Economic Inequality and the Quality of Government*

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

So the Boston ward leader for the Democratic party told political reformer (or “muckraker”) Lincoln Steffens (1931, 618) in the 1920s. Lomasny’s constituents were poor immigrants who often found themselves on the wrong side of the law. They came to the leader–or if they were not out on bail, their families came to him–and sought freedom. They had little faith in the legal system, which was clearly biased in favor of people with money to hire high-priced lawyers. They had little faith in (or interest in) due process of law. The system was stacked against them. They had to feed their families. Sure, Lomasny was corrupt himself. But he was their lifeline against a legal system that was stacked against them.

Corruption is generally considered to be a curse. It flouts rules of fairness and gives some people advantages that others don’t have. Corruption transfers resources from the mass public to the elites–and generally from the poor to the rich (Tanzi, 1998). It acts as an extra tax on citizens, leaving less money for public expenditures (Mauro, 1997, 7). Corrupt governments have less money to spend on their own projects, pushing down the salaries of public employees. In turn, these lower-level staffers will be more likely to extort funds from the public purse. Government employees in corrupt societies will thus spend more time lining their own pockets than serving the public. Corruption thus leads to lower levels of economic growth and to
ineffective government (Mauro, 1997, 5). Indeed, corruption is often considered the most widely accepted measure of the quality of government (since there is no objective cross-national measure of what good government is).

Why is corruption pervasive in some societies and not in others? Can we reform our political systems to reduce corruption? My focus in this research is what the roots of corruption are. Does corruption, like a rotting fish, start at the head and spread downward? Are bad leaders and weak institutions the cause of corruption? Or does corruption stem from a society’s culture and the distribution of resources?

I argue for the latter: The roots of corruption lie in the unequal distribution of resources in a society. When we look back at leaders of “political machines” such as Martin Lomasny and the patronage systems that sustained them, we see a system of corruption that thrived on economic inequality. Economic inequality provides a fertile breeding ground for corruption—and, in turn, it leads to further inequalities. The connection between inequality and the quality of government is not necessarily so simple: As the former Communist nations of Central and Eastern Europe show, you can have plenty of corruption without economic inequality. The path from inequality to corruption may be indirect—through generalized trust—but the connection is key to understanding why some societies are more corrupt than others.

The argument from inequality to low trust to corruption—and back again both to low trust and greater inequality—stands in contrast to the more common approach to explaining corruption as stemming from deficient institutions. I shall argue that the roots of corruption are largely not institutional, but rather stem from economic inequality and a mistrusting culture, which itself stems from an unequal distribution of wealth. There are two types of institutional structure that I
Posit to affect corruption, either directly or indirectly. First is the fairness of the legal system. Second is the orientation of the party system. The fairness of the legal system is distinct from the efficiency of the legal system (Rothstein and Stolle, 2002). Second is the structure of the political party system. Parties dedicated to patronage go hand-in-hand with corruption, parties primarily concerned with broader policy issues are more likely to be found in “honest” polities. Both of these “institutions” are more than simple structures amenable to ready change. The fairness of a legal system is a key factor in shaping the level of equality in a society. The orientation of a party system—focusing on issues or jobs—may be more a part of a society’s political culture than its formal structures (Fenton, 1966).

I consider first a cross-national model of corruption, trust, regulation, and inequality—and argue that the roots of corruption lie largely in culture and policy choices. I find no direct effect for inequality, but rather an indirect one through generalized trust. So is the level of regulation of business. The only institutional effect is also indirect—the fairness of the legal system is the major factor shaping the level of regulation. These factors account for corruption levels with remarkable predictive success. Then I examine corruption in the American states, where I find a more direct effect of inequality using a measure of the relative poverty rates of blacks and whites. This measure more adequately captures the social strains of inequality than a simple Gini index. Trust also shapes corruption perceptions in the American states, as does the level of political competition, political activism, and the nature of the party system (patronage- or issue-oriented).

My argument stands in contrast to more traditional institutional accounts of corruption, which often suggest that the cure for malfeasance is to put the corrupt politicians in jail. If we do so (and we ought to do so), they will be replaced by other corrupt leaders. Nor do we need a
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reformed system of government that either centralizes power to herd in independent
“entrepreneurs” who extort businesses or average citizens (Treisman, 1999) or decentralizes
power to prevent an all-powerful “grabbing hand” (DiFrancesco and Gitelman, 1984, 618;
Fisman and Gatti, 2000; Kunicova and Rose-Ackerman, 2004).

My argument on the sources of corruption is largely pessimistic: Corruption is not easy to
eradicate if it is largely based upon the distribution of resources (economic inequality) and a
society’s culture (trust in people who may be different from yourself). Changing institutions may
not be easy, but its difficulty pales by comparison with reshaping a society’s culture or its
distribution of wealth (and power). Corruption, inequality, and trust are all “sticky”: They don’t
change much over time. Yet, all is not lost: As I shall argue below in my cross-national analysis,
there are more malleable ways to control corruption: Policy choices that countries make also
shape corruption. Countries that have very high levels of regulation of business have more
corruption. In turn, the level of regulation is shaped by the fairness of the legal system, the
openness of the economy, and whether the government is military or civilian.

I examine the sources of corruption across nations and the American states. The cross-
national analysis is more complex–I estimate a four-equation simultaneous equation model of
corruption, trust, inequality, and regulation of the economy. For the states, the analysis is
simpler: It is a simple single-equation estimation of corruption in the states. Here I find that
there is a more direct effect for one measure of inequality not generally available cross-
nationally, the ratio of poverty between African-Americans and whites. The level of trust, the
structure of the party system, the level of political engagement, and the competitiveness of the
party system all work to shape the corruption level in a state.
Inequality and Corruption

The link between inequality and corruption seems compelling. Corruption is exploitive. Defining corruption is tricky, but it seems reasonable to argue that the core of “grand” corruption is giving some people advantages that are not available to others—and that these advantages are seen as unfair. A biased system is an inequitable one.

