Corruption, the Inequality Trap, and Trust in Government*

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Corruption 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).

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. Neither democracy, the structure of a country’s electoral system, whether government is centralized or decentralized (measured by federalism nor the share of a country’s government expenditures spent at the local or national level) significantly shapes corruption.

I outline a different account of corruption here—what I call the “inequality trap.” Corruption rests upon a foundation of unequal resources and it leads to greater inequality in turn.
I first present my overall argument and then I consider why transition countries at first seem to be exceptions, but then fit the thesis rather well. Next I argue that inequality and corruption both lead to lower levels of service delivery and that this effect exacerbates the inequality trap. I then show using both aggregate and individual-level survey data that service interruptions in transition countries reflect both inequality and corruption. Failures in public service in turn lead to reduced trust in government, higher tax evasion, and a weaker infrastructure—which in turn exacerbates inequality.

The inequality trap thesis is a more encompassing thesis, where I argue that inequality leads to low levels of generalized trust, which in turn results in more corruption, and then to even more inequality (Uslaner, 2008a, ch. 2). Inequality is particularly destructive of trust in people, but both corruption and inequality also lead to lower levels of trust in government (Uslaner, 2008a, 176-178). The link between corruption and trust in government is straightforward: People are not likely to have confidence in leaders whom they believe to be dishonest. The link with inequality is less direct—through economic evaluations more generally. I examine survey data from the 2006 Life in Transition Survey (LiTS) conducted in 28 transition countries (and Turkey) by the European Bank for Reconstruction and Development and the World Bank:¹ Do perceptions of corruption, inequality, and service delivery shape people’s trust in government? There is strong support for the direct connection between confidence in government and corruption. The tie between service delivery and trust in government is modest—and trust in government appears to thrive when there is more inequality, not less, and lower support for a strong government role in reducing economic disparities. After half a century (or more) of Communist governments proclaiming to fight inequality but failing to produce prosperity, many
people in transition countries seem to prefer governments that enhance the market rather than focus on inequities.

**Inequality, Corruption, and Trust in Government**

The link between inequality and corruption seems compelling. Corruption is exploitive. 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.

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
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (4) 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 (2005, italics in original) argue: “The rich, as interest groups, firms, or individuals may use bribery or connections to influence law-implementing processes (bureaucratic 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 (Uslaner, 2002, 181-183); (2) 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 (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 (see also Glaeser, Scheinkman, and Schleifer, 2003; and You and Khagram, 2005).

Economic inequality creates political leaders who make 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. 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. 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.

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.

Economic inequality is not the only distributional issue affecting corruption. Equality of treatment under the law matters as well. If people feel that they have been treated unfairly by the police or in the courts, they are less likely to have faith in the legal system. The 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 justice. Rothstein and Stolle (2002) argue that there are two dimensions to the legal system: fairness and efficiency. Fairness 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.

When the legal system is fair—when people see the courts in particular as fair—they will expect that the rich and poor will receive equal treatment and that corrupt officials will be unlikely to get away with their misdeeds.

As I argued above, the connection between trust in government and corruption is clear. Indeed, the standard trust in government scale used in the American National Election Studies includes an item asking respondents if they believe that “quite a few of the people running the government are crooked.” The connection between inequality and confidence in government is less clear. There are two paths to this linkage. First, the direct path stems from a large body of research showing that trust in government—and indeed the evaluation of political leaders more generally—strongly depends on how well leaders manage the economy (Citrin, 1974; Kinder and Kiewiet, 1979; Lipset and Schneider, 1983). Increasing inequality may be troubling to many voters—and a sign that the government is not performing well.

Second, there may be an indirect link, especially in transition countries after the fall of Communism. Rising levels of inequality in these polities (see below) led to increasing social strains and to perceptions of greater corruption. In transition countries, most people believe that the only way to get rich is by being corrupt (Uslaner, 2008a, 102-103)—so the link from inequality
to corruption also leads to low levels of support for government officials, most notably those who are or are accused of being very wealthy (Uslaner, 2008b).

**Some Preliminary Evidence on the Inequality Trap**

While the dominant explanations for corruption are institutional, there is at least one key reason why structural accounts are wanting. Institutions have been rather malleable across the world in recent decades as democratization has spread across transition and developing nations. The $r^2$ for political rights using the Freedom House data from 1973 to 2003 is .165 and for civil liberties it is .263 (both $N = 77$). Even excluding countries that were Communist in 1973, the respective $r^2$ values increase only to .264 and .375 ($N = 67$). More critically, changes in political rights and civil liberties from 1973 to 2003 are unrelated to changes in corruption from 1980-85 to 2004 ($r^2 = .007$ and .038 respectively, $N = 38$). Moving the democratization measures forward to 1988 does not improve the fit with changes in corruption ($r^2 = .004$ and .0005 for political rights and civil liberties, $N = 39$).

