Trust and Corruption*

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Willie Sutton, one of America's most famous criminals, was asked by a judge at one of his trials why he robbed banks. "That's where they keep the money," he replied.

That's one man's story, based firmly in rational choice theory. Why do others rob banks, refuse to pay their taxes, or flout the law more generally? To why people pay little heed to the law, we would generally consider their life histories and the economic and social psychological forces that tear them away from a sense of social responsibility. Or, as the gang member in West Side Story sang, "I'm depraved on account of I'm deprived." My concern here is *not* about why individuals pay little heed to the law, but rather why respect for the law is greater in some countries compared to others–and why this matters.

In particular I shall investigate the relationship between corruption and trust. Corruption is illegal (or barely legal) behavior by political elites, to manipulate the affairs of state for private gain. Trust is a value expressing the belief that others are part of your moral community. It lays the basis for cooperation with people who are different from yourself (Uslaner, 2002). What is not at issue is that the two are strongly related. Trusting societies have less corruption.[1] People who have faith in others are more likely to endorse strong standards of moral and legal behavior (Uslaner, 1999a, 1999b). Alternatively, people who believe that the legal system is fair and impartial are more likely to trust their fellow citizens (Rothstein, 2000).

My task in this paper is to investigate the causal order between trust and corruption– which is the cause, which is the effect, or whether the relationship is reciprocal. The causal order is important because both trust and corruption have consequences–and the literature suggests that these consequences are largely the same. Societies with more trust and less corruption have

better governance, stronger economic growth, spend more on redistribution, and have greater respect for the law among the citizenry. If we want to achieve any or all of these goals (or policies), where do we begin? Do we start with trust or with corruption? Can we simply put the rascals who loot the public purse in jail or must we work to increase trust in society, an arguably much tougher task? How might we reduce corruption or increase trust?

My message is not one of optimism. My initial cross-section results suggests that the connection between trust and corruption is indeed reciprocal–and that the effect of corruption on trust is greater than the opposite causal claim (trust begets an honest political system). It seems that there is considerable support for the old Chinese maxim, "The fish rots from the head down." Corrupt leaders breed distrust throughout society. However, an analysis of *changes* in trust and corruption leads to a different and more pessimistic conclusion: As societies become less corrupt, they do *not* become more trusting. Yet, as countries become more trusting, they become less corrupt. When I turn to the consequences of trust and corruption, I shall show that the causal connection is from trust to corruption, not the other way around. So simply rounding up the usual suspects among the elite and tossing them in the clink will not produce better economic performance or lead to better governance.

The Scourge of Corruption

Corruption and trust seem to be polar opposites. Trust is the cornerstone of a cooperative spirit (cf. Putnam, 1993, 170). It is the moral sentiment that points to what we have in common with each other. Corruption is an expression of selfishness. Trust leads us to give of ourselves, in both time (volunteering) and money (giving to charity, see Uslaner, 2002, ch. 7). Corruption involves expropriating what rightfully belongs to others. Trust rests on a foundation of open-

ness–accepting others for what they are, rather than for what you would like them to be. Transparency is the enemy of corruption. Kleptocracy, government by thieves, rests on hiding stolen assets and maintaining monopolistic control of the polity to ensure that no do-gooder can trace where the money went.

Trust and corruption rest upon fundamentally different views of human nature. Trust is based upon an optimistic view of the world. Trusters believe that the world is a good place, will continue to get better, and that they can make it better (Seligman, 1991; Uslaner, 2002, ch. 4). Corruption rests on a diametrically opposed view of human nature: We rob because we value creature comforts.

This distinction may seem a bit odd, since corruption is much more than a handful of malefactors randomly extorting unsuspecting citizens. Corruption is systematic and involves *trust among the conspirators*. But this is a very different type of trust from the faith in others I have been describing.

There are two dimensions of trust that are relevant here. First is the distinction between moralistic and strategic trust and the second is between generalized and particularized trust. The trust I have placed as an alternative to corruption reflects moralistic trust (the belief that people of different backgrounds may still constitute a "moral community") and generalized trust (the belief that most people can be trusted). Corruption rests on different notions of trust: Strategic trust (trust based upon experience rather than values) and particularized trust (trust only in people like yourself). Strategic trust is based upon our day to day experience with specific people: We trust someone to repay a loan or to live up to their end of a bargain based upon our experience or information we receive from other people we know. Particularized trust is faith only in people

like ourselves (as opposed to people in general). Corrupt networks reflect both types of trust: Corrupt officials rely upon people like themselves–trusting strangers is hazardous when it is so easy to betray each other. Entrance into a corruption network is not easy. Members of a conspiracy of graft cannot simply assume that others are trustworthy (as moralistic trusters do). Treating strangers *as if* they were trustworthy (also as moralistic trusters do) can be hazardous at best. And believing that people without any ties to the conspiracy are trustworthy (as generalized trusters do) threatens the integrity of the cabal.

