CHAPTER THREE

Corruption, Inequality, and Trust: The Linkages Across Nations

You warn us with appropriate caresses
That virtue, humble virtue always wins.
Now please before your moral verve oppresses
Our middle's empty there it all begins....
For even honest folk may act like sinners
unless they've had their customary dinners.

From "How to Survive," Berthold Brecht and Kurt Weill, *The Threepenny Opera* [1]

Is there really an inequality trap? And does corruption rest more upon social strains–high inequality and low trust–than upon strong institutions? I present evidence in this chapter for the framework that I have outlined in Chapter 2. And I also show that there may be direct linkages between inequality and corruption–first by introducing a new measure of inequality that also reflects in-group trust and second by examining cross-national surveys on people's perceptions of corruption. Where some groups fare much better than others in a society, corruption will be much higher. This measure of uneven economic development encompasses both economic inequality and the social strains that lead to high in-group trust and low out-group faith in others. This new measure is strongly related to corruption, but also to almost all of the other determinants of corruption, leading to problems in estimating either direct or indirect

effects in a statistical model, but suggesting very strong support for an inequality trap.

The inequality trap forms a syndrome, not just a single factor leading to corruption. It is a push-me, pull-you dynamic, where there seems to be only two exogenous "fixes" to the problem of corruption, legal fairness and economic growth. Beyond high inequality and in-group trust and low out-group trust, the regulatory regime contributes to high levels of corruption.

Strangling regulations involve many steps in gaining approval for contracts or policy implementation, involving lots of bureaucrats who can hold their hands out for an "gift" payment. However, a smothering regulatory regime has its roots in a shaky economy and an unfair legal system. An economy at risk in turn reflects internal conflicts and ethnic tensions, as well as...inequality. It is far from clear that an unfair legal system can be created through straightforward institutional design. We can create more courts, we can make justice more efficient (more trials in less time, more judges appointed), and we can train the police force to perform better. Yet it is not so easy to make the legal system *fair*. We may be able to generate strong economic growth in our drive to reduce corruption. While economic growth is essential to reducing inequality, rapid development of an economy creates winners and losers– thus increasing inequality at least in the short run. A strong economy *is* a stimulant to the reduction of corruption, but the stickiness of corruption and the weak relationship between economic growth and malfeasance suggests that good economic policy alone will not suffice to end the legacy of corruption.[2]

I show that an honest government, more so than an effective state, will be more likely to achieve positive outcomes and policies–especially on the sorts of social policies that are most

likely to reduce inequality and boost trust. Then I point to another important consequence of corruption: high levels of street crime, especially pickpocketing. Malfeasance at the top encourages street crime far more than delinquency promotes dishonesty at the top.

The inequality trap is more than a set of aggregate statistical relationships. It reflects *how people think about corruption*. I show later in this chapter, as well as more explicitly in Chapters 5, 6, and 7 that where inequality is high, or increasing, people see corruption as both stemming from unequal relationships and reinforcing inequality. I examine two cross-national surveys in this chapter, the Gallup International Millennium survey and Transparency International's Global Corruption Barometer. While the evidence is not uniform, there is support, in two-level (individual and country-level effects) models, that higher degrees of inequality and low out-group trust lead to greater public worries about corruption.

The Aggregate Model

The inequality trap is not a simple question of what leads to higher corruption. A simultaneous equation model is necessary to untangle the effects of inequality, trust, and corruption upon each other. I shall outline the model below, to be estimated by two-stage least squares, which permits me to estimate what is called a non-recursive system of equations. Simply put, such a system allows for inequality to affect corruption (indirectly through trust) and then for corruption to lead back to more inequality. I focus on what factors shape each of these parts of the syndrome–inequality, trust, and corruption–as well as three other variables that are key elements in my model: strangling regulation, the riskiness of the economy, and government effectiveness. I shall discuss the model below, as well as the measurement of variables.

Effective government is particularly difficult to measure, so I focus on my new indicator for it in some detail.

I treat legal fairness as exogenous. I don't believe that legal fairness is in any sense an "unmoved mover" or an institution that is easily designed. I do not include it as a part of the model to be explained for two reasons. First, if I used the same predictors for legal fairness that I did for corruption or strangling regulation or economic inequality, everything would be connected to everything else and it would be difficult to disentangle what shaped what. When I examine an alternative measure of economic inequality, uneven economic development, this is exactly what happens. Uneven economic development is strongly related to many other parts of the syndrome–and this high degree of interrelationships makes statistical relationships difficult to estimate. Second, outside of the same factors that shape corruption, it is unclear how we can get a more fair legal system. The theory about the effects of legal fairness is strong (see Tyler, 1990), but much weaker on how to get institutions to "behave better."

I now move to a more comprehensive model of the determinants of corruption, trust, and inequality. I add three other factors to the mix: the level of regulation in a society, the overall risk rating by the International Country Risk Guide (ICRG), and a measure of government effectiveness.

A highly regulated economy can lead to greater corruption in two ways. First, when the government takes a dominant role in the economy, it creates many access points for entrepreneurs to "seize the state." Business leaders "capture" the state by paying off public officials to provide them with private benefits. Businesspeople and bureaucrats work together to profit at the expense of the rest of those in society (by cutting growth rates). Second, high

regulation leads business leaders to evade taxes and this widespread (Friedman, Johnson, Kaufmann, and Zoido-Lobaton, 2000; Hellman, Jones, and Kaufmann, 2000). Since regulation is also endogenous to the institutions and policies of the state, I need an equation for the extent of state regulation.

The regulation measure comes from the World Bank governance indicators for 2004 (Kaufmann, Kray, and Mastruzzi, 2005). Strangling regulation is different from steering economic or environmental policy. The World Bank measure is a composite index including restrictions on imports, exports, ownership of business by non-residents, discriminatory tariffs and protections, burdensome regulations in conducting and starting businesses, wage and price controls, foreign investment restrictions, unfair competition and trade, the efficiency of the tax system, price stability, distortionary taxes, and restrictions on competition (Kaufmann, Kraay, Mastruzzi, 2005, 106-107). Zimbabwe, Belarus, and Iran rank as having the most intrusive regulation, while Luxembourg, Singapore, Iceland, and Finland have the least. Such strangling regulation is the product of an unfair legal system as well as a high level of risk.

Investors will be wary of doing business in countries with high levels of corruption. When countries receive a high risk rating, they will rely more upon the unofficial economy, on the one hand (Rose-Ackerman, 2004, 6) and on strangling regulations that make it difficult for firms out of favor to do business in a country. Risk is endogenous since I expect it to stem from corruption–and, through encouraging strangling regulation, to lead to further corruption. But risk depends upon more than corruption. Inequality should produce social strains that make investing risky–and ethnic tensions and other internal conflicts should also make investors wary.

Effective government is important for two reasons. First, an ineffective government is

likely to adopt policies that may be less responsive to pressing problems than to pressure from powerful groups (Rothstein and Teorell, 2005, 6). Second, governments must deliver the services they promise–and do so fairly (Rothstein and Teorell, 2005, 5). This is *not* simply reiterating that effective governments are free from corruption. Effective government includes making laws, enforcing them, making sure that service delivery is fair, efficient, and open to influence by all citizens.

There have been several attempts to measure effective government, mostly in the United States. The most prominent is David R. Mayhew's (1991) measure of the number of important laws passed by the United States Congress over time. Another set of measures of effective government in the American states are performance rankings on financial management, capital management, human resources, "managing for results," and information technology in a study by the Government Performance Project (GPP) of Governing magazine and the Maxwell School of Citizenship at Syracuse University. The GPP used program information, a survey, and "interviews [with] budget officers, auditors, public managers, auditors, academics, and legislative aides in every state" (Knack, 2002, 775). An additional measure for the states is the number of Ford Foundation/Kennedy School of Government (Harvard University) awards for innovation a state has won (King, Zeckhauser, and Kim, 2001).

These measures have gotten considerable currency in work on American politics–especially Mayhew's measure of major laws enacted and variations on it. However, the measure of important laws is too specific to the American system of dispersed powers, which allow small numbers of legislators (sometimes even a single individual) to become obstructionists, thus making it difficult to enact legislation. Most other democracies are

parliamentary systems, where enacting legislation is far easier. The GPP project is a rather thin measure of the quality of government. Surely, information technology and financial management are important for a government agency–but they are hardly the defining characteristics of what makes one government "effective" and another "ineffective."

Cross-nationally, the World Bank Governance project has a much broader indicator of government effectiveness (Kaufmann, Kraay, and Mastruzzi, 2005, 104-105). The World Bank measure includes, among other items: ratings of administrative and technical skills of the civil service, government instability, the quality of the bureaucracy, policy consistency, management of public debt, the effectiveness of the executive, "consensus building," debt management, trust in government, the consistency of policy-making, global e-government, and debt management. This measure is a remarkable achievement, but it may be too inclusive. Instability and trust in government, for example, are better considered as consequences of effective government rather than as components.

I propose a new measure of effective government focusing on government capacity, efficiency, and inclusiveness. The measure are the factor scores from a factor analysis of six questions asked in a cross-national survey of business executives. The 2004 Executive Opinion Survey of the World Economic Forum asked businesspeople to rate their country on judicial independence, the efficiency of the legal and legislative systems, the wastefulness of government spending, the favoritism of government decision-making, and the transparency of government decision-making.

