CHAPTER TWO

Corruption and the Inequality Trap

We pray to be more kindly than we are.

But sad to say the chances happen never.

You have to reach up high and man is low.

We'd all be glad to live in peace forever.

It seems that circumstance won't have it so....

Of course, I'm telling you the truth–

the world is mean and man uncouth....

To be aglow instead of low.

But you know circumstance won't have it so.

And nothing much will help a lot and you can toss it in the pot.

The world is mean and man uncouth.

And sad to say I tell the truth.

It always happens that way. It always happens that way.

And nothing much will help a lot and you can toss it in the pot.

From "Cirmcumstance," Berthold Brecht and Kurt Weill, *The Threepenny Opera*

> "I think," said Martin Lomasny, "that there's got to be in every ward somebody that any bloke can come to–no matter what's done–and get help. Help, you understand, none of your law and your justice, but help."

So the Boston ward leader for the Democratic party told political reformer (or "muckraker") Lincoln Steffens (1931, 618) in the 1920s. Lomasny's constituents were poor immigrants who often found themselves on the wrong side of the law. They had little faith in the legal system, which was clearly biased in favor of people with money to hire high-priced lawyers. They had to feed their families. Sure, Lomasny was corrupt himself. But he was the lifeline against a system that was stacked against his poor constituents.

Lomasny had a commodity–the ability to intervene on behalf of a citizen–that ordinary people did not possess. Lomasny, like other *patrons*, was not merely one among equals of his *clients*. Patron-client relations rest upon a foundation of inequality. The corruption of the leaders was simply their fee for providing services to the poor–and often undeserving: After all, if you came to Martin Lomasny to ask him to get a family member out of jail, you were usually not in a position to claim moral superiority. The problems of corruption arise, paraphrasing Wittgenstein, when morality goes on holiday.[1] The lines of virtue and vice were blurred in Lomasny's Boston. Both the churches and Lomasny's political machine "provided help and counsel and a hiding place in emergencies for friendless men, women, and children who were in dire need, who were in guilty need, with the mob of justice after them" (Steffens, 1931, 618).

Economic inequality creates political leaders such as Martin Lomasny, who will "take care" of his constituents and New York City boss George Washington Plunkitt who made patronage a virtue rather than a vice, since it provided jobs for ordinary citizens. These leaders *help* their constituents, but more critically *they help themselves*. Perhaps the most famous line from Plunkitt's autobiography (as told to a political reporter) explained how the 19th century political boss who had only a small salary from his post got rich: "I seen my opportunities and I took 'em" (Riordan, 1948, 4). Inequality leads to *clientelism*–leaders establish themselves as monopoly providers of benefits for average citizens. These leaders are not accountable to their constituents as democratic theory would have us believe. As Xin and Rudel (2004, 298) argue, "A culture of corruption emerges in these impoverished settings....". Corruption is thus part of an *inequality trap* that saps people (especially at the bottom) of the belief that it is safe to trust others.

Corruption gives some people advantages that others don't have. Corruption transfers resources from the mass public to the elites–and generally from the poor to the rich (Tanzi, 1998). It acts as an extra tax on citizens, leaving less money for public expenditures (Mauro, 1997, 7). Corrupt governments have less money to spend on their own projects, pushing down the salaries of public employees. In turn, these lower-level staffers will be more likely to extort funds from the public purse. Government employees in corrupt societies will thus spend more time lining their own pockets than serving the public. Corruption thus leads to lower levels of economic growth and to ineffective government (Mauro, 1997, 5). The inequality trap is hard to break. I posit a model where inequality, mistrust, and corruption are mutually reinforcing:[2]

inequality –> low trust –> corruption –> more inequality.

My argument on the sources of corruption is largely pessimistic: Corruption is not easy to eradicate if it is largely based upon the distribution of resources (economic inequality) and a society's culture (trust in people who may be different from yourself). Changing institutions may not be easy, but its difficulty pales by comparison with reshaping a society's culture or its distribution of wealth (and power). Changes in income distribution clearly come about through institutions such as legislatures or unions representing workers and I do not denigrate their importance in policy formation. My essential point is that institutions are not autonomous, so that changes in political structures alone are sufficient for reducing either inequality or corruption. Corruption is based upon a social and economic foundation that must be recognized if we hope to reduce its deleterious effects.

I draw a sharper distinction between institutions and culture than others might. I recognize that there is an interplay between the two and that concepts such as democracy are more than a set of structural rules. Dahl (1971, 2) defines democracy as a political system thast is "completely or almost completely responsive to all its citizens." Warren (2004, 333) argues that democracy means the maximization of "rule by and for the people" and that people are "of equal moral worth" and should have an equal right to participate in decision-making. On this account, corruption and democracy are closely connected (Warren, 2004). My emphasis on economic equality and legal fairness fit in well with Warren's "moral" conception of democracy and I shall argue in the chapters to follow that "good" institutions that combat corruption have their roots in such egalitarian ideals of democracy.

Most of the literature on corruption is not so nuanced. The most common accounts of corruption focus on what I might call "institutional shells," so that if you change structures, you change outcomes. Moving from totalitarian government to parliamentary democracy, from one electoral system to another, from a Presidential to a parliamentary system, from centralized to decentralized government, and the like will be sufficient to increase/decrease corruption. These shells have no "soul" or "moral" component demanding equality, as Warren's democracy does. The literature largely treats them as mere pieces of machinery, almost as malleable as when a plumber replaces a worn screw on a leaky faucet with a new one to stop a leak. Change Romania from a Communist state to a parliamentary democracy, adopt an open-list electoral system, decentralize power to localities, and select a Prime Minister instead of a President and Romania becomes another Switzerland. I don't find such arguments compelling and they don't stand up in my statistical model (see below and Chapter 3). If such structural forces determined corruption, there would be no inequality trap. They don't and I think that it is important to draw a line between such institutional shells and culture/economics, even if the distinction is less nuanced.

My argument is not that (democratic) institutions don't matter for curbing corruption. Rather, they are not "unmoved movers." Strong institutions were essential in the battle to reduce corruption, as the cases of Hong Kong and Singapore (Chapter 7) show. Reducing inequality requires state action–and specific policies (universalistic social welfare programs).The success of anti-corruption commissions in Hong Kong and Singapore did *not* require formal democratic institutions–since neither city-state is a democracy as traditionally defined. However, leaders in both Hong Kong and Singapore engaged the public in their fights against malfeasance through public campaigns and socialization in the schools–as well as through policies designed to increase economic equality through universal social welfare. Warren (2004) would certainly see this involvement of the citizenries as reflecting democratic values, if not formal structures.

Similarly, I find institutional effects elsewhere, but always connected to a wider conception of democracy and democratization. The more "democratic" transition countries also have less inequality (cf. Dahl, 1971, 82-88), even though changes in democratization do not lead to changes in inequality (Chapter 4). An unfair legal system is a key determinant of corruption, both in my aggregate model (Chapter 3) and in perceptions of the publics in Romania and throughout Africa, especially in Nigeria (Chapters 5 and 7). Africans also link corruption to poor governance and the lack of freedom of speech (Chapter 7). Throughout the story that follows, strong institutions, most notably equal justice for all, play a key role in combatting corruption. And authoritarian governance, especially Communism, generally leads to high levels of corruption.

There seems to be an asymmetry in the institutional effects on corruption. "Bad" governance is strongly associated with corruption (though the causal direction is unclear, see Chapter 3), while democratic institutions have a tendency–though not significant in a multivariate model (see Chapter 3)–toward greater honesty in government.[3] There are notable exceptions such as Hong Kong and Singapore and there is little evidence that *democratization,* a change to democratic structures, can overcome a legacy of corruption. And this is cause for caution about expecting too much from political institutions by themselves. Strong institutions must be linked with strong, especially egalitarian, socieities.

Why an Inequality Trap?

The most compelling argument for the notion of an inequality trap is that corruption is *sticky*. There is little evidence that countries can escape the curse of corruption easily–or at all. The r^2 between the 2004 Transparency International estimates of corruption and the historical estimates for 1980-85 across 52 countries is .742. Any theoretical perspective on corruption must take into account its persistence over time. Just as corruption is "sticky," inequality and trust do not change much over time, either. The r^2 for the most commonly used measures of economic inequality (Deininger and Squire, 1996) between 1980 and 1990 is substantial at .676 for a sample of 42 countries.

A new inequality data base developed by James Galbraith extends measures of inequality further back in time and across more countries. The r^2 between economic inequality in *1963* and economic inequality in *1996* is .706 (for 37 countries). The r^2 between generalized trust, as measured in the 1981, 1990-1995 World Values Surveys across between 1980 and the 1990s is .81 for the 22 nations included in both waves—the r^2 between generalized trust in 1990 and 1995 is also robust (.851, N = 28). The stickiness of corruption, inequality, and trust are the heart of the inequality trap. ***Inequality, low trust, and corruption are all sticky because they form a vicious cycle.*** Each persists over time and it is difficult to break the chain.

Our actions reflect not only our own desires and beliefs, but how we feel that others will act. People pattern their actions on what they believe others will do and what others think is acceptable (Hedstrom, 2005, ch. 3). If you believe that "everyone is corrupt," you will follow the herd and act corruptly yourself (Tavits, 2005). Even if you feel uncomfortable in behaving corruptly, you may feel that there is no alternative to following the crowd if you are to survive (see Chapters 5 and 7), so corrupt behavior becomes a "self-fulfilling prophecy" (Merton, 1968). There is a similar dynamic in evolutionary game theory models: When "nice" (trusting) people are in the majority in a society, they will "crowd out" miscreants so cooperative (honest) behavior will be the rule. Where "mean" (mistrusting) people are in the majority, cooperators will "die out" and defection (corruption) will be the norm (Bendor and Swistak, 1997).

The reinforcing nature of the inequality trap reflects a "path dependent" relationship among inequality, trust, and corruption. Path dependency is a historical pattern in which initial conditions persist over long periods of time. "Long movement down a particular path," Pierson (2001, 261) argues, "will increase the costs of switching to some previously foregone alternative...in politics the pursuit of such change faces two additional obstacles: the short time horizons of political actors and the strong status quo bias associated with the decision rules that govern most political institutions." The undesirable equilibrium of high inequality, low trust, and high corruption is not readily upset. The short-term horizons of politicians–to enrich themselves but also to respond to demands from the public–both work against the sorts of policies that can reduce inequality and combat corruption.

These analytical models suggest why the inequality trap is so hard to break. They do not account for the factors that give rise to dishonest behavior. Social interaction models tell us that we mimic the behavior of others, but they can't explain why others act the way they do. Arguments that highlight path dependence generally focus on an initial event, such as the adoption of a policy alternative, that may persist over long periods of time, even though its initiators did not have such great foresight. Some path dependent decisions–such as the adoption of the QWERTY typewriter keyboard–may endure for long periods of time simply because no better alternative emerged (Pierson, 2004, 23, 44-48). While path dependence offers a compelling story about how patterns persist, it is of limited help in explaining the roots of corruption. Dishonesty in government, business, and society did not arise from choices, either planned or unanticipated (Pierson, 2004, 115-119).