The difference between generalized and particularized trust is similar to the distinction Putnam (2000, 22) draws between "bonding" and "bridging" social capital. We bond with our friends and people like ourselves. We form bridges with people who are different from ourselves. ***The central idea distinguishing generalized from particularized trust is how inclusive your moral community is.*** When you only trust your own kind, your moral community is rather restricted. And you are likely to extend trust only to people you think you know. So particular- ized trusters rely heavily upon their experiences (strategic trust)–or stereotypes that they believe to be founded in knowledge in deciding whom to trust. But they are not agnostic about strangers. Particularized trusters assume that people unlike themselves are *not* part of their moral commu- nity–and thus may have values that are hostile to their own.

The Roots of Graft

The boss of New York City's Tammany Hall Democratic party machine in the 19th century, George Washington Plunkitt, explained his ill-gotten wealth: "I seen my opportunities and I took 'em" (Riordan, 1948, 4). Corruption transfers resources from the mass public to the elites–and generally from the poor to the rich (see esp. Onishi and Banerjee, 2001). It acts as an

extra tax on citizens, leaving less money for public expenditures (Mauro, 1997, 7; Tanzi, 1998, 582-583). Corrupt governments have less money to spend on their own governments, pushing down the salaries of public employees. In turn, these lower-level staffers will be more likely to extort funds from the public purse. Government employees in corrupt societies will thus spend more time lining their own pockets than serving the public. Corruption thus leads to ineffective government (Mauro, 1997, 5; LaPorta et al., 1998, 32). Businesses may also bribe politicians to gain restrictions on trade and to make it more difficult and expensive for foreign companies to enter domestic markets. Corruption thus closes markets (Leite and Weidmann, 1999, 20, 23; Mauro, 1997, 4). In each instance, corruption harms the economy, by transferring funds from public purposes to private gain, and slows economic growth.

Trust, in contrast, promotes economic growth. As an ideal that leads us to believe that people who are different from us are part of our moral community (Fukayama, 1995, 153; Uslaner, 2002, ch. 2), trust makes us more willing to deal with people who are different from ourselves. This includes opening markets (Uslaner, 2002, chs. 7, 8; Woolcock, 1998). Trust is predicated on the notion of a common bond between classes and races and on egalitarian values (Putnam, 1993, 88, 174; Seligman, 1997, 36-37, 41). Faith in others leads to empathy for those who do not fare well, and ultimately to a redistribution of resources from the well-off the poor. Trusting societies are more likely to spend more on social programs, to have more effective governments, to more open economies, lower crime rates, and higher economic growth (LaPorta et al., 1997, 335; Uslaner, 2002, ch. 8).

Trust brings lots of good things and corruption lots of bad things. Corruption destroys more than our economy. It also tears apart our moral fiber, our respect for the law, and ulti-

mately our faith in others. When elites exploit the state for their own gain, the public comes to accept theft as part of daily life. This is trickle-down immorality, as reflected in the old Chinese expression, "The fish rots from the head down."

Mauro (1998a, 12) points to the contaminating effects of corruption (in what I shall call the "rotting fish" account):

> You live in a society where everybody steals. Do you choose to steal? The
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> probability that you will be caught is low, because the police are very busy chasing
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> other thieves, and, even if you do get caught, the chances of your being punished
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> severely for a crime that is so common are low. Therefore, you too steal. By
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> contrast, if you live in a society where theft is rare, the chances of your being
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> caught and punished are high, so you choose not to steal.

On the other hand, an honest government, one that enforces the law fairly and provides little opportunity for private gain, can lead people to have greater faith in each other, this top-down approach holds (Levi, 1998; Misztal, 1996, 251; Offe, 1996, 27; Seligman, 1997, 37). Rothstein (2000, 19, 21-22) argues that people are not likely to lose faith in others just because they have venal politicians. However, when the legal system fails to punish transgressors, be they other citizens or political leaders, people will no longer feel quite so warm toward their fellow citizens:

> Political and legal institutions that are perceived as fair, just and (reasonably)
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> efficient, increase the likelihood that citizens will overcome social dilemmas.... In a
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> civilized society, institutions of law and order have one particularly important task:
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> to detect and punish people who are "traitors," that is, those who break contracts,

steal, murder, and do other such non-cooperative things and therefore should not

be trusted. Thus, if you think that particular institutions do what they are sup-

posed to do in a fair and efficient manner, then you also have reason to be-

lieve...that people will refrain from acting in a treacherous manner and you will

therefore believe that "most people can be trusted."

Rothstein (2001, 21) argues in favor of the linkage between trust in the legal system and

faith in people by citing correlations between the trust in different governmental institutions and

generalized trust in Swedish surveys conducted from 1996 through 2000. Of 13 governmental

institutions, the correlations with trust in people are highest (though barely) for the police and the

courts.

Tyler (1990, chs. 4, 5) argues that people respect the law because they believe that the

justice system is fair and that they have been treated fairly. We are most likely to obey the law if

we believe that the law is enforced fairly, not because we are afraid of being punished. Our

personal experiences with the law shape our belief that the legal authorities are legitimate. If

people feel that they have been treated unfairly by the police or in the courts, they are less likely to

have faith in the legal system. The key to less corruption–and more trust–then, is an effective

system of property rights and the rule of law (Lambsdorff, 1999; Leite and Weidemann, 1999, 20,

23; Treisman, 2000).