Surveys of businesspeople are not the same as surveys of the public–but they have been widely used in research, especially on corruption. Kaufmann, Kraay, and Mastruzzi (2007b)

admit that businesspeople may be more likely to rate government more favorably than the mass public–and in Chapter 6 I provide strong evidence for this when I examine surveys of the mass public, business entrepreneurs, and public officials in Estonia, Romania, and Slovakia. However, their comparison of mass and public responses to questions of good governance show that mass and elite responses are highly correlated across countries (Kaufmann, Kraay, and Mastruzzi, 2007b). I present the full question wordings and scorings in the appendix to this chapter. The government effectiveness measure is a factor score of these six measures. All six measures loaded very highly on a single factor. Five of the six indicators had loadings of .90 or higher; the wastefulness of government spending had a marginally lower loading (.876). All six of the measures had communalities of .8 or greater (see Table A3-1).

This measure is attractive since it focuses on the capacity and fairness of government policy-making: An independent judiciary is critical to the rule of law, but independence is not sufficient. The efficiency of the court system matters as well. Long delays in legal affairs can lead to inequities in justice and make firms reluctant to enter into contracts. They may also punish those out of favor with the state. A strong parliament will be more likely to represent a larger number of interests than we might expect from an all-powerful executive.

Wastefulness of government spending and favoritism of government decision-making seem close to corruption–but they are not identical to it and are closer to the other measures in this index than to the TI measure of corruption. Government spending can be wasteful even in the absence of corruption–and favoritism in decision-making is at best a weak indicator of corruption. In some contexts, this may be quite acceptable–and hardly illegal. Finally, the transparency of government decision-making is important for corruption–but as defined here, it

is also central for effective government. People cannot influence their government if they do not know what it is doing and how it is doing it.

Perhaps surprising is the modest correlation of these six indicators with a question on red tape in the bureaucracy–how much time does your firm spend in negotiating with government officials. The red tape question correlates only at -.364 (N = 84) and does not load on the same factor. A measure of bureaucratic quality from the ICRG has a higher correlation (r = .734 , N - 81), but even this measure is not so strongly related to the other quality of governments the other six measures are to each other. Effective government is not the same thing as service delivery–and this should be reassuring. The quality of government ought to reflect more than filling out forms and fighting with petty bureaucrat–and by this measure, it does.

My measure of government effectiveness is related to both fairness and corruption, but it is not based upon such measures. The indicators for the legal system are conceptually distinct from the fairness of the legal system as measured by the Executive Intelligence Unit.[3] The new measure is strongly related to the World Bank effectiveness measure for 2004 (r = .870), but it seems more straightforward in interpretation. I present the country scores for the government effectiveness index in Figure A3-1. I move now to a discussion of the model.

The Corruption Model

I estimate a six equation model of corruption across 62 countries–the number of countries on which I have data on all variables in the model.[4] The six endogenous variables are corruption (the TI Index), generalized trust (with imputed values), the level of regulation in a country (from the World Bank Governance data set for 2004), and economic inequality, the overall stability and credit worthiness of a country,[5] and how effective a country's government is. The key

questions I pose are:

- Is there a direct relationship between trust and corruption?
- Is there a direct relationship between economic inequality and trust–and does it flow from inequality to trust (Uslaner, 2002, ch. 8), trust to inequality (Knack and Keefer, 1997), or both ways? A direct relationship between inequality and trust and a similar connection between trust and corruption would provide support for my argument that inequality has an *indirect* impact on corruption.
- Does corruption in turn lead to more inequality? Corruption slows economic growth (Leite and Weidemann, 1999; Mauro, 1995, 701; Tanzi, 1998, 585). It reduces the amount of money available for various government programs, including the government share of the gross domestic product and expenditures on the public sector, for education, and transfers from the rich to the poor (Mauro, 1998, 269; Tanzi, 1998, 582-586). So corruption should lead to more inequality–*even if there is not a direct link from inequality to corruption*.
- Is the fairness of the legal system an important determinant of corruption? The fairness of the legal system should also shape the level of regulation in a society. An independent and fair judiciary should also lead to less regulation. Political leaders would not attempt to control business if they believe that the courts would step in and challenge attempts to capture the state.
- Does corruption lead to less stable and less effective government? Corruption should lead investors to shy away from a country, for fear of expropriation or being compelled

to function in a weak legal environment (Rose-Ackerman, 2004, 6). Corruption should also lead to less effective government. When leaders steal from the public purse, they should be less responsive to the broader public.

- Does ineffective government lead to greater corruption? Does effective government lead to better policy choices–especially policies that reduce inequality and create greater support for the regime?

- Do higher risk ratings lead to less effective government or to poor policy choices? Countries with higher risk ratings should be likely to adopt strangling regulations that distort market competition. These regulations in turn should lead to greater corruption in a vicious cycle.

- Do trust, corruption, a country's risk rating, and effective government rest upon institutional foundations–or upon cleavages within society? I expect that institutional factors should *not* be the key determinants of trust, corruption, a country's risk rating, or effective government–except for the fairness of the legal system. Rather, corruption should depend upon trust and policy choices; risk ratings and government effectiveness should depend upon corruption and the health of a country's economy–and on its domestic conflicts. And trust, in turn, depends on economic equality and its historical legacies of culture and conflict.

- Putnam (1993, 111, 180) argues that trust and good government go hand-in-hand: Good government promotes trust (cf. Levi, 1998; Rothstein, 2000) and trust promotes good government. Is there a reciprocal relationship or does it only go one way–and, if so,

which way? I expect that trust will encourage good government, but that good government should not lead to greater trust (Uslaner, 2002, chs. 2, 7).

The endogenous relationships I test are from (see Figure 3-1 for a diagrammatic presentation of this model):

- trust –> corruption
- inequality –> trust –> inequality
- government regulation –> corruption
- inequality –> overall risk
- corruption –> effective government –> policy choices
- trust –> effective government –> trust

And some key connections involving exogenous factors:

- legal fairness –> corruption –> overall risk –> strict regulation –> corruption
- legal fairness –> strict regulation –> corruption
- internal conflicts –> trust, overall risk, effective government

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Figure 3-1 about here

For both corruption and effective government, I estimated both basic and extended equations. The extended equations add structural factors that might loom large in the effectiveness of government institutions. Higher levels of democracy, as reflected in Freedom House's index of civil and political rights, should lead to less corruption and more effective government (Adsera, Boix, and Payne, 2000; Treisman, 2000). Higher levels of bureaucratic quality (ICRG) should also be associated with better government and less corruption. So should a proportional representation electoral system and a parliamentary, as opposed to Presidential,

legislative system. Linz (1990) has argued that Presidential systems lead to chief executives to centralize power–and to become more corrupt (cf. Kunicova and Rose-Ackerman, 2005, Lambsdorff, 2005a). Proportional representation systems disperse accountability, compared to plurality systems, where there is a direct connection between a representative and her constituency. Voters who must choose from a list of candidates, rather than voting for one individual, will have fewer opportunities to punish corruption (Persson, Talbellini, and Trebbi, 2000, 4, 11-12; Rose-Ackerman, 2004, 12).

The extended equations test for the impact of structural factors. I shall not report them for a simple reason: The structural factors failed to reach statistical significance. In neither equation do the form of electoral or legislative system matter. Nor are there are effects for the quality of the bureaucracy. Democracy does not matter, perhaps surprisingly, for effective government. For completeness, I include the Freedom House measure in the basic model for corruption–and "move" the other variables to the list of instruments used for the system. Yet, the simple institutional measure of democracy *does not lead to less corruption*. The coefficient has the wrong sign.

For the corruption equation, I include: the Freedom House democracy measure,[6] trust (imputed), the level of regulation, the fairness of the legal system (imputed), ethnic fractionalization, and following Paldam (2002, see also Lambsdorff, 1999, 7; Mauro, 1995, 701), the wealth of a country, measured as GDP per capita. I also include a measure of particularized trust. It is not easy to get measures of in-group trust that are distinct from generalized faith in others. Surveys that have multiple questions on whom we trust–or how we evaluate in- and out-groups–offer a way to measure these two forms of trust separately (Uslaner, 2002, 52-56).

However, there are no comparable data available cross-nationally. So I must rely upon a proxy for particularized trust: whether a state restricts members of minority religions from converting others to their faith. This measure comes from the State and Religion data set of Fox (2006). While at best an approximation–perhaps a crude one–it does tap the idea of only trusting one's own in-group. Religious fundamentalists tend to trust only people of their own faith–and when they do participate in civic life, they join exclusively religious organizations (Schoenfeld, 1978, 64; Uslaner, 2002, 87-88; 2001). Restrictions on conversion are the mark of fundamentalist domination of the state–and I use this measure as a proxy for particularized trust. Such restrictions are indicative of high in-group trust and low tolerance toward out-groups.

Ethnic diversity may lead to a strong sense of ethnic identity, which in turn, Lassen (2003, 8) argues, may result in "the political process allocat[ing] excludable public goods and transfers based on ethnic characteristics (favoritism)." Lassen (2003) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003) find strong support for the argument, though Treisman (1999) and Leite and Weidmann (1999) failed to find significant effects for ethnic diversity upon corruption. I thus include the Alesina et al. (2003) measure of ethnic fractionalization in the equation. In the equations for overall risk and government effectiveness, I use a measure of ethnic tensions in a society, but here I follow the existing literature and employ a measure of ethnic fractionalization.

The model for corruption may appear thin and different from many in the literature. However, I did many sensitivity tests for variables discussed in the literature and have found no reason to add any of them to my model. Specifically, I did not find significant relationships for the level of public sector wages (LaPorta et al., 1998; Mauro, 1997, 5; Tanzi, 1998, 573;

Treisman, 2000; but cf. Rose-Ackerman, 1978, 90-91), the extractive resource (oil) base (Leite and Weidemann, 1999); the size of the unofficial economy (Lambsdorff,1999); the level of newspaper readership (Adsera, Boix, and Payne, 2000); federal versus unitary governments or the share of government revenues spent at the local level (Treisman, 1998; Fisman and Gatti, 2000); the level of political stability (Leite and Weidmann, 1999, 20; Treisman, 2000); the level of democracy in a country (You and Khagram, 2005); or the use of closed or open list proportional representation systems (Kunicova and Rose-Ackerman, 2004). All of these variables faded into insignificance within the model I present below. At the bottom of Table 3-1, I also list the exogenous variables used as instruments.