I shall propose a model of the forces that lead to corrupt (or honest) behavior. I do not offer an account that traces corruption back to its historical roots, so my argument is mostly static. So are most accounts of corruption. However, the reinforcing nature of the inequality trap helps to explain why corruption persists and I turn in Chapters 7, 8, and 9 to a discussion of how some societies fought corruption–and won, as well as how others put up more meager battles and "lost" (if they were really trying to end malfeasance).

While it is difficult to escape the inequality trap, it is not impossible. Universal social welfare policies both increase trust and reduce inequality (Rothstein and Uslaner, 2005). Reducing inequality also frees people from being dependent upon corrupt patrons and makes them masters of their own fates. Education is also strongly associated with higher levels of trust in outsiders (Uslaner, 2002, ch. 4), so increasing the level of education will also foster honesty in government indirectly. The adoption of such policies, notably universal education, seems to underlie the stories of successful battles against corruption in such diverse places as Sweden, Denmark, Singapore, Hong Kong, South Korea, Botswana, and New York City (see Chapter 9). Universal education is not an easy policy to implement and the evidence for its role in the battle against corruption seems compelling but is not firmly established.

If my claim is correct, then we may a very different recipe for fighting corruption than others have offered. And it will also resolve a key issue of causality. The inequality trap reflects a vicious cycle–with inequality at both the start and the end of the chain. In any causal link, it is difficult to know where to begin. Do we need to curb corruption to end inequality or must we focus on reducing inequality to combat corruption? If education is the key, the "trap" begins with inequality–or at least we know where the intervention must take place.

The Roots of Corruption

Economic inequality provides a fertile breeding ground for corruption–and, in turn, it leads to further inequalities. The connection between inequality and the honesty of government is not necessarily so simple: As the former Communist nations of Central and Eastern Europe show, you can have plenty of corruption without economic inequality–at least as inequality has been conventionally measured. This statistical disjunction between inequality and corruption should not lead us to dismiss the link between the two.

High levels of inequality go hand-in-hand with high in-group trust and low out-group trust. The struggle to make do and to help one's family and friends may take moral precedence over engaging in corrupt activities that people would prefer to shun.

While there may be a weak relationship between inequality and corruption, this may reflect the way we measure the former. The conventional way of measuring inequality–the Gini index–may be too blunt an indicator to tap the connection between disparities of wealth and corruption. I shall also examine an alternative measure of inequality– uneven economic development along group lines, as measured in the Failed States Index project of the Fund for Peace.[4] This measure, which reflects the economic stratification of a society by group–is more strongly linked to my argument that corruption rests upon a foundation of strong in-group trust and low out-group trust. The measure of uneven economic development is much more strongly related to corruption than are any of the standard Gini indices available.

However, uneven economic development is also very strongly related to *all of the other determinants of corruption–so that adding it to a statistical model gives me no extra leverage–and indeed, the tight relationships among the many parts of the syndrome of corruption* *leads to a less satisfactory statistical model.* Nonetheless, some simple portraits of the linkage between uneven economic development, corruption, and its determinants make for a telling story that supports my overall thesis (see below).

Even though aggregate statistical models may not show a direct linkage between economic inequality and corruption, ordinary people do see such a tie. The aggregate models provide the key test of the inequality trap argument, because they cover a wide range of countries and are based upon measures that are central to my argument.

In cross-national surveys, perceptions of corruption are higher in countries that have higher levels of economic inequality (see Chapter 3). Surveys indicate that where corruption is high, as in the former Communist nations of central and eastern Europe and in most of Africa, people see clear connections between malfeasance and inequality. The general public is also more likely to see such a tie than are elites, which suggests another type of inequality–a difference in perceptions between those who have more resources and those with less. Where corruption is lower--as in Botswana, Hong Kong, the United States, and the Nordic countries, people do not perceive such a connection (Chapters 5 through 8). Survey evidence may not provide as comprehensive a test as aggregate data analysis, but it provides strong support for the argument that *people perceive a link between corruption and inequality*.

The historically low levels of inequality in the formerly Communist countries of Central and Eastern Europe as well as the former Soviet Union confound the linkage between inequality and corruption in the overall aggregate model. Since transition, inequality has increased, often dramatically, in most of these countries. As the nations became democratic, their governments did *not* become more honest. Since transition, both aggregate and survey data indicate that people in some transition countries see a link between inequality and corruption.

There is one key institutional structure that I posit to affect corruption, both directly and indirectly. It is the *fairness of the legal system*. The fairness of the legal system reflects the belief, as stated by Martin Lomasny, that people without resources don't expect equal treatment from the legal system. A fair legal system is *not* the same thing as economic inequality–indeed, the two are only modestly related as I show below. Yet, a fair legal system may be as troubling to many poor people as the overall distribution of wealth itself. An unfair legal system makes corruption work and multiplies the advantages of the wealthy.

The fairness of the legal system is distinct from the *efficiency* of the legal system (Rothstein and Stolle, 2002). You can have a system of courts where trials are conducted expeditiously and the courts can be nominally–or even practically–independent of the other branches of government. But this does not mean that the proceedings are fair–or that the beneficiaries of corruption will face justice at all. Even if you put all of the bad guys on trial, they may not be convicted.

I present in Chapter 3 a cross-national model of inequality, trust, corruption, regulation, a country's risk rating (for potential investors), and the quality of government. I find no direct effect for inequality, but rather an indirect one through generalized trust. The fairness of the legal system has both direct and indirect effects on corruption. The indirect effects come through the impact of the fairness of the legal system on strangling regulation–which, in turn, leads to greater corruption. Regulation is a policy choice that affects corruption, but reforming such procedures will be insufficient to reduce corruption significantly.

More traditional institutional accounts of corruption often suggest that the cure for malfeasance is to put the bad guys in jail. If we do so (and we ought to do so), they will be replaced by other corrupt leaders. Nor do we need a reformed system of government that either centralizes power to herd in independent "entrepreneurs" who extort businesses or average citizens (Treisman, 1999) or decentralizes power to prevent an all-powerful "grabbing hand" (DiFrancesco and Gitelman, 1984, 618; Fisman and Gatti, 2000; Kunicova and Rose-Ackerman, 2005).

Corruption has consequences: Dishonesty leads to a less stable economic and political environment–as reflected in the ratings of overall risk by forecasting firms. These ratings guide decisions by investors and lending agencies. Governments considered very risky overcompensate by trying to control too much–enacting regulations that are so strict that they provide greater opportunities for state capture and further corruption.

Even more critically, corruption leads to less effective government, *but effective government does not lead to either less corruption, more trust, or less inequality.* I present a new measure of government effectiveness derived from cross-national surveys of business executives (the 2004 Executive Opinion Survey of the World Economic Forum). "Effective governments" are efficient–they get things done and do not waste taxpayers' money. Their decision-making processes are open and the courts are structurally independent from the other branches of government (see Chapter 3). These "effective" or "good" governments are far less corrupt or "honest" than poorly performing states–but the causal arrow seems to go from corruption to bad government rather than the other way around. Equally critical is the lack of a direct connection between institutional design, using a wide range of indicators, and corruption.

Corruption leads to less effective government, less trust, and greater inequality (Rose-

Ackerman, 2004, 6. 14). The path backward from corruption to greater inequality is direct, even though the path forward is not (through trust). Gyimah-Brempong (2002, 186) finds that a one point increase in the Transparency International Corruption Perceptions Index is associated with an increase of seven points on a 100 point Gini index in Africa. Rose-Ackerman (2004, 6) argues that corrupt officials spend too much on big projects (infrastructure), where they can channel contracts to their cronies. As corrupt officials empty the treasury, there is less money available for investments in programs that benefit those at the bottom of the economic ladder such as education.

While there is no path from ineffective government to larger disparities in wealth, effective government might lead to policy choices that promote policies that can break the poverty trap–if we could only get good government. Yet, the idealized path from good government to greater equality is, as Samuel Johnson said of second marriages, the triumph of hope over experience.[5] Good government, I shall show, has lots of positive effects, but policies promoting greater equality are not among them.

Corruption and Institutional Design

Why is corruption pervasive in some societies and not in others? Can we reform our political systems to reduce corruption? What lessons can we learn from the experiences of transition countries about the causes and consequences of Communism?

Most studies of corruption focus on its institutional roots and many discussions treat corruption as a measure of ineffective government (Rothstein and Teorell, 2005). The institutional argument takes place on three levels: (1) the overall structure of government; (2) specific institutional forms such as centralized versus decentralized authority, types of electoral structures, the nature of the legal system, and the like; and (3) extra-governmental institutions such as the media.

Institutional accounts are attractive for two reasons. First, corruption is all about the lack of transparency and the inability of ordinary citizens to hold leaders to account if they abuse the public trust. Except in the most extraordinary circumstances, political leaders do not make public their illicit dealings–and generally go to great lengths to hide such actions. Autocrats are not accountable to the public, democratic politicians are. Recall the regimes of Mobutu Sese Seku of Zaire (now the Democratic Republic of Congo), "Papa Doc" Duvalier of Haiti, and too numerous leaders of Communist regimes to name. All ran "kleptocracies" and there was no trace of their wealth until after they had been ousted from office. Officials in democracies are subject to public scrutiny. So democracy should help to reduce corruption (Adsera, Boix, and Payne, 2000, 19; Lederman, Loayza, and Soares, 2005, 16-17, 23; You and Khagram, 2005), as would greater political stability (Leite and Weidmann, 1999, 20; Treisman, 2000). Klitgaard (1988, 75) famously offered an equation on the roots of corruption as "monopoly plus discretion minus accountability."

Second, anti-corruption organizations such as Transparency International place great emphasis on structural reform because it seems to be more feasible. In some arguments, it is simply a matter of putting the evil doers in jail and a stronger court system or fewer temptations for the "grabbing class" such as higher salaries for public employees (LaPorta et al., 1999; Mauro, 1997, 5; Tanzi, 1998, 573; Treisman, 2000; but cf. Rose-Ackerman, 1978, 90-91).

Institutions come and go, corruption persists–so it seems hazardous to assume that a change in political structures will lead to a reduction in corruption (Johnston, 2005, 22). For many institutions–especially centralized versus decentralized authority–there are conflicting arguments about the effects on corruption. Some think that a centralized authority makes corruption more likely, while others say that the multiplicity of "grabbing hands" in a decentralized system leads to more dishonesty.