The "rotting fish" account sees corruption as an a plague on the ordinary citizen imposed

by selfish and unaccountable leaders. Consider this saga of dishonesty in government in a mid-

sized American city, Paterson, New Jersey, at the turn of the 20th century (Norwood, 1974, 52-

53):[2]

...when the working class did start to build a power base, it was unceremoniously

cut off. By 1907 the longtime practice of city aldermen's selling jobs on the

municipal payroll was so blatant that the New Jersey Legislature established a

special form of government solely for the city of Paterson. It revoked the alder-

men's power and left them with only such insignificant duties as licensing dogs,

peddlers, and junkyards. The mayor became the single elected official with

authority.

Did corruption in Paterson stem from an unaccountable elite? The "rotting fish" account stresses

empowering the people, through free elections, independent media, and structural reforms to

bring government closer to the people (Adsera, Boix, and Payne, 2000; Brunetti and Weder,

1999; Fisman and Gatti, 2000; Treisman, 2000).

In contrast to the "rotting fish" argument, the "*raccomandazione*" thesis emphasizes how

corruption is part of the larger culture. *Raccomandazione* is the Italian practice of soliciting

favors from people in high places (what Plunkitt would call "honest graft"). In October, 2000, the

director of a civil court in Southern Italy received 88 pounds of fish in return for helping to

expedite the case of a plaintiff. A lower court convicted the director of corruption, but a higher

court overruled the verdict. The director could only be convicted of *pretending* to influence

higher authorities; punishment would be warranted only if the official *couldn't* deliver. Even direct

evidence of pay-offs (what New York Times reporter Alessandra Stanley, 2001, called "squid pro

quo") was insufficient to convict. Former Prime Minister Giulio Andreotti was acquitted in 1999

of a charge he tried to influence the Mafia; a judge in Palermo postponed a new trial, arguing that

the court had more important business. *Raccomodazione* "is by now so deeply rooted in our

culture that most people believe it is an indispensable tool when seeking even that to which they are entitled," a court wrote in 1992 as it overturned yet another conviction for influence peddling (Stanley, 2001).

The *raccomodazione* account emphasizes that corruption does not depend upon venal leaders. Rather, it is ingrained into the political culture of a society (Husted, 1999). Italian society has traditionally been marked by low levels of generalized trust (Almond and Verba, 1960). However, there are high levels of in-group, or particularized trust, and these strong in-group ties are the foundation for the Mafia's ring of corruption (Gambetta, 1993). These strong ties among an in-group establish bonds of reciprocity that help to sustain a corrupt regime: Corrupt officials need to be sure that their "partners" *will deliver* on their promises (Lambsdorff, 2002a, 2002b). Lambsdorf (2002a) argues: "...if corrupt deals cannot be enforced, this can act as a deterrent to corruption itself." So particularized trust may create the same bond among corrupt officials that generalized trust does in the larger society–but with opposite consequences. Widespread distrust in the larger society makes strategic trust relationships among corrupt officials easier to sustain.

The message of *raccomodazione* is that you can't cleanse a polity by replacing its leaders–or even its laws. Laws may set out fierce punishments, as in Italy. Yet, most bad deeds go unpunished (Tanzi, 1998, 574). We can tinker with institutional design and even restructure entire political systems. We can put political leaders in jail. But cultures of corruption will not wither away. We tend to look to democratization and structural reforms as the solutions to all sorts of problems, but they rarely have the pay-offs we might wish. 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).

The history of Paterson, New Jersey and its surrounding county of Passaic points to the futility of reform efforts. Paterson and its surrounding county, as most Northeastern industrial areas, for many years was dominated by a corrupt Democratic machine. Now Republicans alternate with the Democrats in power. Both the city and the county have been restructured their electoral systems. Yet, six major government or party officeholders and more than a handful of police officers have either been convicted of or face indictment for receiving or demanding kickbacks (The Record, 2001). In 1988, the state of New Jersey took control of the Paterson school system, charging rampant corruption (Lindsay, 1998).

On the *raccomandazione* thesis, the causal linkage puts trust first. Honest government depends upon a foundation of generalized trust. Trusting people are optimists with an upbeat view of human nature. They treat their fellow citizens *as if they were trustworthy*, even in the face of contrary evidence (Uslaner, 2002, chs.2, 4). They have confidence in their laws because they know that they don't have to rely upon the strong arm of the law as a matter of course (cf. Macauley, 1963, 58, 60). Trust leads to empathy with others–and thus a respect for the law. Statutes simply ratify the moral codes that trusters strongly endorse.

Pessimists, on the other hand, have a dour view of human nature. In the more extreme circumstances, their experiences have been so uniformly bad that they have little confidence in others, or the law. A history of poverty with little likelihood of any improvement led to social distrust in the Italian village of Montegrano that Edward Banfield (1958, 110) described in the 1950s: "...any advantage that may be given to another is necessarily at the expense of one's own

family. Therefore, one cannot afford the luxury of charity, which is giving others more than their due, or even justice, which is giving them their due."