I do not include inequality in the corruption model. The weak relationships between the standard measures (Gini indices) of inequality and corruption led me to argue that the relationship should be indirect–through trust. This is the model I posit here.

The story of legal fairness can be repeated for the other determinants of corruption, both direct and indirect. Uneven economic development is strongly related to trust ($r^2 = .421$, N = 80), strangling regulation ($r^2 = .580$, N = 87), the riskiness of the economy ($r^2 = .587$, N = 84), and per capita GDP ($r^2 = .620$, N = 84). It is also strongly related to a dummy variable for member countries of the Organization for Economic Cooperation and Development (OECD, $r^2 = .472$, N = 87), which in turn is highly correlated with all of the other measures.

For the trust model, I largely follow the cross-national model in Uslaner (2002, ch. 8) in arguing that the level of economic inequality and the share of the population that is Protestant should be key factors shaping trust. I have already laid out the argument on inequality. The "Protestant ethic" is an individualistic creed: To succeed in a competitive world, we need to rely

upon other people. In collectivist societies, people can rely upon their peer groups and get by with particularized trust. In individualistic societies, generalized trust becomes essential. Trust is higher in individualistic societies (Triandis, 1995, 126) and Protestant societies are more individualistic (Uslaner, 2002, 232, n. 21) and less hierarchical (Inglehart, 1999, 92-93) than other countries.

Civil war can tear a country apart, so I expect that countries that have had civil wars are less likely to be less trusting.[7] While there is little evidence that democracy leads to greater trust, there is ample support for the claim that Communism depresses trust. The repressive Communist system made it treacherous for ordinary citizens to trust each other–at best people had faith in their close friends and family members, and even then there were often risks (Gibson, 2001). I thus include a dummy variable for former and present Communist regimes. Finally, I test whether there is a link from government effectiveness to trust. While this is a prominent theme in much of the literature on trust (see the citations above), I do not expect to find such a connection. Generalized trust develops early in life and is largely resistant to experiences, including those with the government (Uslaner, 2002, chs. 2, 4, 5).

The equation for business regulations includes the fairness of the legal system, the openness of the economy to external trade, [8] the growth rate of the gross domestic product, and the overall risk rating by the ICRG. An economy open to foreign trade, on the other hand, would give foreign investors more of a say in how companies are run. To be able to export to foreign countries, a firm must be free of tight control from above. Imports also lessen central control over the economy. Open markets are widely considered to be both a cause and an effect of low corruption (Leite and Weidmann, 1999, 20; Mauro, 1997, 4; Rose-Ackerman, 2004, 10-

11; Treisman, 2000; You and Khagram, 2005). Instead of a direct link, I posit an indirect connection beginning with strangling regulations. Open markets will pressure countries to have more transparent regulatory regimes–which in turn will lead to less corruption.

When the economy is growing at a fast pace, political leaders might be more wary about scaring investors away with strangling regulations. On the other hand, the more a country is perceived to be a bad risk, the more the leadership may try to regulate the economy. However, a country that already is at risk is likely to overcompensate its regulations–and to make things more complicated than they already are. Leaders may adopt such strangling regulations either to appear to be putting some order into a chaotic economy–or simply as reacting defensively to prevent foreign creditors from gaining too much power in their countries.

The equation for inequality includes trust and corruption–and also the dummy for former and present Communist countries and the shares of the population that are Muslim and Protestant. Eastern bloc countries should have lower levels of inequality, since incomes were as should both countries with large Muslim and large Protestant populations. Protestantism stresses individual achievement. Achievement-oriented values stress equality of opportunity rather than equality of results. Yet, the greater wealth of Protestant nations and the higher levels of trust in individualistic nations leads to the expectation that Protestant countries will have lower levels of inequality. Islam has placed greater emphasis on collective goals, especially on one's economic responsibility to the larger community (as reflected in the prohibition on charging interest on loans). So it should not be surprising to find a powerful coefficient on percent Muslim for economic equality (Esposito and Voll, 1996, 25).

The model for overall risk includes economic inequality, corruption, and measures of

internal conflict and ethnic tensions, both from the ICRG. Here my argument is straightforward: The creditworthiness of a country reflects its social conflicts as well as the misdeeds of its public officials. Corruption should have the greatest impact on risk ratings, but social conflicts should not be far behind. A country should be a bad risk if its social fabric is torn. Economic inequality clearly contributes to such strains. I also use two other measures, both from the ICRG, that should contribute to risk: the level of internal conflicts and ethnic tensions.

Finally, the government effectiveness includes trust (imputed), corruption, ethnic tensions, the poverty level (from the ICRG), and a legacy of Communism. The extended equation also includes structural factors that have played a prominent role in the literature: the level of democracy (from Freedom House), the quality of the bureaucracy (from the ICRG), whether a country has a Presidential or parliamentary system, and whether a country has a proportional representation or plurality electoral system.

Putnam (1993, 103) argues that "civic regions" in Italy, which are marked by high levels of trust, have better government:

> Political leaders in civic regions are...readier to compromise than their counterparts in less civic regions....leaders there are readier to resolve their conflicts.

Uslaner (1993, ch. 6; 2002, 212-215) links the increasing contentiousness and use of obstructionist tactics in the United States Congress to declining levels of trust. So I expect that trust should be a key factor in shaping effective government, *even if there is no evidence for a linkage going from government effectiveness to trust.*

The linkage between corruption and ineffective government needs no elaboration. Similarly, the transition from Communism has not been smooth for most countries in Central and Eastern Europe. Not only does corruption remain high and trust remain low, but governments are not generally considered effective. The difficulties in governing that plague transition countries were expressed by an academic from the region, who commented at a conference I attended: "There are two types of governments in Europe, those that always get reelected (Western Europe) and those that never get reelected (Central and Eastern Europe)." The measures of ethnic tensions and poverty from the ICRG are indicators of the social strains that make effective government difficult. High poverty rates places additional demands on government and adds to the social strains in a society–so poverty should lead to less effective government.

Evaluating the Model

All six of the equations perform very well in accounting for corruption, trust, regulation of the economy, and inequality. Even though R^2 is not strictly appropriate for two-stage least squares estimation, the high values for R^2 and the low values of the standard error of the estimate (see Table 3-1) give us confidence in the models. The R^2 values range from .518 (for inequality) to .900 (for corruption) and the standard errors of the estimates are, relative to the means, generally quite small. The models fit the data well.

Table 3-1 about here

The most important result is that there is an indirect linkage between inequality and

corruption and it goes through trust. As we move from the low level of inequality in Switzerland to the very high level in South Africa, trust declines by 20 percent. As we move from the least trusting country (Brazil) to the most trusting (Norway), corruption decreases on the 10 point TI scale by 3.6 units. This is equivalent to moving from the low transparency of Panama to that of the United States or Belgium. The impact of inequality on trust is sufficient to produce a considerable effect on corruption. A shift from a country ranking highest on legal fairness to one at the bottom corresponds to a shift of 3.1 on the TI index–from Poland to the level of Portugal or Israel.

A rise in particularized trust would lead to a 1.5 unit decrease in the TI index–making Cyprus almost as corrupt as Brazil. A shift from the most strict regulatory regime to the least (from Nigeria to Luxembourg) would bring a country to the level of Israel or Japan (6.36 on the 10 point scale), while moving from a "not free" to a "free" country has a more modest shift of .85 points *in the wrong direction*. Ethnic diversity seems to lead to *less* corruption rather than more: The coefficient is positive rather than negative (the simple correlation is -.386). But income matters: The richest group of countries in the ICRG per capita GDP measure are 2.05 units "more honest" than the poorest.

Trust has the greatest impact on corruption, as measured by the change in the TI index as we move from the least to the most trusting nation. The other effects, in order, are the regulatory regime, the fairness of the legal system, a nation's GDP per capita, and particularized trust. Democratic regimes are no more likely to be honest than non-democracies. *Institutional factors do not loom large in determining the level of corruption in a country except insofar as they lead to more or less equitable treatment of citizens before the law or except insofar as they promote*

economic equality and an economic system free of political interference. This does *not* imply that governments cannot regulate the economy–the Western European countries that have the least "regulation" are all welfare states. It *does* suggest that politicians must take care in *how* they regulate. The equation for corruption performs extremely well *without any standard institutional variables such as centralization, parliamentary system, type of electoral list, the type of executive–each of which fell to insignificance when added.*

The model for trust confirms the results in Uslaner (2002, ch. 8): Eastern bloc countries are far less trusting (by an average of 11 percent)–so that if Estonia did not have a legacy of Communism, its citizens might be as trusting as the Austrians. Protestant societies are more trusting: The difference in trust between the country with the largest Protestant population (Norway) and the smallest (among them Turkey) is 20 percent. Countries that have experienced civil wars are nine percent less trusting. But the largest effect comes from economic inequality. As we move from low values on the Gini index (Belgium) to the highest (South Africa), trust declines by 21 percent–the difference between Switzerland and South Africa. The coefficient for government effectiveness on trust is insignificant.

In the model for regulation, the levels of risk and the fairness of the legal system are the most important predictors. The state with the greatest risk level will be very likely to have a strangling regulatory regime–going from the lowest risk level to the highest leads to a change in regulatory quality equivalent to the distance from Norway to Indonesia. The gap in legal fairness is considerably smaller (.956 on the standardized scale rather than 1.722), but still equal to the gap between Japan and Uganda. An open economy also makes strangling regulation less likely–but here the effect is half that of overall risk. Closing Japanese markets would "only"

take that state down to the regulatory level of Pakistan–but still quite a bit better than the Ukraine or Kenya. A growing economy leads to less strangling regulation. The fastest growing economy will rank .29 lower on the standardized regulation scale.