Some institutionalists pay little attention to social or cultural factors, thus granting too much explanatory power to structure. In some cases the link between corruption and institutional structures may be spurious–the effects vanish when societal and economic factors are considered: Paldam (2002) shows that the impact of democratic governance on corruption becomes insignficant when he controls for per capita income.

Some institutional accounts are simply too blunt. Many students of corruption believe that we can solve many of the problems of dishonesty by strengthening the legal system. They are on to something important, but it is *not* the power of the legal system or the number of courts that matters or even the connection between the courts and other institutions of government. Instead, it is the *fairness* of the legal system–and you can't get impartiality by tinkering with institutions.

How do institutionalist arguments fare? Democratic governments are less corrupt. On Transparency International's (TI) 2005 corruption perceptions index, countries that were "fully free" on Freedom House's 2003 index had a mean score of 5.87, while partially free countries had a mean of 3.18, and the "not free" countries averaged 2.97. The simple correlation between corruption and democracy is .523, reasonably robust if not overwhelming. Authoritarian countries have a great deal of corruption. Every "not free" country has a corruption score below the mid-point on TI's scale and all but Tunisia rank close to the bottom. Yet, democracy is hardly a guarantee of honesty. Democracies are all over the place on the corruption index, with almost half below the mid-point.

As Mueller (2001) argues, creating democratic institutions is not difficult. Freedom House assesses the democratic character of governments annually, measuring both political rights and civil liberties indices. The last 20-30 years have been boom times for democracy. New political institutions emerged and people in formerly authoritarian states exercised rights that they had long been denied. There is only modest consistency from 1973 to 2003 in either political rights ($r^2 = .165$) or civil liberties it is ($r^2 = .263$, both N = 77). Even excluding countries that were Communist in 1973, the respective r^2 values increase only to .264 and .375 (N = 67).

If we restrict the comparison period to begin in 1988, the year before the revolutions in Central and Eastern Europe, the picture does not look much brighter. The political rights index of Freedom House showed considerable change from 1988 to 2003: On the 7 point scale (with lower scores indicating greater political rights), the mean score improved from 3.138 in 1988 to 2.554 in 2003. For former and present Communist nations, the score moved from 5.789 to 2.917. More critically, there was virtually no correlation between the 1988 and 2003 scores. For 62 nations, there is a significant, though not powerful, coefficient of earlier scores on the later ones (t = 2.22, $R^2 = .076$). For the 17 Eastern bloc countries, the coefficient is not at all significant (t = -.05. $R^2 = .0001$).

The changes in political rights and civil liberties from 1973 to 2003 are unrelated to changes in corruption from 1980-85 to 2004 ($r^2 = .007$ and .038 respectively, N = 38). Moving the democratization measures forward to 1988 does not improve the fit with changes in corruption ($r^2 = .004$ and .0005 for political rights and civil liberties, N = 39). *Institutions are not nearly as sticky as corruption–and structural change does not track the level of transparency* (cf. Uslaner, 2004a).

Democracy is not the cure-all for corruption because elected officials can entrap their followers in patron-client relationships, often called (at least in the United States) "political machines." These organizations tightly control access to government jobs and even to justice. In Chicago at the turn of the century, political leaders made a powerful show of force in what seems like a routine larceny trial (Martin, 1936, 300, quoted in Gosnell, 1968, 79-80):

> During the pendency of the case there appeared before Mr. Austin (the person robbed) in behalf of the defendant, whose guilt was unquestioned, two state senators, a member of the lower house (the defendant's attorney, who later was a Democratic candidate for judge of the Municipal Court), a chief clerk of the Appellate Court, two deputy clerks of the Municipal Court, the [party] club president and party committee chairman, and six others, citizens of more or less prominence, all of whom urged Mr. Austin to drop the case. In addition, Mr. Austin's principal witness, a youth of fifteen years, was threatened with kidnaping by gangsters, resulting in policemen being assigned to guard his home.

This show of political force did not reflect the severity of the crime or a concern that justice might not be served. Instead, it was a demonstration to the community that Chicago's political leaders had the power to "protect" the accused party–and in turn, they demanded complete political loyalty.

Newer democratic systems, stemming from political transitions, are particularly prone to corruption and elections may even provide the opportunity for *increased* corruption (Andvig, n.d., 56-58; Johnston, 2005, 196). Where corruption has been widespread for many years, creating *effective institutions* rather than simply new forms of government may be particularly difficult since dishonesty may be strongly entrenched in existing structures (Hopkin, 2002, 583-584).

Even in long-standing democracies, elections may not deter corrupt politicians. Machine leaders can "buy" the support of people who depend upon their largesse for jobs, other resources, and even justice–especially of minority group members who have few resources of their own (Rose-Ackerman, 1978, 212-213; You and Khagram, 2005, 138; Wilson, 1960, 54-55). Corrupt leaders can expect, or extort, the support of the public in elections. In post-World War II Italy, despite widespread allegations of dishonesty by legislators, deputies who faced charges of corruption were no more likely to lose their reelection bids than members who were not indicted. And these findings parallel those for the United States (Golden and Chang, 2001; Chang and Golden, 2004). In Brazil, President Luiz Inacio Lula de Silva won reelection with more than 60 percent of the vote even though he was implicated in major scandals, including extorting contractors to provide an illegal multi-million dollar fund that financed his 2002 election and that paid off members of minority parties to support his government. A 56-year old maid commented after voting: "Lula cares about the poor, and that's what matters to me, more than all this talk about corruption, which we've always had....thanks to him, my salary has gone up $20 a month and the price of food has gone down enough that I'm eating a lot more meat than in the past" (Rohter, 2006, A6).

Democratic institutions may not be sufficient to reduce malfeasance. Every transition country except for Serbia and Montenegro and Belarus became more "free" between 1988 and 1998, according to the Freedom House scores, yet the 10 of the 11 transition countries for which there are data became *more* corrupt from 1998 to 2003. Even allowing for a time lag, democratization doesn't seem to produce more honest government.

Democracy may be too blunt an instrument to be the "cure-all" for kleptomania in civic life. I shall consider several of the most prominent institutions in the corruption literature, including the structure of governing institutions, the electoral system, the quality of the bureaucracy, and the legal system.

Democracy doesn't guarantee accountability because leaders can centralize power and act very much like autocrats even where there are elections. Klitgaard's (1988) equation for corruption puts monopoly power at the heart of his account of political dishonesty. In a decentralized, or federal system of government, it is easier for both ordinary citizens and other politicians to monitor the honesty of leaders (Lederman, Loayza, and Soares, 2005, 5). Andvig (n.d., 85) adds: "Since everyone knows everyone else's business in decentralized settings...it is harder to conduct under-the-table deals" (cf. Fisman and Gatti, 2000; Karklins, 2005, 109). Centralized authority, represented by both unitary governments and Presidential regimes (Kunicova and Rose-Ackerman, 2005; Kunicova, 2005; Lederman, Loayza, and Soares, 2005, 17), have higher levels of corruption. When you put a lot of power in a central authority–be it democratic or autocratic–you reduce accountability and make corruption more likely.

Or do you? Treisman (1999, 1) argues that decentralized (federal) states are *more* corrupt than unitary ones. He claims that bureaucrats in such states will not coordinate their illicit activities with each other and will thus "overgraze the commons." Corrupt deals depend upon personal relations between the guilty parties–which are more likely to occur in smaller settings. Conflicting legal systems may also make enforcement against mercenary officials more difficult. Bennett and Estrin (2005) offer a formal model that establishes essentially similar results. Yet, Rose-Ackerman (1978, 212), deMello and Barenstein (2002, 353), and You and Khagram (2005, 150) reject *either a positive or a negative linkage* between centralization and corruption.

Both positive and negative effects of decentralization on corruption seem reasonable. They are clearly inconsistent, so a would-be reformer could throw up her hands in despair when thinking about how to remake governmental institutions in the fight to reduce malfeasance in office. There is no balance of compelling evidence on either side–and the impact of governmental structure (both centralization and Presidential systems) vanishes in the model I present in the next chapter.

If we cannot fix responsibility on governmental structure or electoral accountability more generally, can we gain some leverage by focusing on electoral arrangements that give advantage to potential malfeasants? Politicians, Kunicova and Rose-Ackerman (2005) argue, should represent their constituents rather than special interests; political parties are more tied to such corrupt interests than individual legislators. Constituents can hold individual members responsible for actions, whether they are based upon policy choices or stealing from the public purse.

A closed-list proportional representation (PR) electoral system breaks down this system of direct constituency representation in two ways. First, a PR system is based upon multi-member rather than single-member districts–in the extreme, in Israel, the entire nation is one electoral district. This disrupts the linkage between legislators and their districts. Second, a closed-list system means that voters cannot vote for a specific candidate, but can only chose among competing political parties. A closed-list proportional representation system gives power to the parties and disrupts the representational link between legislators and their constituents–and makes corruption more likely. When a closed-list system is combined with centralized authority (as in

Presidential systems), the opportunities for corruption are much greater (Kunicova and Rose-Ackerman, 2005, 577; but see Persson, Talbellini, and Trebbi, 2000, 11-12).

Yet, this argument is problematic on three grounds. First, Golden and Chang (2001, 677) make precisely the *opposite* claim for Italy: "Italy's use of the [open list] preference vote appears to have contributed significantly to the development of extensive, high-level political corruption in the postwar era." Second, it is far from clear that political parties promote some notion of a broader interest than do individual legislators. Political parties in many parts of the world –especially in the United States–have been as closely associated with corruption as have individual politicians. Martin Lomasny was not a lone wolf in political life. He was the leader of a corrupt "political machine." Olivier de Sardan (1999, 42) makes much the same point about democratic transitions in Africa: "The change to democracy seems... merely to have introduced the possibility of openly attacking [corrupt] practices (by means of a denunciation of 'prebend' and 'racket'), without modifying them."

Third, this disagreement may be much ado about little. The simple correlation between corruption (the 2005 TI index) and closed-list PR electoral systems (from Kunicova and Rose-Ackerman, 2005) is only -.038; for open list systems, it is only a bit higher (.167). Even this modest relationship is complicated by the fact that almost 60 percent of the Presidential systems with closed party lists in the analysis of Kunicova and Rose-Ackerman are in Latin America or in transition countries. This institutional factor may reflect something common to these polities–and of importance to corruption, the low levels of generalized trust in these countries.[6]

Another institution that fosters accountability is the media. While the press is not a government institution, it can play a vital role in exposing corrupt behavior. The media can publicize malfeasance and put an end to it. Freedom of the press is sometimes linked to less corruption (Brunetti and Weder, 2003), but at least one study finds that this relationship really reflects the higher level of media autonomy in wealthier countries (Lederman, Loayza, and Soares, 2005, 24) Countries with high newspaper readership and democracy have less corruption (Adsera, Boix, and Payne, 2000). Yet, Rose-Ackerman (1999, 167) cautions that the potentially powerful effects of the media are less likely to strike at corruption where it is most needed–in poor countries with high levels of illiteracy.

