

Coping and Social Capital:  
The Informal Sector and the Democratic Transition\*

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## Uslaner, “Coping and Social Capital” (1)

Successful (or “well-ordered”) democracies are marked by high levels of trust in other people and in government, low levels of economic inequality, and honesty and fairness in the public sphere. Trust in people, as the literature on social capital has shown, is essential for forming bonds among diverse groups in society (see Uslaner, 2002). Corruption robs the economy of funds and leads to less faith in government (perhaps also to less faith in fellow citizens) and thus lower compliance with the law (Uslaner, 2003b). And institutions seen as biased (unfair) cannot secure compliance and may exacerbate inequalities in society.

Transition countries are short on both trust in people and trust in government (Uslaner, 2003a). Under totalitarian regimes, there was little sense of social solidarity. The state was feared rather than legitimate (Howard, 2003). Transition countries are also lacking in honest and fair institutions. And they have more than their share of corruption and an underground economy. It is hardly surprising that the road to transition has been rocky: Many citizens have little faith in their leaders or their fellow citizens. This low sense of solidarity leads to lower levels of tax compliance and higher levels of corruption, with negative effects for economic growth more generally.

Trust is more than simple honesty (Uslaner, 2002, chs. 2, 3, 5). But honesty is a minimal requirement for trust—which, in turn, promotes open markets, tolerance, programs that benefit people and groups with less, and reconciliation across ethnic and religious lines within a society. A “well-ordered” society has high levels of trust—and “everyone accepts and knows that the others accept the same principles of justice, and the basic social institutions satisfy and are known to satisfy these principles” (Rawls, 1971:454). It is prosperous and its government earns the

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approval of its citizens.

This picture of the “well ordered society” where democracy, in Putnam’s (1993) felicitous term, “works” stands in contrast to most transition countries, and Romania in particular. The formerly Communist nations of Central and Eastern Europe have become democracies with functioning electoral systems. But they rank low in generalized trust—with an average share of 24.9 percent believing that “most people can be trusted,” compared to 41.9 percent in the West. When trust is low, it is more difficult to manage conflicts within a society. Social strains make a society more difficult to govern—and governments will have more difficulty winning the support of their citizens. Low confidence in government and beliefs that democracy is not working and that the market is unfair lead to lower compliance with the law.

The informal sector loomed large under Communism. Scarcity and corruption meant that ordinary citizens had to use informal connections to accomplish everyday tasks such as obtaining goods, getting medical treatment, obtaining a loan, and especially dealing with governmental institutions. The informal networks that arose were essential to getting by in daily life. They were not networks of sociability, but in a society where any sort of trust was hazardous, they constituted one of the few sources of social connections available to most people.

Survey evidence suggests that these ties were purely instrumental: People generally did not see their connections as personal confidants; nor did they “generalize” the trust they had in these informal networks to others in the society. However, under Communism, this was as close to “social capital” as most people were likely to get. Ordinary people also regularly had to make extra “gift” payments to doctors and government officials (from the police to the courts to city hall). These “connections” were potentially a source of “anti-social capital,” since the “gifts”

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were made for services that should have been provided without additional costs.

The fall of Communism did see the emergence of a market economy where people had to stand on line to obtain consumer goods or food. However, corruption persists (and some say it has become worse). The culture of corruption that persists in post-Communist society also means that informal connections are still an essential part of dealing with daily life (especially with the government).

Reliance on connections and gift payments are key parts of the informal sector. In a market democracy, neither should be necessary. In a market, people should be able to pay the set price for a good without “hidden” payments being required. In a democracy, all citizens *should* have equal access to decision-makers without having to rely upon informal connections (although this is rarely met in the real world). The reliance on informal connections and gift payments are two measures of the power of the informal economy and the weakness of market democracy.

Do post-communist citizens judge the success of their market democracies by the prevalence of a strong informal sector? I propose to examine this question by a survey of the Romanian public conducted in October, 2003. The survey asks about a wide variety of informal connections that people use in their daily lives. Do people have connections that they rely upon to get medical treatment, to find jobs, to deal in the business world, to obtain loans from a bank, to deal with courts or the police, to handle problems at city hall, or in a foreign country? Have people made gift payments to doctors, to bank officers, to the police, to the courts, or to city officials?

How do these informal connections shape people’s attitudes toward the trustworthiness of their fellow citizens, satisfaction with democracy, and satisfaction with the market economy? A

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modern democratic market economy where people trust each other and their institutions should not be dependent upon “gift payments” that violate norms of trust and reciprocity or special connections that are not available to all citizens. Special treatment for some could undermine the social solidarity that is encapsulated in generalized trust (in other people) and might lead people to lose confidence in impartial governmental institutions and the development of a market democracy.

Do people see the persistence of the informal sector as harming the transition from communism to market democracy? Or might people with connections be satisfied with the system as it presently operates?

A third possibility is that lower-level corruption such as the informal sector plays only a minimal role in shaping people’s attitudes toward each other or government. People *do* care about corruption, but their ire is focused on high-level corruption (corrupt politicians, judges, business executives) rather than on the lower-level corruption of the informal sector (cf. Uslaner and Badescu, 2004b).

I test these claims by ordered probit and regression models of survey responses to questions on trust in other people (generalized trust or social solidarity), trust in government institutions, satisfaction with democracy, satisfaction with the market economy, and perceptions of changes in economic inequality in Romania. Bo Rothstein has suggested that the courts are the key instrument of impartial treatment of citizens, so gift payments or connections with the courts in particular may shape people’s attitudes toward each other and toward their government.