The model for inequality suggests that economic inequality shapes trust rather than the other way around (cf. Uslaner, 2002, 232-236). Present and former Communist countries are considerably more egalitarian, by an average of .16. The Muslim share of the population is significantly associated with reduced inequality.[9] The share of Protestants in a society is *incorrectly signed*. Finally, corruption leads to more inequality: The difference between the most and the least corrupt country leads to a change in Gini coefficients of .23–which is the difference in inequality between Belgium and the Philippines or Costa Rica. The equation for inequality is the least successful of the four, according to three different criteria: the lower (though still far from modest) R^2, the low F ratio, and the high t-value of the constant. Nevertheless, the equation still performs well and the other estimations all support my overall framework.

Corruption has the strongest effect on the overall risk rating: The most "honest" country ranks 68.7 points lower on the ICRG ranking than does the most corrupt. Finland would be as risky for investors as Argentina if it were as corrupt as Bangladesh. But internal conflicts also have a powerful effect on risk. The highest levels of conflict lead to a 42 point shift in risk ratings–the equivalent of a shift from the Germany countries to Israel or Ukraine. The effects of inequality (13 points) and ethnic tensions (18 points) are smaller, but still significant.

As with corruption, the structural variables (Presidential versus parliamentary system, proportional representation versus plurality elections, quality of the bureaucracy, and status as a

democracy) are all insignficant in the model for government effectiveness. If the most corrupt country (Bangladesh) were to become as honest as Finland, it would have a government as efficient (or even more so) as Denmark. Trust and poverty are also very important. Raising the trust level of Brazil, the least trusting country, to Norway's top rating would raise its quality of government to midway between Spain and Thailand. Reducing poverty would have a dramatic effect on government effectiveness–a 1.42 unit change on the standardized scale. Bangladesh's poverty level to that of the Nordic countries would not give it as effective a government as we find in Northern Europe, but would move it up to the level of the United States. Low trust and high poverty may not be quite as important as corruption, but they have a major effect on the quality of government. Ethnic tensions are also a significant factor shaping the quality of government: Higher tensions mean less effective government, but the impact is more modest at .47 on the standardized scale. This effect is slightly larger than I find for former Communist countries (-.40).

The effectiveness of government, then, mostly reflects corruption and societal forces. Corrupt governments are by far the least effective. Yet there are powerful effects, both direct and indirect (through corruption) for generalized trust. Trusting countries have better governments, even though there is no evidence of a direct link *back from effective government to generalized trust.* Moreover, trust works not only directly but also as the most significant predictor of corruption. In 1976, American Presidential candidate Jimmy Carter promised the public "a government as good as its people." Seemingly, it is difficult to give the people a government much better than they are.

Escaping the Inequality Trap?

Overall, there is considerable support for my thesis: Inequality leads to lower trust, which in turn is associated with greater corruption. The fairness of the legal system also shapes corruption, both directly and indirectly through the regulatory regime. Social bonds and the distribution of wealth–and justice–play key roles in determining whether a country will be corrupt or transparent. Institutional factors do not matter as much as social bonds, policy choices, and equity.

Not only does inequality lead to greater corruption (albeit indirectly), but corruption leads back to more inequality. This *inequality trap* works both directly–from corruption to inequality–but also indirectly, through an unfair legal system, strangling regulation, a risky credit environment, and ineffective governments. This model shows that it is not simply societal factors that constitute the inequality trap. Bad policy choices–-economic policies that lead to high risk ratings and strangling regulation–are part of this same syndrome. It would be nice if a simple shift in policy choices could get us out of the trap. In theory, it could. But the same forces that lead from high levels of inequality to low trust to high corruption also lead to strangling regulation, high risk ratings, unfair legal systems, and ineffective government.

There are other routes out of corruption. Wealthy countries are less corrupt (see Chapter 8 on Hong Kong and Singapore). Economic growth leads to less strangling regulation, as do open markets. So there are policy choices that can help in the fight against corruption. Yet, even here fighting malfeasance is not as simple as selecting better policies that will promote growth, reduce inequality, and lead to more trust and less corruption. Low trust countries close their markets, at least in part because particularized trust makes people wary of dealing with

strangers and worried that open markets could lead to threats to their own industries (Uslaner, 2002, 193-197, 245).

Corrupt countries close their markets. Protectionism is another form of protection that businesses buy from politicians. So it seems that we may need honest government to open markets so that we can fight corruption. In the model I have estimated, the link from free trade to less corruption is indirect–by reducing strangling regulations. Open markets lead to demands for less red tape and thus to lower levels of corruption. More critically, the impact of wealth, economic growth, and trade is considerably less than that for other, less malleable factors such as trust and both legal and economic inequality. Treisman (2000) notes, with more than a bit of pessimism, that "huge, effective trade liberalizations" might make "a dent" in corruption. Indeed, this is in part how Singapore and Hong Kong were transformed from high-corruption societies to the top ranking states in the TI index (S. Quah, 1997, 306). Yet, these cases are exceptional, unlikely to be mimicked by other nations with great malfeasance among office-holders and business people.

Is It Better to Be Efficient or Clean?

Inequality can be combated by government programs (see Chapter 8 for specific advice), both directly and indirectly. Governments can enact policies that make the poor better off and they can promote policies that stimulate the economy. A growing economy leads to less poverty and inequality (Mauro, 1995, 706; Gupta, Davoodi, and Alonso-Terme, 2002, 460, 478-479). There is a long literature on how corruption restricts economic growth (see among others Leite and Weidmann, 1999, 25; Mauro, 2002, 342; Rose-Ackerman, 2004, 4-6; Tanzi, 2002, 45-46) as well as support for the claim that corruption increases inequality (see Chapter 2).

How effective is government–specifically effective government–in producing policies that either directly or indirectly reduce inequality and make people's lives better? The insignificant effects of effective government on inequality may not be so consequential if good government is more likely to enact policies that will ameliorate the effects of poverty and inequality. Can effective government do the job or do reductions in poverty and inequality depend more on clean government than an efficient state?

I examine 15 policies and outcomes for which there are good cross national data and their determinants. These policies and outcomes reflect a range of options and outcomes that enhance markets and especially that improve the quality of life. While the policies and outcomes I examine all refer to laudable goals for the state and society–ranging from free markets to ethical business people–it is social welfare policies that provide benefits for large numbers of people (education, health, and to a lesser extent transfer payments) that offer the greatest potential to combat inequality. These policies, however, depend upon government performance. The adoption of universalistic social welfare policies in Sweden in the 1930s depended upon the public perception that public officials would spend the money honestly (Rothstein and Uslaner, 2005, 53-58).

Does effectiveness or honesty in government matter more in leading to positive policies and outcomes across countries? I estimate models for each of the policies, once including the TI corruption index and once the effective government measure. Which is more powerful in producing policies that reduce inequality directly, lead to greater growth or citizen satisfaction with policies, or promote open markets, tax compliance, and better labor-management relations? These measures come from a variety of sources, including the World Economic Forum (WEF in

Table 3-3), the Gallup International Millennium Survey, the United Nations Development Program, the Economic Freedom in the World Network, and a variety of published or unpublished papers cited in Table 3-3.

The policies and outcomes I consider cover a wide range, including citizen satisfaction with the environment. I also focus on policies that either directly or indirectly encourage economic growth: the WEF growth competitiveness index, market capitalization, opening markets to small and medium firms, the extent of government control of the economy, the extent to which the government rather than the private sector dominates economic consumption, good labor-management relations, how ethical business firms are, the extent of business involvement in charitable donations. Ethical firms and companies involved in charity should provide a more fertile climate for economic growth by making the business environment safer for investment and more linked to the community. Policies and outcomes linked to the reduction of poverty and inequality focus on education and health, two areas that offer hope for reducing inequality and are also plagued by corruption in many countries: how much money per capita a country spends on education, the level of secondary school enrollment, two indicators of educational inequality (a Gini index and the standard deviation of educational attainment), as well as public health expenditures per capita. Finally, I consider the level of transfer payments to the poor in a country and how well people do overall–as reflected in the United Nations Human Development Index.

In the larger picture of the 15 policies and outcomes considered, *corruption matters more than effective government, especially on policies and outcomes that reflect reductions in poverty and inequality.* The coefficients, standard errors, and t ratios for corruption and government

effectiveness are in Table 3-2, while details of the models (including other predictors employed) are in Table 3-3. For the models in Table 3-2, I standardized the corruption scores so that they are directly comparable to those for effective government.

Tables 3-2, 3-3 about here

Of the 15 policies and outcomes I consider, effective government has stronger effects (as measured by the regression coefficients) for three, corruption for 11, and one policy (market capitalization) has essentially equal coefficients. Good government matters for three policies/ outcomes that we would not ordinarily associate with reducing inequality (at least directly): opening markets to small and medium size firms, good labor-management relations, and public satisfaction with the state of the environment. In each of these three areas, effective government has a modest advantage over clean government. The differences are not large so it seems that either effective or clean government would lead to better policy outcomes. Effective government and corruption matter about equally for the ability of firms to get established in a market (market capitalization).

Clean government matters much more, often substantially. The corruption coefficient on the WEF growth competitiveness index is 1.5 times larger than the impact for effective government (the regression coefficients are negative since the scores are ranks). The corruption coefficient for tax compliance is more than twice as great as the impact for effective government. Businesses are less at risk for state expropriations in clean governments than in effective ones. And the state is substantially more likely to give way to the private sector where there is clean government compared to an effective regime. An honest government, much more

than a good one, will lead firms to behave ethically (by a factor of 1.5) and to be involved in charitable causes (by almost 2.4 to one). This is not surprising, since trust is one of the strongest predictors of charitable contributions (Uslaner, 2002, chs. 5, 7) and the honest state rests upon a foundation of generalized trust.

