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# All For All: Equality, Corruption and Social Trust

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## Abstract

The importance of social trust has become widely accepted in the social sciences. A number of explanations have been put forward for the stark variation in social trust among countries. Among these, participation in voluntary associations received most attention. Yet, there is scant evidence that participation can lead to trust. In this paper, we shall examine a variable that has not gotten the attention we think it deserves in the discussion about the sources of generalized trust, namely equality. We conceptualize equality in two dimensions: One is economic equality and the other is equality of opportunity. The omission of both these dimensions of equality in the social capital literature is peculiar for several reasons. One is that it is obvious that the countries that score highest on social trust also rank highest on economic equality, namely the Nordic countries, the Netherlands, and Canada. Secondly, these are countries that have put a lot of effort in creating equality of opportunity, not least in regard to their policies for public education, health care, labor market opportunities and (more recently) gender equality. The argument for increasing social trust by reducing inequality has largely been ignored in the policy debates about social trust. Social capital research has to a large extent been used by several governments and policy organizations to send a message to people that the bad things in their society are caused by too little volunteering. The policy implications that follow from our research is that the low levels of trust and social capital that plague many countries are caused by too little government action to reduce inequality. However, many countries with low levels of social trust and social capital may be stuck in what is known as a *social trap*. The logic of such a situation is the following. Social trust will not increase because massive social inequality prevails, but the public policies that could remedy this situation can not be established precisely because there is a genuine lack of trust. This lack of trust concerns both “other people” and the government institutions that are needed to implement universal policies.

*All for All: Equality and Social Trust: Introduction*

The importance of social trust has become widely accepted in the social sciences. One reason for the interest in social trust is that, as measured in surveys, it correlates with a number of other variables that are normatively highly desirable. At the individual level, people who believe that most other people in their society in general can be trusted, are also more inclined to have a positive view of their democratic institutions, to participate more in politics and to be more active in civic organizations. They also give more to charity and they are more tolerant towards minorities and to people who are not like themselves. Trusting people also have a more optimistic view of their possibilities to have an influence over their own life-chances and, not least important, to be more happy with how their life is going.<sup>1</sup>

We see the same positive pattern at the societal level. Cities, regions and countries with more trusting people are likely to have better working democratic institutions, to have more open economies, greater economic growth, and less crime and corruption.<sup>2</sup> Both at the individual and societal levels, many things that are normatively desirable seem connected to social trust. The issue of causality is admittedly a different question from the statistical correlations, but so many correlations point in the same direction that social scientists from many different disciplines have begun to pay a lot of attention to trust.<sup>3</sup>

Trust varies widely across nations. In Norway, Denmark and the Netherlands, around 60 percent of people believe most other people can be trusted, while in Brazil, the Philippines and Turkey, around 10 percent trust others.<sup>4</sup> Delhey and Newton argue that when people answer if they think that most other people can be trusted, this can be interpreted as their evaluation of the moral standard of the society in which they live.<sup>5</sup> This implies that

trust reflects a sense of social solidarity, the belief that the various groups in society have a shared fate and that there is a responsibility to provide possibilities for those with less resources. We see this connection between social trust and solidarity in the good deeds that trusters perform (giving to charity, volunteering their time) and in the policies that trusting societies pursue in helping those with fewer resources.<sup>6</sup>

We argue that social trust is caused by two different, yet interrelated types of equality, namely economic equality and equality of opportunity.<sup>7</sup> This argument has important implications for public policy because universal social policies are more effective than selective ones in creating both types of equality and thereby social trust.<sup>8</sup> However, we have a somewhat pessimistic conclusion on the political possibilities to establish universal equality enhancing social policies in developing and post-socialist countries. Since social trust is a measure of how people evaluate the moral fabric in their society, there is little reason to believe that countries with low social trust will establish universal social programs precisely because such programs must be based on a general political understanding that the various groups in society have a shared fate. Countries with an initial level of high inequality and with dishonest government are less likely to establish universal social programs. Such programs increase social trust in three ways. First, they are more redistributive than means-tested programs and thus create more economic equality. Second, since they are based on the principle of equal treatment and minimize bureaucratic discretion, they increase the sense of “equality of opportunity” within the population.<sup>9</sup> Third, means-tested programs exacerbate class and often racial divisions within a society—and thus lead to less generalized trust and more in-group trust, while universalistic programs enhance social solidarity and the perception of a shared fate among citizens.

The reason why countries with high (or rising) levels of inequality are less likely to establish universal programs is that such programs are usually based on the idea that all

groups in society, regardless of their social and economic status, have a shared fate. They will place trust only in their own group or class—and those with fewer resources will believe that they do not have the same opportunities as people with greater resources. The rich got that way, people will reason, by unfair advantages. People with less will thus demand radical redistribution from the rich to the poor and will seek to exclude those with greater resources from receiving benefits from the state or society. Ironically, when you need to prove you are poor to get government benefits, you create resentment and distrust rather than empowerment and trust—and these very “means-tested” policies fail to alleviate inequality and to increase further trust in fellow citizens. *Policies designed to reduce poverty instead create a trap of high inequality, less optimism for the future, less trust in others, greater in-group identification, and persistent inequities in the distribution of wealth.*

One could argue that advocates for low-income groups in societies with high inequality would opt for universal social programs because they would realize that such programs would be most beneficial for their groups. Historically, this has seldom been the case.<sup>10</sup> The first reason is probably that the logic why universal programs are more redistributive than programs directed specifically to “the poor” is complex and difficult to understand. Many well-known political philosophers who have ventured into the discussion about social justice have failed to grasp this logic.<sup>11</sup> The redistributive effects of universal social programs are difficult to explain and therefore it is hard to get support for such programs from underprivileged groups. Secondly, universal programs also benefit the more well-to-do groups and in a society with an initially high inequality, advocates for underprivileged groups will have an uphill battle convincing their followers that scarce public resources should also go to middle-class people.

We argue that the roots of generalized trust lie in a more equitable distribution of resources and opportunities in a society. Countries with histories of greater equality such

as the Nordic nations also had histories of less repressive and more honest governments. Greater equality and less corruption leads to more inclusive (universalistic) social welfare programs and to greater generalized trust. We will also argue that inequality stands at the beginning of the causal chain. We see the distribution of resources and opportunities in a society as the key to the other parts of our story—honest government, generalized trust, and social welfare regimes.

Equality and honesty in government stand at the beginning of our causal chain. Both are necessary to create trust and the universalistic social policies that lead to a greater level of equality and social cohesion. The reinforcing effects of inequality and honesty on trust and social policy—and the “feedback” to greater trust and less inequality—leads to a positive equilibrium for societies that initially took the steps to adopt universalistic social welfare policies. But they lead to a negative equilibrium—an inequality trap—for countries with high or increasing inequality and corrupt governments. *While equality and honest government come first, the reciprocal effects we posit make it difficult (at best) for countries to escape the inequality trap.*

We shall support our claims by a variety of methods. First, we show by a cross-national statistical analysis that inequality is a key factor in shaping generalized trust, but that there is no direct effect of trust on inequality (the causal direction starts with inequality). Second, we also examine the connections among honesty in government, trust, and policy decisions by summarizing the state of research on corruption rather than presenting new empirical analyses. Third, we examine how the history of relatively greater equality and honesty in government laid the foundation for universalistic social welfare policies in Sweden—and how these policies have helped to reinforce a sense of social solidarity. Fourth, we show how means-tested benefits lead to less trust in a society that has been averse to universalistic policies—the United States. Finally, we support our argument (from a wide

range of findings) of why initially egalitarian societies are likely to remain so—and why it is so difficult for unequal societies to develop generalized trust, honest government, universalistic social policies—and greater equality.

### *Trust versus Trust: The Theory*

Generalized trust links us to people who are different from ourselves. It stands in contrast to *particularized* trust, where people only have faith in their in-group. Generalized trust reflects a bond that people share across a society, across economic and ethnic groups, religions, and races. Particularized trust reflects social strains, where each group in a society looks out for their own interests and places little faith in the good intentions of others. Particularized trusters may be as involved in civic life as generalized trusters, but they will restrict their activities and good deeds to their own kinds.