Press campaigns against corruption are like crabgrass control. Crabgrass is, in the American vernacular, a weed that grows in lawns. You can pull it out, but new growth will come back before you know it. Quick fixes gets rid of a handful of corrupt officials or businesspeople. But they don't "solve" the problem of endemic corruption.

McMillan and Zoido (2004) tell a fascinating story of how Vladimiro Montesinos Torres, chief of Peru's secret police and the right hand man of President Alberto Fujimori, bribed judges, politicians, and especially the owners of television stations in the 1990s. (Rose-Ackerman, 1999, 166, worried that the media might be too closely tied to political organizations to investigate corruption.) Montesinos not only kept meticulous records of these bribes–and the written receipts that he insisted each recipient give him, but he also videotaped the negotiations. Ultimately, an opposition politician was able to get a copy of one of these videos and played it at a press conference in 2000. One small cable channel, which Montesinos had not bribed, began playing the video again and again. Other networks soon followed suit, even though they had been part of the conspiracy. Montesinos and Fujimori were soon indicted, and Montesinos's corrupt circle of more than 1600 people collapsed (McMillan and Zoido, 2004). These revelations toppled

Fujimori's government as the President fled to Japan, the home of his ancestors.

Did the revelations lead to cleaner government? McMillan and Zoido (2004, 89-91) caution that media exposure of misdeeds may not itself be sufficient to end corruption, as shown by the failure of press exposes in Ukraine and Russia in the 1990s. Peruvians had already begun to sour on the Fujimori administration's poor performance on the economy. Yet, they still argue (McMillan and Zoiodo, 2004, 91): "Safeguards for the media—ensuring they are protected from political influence and are credible to the public—may be the crucial policies for shoring up democracy."

The media revelations seem to have had little effect in either the short or the immediate term. In 1998, while Montesinos's operations were in full swing, Peru's score on Transparency International's (TI) Corruption Perceptions Index was 4.5 (with higher scores indicating greater "transparency" or honesty)–about the level of Italy or Uruguay. Peru ranked 41st out of 88 countries in the TI ratings. By 2002, its score fell to 4.0 (more corrupt), ranking 45th out of 102 and tied with Brazil, Bulgaria, Poland, and Jamaica. By 2005, the index had fallen again to 3.5, tied for 65th out of 160 countries rated (and tied with Mexico, Panama, Turkey, and Ghana). *The increase in corruption from 1998 to 2005 for Peru was the seventh greatest among the 85 countries sampled in both years–ranking behind only Zimbabwe, Costa Rica, Belarus, Malawi, Côte d'Ivoire, and Poland (tied with Namibia).* The ratio of the 2005 to the 1998 score was the ninth smallest of 85 countries. The exposure of corrupt media and the ensuing media campaign that felled the government failed to have lasting effects. Five years later, corruption seems to have gotten worse rather than better. The videos of the chief of secret police negotiating bribe prices seem to be no more lasting than episodes of CSI, the highly popular American police action program that "solves" many different crimes each week, always moving on to new territory.

If it is difficult to establish a linkage between democratic, especially electoral, accountability and corruption, a more likely prospect is the bureaucracy. Bureaucrats can withhold basic public services unless they receive "gift payments," from ordinary citizens and companies doing business with the state. Bureaucrats can also "grease the wheels" of a slow-moving process by granting special favors to people or firms that pay them off–from the police officer who "saves" the speeding driver a trip to traffic court by collecting a "fine" on the spot, to the doctor who lets a paying patient advance to the head of the queue, to the clerk at the customs office who won't release a firm's goods until he receives an "extra" "gift" payment. Bureaucrats extract such payments from ordinary citizens and businesses because their salaries are too low (Andvig, n.d., 31; Mauro, 1997, 5; LaPorta et al., 1999; Weder, 1999, 107). If we paid bureaucrats more, they would not have to extort money. Higher incomes would lead them away from temptation and the fear of losing their jobs–which are now more valuable–if caught would deter them from cheating the public (Tanzi, 2002, 35).

Yet they might do so anyway. Treisman (2000) finds no evidence that higher wages for bureaucrats decrease corruption. Tanzi (1998, 573) holds that "high wages do not eliminate the greed on the part of some officials." The total amount of money extorted is not likely to fall even if fewer people demand payments (Tanzi, 2002, 35). Rose-Ackerman (1999, 130) argues: "Systems that are based on the exchange of narrow political favors cannot be cured by reforms in civil service and procurement systems." Even if higher wages could stop bureaucrats from acting as bandits, this would have only limited effect on the overall level of corruption in a country, with almost no effect on the grand corruption of higher-level politicians and business firms (Rose-

Ackerman, 2004, 27).

Ironically, the correlation between bureaucratic wages and corruption is only significant in bivariate tests in the West–not in the developing countries (where the zero-order correlation is .01) nor in transition countries (where it is .22). The modest relationship in the West ($r = .36$, significant in a bivariate regression at $p < .10$) gives us pause if we hope to reduce corruption by raising bureaucrats' wages. The only effect at all comes in countries that already have the most honest governments (and even this effect vanishes when I control for per capita income). Paying more in high-corruption low-wages countries seems to have little effect. In Romania there is no statistical relationship between salaries paid public bureaucrats and the estimated levels of corruption in World Bank Diagnostic surveys (Anderson et al., 2001, 25). The most likely explanations are: (1) if a high salary would deter corruption, the increase in wages would have to be substantial to make a bureaucrat unconcerned with "topping up"; and (2) there would need to be some real likelihood that a corrupt official would lose her job–and be unable to find alternative employment. Evidence that any country with high levels of corruption could dramatically increase wages or would fire more than a handful of dishonest officials is lacking.

No Justice, No Peace?

Perhaps the most convincing institutional link is through the judicial system. The law determines which acts are corrupt and which are acceptable. Institutions of justice–the police and the courts–differ from other branches of government. People expect the police and especially the courts to be neutral (Rothstein, 2001, 492-493; Tyler, 1990) as well as honest. This neutrality is reflected in the refrain, "Justice is blind" and the statues outside courthouses of Lady Justice wearing a blindfold.

The fairness of the legal system is critical *because no other political institution is predicated upon equality to such an extent*. Elections are formally about equal access and power: Each of us has one vote. But many people do not vote, at least in some countries and the distribution of participation is not equal across the population. Even more critically, elections are not determined by atomized individuals casting ballots in isolation. Elections require mobilization and in many parts of the world lots of money–and certainly neither of these are distributed equitably (Verba, Schlozman, and Brady, 1995, 190-192).

The system of justice should not only be neutral, but also a bulwark against arbitrary treatment. A system of property rights means that government officials cannot confiscate people's possessions–and demand bribes for returning it. Russian citizens are deluged with fake goods on sale everywhere–from vacations complete with photos (so that errant husbands might convince their wives that they are on "fishing trips") to bogus caviar , phony diplomas and term papers (including portions of President Vladimir Putin's doctoral dissertation), and fake VIP stickers and flashing blue lights for your car so that other cars will let you avoid Moscow's traffic. About half of all consumer goods are bogus in Russia (Murphy, 2006). It should hardly be surprising that the annual value of bribes in Russia increased by a factor of 11 from 2001 to 2005–and that the market for corruption in business is 2.66 times the size of the federal budget (Indem, 2006).

Without the rule of law, the state–or the mob–can arbitrarily determine who possesses property (Ledeneva, 2005, 9). A country with a weak rule of law, such as contemporary Russia, is a funnel for corruption. Mauro (1998, 12) argues:

> You live in a society where everybody steals. Do you choose to steal? The probability that you will be caught is low, because the police are very busy chasing

> other thieves, and, even if you do get caught, the chances of your being punished severely for a crime that is so common are low. Therefore, you too steal. By contrast, if you live in a society where theft is rare, the chances of your being caught and punished are high, so you choose not to steal.

Rothstein (2000) argues that a strong legal system would create a sense of social insurance for ordinary citizens. If the courts are corrupt, people will solve their problems outside the law–and use whatever resources they can muster to do so (Rose-Ackerman, 1999, 153).

A well-ordered society is run through the rule of law. The key to less corruption is an effective system of property rights and the rule of law (Lambsdorff, 1999; Leite and Weidemann, 1999, 20, 23; Rawls, 1971:454; Treisman, 2000; You, 2005b, ch. 2). Tyler (1990, chs. 4, 5) argues that people respect–and obey-- the law because they believe that the justice system is fair and that they have been treated fairly. If people feel that they have been treated unfairly by the police or in the courts, they are less likely to have faith in the legal system. Inequality before the law is part of the larger theme of inequality more generally. *People are more troubled by corruption when it promotes inequality than when it simply takes their money*. Scott (1972, 33) argues even more pointedly: “Much of what we consider as corruption is simply the `uninstitutionalized’ influence of wealth in a political system.”

The English legal tradition is often held out as providing among the strongest protections of property rights in the world and thus as a strong barrier to corruption. Eight countries with British legal heritage rank in the top 20 (out of 160 nations) in Transparency International’s 2005 Corruption Perceptions Index and seven rank in the top 20 (out of 123 nations) in the ratings of legal and property rights of the Economic Freedom Network.[7] Treisman (2000) and Singer

(2005) find that countries with a British legal tradition have lower levels of corruption, but Lederman, Loayza, and Soares (2005, 26) find no such effect.

Leite and Weideman (1999, 20) and Dreher and Schneider (2006) argue that countries with a strong rule of law have less corruption. Such findings should be taken with some caution, however. It is difficult to disentangle the rule of law from corruption; the most commonly used measure of the rule of law, from the World Bank's Governance data set (Kaufmann, Kraay, and Mastruzzi, 2005), includes corruption as one of its components.[8]

Institutions of the law have major impacts on corruption. Street-level crime and corruption go together (see Chapter 3). The justice system is susceptible to corruption and cooptation by dishonest leaders.

della Porta and Vanucci (1999, 142) argue that the Italian judiciary in the 1980s and 1990s protected corrupt officials–and took part in bribery. The legal system took an active and public role in protecting a corrupt deal. *Raccomandazione* is the Italian practice of soliciting favors from people in high places. In October, 2000, the director of a civil court in Southern Italy received 88 pounds of fish in return for helping to expedite the case of a plaintiff. A lower court convicted the director of corruption, but a higher court overruled the verdict. The director could only be convicted of *pretending* to influence higher authorities; punishment would be warranted only if the official *couldn't* deliver. Even direct evidence of pay-offs (what New York Times reporter Alessandra Stanley, 2001, called "squid pro quo") was insufficient to convict.