The results are striking: Perceptions of increasing inequality reflect negative evaluations of government economic performance and of corrupt leaders. Trust in other people largely reflects

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optimism for the future and perceptions that inequality is decreasing, as well as the belief that politicians are *not* corrupt. Support for democracy reflects expectations of economic performance and perceptions of how well the government is handling large-scale corruption. Support for the market economy reflects similar economic judgments as well as perceptions that private firms are trustworthy and large-scale corruption is being controlled.

*For each of these measures: (1) the informal sector plays a minor role in shaping public evaluations; and (2) the institutions that do have some impact are those that are perceived to be most fair and impartial: the courts and the police. Gift payments are almost always insignificant predictors of trust in fellow citizens satisfaction with democracy and the market, and even perceptions of rising inequality. Using informal connections is sometimes associated with perceptions of rising inequality, but also with better performance of democratic government (where its effects are moderately strong). People see connections and gift payments as part of the routine of getting by in daily life in contemporary Romania. They do not condemn their fellow citizens for relying on these techniques for making life a little bit less difficult in most circumstances. Making “gift payments” to courts do make citizens believe that their fellow citizens are less trustworthy, that inequality is increasing, and that democracy is not working well.*

The overall story of the informal sector is that what matters most to people in post-Communist societies is government performance—both in managing the economy and in curbing high-level corruption. The informal sector remains a key part of life in these societies, but it is mostly seen as a way of coping with a political and economic system rife with corruption. The informal sector does not destroy social cohesion. It does not make people less supportive of government or the market (except for the more “neutral” institutions of the courts and the police).

## Uslaner, “Coping and Social Capital” (6)

Even as they realize that “gift payments” may be an unfair tax, they are generally minor irritants when political and business leaders may be plundering much larger amounts from the public purse. Citizens in transition countries have lived with the necessity of an informal sector for many years. They see it as a minor factor at best impeding the development of a market democracy. With increasing economic inequality and the harshness of the market, it may be a small price to pay to ensure coping.

### *The Informal Sector and the Transition to Democracy*

Under Communism, the state controlled daily life and neighbors were pitted against each other. Trusting strangers must seem a quaint (or even dangerous) idea to people who are afraid to trust all but their closest friends. An oppressive state terrifies all of its citizens. Acting on moral principles makes little sense in a world where even simple reciprocity among strangers is too dangerous to contemplate. Scarcity makes life hard and leads people to seek ways of making their own lives better (Banfield 1958: 110). People have no sense of control and little basis for optimism - so they have little reason not to do whatever they need to do to get by.

If goods and services are in short supply and manipulated by the state, bribery and gift giving seem reasonable ways to obtain routine services. And state officials will find petty corruption a useful means of getting more resources themselves. Corruption will trickle up throughout the system and at the top will be far more than petty. Autocratic societies, with high levels of scarcity and little accountability, are breeding grounds for dishonesty. When people have little reason to trust one another, they will not only engage in corruption but will treat it as just another transaction, marked by no particular moral disapprobation.

In the old Soviet Union, “the official claim that bribery and graft are alien to socialist man

### Uslaner, “Coping and Social Capital” (7)

conflicts with the prevailing popular attitude that there is nothing wrong with officials who practice what Russians commonly call *vzyatka* (literally ‘the take,’ a bribe or graft)” (Kramer, 1977, 220). Barely more than a third of Hungarians see a moral problem when doctors demand “gratitude payments” for medical services (Kornai 2000: 3, 7, 9). This system of “gift giving” is so widespread that almost all doctors accept “gratitude money”; 62 percent of physicians’ total income came off the books. A majority of Russians found it necessary to use connections to get clothes and medicine and ten percent still needed someone’s help in getting into a hospital after the fall of Communism (Ledeneva 1998: 8). In an economy marked by shortages and arrogant administrators, many people saw these payments as a way to ensure supply and also to establish longer-term relations with their doctors.

In many of the transition countries, there is a longing for the “bad old days,” where governments were corrupt and totalitarian, but people had a minimum of financial security. Now, many see democracy and the market as false hopes as inequality has risen dramatically. Corruption persists. The only way to get rich, many believe, is to be corrupt. Wealth is a sign of strong connections and especially of dishonesty (Mateju, 1997, 4-5; Stoyanov et al., 2000, 35). While most Westerners believe that the path to wealth stems from hard work, 80 percent of Bulgarians, Hungarians, and Russians say that high incomes reflect dishonesty (Kluegel and Mason, 2000, 167; cf. Orkeny, 2000, 109).

When Russian entrepreneur Mikhail Khorodovsky confessed his sins of relying on “beznissmeny” (stealing, lying, and sometimes killing) and promised to become scrupulously honest in early 2003, Russians regarded this pledge as “startling.” When he was arrested and charged with tax evasion and extortion under orders from President Vladimir Putin ten months

## Uslaner, “Coping and Social Capital” (8)

later, the average Russian was unphased: About the same share of people approved of his arrest as disapproved of it (Tavernise, 2003). The arrest of Khorodovsky stands out as exceptional: Corrupt officials and business people are rarely held to account. While crime spiralled in Russia after the fall of Communism, *conviction rates plummeted* (Varese, 1997). Market democracy seems a false promise to many in transition countries and their citizens see little prospect that things will improve any time soon. Many would find much to agree with the comment of the satirical group, The Royal Canadian Air Farce, in the 1980s: “Things are going to get a lot worse before they turn bad.”