Generalized trust both depends upon a foundation of economic and social equality and contributes to the development of a more egalitarian society. As social trust links us to people who are different from ourselves, it reflects a concern for others, especially people who have faced discrimination and who thereby have fewer resources.<sup>12</sup> In societies with high levels of economic inequality and with few (or inefficient) policies in place for increasing equality of opportunity, there is less concern for people of different backgrounds. The rich and the poor in a country with a highly unequal distribution of wealth such as Brazil may live next to each other, but their lives do not intersect. Their children attend different schools, they use different health care services. and in many cases, the poor can't afford neither of these services. The rich are protected by both the police and private guards, while the poor see these as their natural enemies. In such societies, neither the rich nor the poor have a sense of shared fate with the other. Generalized trust is low while particularized (or in-group) trust will be high. In turn, each group looks out for its own interests and is likely to

see the demands of the other as conflicting with their own well-being. Society is seen as a zero-sum game between conflicting groups.

Government policies have a large impact on economic equality.<sup>13</sup> Universal social programs that cater to the whole (or very broad sections) of society, such as we find in the Scandinavian countries, promote a more equitable distribution of wealth and more equality of opportunity in areas such as education and the labor market.<sup>14</sup> Both types of equality lead to a greater sense of social solidarity--which spurs generalized trust. Generalized trust, in turn, provides at least part of the foundation for policies (such as universal benefits) that lead to more equality. This is not an argument that there is a mono-directional relation between independent variables (policies) and dependent variables (norms), since we admit that there are “feedback mechanisms” and “increasing returns” between these variables.<sup>15</sup> Instead, we want to capture the logic of how the causal mechanisms work over time between these variables, or what have made the vicious and virtuous cycles start cycling in the way they do.

#### *Why Some Countries are More Trusting than Others*

Why do some countries have more trusting citizens than others? The most widely cited explanation focuses on participation in voluntary associations. This explanation has not stood up well against empirical tests. For example, one recent large scale empirical study covering 60 countries concludes that “perhaps most important and most surprising, none of the four measures of voluntary activity stood up to statistical tests, in spite of the importance attached to them in a large body of writing, from de Tocqueville onwards”.<sup>16</sup>

Our alternative account holds that the key factor underlying trust is the level of equality in a society. We conceptualize equality in two dimensions: One is economic equality and the other is equality of opportunity. Equality of results is relatively simple to understand, if not to measure: How equitably are resources distributed within a society? There are many



different measures of inequality in the literature; we use the most commonly employed measure, the Gini index of inequality, because it is available for the largest number of countries.

Equality of opportunity is the second dimension of equality we consider critical. Equality of opportunity focuses on the chance that people see for economic progress in the future—even if society is highly stratified now. Even in cases when governments cannot immediately reduce inequality, they can enact policies that offer greater *opportunities* for economic equality. For example, spending on universal programs for education promises long-term opportunities for greater equality of results as higher education opens up opportunities for economic advancement. Education is also one of the strongest determinants of generalized trust.<sup>17</sup>

A perception of shared fate depends heavily upon both types of equality. Seligman argues that trust *can not* take root in a hierarchal culture.<sup>18</sup> 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 can not do based upon the circumstances of their birth. When economic resources are stratified—or when people believe that others have unfair advantages, trust will not develop and the benefits of trust, including policies that reduce further inequalities, will be elusive. 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.

The omission of both these dimensions of equality in the social capital literature is peculiar for several reasons. One is that the countries that score highest on social trust also rank highest on economic equality-- the Nordic countries, the Netherlands, and Canada. Trust and inequality are strongly related across countries without a legacy of Communist rule.<sup>19</sup> In Figure 1 we show the connection between trust aggregated to the country level and the

Deininger-Squire measure of economic inequality for 43 countries in the 1990s. The relationship is reasonably strong at  $r^2 = .391$  for 43 cases. Using the newer Galbraith measures of inequality, the N drops to 32 but the  $r^2$  rises to  $.582$ .<sup>20</sup> These results are thus not confined to one particular data set. Over time, the relationship between trust and economic inequality (from 1960 to 2002) in the United States is also powerful:  $r^2 = .592$  (N = 32). The effects of economic inequality on trust are long-lasting (not surprising since neither changes readily). The effect of the 1963 index of inequality on trust across countries *is just as powerful—and perhaps a bit more so—as the 1996 level of economic stratification*.<sup>21</sup>

We elaborate on these findings in Table 1, where we reproduce part of a six-equation model that Uslaner estimates in a study of corruption.<sup>22</sup> Showing just the equations for trust and inequality tell the same story as a simpler two equation model (with far fewer cases) in Uslaner: Inequality is a strong predictor of generalized trust, *but there is no direct effect of trust on inequality*.<sup>23</sup> The direction goes from inequality to trust but not the other way around. These results are *not* confined to a single set of models. *Inequality is the strongest determinant of generalized trust over time in the United States and across the American states*.<sup>24</sup>

Figure 1, Table 1 about here

As we move from the low level of inequality in Belgium to the very high level in South Africa, trust declines by 23 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. To be sure, other factors shape trust as well: Protestant societies have higher levels of trust, while former Communist nations and countries that have had civil wars have lower levels of trust.

The model in Table 1 is part of a six equation model estimated by Uslaner<sup>25</sup> that includes not only trust and inequality, but also corruption (the Transparency International

Corruption Perceptions Index for 2004), whether a country has strangling regulations (from the World Bank's governance indicators), the stability of a country's economy (as measured by the overall risk measure from the International Country Risk Guide), and an index of government effectiveness (derived from a factor analysis of six indicators at the country level from the 2004 World Economic Forum's Executive Opinion Survey). The model was estimated by two-stage least squares.

The model in Table 1 also shows that countries that have experienced civil wars are less trusting, as are former Communist nations. Communism made it difficult to trust anyone outside your own family (and sometimes even within your own family). Protestant societies, which have more individualistic political cultures, are also more trusting. The collectivist and hierarchical cultures of Catholic societies lead to less generalized trust (and more in-group trust). Effective governments do not lead to more trust among citizens.<sup>26</sup> Corruption leads to greater inequality (the Transparency International measure gives higher scores to countries with less corruption), while former Communist nations and countries with large Muslim populations have less inequality. The lack of markets in former Communist nations levelled incomes; Islam has stressed equality. We expected that wealthy Protestant nations might also have less inequality, but they do not—and the coefficient suggests that they might even be less equal.

You also finds support for a link from inequality to trust in individual level data as well.<sup>27</sup> He estimates hierarchical linear models for generalized trust in 80 countries using the 1995-97 and 1999-2001 waves of the World Values Surveys. His models indicate that trust is lower in countries with higher levels of inequality. In a creative use of aggregate indices of income distribution, he shows that the skewness (fairness) of the distribution of income significantly lowers trust, while the dispersion of the distribution (which he calls

“similarity”) does not significantly shape trust. How much you earn is not critical for trust—but when the income distribution is highly unequal, social solidarity declines.

The Nordic countries have put a lot of effort in creating equality of opportunity, not least in regard to their policies for public education, labor market opportunities and (more recently) gender equality. One can certainly debate whether or not these policies have been as successful as was hoped for, but comparatively these governments have been ambitious in launching policies and programs in these areas.<sup>28</sup> Our argument is that by establishing universal social programs, governments send signals to the citizens that are important for the creation of citizen solidarity and social trust.