The evidence seems more compelling that confidence in the legal system depends upon trust, and not the other way around. Countries with more trusting populations display higher support for the legal system. In trusting nations, elites are also more likely to say that the legal system is fair. Yet, there is no corresponding causal link between support for the law and trust in people (Uslaner, 2002, ch. 8).[3]

So we should expect the same dynamic between trust and corruption. It would be nice if we could clean up corruption and thereby boost trust in our fellow citizens. If the roots of corruption lie in a culture of mistrust, then the task becomes much more daunting.

<center>The Roots of Corruption and Trust</center>

What, then, are the roots of corruption and trust? Does corruption lead to less trust–or does mistrust of others lead to less corruption?

Trust is easy to measure. There is a standard question, "Generally speaking, do you believe that most people can be trusted, or can't you be too careful in dealing with people?" In Uslaner (2002, ch. 3) I show that this question *does* reflect moral trust, especially trust in strangers. I used the most recent value available in the World Values Surveys for 1981, 1990, and 1995 (see Uslaner, 2002, 225, n. 6 for a discussion of the surveys; and 230 for the rationale for excluding countries with communist legacies from much of the analysis below).

I primarily employ the Transparency International estimate of corruption for 1998.[4] Each country's score comes from a "poll of polls" business executives and the public, as well as rankings by risk analysts and experts on the politics and economics of each country (Treisman,

2000). The ratings range from zero (most corrupt) to 10 (least corrupt).

I estimated statistical models for trust and corruption to examine the roots of each–and to see in particular what the interaction between the two is. I employed two-stage least squares, which permits me to examine reciprocal causation. The model for trust is based upon the arguments in Uslaner (2002, ch. 8).

The model for trust is simple: It includes corruption, the percent Catholic, and the level of economic inequality. Inglehart (1997, 95) has found that countries with large shares of Catholics are less trusting, perhaps attributable to the hierarchical structure of authority in the Church. I have argued above that trust depends upon an equitable distribution of wealth, so I use the Gini indices reported in Deininger and Squire (1996).

The model for corruption includes five independent variables, some of which have not been investigated in previous studies. The motivating force behind this model is to put the "rotting fish" and *racomandazione* models to the test. Does corruption lead to less trust, or does trust lead to less corruption? Is there an institutional fix to the problem of corruption? Does democratization lead to greater honesty in government? Or is democracy merely a shell into which the raw stuff of political culture must be molded?

My model for corruption does not include many variables in the literature; I tested for them, but none were significant once I entered trust and other predictors in my estimations. Once trust entered the equation for corruption, 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), per capita income or gross domestic product (Lambsdorff, 1999, 7; Mauro, 1995, 701; 1998, 13; Paldam, 2000, 9); 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); ethnolingusitic diversity (Treisman, 2000); or the level of political stability (Leite and Weidmann, 1999, 20; Treisman, 2000).

Generalized trust is the main variable of interest in the model. Also in the model are: the level of tariffs (from the Barro-Lee data set); a measure of how extensive property rights are in a country (from LaPorta et al., 1997); the Freedom House index summarizing the level of demo-cratic freedoms in a country;[5] and the average score from the World Values Survey measuring how strongly people believe that the devil exists.

Closed markets present great opportunities for corruption. Countries that maintain open markets will limit the opportunities for corruption (Leite and Weidmann, 1999, 20; Treisman, 2000). Free societies give citizens more power to monitor governments and to hold them accountable. Societies with a free press, e.g., make it more difficult for elites to get away with corrupt behavior (Adsera, Boix, and Payne, 2000; Brunetti and Weder, 1999; Treisman, 2000). A strong system of property rights makes it difficult for politicians to expropriate people's wealth (Leite and Weidmann, 1999, 20). Belief in the devil isis the religiosity variable with the most robust connections to corruption.

The trust and religiosity variables reflect the *raccomandazione* argument. Trust and religiosity are values that shape the underlying culture of a society (cf. Husted, 1999). If corruption largely depends upon cultural values, then there is little that we can do to reduce malfeasance, at least in the short run. On the other hand, freedom, property rights, and tariffs are more malleable. So it may be possible to reduce corruption through appropriate reforms in the

constitutional or political structure of a country–or even by reshaping policies.

The estimates for both trust and corruption in Table 1 suggest that corruption has both cultural and structural roots. *The most powerful effects are for the cultural variables.* The countries in this sample have corruption scores ranging from 1.9 (most corrupt) to 10 (least corrupt). Moving from the least to the most trusting society changes trust from by 4.278 points, according to the corruption regression–more than half the total distance in this sample. Belief in the devil has the same general effect, moving corruption 4.298 points. The structural/policy variables have weaker effects. Moving from the least to the most free country leads less corruption (by 2.376 points on the scale), while countries with the greatest protection for property rights have substantially less corruption (by 3.75 points). More open markets do lead to less corruption, but the effect is modest. Following Treisman (2000), I find only a minuscule effect for free trade on corruption.