The biggest differences between effective and clean governments come on policies and outcomes that directly reflect or are targeted to reduce inequality. On only three of the seven measures (education spending and transfer payments) is government effectiveness significant. Every coefficient for clean government is significant at least at $p < .01$. Even for the three policies in which there is a significant effect for effective government, the coefficient for corruption is considerably higher–by a factor of 1.5 for education spending, 1.8 for transfer payments, and 2.2 for the education Gini index. The coefficient for corruption on secondary school enrollment is 369 times as large as that for effective government, while the coefficient for the standard deviation of education achievement is "only" 44 times as great as it is for good government. The effect for the Human Development Index is 8.6 times as great for honest government.

Either good government or an honest state will enact policies that may promote economic growth. If there is a direct link between growth and equality, this may offer a way to get from an efficient regime to a more just one. But there is little direct evidence that effective government is sufficient to reduce poverty or to enhance equality. An honest state is critical to those goals.

Corruption is also far more critical to overall state capacity than is effective government. My measures of state capacity are the 12 indicators from the Failed States Project (see n. 3, Chapter 2 for the source). A failed state is a government that cannot deliver essential services

and cannot guarantee its citizens security from threats within and without. The project includes 11 specific measures and an overall index. I present the simple zero-order correlations between each variable and the 2005 TI Corruption Perception Index, on the one hand, and the effective government measure on the other (see Table A3-2). The 11 measures include uneven economic development, mounting demographic pressures, massive movement of refugees, a legacy of vengeance (group grievances), severe economic decline, criminalization and delegitimization of the state, the progressive deterioration of public services, widespread violations of human rights, the security apparatus as a "state within a state," the rise of factionalized elites, and the intervention of other states. In the sample used to estimate the simultaneous equation model in Table 3-1, the most troubled nations are Pakistan, Bangladesh, Uganda, and Nigeria, while the best functioning countries are Norway, Sweden, Finland, Ireland, and Switzerland.[10]

For every indicator of state failure, corruption matters a lot more than does governmental effectiveness. I present correlations for both the full sample of countries for which there are Corruption Perceptions indices and for the sample in the data set for this project (N = 139 and 87, respectively). The simple correlations are all considerably greater for corruption than for effective government–except for severe economic decline, where the differences are smaller. The differences are on the order of 30 percent for uneven economic development, deterioration of public services, delegitimization of the state, and a legacy of vengeance. Failed states are unequal states–and they do not have the capacity to develop public services sufficient to reduce inequality. Citizens know that corrupt governments cannot deliver essential services and they will resist paying the taxes needed to support a welfare regime since they have little confidence that the money will actually be used for the common weal.

Uslaner, The Bulging Pocket and the Rule of Law, ch. 3 (31)

Cops, Robbers, and Grand Theft

Corrupt governments have consequences that reach down to the level of the street. Corruption is often linked to organized crime, to tax evasion, and to the informal economy. I have argued that it rests upon the foundation of an unfair legal system. Each of these "aspects" of corruption can be linked, in turn, to street-level crime. *The Threepenny Opera* is a play juxtaposes the justice meted out to a petty thief compared to the great profits reaped by the real criminals, the bankers and industrialists who prey upon the poor.

All crime is not the same. Corruption is more of an economic crime than a violent one: The link between assault or rape and corruption is unclear at best–and it is empirically weak.[11] Property crimes, ranging from theft to (especially) pickpocketing, have a much stronger connection to high-level malfeasance. Second, what is the direction of causality?

Using data from the International Crime Victimization Surveys (ICVS) of the United Nations Interregional Crime and Justice Research Institute[12] aggregated to the country level, I show a strong relationship between corruption and the perceived extent of pickpocketing in a society. Corruption is not merely bad behavior by elites, be they in government or in business. Corruption and street-level economic crime go hand-in-hand. So, if we put all of the pickpockets in jail, can we curb corruption? Alas, no. Street-level crime has a very modest effect on corruption. However, high-level malfeasance sends a strong signal to petty thieves that there is little respect for the law in their countries. This close link between corruption and street-level crime parallels the strong relationship between grand and petty corruption (see Chapter 1). Corruption not only leads to fewer social programs but it also leads to less order on the street.

The route from street crime to higher level corruption seems puzzling. Did a Russian oligarch, Romania's Nicolai Ceausescu, Nigeria's former President Sani Abacha, or the chieftains of industry in the Enron or Tyco cases in the United States in the early 21st century decide to pillage their nations' (companies') treasuries because someone broke into their car–or even because they read about an epidemic of burglaries? Hardly. Maybe crime on the street is simply an indication of a lack of law and order in a society, as I argued above. But it seems even more likely that a man or woman on the street might look up and see leaders validating thievery–and *then* conclude that if it is acceptable for the rich and powerful to steal, it cannot be any less moral for the poor petty criminal to lift the wallet of a wealthier person not minding her purse.

Hunt (2004, 17) shows, using data from the ICVS, that people are more likely to engage in petty corruption ("offer a bribe") if they have been the victim of a fraud, been robbed, or been assaulted. Azfar (2005) and Azfar and Gurgur (2005) report that high rates of corruption lead to more thefts from personal property, more homicides, more car theft, more burglaries, and a lesser willingness to report crimes to the police, but not contact crime (cf. Soares, 2004). These two arguments are not necessarily inconsistent, since Hunt focuses on petty corruption and Azfar and Gurgur on grand corruption.

I first consider the bivariate linkages between corruption and a variety of types of crime to support my claim that corruption is linked to economic crimes and not to violent crimes. This is strong evidence against the argument that corruption reflects a general sense of lawlessness–that venal leaders and even petty criminal is the first step on a slippery slope to a more general decline of morality. Of course, both corruption and street crime are assaults on

morality, but they are not assaults on other people. I then estimate a simultaneous equation model of corruption and street crime (pickpocketing) and show, as I argued above, that the relationship between the two is largely top down–from corruption to pickpocketing. There is a weak tie in the opposite direction, but it is barely significant and likely reflects a weak rule of law in corrupt societies.

Citizen estimates of crime from the ICVS are hardly the same as actual figures on violations of the law. However, it is notoriously difficult to get comprehensive comparative data on a wide variety of crimes and the ICVS citizen estimates seem to have considerable face validity. The ICVS surveys are national surveys in many nations, especially the West and some transition nations. In other former Communist states and in African nations, the surveys only cover urban areas. This is not ideal, but without using the urban samples, there would be too few cases for aggregate analysis and the results for those countries with only urban samples seem to have face validity as well. Not all questions are asked in every country, so ultimately the sample size is less than 50 nations. The same questions are asked of often small samples over multiple years. I aggregated the responses to each of the survey questions from 1992 to 2000 to conduct aggregate cross-national analyses.

Pickpocketing in many ways is like corruption. It is a theft of money without violence–and without people even knowing that they have been victims.[13] Of all of the measures of crime in the ICVS, pickpocketing has the strongest relationship to corruption (see Figure A3-2). The relationship is very powerful ($r^2 = .659$, N = 48) with the 2005 TI Corruption Perceptions Index. Where corruption is high, so is pickpocketing.

Pickpocketing, like corruption, is also sticky. Some countries had sufficient data to

estimate levels of pickpocketing at two separate time points. I estimated earlier and later levels of pickpocketing by adding data from 2001 and 2002 and setting a breakpoint at 1996. For the 26 countries for which I could obtain earlier and later estimates, the two series are reasonably strongly related ($r^2 = .506$). However, the estimates for Japan in the second time series is a strong outlier and very different from the earlier estimates. Removing Japan, the r^2 increases to .712.[14]

Corruption is also linked to a variety of other economic crimes, though not as strongly as to pickpocketing: It leads to high levels of damage to cars ($r^2 = .540$, N = 48), greater fraud ($r^2 = .474$, N = 46), personal theft ($r^2 = .343$, N = 48), reporting of personal theft to the police ($r^2 = .581$, N = 48). However, corruption is *not* associated with either the frequency of assault ($r^2 = .000$, N = 48, see Figure A3-3), the current level of sexual assaults ($r^2 = .000$, N = 48), or the frequency of sexual assaults over the past five years ($r^2 = .094$, N = 48). *Corruption is linked to economic crime, not to violent crime.* There is no evidence supporting a general syndrome of criminality that is connected to corruption.

There is a modest relationship ($r^2 = .244$, N = 31) between pickpocketing and economic inequality *when present and former Communist countries are excluded* (see Figure A3-4). Lederman, Loayza, and Menendez (2000, 22) report strong relationships between trust and homicide rates and trust is a powerful predictor of pickpocketing ($r^2 = .441$, N = 48). Pickpocketing, like corruption, seems to follow the path from high inequality to low trust to disrespect for the law.

Pickpocketing is less frequent when people see the legal system and especially the police as fair, though, as I shall show shortly, not when people fear the consequences of illegal

behavior. There is also a strong relationship between the extent of pickpocketing and positive evaluations of police performance (also from the ICVS, $r^2 = .653$, N = 48, see Figure A3-5).[15] It is *not* simple police presence that matters; the relationship of pickpocketing with the average number of police per capita is weak ($r^2 = .050$, N = 40). Rather, it is fairness that matters. Legal fairness ($r^2 = .572$, N = 48), the reliability of the police according to business executives responding to the World Economic Forum's Executive Opinion Survey ($r^2 = .458$, N = 47), and the perceived corruption of the police in both the TI Global Corruption Barometer ($r^2 = .522$, N = 33) and the Gallup International Millennium survey ($r^2 = .485$, N = 26). The fairness of the legal system and the respect for even-handed treatment by the police reduces the incentives for people to disobey the law (cf. Tyler, 1991).