There are good theoretical reasons why both types of equality and social trust should be causally related. First, optimism for the future (which is one key determinant of social trust) makes less sense when there is more economic inequality. When people believe that the future looks bright, trusting strangers seems less risky.<sup>29</sup> The less fortunate have less reason to be optimistic about their (or their children’s) future if they sense that society is not giving them equality of opportunity, especially in areas such as education and the labor market. People at the bottom of the income distribution, or minorities that feel discriminated, will be less sanguine that they too share in society’s bounty. How well the country is doing collectively, rather than how well any of us is doing individually, leads to changes in generalized trust.<sup>30</sup>

Second, the distribution of resources and opportunities plays a key role in establishing the belief that people share a common destiny and have similar fundamental values. When resources and opportunities are distributed more equally, people are more likely to perceive a common stake with others and to see themselves as part of a larger social order. If there is a strong skew in wealth or in the possibilities to improve once stake in life, people at each end may feel that they have little in common with others. In highly unequal

societies, people are likely to stick with their own kind. Perceptions of injustice will reinforce negative stereotypes of other groups, making social trust and accommodation more difficult.<sup>31</sup>

The omission of equality from the literature on social capital and social trust is something of a mystery. While Putnam points at the importance of economic inequality in his analysis of the decline of social capital in the United States, it is not mentioned in his conclusion about “what killed civic engagement?”<sup>32</sup> Among the seven policy prescriptions for increasing social capital in the U.S. that he presents, none touches upon increasing any form of equality.<sup>33</sup> This is all the more surprising since the decline of social capital that Putnam finds in the United States since the 1970s seems to be suspiciously related in time to a dramatic increase in economic inequality.<sup>34</sup> Inequality has increased in the United States as its welfare state has contracted since the 1980s.<sup>35</sup>

The same strange omission can be seen in the Russell Sage Foundation’s large project on trust: Among the 41 chapters in the three edited volumes, none is about economic inequality and none of the volumes has an index entry on equality or inequality.<sup>36</sup> The same goes for the three monographs that this project has produced.<sup>37</sup> While political scientists and sociologists largely have neglected the importance of equality for creating social trust, economists have been more interested. Stephen Knack and Paul Zak at the World Bank have concluded that redistribution is one important policy options for governments to increase social trust (but in a way that seems mandatory for economists, they add that they worry about the economic inefficiencies that they believe can be caused by such redistribution).<sup>38</sup> Social capital research has to a large extent been used by several governments and policy organizations to send a message to people that the bad things in their society is caused by too little volunteering.<sup>39</sup> <sup>40</sup> What if the low levels of trust and social capital are caused by too little government action to reduce inequality?

### *On the Need for Honest Government*

While our argument puts inequality at the beginning of the causal chain, we also believe that honest government is essential for the enactment of universalistic social welfare programs. There may not be a direct tie between *effective* government and trust, but *dishonest* government undermines trust at least indirectly<sup>41</sup>—and it makes universalistic welfare policies difficult to enact.

Honest government is important for the enactment of universal social welfare programs for three reasons. First, corruption is based upon loyalty to the in-group and *not* to the larger society,<sup>42</sup> so universal social welfare policies are anathema to dishonest government. Corrupt societies reflect patron-client relationships and corrupt leaders reward *only those who show their loyalty rather than the entire society*,

Second, universalistic policies require higher levels of taxation than means-tested programs and dishonest governments will have fewer resources to spend on public programs. Corruption transfers resources from the mass public to the elites—and generally from the poor to the rich.<sup>43</sup> It acts as an extra tax on citizens, leaving less money for public expenditures.<sup>44</sup> 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. When political leaders extract money to line their own pockets, not only will there be fewer resources to spend on social programs, but the public will have less confidence in government—people will only pay high taxes if they believe that they get a reasonable value back in form of services and benefits.<sup>45</sup>

Third, while universalistic social welfare policies promote generalized trust, they are unlikely to be adopted in a society that initially ranks low on equality and trust.

Corruption will exacerbate inequality and mistrust and lead to social conflicts that militate against universalistic social welfare policies.

We see an indirect effect of corruption on trust in the statistical analysis in Table 1 above. Corruption leads to greater inequality, which in turn produces lower levels of trust. While the aggregate analyses in Uslaner<sup>46</sup> show a link from low levels of trust to high levels of corruption, but *not from corruption to trust*, survey data from Romania and Estonia show that perceptions of *high level corruption* make people less likely to trust their fellow citizens.<sup>47 48</sup> Moreover, recent experimental work shows that both (high trusting) Swedish and (low trusting) Romanian students, when confronted with scenarios where they encounter that public officials in an “unknown city in an unknown country” are asking for and also getting bribes, do not only lose trust in these public officials (policemen and doctors), but also in “other people in general” in that “unknown city....”.<sup>49 50</sup> Stoyanov et al.<sup>51</sup> report survey data on Bulgaria showing that “the reasons for being wealthy...have to do mainly with the unfair social system ensuring better opportunities for the well connected’ and the unscrupulous....the negative image of wealthy people does not represent only the communist socialization stereotype, but results also from recent...experiences of corruption, organized crime, and ‘illegal’ wealth.” While most Westerners believe that the path to wealth stems from hard work, 80 percent of Bulgarians, Hungarians, and Russians say that high incomes reflect dishonesty<sup>52</sup> —in direct contrast to Westerners, who are more likely to say that success comes from individual initiatives.<sup>53</sup> Orkeney and Szekelyi<sup>54</sup> present data showing that people in transition countries are far less likely than citizens of Western nations to believe that people have equal opportunities to succeed, are rewarded for their own efforts, and that people get what they need; instead, connections and dishonesty are the principal factors that make people wealthy.

When people think that the only route to prosperity is through dishonesty, this heightens social tensions between those at the top and the people who have less.<sup>55</sup> This creates a situation in which ordinary citizens reject universal welfare programs and instead call for redistribution of income away from the rich. In Romania, beliefs that corruption is widespread, personal experiences with corruption (enforced “gift payments” to public officials or the courts), and perceptions of rising inequality lead to demands to limit the income of the rich.<sup>56</sup> Where there is a dearth of social solidarity due to class envy, the social bonds of generalized trust will be weak, and so will the propensity (especially from the middle class) to pay high taxes. People will identify more with their class or ethnic group (or both) than with members of the larger society. And they will not trust the government to distribute resources in a fair and honest way. Rohter summarizes this dilemma in Latin America:

I don't think there is any more vital issue in Latin America right now....It's a vicious cycle that is very hard to break. People don't want to pay taxes because they say government doesn't deliver services, but government institutions aren't going to perform any better until they have resources, which they obtain when people pay their taxes.<sup>57</sup>

In low-trust societies with high degrees of economic inequality, universal programs are likely to fail for lack of political support. Even such policies were adopted, there is a strong possibility that they will fail in the implementation process. Education, health care, and social insurance benefits (as well as the police and the courts) may very well become commodities for sale because corruption is pervasive. Parents “buy” their children’s way into good schools, especially universities, and then pay even more for good grades. Extra “gift payments” to doctors are routine in countries with high levels of economic inequality. Police will stop drivers for invented traffic infractions and pedestrians for



attempting to cross in the middle of traffic and demand payments in lieu of tickets. Each of these actions subvert trust in government and thereby the notion that they could implement universal social policies in a fair and equal way. Instead, suspicion that bureaucrats will give extra advantage to those willing and able to make the “extra” payment is likely to be pervasive.<sup>58</sup>

In countries with high levels of corruption, the public is hostile to people who have more. Where corruption is high, voters are likely to believe that the poor are treated unfairly by society in general and by government institutions in particular. Low income groups are therefore likely to opt for left-wing parties that present a case for more “radical” redistribution of resources than would occur under universal social welfare programs.<sup>59</sup> In such a situation, it is easy for “radical” political entrepreneurs to argue that dispensing justice to those who prosper illegitimately, (for example due to various forms of corruption) means taking resources away from the poor and needy. Thus, inequality and corruption breed mistrust, which produces no support for the very type of social welfare programs that are most effective in reducing disparities of income.

*Institutions for equality and social trust – how did it start?*

Different countries are set into different causal cycles between their institutions for social policies and their level of social trust. This certainly raises the difficult question on how this causal logic got started. Did the Scandinavian countries develop broad based (universal) social policies because of an initially high level of social trust and less social inequality, or was it the other way around? As we have no survey data about the level of social trust from the 1920s, this is difficult to answer. However, we have quite a few historical studies about the character of the Scandinavian societies that existed before the universal type social policies were launched.

