Corruption and Inequality

Eric M. Uslaner*

Introduction

Corruption flouts rules of fairness and gives some people advantages that others do not have. Corruption transfers resources from the mass public to the elites – and generally from the poor to the rich (Tanzi 1998). It acts as an extra tax on citizens, leaving less money for public expenditures. Corrupt governments have less money to spend on their own projects, pushing down the salaries of public employees. In turn, these lower-level staffers will be more likely to extort funds from the public purse. Government employees in corrupt societies will thus spend more time lining their own pockets than serving the public. Corruption thus leads to lower levels of economic growth and to ineffective government (Mauro 1997; 5, 7).

Most accounts of the roots and remedies for corruption are institutional. Corruption, most academic and policy analysts argue, stems from bad governmental institutions – especially the lack of democracy, free and unfair elections, and an ineffective judiciary. I argue that institutional accounts of the roots – and the solutions – to corruption are lacking (Uslaner 2008). In an extensive six-equation model of corruption across a wide range of societies, I find little support for institutional accounts of corruption. Corruption is not shaped by democracy, the structure of a country's electoral system, whether government is centralized or decentralized (measured by federalism) or by the share of a country's government expenditures spent at the local or national level.

*University of Maryland – College Park.

Inequality and corruption

The link between inequality and corruption seems compelling. Corruption is exploitive. Inequality breeds corruption by: (1) leading ordinary citizens to see the system as stacked against them (Uslaner 2002, 181–83); (2) creating a sense of dependency among ordinary citizens and a sense of pessimism for the future, which in turn undermines the moral dictates of treating neighbors honestly; and (3) distorting the key institutions of fairness in society, the courts, which ordinary citizens see as their protectors against evil-doers, especially those with more influence than they have (Glaeser, Scheinkman and Schleifer 2003; You and Khagram 2005).

Economic inequality creates political leaders who make patronage a virtue rather than a vice, since it provides jobs for ordinary citizens. These leaders *help* their constituents, but more critically *they help themselves*. Inequality breeds corruption and leads to a dependency of the poor on the political leaders. Inequality leads to *clientelism* – leaders establish themselves as monopoly providers of benefits for average citizens. Ordinary people *do not approve of corruption*: Those at the bottom of the economic (and often social) ladder see it as necessary for survival. Corrupt leaders form the key line of defense against other groups in society that exploit you.

The inequality trap

Inequality thrives when there is low trust in out-groups and high trust in your own group, as Gambetta (1993) argues with respect to the success of the Mafia in southern Italy, widely known for low trust among its citizens (Banfield 1958). Unequal relations between groups in society – whether they are economic, religious, racial, or some combination – reinforce ties to your in-group. High levels of inequality are the single major factor driving down trust in people who are different from yourself (*generalized trust*), as Uslaner (2002, chs. 6, 8) and Uslaner and Brown (2005) have shown in several different contexts: in the United States over time, across the American states and across countries without a legacy of Communism.

Generalized trust has many positive consequences: at the individual level, it leads to more acts of altruism for people of different backgrounds as well as greater tolerance. At the aggregate level, it leads to greater economic growth, to more redistribution from the rich to the poor and to less corruption (Uslaner 2002, chs. 7, 8; Uslaner 2008).

Across countries, the correlation between inequality and corruption is weak. But there is strong support for the argument that inequality leads to greater corruption through trust. My model suggests the following dynamic of a vicious circle that makes it difficult to end corruption:

inequality → low trust → corruption → more inequality.

Corruption not only thrives under conditions of high inequality and low trust, but in turn it leads to more inequality (and thus less trust). For many countries, the trap is inescapable. Corruption aggravates inequality: The well-off can afford bribes, but the poor often do without basic services. And corruption robs the state of resources for providing basic services to all citizens, but especially the poor. People who turn to the informal economy have few legal rights (their employment is not legal and there are no contracts or unions representing workers in the informal sector). Corruption is rampant in those services the poor most depend upon: the police, the schools and the medical sector.

