206*** (0.027)	-0.125*** (0.021)	-0.098*** (0.023)	-0.204*** (0.030)
Controls	Yes	Yes	Yes	Yes
Wave dummies	Yes	Yes	Yes	Yes
Province dummies	Yes	Yes	Yes	Yes
Observations	2,979	2,954	2,980	1,872

Note. The dependent variable is trust in institutions. The table reports marginal effects from probit estimates with robust standard errors. The full specification is reported in Table A1 of the Online Appendix.

\*\*\* p-value  $\leq$  0.01; \*\* p-value  $\leq$  0.05; \* p-value  $\leq$  0.1

**Table 4. Trust in institutions in the management of the Covid-19: the role of cash transfers**

	(1)	(2)	(3)	(4)
	Government	EU Parliament	ECB	Banks
Y drop X Full transfer	-0.043 (0.038)	0.010 (0.034)	-0.021 (0.034)	-0.017 (0.047)
Y drop X Full transfer (late)	-0.097** (0.041)	-0.029 (0.035)	-0.016 (0.037)	-0.111** (0.045)
Y drop X Partial transfer	-0.126*** (0.033)	-0.098*** (0.026)	-0.068** (0.028)	-0.132*** (0.038)
Y drop X Transfer not received	-0.251*** (0.041)	-0.133*** (0.032)	-0.180*** (0.030)	-0.278*** (0.037)
Y drop X Transfer not entitled	-0.104*** (0.025)	-0.055** (0.021)	-0.058*** (0.022)	-0.165*** (0.028)
Controls	Yes	Yes	Yes	Yes
Wave dummies	Yes	Yes	Yes	Yes
Province dummies	Yes	Yes	Yes	Yes
Observations	2,979	2,954	2,980	1,872

Note. The dependent variable is trust in institutions. The table reports marginal effects from probit estimates with robust standard errors. The full specification is reported in Table A2 of the Online Appendix.

\*\*\* p-value  $\leq$  0.01; \*\* p-value  $\leq$  0.05; \* p-value  $\leq$  0.1

## Online Appendix

### OA1. Related literature

Our paper is related to a recent literature that analyze the impact of the Covid-19 pandemic and its consequences for individual trust. The nature of the Covid-19 crisis, characterized by fear of contagion, social distancing measures, use of exceptional powers and resources by the governments, restrictions on individual rights and freedoms, collective angst and anxiety, and economic recession, may have influenced both interpersonal trust and trust in institutions and their capacity for emergency management. In the interpersonal trust strand of the literature, Gambetta and Morisi (2021) uses a representative sample of adults in Italy and conduct a panel study that includes a survey experiment; they highlight that people who catch Covid-19 and those who were primed about its health risks increase trust in unknown others. This result is in line with Esaiasson et al. (2021), which finds that interpersonal trust by Swedish citizens increased in reaction to the first wave of the Covid-19 crisis, while it is in partial contrast with Aassve et al. (2022), which finds that interpersonal trust slightly increased during the first wave of the pandemic in the USA, but then declined during subsequent waves.

More closely related to the analysis of our paper, Aasve et al. (2022), and Esaiasson et al. (2021) have (also) explored the change in trust towards government and public authorities. The former finds that trust in a wide spectrum of public authorities moves in the opposite direction of interpersonal trust, declining during the first wave of the pandemic crisis and then slightly increasing, while Esaiasson et al. (2021) finds an increase in trust and support for public institutions from the initial to the acute phase of the crisis. A similar dynamic has been found by Schraff (2021) in the wake of the Covid-19 crisis: analyzing a panel of Dutch households interviewed throughout the month March 2020 finds that, consistent with a “rally around the flag” effect, trust in the national parliament has grown as cases of Covid-19 accumulate regardless of lockdown measures, regardless of the lockdown measures passed by the parliament and especially for people who self-report low levels of social trust.

The rallying of citizens around the government in office and current public institutions has been confirmed by Bækgaard et al. (2020) which finds that trust in national government has increased among unemployed Danes right after the announcement of lockdown in 2020; furthermore, the increase in trust also involved other public institutions, like the judicial system.