First, in the beginning of the modern era, the Scandinavian countries had a more equal social structure than the rest of Europe.<sup>60</sup> The Swedish and Norwegian peasants had not been subdued under a continental style feudalism but were legally independent. Until the reform of the Swedish Parliament in 1867, Swedish farmers had their own estate, a situation that was unique in Europe. According to Charles Tilly, “[t]win facts.... strongly affected the path of the Swedish state formation: first, the overwhelming presence of a peasantry that held plenty of land well into the eighteenth century.<sup>61</sup> Second, the relative inability of landlords either to form great estates or to coerce peasant labour on their lands.” This also holds for Norway, which was in a union with Sweden until 1905 and had no aristocracy. In Denmark, farmers had joined in an alliance with the urban bourgeoisie in the successful overthrow of absolutism in 1849. The political strength of the farmers gradually grew in the decades. They consolidated themselves as a independent and powerful political class by joining in producer organizations, insurance associations, savings banks, cultural and educational services and many other organizations. They did so, moreover, on a much greater scale than in other countries. Politically, the farmers united in the late 19th century in the Liberal party (Venstre), which came into power in 1901.<sup>62</sup>

Secondly, during the late 19<sup>th</sup> century, a Weberian style, rule-governed, mostly meritocratic and fairly uncorrupted civil service had developed in the Scandinavian countries.<sup>63</sup> When the social reforms that formed the beginning of the universal principles of social policy were launched, there were few suspicions that the civil service that would manage the programs might be corrupt. The reforms were hotly disputed, but the argument that the civil service was corrupt and therefore could not be trusted was never put forward--or at least, has never been reported in the historical studies that exists of the early stages of the Swedish welfare state.<sup>64</sup> The Scandinavian countries are hardly without class conflict. It was especially severe in the mid-1930s and Sweden lost many days per worker due to industrial

strife in the 1920s.<sup>65</sup> Yet, the conflicts in Sweden were ultimately resolved peacefully—clearly due to the country’s long history of greater equality than elsewhere in Europe and confidence in governing authority that stemmed from a history of honest government.

A detailed account of the historical development in the Swedish case indicates that it was the impartiality of the government institutions, especially those handling policies related to the labor market and social policy, that made the development of an “historical compromise” between labor and capital possible. This compromise was to a large extent built on “a spirit of trust”<sup>66</sup> that developed into the well-known “Swedish Model” that came to mark the Swedish society after 1936.<sup>67</sup>

There is much that points in the direction that it was the existence of impartial, uncorrupted, and fairly efficient government institutions that laid the foundation for the elite accommodation that helped to create strong norms about trust in Sweden. Public confidence in the integrity of their leaders and institutions provided the key support for the compromise that provided the basis for universal policies that would reduce inequality and increase social cohesion and trust. The Scandinavian countries were historically less unequal than the continental European countries. Secondly, they had less of corruption and more honest government institutions.

#### *Social policies and social trust*

Universal welfare policies fare much better at reducing inequality than do simple redistribution scheme that implies selective policies.<sup>68</sup> (This is a paradox because one would assume that redistributive policies that tax the rich and give to the poor would be the most efficient way to reduce poverty, while universal policies that give everyone the same service or benefits (e.g., universal child allowances or universal health care) would not have a redistributive effect. But the facts are exactly the opposite.<sup>69</sup> The technical reason why universal systems are more efficient in reducing economic inequality is that taxes are usually

proportional or progressive, but services or benefits are nominal--you get a certain sum or a certain type of service.<sup>70</sup>

People do not get more out of the system because they earn more. The net effect of proportional (or progressive) taxes and nominal services/benefits is a considerable redistribution from the rich to the poor. The political reasons why universal policies are more effective for alleviating poverty are that if a state is going to tax the rich and give to the poor, the rich (especially the middle class) will not agree to pay high taxes because they perceive that they do not get enough back.<sup>71</sup> They will perceive such programs as policies only for “the poor” and especially the middle class (who are also the “swing voters”) will turn away from political parties that argue for increasing taxes and social policies.<sup>72</sup>

Additionally, the implementation of universal programs follows two important equality principles. First, these programs treat everyone in the same situation equally. Second, because they are given without means-testing, universal programs do not have to organize a large bureaucracy to decide eligibility. Selective welfare programs often stigmatize recipients as “welfare clients”. They demarcate the rich and the poor and those at the bottom are made to feel that they are less worthy, not least because of the bureaucratic intrusion felt in the process of implementation.<sup>73</sup> Universal programs are connected to citizens’ rights, while selective welfare programs have trouble with legitimacy because they have to single out the “deserving” from the “non-deserving poor”. This will always imply discretionary decisions by street-level bureaucrats who may intrude on the personal integrity of clients.

People who receive selective welfare benefits often feel demeaned and apart from others in society. Recipients of means-tested benefits, for example Aid to Families with Dependent Children (AFDC) in the United States, are more likely to believe that the government was distant and unresponsive—and that their efforts to participate in the political process would be futile. In the United States, recipients of benefits that are *not* means-tested,

such as for example disability insurance under Social Security, did not differ from the broader population that received no government benefits.<sup>74</sup> Soss writes of means-tested benefits in the United States through AFDC:

The act of welfare claiming, especially in a public assistance program, can be mortifying. The degraded identity it conveys can effectively strip individuals of full and equal community membership.<sup>75</sup>

One AFDC recipient spoke of the how she felt degraded when applying for benefits:

They're the cowboys and you're a cow.... You go all the way through this line to do this, and then this time to do that. It's like a cattle prod.... I felt like I was in a prison system.... these people are like, 'I'm helping you. This is something I'm doing for you. So just be quiet and follow your line.'<sup>76</sup>

People who receive Social Security disability benefits in the U.S., the universal program, are not required to answer detailed questions about their personal life, do not feel threatened with loss of benefits, and believe that their case workers treat them with respect—and are not alienated from others.<sup>77</sup>

Denigrating recipients of means-tested government programs leads to social strains in two ways: The poor feel isolated and feel that others deem them unworthy. The denigration of welfare recipients feeds on public perceptions that the poor truly are responsible for their own poverty. Neither side sees a shared fate with the other. In contrast, universal programs do not cast aspersions on the responsibility of benefits and thus do not destroy trust. When they work well, they can even help to create it by increasing feelings of equal treatment and equality of opportunity.

The 1992 American National Election Study (ANES) asked people if they received means-tested benefits such as welfare and Medicaid (targeted medical assistance to the poor).

People who received *only* these means-tested benefits—and not universal payments such as Social Security or Medicare (both for the aged of all incomes)--were less likely to trust other people than people who did not receive such benefits: 21 percent of people receiving means-tested benefits trusted others, compared to 49 percent of Americans who received no means-tested benefits. We estimate a multivariate statistical (probit) model of trust based upon the analysis of Uslander.<sup>78 79</sup>

The model includes standard predictors of trust—education (separate measures for high school and college), sociability with neighbours, race, age, economic status (own your own home), as well as the social psychological roots of trust: optimism for life 20 years in the future, feelings of efficacy in politics, attitudes toward your own in-group (particularized trust), perceptions of desirable traits for children (being curious rather than simply having “good manners” and being considerate as opposed to simply being “well behaved” )—and the belief that it would be better off to worry less about inequality. Income was insignificant and we excluded it from this model. If you are optimistic about the future and believe that you can make a difference in politics, if you want your children to be kind and curious more than simply well behaved, you will be more trusting. If you are committed to equality and not overly committed to your in-group, you will also be more likely to trust others. Even after we take into account all of these other factors, we find that people who receive means-tested benefits are nine percent less likely to be generalized trusters than people who do not receive such benefits (see Table 2).

Table 2 about here

When people do not see themselves as part of the same moral community with a shared fate, they will not have the solidarity that is essential for building up social trust. Means-testing stigmatizes the poor and makes them feel that they are “apart” from others in the society in critical ways and that the government is less concerned for their welfare than for

those with more resources. Evidence from the U.S. shows that instead of increasing equality, a welfare state built mainly on means-testing program perpetuates feelings of inequality both among the poor and the more affluent.