There are plenty of goods in the market, but few have sufficient income to buy anything but the basics. People don't need to stand in line for shoes or meat. But they still make extra “gift” payments for medical services, to get into the university, and to the police for minor infractions. A majority of public officials in the Czech Republic, Slovakia, Bulgaria, and Ukraine in 1997-98 found it acceptable to receive extra payments from clients. Between 11 and 39 percent of citizens of those countries (in that order) reported offering a “small present” to officials and between 6 and 24 percent offered “money or an expensive present” (Miller *et al.*, 2001, 217, 241). Across the four countries, from 47 percent to 78 percent of officials admitted accepting a gift from a client. The police and legal services were the most “honest” and health services personnel were most likely to admit accepting a favor (Miller *et al.*, 2000, 10).

Under Communism, people did have social networks of people they could trust. People formed small networks to help them get by in daily life - to stand in line for scarce products, to help out close friends, relatives, and neighbors (Ledenva 1998). While Putnam (2000: 288) argues that these strong ties are the stepping stones to trust in strangers, there is little evidence that one

## Uslaner, “Coping and Social Capital” (9)

form of trust leads to another, either in formerly Communist countries or in the United States.

The helping networks that played such a key role in the Communist regimes were *substitutes* for the wider social networks that were simply not possible under repressive governments (Flap and Voelker 2003; Gibson 2001; Ledeneva 1998, ch. 5). When communism fell in Central and Eastern Europe (mostly around 1989), reformers hoped that state control of political life would give way to civil society with trusting and tolerant citizenries and property rights would be respected.. The downfall of corrupt dictators would energize people, make them optimistic for the future, and provide the foundation for trust and the civic culture more generally (Rosenberg 1956; Lane 1959: 163-166).

In a world where elites are routinely seen as dishonest--79 percent of World Values Survey respondents from post-communist countries said that either most or all leaders are corrupt --people might be unlikely to believe that they live in a trusting (much less trustworthy) society. The end of state control of the economy meant the demise of many of the networks that people used to get by. Yet corruption persisted.

### *How and Why Corruption Matters*

Generalized trust, as the belief that people who are different from yourself may still be part of your “moral community,” is a value stressing cooperation and compromise. Particularized, or in-group trust, is a more exclusionary attitude. Taking advantage of people who are different from yourself may be a necessary evil—or perhaps not an evil at all. Gambetta (1993) links high in-group trust and low generalized trust in Italy as the social foundations for the Mafia. Corruption depends upon *a limited form of trust—trust in close associates*. But it is the antipathy of generalized trust, where you should treat strangers as yourself (Uslaner, 2004).

## Uslaner, “Coping and Social Capital” (10)

Generalized trust (in other people) rests upon two social psychological foundations: optimism and control. The world is a good place, it is going to get better, and you can help make it better (Uslaner, 2002, ch. 2). Both optimism and control were particularly lacking under Communism. There was a brief spurt in optimism immediately after transition, but as the economies of transition countries soured, most people were no longer convinced that they faced a brighter future. At the societal level, the foundation of trust, and social solidarity more generally, is the level of economic equality in a society: Both over time in the United States and across nations, economic inequality is the strongest predictor of generalized trust (Uslaner, 2002, chs. 6 and 8). Every country for which there are data on changes in economic inequality save one (Slovakia) showed an increase in economic inequality from 1989 to the mid-1990s (Rosser, Rosser, and Ahmed, 2000). And all but one (Hungary) of the 17 countries for which there are data had a sharp increase (from .3 to 42 percent) in the size of the shadow economy (Schneider, 2003). The greater the share of the economy beyond the reach of the state, the more difficult it will be for a government to marshal the resources to gain public confidence that the state can provide essential services. The average share of the shadow economy more than doubled from 1989 to 1999-2000 (from 17 percent to 38 percent) and the average increase in the Gini index of inequality was 33 percent.

Corruption is associated with higher rates of crime and tax evasion, closed markets, lower economic growth, and less efficient government institutions (Leite and Weidemann, 1997; Mauro, 1997; Tanzi, 1998; Treisman, 2000; Uslaner, 2004). Corruption is widespread in former Communist countries. The mean score on the Transparency International corruption indicator for

## Uslaner, “Coping and Social Capital” (11)

east bloc countries is more than half the size of that for the West (with higher scores indicating greater honesty).

Corruption matters because it:

- \* Creates social strains by increasing (perceptions of) economic inequality and destroying the senses of optimism and control over your life that are the building blocs of generalized trust.
- \* Leads to perceptions that the market and the democratic system have failed. Market democracy seemed to many transition citizens to pave the road to prosperity and political freedom that Western nations had achieved. Corruption brings forth the fatalism of people living in the old Soviet bloc. By diverting funds from public purposes, corruption is a drag on the economy. As the economy sags, so will support for the market and democracy.
- \* Can destroy social solidarity, both directly and indirectly. The direct effect is through the impact of corruption on trust—where people feel few compunctions about benefitting themselves and their in-group at the expense of the larger society. The indirect effect comes from the connection with economic inequality.

Not all corruption is the same. Bribery and extortion are high-level corruption, while the informal economy is low-level malfeasance. Where you find one, you will find the other.<sup>1</sup> But they are not the same.

Low-level corruption includes both “gift payments” to public officials (the police, government workers, court officers) and to other service providers (especially doctors, business people, and bankers) to get things done in a society where traditional market mechanisms don’t work well. All lower-level officials have an incentive to shirk on the job—to take naps, take time

## Uslaner, “Coping and Social Capital” (12)

off, or simply to sit and do nothing. But in a world of shortages, low pay, and little respect, there are even fewer incentives to perform your job. People may stand in line for hours waiting for their turn to register their cars or to see the doctor; police officers may stop helpless motorists and pedestrians and threaten tickets for minor offenses. Petty corruption is a sure-fire way for such bureaucrats to supplement their meager salaries—and it is often the best or *only* way for powerless citizens to obtain services (DiFrancesco and Gitelman, 1984, 611, 617-618; Hutchcroft, 2002, 502).