This case is surely exceptional. Courts do not generally enforce corrupt deals. Yet, the case was not unique: *Raccomandazione* "is by now so deeply rooted in our culture that most people believe it is an indispensable tool when seeking even that to which they are entitled," a court wrote in 1992 as it overturned yet another conviction for influence peddling (Stanley, 2001). Former Italian Prime Minister Giulio Andreotti was acquitted in 1999 of a charge he tried to influence the Mafia; a judge in Palermo postponed a new trial, arguing that the court had more important business.

The judiciary is especially likely to be linked to corruption in transition countries. When Russian entrepreneur Mikhail Khorodovsky confessed his sins of relying on "beeznissmeny" (stealing, lying, and sometimes killing) and promised to become scrupulously honest in early 2003, Russians regarded this pledge as "startling." When he was arrested and charged with tax evasion and extortion under orders from President Vladimir Putin ten months later, the average Russian was unphased: About the same share of people approved of his arrest as disapproved of it (Tavernise, 2003). The arrest of Khorodovsky stands out as exceptional: Corrupt officials and business people are rarely held to account. While crime spiraled in Russia after the fall of Communism, *conviction rates plummeted* (Varese, 1997). Ninety percent of Russian businesspeople held that vague laws gave government officials leeway in interpreting regulations, thus leading to demands for bribes (Popov, 2006). The biggest problem facing business in relatively clean Slovakia is poor law enforcement, according to a recent survey of the country's economic elite (Gyarfasova, 2002, 14).

Too few police or too few courts is not the critical issue. Nor is it the quality of training for the police or for judges–or even how swiftly justice is meted out. The judicial system seems problematic when it is perceived as *unfair* (Tyler, 1990, chs. 4, 5). People at the top face are less likely to face the strong arm of the law, while those with fewer resources will face much harsher justice. The very branch of government that is supposed to be *the most neutral* often turns out to be *the most biased*. An unfair judicial system will protect the corrupt and punish people who must cope with corruption.

As Lomasny and the political bosses in Chicago showed, control over the courts gave politicians leverage over their constituents. They could, in many cases, determine who went to jail and who went free. Such power not only insured political loyalty, but it also served to ensure that minority groups, notably African-Americans in the United States, remained beholden to political bosses and did not pose a threat to rule by political bosses (Wilson, 1960, 54-55). Even as African-Americans have become enfranchised, they still face unequal justice–being more likely to be stopped by the police for "speeding" than whites, what has become known as "driving while black." The biased justice system keeps those with fewer resources dependent upon the powerful.

In transition countries and in developing nations more generally, unequal justice penalizes the poor. They fear the justice system, rather than respect it. The police may extort "fines" for speeding, jaywalking, or other moving violations whether the accused is guilty or not. Poor people have neither the time nor the resources to fight such charges, so they have little choice but to pay. Many poor people work in the underground economy, where they have no legal rights (Djankov et al., 2003, 71).

Dishonest politicians and business people may be shielded from the wrath of justice in highly corrupt societies. A bribe to the right judicial authorities is likely to prevent criminal prosecution of corrupt officials. Tanzi (1998, 574) writes: "In the real world, relatively few people are punished for acts of corruption." The periodic anti-corruption campaigns in Russia have done little to reduce malfeasance–and are aimed at punishing individuals out of favor (Coulloudon, 2002, 187-188). When political leaders are tried and convicted, people are skeptical since "Russia is a place that perfected the show trial for those who fall out of political favor"–and "it is always the case some people are found [guilty] at the lower or intermediate level, while no one at the top is" (Myers, 2006a, C5). Ordinary Russians believe that the police are the public institution *least likely to give them fair treatment*. Almost half of crime victims won't term to the police for help–and ordinary Russians are more afraid of the police than they are of the Mafia (Varese, 2001, 39-41).

Corrupt officials aren't prosecuted because there are too few courts or because the judiciary's agenda is too crowded. The legacy of a judicial system is not a guarantee that the legal system will be fair (the correlation between an English law tradition and the measure of legal fairness discussed in Chapter 3 is only .08). The Italian court's claim that it was too busy to retry former Prime Minister Andreotti was not credible. Corrupt officials don't face the wrath of the law because the courts treat them differently than they do ordinary citizens–and they treat poor people worst of all. Legal fairness is less about institutional design than about inequality. Making a country's legal system more fair is a lot more difficult than training the police better and appointing more judges.

Corruption and the Inequality Trap

Corruption reflects low levels of generalized trust and high levels of economic inequality. Even the one institutionalist component of my argument–the fairness of the legal system–is not a straightforward measure of institutional design. This argument suggests strong limits on what institutional engineering (such as anti-corruption campaigns to put unscrupulous politicians in jail or to increase the penalties for malfeasance) can accomplish. Second, it creates a clear link among perceptions of corruption and increasing inequality, pessimism for the future, declining trust in other people (and in government), and opposition to market reforms in the transition countries that I find in public opinion surveys in succeeding chapters.

The poor become trapped as clients to their patrons in corrupt societies. The well off "redistribute" society's resources to themselves and entrench themselves in power by controlling all of society's institutions (Glaeser, Scheinkman, and Shleifer, 2003, 200-201). The poor who depend upon powerful leaders for their livelihood–and for justice–have almost no opportunity to challenge the balance of power (Scott, 1972, 149). Corruption stems from inequality and reinforces it.

Glaeser, Scheinkman, and Schleifer (2003, 200; see also You, 2005b, 45-46) argue:

> ...inequality is detrimental to the security of property rights, and therefore to growth, because it enables the rich to subvert the political, regulatory, and legal institutions of society for their own benefit. If one person is sufficiently richer than another, and courts are corruptible, then the legal system will favor the rich, not the just. Likewise, if political and regulatory institutions can be moved by wealth or influence, they will favor the established, not the efficient. This in turn leads the initially well situated to pursue socially harmful acts, recognizing that the legal, political, and regulatory systems will not hold them accountable. Inequality can encourage institutional subversion in two distinct ways. First, the havenots can redistribute from the haves through violence, the political process, or other means. Such Robin Hood redistribution jeopardizes property rights, and deters investment by the rich.

Similarly, You and Kaghram (2005, 138) argue: "The rich, as interest groups, firms, or individuals may use bribery or connections to influence law-implementing processes (*bureaucratic corruption*) and to buy favorable interpretations of the law (*judicial corruption*)."

Inequality breeds corruption by: (1) leading ordinary citizens to see the system as stacked against them (Uslaner, 2002, 181-183); (2) creating a sense of dependency of ordinary citizens and a sense of pessimism for the future, which in turn undermines the moral dictates of treating your neighbors honestly; and (3) distorting the key institutions of fairness in society, the courts, which ordinary citizens see as their protectors against evil-doers, especially those with more influence than they have (see also Glaeser, Scheinkman, and Schleifer, 2003; and You and Khagram, 2005).

Corruption and inequality wreak havoc with our moral sense. della Porta and Vannucci (1999, 146) argue that pervasive corruption makes people less willing to condemn it as immoral. As corruption becomes widespread, it becomes deeply entrenched in a society (Mauro, 2004, 16). In an unequal world, people of the dominant group may not see cheating those with fewer resources as immoral (Gambetta, 1993; Mauro, 1998b, 12; Scott, 1972, 12) and about evading taxes (Mauro, 2002, 343; Oswiak, 2003, 73; Uslaner, 2006a). People at the bottom of the economic ladder will have little choice but to play the same game even as they may resent the advantages of the well off (Gambetta, 2002, 55).

Where corruption is widespread, people realize that they are not the masters of their own fate–and they lose faith that their future will be bright. People become resigned to their fate. In the World Values Survey waves 1-3 (1981, 1990, 1995-97), respondents who believed that corruption was widespread in their country were significantly *less likely to believe that they could get ahead by hard work rather than by luck or having connections*. The zero-order correlation is modest (as we might expect with a sample of almost 60,000, tau-b = .061)–but 34 percent of people in societies where corruption was seen as widespread thought the only way you could get ahead was by luck, compared to 29 percent in honest societies. In turn, 59 percent of respondents who said that they could get ahead by hard work said that the future looked bright, compared to 45 percent who said that you need luck or connections (tau-b = .116). And people living in honest societies are considerably more likely to have a high level of life satisfaction (r = -.179, for a difference of a full point on a 10 point scale).

People who believe that the future looked bright were significantly less likely to condone buying stolen goods or taking bribes.[9] If you believe that you need luck to get ahead, your probability of saying that cheating on taxes is never justified is .52, compared to .62 if you believe that hard work pays off.

Dishonest government demoralizes people–but it does not rob them of their moral sense. People come to terms with petty corruption–the small payments they make to doctors, police officers, clerks, and even professors (see Chapter 5). These "gift payments" have become part of day-to-day life and they can help people overcome the bureaucratic delays and trips to the courts (Huntington, 2002, 257). Ordinary people are not so *blase* about grand corruption, where politicians and business people make big money through illicit deals.

Even for smaller "gift payments," there is moral ambiguity. People all over the world, in different cultures, see corruption as a moral evil. Yet, when they face persistently high levels of corruption, people may become fatalistic about controlling dishonesty. They come to terms with petty corruption, seeing benefits from the small bribes that they must pay to get by and recognizing that life would be more difficult without these lapses of civic virtue. Barely more than a third of Hungarians see a moral problem when doctors demand "gratitude payments" for medical services (Kornai 2000: 3, 7, 9). This system of "gift giving" is so widespread that almost all doctors accept "gratitude money"; 62 percent of physicians' total income came off the books. A majority of public officials in the Czech Republic, Slovakia, Bulgaria, and Ukraine in 1997-98 found it acceptable to receive extra payments from clients. Between 11 and 39 percent of citizens of those countries (in that order) reported offering a "small present" to officials and between 6 and 24 percent offered "money or an expensive present" (Miller et al., 2001, 217, 241).

Two-thirds of respondents to a Polish survey said that giving gift payments was inevitable, more than half said that such extra charges were simply signs of respect, and little more than a third would refuse to give a bribe. However, over two-thirds say that both giving and receiving such payments was morally reprehensible (Kolarska-Bobinska, 2002, 323-324). State Department surveys of attitudes toward corruption in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia found that between 75 and 86 percent of their publics said that "accepting a bribe in the course of a person's duties" was never justified–comparable to, or even greater, than corresponding shares of the public in Britain, France, Germany, and Italy (Office of Research, 1999, 9).

People in countries with high levels of corruption think that such payments are wrong but not nearly as bad as grand corruption–and they see little way out of demands for petty corruption (Mungiu-Pippidi, 2003, 268-270). When people have little choice but to pay, they tend to blame the "system" rather than themselves, others, or human nature (Karklins, 2005, 59).