The major components of the inequality trap—inequality, trust, and corruption—are rather 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. A new inequality data base developed by James Galbraith 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
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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.

More critically, changes in political rights and civil liberties from 1973 to 2003 are unrelated to changes in corruption from 1980-85 to 2004 (φ² = .007 and .038 respectively, N = 238). Moving the democratization measures forward to 1988 does not improve the fit with changes in corruption (φ² = .004 and .0005 for political rights and civil liberties, N = 39).

The linkage between corruption and inequality is not much stronger. The φ² is a paltry .082 across 85 countries, suggesting no relationship at all between inequality and corruption. When I remove the former and present Communist regimes, there is a moderate fit between the two indicators (φ² = .246, N = 62) when the former and present Communist countries are excluded. With a bivariate φ² of this magnitude, it should not take much effort to see it vanish in a multivariate analysis. So I suggested that the relationship between inequality and corruption is indirect—through generalized trust, trust in strangers. Inequality is the strongest predictor of trust across nations without a legacy of communism, in the United States over time, and across the American states (Uslaner, 2002,chs. 6, 8; and Uslaner and Brown, 2005). And high levels of trust are strongly related to low levels of corruption (Uslaner, 2008a, 45-53). Across nations, I thus suggest that the relationship between inequality and corruption is indirect.

I estimated a six-equation model of corruption, inequality, trust, regulation of business, the overall risk of a country’s economy and polity, and a measure of government effectiveness (Uslaner, 2008a, 63-74) and the fairness of the legal system is the only institutional variable that is a significant predictor of corruption. Legal equality is not the same as economic equality (the two are moderately correlated) nor the same as the efficiency or the size of the judiciary.
The transition countries stand out as the major exception to my argument linking high inequality through low generalized trust to much corruption. Yes, they have high levels of corruption—former and the handful of still Communist countries on average are more corrupt than either the West (by far) or the developing nations. And yes, they have low levels of trust—slightly higher than developing countries but much lower than the West. Yet, they have on average the lowest levels of inequality—marginally less than the West but far lower levels than developing countries.\(^5\)

Yet, there are many reasons to believe that the inequality trap argument fits transition countries well.\(^6\) First, measures of economic inequality are based upon official statistics and do not take into account the great wealth of a handful of officials at the top, who had privileges unavailable to ordinary citizens. Second, while inequality has been historically relatively low in transition countries, there have been sharp increases in the uneven distribution of wealth since the Communist regimes fell in the late 1980s. Two different data bases tell largely the same story: The Rosser, Rosser, and Ahmed (2000) data on income distribution show an increase in economic inequality from 1989 to the mid-1990s for every country save one (Slovakia). The more recent WIDER estimates indicate substantial increases in inequality—an average change of 78 percent from 1989 to 1999—for each of 21 countries.

The rise in inequality was accompanied by an increase in the shadow economy (Schneider, 2003). Even the best performing economies, Slovakia and the Czech Republic, had almost 20 percent of their revenue off the books. Three countries had a majority of their revenue in the informal sector (Ukraine, Azerbaijan, and Georgia) and 15 of 21 countries for which there are data have at least a third of their income in the shadow economy. Even more distressing is
that 16 of the 18 countries for which there are data experienced increases in the shadow economy of at between 10 and 42 percent; only one country (Hungary) had a (very slight) decrease while another (Slovenia) experienced no change. Not only did inequality increase, but more people had to rely upon the informal sector.

The greater the share of the economy beyond the reach of the state, the more difficult it will be for a government to marshall the resources to gain public confidence that the state can provide essential services. Overall, the average share of the shadow economy more than doubled from 1989 to 1999-2000 (from 17 percent to 38 percent) and the average increase in the Gini index of inequality was 33 percent.

Corruption remains a persistent problem. In 2004, every transition country had a higher level of corruption than any Western country. The 2005 scores show sharp leaps in honesty for Estonia and Slovenia (atypical for this index)—outranking Greece and Italy and tied with Israel among Western nations. However, excluding Estonia and Slovenia, the mean for East bloc countries is lower than for developing nations.