The increase in trust towards central government, vote intentions for the party of the Prime Minister and satisfaction in democratic institutions in response to lockdown restrictions have also been found by Bol et al. (2021) using a larger scale daily interviews run in March-April 2020 in Western European countries; the increase in trust is generally found to be related to satisfaction in democratic institutions. Amat et al. (2020) has instead found an increase in preference by Spanish participants to a survey experiment in 2020 for nationalism, strong leadership and technocratic governance.

While the highlighted contributions have mainly explored the health and the lockdown dimensions of the pandemic crisis, in line with our contribution, Daniele et al. (2020a, 2020b) have explored also the economic dimension of the pandemic. They run a large online survey experiments in Italy, Spain, Germany and the Netherlands in the first wave of the pandemic, in which respondents are primed with questions on the COVID-19 crisis regarding their anti-contagion behaviors, the economic consequences they have suffered and expected and their perception of the pandemic as a conflict against an invisible enemy. They find that trust in institutions drops significantly in relation to rising economic insecurity. They also find that the combination of health and economic concerns lower trust in politicians and EU institutions. Our contribution is to highlight that the decline in trust is lower for households who received public transfers in the wake of the pandemic. In other words, household exposure to economic losses if not compensated by government income support measures are an important determinant of mistrust in institutions for the management of an economic crisis.

## OA2. Survey questions

*Trust in institutions.* “Based on what you have read, seen or heard, how much do you trust the following institutions in the management of the Covid-19?”: (a) the Italian Central Government; (b) the European Parliament; (c) the European Central Bank; (d) Italian banks. Possible answers: (1) high; (2) moderate; (3) low; (4) very low.

*Household income.* “During this crisis, from March to today (end of October 2020), would you say that the total income of your household is: (1) Much lower than in normal times; (2) A bit lower than normal times; (3) Approximately the same as in normal times; (4) Increased a bit with respect to normal times; (5) Increased a lot with respect to normal times; (6) I don’t know.

*Cash transfers.* “To deal with Covid-19 the Italian Government has implemented several measures to sustain households’ income (special temporary layoffs schemes, bonus for self-employed workers, emergency income and so on). Were you or any other member of your family eligible for one of those interventions?”: (1) Yes, and I received it in full and according to schedule (2) Yes, I received in full, but with a delay; (3) Yes, I received it, but less than it was necessary; (4) No, I did not receive it although I was eligible; (5) No, I did not receive it because I was not eligible; (6) I don’t know.

The survey also includes information on respondent’s age, marital status, gender, family size, education, occupation, province of residence.

### OA3. Additional tables

**Table A1.**

	(1)	(2)	(3)	(4)
	Government	EU Parliament	ECB	Banks
Mild income drop	-0.082*** (0.022)	-0.044** (0.019)	-0.056*** (0.019)	-0.122*** (0.025)
Large income drop	-0.206*** (0.027)	-0.125*** (0.021)	-0.098*** (0.023)	-0.204*** (0.030)
Male	0.031 (0.019)	0.012 (0.017)	0.061*** (0.017)	0.025 (0.024)
Age (years)	-0.000 (0.001)	-0.002*** (0.001)	-0.001* (0.001)	-0.001 (0.001)
Married	0.002 (0.021)	-0.013 (0.019)	-0.013 (0.019)	-0.014 (0.026)
High school	-0.004 (0.030)	0.011 (0.027)	0.016 (0.027)	-0.045 (0.037)
College	0.022 (0.032)	0.082*** (0.029)	0.095*** (0.029)	-0.003 (0.039)
Unemployed	-0.106*** (0.037)	-0.014 (0.033)	-0.090*** (0.031)	-0.065 (0.044)
Retired	-0.040 (0.032)	0.040 (0.030)	0.087*** (0.031)	-0.013 (0.038)
Homeowner	0.024 (0.025)	0.018 (0.021)	0.017 (0.022)	0.085*** (0.031)
Wave dummies	Yes	Yes	Yes	Yes
Province dummies	Yes	Yes	Yes	Yes
Observations	2,979	2,954	2,980	1,872