Not all corruption is linked to inequality. “Grand” corruption refers to malfeasance of considerable magnitude by people who exploit their positions to get rich (or become richer)—political or business leaders. So grand corruption is all about extending the advantages of those already well endowed. “Petty corruption,” small scale payoffs to doctors, police officers, and even university professors, very common in the formerly Communist nations of Central and Eastern Europe (and many poor countries) is different in kind, if not in spirit. Petty corruption, or “honest graft” as New York City political boss George Washington Plunkitt called it (Riordan, 1948), does not enrich those who practice it. It may depend upon an inequitable distribution of wealth—there should be no need to make “gift” payments in a properly functioning market economy.

It does not exacerbate the gap between the rich and the poor—and may actually narrow it by providing some small benefits to the middle class bureaucrats, teachers, and doctors who benefit from it. With the sort of aggregate data we have on corruption indicators, there is no clear way to separate either the causes or effects of inequality on big and little corruption. Survey data can help us do so (see Kornai, 2000; Miller, Grodeland, and Y. Koshechkina, 2001; Uslaner and Badescu, 2005, for examples). But the distinction is not so critical to an examination of the factors underlying corruption at the aggregate level for two reasons. First, aggregate measures
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based upon surveys of elites and the mass public are likely to reflect grand corruption more than petty corruption. Many people in societies with lots of corruption see no problem with having to make small “gift payments” (Kornai 2000: 3, 7, 9; Kramer, 1977, 220). So responses to surveys about the level of corruption in a society will likely discount these small payments. Second, petty corruption, big corruption, and even street crime are not independent of each other: Where you find one, you find the others.¹

Inequality promotes corruption in many ways. Glaeser, Scheinkman, and Schleifer (2002, 2-3) argue:

...inequality is detrimental to the security of property rights, and therefore to growth, because it enables the rich to subvert the political, regulatory, and legal institutions of society for their own benefit. If one person is sufficiently richer than another, and courts are corruptible, then the legal system will favor the rich, not the just. Likewise, if political and regulatory institutions can be moved by wealth or influence, they will favor the established, not the efficient. This in turn leads the initially well situated to pursue socially harmful acts, recognizing that the legal, political, and regulatory systems will not hold them accountable.

Inequality can encourage institutional subversion in two distinct ways. First, the havenots can redistribute from the haves through violence, the political process, or other means. Such Robin Hood redistribution jeopardizes property rights, and deters investment by the rich.

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

Inequality breeds corruption by: (1) leading ordinary citizens to see the system as stacked against them; (2) multiplying the advantages of the rich and powerful—and thus exaggerating the already high level of inequality; (3) creating a sense of dependency of ordinary citizens and a sense of pessimism for the future, which in turn undermines the moral dictates of treating your neighbors honestly; and (4) 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.

Economic inequality creates political leaders such as Martin Lomasny, who will “take care” of his constituents and George Washington Plunkitt who made patronage a virtue rather than a vice, since it provided jobs for ordinary citizens. These leaders help their constituents, but more critically they help themselves. Perhaps the most famous line from Plunkitt’s autobiography (as told to a political reporter) explained how the 19th century political boss who had only a small salary from his post got rich: “I seen my opportunities and I took ‘em” (Riordan, 1948, 4). Inequality breeds corruption—and 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. These leaders are not accountable to their constituents as democratic theory would have us believe.

There may well be the trappings of democracy, with regularly scheduled elections, so that the link between democratic and honest government may not be as strong as we might initially expect. The political boss is well entrenched in his position—he may (as Plunkitt did) or may not (as Lomansny did not) actually hold elective office. His party reigns supreme in the area.
Potential opponents don’t have the resources to mount a real challenge—and, even if they tried, the boss can count on the support of the legions whose jobs he controls through his patronage machine. The political leader may claim to be the benevolent caretaker of his constituents, but he is really the ventriloquist stringing along his marionettes. The jobs that patronage creates do not alleviate inequality—they reinforce it.

Unequal wealth leads people to feel less constrained about cheating others (Mauro, 1998, 12) and about evading taxes (Oswiak, 2003, 73; Uslaner, 2003). Where corruption is widespread, people realize that they are not the masters of their own fate—and they lose faith that their future will be bright. People become resigned to their fate. In the World Values Survey waves 1-3 (1981, 1990, 1995-97), respondents who believed that corruption was widespread in their country were significantly less likely to believe that they could get ahead by hard work rather than by luck or having connections. The zero-order correlation is modest (as we might expect with a sample of almost 60,000, tau-b = .061)—but 34 percent of people in societies where corruption was seen as widespread thought the only way you could get ahead was by luck, compared to 29 percent in honest societies. In turn, 59 percent of respondents who said that they could get ahead by hard work said that the future looked bright, compared to 45 percent who said that you need luck or connections (tau-b = .116). And people living in honest societies are considerably more likely to have a high level of life satisfaction (r = -.179, for a difference of a full point on a 10 point scale).

People who believed that the future looked bright were significantly less likely to condone buying stolen goods or taking bribes. If you live in a more honest society, you are less likely to condone cheating on taxes: 56 percent in the most corrupt societies said that cheating
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the government of revenue was always wrong, compared to 61 percent in more honest societies (tau-b = .06). The connection is even stronger (for a sample twice as large) between cheating on taxes on how people get ahead. If you believe that you need luck, your probability of saying that cheating on taxes is never justified is .52, compared to .62 if you believe that hard work pays off. Honest government makes people feel that they are in control of their own fate—and do not need to take advantage of others. Corruption leads to the belief that there is no way to get ahead fairly—so that the ideals underlying what Rawls calls a “well-ordered society” do not develop strong roots. In a “well-ordered” society “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 approval of its citizens.

A well-ordered society is run through the rule of law. The key to less corruption is an effective system of property rights and the rule of law (Lambsdorff, 1999; Leite and Weidemann, 1999, 20, 23; Treisman, 2000). Tyler (1990, chs. 4, 5) argues that people respect—and obey—the law because they believe that the justice system is fair and that they have been treated fairly. If people feel that they have been treated unfairly by the police or in the courts, they are less likely to have faith in the legal system. Inequality before the law is part of the larger theme of inequality more generally.