All of the 11 formerly Communist countries ranked by Transparency International in 1998 had more corruption in 2004 (Uslaner, 2008a, 105-106, 270). There is only a moderate amount of consistency from 1998 to 2005 ($r^2 = .543, N = 12$), but far greater for the larger sample between 1999 and 2005 ($r^2 = .832, N = 24$). The public in transition countries sees corruption as a long-term, insoluble problem: In a 2005 survey, just eight percent of Russians held that corruption can be eliminated “if dishonest leaders are replaced with honest ones,” while 26 percent hold that “Russia has always been characterized by bribery and embezzlement, and nothing can be done about it” (Popov, 2006; cf. Karklins, 2005, 59 for a more general statement
Inequality seems to matter more for the transition countries as a determinant of corruption in more recent years. Inequality (together with perceptions that courts are not fair, GDP per capita, and the openness of the economy) is a significant predictor of corruption for the transition nations. There is a more powerful relationship between corruption and change in economic inequality: Corruption is a significant predictor as well of increases in inequality in these nations (Uslaner, 2008a, 108-111).

An unfair legal system predates the fall of Communism in Central and Eastern Europe. Under communism, legal fairness was a vain hope. As corruption and inequality have increased, so have perceptions that the legal system is unfair (Uslaner, 2008a, 97-98). The growth of the informal economy is a sign that the transition to a market democracy did not lead to a more fair legal system. At the top of the shadow economy, the rich evade taxes. At the bottom the workers in the shadow economy have no legal rights. Rising economic inequality makes people more skeptical of the fairness of the legal system. People see a clear connection between the maldistribution of both income and legal fairness and corruption: I find strong support for these linkages in surveys in Romania and Estonia (Uslaner, 2008a, chs. 5, 6). Ordinary citizens (far more than elites) believe that you can’t get rich without being corrupt and that corruption plays a large role in promoting more inequality.

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).

Service Failure, Corruption, and Inequality

Corruption acts as a tax on the poor. 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 particularly rampant on 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 don’t have the resources to provide services, the poor will suffer more.

I turn to three analyses to examine the linkage between service interruptions in transition countries and both corruption and inequality. First, I examine the measure of public service deterioration in the Failed States dataset for 2007. The Failed States index is a measure of the capacity of a polity to maintain order and to deliver essential services of the “vulnerability to collapse or conflict.” A key component of the index is the deterioration of public services,
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which is essential both for ordinary citizens and for businesses in a newly privatized economy.

Does the failure of a state to provide essential public services stem from corruption and inequality?


BEEPS 2005 is a survey of business people in 26 transition countries (all except Turkmenistan). It is not a survey of the mass public, but it does focus on questions of service delivery and corruption, both of which are essential for the growth of business and the economy more generally. The survey asked respondents how many days a year they faced interruptions of service in water (low supplies), phones (no service), and electricity (power outages). I first estimate an aggregate regression model of levels of service interruptions. Then I turn to individual-level analyses of perceptions of poor service delivery in each of the three areas. For both the aggregate and individual-level models, my central focus is whether inequality and corruption–both the “objective” perceptions measures of Transparency International and the “subjective” perceptions of survey respondents–lead to higher levels of reported service interruptions.

First, consider the aggregate model for the State Failure measure of service deterioration, available for 21 countries. I present the model in Table 1. I use three predictors, which collectively account for almost 90 percent of the variance: The 2005 Transparency International Corruption Perceptions Index (higher scores mean less corruption), the change in inequality from 1989 to 1999 as estimated by the United Nations University World Institute for Development Economics Research (WIDER). I chose the years 1989 and 1999 to get a measure of inequality
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at transition, first, and to maximize the number of available data points. Finally, I include the
2003 composite Freedom House democratization index to test for institutional effects.

Table 1 about here

The story is simple: All three variables matter. While democratization may not lead to
less corruption, it does lead to better service delivery. But corruption and inequality change
matter as well. Countries with higher levels of corruption have worse service delivery. And
increasing inequality is also significantly associated with deteriorating public services. What is
notable is that inequality per se doesn’t seem to matter but rising inequality has a strong impact
on service delivery. As countries become more corrupt, they have fewer resources to deliver
these services. As states become more stratified economically, there seems to be a lack of will to
provide public goods to all.

The pattern repeats itself in the aggregate model for the 2005 BEEPS data. There are
three measures of service interruption: low water supply, lack of phone service, and power
outages. I aggregated the survey data to the country level. I focus on three variables, one derived
from the BEEPS data and indices of corruption and change in inequality. From the BEEPS
2005 data, I aggregated the perception of confidence that the legal system will enforce contracts
and property rights.