Note. The dependent variable is trust in institutions. The table reports marginal effects from probit estimates with robust standard errors. \*\*\* p-value  $\leq 0.01$ ; \*\* p-value  $\leq 0.05$ ; \* p-value  $\leq 0.1$

**Table A2.**

	(1)	(2)	(3)	(4)
	Government	EU Parliament	ECB	Banks
Y drop X Full transfer	-0.043 (0.038)	0.010 (0.034)	-0.021 (0.034)	-0.017 (0.047)
Y drop X Full transfer (late)	-0.097** (0.041)	-0.029 (0.035)	-0.016 (0.037)	-0.111** (0.045)
Y drop X Partial transfer	-0.126*** (0.033)	-0.098*** (0.026)	-0.068** (0.028)	-0.132*** (0.038)
Y drop X Transfer not received	-0.251*** (0.041)	-0.133*** (0.032)	-0.180*** (0.030)	-0.278*** (0.037)
Y drop X Transfer not entitled	-0.104*** (0.025)	-0.055** (0.021)	-0.058*** (0.022)	-0.165*** (0.028)
Male	0.033* (0.019)	0.013 (0.017)	0.061*** (0.017)	0.022 (0.024)
Age (years)	-0.000 (0.001)	-0.001** (0.001)	-0.001 (0.001)	-0.001 (0.001)
Married	0.000 (0.021)	-0.015 (0.019)	-0.014 (0.019)	-0.016 (0.026)
High school	0.006 (0.030)	0.018 (0.027)	0.019 (0.027)	-0.038 (0.037)
College	0.037 (0.031)	0.092*** (0.029)	0.102*** (0.029)	0.009 (0.039)
Unemployed	-0.109*** (0.037)	-0.015 (0.033)	-0.090*** (0.031)	-0.069 (0.044)
Retired	-0.035 (0.032)	0.042 (0.030)	0.090*** (0.031)	-0.005 (0.039)
Homeowner	0.024 (0.025)	0.016 (0.022)	0.013 (0.022)	0.079** (0.031)
Wave dummies	Yes	Yes	Yes	Yes
Province dummies	Yes	Yes	Yes	Yes
Observations	2,979	2,954	2,980	1,872

Note. The dependent variable is trust in institutions. The table reports marginal effects from probit estimates with robust standard errors. \*\*\* p-value  $\leq 0.01$ ; \*\* p-value  $\leq 0.05$ ; \* p-value  $\leq 0.1$

**Table A3.**

	(1)	(2)	(3)	(4)
	Government	EU Parliament	ECB	Banks
Income drop	-0.294*** (0.042)	-0.226*** (0.043)	-0.244*** (0.043)	-0.321*** (0.056)
Male	0.050 (0.041)	0.106** (0.041)	0.015 (0.041)	0.025 (0.053)
Age (years)	-0.001 (0.002)	-0.003* (0.002)	-0.004*** (0.002)	-0.004* (0.002)
Married	-0.011 (0.045)	-0.056 (0.045)	-0.049 (0.045)	0.028 (0.058)
High school	0.055 (0.065)	0.049 (0.064)	0.042 (0.065)	-0.008 (0.090)
College	0.097 (0.068)	0.239*** (0.068)	0.249*** (0.069)	0.087 (0.092)
Unemployed	-0.187** (0.083)	-0.181** (0.081)	-0.018 (0.082)	-0.109 (0.113)
Retired	-0.109 (0.068)	0.207*** (0.068)	0.079 (0.068)	0.009 (0.081)
Homeowner	0.079 (0.052)	0.122** (0.055)	0.075 (0.054)	0.263*** (0.075)
Wave dummies	Yes	Yes	Yes	Yes
Province dummies	Yes	Yes	Yes	Yes
Observations	2,979	2,954	2,980	1,872

Note. The dependent variable is trust in institutions, ordered from the lowest to highest level of trust (from 1 to 4). The table reports ordered probit estimates with robust standard errors. \*\*\* p-value  $\leq$  0.01; \*\* p-value  $\leq$  0.05; \* p-value  $\leq$  0.1