Countries with high levels of corruption have poor service delivery. The failure of corrupt states with rising inequality to provide basic services illustrates the inequality trap: the wealthy have options to protect themselves against the failure of public services. They may bribe local authorities to ensure that their services are fixed first. They may not have to rely exclusively upon state-provided services. The poor cannot afford bribes. Nor do they have the option of using alternative services. When governments do not have the resources to provide services, the poor will suffer more. In the former Communist countries of central and eastern Europe there are strong statistical linkages between levels of inequality, corruption, and the perceived quality of service delivery. Poor service delivery in turn leads to lower levels of trust in government – which then leads to greater tax evasion – and fewer resources in the treasury to fund basic services (Hanousek and Palda 2007; Uslaner 2010; Uslaner in press).

Inequality, trust and corruption form a vicious circle that is very difficult to break. Inequality, trust and corruption are all "sticky". They do not change much over time, so that countries that were unequal (low trusting, corrupt) in the past remain so today. The correlations over time for trust (from 1980 to 1995), economic inequality (1963 to 1996 for one measure and 1980–90 for another), and corruption (1980/85 to 2010) are all very powerful, providing strong support for the inequality trap argument. I estimated a cross-national aggregate statistical model – allowing for reciprocal effects of inequality upon corruption, trust upon corruption and inequality upon trust – and found very strong evidence in favor of the inequality trap argument (Uslaner 2008, chs. 2, 4).

What about institutions? Social scientists do not have the luxury of laboratory experiments the way physical and natural scientists do, so we largely have to rely upon cross-sectional models. However, in the late 1980s and early 1990s we had a rare opportunity to observe a natural experiment, as Communist governments fell in central and eastern Europe as well as Asia and democratic governments emerged in many other parts of the world as well. Either cross-sectionally or especially over time, the relationships between democracy and corruption are very weak. Most notably, the correlations between changes in the Freedom House measures of democracy (political and civil rights indicators) and changes in the Transparency International indicator of corruption from 1980 to 2004 are essentially zero. Moving the start date closer to the fall of Communism – 1988 – does nothing to change these correlations. Greater democratization simply does not mean less corruption.

Not only does democracy not matter, but almost all other institutional "causes" of corruption fall to statistical insignificance in my model: parliamentary systems, type of electoral list, the type of executive, the level of pay to government workers, and centralization of government. Nor does a free press act as a bulwark against corruption: many people are likely to see the press as just one more competitor for power with corrupt leaders – not necessarily any more "moral".

There *is* one institutional factor that has a big impact on corruption: the fairness of the legal system. This is an institutional measure of inequality: whether the courts and the police treat people of different backgrounds and incomes as equals before the law. It is not the same as a measure of judicial quality or the number of courts or how "efficient" they are. What matters for the courts is the perception that they are fair (Tyler 1990).

Democratization seemed to promise a new era for people in transition countries in particular. Romanians, Bulgarians, Serbs and others in central and eastern Europe and the former Soviet states in Asia saw the emergence of market democracy as their ticket to prosperity, to making their countries just like Luxembourg. But the reality was very different: in virtually every transition country, inequality, the size of the informal sector, and corruption increased – while trust remained low. Democracy and the market were not cure-alls. Newly enfranchised voters cast their ballots for corrupt leaders (as Americans did for many years and people in many other countries. Advanced democracies such as Italy and Japan as well as Third World nations still do. Markets were often dominated by the old oligarchs of the Communist regimes who continued to pillage the country under capitalism as they had done under socialism. Arrests of corrupt business people such as Mikhail Khodorkovsky in Russia were political vendettas more than they were drives toward greater transparency.