Table 2 about here

Across all three measures of service interruptions, change in inequality and corruption are
significant. The most powerful effect of inequality appears to be for low water supply—though
the simple regression coefficient for power outages is the greatest (but so is its standard error). Service interruptions are not very common for any of the three measures, but power outages are more frequent (6.1 days a year) with phone interruptions the least common (1.5 days) and low water supply in the middle (2.6). Reported telephone outages are relatively rare—with a mean number of days of only 1.24, compared to 4.72 for low water and 12.45 for power. Yet power outages are infrequent in most countries, with two outliers: Georgia at 57 days and Kyrgyzstan at 14.5. Of the three forms of service interruption, inequality matters least for telephone service—perhaps because telephones are not as ubiquitous as reliance on water and power. And it matters most for power.\textsuperscript{11} Corruption seems to follow the same pattern: The greatest impact is on power, followed by water supply and phones. Regulating contracts and protecting property rights is only significant for power and water.

Service interruptions, even if uncommon, are more frequent where inequality has been rising, corruption is rampant, and the courts do little to enforce rights. A weak legal system means that people have few opportunities to challenge service disruptions. Corruption robs the state of resources and provides for many opportunities for officials to withhold services unless they get bribes. Rising inequality means that some people are better able to get services restored—or to go outside the grid—than others.

The aggregate results receive strong confirmation from the individual-level analysis of the survey data. I estimate a negative binomial model for the three forms of service disruption: The data are counts and there is substantial overdispersion (confirmed by the significant alpha and ln alpha measures), so neither tobit nor Poisson models are appropriate. I estimate two models for each form of service interruption. Common to the models are four measures from the survey: (1)
whether courts are fair; (2) whether the Mafia is an obstacle to business; (3) whether economic instability is an obstacle to business; and (4) how often respondents have to make “gift” payments to public officials to obtain routine services.

In the first set of models, I include the change in inequality and the change in the Transparency International Corruptions Perception Index from 2002 to 2004 as country-level variables. In the second set of models, I replace these measures with an indicator of the size of the unofficial economy from World Bank economists (Johnson et al., 1999, 184). The unofficial economy is strongly correlated with inequality change even in the survey data (r = .766, N = 3772), so I estimate the models separately. I only report the coefficients for other variables in the first model, since there is not much difference for the other variables. I cluster the standard errors by country and report the results in Table 3.

| Table 3 about here |

There is much greater variation in reporting of service interruption in the individual level responses than in the aggregated data. Over 85 percent of respondents never reported experiencing interruptions for either water or phones, though a handful (.67 percent) said that they had “interruptions” every day. “Only” 58 percent of respondents never had power outages, while one percent lacked service every day. In the first set of models, there is clear support for the arguments that both change in inequality and change in corruption lead to more frequent reports of service interruption—for water, telephones, and power. Changes in corruption seem to matter more for low water supply and power than for phones—perhaps because the state has greater monopoly power over water and power than over phones. Change in inequality seems to
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daffect phone service more—perhaps because telephone service may be less available to those at the bottom of the economic ladder.

People living in countries with greater informal economies are substantially more likely to report service interruptions—especially for water and power. A larger informal economy means more people living off the grid—the power grid as well as the legal one. Indeed, one of the key indicators of the size of the informal economy is the “physical input” method, which compares the amount of electricity consumed with the amount billed (Schneider and Enste, 2000). A large informal sector means that public utilities will be “stressed” as people use more capacity than utilities routinely provide to their paying customers—and because there is no routine way for utilities to measure expected demand. People living off the grid but tapping into it may find their services “interrupted” when utilities discover this poaching and cut down their illegal lines. On the other hand, telephone service is less susceptible to the informal economy because it is so much easier to block service to people who try to tap into a phone line.

For two of the three measures, fair courts lead to fewer service interruptions. The exception is for power outages—with no obvious explanation except that this is the only service for which gift payments to public servants are significant. Petty bribes to public servants seem to reduce the level of power outages (which may reduce the need to go to court). They are not significant elsewhere. Organized crime leads to greater service interruptions only for low water supply. We see the same pattern for economic instability. It seems that low water supply may be a political and economic tool for corrupt leaders to ensure that businesspeople make the expected payments. Power outages may simply reflect poor infrastructure that may be traceable to corruption and uncertain demand.
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The larger story is that all three estimations point to the central role of both corruption and inequality in shaping poor service delivery. Corruption redistributes resources from the poor to the rich and thus is a great source of envy, especially in the transition countries where egalitarianism has long been a widely held value.