If we compare this evidence from the United States with Swedish data, the similarities are striking. People in Sweden who are the target of selective measures such as determining eligibility for social assistance and disability pensions have significantly lower trust in other people than the rest of the population.<sup>80</sup> In a survey about Swedish citizens' contacts with various welfare state programs, respondents were asked to state whether they had dealt with a number of selective welfare institutions. The minority of Swedes who had been in contact with selective programs had significantly lower social trust than the rest of the population. The negative effect on social trust caused by interactions with means-testing institutions remained statistically significant controlling for many other variables that are known to affect social trust (the level of education, social class, income, activity in voluntary associations, interest in politics, general happiness, political ideology, and employment). The Swedish data show that contacts with means-testing welfare state institutions seem to reduce interpersonal trust even when a large number of other factors are taken into consideration<sup>81</sup> — just as we reported for data from the United States.

#### *Universal programs and social trust*

Part of the answer to why countries with large and mostly universal welfare state programs have more social capital is that these programs create societies with less economic inequality. But the benefits may be more substantial than that. First, universal programs are delivered with less bureaucratic hassle and control. Second, universal programs may create a feeling of social cohesion in society. Patients, people in elderly care, pre-school and school-children, are not separated into different services based on if they are defined as “the poor” or not. These programs are supported by the poor, but also by the middle class and

highly educated professional strata.<sup>82</sup> Periods when the Center and Right parties have been in power in Scandinavia (which they have been for a long periods, especially in Denmark and Norway) have not changed the universal character of these welfare states.<sup>83</sup> The preferences for “economic leveling”—for a more equitable income distribution—are much stronger in the Scandinavian countries than elsewhere among the advanced industrial countries—and they are weakest in the United States and the United Kingdom, which have long histories of means-tested benefits.<sup>84</sup>

Third, the existence of high quality universal programs, especially when it comes to areas such as education and health care, may increase a feeling of “optimism” and “equal opportunity” among large segments of the population. The Nordic countries are comparatively high spenders on social services and education. Even college/university education is supported by taxes: The governments provide relatively generous student benefits and loans and there is no tuition. Controlling for most other background variables, survey data from a wide variety of nations, from Sweden to the United States to Romania, indicate that high levels of education results in high levels of generalized trust.<sup>85</sup> Bjornksov shows a powerful cross-national relationship between the level of education in a country and its share of generalized trusters.<sup>86</sup>

Consistent with the emphasis on individual initiative in its political culture,<sup>87</sup> the United States has lagged behind European countries in providing universal benefits.<sup>88</sup> The great exceptions were the Social Security system and Medicare, the old-age pension and medical insurance for the elderly. In the 1970s and 1980s, as trust was declining, the United States Congress passed legislation that shifted much of the “risk of investment (in retirement benefits for both programs) onto workers. According to Hacker, the cuts in benefits spread “by far most rapidly among the lowest paid workers, who already had the lowest coverage levels.”<sup>89</sup>



Even though Medicare is a universal policy without means testing, the quality of services to Medicare patients varies substantially across the American states. Some states, especially those in New England, deliver high quality care to Medicare patients, as measured by the *Washington Post* in a series of articles in 2005.<sup>90</sup> High quality care was determined by 24 indicators from the Centers for Medicare and Medicaid Office of Clinical Standards for Quality and include the share of hospitals that give heart attack patients aspirin and beta blockers within 24 hours of admission as well as back and open-heart surgeries per 1,000 patients.<sup>91</sup> The worst performing states were in the American South. *More generally, the highest level of care occurred in the states with the lowest levels of economic inequality and the highest levels of trust.* Together, the levels of inequality and trust account for two thirds of the total variation in the quality of Medicare services across 44 states. The most equal state ranks 34 (of 44) places ahead of the least equal state and a state with the highest level of generalized trust ranks 27 places ahead of the least trusting state. *Even though Medicare is a universal social policy in the United States, its administration is shaped by the underlying social forces in each state. Where inequality is high and trust is low, there is insufficient social solidarity to provide high quality care to all citizens.*

Here we see evidence of the inequality trap we posited above: As inequality has increased in the United States, growing pressures to do more for the poor have given way to budget cuts for programs designed to benefit those with the greatest needs. Inequality produces lower levels of trust. In 1960, 58% of Americans believed that “most people can be trusted,” while between 33% and 40% have held this view at the end of the 20<sup>th</sup> and the early 21<sup>st</sup> centuries. This declining level of trust translates into growing polarization and competition for government resources—and less support for programs that benefit the most needy. The higher levels of equality and trust have sustained the welfare state in the Scandinavian countries. Unequal societies are caught in a social trap of high inequality and

low trust, with trust levels too low to sustain the universal policies that would reduce inequality.

*The stickiness problem*

Trust, inequality, and corruption are all sticky: Neither changes much over time. The  $r^2$  between generalized trust, as measured in the 1981, 1990-1995 World Values Surveys across between 1980 and the 1990s is .81 for the 22 nations included in both waves (see Figure 2)—the  $r^2$  between generalized trust in 1990 and 1995 is also robust (.851,  $N = 28$ ). Inequality similarly moves little over time. The  $r^2$  for the most commonly used measures of economic inequality<sup>92</sup> 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 (see Figure 3). A new inequality data base developed by James Galbraith extends measures of inequality further back in time and across more countries.<sup>93</sup> The  $r^2$  between economic inequality in 1963 and economic inequality in 1996 is .706 (for 37 countries, see Figure 4). Inequality persists over time—it does not move easily. Moreover, this persistence of inequality leads to lower levels of trust and an unwillingness to adopt the policies that might alleviate inequality.

[Figures 2, 3, 4 and 5 about here]

We see a similar dynamic for corruption: The  $r^2$  between the 2004 Transparency International estimates of corruption and those of the ICRG (International Country Risk Guide) in 1980-85 across 52 countries is .742. And the  $r^2$  between trust and corruption in 2004 is .440 for 84 countries. Trust, inequality, and corruption are all sticky—and they seem to form a common syndrome.

There seem to be multiple equilibria: In the virtuous cycle, some countries have low inequality, high trust, honest governments, and universal social welfare policies. These countries are continually “blessed” as they begin with a more level playing field and have the social fabric, the well functioning institutions, and the policies that will keep inequality in

check. In the vicious cycle, countries seem mired in high (or increasing) inequality, low trust, corrupt governments, and demands for more radical redistribution—a policy that will only increase social strains further and that will not yield the goal of reducing economic inequality. When inequality is very low (the 27 cases where the Gini index is .35 or lower), the  $r^2$  between inequality and trust is miniscule (.013); we see the same phenomenon when inequality is high (greater than .42): the  $r^2$  is just .013 (N = 23). In the middle, there is also not much movement ( $r^2 = .051$ , N = 14). This is the essence of the inequality trap: It is not easy to make a Brazil into a Sweden or a Finland. Indeed, it is not so easy to make Brazil into a Portugal or a United States into a Sweden or even a Canada.

*The social trap of universalism, trust, and equality*

Perceptions of inequality lead the poor to demand redistribution and lead the rich to reject those demands. We see this inequality trap very clearly in Central and Eastern Europe, where countries are making the transition from Communism to democracy although the story is likely to be much the same in other developing countries with high levels of poverty and inequality as well as low levels of trust.

The growth of a market economy has meant displacement of many former state workers guaranteed employment and a living wage. Communism already had depressed levels of generalized trust. Overcoming both poverty and low levels of trust loomed large on the political agenda of these countries—but there has been little support for the universal policies that might create a more vibrant economy and society. Instead, there seems to be support for a more radical redistribution of income that would exacerbate tensions and make the transition more difficult.