Corruption and pickpocketing have common foundations in the bivariate plots. How are they interrelated and which matters most for the other? I expect that corruption will have a strong impact on pickpocketing, but that the effect of pickpocketing on corruption should be modest at best. I present the simultaneous equation model of pickpocketing and corruption in Table 3-4. The model for corruption is essentially the same as the one in Table 3-2. Since the number of cases is now only 44, I eliminate ethic fractionalization (which was not significant) and legal fairness (because collinearity with the other variables became too strong when I added pickpocketing). The model for pickpocketing includes corruption, satisfaction with police job performance, the Freedom House measure of democratization, and two measures of potential punishment for offenders as perceived by ICVS respondents: the average length of sentences for criminals and the frequency of suspended sentences. Both are indicators of the severity of the criminal justice system and tougher penalties should lead to lower rates of pickpocketing.

Table 3-4 about here

The corruption equation largely replicates the findings in Chapter 3: Generalized trust and higher levels of GDP per capita lead to less corruption; particularized trust, strangling regulations, and being a present or former Communist country are associated with higher corruption. So do high rates of pickpocketing, though the coefficient is only significant at $p < .10$. The difference in corruption between the highest (Ukraine) and lowest (New Zealand) levels of pickpocketing is 1.29–about the difference in corruption between Indonesia and Egypt. GDP per capita has a much stronger effect on corruption, 2.64, which would raises Indonesia's rating to that of Italy or Hungary. Trust's impact is also considerably greater–2.06. The pickpocketing equation indicates that institutions do matter: Democracies have, on average, 12 percent lower rates of pickpocketing than authoritarian nations. This impact is quite modest compared to the almost 40 percent difference in pickpocketing rates predicted by comparing Canadians' strong satisfaction with their officers of the law and the disdain of Russians. Corruption matters a great deal: Pickpocketing rates are 24 percent higher in the most corrupt nation in this sample (Indonesia) compared to the least (New Zealand). Neither average sentence length nor the frequency of sentences significantly shapes levels of pickpocketing.

High levels of corruption send signals to ordinary citizens: Elites have little respect for the law, so people on the streets follow the leaders. When I rescale the pickpocketing variable so that it has the same range as the TI Corruption Perceptions Index, the coefficient of corruption on pickpocketing is twice as large as the one for pickpocketing on corruption. Leaders don't pilfer from the treasury because they see crime on the street; but petty thieves seem to take a

message from dishonesty at the top. Corruption not only leads to poorer policies and worse social outcomes. It leads to less order on the street, which is also tied to a lower quality of life.[16]

The link between pickpocketing and corruption provides support for a top-down explanation. High-level corruption "trickles down" to the street level and greater levels of democracy are associated with lesser property crimes. Institutions seem, perhaps ironically, to matter more for "facts on the ground" than for higher-level misconduct.

How People Think About Corruption

The aggregate models support my link from inequality to low trust to high levels of corruption and to more inequality. The connection between inequality and corruption is indirect, through trust. Yet, as I argued in Chapter 2, the connection between inequality and corruption is important at least in part because *people think about corruption as stemming from inequality*. I analyze responses to cross-national surveys below, to polls conducted in transition countries in Chapter 4, and to country-level surveys in Romania, Estonia, and Slovakia in Chapters 5 and 6.

I consider here surveys conducted by Gallup International, first for the firm itself in 2000 (the Gallup International Millennium Survey) and second for Transparency International in 2004 (the Global Corruption Barometer). For each survey, I estimate a hierarchical linear model, or multi-stage model, that provides estimates of two sets of factors that shape people's views of corruption. First, there are individual-level effects as is standard in the statistical analysis of individual-level data such as surveys. Which perceptions of government fairness and equality, of other values and demographic traits, make people believe that corruption is a large or small problem? Second, such models can also estimate country-level effects. The two surveys encompass large numbers of respondents across many countries. The models I estimate

encompass 42 nations in the Gallup International Millennium Survey and 47 in the Global Corruption Barometer. [7]1

The Gallup International Millennium Survey asked people how they described their government. They could answer yes or no to any of the following alternatives: corrupt, efficient, just, or responds to the will of the people. I focus on responses to the corruption response. For the Global Corruption Barometer, I examine how big a problem (on a four point scale) people see both grand and petty corruption.

Hierarchical linear models are very sensitive to model specification and may often fail to achieve statistical convergence.[18] For the Gallup International Millennium survey, I estimate all of the countries in a single model with country-level (random effects) indicators for the Transparency International Corruption Perceptions Index (2005), and separate Gini index variables for Western countries, former and present (Vietnam) Communist nations, and other countries. For the Global Corruption Barometer, the multi-level model for all countries did not converge for models using the Gini index, so I estimated three separate models: one for the West, one for transition countries, and one for other (largely developing countries) using only the Gini index at the country level.

The predictors are limited by the available variables in the surveys. I report the model for the Gallup International Millennium Survey in Table A3-3. The individual-level variables include perceptions of government representation and fairness: the country is governed by the will of the people, all are equal before the law, and the government does a good job handling crime. The first two indicators are measures of political and legal fairness and equality. The third reflects a commitment to honesty, which should be lacking if the country is highly corrupt

(see Chapter 7). Also in the model are two very rough indicators, the best in the survey, of a respondent's personal economic situation: whether having a job or whether having a good standard of living is the most important goal in life. There are no questions on inequality in the survey and the best I can do is to test individual-level economic status. I also employ two surrogate measures of in-group/out-group trust: whether there is discrimination in the society on the basis of political beliefs (no other measure of discrimination was included) and whether people believe that there is only one "true" God . If you believe that there is only one true God, then you will be more favorable to your own in-group–other people are heretics. At the aggregate level, the correlation between trust (imputed) and believing that there is one true God is -.671 (N = 49). Finally I include two demographic measures: age and education (attended college or university). Young people may be less likely to be jaundiced by corruption than their elders, while more highly educated people might be less skeptical of the motivations of politicians.

The strongest determinants of perceived corruption are the measures of government fairness and effectiveness, but both surrogates for trust are also significant. People who see discrimination as common and who see only one true God are more likely to say that corruption is common. Neither individual-level measure of economic goals is significant, so here we see little evidence that people judge their political system on the basis of their personal economic situations (or desires). Younger people are no more likely to perceive the government as corrupt, but college educated respondents do not perceive dishonesty as pervasive as those with less education.

People living in countries with high levels of corruption do indeed see their governments

as less honest, the country-level (random) effects show. Most critically, *there is no significant effect for country-level economic inequality in either the West or (formerly) Communist countries, but there is a significant effect for the "other" (mostly developing) nations*. This makes a lot of sense. The West ranks very low on the Corruptions Perceptions Index, the (formerly) Communist countries have lower levels of inequality. So neither fits the high inequality, high corruption model. The only countries that correspond to that prediction are the "other" nations–and here the coefficient *is* statistically significant. A respondent in the country with the greatest inequality in this sample (South Africa) would be six percent more likely to say that his country is corrupt compared to someone from the nation with the least inequality (South Korea), above and beyond all of the individual-level factors in the model (and the TI Corruption Perceptions Index).

The corruption model for the Gallup International Millennium survey provides strong support for the argument that perceptions of fairness, from the legal system and the government more generally, strongly shape the belief that governments are corrupt. People who see discrimination in society and who are less religiously tolerant are also more likely to say that their polity is corrupt–at least indirect evidence that particularized trust promotes malfeasance. People who live in more corrupt countries quite reasonably see more dishonesty in government. Yet personal economic goals and status (through education) are either insignificant or have modest effects. Inequality matters–but only where an inequitable distribution of income and high corruption are found together (in developing nations).

The models for the Global Corruption Barometer tell a somewhat different story, with stronger support for a link from inequality--and perceptions of inequality–to corruption. Since

grand corruption is far more likely to make the beneficiaries rich, I would expect a stronger link between inequality and grand corruption than for petty corruption. The hierarchical models offer modest support for this hypothesis at the aggregate level, but somewhat stronger support from the individual level estimates.

The predictors for the corruption models include two measures of how people believe that corruption affects them: a general measure of whether corruption affects your own life and whether anyone in your family has offered a bribe in the past twelve months. The first question is rather general and may reflect a general distaste for dishonesty in civic life. The second question is far more specific and should be tied more to petty corruption than to grand malfeasance–since large scale corruption is beyond the reach of the vast majority of people and few would likely admit to either paying or receiving large amounts of money in return for favors. However, smaller bribes are common in many countries: Close to 40 percent of Kenyans and Moldovans answered yes, while over 30 percent assented in Nicaragua, Ghana, Lithuania, Romania, and Ukraine.[19] Less than one percent of respondents in Austria, Ireland, and the United States admitted to a bribe. I expect that people who admit that a family member has paid a bribe would be more likely to see high levels of petty corruption–but they should not be especially more likely to say that there is grand corruption.

The survey has two questions that tap dimensions of fairness: whether poverty and human rights are big problems. The importance of poverty taps the economic roots of corruption. It is not clear whether concern over poverty reflects worries about inequality or economic deprivation more generally: The aggregate correlation with the Penn World Table measure of GDP per capita is -.775 (N = 53), while the correlation with various Gini indices are

much lower, even when excluding present and former Communist countries (ranging from .361 for the full set of World Bank Ginis to .618 for the average inequality scores from You and Khagram (2005) excluding present and former Communist countries). However, the correlation with uneven economic development is about as strong (r = .733, N = 53) as it is for GDP per capita. Concern for human rights reflects both high out-group trust (aggregate correlation with generalized trust is .667, N = 55) and greater equality among groups (aggregate correlation with uneven economic development is .682, N = 52).