Petty corruption also includes the use of “connections” to survive in daily life. In the Communist era, it included taking turns standing in line for different products—you would wait for meat and I would wait for shoes. But it also included informal networks of influence with local officials in government or the courts. In Russia, this was called *blat* (Ledeneva, 1998); *sviazy*, *znakomstvo*, and *protektsiia* (DiFrancesco and Gitelman, 1984). In Romania, it is *pile*; in China, it is *guanxi*. As with gift payments (and bribes), they reflect market failure.

High-level corruption, which includes bribery and cronyism, differs from petty corruption in two ways. First, *it is presumptively illegal*. Second, high-level corruption enriches the small share of the population wealthy enough to pay off public officials and business executives. High-level corruption reinforces (and expands) the economic inequality that is the foundation of generalized trust. So it is hardly surprising that countries with high levels of corruption have low levels of trust and greater economic inequality.<sup>2</sup> High-level corruption exacerbates economic inequality—and especially perceptions of inequality. This in turn drives down generalized trust and trust in government. Perceptions of high-level corruption are particularly important in

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shaping both forms of trust as well as satisfaction with both democracy and the market—and, of course, in the view that inequality is increasing.

It is less clear what to expect of petty corruption. On the one hand, connections *are* a form of social capital. But these close ties with a small number of people were generally a substitute for generalized trust, rather than a facilitator of it. Interactions with people like yourself do *not* lead to generalized trust, and may even work against it (Uslaner, 2002, ch. 5). If these connections are seen as enhancing inequalities in a society, they may constitute negative social capital by increasing social tensions.

Is making “extra” or “gift” payments close enough to the bribery of high-level corruption to create social strains? Hardly, in most cases. Neither the donor nor the recipient of these payments gets “rich.” Ordinary citizens make small payments to cope with the inefficiencies of poorly functioning bureaucracies and markets. There may be something unfair when someone uses connections or makes a small payment to get a traffic ticket fixed, to jump in line at the doctor’s office, or even to get a job. The inequalities are not large and there is no moral approbrium in doing what others would do under similar circumstances. So there is less reason to believe that making gift payments would lead to a loss in faith in other people since neither the payment nor the acceptance of a small “gift” sets one apart from the larger community.

Transition citizens learn to cope with low-level corruption.

High-level corruption should have much more profound effects on perceptions of growing inequality, satisfaction with democracy and the market, generalized trust, and confidence in government than petty dishonesty. Participation in the informal economy may lead to perceptions of greater inequality, but the effects should be small. There is even the possibility that having

## Uslaner, “Coping and Social Capital” (14)

connections may make people *more satisfied* with democratic government—if you have the proper ties, you can make the system work for you.

There is one case in which even low-level corruption might affect attitudes toward democracy, the market, and trust in both people and government, as well as the growth in equality. Rothstein (2001, 491-492) argues that institutions of law and order, the police and especially the courts, can create “trust from above” by insuring that people who flout the law are punished. Courts can promote fairness and thus send a message that they are the defenders of trust in a society. In Romania people who believe that the courts treat everyone fairly *are* more trusting of fellow citizens (Uslaner and Badescu, 2004a). Other governmental institutions are not based upon a presumption of fairness. Even minor violations of equity, such as gift payments to courts or the police or having connections in either, might lead to less faith in people and satisfaction with democracy.

### *The Effects of Big and Little Corruption*

Romania is often considered one of the more troubled new democracies. It ranks low on trust and tolerance (Badescu, Sum, and Uslaner, 2004). Romania is in sixty ninth place out of 91 countries in the 2001 Transparency International rankings and twelfth of 16 transition countries.

My data come from a survey of the Romanian population, carried out in October, 2003 to examine a complex set of relationships linking economic inequality and corruption to the success of the democratic transition. The survey was carried out by the Center for Urban Sociology (CURS) in October 2003, as part of the Public Opinion Barometer program, sponsored by the Soros Foundation for an Open Society - Romania.<sup>3</sup>

## Uslaner, “Coping and Social Capital” (15)

The dependent variables are perceptions that inequality has increased from 1995-96 to 2003, satisfaction with democracy and the market, and generalized trust. The survey has a treasure trove on the informal economy: questions on “extra” payments for visiting doctors, in courts, to city and county officials, to police, and at banks; and connections for medical treatment, in court, at city hall, in the county, for bank loans, for finding a job, in the business world, and in foreign countries. I constructed a factor score for all types of connections. The “extra” payment measures are largely uncorrelated,<sup>4</sup> I include all of these measures in each equation. The connection measures are more highly correlated, so I estimated separate equations for each measure of connections. I report the coefficients for *other* variables only for “any connections” (the factor score). They are virtually identical for the other estimations—and I include the estimations for different types of connections in each table (though they are from different equations). For perceptions of inequality and satisfaction with democracy and the market, I use ordered probit; for generalized trust (a dichotomy), I use simple probit; and for the trust in government scale, I employ regression analysis.<sup>5</sup> For the probit analysis, I also include the “effects” (the changes in probability from the minimum to the maximum value of the predictor).

