

The Roots of Corruption

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Which Countries Are Corrupt?

- The Transparency International 2006 Corruption Perceptions Index shows that the most honest countries are Finland, New Zealand, Iceland, Denmark, and Singapore.
- The most corrupt countries are Haiti, Guinea, Myanmar, Iraq, **Bangladesh**, Chad, the Democratic Republic of Congo, and Sudan.
- **China**, Brazil, Ghana, Senegal, Peru, Mexico, Saudi Arabia, India, and Egypt all rank in the middle of the 163 countries ranked.

What Causes Corruption?

- Most studies of corruption focus on institutional factors:
- Need stronger and more effective institutions (World Bank)
- Lack of democracy
- Ineffective judiciary
- Unfair elections
- Lack of free media

- Democratic institutions are not the source of clean government, but democratic practices contribute strongly to honest government.
- Elections can be sources of corruption.
- Media may be captured or may be ineffective.
- The simple adoption of democratic institutions has not led to less corruption.

The Inequality Trap

- From *The Bulging Pocket and the Rule of Law: Corruption, Inequality, and Trust* (under contract to Cambridge University Press and available on my web site).
- inequality → low generalized trust & high in-group trust
→ corruption → inequality
- The dilemma of low trust in strangers and high trust only in your own group.
- Inequality and in-group trust lead to clientelism.
- This pattern is difficult to break.

- Two types of inequality:
- Economic inequality
- Unfair legal system

Unfair Legal Systems and Corruption

- Unfair legal systems contribute to corruption by:
- Making it more difficult for the poor to have access to the legal system. People in the informal sector have no legal rights.
- Shielding people at the top. The elite can evade taxes and bribe officials and not be prosecuted. If they are indicted, they may not be tried. If they are tried, they will not be convicted. If convicted, they won't go to jail.

- The inequality trap persists because:
 - Corruption is "sticky."
 - Inequality is "sticky."
 - Trust is "sticky" over time and across generations.

- Institutions do not change often, but more often than corruption, inequality, and trust.
- The wave of democratization in the 1980s did NOT lead to less corruption.
- Corruption actually increased in many transition countries after the fall of Communism and the adoption of democracy.

- Democracy means two things:
- Democratic institutions
- Democratic practice: taking people's preferences and values into account when making public policy, addressing people's needs, formulating public policy according to those preferences and needs.
Democratic practice also means treating people as equals.

- My research shows that democratic institutions are not sufficient to curb corruption.
- Media consumption, centralization, federalism, the nature of the electoral system, the level of wages paid to officials also don't matter.
- Change in democratization over time is unrelated to change in corruption.

Democratic Practice

- Structural reforms may not matter much for corruption. However:
- Democratic countries are far less corrupt than non-democracies.
- Countries with strong democratic practices, especially treating everyone equally, are considerably less likely to be corrupt.

- Democracies have less corruption overall:
- On the 1-10 Corruption Perceptions Index, where higher scores indicate less corruption:
- Free countries average 5.9, partially free countries average 3.2, and not free countries average 3.0

- I show that high inequality leads to low out-group trust, which in turn leads to high levels of corruption.
- The only institutional factor that matters for corruption is the fairness of the legal system, not the "efficiency" of the legal system.
- Policy also matters: Strangling regulation leads to higher levels of corruption.

How People Perceive Corruption

- I also look at public attitudes toward corruption in transition countries and Africa.
- In both transition countries and Africa, people see a clear link between corruption and inequality, both economic and legal.
- What bothers people is not petty corruption, but grand corruption.

- In countries with lower levels of corruption, such as the Nordic nations and the United States, people don't see a connection between corruption and inequality.

The Great Exceptions

- Singapore and Hong Kong are exceptions to my argument. Both have moderately high levels of inequality and at best modest levels of trust. Botswana is another example of a country with moderate corruption and high levels of inequality and low trust.
- All three countries once had very high levels of corruption.

- Singapore and Hong Kong rose to the top of the "honesty" scale *even though they were not democracies.*
- All three countries had vigorous anti-corruption commissions. But there were many less successful commissions in Africa.

- Singapore, Hong Kong, and Botswana all had anti-corruption drives connected to programs of mass persuasion and especially economic programs designed to promote fast growth and less inequality.
- All three countries were small. Singapore and Hong Kong were islands and Botswana was surrounded by South Africa.
- All three countries perceived external threats.

Is There a Solution?

- To combat corruption, you must fight economic inequality.
- The best way to reduce inequality is through universal rather than means-tested social welfare programs.

- It is often difficult to gain public support for universal social welfare programs in highly unequal societies because of:
 - Envy/jealousy.
 - Perceptions that the programs will not deliver the goods because of corruption.

- These difficulties are among the reasons why unequal countries remain unequal-- and corrupt, why inequality often forms a "trap."
- Without policy change, there is little hope for curbing corruption.