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Table 1 about here

Societies with more economic inequality and with larger shares of Catholics are less trusting. However, the biggest impact on trust comes from corruption. The roots of corruption stem from below, but those of trust may be top-down. Corrupt officials may indeed lead people to believe that other ordinary citizens cannot be trusted.

Or does it? The results in Table 1 come from a cross-sectional analysis that is static. The big impact of freedom on corruption occurs for the countries with strong democratic traditions (scores below 4.0 on the Freedom House scale). *But these are already the least corrupt countries.* The most corrupt countries also are the least free (mean corruption score = 6.7 for

countries scoring 4 or above). But across these countries, including many recent democracies, there is virtually no correlation between corruption and freedom.

The situation doesn't look much better when I examine the relationship between corruption and *change in the Freedom House scores from 1978 to 1998.* If we are seek to rid countries of corruption, we need to know which factors produce change. There are two ways in which one can overcome this problem. First, I shall focus on changes in the potential causes of corruption: Is there less corruption in countries that have become more democratic? Second, I focus on changes in corruption *and* changes in the potential causes of democracy.

Focusing on change leads to difficult estimations. Countries that already rank very highly on freedom have little room to move further. For the advanced industrial nations,[6] 70 percent already had the rating of most free and the remaining 30 percent were at the next level (scores of 2 and 3 respectively). The first group of countries (the United States, Canada, and most of Western Europe) *cannot* become more democratic; the second group cannot become *much more democratic*. To ensure that I do not confound the already free countries with those where structural reforms might do some good, I restrict the analysis to the 14 countries ranking above 4 on the Freedom House scale in 1998.

There is a very weak correlation ($r^2 = .119$) between the 1998 corruption score from TI and change in the level of democratization. So the long march to democracy did not seem to produce less corruption over the past two decades. And virtually the entire positive relationship between honesty in government and democratization is traceable to one country–Chile. When I plot the relationship without Chile, the correlation drops to virtually zero. Making countries more democratic does not seem to make them less corrupt. And we see a similar dynamic for countries

below the mean in trust.

For the countries that have surveys on trust in both the first (1981) and second (1990-95) waves of the World Values Survey, I computed change in trust scores. The logic here is that countries with low levels of trust that became more trusting should also become less corrupt. Yet, there is relatively little change in trust over time. The correlation of trust indicators across the 22 nations for which we have data in both the first and second waves is .906 and the regression coefficient for 1981 trust on 1990 trust is 1.022– indicating only the slightest upward blip over time. Second, for the small number of countries with low trust in 1981 (N = 10), there is no relationship (r^2 = .000) between change in trust and the corruption index.

Corruption is stable as well, but not quite as uniform over time as trust. The simple correlation between corruption in the 1980-85 measure and the 1998 estimate is .816, and the regression coefficient is .825, indicating a trend toward less corruption over time.

In Figure 1 I plot the relationship between changes in trust and corruption for the 18 countries for which there are data on both variables over time. Countries that became more trusting (Mexico and Italy, in particular) became less corrupt and countries that became less trusting showed an increase in corruption (Argentina, South Africa, and France, in particular). The relationship is moderate (r^2 = .227), but it is robust (see below).

There is more variation in the the Freedom House measures of democratization over time: the correlation between the 1978 and 1998 scores is just .463 (N = 64). Yet democratization does not go hand in hand with more honesty. The plot of change in corruption and change in democratization is rather weak (r^2 = .022). Hungary, Poland, and the Phillippines have all become more democratic and less corrupt, but democratization only seems to have heightened the

lack of transparency in Russia, South Africa, and the Czech Republic.

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Figure 1 about here

I examine the reciprocal relationship between change in trust and change in corruption in Table 2. Note again that the number of cases is very small, but the results are stable. I am strongly constrained in the choice of variables that might be theoretically relevant because the dependent variables are changes. I am not trying to explain *trust* or *corruption*, but changes in trust and changes in corruption. What seems theoretically relevant for the simple aggregate levels may not be so important for changes.

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Table 2 about here

The equation for trust includes change in corruption, growth in trade from 1970 to 1990, and change in the gross domestic product from 1980 to 1990 (from the Penn World Tables). The change in corruption equation includes changes in trust and freedom as well as the change in imports from 1980 to 1990 (from the Penn World Tables), and ethnolinguistic diversity. The estimates in Table 2 exclude Hungary, the only country with a legacy of Communism that had values on trust in both 1981 and 1990.

Two things stand out from the results in Table 2. First, there seem to be many paths to reducing corruption. There are significant relationships between change in corruption for change in trust, change in freedom, change in the level of imports, and ethnolinguistic diversity. Expanding markets and democratization seem to bring less corruption. Countries with more diverse populations became more corrupt: Each ethnic group might look out for its own welfare,

reinforcing particularizing trust. And, of course, change in trust matters. The overall impacts are roughly equal for each variable, though the largest seems to be for democratization. Now this seems rather curious. The relationship between change in corruption and democratization is very weak in simple bivariate relationships (without Hungary, the simple r^2 falls to .007).