I present basic descriptive data in Table 1: Romanians are pessimistic about growing inequality (92 percent say that has increased); the way democracy and the market work (34 percent and 13 percent favorable); and in their fellow citizens. Only small shares of Romanians have connections—most frequently with local politics and the police; and only tiny shares made extra payments except for doctors, but this reflects not only willingness to pay but also contact with each office (see n. 4).

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Table 1 about here

Each equation includes the extra payments and one of the connection measures. Beyond that, the models for the four dependent variables reflect theoretical expectations for each. Perceptions of growing inequality should reflect both long-term and short-term expectations for the economy as well as perceptions of corruption. Satisfaction with both democracy and the market should also reflect economic expectations and the overall performance with government policy, as well as perceptions of corruption. Younger people, who did not experience Communism, should also be more supportive of both democracy and the market; and supporters of the ruling party (the PSD) should have greater support for democracy, even though this is the party of reformed Communists (Citrin, 1974). People who long for the old days of strong leaders and government control should show less support for democracy.

Generalized trust should rest upon longer-term expectations for the country (direction right or wrong) rather than immediate economic rewards, as well as perceptions of increasing inequality and levels of social protection in government policy. Increasing inequality and a reduced safety net should lead to lower generalized trust. So should perceptions of corruption, and perhaps trust in government more generally (Brehm and Rahn, 1997; Uslaner, 2002, ch. 4).<sup>6</sup> I present the results in Tables 2 through 5. I first summarize the other determinants of each variable and then move to a more comparative discussion of the informal economy measures.

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Tables 2, 3, 4, 5 about here

## Uslaner, “Coping and Social Capital” (17)

Economic inequality is largely driven by perceptions of the longer-term economic future—quality of life for next year is insignificant—and the overall performance of the government on the quality of life. Surprisingly, measures of high-level corruption are *not* significant. But they are very important in the models for satisfaction with democracy and the market. People who see the government as succeeding in the fight to control corruption are more likely to give high grades to democracy and the market. Both short-term and long-term economic projections, as well as overall satisfaction with life, enhance support for both institutions.

The performance of government on improving the quality of life as well as on enhancing public safety lead to greater satisfaction as well. People who trust private firms are (not surprisingly) more satisfied with the market economy while those who feel that most business people are correct are more critical. Young people are more likely to have favorable views of democracy (but not of the market); PSD supporters are stronger supporters of democracy. PSD support is *by far the strongest predictor* of trust in government (results not shown)—while people who prefer a strong leader and government control of parties and the media are less satisfied with democracy. *Subjective expectations for the future and satisfaction with the present matter more than objective measures of wealth* (which are not significant).

Generalized trust depends most heavily upon expectations for the future, as it does in the United States (Uslaner, 2002, ch. 4): The direction of the country is by far the most significant predictor of trust and the intermediate-term measure of economic success is also significant, though only at  $p < .10$ . Perceptions of rising inequality and of a weakening social safety net also drive down generalized trust. Only one measure of corruption, whether most politicians are corrupt, drives down generalized trust in this estimation. But other measures of corruption (by

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ministers, local councilors, and judges) do shape trust in government (estimates not shown) and may well account for the moderate linkage between trust in government and generalized trust. In simultaneous-equation models, the linkage between the two types of trust vanishes (Uslaner and Badescu, 2004b).

The measures of the informal economy are *mostly insignificant* across the 36 estimations (nine measures of connections for each of four dependent variables). But there are some important exceptions. *Making extra payments to the courts makes people less satisfied with democracy in Romania and also less likely to trust their fellow citizens.* Making a gift payment to the court reduces the likelihood of trust by 15.6 percent. This is the fourth strongest effect, after the direction of the country (effect = .218), trust in government (.197), and whether most politicians are corrupt (.185). It is, as Rothstein (2001) expected, *the only form of gift payment that reduces generalized trust.* Extra payments to doctors marginally decreases satisfaction with democracy, but this part of the informal economy is barely significant ( $p < .10$ ). Informal “gift” payments to the courts violate the expectation of fairness in the judiciary. Otherwise, such payments seem to be largely irrelevant to how Romanians view their political and economic systems. *Perhaps most critically, no form of extra payment—not even to the courts—leads to perceptions of growing inequality or to dissatisfaction with the market.*

Using connections are not so benign. People who have any connections or ties for medical treatments or in courts perceive greater inequality in Romanian life. They clearly realize that they have access lacking to most other citizens. But these effects are not large. I dichotomized the inequality variable and computed effects for each type of connection: Court ties increased perceptions of growing inequality by 7 percent, medical intermediaries by only one

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percent, and any connections by 5 percent. Surprisingly, *foreign connections led people to see lower levels of inequality* (by seven percent). This runs counter to expectations (so I use a two-tailed test), but the coefficient is large and the impact seems real. It may well be people with foreign ties see themselves as climbing up the economic ladder—and therefore not as badly off as they once were. People with foreign contacts are more likely to see themselves as well off (the correlations with wealth are  $\tau\text{-}c = .213$ ,  $\gamma = .493$ ). But connections abroad do not breed satisfaction with democracy or the market. In both cases, international ties *lead to lower levels of satisfaction with political and economic institutions*. Foreign networks seem to point to success for individuals, but institutional failures. Democracy and the market *should not be dependent upon foreign contacts*.

Having connections seems to *increase* satisfaction with democracy rather than decrease it (again, using two-tailed tests). Any connections or connections with the police or for finding a job or getting a bank loan lead to more satisfaction with democratic performance. It seems that people who have connections may realize that this breeds inequality, but also that they make government function more smoothly. These effects are not small: Police connections raise satisfaction by 8.5 percent, bank ties by 7.8 percent, help in finding a job by 10.8 percent, and any connections by 19.5 percent (using a dichotomized measure of satisfaction with democracy). But relying on ties outside the country reduces satisfaction with democracy by 2.6 percent—perhaps reflecting the feeling that you need to rely upon friends abroad to get what you want from the system.