The justice system is especially important for two reasons. First, a corrupt court system can shield dishonest elites from retribution. Second, the courts, more than any other branch of the polity, is presumed to be neutral and fair. We appeal “unjust” decisions to the judiciary—and our vernacular includes the phrase “court of last resort,” suggesting that somewhere there must be
Rothstein (2001, 491-492) argues:

In a civilized society, institutions of law and order have one particularly important task: to detect and punish people who are “traitors,” that is, those who break contracts, steal, murder, and do other such non-cooperative things...

Rothstein and Stolle (2002) argue that there are two dimensions to the legal system: fairness and efficiency. Fairness, I argue, is the key to the connection between law and corruption because it reflects the advantages that some people have over others. The efficiency of the courts should not matter so much for corruption—since rounding up the corrupt leaders and putting them in jail only makes room for a new group of miscreants, doing little to address the underlying causes of corruption.

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

When people have little faith in the fairness of the legal system, there are few incentives to obey the law. When Russian oil entrepreneur Mikhail Khodorkovsky confessed his sins of relying on “beeznissmeny” (stealing, lying, and sometimes killing) and promised to become scrupulously honest in early 2003, Russians regarded this pledge as “startling.” When he was arrested and charged with tax evasion and extortion under orders from President Vladimir Putin
ten months later, the average Russian was unphased: About the same share of people approved of his arrest as disapproved of it (Tavernise, 2003). The arrest of Khodorkovsky stands out as exceptional: Corrupt officials and business people are rarely held to account. While crime spiraled in Russia after the fall of Communism, conviction rates plummeted (Varese, 1997).

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

**Some Preliminary Evidence**

Fairness of the legal system is not as strongly connected to economic inequality as we might suppose. In Figure 1, I present a plot of a cross-national indicator of fairness of the legal system in 2004 and economic inequality. The legal fairness indicator was developed by the Economist Intelligence Unit; it only covers 60 countries, so I derived estimated values for other countries by imputation. Economic inequality is measured by the Gini index from Deininger and Squire (1996). There are too many countries (especially with values close to each other) to label each one on the graph. Instead, the points are denoted by W for developed Western nations, E for present and former Communist nations, and * for other countries. Overall, the fit between these two indicators of equality (equal treatment before the law and equal distribution of wealth) is not strong. For 88 nations, $r^2 = .131$. The correlation is depressed by the former and present Communist nations that largely have unfair legal systems but more equitable distributions of
income. For many years, this equality was imposed from above by a command economy—but even as inequality has grown sharply, it has not approached the level of capitalist economies. Overall, we see relatively high economic equality matched with both low and high levels of judicial fairness. When I remove the East bloc countries, the $r^2$ rises to .279—still rather modest. Fairness of the legal system is not the same as economic inequality.

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

The plot of inequality and corruption (see Figure 2) is striking: Across 85 countries, there is a weak (at best) relationship. The $r^2$ is a paltry .082, suggesting no relationship at all between inequality and corruption. In Figure 3, I offer a lowess plot of inequality and corruption. Lowess is an iterative technique, which fits a spline-like curve, a “locally weighted” regression, smoothed to produce a plot that clarifies the relationship between two variables. The lowess curve suggests a slight downward slope—more inequality leads to more corruption (or less
transparency). But the pattern is not at all clear and we can see from this figure that two groups of countries stand out: the former and present Communist nations, which have lots of corruption and relatively equitable distributions of income (lower left part of the graph), and the Western industrialized nations, which have relatively low inequality and even less corruption than we might expect based upon their distribution of wealth. Figures 2 and 3 suggest no clear relationship between economic inequality and corruption. But they also point to the former and present Communist regimes as outliers.

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

You and Khagram (in press) report similar findings, but conclude that inequality matters more in democratic countries. They are correct, but this still doesn’t resolve the problem. Regressions predicting corruption by economic inequality yield insignificant coefficients for countries classified as “not free” or “partially free” by Freedom House—and a significant (at $p < .01$) negative coefficient for the 55 “free” nations: The nation with the highest level of inequality ranks 2.8 lower on the 10 point corruption index compared to the most equal democracy—but the fit of the regression is rather meager ($r^2 = .10$). Democracy does not seem to be the mechanism that makes inequality increase corruption.
The connection with fairness of the legal system is far stronger—and this is hardly surprising. While I took care to find an indicator of the fairness of the legal system that is not based upon an underlying measure, it is hardly surprising that corruption flourishes where the courts give special treatment to some over others—and where court procedures are not transparent. I plot the original EIU data and corruption in Figure 5. The least fair legal systems have a mean corruption score of 2.82, while the most fair systems have a mean of 8.78 (high scores indicate greater transparency, less corruption). The fit between legal fairness and corruption is very strong: $r^2 = .722$ for the 55 cases of the original EIU data and .733 for the 86 cases including the imputed scores. 

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

**Trust, Inequality, and Corruption**

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

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

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

Instead, corruption thrives on \textit{particularized trust}, where people only have faith in their own kind (or their own small circle of malefactors). Particularized trusters strongly distrust outsiders. They fear that people of different backgrounds will exploit them—and in a dog-eat-dog world, you have little choice to strike first before someone exploits you. Plunkitt saw his opportunities and took them—worrying that someone else might get there first and leave nothing for him. Gambetta (1993) argued that the Mafia took root in Southern Italy because there were strong in-group ties and weak generalized trust there.

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

Putnam (1993, 88, 174) argues that trust will not develop in a highly stratified society. And Seligman (1997, 36-37, 41) goes further. Trust cannot take root in a hierarchal culture. Such societies have rigid social orders marked by strong class divisions that persist across generations. Feudal systems and societies based on castes dictate what people can and cannot do based upon the circumstances of their birth. Social relations are based on expectations of what people must do, not on their talents or personalities. Trust is not the lubricant of cooperation in such traditional societies. The assumption that others share your beliefs is counterintuitive, since strict class divisions make it unlikely that others actually have the same values as people in other classes.

A history of poverty with little likelihood of any improvement led to social distrust in 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.” Montegrano is a mean world, where daily life is “brutal and senseless” (Banfield, 1958, 109), much like Hobbes’s “nasty, brutish, and short” existence. All who stand outside the immediate family are “potential enemies,” battling for the meager bounty that nature has provided. People seek to protect themselves from the “threat of calamity” (Banfield, 1958, 110).