The significant coefficients in the corruption equation seem to stem from collinearity among change in freedom, change in imports, and ethnolinguistic diversity. When I eliminate any of these three variables, the others fall to insignificance, leaving only change in trust as a significant predictor of changes in corruption.

Second, change in corruption is *not* a significant predictor of change in trust. Increases in trade modestly increases trust, while there is a weak *negative* relationship between change in GDP and trust. Yet, the direction of the relationship between trust and corruption goes one way–from trust to corruption. This is strong support for the bottom up thesis. You can't get rid of corruption by structural change or even by replacing one elite with another. The strongest determinant of change in corruption is change in trust. Neither changes very readily and this makes assaults on corruption more difficult. Practices such as *raccomandazione* rest upon a set of cultural norms.

<div align="center">The Consequences of Corruption</div>

We should be concerned about corruption because it turns public goods into private gain. Corruption is generally against the law. These are normative rationales for opposing corruption.

What about other consequences? Are there instrumental reasons for opposing corruption? Students of corruption have compiled a laundry list of the negative consequences of corruption. But the literature is hardly of one mind. Rose-Ackerman (1978, 90-91), in particular, is skeptical

about some of the purported linkages between government performance and corruption.

This "rotting fish" argument holds that people will follow their leaders. Corrupt leaders signal that it's acceptable for the mass public to cheat and steal as well. So we would expect more corrupt countries to have higher rates of theft and tax evasion (cf. LaPorta et al., 1998).

Corruption should also lead to higher rates of business regulation; regulations can serve to restrict markets and extract extralegal payments from investors. Because corruption reduces government revenue (Tanzi, 1998, 585, dishonest governments might also need to have higher marginal tax rates to compensate for revenues extracted by the leadership. Corruption should also slow economic growth (Leite and Weidemann, 1999; Mauro, 1995, 701; Tanzi, 1998, 585; but cf. Poirson, 1998, 14). Because it shifts revenues from public to private purses, 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, 1998a, 269; Tanzi, 1998, 582-586). Corrupt governments also tend to be less efficient and less stable (see Mauro, 1995; LaPorta et al., 1998; Treisman, 2000). And they should especially be less responsive to the public will (Adsera, Boix, and Payne, 2000).

So what shapes respect for the law and good governance? Is it honesty or trust? It is difficult to separate the effects of the two variables, since they are highly correlated (r = .724, N = 47). Nevertheless, I shall try to do so. In Table 3, I present estimates of the effects of trust and corruption for 14 measures of social and governmental performance and public policies. I estimated the equations by two-stage least squares with three equations for each performance measure, one for trust, one for corruption, and the third for the indicator in question. Corruption and trust were included as endogenous variables separately in each performance measure

equation. The other two equations (for trust and corruption are identical to those in Table 1).

The other variables in the performance measures were the 1998 Freedom House score, 1990 per capita income (from the Penn World Tables), and Vanhanen's (1997) measure of knowledge diversity, a generalized indicator of the scope of education in a society. I seek to answer whether corruption or trust has an impact on these measures of performance. Then, recognizing that multicollinearity can depress or inflate the effects of both predictors, and even change signs, I include both trust and corruption as predictors of performance. The performance measures and their sources are listed in Table 3.[7] The entries in the table are the significance levels of the regression coefficients.

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Table 3 about here

Clearly Mauro and Rothstein are on to something. Countries with high levels of corruption also have high rates of theft and tax evasion. Trust is marginally significant for tax evasion, while tax evasion very strongly tracks the level of corruption in society. People see corrupt regimes and believe that it is acceptable to steal and especially to withhold their taxes. Otherwise their hard-earned money would go directly into the pockets of the politicians.

Corruption does shape one measure of the growth rate (mean yearly GDP growth), but not another. It does lead to fewer public expenditures on the public sector or on education, to less political stability, a less efficient judiciary, more red tape in the bureaucracy, and to a less responsive government. But neither trust nor corruption has any effect on the top marginal tax rate, the government's share of the gross domestic product, or on transfer expenditures (though see LaPorta, 1997; and Uslaner, 2002, ch. 8).

Trust does not seem to affect obedience to the law in the aggregate analyses, although there is a weak connection to tax evasion. There are no significant ties between trust and tax rates or bureaucratic regulations. Nor does trust seem to lead to greater growth (but see LaPorta et al., 1997; and Uslaner, 2002, ch. 8). Yet, trust does seem to matter, generally more than corruption, for governmental expenditures, for political stability, and for the overall quality of government.

When I put trust and corruption in the same equation, corruption seems to matter more for adherence to the law and for red tape in the bureaucracy. Most of the time, it is trust that matters most. Trusting governments, more than honest governments, spend a greater share of their gross domestic product on government, spend more for education and on the public sector more generally, and have better functioning judiciaries and greater political stability.