Connections, or *pile*, may shape positive views about government, but not about the market. Most of the time, as with gift payments, they are unrelated to views of capitalism. In the

## Uslaner, “Coping and Social Capital” (20)

two instances of significant coefficients—ties with foreigners and any ties at all—the impact is negative, as initially expected. But these effects are not large (in the area of 1 percent for a dichotomized measure). And there are *no* significant effects for any forms of connections needed to get things done with generalized trust (or for estimations for trust in government, not shown).<sup>7</sup>

### *Reprise*

*Even though Romanians do see a connection between connections and growing economic inequality—and inequality and trust in both people and in government (not shown)—they also recognize that having such ties makes democracy work with fewer hitches. They seem generally unbothered by using informal ties—and not much at all by having to make “extra” gift payments for routine services. Having used connections and having made gift payments for so long under Communism, transition citizens do not see these parts of the informal economy as moral quandaries. Instead, they are part of daily life and they are very different from the high-level corruption that underlies their more fundamental frustrations.*

The informal economy neither builds nor destroys social capital. The sort of trust that underlies cooperation and leads to tolerance, open markets, and economic growth is independent of the social ties in networks of connections. These are ties established for specific purposes and they do not shape one’s fundamental world view. Trust is not destroyed by demands for extra payments for routine services: The small stakes don’t enrich some at the expense of others, so unfair gains are minimal.

Capitalism and democracy are problematic because of market and policy failures--especially big corruption—not because of the market imperfections of the informal economy. The

**Uslaner, “Coping and Social Capital” (21)**

informal economy does not destroy social capital or faith in institutions. It is big corruption rather than the minor malfeasances made necessary by weak institutions and culture that matters most.

Uslaner, "Coping and Social Capital" (22)

TABLE 1

Perceptions of Romanians on Inequality, Democracy, the Market,  
Fellow Citizens, their Government, Connections, and Gift Payments

<b>Attitude</b>	<b>Proportion</b>
Inequality has increased	91.6
Satisfied with the way democracy works	33.5
Satisfied with the way the market works	13.4
Most people can be trusted	34.1
Have connections for medical treatment	35.1
Have connections for finding job	11.1
Have connections to rely on in the business world	6.6
Have connections for problem at city hall	20.7
Have connections to help get loan from bank	10.0
Have connections for problem with county government	5.4
Have connections to deal with courts/lawyers	11.6
Have connections to deal with police	15.6
Have connections to rely on for finding job	11.1
Have connections to rely on in foreign country	11.2
Made "extra" payments to doctor	25.0
Made "extra" payments to bank in getting loan	.7
Made "extra" payments to police	1.4
Made "extra" payments to courts	3.2
Made "extra" payments to city officials	2.5
Made "extra" payments to county officials	.3

TABLE 2  
Perceptions of Increasing Inequality in Romania: Ordered Probit

Independent Variable	Coefficient	Standard Error	t ratio
Quality of life next year	.054	.051	1.06
State of national economy in three years	.119**	.052	2.26
Wealth (can afford consumer goods)	.013	.013	1.04
Performance of government on quality of life	-.243****	.047	-5.13
Most government ministers are corrupt	.038	.058	.66
Most local officials are corrupt	.014	-.025	.25
Most politicians are corrupt	.164	.070	2.36
Most judges are corrupt	-.029	.064	.46
<i>Made "extra" payments when visiting doctor</i>	-.085	.092	-.93
<i>Made "extra" payments to court</i>	.137	.217	.63
<i>Made "extra" payments to city officials</i>	.245	.252	.97
<i>Made "extra" payments to county officials</i>	.925	.770	1.20
<i>Made "extra" payments to police</i>	-.455	.310	1.47
<i>Made "extra" payments to bank</i>	.146	.434	.33
<b>Have any connections to rely upon</b>	<b>.066**</b>	<b>.039</b>	<b>1.70</b>
<b>Have connections to rely on for medical treatment</b>	<b>.164**</b>	<b>.084</b>	<b>1.96</b>
<b>Have any connections to rely upon in court/lawyer</b>	<b>.201**</b>	<b>.118</b>	<b>1.70</b>
<b>Have any connections to rely upon at city hall</b>	<b>.090</b>	<b>.093</b>	<b>.97</b>
<b>Have any connections to rely on dealing with county</b>	<b>-.227</b>	<b>.158</b>	<b>-1.44</b>
<b>Have any connections to rely upon for bank loan</b>	<b>.025</b>	<b>.118</b>	<b>.22</b>
<b>Have any connections to rely upon for finding job</b>	<b>-.060</b>	<b>.117</b>	<b>-.51</b>
<b>Have any connections to rely upon in business world</b>	<b>-.896</b>	<b>.770</b>	<b>-1.16</b>
<b>Have any connections to rely on in foreign country+</b>	<b>-.492***</b>	<b>.125</b>	<b>-3.94</b>

\* p < .10 \*\* p < .05 \*\*\* p < .01 \*\*\*\* p < .0001  
-2\*Log Likelihood Ratio = 1602.87 N = 971

Coefficients for variables other than "connections" are for "any connections." Cutpoints omitted.  
+ Two-tailed test of significance (all other tests one-tailed)

Uslaner, "Coping and Social Capital" (24)