The models also include demographics, including age, education, income, employment status, gender, and three religious identification measures–Muslim, Catholic, and Jewish. I do not focus on them in the text but reserve discussion for endnotes since they are less crucial to my overall argument.[20] The country-level measures include only three Gini indices as in the model for the Gallup International Millennium survey. Models including the TI Corruption Perceptions Index failed to converge.

The models show that the sources of grand and petty corruption are largely similar, which is not surprising since countries where people see one type of corruption as problematic are also those where they see big problems for the other type (r^2 = .917, N = 62). People who believe that corruption affects their own life are likely to see both grand and petty corruption as serious– and the regression coefficients for the two models are almost identical (see Table A 3-4). Human rights concerns matter mightily for *both* types of corruption.

Yet, there are differences and they are telling. Higher status individuals--more highly educated and employed people–are less likely to see petty corruption as problematic, but there is no powerful effect for grand corruption. People of all backgrounds see grand corruption in the

same way, but petty corruption preys more upon–and disturbs-- those with fewer resources. Even though petty corruption does not exert the economic toll of grand corruption, it does directly impinge upon the lives of those with fewer resources. People with jobs and education are more likely to have connections that permit them to "work the system" and get services at government offices (among other places). People with fewer resources may be more concerned over petty corruption, since they may have to do without essential services (Kaufmann, Montoriol-Garriga, and Recanatini, 2005). The models also suggest that the public recognizes that *both* grand and petty corruption affects their own lives. The corrupt dealings of political leaders and business people may be beyond the direct experience of ordinary people, but they recognize that it takes a toll on their own fortunes, much as the more direct involvement with petty corruption does.

The country-level effects of inequality are, in contrast to the Gallup International Millennium survey, significant in all cases except for petty corruption for the present and former Communist countries. Somewhat surprisingly, the coefficients are much larger for Western countries than for any other nations. Moving from the most equal Western nation (Japan) to the least (the United States) leads to an increase in the perception that grand corruption is a problem of .27 on a scale from 1 (not a problem) to 4 (very big problem). For petty corruption, the increase is .32. The increments for transition (former Communist) countries are .084 and .004 for grand and petty corruption, while for other nations they are .082 and .164. The increments in inequality may be larger in the West, but they may also be less consequential: "Big" increments in inequality in the West mean the difference in grand corruption between the United Kingdom and Canada and in petty corruption between Switzerland and Ireland. For developing nations,

as we move from the level of inequality in India to that of Brazil, grand corruption increases from South Korea's level to Kenya's; for petty corruption, a rise in inequality would raise corruption from Italy's average to Peru's. Even the smaller effect for transition countries has considerable consequences: Moving from the most equal country (the Czech Republic) to the least (Estonia) increases corruption from the level of the Netherlands to that of Croatia. Even though the effects appear greater for the West, increases in inequality may be less critical because of the clustering of countries on corruption perceptions. The distance between the levels of corruption in Canada and Great Britain seems far less consequential than the gap between South Korea and Peru.

There are more powerful effects of economic perceptions at both the individual and country level–and of a corrupt legal system–for people who believe that corruption affects their own lives in the 2004 Global Corruption Barometer (see the estimates in Table A3-5). People who see poverty as a big problem and the unemployed are far more likely to say that corruption affects their own lives. People who live in countries with higher levels of inequality (as measured by the average Gini from 1950 to 1999)[21] also are more likely to see that corruption affects them directly. Moving from the most equal to the most inequitable distribution of income leads to an increase of .314 on the four-point scale of how much corruption affects your life–or the difference between living in Iceland and Ukraine.

Beyond these economic perceptions are perceptions of the levels of corruption of different social institutions. The strongest effects come, not surprisingly, from beliefs that the education and medical systems are corrupt–since people are more likely to come into direct contact with these institutions. Yet, there are also powerful effects for perceptions of corruption

in business and in the legal system. Even though the question of whether you have offered a bribe in the last 12 months may not be the best measure of the level of corruption (see Chapter1) in a society, people who say that they have made such payments are more likely to say that corruption affects their own lives. Neither family income, residents of present or former Communist countries, or living in countries with low levels of legal fairness make people more likely to say that malfeasance affects them directly (the latter two variables having signs contrary to expectations). Most critically, being unemployed, seeing poverty as a problem and the level of inequality in respondents' countries lead people to see direct impacts of corruption.[22] This model shows a direct link between perceptions of corruption and economic problems as well as actual economic distress (unemployment and country-level inequality).

There is support for this linkage at the aggregate level as well: Higher levels of economic inequality lead more people to say that corruption affects their own lives, as do lower levels of trust, more strangling regulations, and a larger share of the economy in the informal sector (although the latter two predictors are significant only at $p < .10$, see Table A3-6). Moving from the lowest to the highest level of inequality leads to a change in the perceived level of corruption of .432 (somewhat higher than in the individual-level model)–or the difference between middle ranked countries such as the United States and Canada to Venezuela. The effect for trust is even stronger at -.608: Moving from the highest to the lowest level of generalized trust leads to large shifts in perceived corruption–the difference between the United States and Canada, on the one hand, and India, on the other. *Most critically, there is support for the linkage between how*

The strong significance of the country-level inequality coefficients may be partially explained by the need to omit the country-level corruption estimates. However, these measures

are only modestly correlated, so that cannot be a large part of the story. These multi-level models suggest that inequality *does* shape perceptions of corruption. In both cases, I also included per capita GDP as a country-level predictor and it was never significant. The models I have estimated suggests that the public is more concerned with both grand and petty corruption where there is greater inequality–except in present and former Communist states, but even here there is a significant effect of inequality on perceptions of grand corruption.

Where the distribution of resources is unequal, people are more likely to see corruption as problematic. It may seem curious that the level of inequality shapes both grand and petty corruption in the Global Corruption Barometer surveys. Petty corruption does not make people rich and it does not shape people's levels of trust in their fellow citizens, their government, the workings of democracy, or even the market (see especially Chapter 5). So how can I account for the generally greater country-level effects for petty corruption than for grand corruption?

The explanation for these seemingly anomalous findings–and for the greater effects of inequality on corruption perceptions in the West–is that people in the West are substantially less likely to see high levels of day-to-day dishonesty, but not so ready to count their governments as clean. I created dichotomous variables for perceiving grand and petty corruption. While almost 90 percent of people outside the West saw petty corruption as problematic, only 61 percent of Westerners agree. Fewer than 20 percent of respondents in Denmark, Finland, and Norway express concern for petty corruption–and even these figures seem surprisingly high for the Nordic countries–but over 85 percent of people in Italy, Japan, and Greece and 93 percent of Portugese are bothered by small-scale corruption.

In the West fewer people are bothered by petty corruption–but the range is much greater

than we see in other countries. Outside the West, fewer than 80 percent are concerned about petty corruption in only five countries: Singapore at 18 percent, Hong Kong at 45 percent (about the same as the Netherlands), and three other nations between 70 and 80 percent (the Czech Republic, Taiwan, and Uruguay). There is less concern for petty corruption in the West and there is more variation among Western publics: the standard deviation for these countries is .489, compared to .314 for other countries excluding the exceptional cases of Hong Kong and Singapore (see Chapter 8).

People in the West as well as in transition and developing countries are more likely to be concerned with grand corruption. Outside the Nordic countries, almost 80 percent of Westerners see grand corruption as problematic. For the rest of the world, only Singapore (22 percent), Hong Kong (53 percent), and Estonia (71 percent), at least 80 percent in each country see grand corruption as troublesome, for an average share of 92 percent.

Westerners are not likely to have to pay extra to get to the head of the queue in a doctor's office, nor are will they be stopped by a police officer for "speeding" or crossing the street against a traffic light. Westerners largely see justice as fair: Their average score on the imputed measure of impartial justice is 4.3 on a 1-5 scale, compared to 2.4 for other countries (with no significant differences between transition and deploring nations).

The estimates of petty corruption by Western publics are likely too high when measured against actual experience (though we have no way to measure this). And this overestimation may be particularly great where inequality is high. Westerners are also prone to overestimating grand corruption: The French and the Japanese believe that grand corruption is just as troublesome as do Kenyans and Bulgarians. Yet, there is undoubtedly more high-level

corruption in the West than street-level dishonesty. Petty corruption, then, should be found primarily where inequality is high, while grand corruption exists in every society. Johnston (2005) makes a similar claim in his "syndromes of corruption" argument: Developed, wealthy (and more equal) societies are not corruption-free. Rather, they have *primarily* grand corruption.

There is no direct way to test this claim. However, there is some circumstantial evidence that supports my argument. While perceptions of grand and petty corruption are almost perfectly correlated at the aggregate level, the individual-level survey data permit me to break down concerns over the two types of corruption. Only a handful of people in any country saw only petty corruption, but an average of 10 percent across nations saw only grand malfeasance. The share was almost twice as great in the West (17 percent) as in the former and present Communist countries (10 percent) and even more than in the developing nations (seven percent). More critically, the share of people who were only troubled by grand corruption was *lower* in countries with higher levels of economic inequality, with larger informal economies, and where people must make "gift" payments to make do.[23]

People in highly unequal societies, where a lot of people must make do outside the market system, are particularly likely to worry about both large-scale and small-time corruption. People in more equal nations with well-developed markets and few demands for "extra" fees to get things done see mostly grand corruption. This is why we see stronger individual-level effects of social status on petty corruption–and why the country-level effects of inequality on petty corruption are greatest for countries with high levels of corruption and inequality (the "other" nations).