Every country for which there are data on changes in economic inequality save one (Slovakia) showed an increase in economic inequality from 1989 to the mid-1990s.<sup>94</sup> As

inequality rises, we see a clear link between perceptions of growing inequality and the belief that the only way to prosper is to be corrupt.. As an example, Mateju argues:

...the long-lasting presence of an egalitarian socialist ideology and a functioning “nomenclatura system” associated with various social and economic privileges mean that those countries undergoing the post-communist transformation will show a low tolerance for the growth of inequality...individuals who feel that life chances for their group or class are declining in relation to those of other groups or classes may tend to consider such changes as the result of social injustice...<sup>95</sup>

Attributions of success in life matter for two reasons. First, generalized trust depends heavily upon optimism and control—the beliefs that life is good, is going to get better, and that you can help make it better. When people fear for the future and see rising inequality, they are less likely to be optimistic.<sup>96</sup> Believing that you need special connections or luck to succeed means that you do not believe that you are the master of your own fate. This pessimism about personal control over your own fate leads to lower levels of generalized trust in societies as diverse as the United States and Romania.<sup>97</sup>

Transition societies are already low in trust. As inequality increases, there are more demands for redistribution of wealth and confiscation of the fortunes of the newly rich. When Russian entrepreneur Mikhail Khodorkovsky confessed his sins of relying on “beznissmeny” (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.<sup>98</sup>

The best policy response to growing inequality is to enact universalistic social welfare programs. However, the social strains stemming from increased inequality make it almost impossible to enact such policies. Demands for redistribution will thus lead to inefficient poverty reduction strategies—and ever more increasing social strains. Starting from a base of relative equality, the transition states had a golden opportunity to enact universalistic social welfare policies. Yet, these states also had corrupt governments with widespread tax evasion and little public confidence. Transition states had only one of the key elements (relative equality) for the enactment of universalistic policies. Lacking the other (honest government), they have been unable to stem the growing inequality and increased social strains that follow from it. Many transition states *had* universalistic social welfare policies under Communist regimes, and most still do as official policy—but the implementation of such policies in transition has focused more on targeted benefits and health care often depends upon the ability to pay for insurance.<sup>99</sup> Most transition countries have alternated right- and left-wing governments in search of economic stability. Such political instability, veering from one pole to the other, reflects the lack of a social consensus on finding common ground.

### *Conclusions*

If social trust is generated by the two types of equality that we have pointed at, and if universal policies are the best way to increase these types of equality, many countries with low levels of social trust and social capital may be stuck in social trap like situation.<sup>100</sup> The logic of such a situation is the following. Social trust will not increase because massive social inequality prevails, but the public policies that could remedy this situation can not be established precisely because there is a lack of trust. This lack of trust concerns both “other people” and the government institutions that are needed to implement universal policies.

Since social trust both is an important intrinsic value (personal happiness, optimism about the future) and has political value (support for fair institutions, minority rights, tolerance, etc.), and economic value (its positive relation to individual earnings and aggregate economic growth), it may be that dysfunctional governmental institutions are the worst social ill of all.

Poor and inequalitarian countries thus find themselves entrapped into continuing inequality, mistrust and *dysfunctional institutions*. High levels of inequality contribute to lower levels of trust, which lessen the political and societal support for the state to collect resources for launching and implementing universal welfare programs in an uncorrupted and non-discriminatory way. Unequal societies find themselves trapped in a continuous cycle of inequality, low trust in others and in government, policies that do little to reduce the gap between the rich and the poor *and create a sense of equal opportunity*. Demands for radical redistribution, as we see in many of the transition countries, exacerbate social tensions rather than relieving them.

There will be no political support for universal programs since the rich benefit from high-level corruption and see the poor as “undeserving poor”. The poor see almost *all* success in the market economy as evidence of dishonest behavior and believe that those who are well off already have taken more than enough from the state. From this perspective, the idea that the better off should also have access to public services and benefits seems awkward. Moreover, even if you could generate enough political support to enact universal programs, people may not have enough confidence in government institutions to deliver them fairly and without corruption. Persistent petty corruption may make “gift payments” appear to be rational responses to an unresponsive service sector: You may feel more secure in knowing that you can buy your children’s way into a good school and to good grades, rather than risking more neutral assignment and grading criteria. You may well prefer to make an extra payment at a doctor’s office rather than wait your turn. Corruption feeds upon economic

inequality, low trust, and poor government performance. But it generates alternative ways of coping that may inhibit the adoption of programs that might alleviate inequality.

Our message is admittedly a pessimistic one. Given the stickiness over time of both inequality and low levels of social trust, we think there is reason for our pessimism. Too much of the policy prescriptions that have come out from the social capital agenda have been too optimistic. If people just got more active involved in voluntary associations, things would improve. There are three reasons why we think this approach is wrong. First, the evidence that generalized trust is created by joining associations is simply not there. Secondly, it relieves governments from their responsibilities for dysfunctional public institutions and unfair or ineffective public policies. Thirdly, governments and the political elite can use this demand for increased participation in civic groups for blaming the victims in society.<sup>101</sup>

Even though inequality is sticky, it can be moved. Generalized trust may be a critical path to redistribution, but it is not the only one. So we temper our pessimism just a bit. The East Asian “tigers” achieved dramatic economic growth and reduced economic inequality through a series of policy choices that included high levels of spending on education, land reform, increased agricultural productivity, making health care more widely available to everyone, and opening up markets.<sup>102</sup> Each of these policies made services to the public more widely available, as universal programs do. Economic growth and lower rates of population expansion, in turn, lead to less inequality.<sup>103</sup>

There is a dearth of data that would allow us to test whether a rise in economic equality leads to greater trust or whether a country might create greater trust by adopting universal social welfare policies in the absence of either relative economic equality or honest governments. We worry that the boost in equality necessary to raise generalized trust by a significant amount may be greater than we have witnessed in recent decades. We also worry that the stickiness of corruption may put honest government out of reach for countries that

rank low on equality and trust. We don't know how to rid ourselves of corruption through institutional fixes.<sup>104</sup> We know more about how to reduce inequality—through universalistic social policies. How to get there is more difficult and our prognosis is not optimistic. It seems as if the old saying is true: “Once the system gets there, it stays there.”



## NOTES

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<sup>1</sup>J.F. Helliwell, “How’s Life? Combining Individual and National Variables to Explain Subjective Well-Being” (Working Paper 9065, Cambridge, Mass.: National Bureau for Economic Research, 2002). Eric M. Uslaner, *The Moral Foundations of Trust* (New York: Cambridge University Press, 2002). Jan Delhey and Kenneth Newton, “Who Trusts? The Origins of Social Trust in Seven Societies” (*European Societies* 5, 2003).

<sup>2</sup>Sjoerd Beugelsdijk, L. F. Henri de Groot, and B. T. M. Anton van Schaik, “Trust and economic growth: a robustness analysis” (*Oxford Economic Papers-New Series* 56, 2004). Robert D. Putman, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993). Uslaner (fn 1). Paul J. Zak and Stephen Knack, “Trust and Growth”, *Economic Journal* 111, (2001).

<sup>3</sup>The number of articles published in scientific journals with “trust” as a keyword or in its abstract increased from 129 to 1956 from 1990 to 2005. Adding the word “growth” to “trust”

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shows and increase from 1 to 42 articles, which indicates a stark increase among political economists in this concept. Source: *ISI Web of Knowledge*.

<sup>4</sup> Source: World Value Surveys: <http://wvs.isr.umich.edu/>

<sup>5</sup> Jan Delhey and Kenneth Newton, “Social Trust : Global Patterns or Nordic Exceptionalism” (Working paper, Wissenschaftszentrum Berlin für Sozialforschung, 2004).

<sup>6</sup> Uslaner (fn 1), chap. 7.

<sup>7</sup> There is a huge discussion in political philosophy of how to define “equality of opportunity” (cf. Andersen 1999). It is certainly hard to imagine a society that would, in reality, create equal opportunity for all its citizens. We employ here a narrow definition that focus on the establishment of *public policies* that are intended to create equal conditions for citizens regardless of their income, ethnic/religious background, sex and race in areas such as health care, education and social security and legal protection (“equality before the law”). It is thus not “equality of opportunity” in general, but if the state does (or doesn’t) promote equality of opportunity that is central to our conceptualization of “equality of opportunity.”