Inequality leads to low levels of trust in strangers. What trust remains is entirely within
Inequality thus breeds corruption indirectly—by turning people inward and reducing the sanctions, both external and internal, of taking advantage of others. So I posit an indirect link from inequality to corruption:

inequality $\rightarrow$ low generalized trust & high in-group trust $\rightarrow$ corruption

This means that we cannot estimate the effects of inequality on trust directly. A simultaneous equation model is necessary to untangle the effects of inequality, trust, and corruption upon each other.

First, let me demonstrate that trust and corruption are linked. I show the connection in Figure 6 below (see also Uslaner, 2004). The graph is a bit difficult to read, since it is difficult to fit the country abbreviations into the graph since many countries have similar values on both variables. The trust question comes from the World Values Survey (see n. 11)—and to increase the number of cases, I imputed values on this measure as well. Here we see a more robust fit than in the connection between inequality and corruption: $r^2 = .420$ for 83 cases.

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I now move to a more comprehensive model of the determinants of corruption, trust, and inequality. I add one other key factor to the mix: the level of regulation in a society. A highly regulated economy can lead to greater corruption in two ways. First, when the government takes a dominant role in the economy, it creates many access points for entrepreneurs to “seize the state.” Business leaders “capture” the state by paying off public officials to provide them with private benefits. Businesspeople and bureaucrats work together to profit at the expense of the
The Corruption Model

I estimate a four equation model of corruption across 65 countries—the number of countries on which I have data on all variables in the model. The four endogenous variables are corruption (the TI Index), generalized trust (with imputed values), the level of regulation in a country (from the World Bank Governance data set for 2002), and economic inequality. The key questions I pose are:

• Is there a direct relationship between trust and corruption?
• Is there a direct relationship between economic inequality and trust—and does it flow from inequality to trust (Uslaner, 2002, ch. 8), trust to inequality (Knack and Keefer, 1997), or both ways? A direct relationship between inequality and trust and a similar connection between trust and corruption would provide support for my argument that inequality has an indirect impact on corruption.
• Does corruption in turn lead to more inequality? Corruption slows economic growth (Leite and Weidemann, 1999; Mauro, 1995, 701; Tanzi, 1998, 585). It reduces the amount of money available for various government programs, including the government share of the gross domestic product and expenditures on the public sector, for education, and transfers from the rich to the poor (Mauro, 1998, 269; Tanzi, 1998, 582-586). So we
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should expect that it would lead to more inequality—even if there is not a direct link from inequality to corruption.

• Is the fairness of the legal system an important determinant of corruption? The fairness of the legal system should also shape the level of regulation in a society. An independent and fair judiciary should also lead to less regulation. Political leaders would not attempt to control business if they believe that the courts would step in and challenge attempts to capture the state.

The endogenous relationships I test are from:

• trust \(\rightarrow\) corruption
• inequality \(\rightarrow\) trust \(\rightarrow\) inequality
• government regulation \(\rightarrow\) corruption

For the corruption equation, I include: trust (imputed), the level of regulation, the fairness of the legal system (imputed), and a measure of ethnic diversity (from Country Indicators for Foreign Policy).\(^{15}\) Ethnic diversity is a surrogate for in-group trust. Corruption thrives on high in-group trust and low generalized faith in others. The more diverse a society, the greater the likelihood that strong ethnic identities will dominate over a more generalized trust in others. A high sense of ethnic identity, Lassen (2003, 8) argues, may result in “the political process allocat[ing] excludable public goods and transfers based on ethnic characteristics (favoritism).” Lassem (2003) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003) find strong support for the argument, though Treisman (1999) and Leite and Weidmann (1999) failed to find significant effects for ethnic diversity upon corruption.

For the trust model, I largely follow the cross-national model in Uslaner (2002, ch. 8) in
arguing that the level of economic inequality and the share of the population that is Protestant should be key factors shaping trust. I have already laid out the argument on inequality. The “Protestant ethic” is an individualistic creed: To succeed in a competitive world, we need to rely upon other people. In collectivist societies, people can rely upon their peer groups and get by with particularized trust. In individualistic societies, generalized trust becomes essential. Trust is higher in individualistic societies (Triandis, 1995, 126) and Protestant societies are more individualistic (Uslaner, 2002, 232, n. 21) and less hierarchical (Inglehart, 1999, 92-93) than other countries. Civil war can tear a country apart, so I expect that countries that have had civil wars are less likely to be less trusting. 16 Finally, while there is little evidence that democracy leads to greater trust, there is ample support for the claim that Communism depresses trust. The repressive Communist system made it treacherous for ordinary citizens to trust each other—at best people had faith in their close friends and family members, and even then there were often risks (Gibson, 2001). I thus include a dummy variable for former and present Communist regimes.

The equation for business regulations includes the fairness of the legal system and a measure of the role of the military in politics and the openness of the economy to external trade. 17 A military government ought to be more likely to regulate the economy with a strong hand and to be more permissive with their cronies who would take the lead with An economy open to foreign trade, on the other hand, would give foreign investors more of a say in how companies are run. To be able to export to foreign countries, a firm must be free of tight control from above. Imports also lessen central control over the economy.

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

The model for corruption may appear thin and different from many in the literature. However, I did many sensitivity tests for variables discussed in the literature and have found no reason to add any of them to my model. Specifically, I did not find significant relationships for the level of public sector wages (LaPorta et al., 1998; Mauro, 1997, 5; Tanzi, 1998, 573; Treisman, 2000; but cf. Rose-Ackerman, 1978, 90-91), 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); the level of political stability (Leite and Weidmann, 1999, 20; Treisman, 2000); the level of democracy in a country (You and Khagram, in press); or the structure of the electoral system (Kunicova and Rose-Ackerman, 2004). All of these other variables faded into insignificance within the model I present below in Table 1. At the bottom of Table 1, I also list the exogenous variables used as instruments.
Evaluating the Model

All four of the equations perform very well in accounting for corruption, trust, regulation of the economy, and inequality. Even though $R^2$ is not strictly appropriate for two-stage least squares estimation, the high values for $R^2$ and the low values of the standard error of the estimate (see Table 1) give us confidence in the models. The $R^2$ values range from .567 (for inequality) to .839 (for corruption) and two of the four standard errors of the estimate are only 20 percent or less of the mean values, a third less than 30%. The models, then, fit the data well.