Inequality and corruption: the direct links

The inequality trap argument would be more compelling if there were some evidence that there is a direct linkage from inequality to trust rather than simply an indirect one. Where corruption is high (in Africa and central and eastern Europe), there is strong evidence for such a direct linkage in public attitudes. Where corruption is low (the Nordic countries, the United States and Singapore), people do not see a direct tie between corruption and inequality (Uslaner 2008, chs. 4, 5, 6, 7).

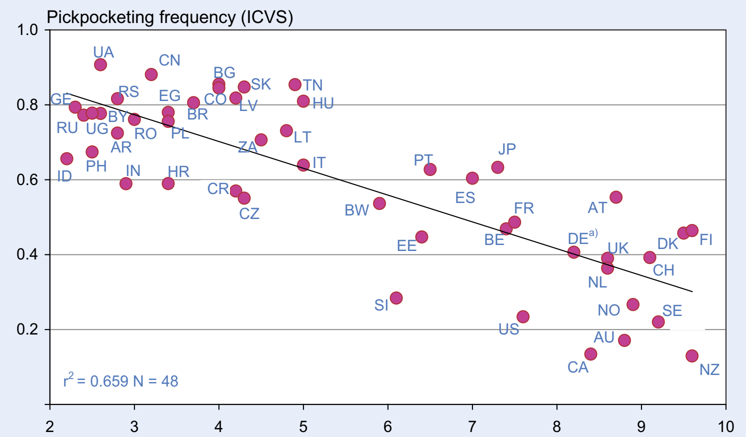
Inequality is a persistent problem in Africa. Williams (1987, 130) argues, "In the conditions of underdevelopment, with their attendant shortages and paucity of resources, corruption tends mostly to accentuate and aggravate the political and economic inequalities which have characterized so may African states for so long." While historically low in transition countries, inequality rose sharply after the fall of Communism. In transition countries, most people believe that the only way you can become rich is by being dishonest. In the 1999 International Social Survey Programme, 51.8 percent of the respondents in the nine transition countries surveyed believed that to get to the top, you must be corrupt compared to 28.3 percent on average in the other 18 countries (mostly Western democracies). Former Kazakh Prime Minister Akezhan Kazhegeldin said of corruption: "There is a small group of people getting rich – and I mean really rich – in Kazakhstan while the rest of society remains really poor. The leadership is not interested in pushing a market economy. They keep two sets of books, one for themselves and another for everyone else" (Stodghill 2006, BU9).

Using data from the Afrobarometer and surveys from the World Bank, the government of Estonia, and a Romanian colleague, I show that: (1) the public is far more likely to see high levels of corruption than are elites; (2) people see a clear link between both economic and legal inequality, on the one hand, and corruption on the other hand; and (3) grand corruption, but not petty corruption, leads to lower levels of trust.

Grand corruption involves extending the advantages of those already well endowed. Petty corruption does not affect how people judge each other. Small bribes to see the doctor earlier, to get out of a traffic offense, to obtain a permit or a public service, or even to get a good grade from university professors do not enrich the recipients. They may reap enough to take their spouse out to dinner, but not to own mansions in Europe or to have hefty bank accounts in Switzerland or the Cayman Islands. Petty corruption may even be seen as "rational bargains" for the average citizen: it may well be worth your while to

Figure

PICKPOCKETING AND CORRUPTION



a) West Germany

Source: International Crime Victimization Survey (ICVS) and Corruption Perceptions Index of Transparency International (IT).

pay a small bribe rather than to spend a day in court or wait hours at the doctor's office. The political boss George Washington Plunkitt in nineteenth-century New York City distinguished between "honest graft" and "dishonest graft" (Riordan 1948).

Grand corruption, not small bribes, upsets people and leads to lower levels of trust in fellow citizens. I obtained similar results using different surveys in Romania and Africa (Uslaner 2008, chs. 5 and 8). A 2008 cable from the American Embassy in Tunis to the State Department in Washington, made public by WikiLeaks and entitled, "What's Yours Is Mine", found the same dynamic underlying the unrest that ultimately toppled the government of Tunisia: "Although the petty corruption rankles, it is the excesses of President (Zine el-Abidine) Ben Ali's family that inspire outrage among Tunisians" (Shane 2011).