TABLE 3  
Satisfaction with Democracy in Romania: Ordered Probit

Independent Variable	Coefficient	Std. Error	t ratio
Quality of life next year	.086**	.047	1.85
State of national economy in three years	.246****	.045	5.49
Life satisfaction	.187****	.054	3.44
Wealth (can afford consumer goods)	-.022	.012	-1.75
Performance of government on quality of life	.249***	.104	2.44
Performance of government in enhancing public safety	.364***	.124	2.94
Performance of government in reducing corruption	.238****	.049	4.89
Romania needs a strong leader	-.112***	.043	-2.62
State should control media and political parties	-.043**	.025	-1.75
Supporter of PSD (former Communist party)	.140****	.028	4.90
Age	-.003*	.002	-1.44
<i>Made "extra" payments when visiting doctor</i>	<i>-.108*</i>	<i>-.080</i>	<i>-1.35</i>
<i>Made "extra" payments to court</i>	<i>-.324*</i>	<i>.200</i>	<i>-1.62</i>
<i>Made "extra" payments to city officials</i>	<i>-.030</i>	<i>.225</i>	<i>-.13</i>
<i>Made "extra" payments to county officials</i>	<i>1.804</i>	<i>.797</i>	<i>1.36</i>
<i>Made "extra" payments to police</i>	<i>-.189</i>	<i>.259</i>	<i>-.73</i>
<i>Made "extra" payments to bank</i>	<i>-.021</i>	<i>.399</i>	<i>-.53</i>
<b>Have any connections to rely upon+</b>	<b>.069**</b>	<b>.034</b>	<b>2.07</b>
<b>Have connections to rely on for medical treatment+</b>	<b>.102</b>	<b>.070</b>	<b>1.46</b>
<b>Have any connections to rely upon in court/lawyer+</b>	<b>.116</b>	<b>.100</b>	<b>1.16</b>
<b>Have any connections to rely upon at city hall+</b>	<b>.116</b>	<b>.078</b>	<b>1.46</b>
<b>Have any connections to rely on dealing with county+</b>	<b>.091</b>	<b>.131</b>	<b>.69</b>
<b>Have any connections to rely on for police problem+</b>	<b>.181**</b>	<b>.078</b>	<b>2.06</b>
<b>Have any connections to rely upon for bank loan+</b>	<b>.198**</b>	<b>.103</b>	<b>1.93</b>
<b>Have any connections to rely upon for finding job+</b>	<b>.157*</b>	<b>.102</b>	<b>1.54</b>
<b>Have any connections to rely upon in business world+</b>	<b>.013</b>	<b>.121</b>	<b>.11</b>
<b>Have any connections to rely upon in foreign country</b>	<b>-.249**</b>	<b>.099</b>	<b>-2.51</b>

\* p < .10 \*\* p < .05 \*\*\* p < .01 \*\*\*\* p < .0001

-2\*Log Likelihood Ratio = 2560.94 N = 1082

Coefficients for variables other than "connections" are for "any connections." Cutpoints omitted.

+ Two-tailed test of significance (all other tests one-tailed)

Uslaner, "Coping and Social Capital" (25)

TABLE 4  
Satisfaction with Market Economy in Romania: Ordered Probit

Independent Variable	Coefficient	Standard Error	t ratio
Quality of life next year	.125***	.045	2.79
Satisfaction with income	.085**	.051	1.68
Life satisfaction	.108**	.058	1.87
Wealth (can afford consumer goods)	-.020	.013	-1.56
Performance of government on quality of life	.424***	.103	4.10
Performance of government in enhancing public safety	.188*	.124	1.522
Performance of government in reducing corruption	.254****	.048	5.33
Most business people are corrupt	-.086**	.04	-2.13
Trust in private firms	.178****	.036	5.01
Age	.001	.002	.69
<i>Made "extra" payments when visiting doctor</i>	-.069	.078	-.89
<i>Made "extra" payments to court</i>	.068	.177	.385
<i>Made "extra" payments to city officials</i>	.249	.206	1.21
<i>Made "extra" payments to county officials</i>	.134	.804	.17
<i>Made "extra" payments to police</i>	-.226	.277	-.82
<i>Made "extra" payments to bank</i>	-.090	.399	-.23
<b>Have any connections to rely upon</b>	<b>-.044*</b>	<b>.034</b>	<b>-1.30</b>
<b>Have connections to rely on for medical treatment</b>	<b>.006</b>	<b>.071</b>	<b>.09</b>
<b>Have any connections to rely upon in court/lawyer</b>	<b>-.106</b>	<b>.102</b>	<b>-1.03</b>
<b>Have any connections to rely upon at city hall</b>	<b>-.051</b>	<b>.081</b>	<b>-.63</b>
<b>Have any connections to rely on dealing with county</b>	<b>-.151</b>	<b>.139</b>	<b>-1.08</b>
<b>Have any connections to rely on for police problem</b>	<b>-.047</b>	<b>.088</b>	<b>-.053</b>
<b>Have any connections to rely upon for bank loan</b>	<b>-.129</b>	<b>.105</b>	<b>-1.22</b>
<b>Have any connections to rely upon for finding job</b>	<b>-.132</b>	<b>.102</b>	<b>-1.29</b>
<b>Have any connections to rely upon in business world</b>	<b>.185</b>	<b>.805</b>	<b>.23</b>
<b>Have any connections to rely upon in foreign country</b>	<b>-.351***</b>	<b>.102</b>	<b>-3.45</b>

\* p < .10 \*\* p < .05 \*\*\* p < .01 \*\*\*\* p < .0001  
-2\*Log Likelihood Ratio = 2462.92 N = 1086

Coefficients for variables other than "connections" are for "any connections." Cutpoints omitted.