The most important result is that there is an indirect linkage between inequality and corruption and it goes through trust. As we move from the low level of inequality in Belgium to the very high level in South Africa, trust declines by 24 percent. This is equivalent to moving from the low trust level of Serbia, the Czech Republic, South Korea, Spain, or Bulgaria to the high levels of the Netherlands and Canada. As we move from the least trusting country (Brazil) to the most trusting (Norway), corruption decreases on the 10 point TI scale by 4.87 units. This is equivalent to moving from the low transparency of Poland, Sri Lanka, and Croatia to that of the Netherlands. The impact of inequality on trust is sufficient to produce a considerable effect on corruption. Ethnic diversity also leads to greater corruption, but the effect is more modest: The most homogenous country (among them, Norway and Japan) is only .8 less corrupt on the 10 point scale than the least (South Africa but also Canada).

We also confront an anomaly: The fairness of the legal system, which I posited to be a key factor in shaping corruption and which is highly correlated with corruption, is insignificant. This seems rather puzzling, but can be explained by the rather high correlation between regulatory policy and legal fairness ($r = .856$). This does not rule out the effect of the fairness of
Uslaner, “Economic Inequality and the Quality of Government” (24)

the legal system— but rather suggests an indirect linkage, through the regulatory regime. In the regulation equation below, the fairness of the legal system is by far the strongest factor. The most fair legal system (any of the northern European countries) has a regulatory policy 1.86 standardized units less restrictive than the least fair (Nigeria). This is equivalent to the distance between Turkey and Finland in regulatory regimes. Regulation, in turn, shapes corruption.

The model for corruption strongly suggests that it is trust and regulatory policy—and indirectly economic inequality and the fairness of the legal system—that shapes transparency. *Institutional factors do not loom large in determining the level of corruption in a country except insofar as they lead to more or less equitable treatment of citizens before the law or except insofar as they promote economic equality and an economic system free of political interference.* This does not imply that governments cannot regulate the economy—the Western European countries that have the least “regulation” are all welfare states. It does suggest that politicians must take care in how they regulate. The equation for corruption performs extremely well without any standard institutional variables such as centralization, parliamentary system, type of electoral list, the type of executive—each of which fell to insignificance when added.

The model for trust confirms the results in Uslaner (2002, ch. 8): Eastern bloc countries are far less trusting (by an average of 14 percent). Protestant societies are more trusting: The difference in trust between the country with the largest Protestant population (Norway) and the smallest (among them Turkey) is .213. Countries that have experienced civil wars are 10 percent less trusting. But the largest effect comes from economic inequality. As we move from low values on the Gini index (Belgium) to the highest (South Africa), trust declines by 27 percent.
In the model for regulation, the fairness of the legal system is by far the most important predictor. But other factors matter as well: Countries where the military plays a large role in politics are more likely to take a heavy hand in regulating the economy. Open markets also lead to less regulation. So both institutional structure (who runs the government) and public policies (import and export regulations) shape regulation, but the most important factor is a mixture of legal and social factors—the fairness of the legal system. There are indirect linkages between formal structures and corruption, but the impact of purely institutional factors (military versus civilian control of government) pale by comparison to factors underlying equity—trust, equality, and indirectly the fairness of the legal system—and policy decisions (the regulatory regime) in shaping transparency.

Finally, the model for inequality suggests that inequality shapes trust rather than the other way around (cf. Uslaner, 2002, 232-236). However, the link from trust to inequality is more complex (see below). Even if there is no direct linkage, there is ample support for an indirect connection. Present and former Communist countries are considerably more egalitarian, by an average of .17. The Muslim share of the population is significantly associated with reduced inequality: The inequality gap between countries with no Muslims and the largest Muslim share (Indonesia) is .194; Indonesia is an outlier in this sample (which does not include many Muslim countries). Less extreme is Turkey, and here the difference in effects is reduced to .07. But the share of Protestants in a society is incorrectly signed. Finally, corruption leads to more inequality: The difference between the most and the least corrupt country leads to a change in Gini coefficients of .23—which is the difference in inequality between Belgium and the Philippines or Costa Rica. The equation for inequality is the least successful of the four,
Uslaner, “Economic Inequality and the Quality of Government” (26)

according to three different criteria: the lower (though still far from modest) $R^2$, the low F ratio, and the high t-value of the constant. Nevertheless, the equation still performs well and the other estimations all support my overall framework.

Overall, there is considerable support for my thesis: Inequality shapes trust. Even if there is no simple relationship, there is a powerful indirect linkage through trust. The fairness of the legal system also shapes corruption, indirectly through the regulatory regime. Social bonds and the distribution of wealth—and justice—play key roles in determining whether a country will be corrupt or transparent. Institutional factors do not matter as much as social bonds, policy choices, and equity.

This approach offers an explanation of why corruption, mistrust, and inequality are all sticky. They do not change easily because each breeds the other. The $r^2$ between generalized trust from the 1980 and 1990-1995 World Values Surveys is .81 for the 22 nations included in both waves. Inequality similarly moves little over time. The $r^2$ for the most commonly used measures of economic inequality (Deininger and Squire, 1996) between 1980 and 1990 is not quite as strong as the connection with trust over time, but it is still substantial at .676 for a sample of 42 countries. The Galbraith data base extends measures of inequality further back in time and across more countries. The $r^2$ between economic inequality in 1963 and economic inequality in 1996 is .706 (for 37 countries). The $r^2$ between the Transparency International Corruption Perceptions Index for 2003 and the ICRG measure for 1980-85 (even though they are not directly comparable) is .785 for 49 countries.

In contrast to trust and inequality, political structure has been more malleable. The 1980s and 1990s saw a wave of democratization throughout the world, especially in transition
countries, even as there has been little change in trust, inequality, and corruption. The political rights index of Freedom House showed considerable change from 1988 to 2003: On the 7 point scale (with lower scores indicating greater political rights), the mean score improved from 3.138 in 1988 to 2.554 in 2003. For former and present Communist nations, the score moved from 5.789 to 2.917. More critically, there was virtually no correlation between the 1988 and 2003 scores. For 62 nations, there is a significant, though not powerful, coefficient of earlier scores on the later ones (t = 2.22, R² = .076). For the 17 Eastern bloc countries, the coefficient is not at all significant (t = -.05. R² = .0001). If political structures change but trust, inequality, and especially corruption persist, it is hardly surprising that institutional reform will be insufficient to generate transparency.