<sup>8</sup> In theory, one could imagine a society with huge economic inequality but with perfect equality of opportunity. In practice, it seems as if these two types go together. For example, in contrast to the United States, the Nordic states provide all citizens that qualify for college with tuition free education and provide benefits like universal health care and elderly care. One measure of the equality of opportunity is the level of educational inequality in a country. Using a measure of the standard deviation of educational attainment provided by Daniel Lederman of the World Bank, we found a modest correlation ( $r = .367$ ,  $N = 62$ ) with the Gini index of economic inequality. The correlation is attenuated by greater economic inequality than predicted for African and Latin American countries and lower economic equality than expected for countries in the Indian subcontinent. We found almost identical results using a Gini index of educational inequality ( $r = .364$ ,  $N = 55$ ) estimated by Vinod Thomas, Yan Wang, and Xibo Fan, “Measuring Economic Inequality: Gini Coefficients of Education,” Washington: World Bank Institute, Office of the Vice President, and Economic Policy and Poverty Reduction Division, January 2001.

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<sup>9</sup> Bo Rothstein, *Just Institutions Matter: The Moral and Political Logic of the Universal Welfare State* (Cambridge: Cambridge University Press, 1998).

<sup>10</sup> Michael B. Katz, *In the Shadow of the Poorhouse. A Social History of Welfare in America* in Martin Gilens, *Why Americans Hate Welfare: Race, Media, and the Politics of Antipoverty Policy* (Chicago: University of Chicago Press, 1999).

<sup>11</sup> For examples, see Rothstein (fn 9), chap. 6.

<sup>12</sup> Uslaner (fn1).

<sup>13</sup> Björn Gustafsson and M Johansson, "In Search of Smoking Guns: What Makes Income Inequality Vary over Time in Different Countries?" *American Sociological Review* 84 (1999). Anthony B. Atkinson, "The distribution of income in the UK and OECD countries in the twentieth century," *Oxford Review of Economic Policy* 15 (1999). Walter Korpi and Joakim Palme, "New politics and class politics in the context of austerity and globalization: Welfare state regress in 18 countries, 1975-95," *American Political Science Review* 97 (2003). Peter Gottschalk and Timothy M. Smeeding, "Cross-national comparisons of earnings and income inequality," *Journal of Economic Literature* 35 (1997).

<sup>14</sup> Walter Korpi and Joakim Palme, "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries," *American Sociological Review* 63 (1998).

<sup>15</sup> Paul Pierson, "Increasing returns, path dependence, and the study of politics," *American Political Science Review* 94 (2000).

<sup>16</sup> Delhey and Newton (fn 5), 27, in Uslaner (fn1), chap. 5.

<sup>17</sup> Johan Brehm and Wendy Rahn, "Individual Level Evidence for the Causes and Consequences of Social Capital," *American Journal of Political Science* 41 (1997). Uslaner (fn 1), chap. 4.

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<sup>18</sup> Adam B. Seligman, *The Problem of Trust* (Princeton: Princeton University Press 1997), 36-37, 41.

<sup>19</sup> For the logic explaining why we eliminate countries with a legacy of Communism, see Uslaner (fn 1), 228-230.

<sup>20</sup> This is *not* an issue of case selection, since we get an  $R^2$  of .560 of the regression of the Galbraith measure on trust for the 30 cases with non-missing values on both Gini coefficients.

<sup>21</sup> The  $R^2$  for the 1963 measure with levels of trust in the 1990s is .653 (N = 33) compared to .560 for the 1996 index of inequality. The regression coefficients (.022 and .020, respectively) are almost identical.

<sup>22</sup> Eric M. Uslaner, “**Fel! Endast huvuddokument.**The Bulging Pocket and the Rule of Law: Corruption, Inequality, and Trust” (Paper presented at the **Fel! Endast huvuddokument**.conference The Quality of Government: What It Is, How to Get It, Why It Matters, The Quality of Government Institute, Department of Political Science, Göteborg University, Göteborg, Sweden, November 17-19, 2005), at <http://www.qog.pol.gu.se/conferences/november2005/papers/Uslaner.pdf>

<sup>23</sup> Uslaner (fn 1), 233-236.

<sup>24</sup> Uslaner (fn 1), 186-189, Eric M. Uslaner and M. Mitchell Brown, **Fel! Endast huvuddokument**.“Inequality, Trust, and Civic Engagement,” *American Politics Research* 31 (2005).

<sup>25</sup> Uslaner (fn 22).

<sup>26</sup> For the measurement see Uslaner (fn 22).

<sup>27</sup> Jong-Sung You, *A Comparative Study of Income Inequality, Corruption and Social Trust: How Inequality and Corruption Reinforce Each Other and Erode Social Trust* (Unpublished Ph.D. dissertation, John F. Kennedy School of Government, Harvard University, 2005), chap. 5 esp. 165, at <http://ksghome.harvard.edu/~youjong/dissertation%20contents.htm>

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<sup>28</sup> Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State* (Chicago: The University of Chicago Press, 2001).

<sup>29</sup> Uslaner (fn1), chaps. 2, 4.

<sup>30</sup> Donald R. Kinder and D. Roderick Kiewiet, "Economic Discontent and Political Behavior: The Role of Personal Grievances and Collective Economic Judgments in Congressional Voting," *American Journal of Political Science* 23 (1979).

<sup>31</sup> Carles **Fel! Endast huvuddokument.**Boix and Daniel N. Posner, "Social Capital: Explaining Its Origins and Effects on Government Performance," *British Journal of Political Science* 28 (1998), 693.

<sup>32</sup> Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000), 359 ff, and chap. 15.

<sup>33</sup> Putnam (fn 32), chap. 24.

<sup>34</sup> Katherine Neckerman, *Social Inequality*, cf. Theda Skocpol, *Diminished Democracy: From Membership to Management in American Civic Life* (Norman: University of Oklahoma Press, 2003).

<sup>35</sup> Jacob S. Hacker, "Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Entrenchment in the United States," *American Political Science Review* 98 (2004).

<sup>36</sup> Valerie Braithwaite and Margaret Levi, eds., *Trust and Governance* (New York: Russell Sage Foundation, 1998). Karen S. Cook, ed., *Trust in Society* (New York: Russell Sage Foundation, 2001). Elinor Ostrom and James Walker, eds., *Trust and Reciprocity: Interdisciplinary Lessons from Experimental Research* (New York: Russell Sage Foundation, 2003).

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<sup>37</sup> Russell Hardin, *Trust and Trustworthiness* (New York: Russell Sage Foundation, 2002). Tom R. Tyler and Yuen J. Huo, *Trust in the Law* (New York: Russell Sage Foundation, 2002). Karen Cook, Russell Hardin and Margaret Levi, *Cooperation Without Trust?* (New York: Russell Sage Foundation, 2005).

<sup>38</sup> Stephen Knack and Paul Zak, "Building Trust: Public Policy, Interpersonal Trust and Economic Development," *Supreme Court Economic Review* 10 (2002).

<sup>39</sup> Robert D. Putnam and Lewis D. Feldstein, *Better Together: Restoring the American Community* (New York: Simon and Schuster, 2003).

<sup>40</sup> See for example the reports from the Irish Government 2003, "The Policy Implications of Social Capital"; and from the Swedish Government 2002 "En uthållig demokrati". On Australia see I. Winter, *Social Capital and Public Policy in Australia* (Melbourne: Australian Institute of Family Studies, ed. 2002).

The World Bank has also been very active in this area, see M. Woolcock, and D. Narayan, "Social Capital: Implications for Development Theory, Research and Policy," *The World Bank Research Observer* 15 (2002).

<sup>41</sup> Uslaner (fn 22).

<sup>42</sup> Diego **Fel! Endast huvuddokument.**Gambetta, *The Sicilian Mafia: The Business of Private Protection* (Cambridge: Harvard University Press, 1993).