Grand corruption is all about inequality–officials and entrepreneurs getting rich illegitimately. Petty corruption doesn't create a big income gap. My wife, my son, and I vacationed in Croatia in the summer of 2005. On a tram in Zagreb, a young man inquired what I did and when I told him I was writing on corruption and inequality, he responded: "Yes, we all know about that. If you steal a video recorder, you're a criminal. If a politician steals $100 million, he's a respected citizen."[10]

If people became inured to all forms of corruption and lost their moral sense, then we would not expect outrage at leaders who line their pockets and send their country's wealth to Switzerland or the Cayman Islands. A view of corruption that sees it as varying from one culture to another might not be surprised by the toleration of malfeasance. Such tolerance is nuanced by the recognition that grand and petty corruption are fundamentally different.

Inequality is not simply economic. Glaeser, Scheinkman, and Schleifer (2003, 200-201) see the distortion of the legal system as the most damaging consequence of economic inequality. The rich can buy influence in the courts and get away with it, since they will not be held accountable.

In a corrupt polity, honesty is the exception to the norm–and professions of midnight conversions bring a mixture of derision and incredulousness. No one who has profited so immensely from a corrupt system could possibly change course so drastically–and pity the poor citizen who took him at his word. Where corruption is rampant, people have little hope for justice–and thus they don't even seek it. Martin Lomasny's constituents did *not come to him for justice, only help*. Lomasny could not run a political machine dispensing justice.

Some Preliminary Evidence

Fairness of the legal system is not as strongly connected to economic inequality as we might suppose. In Figure A2-1, I present a plot of a cross-national indicator of fairness of the legal system in 2004 and economic inequality. The legal fairness indicator was developed by the Economist Intelligence Unit (EIU); the EIU only estimated fairness for 60 countries, so I derived estimated values for other countries by imputation.[11] The EIU measure of legal fairness is distinctive in that it it does *not* incorporate corruption (in contrast to the World Bank measure of "rule of law"). While corruption rests upon a foundation of an unfair legal system–where the wealthy and powerful are less likely to face justice than the poor–they are distinct concepts. Corruption can persist even when the legal system is perceived to be fair (as in the more "successful" transition countries of Hungary, the Czech Republic, and Poland), while other countries seem to have reduced corruption even without legal fairness (Estonia and Spain).

Economic inequality is measured by the Gini index from Deininger and Squire (1996). There are too many countries (especially with values close to each other) to label each one on the graph. Instead, the points are denoted by W for developed Western nations, E for present and former Communist nations, and * for other countries. Overall, the fit between these two indicators of equality (equal treatment before the law and equal distribution of wealth) is not strong. For 88 nations, $r^2 = .131$. The correlation is depressed by the former and present Communist nations that largely have unfair legal systems but more equitable distributions of income.[12] For many years, this equality was imposed from above by a command economy–but even as inequality has grown sharply, it has not approached the level of capitalist economies. Overall, we see relatively high economic equality matched with both low and high levels of judicial fairness. When I remove the East bloc countries, the r^2 rises to .279–still rather modest. Fairness of the legal system is *not* the same as economic inequality.

What, then, can we make of the connection between inequality and corruption? I shall offer a multiple-equation estimation focusing on corruption below, but for now, I focus on bivariate plots of inequality and corruption. Measuring corruption is tricky, but there is general agreement that the best measure is that of Transparency International. The TI scores for a wide sample of countries (here I use the measure for 2004) come from a "poll of polls" business executives and the public, as well as rankings by risk analysts and experts on the politics and economics of each country (Treisman, 2000). The ratings range from zero (most corrupt) to 10 (least corrupt).[13] I use the Deininger-Squire Gini indices to measure economic inequality.[14]

The plot of inequality and corruption (see Figure 2-2) is striking: Across 85 countries, the r^2 is a paltry .082, suggesting no relationship at all between inequality and corruption. In Figure 2-3, I present a lowess plot of inequality and corruption. The lowess curve suggests a slight downward slope–more inequality leads to more corruption (or less transparency). But the pattern is not clear and two groups of countries stand out: the former and present Communist nations, which have lots of corruption and relatively equitable distributions of income (lower left part of the graph), and the Western industrialized nations, which have relatively low inequality and even less corruption than we might expect based upon their distribution of wealth. Figures 2-2 and A2-2 suggest no clear relationship between economic inequality and corruption. But they also point to the former and present Communist regimes as outliers.

What happens when I remove the former and present Communist regimes? The lowess plot in Figure A2-3 indicates a moderate relationship between inequality and corruption. There is a gently tapering off downward slope in the connection between trust and corruption. The lowess plot becomes flat at moderate levels of inequality (a Gini of .4) and then rises a bit at the more extreme values. Overall, there is a moderate fit between the two indicators (r^2 = .246, N = 62) when the former and present Communist countries are excluded. With a bivariate r^2 of this magnitude, it should not take much effort to see it vanish in a multivariate analysis.

You and Khagram (2005, 144-148) find stronger effects for measures of corruption and inequality with a larger sample of countries (N = 129) and corruption indicators averaged from 1996 to 2002. They estimate a simpler model than I do in Chapter 3, but even so, the simple correlation between inequality and corruption is modest (r^2 = .140),[15] so it would not be surprising to see this modest connection vanish in a more complex model. They argue that inequality matters more in democratic countries. They are correct, but this still doesn't resolve the problem. Regressions predicting corruption by economic inequality yield insignificant coefficients for countries classified as "not free" or "partially free" by Freedom House–and a significant (at $p < .01$) negative coefficient for the 55 "free" nations: The nation with the highest level of inequality ranks 2.8 points lower on the 10 point corruption index compared to the most equal democracy *–but the fit of the regression is rather meager* (r^2 = .10). Democracy does not seem to be the mechanism that makes inequality increase corruption.[16]

Figure 2-2 about here

The connection with fairness of the legal system is far stronger–and this is hardly surprising. While I took care to find an indicator of the fairness of the legal system that is *not* based upon an underlying measure, it is hardly surprising that corruption flourishes where the courts give special treatment to some over others–and where court procedures are not transparent. The least fair legal systems have a mean corruption score of 2.82, while the most fair systems have a mean of 8.78 (high scores indicate greater transparency, less corruption); see Figure A2-4. The fit between legal fairness and corruption is very strong: $r^2 = .722$ for the 55 cases of the original EIU data and .733 for the 86 cases including the imputed scores.[17]

There is some evidence that inequality of treatment by the courts is strongly associated with corruption, but the support for a link with economic inequality is modest at best. There are good theoretical reasons to believe that corruption stems from economic inequality as well as the fairness of the legal system. But the evidence does not seem compelling. Have we reached a dead end?

Trust, Inequality, and Corruption

Not at all. There *is* a link between inequality and corruption in the aggregate data, but it is not direct. Inequality leads to corruption because it leads to resentment of out-groups and enhanced in-group identity. Generalized trust, the value that is predicated upon the belief that many others are part of your moral community, is the foundation of the "well-ordered society." When we believe that "most people can be trusted," we are more likely to give of ourselves and to look out for the welfare of others. When we believe that "you can't be too careful in dealing with people," we are likely to be on our guard and to feel little compunction in taking advantage of others who may not have our best interests in mind.

Generalized trust is predicated on the notion of a common bond between classes and races and on egalitarian values (Putnam, 1993, 88, 174; Seligman, 1997, 36-37, 41).[18] Faith in others leads to empathy for those who do not fare well, and ultimately to a redistribution of resources from the well-off the poor. If we believe that we have a shared fate with others, and especially people who are different from ourselves, then gross inequalities in wealth and status will seem to violate norms of fairness. Generalized trust rests upon the psychological foundations of optimism and control and the economic foundation of an equitable distribution of resources. Optimism and control lead people to believe that the world is a good place, it is going to get better, and that you can make it better. Economic equality promotes both optimism and the belief that we all have a shared fate, across races, ethnic groups, and *classes*.

Corruption, of course, depends upon trust–or honor among thieves. As it takes two to tango, it takes *at least two to bribe*. Corrupt officials need to be sure that their "partners" *will deliver* on their promises (Lambsdorff, 2002a, 2002b). Lambsdorff (2002a) argues: "...if corrupt deals cannot be enforced, this can act as a deterrent to corruption itself." Corruption thrives upon trust, but it cannot be based upon the notion of widespread goodwill and common interests in a society underlying generalized trust. If you believe that the world is a good place and we should do our best to help those with less, we shouldn't be willing to exploit others through corrupt deals. Entrance into a corruption network is not easy. Members of a conspiracy of graft cannot simply assume that others are trustworthy (as generalized trusters do). Treating strangers *as if* they were trustworthy (also as trusters do) can be hazardous at best. And believing that people without any ties to the conspiracy are trustworthy (as generalized trusters do) threatens the integrity of the cabal.

Instead, corruption thrives on *particularized trust,* where people only have faith in their own kind (or their own small circle of malefactors). Particularized trusters strongly distrust outsiders. They fear that people of different backgrounds will exploit them–and in a dog-eat-dog world, you have little choice to strike first before someone exploits you. Gambetta (1993) argues that the Mafia took root in Southern Italy because there were strong in-group ties and weak generalized trust there. Varese (2001, 2) makes much the same argument about the Russian Mafia: "If trust is scarce, and the state is not able or willing to protect property rights, it is sensible to expect a high demand for non-state, private protection. The existence of a demand for protection does not, however, necessarily imply that a supply of protectors will emerge."

Low levels of generalized trust should lead to greater corruption. When people don't trust people who are different from themselves–and reserve their trust for their own kind (particularized trust)–they will feel less guilty about acting dishonestly to people who are not part of their moral community. Where inequality is high, people do not see a common fate with members of out-groups, whether they define these groups in economic or ethnic or racial terms. If we don't share interests or a fate in common, acting dishonestly to you will not trouble me as behaving badly toward those whose destiny I share. Leys (2002, 67) argues that "...corruption seems to be inseparable from great inequality."

Scott (1972, 11-12) presaged this argument more than three decades ago:

> It is not just the strength of ...parochial ties that creates many occasions for corruption, but rather their strength in relation to ties of loyalty to the nation. Although the citizen who asks an illegal favor from a relative in the civil service may be forgetting his responsibilities as a citizen, the civil servant in granting the request is acting against the norms of his public position. In all except the most traditional contexts he faces a conflict of values; on the one hand, there are the public values of his government post and, on the other, the compelling obligations he owes to his family. This conflict is often an unequal one. In most traditional the plunder of outsiders was approved, even encouraged, while such behavior

> within the community was punished severely....The compelling nation of parochial ties together with traditional gift-giving practices...account for a portion of the corruption found in underdeveloped nations.

Cheating the out-group does not raise the same moral approbation as behaving badly toward your own in-group.

High inequality makes people wary of out-groups and more likely to seek protection from people who are different from themselves–and strong leaders who reinforce in-group ties, or patrons, will flourish. Clientelism reinforces strong in-group ties and hostility toward out-groups, paving the way for corruption (Xin and Rudel, 2004, 298). In clientelistic societies, the poor may be forced into the informal economy–where they have no legal protection and where they will also be forced to "turn to their ethnic communities...for the provision of public goods and this process can initiate a vicious cycle in which ethnic communalism 'breeds attitudes of illegitimacy'" (Lassen, 2003, 8). Corruption will reinforce strong in-group ties and the belief that out-groups cannot be trusted. Inequality, especially when stratified along group lines, creates dependence upon strong leaders who reinforce in-group ties.