There is a causal spiral from inequality to corruption (and back again) and from both inequality to lower levels of trust and from low levels of out-group trust—and high levels of in-group (or particularized) trust to corruption (Gambetta, 1993). Perhaps most critical in this vicious circle is the link between inequality and trust. Countries with high levels of trust enact policies that help reduce inequality—they spend more on the poor and more on programs such as education that help equalize opportunities (Uslaner, 2002, 245-246). Yet, as Rothstein and I have argued (Rothstein and Uslaner, 2005), the policies that are most effective in reducing inequalities and in promoting trust are universalistic social welfare programs. Means-tested programs stigmatize the poor and exclude those who are better off. Recipients of means-tested benefits in both Sweden and the United States, our analyses of surveys has shown, are less trusting.

The logic of means-tested programs is clear: Help those most in need and do not reward
people not so wanting. However, if there are already strong social tensions within a society, these programs may be little more than masked calls for confiscation of the earnings of those who have adapted to Western market economics (Uslaner and Badescu, 2005). To be sure, many who get rich in poor countries, especially those in transition from Communism, are corrupt—but if we equate all wealth with corruption, markets and democracy cannot take root in these transition states. Each class trusts only its own members, which is a recipe for continued corruption and persistent inequality.

**Corruption and Inequality: A Direct Connection**

Is there a direct linkage between economic inequality and corruption? I find such a connection in a simpler model of corruption in the American states. The measure of corruption is an index of perceptions of dishonesty by political reporters in state capitals in 1995 (Boylan and Long, 2001)–an indicator similar to that of the Transparency International Cross-National measure. The Boylan-Long measures for 47 states have Rhode Island and Louisiana as the most corrupt and the Dakotas and Colorado as the most honest.

The model includes trust (aggregated to the state level for the 1990s), a measure of inequality, political activity (making a political speech in the 1990s), and two measures of the party system. The measure of inequality I use is the black/white poverty ratio in a state. I investigated using the Gini index, but as in the cross-national analysis, it was not significant in a single-equation model. However, there is an alternative measure that speaks more directly to the link between inequality and low out-group trust, on the one hand, and high in-group trust on the other. It is a measure of inequality by race. My argument holds that inequality leads to low generalized trust because it undermines social solidarity, the belief that we all share a common
fate. In turn, faith in strangers is replaced by particularized trust— and the inhibitions of taking
advantage of others fall away. If inequality is strongly stratified by the key fault line in a
society’s social fabric— and this means race in the United States—it should have particularly
perverse effects on trust and corruption. Economic stratification by race is a far better measure of
racial tensions in society than ethnic diversity and it should have powerful effects on corruption.

A one-party state, and especially a state with strong parties, will likely lead to greater
corruption. In one-party states, politicians don’t fear that someone is looking at their
performance carefully— and they have little fear that they might be thrown out of office if they are
found ethically wanting. A more vigilant citizenry can, in the words of former Virginia Lt.
Governor Henry Howell, “keep the big boys honest.” States with “traditional party
organizations” as Mayhew has defined them, should also have more corruption. These party
organizations are largely sources of patronage, with hierarchical organization and that rely upon
“‘material’ incentives and not on ‘purposive’ incentives [such as] issues, principles, causes, or
ideologies” (Mayhew, 1986, 19-21, quoted at 20). Strong party states are patronage-oriented; at
the other extreme are states with either weak parties or parties that emphasize issues. States
ranking high on Mayhew’s traditional party organization index should have higher levels of
corruption.

Reform organizations such as Transparency International often point to the need for
ordinary citizens to get involved in the fight against corruption. Reform organizations such as Transparency International often point to the need for ordinary citizens to get involved in the fight against corruption. Political action clearly requires more than simple voting, but we have no theoretical guidance as to what activity would be most effective. I examined a variety of measures of political activity aggregated to the state level and include only one—the share of citizens in a state who make a political speech. This is a
tiny fragment of the population, but it does point to an elite that is active in political affairs—that may have access to the media.22

Table 2 about here

I report the regression for perceptions of corruption in the states in Table 2 below and each of these measures strongly shapes corruption levels in the 30 states for which there are complete data on all of the variables. Making political speeches reduces corruption substantially, while both one-party states and traditional party organizations lead to more corruption. As the share of citizens reporting making a political speech rises from less than one percent to slightly more than 9 percent, perceived corruption falls by 1.3 percent, the difference between Maryland and Rhode Island.23

More critically, high levels of trust and greater black/white equality lead to lower levels of corruption—while we find more corruption in one party states and in states with very powerful political parties. The index of corruption ranges from 1.5 (least) to 5.5 (most). Moving from the least to the most trusting state, corruption increases by 1.17—a change equivalent to the distance between Pennsylvania and California. As the black-white poverty ratio increases, corruption rises by 1.25, the gap between Utah and Rhode Island. The most dominant party system has a corruption ranking .862 higher than the least and strong party states are .98 “more corrupt”—an increase equivalent from moving from Ohio to Rhode Island.

A measure more sensitive to how inequality affects the social fault lines in a society is thus a powerful predictor of corruption, better than a simple Gini index. We do not (to the best of my knowledge, at least) have cross-national measures of how income is stratified by ethnic or
Uslaner, “Economic Inequality and the Quality of Government” (31)

racial group. Given the quality of data on income inequality, getting such data might not be attainable. However, the findings from the American states suggests that the path from inequality to trust may be both indirect and direct.

There is one additional piece of evidence on the stickiness of corruption. There are no early measures for corruption in the American states, but it makes sense to expect an inverse relationship between present-day corruption and support for political reform in the past. A good measure of support for reform is the state-level vote for Robert LaFollette, the Presidential candidate of the clean government Progressive Party in 1924. In Figure 7 below, the LaFollette vote in 1924 does clearly track reporters’ perceptions of corruption in the late 1990s ($r^2 = .284$). The LaFollette vote is also highly correlated with trust in the 1990s ($r = .624$) and moderately correlated with traditional party organizations ($r = -.263$)—so the historical measure drops out of a multivariate estimation. But there is clear support for the argument that corruption persists over time despite efforts to root it out.