Reprise

Some of these findings are not very surprising. Since trust links us to others in society who are different from ourselves, we might expect that trusting societies would spend more on government programs that raise standards of living for the less well-off. Putnam (1993, 111-115), LaPorta et al. (1997), and Uslaner (2002, ch. 8) have also linked social trust to governments that perform well and redistribute resources from the rich to the poor, as well to higher economic growth. Cooperative societies will have better performing economies (cf. Knack and Keefer, 1997). Trust, not honesty, seems to produce better government performance, more redistribution, and economic growth.

Corruption, rather than mistrust, seems to lead people to break or evade the law. Corrupt bureaucracies get mired in red tape. Yet, judicial efficiency seems more rooted in trust than in

corruption.

To reduce corruption, you need to increase trust. Trust changes slowly in most countries. Trust depends upon an egalitarian distribution of wealth in a society, and economic inequality is almost as stubbornly stable as trust (the correlation between the Gini indices for 1980 and 1990 is .827 for a sample of 47 nations). You can't increase trust by removing dishonest leaders and replacing them with a new set of elites, as the case of Paterson, New Jersey indicates. Reforming the institutions of a corrupt political system did not lead to less corruption almost a century later. As the American baseball player, Yogi Berra, once said: "It's deja vu all over again."[8] Culture, including the culture of corruption, changes slowly, if at all.

Table 1

Simultaneous Equation Estimation for Trust and Corruption

	Coefficient	Standard Error	t Ratio
Trust equation			
Corruption	3.393****	.803	4.23
Gini coefficient	-31.894*	23.855	-1.33
Percent Catholic	-.126***	.043	-2.92
Constant	32.363**	11.519	2.81
Corruption equation			
Trust	.069**	.029	2.39
Freedom	-.198**	.108	-1.83
Property rights	1.250**	.464	2.69
Belief in devil	.851**	.340	2.50
Tariffs	-21.127**	11.687	-1.81
Constant	.715	2.160	.33

**** $p < .0001$ *** $p < .001$ ** $p < .05$ * $p < .01$

N = 23

For trust equation: RMSE = 7.769; F = 16.051, estimated R^2 = .725
For corruption equation: RMSE = 1.033; F = 21.206, estimated R^2 = .863

Table 2

Simultaneous Equation Estimation for Changes in Trust and Corruption
for Countries Without Legacy of Communism

	Coefficient	Standard Error	t Ratio
Change in Trust equation			
Change in corruption	-.002	.017	-.11
Growth in trade	.043**	.018	2.36
Change in GDP 1980-1990	-.148	.106	-1.39
Constant	.099**	.033	3.01
Change in Corruption equation			
Change in trust	14.233**	7.543	1.89
Change in freedom	.285**	.150	1.90
Change in imports	.084**	.047	1.78
Ethnolinguistic diversity	-2.984**	1.709	-1.75
Constant	-1.064	.680	-1.57

**** $p < .0001$ *** $p < .001$ ** $p < .05$ * $p < .01$

N = 18

For change in trust equation: RMSE = .043; F = 4.616, estimated R^2 = .490
For change in corruption equation: RMSE = 1.187; F = 3.020, estimated R^2 = .488
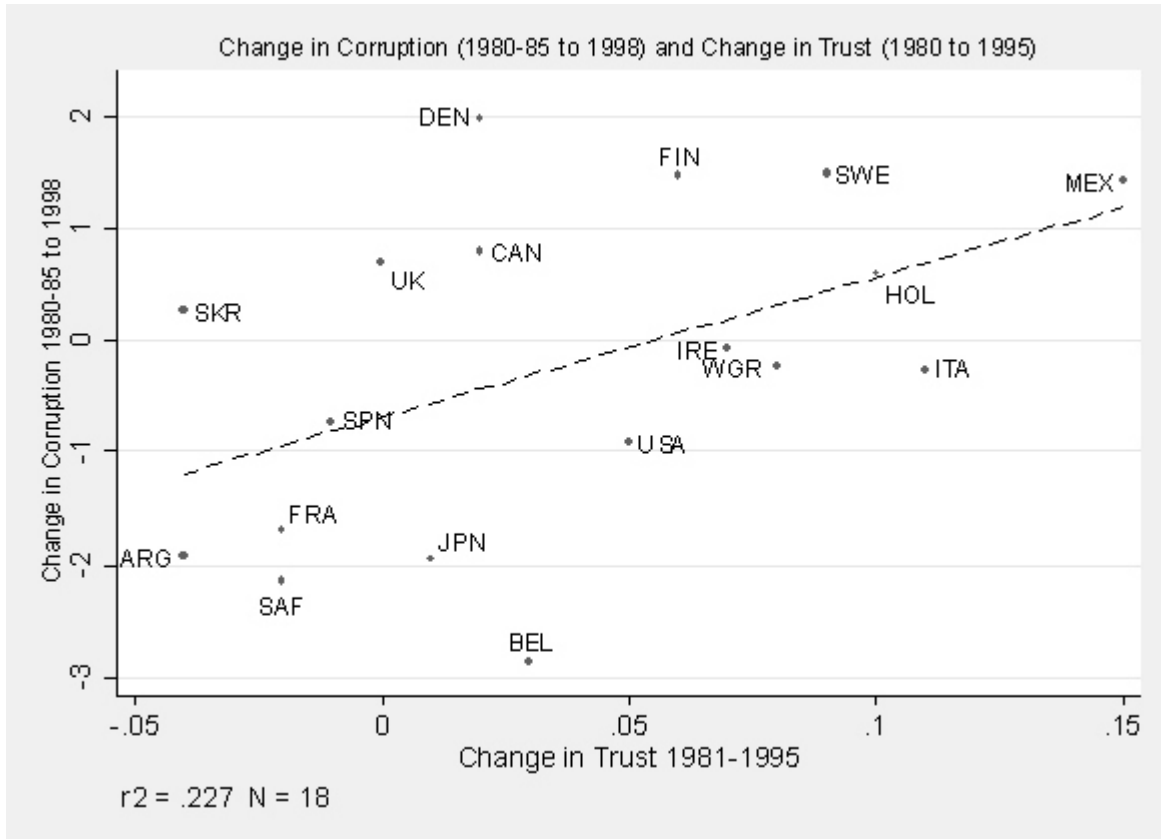
Table 3