Uslaner, "Coping and Social Capital" (26)

TABLE 5  
Generalized Trust in Romania: Probit Analysis

Independent Variable	Coefficient	Standard Error	t ratio	Effect
Trust in government scale	.122**	.054	2.26	.197
Direction of country right or wrong	.622****	.100	6.24	.218
State of national economy in three years	.091*	.059	1.53	.120
Inequality change	-.123**	.070	-1.75	.125
Level of social protection increased or decreased	-.113**	.066	1.72	.120
Wealth (can afford consumer goods)	.034**	.015	2.27	.144
Most ministers are corrupt	-.020	.064	-.31	-.020
Most local councilors are corrupt	-.019	.062	-.31	-.019
Most politicians are corrupt	-.181**	.077	-2.36	-.185
Most judges are corrupt	-.043	.071	-.61	-.043
<i>Made "extra" payments when visiting doctor</i>	<i>-.014</i>	<i>.107</i>	<i>-.13</i>	<i>-.004</i>
<i>Made "extra" payments to court</i>	<i>-.530**</i>	<i>.304</i>	<i>-1.75</i>	<i>-.156</i>
<i>Made "extra" payments to city officials</i>	<i>-.231</i>	<i>.317</i>	<i>-.73</i>	<i>-.073</i>
<i>Made "extra" payments to police</i>	<i>-.139</i>	<i>.367</i>	<i>-.38</i>	<i>-.148</i>
<i>Made "extra" payments to bank</i>	<i>-.503</i>	<i>.511</i>	<i>-.99</i>	<i>-.056</i>
<b>Have any connections to rely upon</b>	<b>-.037</b>	<b>.045</b>	<b>-.08</b>	<b>-.055</b>
<b>Have connections to rely on for medical treatment</b>	<b>-.052</b>	<b>.096</b>	<b>-.05</b>	<b>-.016</b>
<b>Have any connections to rely upon in court/lawyer</b>	<b>-.170</b>	<b>.138</b>	<b>-1.23</b>	<b>-.054</b>
<b>Have any connections to rely upon at city hall</b>	<b>-.117</b>	<b>.113</b>	<b>-1.04</b>	<b>-.038</b>
<b>Have any connections to rely on for police problem</b>	<b>.033</b>	<b>.120</b>	<b>.03</b>	<b>.011</b>
<b>Have any connections to rely upon for bank loan</b>	<b>.037</b>	<b>.141</b>	<b>.03</b>	<b>.012</b>
<b>Have any connections to rely upon for finding job</b>	<b>-.035</b>	<b>.131</b>	<b>-.27</b>	<b>-.011</b>
<b>Have any connections to rely upon in business world</b>	<b>-.165</b>	<b>.160</b>	<b>-1.03</b>	<b>-.057</b>
<b>Have any connections to rely upon in foreign country</b>	<b>-.194*</b>	<b>.139</b>	<b>1.39</b>	<b>-.062</b>
Constant	-.288	.359	-.80	

\* p < .10 \*\* p < .05 \*\*\* p < .01 \*\*\*\* p < .0001

Estimated R<sup>2</sup> = .341 -2\*Log Likelihood Ratio = 1097.02 N = 948

Percent predicted correctly: 70.4 (model) 64.7 (null)

Coefficients for variables other than "connections" are for "any connections."

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## Uslaner, “Coping and Social Capital” (32)

### NOTES

- \* I am grateful to the Russell Sage Foundation and the Carnegie Foundation for a grant under the Russell Sage program on The Social Dimensions of Inequality (see [http://www.russellsage.org/programs/proj\\_reviews/social-inequality.htm](http://www.russellsage.org/programs/proj_reviews/social-inequality.htm)), to the General Research Board of the Graduate School of the University of Maryland—College Park, and to the Starr Foundation Institutional Research and Exchanges Board of the United States Department of State. I am especially indebted to my colleague Gabriel Badescu for helpful comments throughout and for making his data available to me and to Paul Sum, Mark Lichbach, and Anton Oleinik for helpful conversations.
1. The simple correlation between the Transparency International 2003 Corruption Perceptions Index and the World Bank summary of the size of the unofficial economy is  $-.698$  (higher scores on the TI index represent less corruption).
  2. The correlation between the 2003 TI measure of corruption and James Galbraith’s measure of economic inequality for 1994 (the year with the largest number of cases, available at <http://utip.gov.utexas.edu/web>) is  $-.502$  ( $N = 67$ ). The correlation with trust for  $N = 71$  is  $r = .692$  (China is excluded because of an unreliable trust measurement).
  3. Information about this program and data sets can be found (in Romanian) at <http://www.osf.ro/ro/bop/cercetare.html>. My collaborator Gabriel Badescu designed this survey and made it available.
  4. Perhaps this is the case because I gave positive scores only to people who had contact with the office *and* who made payments; other scores were zero.
  5. Since these measures of satisfaction and confidence are not independent, ideally I should

### Uslaner, "Coping and Social Capital" (33)

use simultaneous equation estimation. But my major concern is to show how connections and extra payments affect each dependent variable, and the number of overlapping variables would present severe identification problems for the system of 36 equations presented here. In some of the estimations, extra payments to counties are not included because there was insufficient variation and they were automatically dropped by the estimation program (Stata 8).

6. Our measure of trust in government is a factor score from trust in the following institutions: government (generally), president, parliament, justice, the army, police, city hall, and political parties.
7. The exception for trust in government is for ties in finding a job, at  $p < .05$ .