Trust in Government, Corruption, Inequality, and Service Delivery

Do people who see government as corrupt and unable to deliver services lose faith in their government? Does inequality lead to a drop in confidence in leaders, just as it fosters low levels of social trust (Uslaner, 2002, chs. 6, 8)? I use the LiTS survey of transition countries to examine how people living in regimes with high levels of corruption, rising inequality, and governments that did little to promote confidence among the citizenry.

LiTS surveyed 1000 people in each of 28 transition countries (as well as Turkey). The survey has good questions on trust in public officials, corruption, and satisfaction with the economic situation. But it is weaker on inequality and on service delivery. There are no questions on perceptions of inequality–only on what the state should do (be involved, stay out) regarding economic disparities. And the questions on service delivery are not ideal. LiTS asked respondents whether they were satisfied with a range of government services--police, road police, courts, the education system, and social security--but only for those people who had direct exposure to each. I created revised scores assigning middling evaluations (“indifferent”) to the large majority of respondents who did not have direct experience with each agent. This resulted in very limited impacts for all but one measure--satisfaction with the police.

LiTS also asked people about access to public services: tap water, electricity, telephone, heating, and gas. Access was almost universal in all of the transition countries except for tap
water—the only measure usable. Even here, the mean number of hours of access per day was 21.8.

I thus rely upon aggregate measures to tap inequality and service delivery. For inequality, I use a Gini index from the United Nations Development Program for 2003. I also include a measure of the real growth rate of gross domestic product for 2005 from the International Country Risk Guide. On service delivery, I use two measures from the 2005 BEEPS aggregated to the country level: service interruption in power (as above) and perceptions by businesspeople that unreliable electricity sources are an obstacle to business. While these are perceptions by elites, if people in business find power unreliable, then ordinary citizens should do so as well—perhaps even more so.

Adding these aggregate measures reduces the sample size: The real growth measure is available only for 20 countries. I decided to restrict the analysis to a subset of countries because of anomalies or extreme values in two of the key indicators, trust in government and service interruptions. Trust in government is a factor score from a single dimension measure of confidence in the President, the Cabinet, Parliament, and political parties. Respondents in Azerbaijan, Kazakhstan, and especially both Tajikistan and Uzbekistan were far more trusting than citizens in any other transition country. Their mean factor scores were .72, .66, 1.20, and 1.11. The next most trusting citizens came from Georgia (.29). Only three other countries had mean scores significantly above zero (Estonia, Kyrgyzstan, Mongolia, and Montenegro) and each of these means were about .15. All results for trust in government were driven by these outliers. These data may well be viewed as data anomalies—or perhaps as reflecting poor survey techniques in these countries or more simply as reflecting the dependence of people upon
regimes that are still authoritarian. There is little in our theories about confidence in government that would lead us to expect that people in these former Soviet nations should be more trusting than others—and plenty of reason to expect them to be less trusting: They rank lowest on service delivery. So I exclude respondents from these countries. This leaves two other countries with outlying values on service interruptions: Albania and Georgia. The values of Albania and Georgia on service delivery are hardly anomalies—but once I exclude Azerbaijan, Kazakhstan, Tajikistan, and Uzbekistan, the outlying values for Albania and Georgia drive the results of the analyses—leading to counterintuitive findings (as when all countries are included) that poor service delivery leads people to have more confidence in government.

This leaves us with respondents from Armenia, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kyrgyzstan (the only Asian republic included), Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, and Ukraine. Even so, preliminary analyses show little impact of either inequality or service delivery upon trust in government in models including variables including satisfaction with the economy and expectations for the future. It is hardly surprising that economic expectations would dominate evaluations of government performance and leaders. But it would be naive to assume that inequality or service delivery are unrelated to economic evaluations. So I estimated a two-stage least squares model, with measures of inequality and service delivery (and economic growth) as instruments for the level of economic satisfaction in 2006 compared to the economy in 1989 (the year of transition). This provides a more theoretically satisfying model that leads to support for most of the arguments I have presented. I first present the equation for trust in government for the 16 country sample in Table 4 and then estimate identical models for the top half and the bottom half of the income ladders.
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (21) in Table 5.