Reprise

If corruption stems, either directly or indirectly (or both), from economic inequality, then our efforts to stamp it out must focus on the distribution of resources in society. Corruption cannot be eradicated by simply putting errant leaders in jail. Corruption is a sign of a much larger breakdown of the rule of law. Azfar (2005) and I have independently used the International Crime Victimization Surveys aggregated to the country level to track levels of crime and corruption. Azfar shows that personal theft and homicide rates are strongly linked to corruption. My data (as yet unreported) show that corruption levels are also strongly related to fraud, car theft, the extent of damage to cars, to longer sentences for those who are convicted,
and, perhaps most telling, the rate of pickpocketing. Across 48 countries, the $R^2$ between corruption perceptions and perceptions of pickpocketing levels is .660. Pickpocketing levels are also predicted by trust (imputed) and the fairness of the legal system (imputed, $R^2 = .441$ and .572, respectively for $N = 48$). Economic inequality is also a significant predictor, but only when present and former Communist countries are excluded ($R^2 = .243$ for the Deininger-Squire measure and .360 for the Galbraith measure in 1994, $N = 31$ and 26).24

We see the same syndrome at the street level as at the top. The direction of causality is unclear at least at the present: Do venal leaders make people commit crimes or does petty theft indicate a mistrusting culture that not only tolerates, but encourages corruption?

We also need to be careful in linking “crime” to corruption. Not all crime is so clearly linked to malfeasance at the top. Corruption seems to breed economic crimes (theft, car damage, pickpocketing) and not crimes of violence. The frequency of assaults is not at all linked to corruption levels ($R^2 = .0005$) or to the frequency of sexual assaults ($R^2 = .016$, both $N = 48$). So it is not crime per se that is associated with corruption, but rather economic-based crime. And this lends further support to the claim that economic inequality is the foundation for corruption. I have also shown that corruption in turn increases inequality, so we seem to be in a vicious cycle that is difficult to break by anti-corruption campaigns alone.

In one sense the question of whether corruption is top-down or bottom up—stemming from venal leaders or a culture of mistrust—may not matter theoretically as it does practically. The persistence of corruption over time, as institutions have changed, suggests that we pay more attention to what is happening at the bottom, to the distribution of resources.
Uslaner, “Economic Inequality and the Quality of Government” (33)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corruption equation</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Trust (imputed)</td>
<td>7.850****</td>
<td>1.973</td>
<td>3.98</td>
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<td>Regulation of business</td>
<td>1.791****</td>
<td>.402</td>
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<tr>
<td>Fairness of legal system</td>
<td>.215</td>
<td>.275</td>
<td>.078</td>
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<td>Ethnic diversity</td>
<td>.101*</td>
<td>.060</td>
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<tr>
<td>Constant</td>
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<td>.891</td>
<td>.61</td>
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<tr>
<td><strong>Trust equation</strong></td>
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<tr>
<td>Economic inequality (Gini index)</td>
<td>-.666****</td>
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<td>Civil war</td>
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<td>.023</td>
<td>-4.13</td>
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<tr>
<td>Protestant share of population 1980</td>
<td>.219****</td>
<td>.044</td>
<td>4.96</td>
</tr>
<tr>
<td>Former Communist nation</td>
<td>-.141****</td>
<td>.032</td>
<td>-4.37</td>
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<td>Constant</td>
<td>.565****</td>
<td>.069</td>
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<tr>
<td><strong>Regulation equation</strong></td>
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<td>Fairness of legal system</td>
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<td>.061</td>
<td>7.66</td>
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<tr>
<td>Openness of economy to trade</td>
<td>.219***</td>
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<td>2.49</td>
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<tr>
<td>Role of military in politics</td>
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<td>.033</td>
<td>3.61</td>
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<tr>
<td>Constant</td>
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<td>-8.07</td>
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<tr>
<td><strong>Inequality equation</strong></td>
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</tr>
<tr>
<td>Trust (imputed)</td>
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<td>.213</td>
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<tr>
<td>Variable</td>
<td>Coefficient</td>
<td>Std. Error</td>
<td>t-Value</td>
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<td>-------------</td>
<td>------------</td>
<td>---------</td>
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<tr>
<td>Corruption</td>
<td>-.028****</td>
<td>.009</td>
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<tr>
<td>Former Communist nation</td>
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<td>Protestant share of population 1980</td>
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<td>Muslim percent of population</td>
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<td>.000</td>
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<tr>
<td>Constant</td>
<td>.589</td>
<td>.035</td>
<td>16.94</td>
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</table>

* p < .10 ** p < .05 *** p < .01 **** p < .0001 (all tests one tailed except for constant)
TABLE 1 (continued)

<table>
<thead>
<tr>
<th>Equation</th>
<th>R²</th>
<th>S.E.</th>
<th>Mean</th>
<th>F Statistic</th>
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<tbody>
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<td>Corruption</td>
<td>.839</td>
<td>1.029</td>
<td>5.176</td>
<td>84.28</td>
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<td>Trust</td>
<td>.639</td>
<td>.082</td>
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<tr>
<td>Regulation of business</td>
<td>.818</td>
<td>.394</td>
<td>.648</td>
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<tr>
<td>Inequality (Gini)</td>
<td>.568</td>
<td>.068</td>
<td>.363</td>
<td>13.92</td>
</tr>
</tbody>
</table>

**Uslaner, “Economic Inequality and the Quality of Government” (36)**

**TABLE 2**

Model of Corruption Perceptions in the American States

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generalized trust</td>
<td>-2.578***</td>
<td>1.080</td>
<td>-2.39</td>
</tr>
<tr>
<td>Black/white poverty ratio</td>
<td>.435***</td>
<td>1.634</td>
<td>2.66</td>
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<tr>
<td>Dominant party share</td>
<td>3.850**</td>
<td>1.751</td>
<td>2.20</td>
</tr>
<tr>
<td>Traditional party organization</td>
<td>.232***</td>
<td>.079</td>
<td>2.98</td>
</tr>
<tr>
<td>Make political speech</td>
<td>-15.063***</td>
<td>6.195</td>
<td>-2.43</td>
</tr>
<tr>
<td>Constant</td>
<td>2.900***</td>
<td>.728</td>
<td>3.98</td>
</tr>
</tbody>
</table>