Engaging in petty corruption to help one's in-group may not result in the same moral disapprobation in a highly unequal society as it would in a more prosperous, more egalitarian country. The giving of "little gifts" (or "kola") in Africa is a "moral duty" and refusal to do so "is not only a sign of avarice or of bad manners is not only a sign of avarice or of bad manners, but also carries the risk of attracting misfortune" (Olivier de Sardan, 1999, 38-39). Such "gift giving" is an alternative to paying small bribes, available to people whose in-groups have connections that will enable them to get by in daily life (Olivier de Sardan, 1999, 41). When a society has strong in-group ties, low trust of out-groups, and either a high degree of inequality (as in Africa and many other societies) or engineered shortages (as in Communist societies), petty corruption becomes morally ambiguous. People don't like it, but they learn to live accept it as inevitable and as a way of providing for themselves and their families.

The tradition of giving small gifts to people who have been, or who could be helpful, may make it easier for people to engage in petty corruption. This does not mean that people believe that such payments are morally justified–but only that the means to support your in-group, especially if you see a dominant out-group as privileged , become less troublesome–and the difference between giving small gifts to one's in-group and making payments to others also becomes less problematic. In societies with higher generalized trust, people will be more likely to expect fair and equitable treatment so the immorality of petty corruption is more straightforward.

The relationship between trust and corruption is not simply one way. Highly corrupt societies lead people to mistrust their fellow citizens and to withdraw to their own in-group. Rothstein (2000, 491-492; cf. You, 2005a, 5-7) argues:

> In a civilized society, institutions of law and order have one particularly important task: to detect and punish people who are "traitors," that is, those who break contracts, steal, murder, and do other such non-cooperative things and therefore should not be trusted. Thus, if you think that particular institutions do what they are supposed to do in a fair and efficient manner, then you also have reason to believe...that people will refrain from acting in a treacherous manner and you will therefore believe that "most people can be trusted."

Rothstein is almost right. You can't generate trust by the strong arm of the law. Simply rounding up the usual suspects and putting the person(s) who broke into my house some years ago when we were on vacation will not affect my level of trust in out-groups (Uslaner, 2002, 44-47, 242-244). However, an unfair legal system can, at least indirectly, lead to less trust. In the statistical model I shall present in the next chapter, I argue that an unfair legal system will lead to more corruption–and, in turn, to less trust. People don't lose faith in others simply because they exploit the system by being corrupt. Corruption leads to less trust *because it leads to more inequality* (see Chapter 5).

Where is generalized trust high and where is it low? *Across a wide set of nations, across the American states, and over time in the United States–the only country with a long enough time series on the standard survey question on trust*[19]*–the strongest predictor of trust is the level of economic inequality.* As economic inequality increases, trust declines (Uslaner, 2002, chs. 6, 8; Uslaner and Brown, 2005). Optimism for the future makes less sense when there is more economic inequality. People at the bottom of the income distribution will be less sanguine that they too share in society's bounty. The distribution of resources plays a key role in establishing the belief that people share a common destiny–and have similar fundamental values. When resources are distributed more equally, people are more likely to perceive a common stake with others. If there is a strong skew in wealth, people at each end may feel that they have little in common with others. In highly unequal societies, people will stick with their own kind. Perceptions of injustice will reinforce negative stereotypes of other groups, making trust and accommodation more difficult (Boix and Posner, 1998, 693).

Putnam (1993, 88, 174) argues that trust will not develop in a highly stratified society.

And Seligman (1997, 36-37, 41) goes further: Trust *can not* take root in a hierarchal culture. Such societies have rigid social orders marked by strong class divisions that persist across generations. Feudal systems and societies based on castes dictate what people can and can not do based upon the circumstances of their birth. Social relations are based on expectations of what people must do, not on their talents or personalities. Trust is not the lubricant of cooperation in such traditional societies. The assumption that others share your beliefs is counterintuitive, since strict class divisions make it unlikely that others actually have the same values as people in other classes.

A history of poverty with little likelihood of any improvement led to social distrust in a Sicilian village that Edward Banfield (1958, 110) described in the 1950s: "...any advantage that may be given to another is necessarily at the expense of one's own family. Therefore, one cannot afford the luxury of charity, which is giving others more than their due, or even justice, which is giving them their due." The village is a mean world, where daily life is "brutal and senseless" (Banfield, 1958, 109). All who stand outside the immediate family are "potential enemies," battling for the meager bounty that nature has provided. People seek to protect themselves from the "threat of calamity" (Banfield, 1958, 110).

Inequality leads to low levels of trust in strangers. What trust remains is entirely within your group, so there are few moral sanctions for cheating people of a different background. Inequality thus breeds corruption indirectly–by turning people inward and reducing the sanctions, both external and internal, of taking advantage of others. Trust and corruption *are* linked. I show the connection in Figure A2-5 (see also Uslaner, 2004a).[20] Here we see a more robust fit than in the connection between inequality and corruption: $r^2 = .420$ for 83 cases.[21]

The linkages between inequality and low out-group trust and high in-group trust makes the relationship between inequality and corruption more complex. When some groups in a society are considerably worse off than others, they may feel more reliant on corrupt behavior to get their "fair share." The Failed States measure of uneven economic development reflects the relative inequality of resources for different groups within a society–and so it is even more theoretically linked to both trust and corruption than is a simple Gini index. If inequality were distributed equally across groups within a society, there would be less reason to in-group trust to dominate over faith in out-groups. And it would not seem so justifiable to cheat an outsider if there were not an economic caste system. This measure *is* strongly related to corruption ($r^2 = .636$, N = 139, see Figure A2-6).

The countries with the greatest deviations tend to have relatively high levels of uneven economic development but less corruption than we might expect–and these are countries that have either ethnic tensions (Israel, Jordan, Cyprus, the United States) or to have moderate-to-low levels of group inequality but still greater honesty than we might expect. These countries tend to have large number of native populations (New Zealand, Australia, and Canada), immigrants (France, the United Kingdom, the Netherlands), or guest workers (Germany and France). There is a similar pattern in a graph of legal fairness against uneven economic development (Figure A2-7, $r^2 = .581$, N = 87).

The Gini index is only weakly related to the uneven economic development measure ($r^2 = .122$, N = 85). When I exclude present and former Communist nations, $r^2 = .208$, N = 63. So it seems that the Failed States measure is a superior measure of inequality. The difficulty in using the measure of uneven economic development to present a direct linkage with corruption is that it works too well. Substituting this measure into the six-equation model I estimate in Chapter 3 leads to insignificant coefficients for many of the variables in the model, including uneven economic development itself–because of multicollinearity among the variables. On the one hand, this high degree of intercorrelation indicates considerable support for the claim of an inequality trap. It suggests a tightly connected syndrome of unequal distribution of wealth by groups, an unfair legal system, low trust, low income and a risky economy, and bad policy choices. However, using this measure gives me little leverage in explicating how each of these factors contributes directly or indirectly to corruption. So I stick with the more conventional Gini index of inequality in the estimates in Chapter 3.

In the next chapter, I shall show the empirical foundation of the inequality trap: inequality leads to low trust; low generalized and high particularized trust lead to high levels of corruption, which in turn produces more inequality.

Closing the Loop: From Corruption to Inequality

Why worry about inequality? Isn't corruption more of a problem for poor countries than where the distributions of income are unequal (Paldam, 2002)? After all, the simple correlation between inequality and corruption is minuscule, while the relationship between wealth (as measured by the gross domestic product adjusted for purchasing power parity) is very robust (r = .888, N = 80).[22] Yes, wealth matters and corruption both feeds on poverty and keeps poor people poor. But it also contributes to inequality, even if the route from an unequal distribution of income to corruption is indirect. Wealth and inequality and not simply two terms for the same economic result. Three different measures of inequality–the standard World Bank measure (Deininger and Squire, 1996) that I employ in Chapter 3, the more controversial Galbraith measures, and the new United Nations University World Institute for Development Economics Research (WIDER) estimates,[23] all have modest correlations with income, as measured by Penn World Tables as per capita GDP adjusted for purchasing power parity (r^2 = .144, .343, and .246, respectively).

Inequality matters because *people think it matters*. When I look at public opinion data on corruption in the next four chapters, I shall show a direct link with inequality. Even where inequality has been relatively low in the recent past–in transition countries–people see growing inequality as the major consequence of dishonesty by politicians and business leaders. Poverty isn't sufficient to make people lose faith in others and to become envious.

Inequality will lead to such jealousy–and the effect is particularly strong for an unfair justice system (Tyler, 1990, chs. 4, 5). Chinese peasants have launched many protests and riots against corruption by the rich and their own poverty. A porter carried a bag that brushed against the pants of a government official's wife in 2004; the politician then grabbed the porter's carrying stick, beat him with it, and threatened to have him killed. Local peasants in turn mobbed the provincial capital, overturned cars, and set the town hall on fire. The porter explained the riot: "People can see how corrupt the government is while they barely have enough to eat" (Kahn, 2004, A1). In Northern Kenya, as poor people faced the worst drought in 20 years in 2006, high level officials were reported to have stolen $1.3 billion in money that was to be allocated to irrigation and road projects to alleviate the effects of the drought. "Look at us selling fruits at intersections while our leaders are feathering their nests and filling their stomachs," a Kenyan woman said (Wax, 2006).

In Nigeria, where corrupt officials have reportedly pilfered $400 billion over 40 years, one leader, Diepreye Alamieyeseigha, reportedly stole at least $3 billion. He found himself on the wrong side of a political fight within Nigeria and was indicted for money-laundering, arrested in London, and forced to surrender his passport. He mysteriously escaped, disguised as a woman, and fled back to his home province. As a member of the princely class, he claimed immunity from prosecution. Alamieyeseigha's story is but one of many about leaders who have faced justice–real or illusory–in Nigeria. Yet, little has changed. Nigeria ranked first on the corruption ratings in 1980-85 and tied for third in the TI rankings in 2005.[24] Nigeria's poverty Eradication Committee was allocated $23,000 in the 2005 state budget, about half that spent on toiletries for public officials (Polgreen, 2005).

No wonder, then, that people look at life fatalistically. In the 1999 State Department surveys in transition countries, no more than 12 percent of any public (Romania) believed that corruption could be eliminated–and only 3 percent in the *most honest countries* (the Czech Republic, Slovakia, and Hungary) agreed with this statement. Barely more than a third of the people in any country believed that malfeasance could be eliminated *or* substantially reduced (Office of Research, 1999, 10). Even where there is a democratic revolution where new leaders promised a clean sweep of miscreants, as in Kyrgyzstan and Georgia in recent years, corruption persists. "There is too much evidence for too many cases....We could arrest everyone," a Georgia prosecutor said (Vick, 2005; Greenberg, 2004, 39).