The model for trust in government includes two measures of perceived corruption (has corruption gotten better or worse since 1989 and whether success in life depends primarily upon corruption rather than hard work or being smart or simply having connections), an aggregate indicator of service delivery (whether electricity is an obstacle to business), a question on whether the state should be involved in reducing inequality, and two measures of overall economic performance: whether the future for children will be better and whether the economic situation today (2006) is better or worse than that at transition (1989). I instrument the latter measure by a set of variables that are all either theoretically or empirically (or both) unrelated to trust in government: the number of hours per day a respondent has access to tap water, service interruptions for power (BEEPS 2005), the United Nations Gini index, real GDP growth, how often businesspeople had to make “gift payments” to courts, the respondent’s place on a 10 point income ladder (standardized across countries), and whether the respondent prefers a planned or a market economy. The reduced form equation predicts the perceived economic situation reasonably well \( R^2 = .30 \) with powerful effects for income and support for a market economy. More educated respondents also are more likely to see an improved economic situation.

Respondents living in countries where more businesspeople perceived interruptions in electric power were less likely to see an improved economy, as were people living in countries where BEEPS respondents said that they did not have to make frequent gift payments to courts. Respondents living in countries with stronger growth in real GDP were more likely to evaluate the economy positively, but economic inequality was strongly linked to more positive views on the economic situation. More access to tap water led to more positive evaluations—while beliefs
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (22)

that success in life is due to hard work has no significant impact.\textsuperscript{15}

The equation for trust in government shows considerable support for my overall argument, except inequality preferences are incorrectly signed (see Table 4). Service delivery matters most: Country-level perceptions of electricity as an obstacle to doing business (BEEPS data 2005) have the strongest effect on trust. A respondent from Slovakia (with the lowest concern for power outages) will be far more likely to trust the government than one from Bulgaria (with the highest level of worry about power outages). The difference is 2.29 on a total range of 3.11 in confidence scores. Satisfaction with police (at the individual level) leads to an increase of .27 on the trust scale. The next most important factors reflect perceptions of corruption, though their impacts are considerably smaller. People who perceive corruption as declining since 1989 have trust scores that are .32 greater, while respondents who say that success in life still depends upon corruption have trust scores .18 lower. The instrumented economic evaluations leads to greater trust in government, as do expectations for the future for children (.30 more trusting). The only anomaly is for inequality preferences: People who want the state strongly involved in reducing inequality are .15 less trusting of their governments.

Table 4 about here

The results largely hold for both the relatively well-off and those with fewer resources. I divided the sample at the income ladder of .4 (where about half the cases fell above and half below) and estimated the same two-stage least squares regressions for each subsample. The results for the trust in government equation don’t differ much between the two equations (results not shown) with three key exceptions, one of which seems distinctly counterintuitive. First,
perceptions of corruption matter more for the well-off than for people with lower income. This is not surprising, since concern for reducing corruption and because the well-off are more convinced that corruption has declined since transition. Second, the coefficient for the instrumented measure of economic preferences is twice as large for those less well off compared to the estimate for those with more resources. The latter coefficient is barely significant at $p < .10$ (one-tailed test). People who have fared worse since transition seem to place greater emphasis on changes in their economic situation in their trust in government judgments. These differences are not attributable to any divergences in the first stage estimates, which show few differences. Instead, as one’s income increases, corruption becomes a stronger determinant of confidence in government and the economic situation less critical.

Finally, the support for a strong role for the state in reducing inequality has a more powerful *negative* effect for lower-income than for higher income people, with a coefficient almost twice as large. The mean score on the trust in government scale for low-income people who want the state to take a strong role is -.39, compared to -.21 for higher income people. Lower income people are more likely to favor a strong role for the state (74 percent compared to 65 percent), but this demand does not translate into positive support for the state—perhaps because people don’t see post-transition regimes as very successful in combatting economic disparities.

The negative impacts of inequality preferences on confidence in government may reflect a reaction against strong state control of the economy. This result is consistent with the powerful positive effect of inequality on perceptions of an improved economy since 1989. Yet, it is inconsistent with the inequality trap more generally—notably the strong negative effect of
inequality on trust in other people, as opposed to trust in government, in transition countries as well as other nations (Uslaner, 2002, chs. 4, 6; Uslaner, 2008a, chs. 4-6). Trust in government is only modestly related to generalized trust—with correlations close to zero in the United States (Uslaner, 2002, 148-158) but stronger in the transition countries (r = .29). Yet, support for a strong role for the state in reducing inequality is greater among people who don’t trust other people rather than those who have faith in others. It may well be that these negative relationships indicate disappointment about rising inequality and a demand that government do more to reduce income disparities.