R² = .733  Adjusted R² = .678  RMSE = .589  N = 30

*** p < .01   ** p < .05

Data sources:

- Generalized trust: Aggregated by state from national surveys and discussed in Uslaner and Brown (2005)
- Black/white poverty ratio: From Rodney Hero, University of Notre Dame
- Dominant Party Share: From Edward Jennings, University of Kentucky
- Traditional Party Organization: Mayhew (1986)
- Make political speech: Aggregated by state from Roper Social and Political Trends Archive, available by subscription from the Roper Center, [http://www.ropercenter.uconn.edu](http://www.ropercenter.uconn.edu)
Figure 1

**Fairness of Legal System EIU Imputed by Gini Index of Economic Inequality**

$r^2 = .131$ N = 88  
$r^2 = .279$ N = 65 without Former and Present Communist Nations

W = Western bloc  E= former and present Communist countries  * In neither bloc
Figure 2

Uslaner, “Economic Inequality and the Quality of Government” (38)

Corruption by Economic Inequality

r2 = .082 N = 85
Figure 3

Lowess Plot of Corruption and Inequality

TI Corruption Perceptions Index 2004

Gini index economic inequality

bandwidth = .2
Figure 4

Lowess Plot of Corruption and Inequality
Former and Present Communist Nations Excluded

bandwidth = .2
Uslaner, “Economic Inequality and the Quality of Government” (41)

Figure 5

TI Corruption Perceptions Index by EIU Fairness of Legal System

Least Fair 2.82
2 3.04167
3 3.99231
4 6.75429
Most Fair 8.78182

r² = .733 for 86 cases with imputation  r² = .722 for 55 cases without imputation
Uslaner, “Economic Inequality and the Quality of Government” (42)

Figure 6

Corruption by Generalized Trust [Imputed]

$r^2 = .420 \ N = 83$
Uslaner, “Economic Inequality and the Quality of Government” (43)

Figure 7

The Historical Roots of Corruption in the American States

Reporters' Perception of Corruption in American States by 1924 LaFollette Vote in the American States

N = 30  r^2 = .284
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You, Jong-sung and Sanjeev Khagram. In press. “A Comparative Study of Inequality and
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NOTES

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1. For 48 countries, the aggregate $r^2$ between the 2003 Transparency International Corruption Perceptions Index and the level of pickpocketing in a society (using the International Crime Victimization Study) is .663.

2. The $r^2$ between the 2003 Transparency International Corruption Perceptions Index and the trichotomized 2003 Freedom House index (not free, partially free, and free) is just .216.

3. The simple correlations, based upon samples of about 120,000, are about .06.
4. I am grateful to Elizabeth Anderson of the Economist Intelligence Unit for providing the data on legal fairness. The variables I used for the imputation are: gross national product per capita (from the State Failure Data Set), the tenure of the executive and a dummy variable for having a parliamentary system (from the Database of Political Institutions), the Freedom House composite indicator of democracy trichotomized for 2003, and the distance of a country from the equator (from Jong-sung You). All variables had positive coefficients. The $R^2$ is .769, the standard error of the estimate is .647 ($N = 53$).

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

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

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

8. Lowess is a visual aid to interpreting the relationship between variables. Since it is a “locally weighted” regression with slopes dependent upon the specific bandwidth chosen, there is no regression coefficient. Since lowess uses just the information at hand, there are no significance tests. And since the line connecting the points is a function of the
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bandwidth chosen, there is no measure of goodness of fit.

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

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

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

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

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

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

15. The index, based upon Shih’s DI, is “...based on the number of ethnic groups in a country weighted by the fraction of the population each group represents...both the number and the sizes of ethnic groups jointly determine the degree of ethnic diversity.” See the description at [http://www.carleton.ca/cifp/descriptions.htm#ETHNIC](http://www.carleton.ca/cifp/descriptions.htm#ETHNIC). The ranked scores are available at: [http://www.carleton.ca/cifp/rank.htm](http://www.carleton.ca/cifp/rank.htm). I selected this measure rather than the one proposed by Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003) for practical reasons—it performed better. I had no theoretical reason to expect one measure to outperform the other. I use the Alesina et al. fractionalization measures as instruments for the endogenous variables.

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

17. The military in politics measure comes from [http://www.freetheworld.com](http://www.freetheworld.com) from the
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Fraser Institute in Canada; the measure of the openness of the economy was provided by Jong-sung You. In the Gini equation, the Muslim share of population comes from http://www.islamicpopulation.com.

18. The minimum value for regulation in this sample is -1.28 (Iran) and the maximum is 1.93 (Finland). The highest scores thus indicate the least regulation.

19. As with the regulatory index, low scores indicate a greater military presence, high scores total civilian control.

20. This section is derived from Uslaner (in press). An alternative measure of corruption is the share of public officials indicted or convicted (Meier and Holbrook, 1992) The most corrupt states in 1995 were Florida and Virginia and the least corrupt were New Hampshire and Vermont. The two measures are not identical–both Florida and Virginia rank 14th and 26th respectively on the Boylan-Long measure and the overall correlation between the two measures is just .259. The reporters’ measure seems to be the better one, since it has greater face validity. Prosecution indicators may reflect the personal priorities of prosecutors (Boylan and Long, 2001, 3-4)–and it may simply be more difficult to gain an indictment and conviction in a heavily corrupt state.


22. The measure comes from the Roper Social and Political Trends Archive; the Roper survey asked national samples of 2000 ten times a year for 21 years (1974-94) about levels of political activity. Hence there are sufficient cases to aggregate activities for the states by decade. Here I use the estimates for making political speeches in the 1990s.
23. As a long-time resident of Maryland, this seems less consequential than the data suggest.

24. The $R^2$ values also go up considerably for trust (imputed) at .583 and the fairness of the legal system (imputed) at .621.