Putting the bad guys in jail, holding corrupt leaders accountable through elections, media campaigns, more efficient courts, and anti-corruption campaigns are all worth the effort. Anti-corruption campaigns *can* work–and have succeeded in Singapore and especially in Hong Kong, as I shall discuss in Chapter 8. However, each of these "success stories" rests on specific social conditions that may not be easily replicable. Accountability works best where corruption is already low and punishing the relatively small number of miscreants is easy. Anti-corruption campaigns proved most successful in two small and relatively wealthy states/territories that faced external threats. Corrupt officials *do* lose elections–though punishment at the polls is much more likely where malfeasance is the exception rather than the norm.

Less bureaucratic red tape is one way to reduce corruption, as I show in Chapter 3 and this may be doable. But it won't be easy since strangling regulation stems largely from a weak and risky economy, which rests upon a bed of social tensions.

We ultimately fall back on two dimensions of equality–economic and legal. If we ultimately need to focus on reducing inequality to build up the trust necessary to curb corruption, we come head on to the problem that corruption leads to more inequality. The political power of elites will give them the power to target government spending to programs that will make them even better off. Corrupt governments invest more in big buildings and the military, where contracts can be awarded to those paying the highest price, and less on social services, where there are fewer opportunities to bribe (Gupta, Davoodi, and Alonso-Terne, 2002, 461-462; Gupta, deMello, and Sharan, 2002, 325; Rose-Ackerman, 2004, 6). Education spending, the social policy that may have the greatest potential to reduce inequalities (Rothstein and Uslaner, 2005), will be dramatically lower in highly corrupt countries (Mauro, 1998a, 267)–and educational inequality is much greater where dishonesty is greater (see Chapter 3).

Transfer payments, social insurance, and health spending will also be lower where corruption is high (Mauro, 2002, 349)–all reinforcing inequality. Not only is there less money to spend on social programs such as health and education, but where corruption is rampant, the poor will likely have to make extra "gift" payments to receive routine services–thus imposing extra costs on people who are least able to afford them (Gupta, Davoodi, and Tiongson, 2002, 255). Poor people in Zambia pay 17 percent of their incomes in bribes for medical care, while the middle class pays just 3 percent. These payments are ubiquitous. In India, new parents must pay \$12 to see their newborn boys and \$7 to see a just-born girl, while the poor earn just \$1 a day; 90 percent of families with newborns report paying such duties (Dugger, 2005). More than 60 percent of Indians report offering bribes to get a job done. Economist Arun Kumar argues: "Anything to do with the police, anything to do with the judiciary, the poor people have to pay bribes for getting their rights so that poverty becomes more entrenched. Illegal dealings beginning from the top may seep down to those in the bottom rungs, but then it affects them much more than it would affect the top" (Marketplace, 2005). Many low-income people cannot afford even these small bribes, so they go without government services altogether (Kaufmann, Montoriol-Garriga, and Recanatini, 2005). Many people in India reportedly die of malaria and diarrhea because they either can't or won't pay bribes to be admitted to hospitals (Marketplace, 2005). In Romania poor households were twice as likely not to seek medical attention (Anderson et al., 2001, 15)–because they could not afford it.

People are also more likely to confront demands for "extra" payments when they face misfortune, especially when they are victims of crimes (Hunt, 2006, 2, 19). A public radio broadcast in the United States told of how police extorted a large amount of money (\$1000 US) from a widow in India whose husband committed suicide. The officers at first refused to release the dead man's body to his widow, then threatened to charge her with murder, and kept demanding more money after the woman's brother paid the asking price (Marketplace, 2005).

Even people who get medical care and an education are "robbed," since in highly corrupt countries, the theft of medicines and textbooks is common–and the rates of infant mortality and low birthweight babies is twice as high as in countries with more honest governments–and the school dropout rate is five times as great (Gupta, Davoodi, and Tiongson, 2002, 251, 271-272).

Dishonest governments have lower economic growth. The accumulating costs of bribes reduce the overall productivity of business. Foreign firms may be reluctant to pay bribes, so fewer new businesses will get off the ground. In corrupt societies, more business is done off the books, so governments get less money to spend on social programs (Mauro, 1995, 701; Rose-Ackerman, 2004, 4-6). Lower growth in turn means even less money to spend on social programs, thus reinforcing inequality even beyond the direct effects of resources stolen from the treasury (Gupta, Davoodi, and Alonso-Terne, 2002, 460).

Corruption is a curse, then, not just because it is a violation of the law. Corruption rests upon a foundation of inequality and leads to more inequality in turn. And the policies that might redress inequality are less likely to be enacted in corrupt states. This is the inequality trap. In the next chapter, I provide empirical support for these claims.

NOTES

1. Ludwig Wittgenstein (1953, 19e) wrote that "...philosophical problems arise when language *goes on holiday*" (emphasis in original).
2. For a similar perspective, developed independently, see You (2005b).
3. I found the same pattern for generalized trust in Uslaner (2002, 222-229).
4. For the index, see http://www.fundforpeace.org/programs/fsi/fsindex2006.php .
5. From Boswell's Life of Johnson, cited at http://www.samueljohnson.com/popular.html, accessed October 21, 2005.
6. The simple correlation between corruption (either the Transparency International measure or the World Bank measure that Kunicova and Rose-Ackerman employ) and their measure of closed list proportional representation systems is just -.02 to -.03; their Presidential system variable loses significance in a multivariate regression including trust and dummies for Latin America and former Communist nations.
7. The TI measures can be downloaded at http://www.transparency.org and the Economic Freedom Network's data can be downloaded at http://www.freetheworld.org. The eight countries with British legal traditions with the lowest levels of corruption and rankings (in parentheses) are: New Zealand (3), Singapore (8), Australia (9), the United Kingdom (11), Canada (14), Hong Kong (15), the United States (17), and Ireland (20). The seven countries ranked highest on legal and property rights are: Australia (3), the United Kingdom (6), Canada (8), the United States (9), New Zealand (11), Ireland (14), and Singapore (17).
8. I am grateful to Carter Johnson for bringing this to my attention.
9. The simple correlations, based upon samples of about 120,000, are about .06.

10. Similarly, the Russian magazine *Argumenty I Fakty* editorialized in 2006: “A person who steals a chicken might go to jail, of course, but a person who steals millions is welcome to become a member of the Federation Council or the Duma” (quoted in Myers, 2006a).

11. The variables I used for the imputation are: gross national product per capita (from the State Failure Data Set), the tenure of the executive and a dummy variable for having a parliamentary system (from the Database of Political Institutions), the Freedom House composite indicator of democracy trichotomized for 2003, and the distance of a country from the equator (from Jong-sung You). All variables had positive coefficients. The R^2 is .769, the standard error of the estimate is .647 (N = 53).

12. Within the former and present Communist countries, there is also a negative relationship between economic inequality and legal fairness (r = -.357, N = 23, r = -.526, N = 17 for the original, non-imputed, data). The East bloc nations reduce the overall goodness of fit since they lie on a separate and less steep regression line.

13. The choice of year matters little, since the *minimum* correlation I found in ratings from 1996 to 2004 is .945 (between 1996 and 2003). The rankings can be found at http://www.transparency.org .

14. The more recent estimates by James Galbraith, which are more controversial, available at http://utip.gov.utexas.edu/data.html, and WIDER, available at http://www.wider.unu.edu/wiid/wiid.htm, do not cover as many countries with acceptable data as the Deininger-Squire data.

15. From my own estimation of data provided by Jong-sung You.

16. The Galbraith inequality data for 1994 show a much stronger connection between inequality and corruption, especially when I omit countries with a legacy of Communism.

Now the r^2 rises to .528, but for fewer countries (N = 56). The Galbraith data (see n. 9) only cover household income, rather than wealth more generally. And the smaller number of cases covered would limit the applicability of the model to be estimated below. The Galbraith data are useful for some comparisons, but the Deiniger-Squire data set is generally considered to be the most reliable.

17. I plot only the original scores, which are integer values. The imputed scores are not generally integer values and the plot was unreadable.

18. The following section is derived from Uslaner (2004a), which in turn summarizes Uslaner (2002).

19. The question, "Generally speaking, do you believe that most people can be trusted, or can't you be too careful in dealing with people?", was asked first in cross-national samples, in *The Civic Culture* in 1960 (Almond and Verba, 1963). It, has been regularly asked in the General Social Survey in the United States and periodically in the American National Election Studies. Cross-nationally, it has been asked in each wave of the World Values Survey. The measure here comes from the 1990 and 1995 waves (most recent figure used). For an analysis of why the question refers to trust in strangers and a more general defense of the question, see Uslaner (2002, ch. 3). The cross-national analysis omits countries with a legacy of Communism. I do not do so here, but I do omit China, since it has an anomalously high trust value (see Uslaner, 2002, 226, n. 6).

20. The graph is a bit difficult to read, since it is difficult to fit the country abbreviations into the graph since many countries have similar values on both variables. The trust question comes from the World Values Survey (see n. 11)–and to increase the number of cases, I

imputed values on this measure as well. The variables used to impute trust are: gross national product per capital; the value of imports of goods and services; legislative effectiveness; head of state type; tenure of executive (all from the State Failure Data Set); distance from the equator (from Jong-sung You of Harvard University); and openness of the economy (from Sachs and Warner, 1997; data available at http://www.cid.harvard.edu/ciddata/ciddata.html). The $R^2 = .657$, standard error of the estimate = .087, N = 63.

21. Three outliers stand out–Saudi Arabia, Morocco, and Greece, all of which likely have estimates of trust that seem unrealistically high. The Greek estimate of trust is from the World Values Survey, which places it between Canada and Finland and far ahead of more similar states such as Italy, Turkey, and Spain. Greek scholars have told me that they question this score. The values for Saudi Arabia and Morocco are close to New Zealand and Finland, on the one hand, and West Germany and Great Britain on the other. These values are imputed and thus may not be as reliable. Without these countries, the R^2 rises to .478.

22. The GDP measure comes from the Penn World Tables at http://pwt.econ.upenn.edu/php_site/pwt_index.php .

23. The Galbraith data can be accessed at http://utip.gov.utexas.edu/data.html. They are more controversial since they are based only on salaries rather than on total income. The WIDER World Economic Inequality Database can be accessed at http://www.wider.unu.edu/wiid/wiid.htm . Here I use the 1994 Galbraith estimates since they cover the largest number of countries. The N's for the three regressions are 78, 64,

and 71 respectively.

24. Chad and Bangladesh, which tied for first in the 2005 rankings, were not rated in the 1980-85 survey.