**Reprise**

The service interruptions in transition countries (and elsewhere) are not simply a matter of going without basic amenities for a few days a year. Because they stem from corruption and inequality, they add to the mounting inequalities we see developing in these states. The rich are less likely to be affected by service interruptions and to be affected negatively by corruption overall.

Beyond increasing inequality, poor service delivery leads to a loss of faith in the political system and a greater likelihood of tax evasion. A principal cause of withholding tax payments is the belief that one isn’t getting quality services from government (Hanousek and Palda, 2000; Torgler, 2003; Uslaner, in press). In the 2005 BEEPS individual-level data, more frequent service interruptions are strongly related to tax evasion. Respondents who reported more frequent low water supplies, lack of phone services, and more frequent power outages were more likely to say that they paid less than 50 percent of their income to tax authorities (r = .321, .474, and .386, respectively, N = 7085). Ironically, the strongest zero-order correlation is for lack of
phone service—which is the least likely of the three services to be provided by government. Many people may see it, especially in this day when communications are increasingly done by phone and online, as the most essential for a business. People may target their anger at government even when it is not the main culprit.

If people withhold their taxes, this adds to the burden of government in providing services. High levels of corruption may lead to poor services, but poor services lead to less confidence in government (Citrin, 1974) and in turn to greater levels of tax evasion—and then in turn to poorer levels of service and more inequality and more corruption.... And to the never-ending inequality trap.
Table 1

Determinants of Public Service Deterioration in Transition Countries: State Failure Data

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption (TI 2005)</td>
<td>-.418***</td>
<td>.130</td>
<td>-3.22</td>
</tr>
<tr>
<td>Change in Inequality (WIDER)</td>
<td>1.473**</td>
<td>.620</td>
<td>2.38</td>
</tr>
<tr>
<td>Democratization (Freedom House 2003)</td>
<td>-.777***</td>
<td>.251</td>
<td>-3.09</td>
</tr>
<tr>
<td>Constant</td>
<td>4.973****</td>
<td>.964</td>
<td>5.16</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.896</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E.E.</td>
<td>.480</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$N = 21 \,* \, p < .10 \, ** \, p < .05 \, *** \, p < .01 \, **** \, p < .0001$
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (27)

Table 2

Determinants of Service Interruption in Transition:

Aggregate Models from BEEPS 2005 (Robust Standard Errors)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Low Water Supply</th>
<th>Lack of phone service</th>
<th>Power outages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>S.E.</td>
<td>t Ratio</td>
</tr>
<tr>
<td>Change in Gini index (WIDER) 1989-1999</td>
<td>5.84****</td>
<td>1.371</td>
<td>4.25</td>
</tr>
<tr>
<td>Confident legal system enforce contracts &amp; property rights</td>
<td>3.026**</td>
<td>1.79</td>
<td>1.69</td>
</tr>
<tr>
<td>TI Corruption Perceptions Index 2004</td>
<td>-1.577****</td>
<td>.357</td>
<td>-4.20</td>
</tr>
<tr>
<td>Constant</td>
<td>-13.368**</td>
<td>6.308</td>
<td>-2.12</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.684</td>
<td>.424</td>
<td>.535</td>
</tr>
<tr>
<td>RMSE</td>
<td>2.030</td>
<td>.981</td>
<td>10.526</td>
</tr>
</tbody>
</table>

* p < .10 ** p < .05 *** p < .01 **** p < .0001  N = 21
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (28)

Table 3

Determinants of Service Interruption in Transition:
Individual-Level Models from BEEPS 2005: Negative Binomial Regressions with Standard Errors Clustered by Country

<table>
<thead>
<tr>
<th>Variable</th>
<th>Low Water Supply</th>
<th>Lack of phone service</th>
<th>Power outages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>S.E.</td>
<td>t Ratio</td>
</tr>
<tr>
<td>Change in Gini index (WIDER) 1989-1999</td>
<td>3.091***</td>
<td>1.287</td>
<td>2.40</td>
</tr>
<tr>
<td>Courts are fair</td>
<td>-.137***</td>
<td>.057</td>
<td>-2.43</td>
</tr>
<tr>
<td>TI Corruption Perceptions Index Change 2002-2004</td>
<td>-.514****</td>
<td>.190</td>
<td>-2.71</td>
</tr>
<tr>
<td>Make gift payments to public servants</td>
<td>.032</td>
<td>.107</td>
<td>.30</td>
</tr>
<tr>
<td>Mafia is obstacle to doing business</td>
<td>.161*</td>
<td>.103</td>
<td>1.56</td>
</tr>
<tr>
<td>Economic instability is obstacle to doing business</td>
<td>.157**</td>
<td>.091</td>
<td>1.73</td>
</tr>
<tr>
<td>Size of informal economy (World Bank)#</td>
<td>.068****</td>
<td>.013</td>
<td>5.19</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.637</td>
<td>2.306</td>
<td>-1.14</td>
</tr>
<tr>
<td>alpha</td>
<td>27.156****</td>
<td>2.470</td>
<td>19.431****</td>
</tr>
<tr>
<td>ln alpha</td>
<td>3.302****</td>
<td>.091</td>
<td>2.967****</td>
</tr>
<tr>
<td>Wald Chi square</td>
<td>51.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log pseudolikelihood</td>
<td>-3717.96</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>4388</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