Corruption and Inequality Reconsidered

The aggregate models show strong support for the notion of an inequality trap. While there is no direct linkage between inequality and corruption using the traditional Gini index measures of economic inequity. There is, however, an indirect link from inequality to corruption through strong in-group (particularized) trust and low out-group (generalized) trust, leading back to more inequality. This inequality trap is compounded by even stronger effects for two other forms of inequality: an unfair legal system and uneven economic development among groups in a society. There seems to be little hope for a quick institutional fix for corruption. An honest state seems more likely to adopt the sorts of policies that will lead to economic growth and more equality than an effective state.

You can get better government if you end corruption, but you can't get rid of corruption by changing institutional structures. Enhancing democracy works–but its impacts are less than those of policy choices and cultural factors such as trust. An Indian journalist commented on the sharp cleavages that led to a cycle of unstable coalitions, none of which could form a government: "We have the hardware of democracy, but not the software, and that can't be borrowed or mimicked" (Constable, 1999, A19).

Perhaps equally critically, in highly unequal societies people perceive more corruption. I have presented some evidence of this in two-level models of cross-national survey data above. The evidence is mixed and the two surveys yield somewhat inconsistent even if supportive conclusions. There seems to be considerable evidence that people see higher levels of corruption where there is considerable inequality and corruption. There are also weaker ties, especially for petty corruption, where inequality is lower (in transition countries). But the effects for the West

are not so easily reconciled. There is also evidence in these surveys that perceptions of unfairness–the legal fairness and representation of all questions in the Gallup International Millennium Surveys and the concern for poverty in the Global Corruption Barometer–lead people to become more worried about corruption. And low out-group trust, as measured by proxies including perceptions of discrimination in the belief in one true God in the Gallup International Millennium survey and seeing human rights as a big problem in the Global Corruption Barometer–also make people more concerned about dishonesty. These "trust" measures are at best surrogates, they do not measure "trust." Yet, they are highly related, both at the aggregate level and theoretically, to generalized trust. The strong effects for these measures on corruption perceptions supports the argument that when there are strong group conflicts in a society, cheating others loses some of its moral approbation.

The solution to this problem is to look for more direct evidence. I cannot resolve the issue of perceptions in the West, but in the chapters to follow I shall confront perceptions of inequality in transition countries, especially Romania, Estonia, and Slovakia. Through analyses of attitudes from the public, entrepreneurs, and government officials, I shall show that: (1) people do make a connection between inequality and corruption, both indirectly through trust and directly; (2) grand corruption makes people less trusting in others and more envious of those who have become wealthy by dishonest means, while petty corruption has little effect on people's attitudes; (3) ordinary citizens are more likely to see corruption linked to inequality than are either business or governmental elites; and (4) the link between perceived corruption and mistrust will generally be stronger for ordinary citizens for elites.

The inequality trap is not simply an issue of making causal inferences from aggregate

statistical models (which many would say is very risky). It is also rooted in how people think about corruption. When people see corruption as rooted in unequal distributions of wealth and justice, they are likely to become cynical about the world around them. This cynicism will lead to greater in-group loyalty, to believing that out-groups (including the wealthy) are not to be trusted, and a greater willingness to do whatever is necessary to get by in a corrupt world. These perceptions of inequality feed upon themselves–and people feel that they are trapped in a corrupt world where the rich get richer and the poor depend upon their patrons.

APPENDIX

World Economic Forum Government Effectiveness Indicators: Question Wording and Coding

Judicial independence:

The judiciary in your country is independent from political influences of members of government, citizens, or firms (1 = no, heavily influenced, 7 = yes, entirely independent)

Efficiency of legal system:

The legal framework in your country for private businesses to settle disputes and challenge the legality of government actions and/or regulations (1 = is inefficient and subject to manipulation, 7 = is efficient and follows a clear, neutral process)

Efficiency of legislative system:

How effective is your national Parliament/Congress as a law-making and oversight institution? (1 = very ineffective, 7 = very effective, equal to the best in the world)

Wastefulness of government spending:

The composition of public spending in your country (1 = is wasteful, 7 = provides necessary goods and services not provided by the market)

Favoritism of government decision-making:

When deciding upon policies and contracts, government officials (1 = usually favor well-connected firms and individuals, 7 = are neutral among firms and individuals)

Transparency of government decision-making:

Uslaner, The Bulging Pocket and the Rule of Law, ch. 3 (53)

Firms in your country are usually informed clearly and transparently by the government on changes in policies and regulations affecting your industry (1 = never informed, 7 = always fully and clearly informed)

NOTES

1. The full text is available at: http://www.amateurgourmet.com/the_amateur_gourmet/2006/05/how_to_survive.html.

2. Using several measures of real growth in GDP and multiple measures of inequality and economic growth, I found almost no correlation between growth and inequality or growth and corruption. GDP per capita adjusted for purchasing power parity (from Penn World Tables) is more strongly related to inequality, but even here the relationship is only moderate: $r^2 = .144$ for the World Bank Ginis from Deininger and Squire (1996) and .251 for the average Ginis from You and Khagram (2006). Using measures of economic growth from the International Country Risk Guide (ICRG) and from the United Nations (http://hdr.undp.org/statistics/data), the r^2 values for regressions on growth and corruption vary from .05 to .l0.

3. The simple correlations with the (imputed) measure of legal fairness are .754 for legal efficiency and .762 for judicial independence. These two measures have a correlation of .943 (all N = 84).

4. The results are very similar to those for a simpler instrumental variable estimation with 73 cases focusing solely on corruption. I use the TI Corruption Perceptions Index for 2004 in this analysis.

5. The International Country Risk Guide of Political Risk Services is an index of 22 indicators of the overall level of risk in a country's economic and political systems. The ICRG overall risk index is composed of 12 political components, five financial, and five

economic risk factors. Higher scores indicate greater risk. The June 2005 data I employ rank Norway (1), Luxembourg (2), and Switzerland (2) as the most stable/least risky countries in this sample, with Zimbabwe (137), Serbia (131), and Nigeria (124) as the most troubled countries. The measures are used by international organizations, export credit agencies, banks, and other commercial lenders–as well as private businesses–to determine the creditworthiness of a country. The measure is thus an indication of the financial and political stability of a country. See: http://www.prsgroup.com/commonhtml/methods.html and http://www.prsgroup.com/commonhtml/methods.html#_International_Country_Risk .

6. I use a trichotomized measure of free (+1), partially free (0) and not free (-1) countries.

7. This relationship is clearly endogenous, but it is beyond the present work to examine the endogeneity.

8. The measure of the openness of the economy was provided by Jong-sung You. In the Gini equation, the Muslim share of population comes from http://www.islamicpopulation.com.

9. The inequality gap between countries with no Muslims and the largest Muslim share (Indonesia) is .194; Indonesia is an outlier in this sample (which does not include many Muslim countries). Less extreme is Turkey, and here the difference in effects is reduced to .07.

10. For the full 146 countries in the Failed States project, the greatest failures occur in the

Sudan, the Democratic Republic of the Congo, the Cote D'Ivoire, and Iraq.

11. Corruption may involve violence, as in the actions of the Mafia or in some coercive attempts to extort bribes, but my general point is that there is a different between ordinary economic crimes and violent ones.

12. See http://www.unicri.it/wwd/analysis/icvs/index.php.

13. In 1990, my wife's purse was stolen on the subway (tube) of her native city, London, and she didn't realize that it was gone until the thief had left the train.

14. The estimate for the Phillippines is also an outlier (.780 compared to .471), though not as wildly off as the Japan estimate (.902 compared to .278). Removing the Phillippines as well increases the r^2 to .781.

15. China is a strong outlier, with both high levels of approval for the police (perhaps reflective of a reluctance to make negative comments to strangers) and high levels of pickpocketing. Without China, the r^2 falls to .522.

16. The relationship between pickpocketing and the United Nations Human Development Index is moderately strong (r^2 = .417, N = 31), with India excluded as a strong outlier (with India, r^2 = .218).

17. The number of countries is smaller than the full samples, because of missing data on inequality for some nations. The models were estimated using the xtmixed procedure of Stata 9.

18. When a model fails to converge, the country-level effects will not be estimated. The Gini index I employ for the Gallup International Millennium Survey is the average Gini from 1947-1996 and comes from a data set graciously provided by Jong-Sun You (see You and Khagram, 2006). For the TI Global Corruption Barometer, I employ Gini indices from the United Nations Development Program. These two Gini indices are highly correlated at the aggregate level (r = .831, N = 81). I employ different Ginis for the two surveys to maximize the number of countries that I can retain in the analyses.

19. Sixty-one percent of respondents from Cameroon gave positive responses, but Cameroon was not included in the hierarchical linear models.

20. Higher status individuals on income, employment, and education and young people should be less likely to perceive corruption as high. In countries with more traditional cultures, men may be more likely to be the points of contact for petty corruption, so I expect that they will be more likely to perceive corruption. Muslim and Catholic countries tend to have somewhat higher levels of corruption and especially lower levels of generalized trust, so adherents of these religions should be more likely to perceive more corruption. Jewish respondents tend to live in the West, where there is less corruption, so they should be less likely to report high levels of malfeasance. Gender only matters for grand corruption (surprisingly), while older people are more likely to see both types of corruption, but especially grand corruption. Muslims are very slightly more inclined to see grand corruption, but the remaining religious variables are not significant.

21. From data provided by Jong-Sung You.

22. More educated people are less likely to say that corruption affects them, as are older people. The incorrect signs for the East bloc and legal fairness likely reflect the fact that the perceptions of corruption in the model are much higher in East Bloc countries and nations with unfair legal systems.

23. Here I use the measure of economic inequality from You and Khagram (2006) and the estimate of the size of the informal economy from the Executive Opinion Survey of the World Economic Forum. The regression equation (with robust standard errors in parentheses) is: - .002*Gini - .020*Informal Sector - .123*(Offer Bribe), R^2 = .388, N = 51.