Effects of Trust and Corruption on Political and Economic Performance

Indicator (source)	Corruption	Trust	Corruption vs. Trust	Freedom	Significant Variables	N
Theft rate (Lederman)	**				1990 per capita income	14
Tax evasion (LaPorta)	***	*	Corrupt**		1990 per capita income knowledge diversity	22
Business regulations (LaPorta)	**		Corrupt**		Knowledge diversity	23
Top marginal tax rate (LaPorta)				**		23
GDP growth rate (Diener)			Trust**	**		22
Mean yearly GDP growth 1980-1990 (Fedderke)	**			****	Knowledge diversity	23
Government share of GDP (LaPorta)			Trust**	**		
Public sector expenditures (LaPorta)	**	***	Trust**			22
Education expenditures (LaPorta)	**	**	Trust*			21
Transfer expenditures (LaPorta)					1990 per capita income	23
Political stability (Mauro)	*	**				
Judicial efficiency (Mauro)	***	****	Trust**			22
Red tape in bureaucracy (Mauro)	****	**	Corrupt***		Knowledge diversity	22
Govt responds to will of people (Gallup survey)	*				Knowledge diversity	21

**** p < .0001   *** p < .001 ** p < .05   * p < .01

Figure 1

Change in Corruption (1980-85 to 1998) and Change in Trust (1980 to 1995)

r2 = .227 N = 18

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NOTES

*   This paper is based upon many of the ideas in Uslaner (2002) and reflects extensive conversations with Bo Rothstein and Martin Paldam as well as comments by Johan Graf Lambsdorff and other participants at the Conference on "Corrupt Transactions Exploring the Analytical Capacity of Institutional Economics," University of Göttingen, Göttingen, Germany, November 15-16 2002. I am particularly grateful to the Center for International Development and Conflict Management at the University of Maryland, the General Research Board of the University of Maryland, the Russell Sage Foundation, the Carnegie Corporation, and the American Academy of Political and Social Sciences for support for writing this paper. I am also grateful to Johannes Fedderke, Ronald Inglehart, Rafael LaPorta, and Daniel Treisman for providing me with data. Some of the data I employ were made possible by the Inter-University Consortium for Political and Social Research, which is not responsible for any interpretations I have made.

1.   I shall discuss the measures of trust and corruption below. For now it is sufficient to note that the simple correlation between the two aggregated measures across 47 countries is .724.

2.   The choice of Paterson, New Jersey is not accidental. I was born and raised there and my father lived and breathed its politics. An alderman is the equivalent of a city council member.

3.   The data were estimated by two-stage least squares using aggregated measures of trust in people and confidence in the legal system from the World Values Surveys (see below) and

a measure of fairness of the legal system. The latter measure was developed by the

Institute for Management Development in Lausanne, Switzerland surveys business

executives on their "confidence in the fair administration of justice in society" (published

in the Institute's *World Competitiveness Yearbook* and reported in Treisman, 1999, 18).

4.   The data on corruption (for 1998) come from the global organization Transparency

International and are found on its web site, at

http://www.transparency.de/documents/cpi/index.html.

5.   The Freedom House scores are for 1998 and are taken from:

http://www.freedomhouse.org /rankings.pdf. The Freedom House web site contains

scores for both political and civil liberties. They were very highly correlated, so I summed

the two (cf. Inglehart, 1997, 357).

6.   As determined by the log of GDP per capita adjusted for comparative purchasing power

(PPP) in the Penn World Tables. Advanced industrial countries (N = 20) had scores

above 4.0.

7.   Sources from LaPorta are reported in LaPorta et al. (1997, 1998) and provided by Rafael

LaPorta; the source from Lederman is provided by Daniel Lederman of the World Bank;

Diener is from Diener (1995), Mauro from Mauro (1995); Fedderke from Johannes

Fedderke; and Gallup survey from Daniel Treisman.

8.   See http://www.yogi-berra.com/yogiisms.html. Accessed May 23, 2001.