# Estimated in separate model without change in Gini index or change in corruption perceptions index. Other coefficients show little difference.
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (29)

Table 4

Determinants of Trust in Government (LiTS Data): Two-Stage Least Squares Estimates

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>z Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic situation compared to 1989 (instrumented)</td>
<td>.127****</td>
<td>.023</td>
<td>5.55</td>
</tr>
<tr>
<td>Future looks bright for children</td>
<td>.076****</td>
<td>.023</td>
<td>7.03</td>
</tr>
<tr>
<td>Electricity obstacle to business (BEEPS)</td>
<td>-.450****</td>
<td>.043</td>
<td>-10.45</td>
</tr>
<tr>
<td>Satisfied with police</td>
<td>.067***</td>
<td>.028</td>
<td>2.42</td>
</tr>
<tr>
<td>Corruption better compared to 1989</td>
<td>.081****</td>
<td>.009</td>
<td>9.32</td>
</tr>
<tr>
<td>Success in life depends upon being corrupt</td>
<td>-.180****</td>
<td>.024</td>
<td>-7.39</td>
</tr>
<tr>
<td>Strong role for state in reducing inequality</td>
<td>-.074****</td>
<td>.015</td>
<td>-4.79</td>
</tr>
<tr>
<td>Constant</td>
<td>-.386**</td>
<td>.122</td>
<td>-3.16</td>
</tr>
<tr>
<td>R²</td>
<td>.132</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E.E.</td>
<td>.741</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* p < .10 ** p < .05 *** p < .01 **** p < .0001 N = 8524

All tests one-tailed except for constant and strong role for state in reducing inequality.
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NOTES

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1. For details on the survey see, European Bank for Reconstruction and Development (2007). The data are available for download at


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. For the items in the scale, see

   [http://www.electionstudies.org/nesguide/toptable/tab5a_5.htm](http://www.electionstudies.org/nesguide/toptable/tab5a_5.htm).

4. The Galbraith data can be obtained at The data can be obtained at


5. For the full set of nations ranked by Transparency International in 2005, former and present Communist countries averaged 3.42 on the Corruption Perception Index,
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (35)

compared to 7.97 for the West and 3.50 for developing (other) nations (N = 29, 21, and
110, respectively). On trust (imputed), the East bloc averaged .234, developing nations
.220, and the West .388 (N = 25, 39, and 30, respectively). For the World Bank Gini
index, the present and former Communist countries average .308, the West mean is .319,
and developing nations average .443 (N = 23, 23, and 42, respectively).

6. This section is based upon Uslaner (2008a, 105-106).


10. I use the 2004 Transparency International corruption ratings here rather than 2005
because the BEEPS data come from 2005 and a time lag is justified.

11. In Alex Dreher’s globalization data for 2003, the number of telephone main lines per
1000 people in a country ranges from 1.04 for Albania to 5.10 for Slovenia among
transition countries, compared to a range of 5.15 (Portugal) to 8.95 (Norway) for Western
nations. Dreher’s data come from the World Development Indicators of the World Bank.
and are available at


12. The measure is available at http://hdr.undp.org/statistics/data/ . I use this
measure because it covers more countries than other available Gini indices for the
transition countries.

13. The results may not be an anomaly: 92 percent of Azerbaijaniis said that they trusted the
government in the 2001 World Values Survey, behind only Vietnam (97 percent) and
China (96 percent).
Uslaner, “Corruption, the Inequality Trapm and Trust in Government” (36)

14. The “power” of effects is roughly measured by the z ratios.

15. The coefficient is negative and the t ratio is -2.62, but the simple correlation is positive (r = .057), as expected.