Grand corruption reinforces the argument of the (late) comedian George Carlin that "honesty is the second best policy". A corrupt political culture goes hand-in-hand with other economic crimes – but not crimes of violence. Notably, there is a powerful correlation between the level of corruption in a society and the frequency of pickpocketing (Uslaner 2008, ch. 3; see Figure 1).

Where corruption is relatively low, people do not see a direct connection among inequality, trust and corruption. Using surveys from the Nordic countries (the World Values Survey 1995), the American National Election Study (2004), the General Social Survey in the United States (1987) and the Asian Barometer 2004 for Singapore, I find no relationship between perceptions of inequality or social trust and corruption. And this is exactly how it should be. Low corruption was not born with American independence. Stories of malfeasance were common, especially in large cities and the South, in the United States – and it reflected high levels of inequality. Using data on historical inequality in the United States from Emmanuel Saez and Claudia Goldin's time series estimates (with Edward Glaeser) of corruption from press reports, I find that inequality explains 45 percent of the variance in inequality over 59 years (1916–74).

Is there a way out of the inequality trap?

Most countries that are highly unequal, with low trust and corruption remain so. But not all do so. There are at least three exceptions: Singapore, Hong Kong and Botswana – three places that do not immediately come to mind as having much in common. But all three "conquered" corruption – and two (Singapore and Hong Kong) are not democracies.

How did they do it? Of course, each had strong anti-corruption commissions. Hong Kong's and Singapore's commissions are widely known. But Nigeria has had many anti-corruption commissions, and most people see these commissions as facilitators, not obstacles, to corruption. The common elements in the struggles against corruption in Singapore, Hong Kong and Botswana are:

- Small size, so that it is easier to monitor corruption.
- Relative wealth, so that conquering corruption was less costly.
- More critically, government policies designed to engage the public in the anti-corruption campaign, from lessons in morality in elementary school, to mass campaigns to report illegal acts and, especially, government programs to enhance the welfare of ordinary people – all aimed at reducing inequality, so that the public felt little need to support corrupt leaders.
- Finally, and perhaps most importantly, all three places faced external threats: Botswana was surrounded by South Africa and (then-called) Rhodesia. Singapore and Hong Kong faced threats to their economic and political systems by radical unions supported by China. Their leaders may have seemed "enlightened", but enlightenment is easier when the survival of your regime is at stake. To gain the support of their publics against their opposition, the leaders had to make the lives of their citizens better. To do so, they needed to increase public welfare and to make the investment climate stronger. Singapore and Hong Kong became rich (and Botswana relatively well-off) by being honest and improving the lives of their citizens.

The "way out" of the inequality trap, then, is to free ordinary people from having to depend upon corrupt leaders for their livelihood. Universalistic social welfare programs, as practiced in the Nordic countries, are the most likely to reduce inequality and make the lives of all citizens better as well as to increase social trust (Rothstein and Uslaner 2005). And the universal social welfare program that works best to reduce inequality is universal free public education. The "biggest successes" in the fight against corruption throughout history – from the Nordic countries to the United States and South Korea –

have occurred in countries that have adopted universal public education (Uslaner 2008, ch. 9).

This is a daunting task for at least two reasons. First, when people see the rich getting richer and the poor getting poorer, they are more likely to demand redistributive social welfare programs rather than universalistic policies. If the rich get rich by being corrupt, why should they or their children share in the bounty of programs Rothstein and I have called “all for all”? Second, universal public education is extremely expensive. Wherever I talk about this “remedy”, policy-makers and academics alike shake their heads and say that their (poor) country simply cannot afford it. I ask them how long they can “afford” high levels of corruption.

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