<sup>43</sup> Vito **Fel! Endast huvuddokument.**Tanzi, "Corruption Around the World: Causes, Consequences, Scope and Cures," *IMF Staff Papers*, (Washington: International Monetary Fund 45, 1998).

<sup>44</sup> Paolo **Fel! Endast huvuddokument.**Mauro, "Why Worry About Corruption?" *Washington: International Monetary Fund*, (1997), 7.

<sup>45</sup> Jan **Fel! Endast huvuddokument.**Hanousek and Filip Palda, "Quality of Government Services and the Civic Duty to Pay Taxes in the Czech and Slovak Republics, and Other Transition Countries," *Kyklos*, 57 (2004).

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<sup>46</sup> Eric M. Uslaner, “Trust and Corruption” in Johann Graf Lambsdorf, Markus Taube, and Matthias Schramm, eds., *Corruption and the New Institutional Economics* (London: Routledge, 2004). Uslaner (fn 22).

<sup>47</sup> Eric M. Uslaner and Gabriel Badescu, “Making the Grade in Transition: Equality, Transparency, Trust, and Fairness” (Unpublished ms., University of Maryland–College Park, 2005).

<sup>48</sup> The data on Estonia have not been reported in any publication. They will be discussed in Uslaner, *The Bulging Pocket and the Rule of Law: Corruption, Inequality, and Trust* (Book manuscript in preparation).

<sup>49</sup> Daniel Eek and Bo Rothstein, "Exploring a Causal Relationship Between Vertical and Horizontal Trust" (Paper presented at the conference Trust and Democracy: A Multidisciplinary Perspective, Department of Economics, Department of Political Science, and Department of Psychology, Göteborg University, Göteborg, Sweden, May 19-20, 2005).

<sup>50</sup> The report itself has only data about Swedish students. The data from our scenario experiments with the Romanian students has just been analyzed and confirms the result from the experiments conducted in Sweden.

<sup>51</sup> Alexander Stoyanov, Maragarita Pavlikianova, Andrej Nontchev, and Galja Krasteva. “Bulgaria: Political and Economic Crisis; Democratic Consolidation,” in David S. Mason and James L. Kluegel, eds., *Marketing Democracy* (Lanham, MD: Rowman and Littlefield, 2000a).

<sup>52</sup> James R. Kluegel and David S. Mason, “Market Justice in Transition.” in Mason and Kluegel (fn 51), 167, cf. Antal Orkeny, “Trends in Perceptions of Social Inequality in Hungary, 1991-1996” in Mason and Kluegel (fn 51), 109.

<sup>53</sup> György Csepele, Antal Örkény, Maria Székelyi and Ildikó Barna “Blindness to Success: Social Psychological Objectives Along the Way to a Market Economy in Eastern Europe” in

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*Creating Social Trust in Post-Socialist Transition*, eds. J. Kornai, B. Rothstein and S. Rose-Ackerman (New York: Palgrave/Macmillan, 2004).

<sup>54</sup> Antal Orkeney and Ma'ria Sze'kely, "Views on Social Inequality and the Role of the State: Posttransformation Trends in Eastern and Central Europe," *Social Justice Research* 13 (2000), 206, 208.

<sup>55</sup> Csepeli et al. (fn 53).

<sup>56</sup> Uslaner and Badescu (fn 47).

<sup>57</sup> Larry Rother, "Where Taxes Aren't So Certain," *New York Times* 4, March 21, 1999, 3.

<sup>58</sup> Janos Kornai, "Hidden in an Envelope: Gratitude Payments to Medical Doctors in Hungary," 2000, at <http://www.colbud.hu/honesty-trust/kornai/pub01.PDF>

<sup>59</sup> Rafael **Fel! Endast huvuddokument.** DiTella and Robert MacCulloch, "Why Doesn't Capitalism flow to Poor Countries?" (Unpublished paper, Harvard Business School, 2003).

<sup>60</sup> Peter Flora (Ed.) *Growth to Limits. The Western European Welfare States since World War II*. Vol 1 (Berlin: de Gruyter, 1986), Cf. Charles Tilly, *Coercion, Capital, and European States, AD 990-1900* (Oxford: Blackwell, 1992).

<sup>61</sup> Tilly (fn 60), 27.

<sup>62</sup> Tim Knudsen, *Dansk statsbygning* (København: Jurist- og Økonomforbundets Forlag, 1995).

<sup>63</sup> Tim Knudsen and Bo Rothstein, "State-Building in Scandinavia" *Comparative Politics* 26 (1994). Tim Knudsen and Ditlev Tamm (Eds.) *Dansk forvaltningshistorie indtil 1901* (Copenhagen: Jurist- og Økonomforbundets Forlag, 2000).

<sup>64</sup> Cf. Sven E. Olsson, *Social policy and welfare state in Sweden* (Lund: Arkiv, 1993).

<sup>65</sup> Nils Elvander, *Scandinavian Social Democracy: Its Strength and Weakness* (Stockholm: Almqvist & Wiksell International, 1979).



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<sup>66</sup> This is how the agents of the time, both union leaders and the leaders from the employers' federation, described what happened in the mid-1930s, see Bo Rothstein, *Social Traps and the Problem of Trust* (Cambridge: Cambridge University Press, 2005), chap. 7. Of particular importance was that the leaders of the Social Democratic party could make "credible commitments" towards the Employers' Federation that they would not use their political power over the state administration to favor the union side, for example in labor disputes.

<sup>67</sup> Rothstein (fn 66), cf. Peter J. Katzenstein, *Small States in World Markets. Industrial Policy in Europe* (Ithaca, New York: Cornell University Press, 1985).

<sup>68</sup> Rothstein (fn 9). Korpi and Palme (fn 14).

<sup>69</sup> Duane Swank, *Global capital, political institutions, and policy change in developed welfare states* (New York: Cambridge University Press, 2002).

<sup>70</sup> Rune Åberg, "Distributive Mechanism of the Welfare State," *European Sociological Review* 5 (1989). Karl-Ove Moene and Michael Wallerstein "Targeting and Political Support for Welfare Spending" *Economics of Governance* 2 (2001).

<sup>71</sup> Korpi and Palme (fn 14), Swank (fn 69).

<sup>72</sup> Rothstein (fn9), Swank (fn 69).

<sup>73</sup> Staffan Kumlin and Bo Rothstein, "Making and Breaking Social Capital. The Impact of Welfare State Institutions," *Comparative Political Studies* 38 (2005).

<sup>74</sup> Joe Soss, "Lessons of Welfare: Policy Design, Political Learning, and Political Action," *American Political Science Review* 93 (1999).

<sup>75</sup> Joe Soss, *Unwanted Claims: The Politics of Participation in the U.S. Welfare System* (Ann Arbor: University of Michigan Press, 2000), 46.

<sup>76</sup> Soss (fn 75), 99.

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<sup>77</sup> Soss (fn 75), 144-145, 154.

<sup>78</sup> Uslaner (fn 1), 100.

<sup>79</sup> The model is based upon Uslaner (fn 1), 100. We dropped trust in government as a predictor since it is likely endogenous to receipt of means-tested benefits, see Soss (fn 74). For a description of the measures, see Uslaner (fn 1), 99-101.

<sup>80</sup> Bo Rothstein and Dietlind Stolle, Social Capital, Impartiality, and the Welfare State: An Institutional Approach. In *Generating Social Capital: The Role of Voluntary Associations, Institutions and Government Policy*, edited by M. Hooghe and D. Stolle. (New York: Palgrave/Macmillan, 2003).

<sup>81</sup> Kumlin and Rothstein (fn 73).

<sup>82</sup> S. Svallfors, "Worlds of Welfare and Attitudes to Redistribution: A Comparison of Eight Western Nations," *European Sociological Review*, 13(3), 283-304 (1997).

<sup>83</sup> Swank 2002 (fn 72), Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State* (Chicago: The University of Chicago Press, 2001).

<sup>84</sup> Lars Osberg and Timothy Smeeding, "Social values for equality and preferences for state intervention in the USA and Europe" (Unpublished paper, Center for Policy Research, Maxwell School, Syracuse University, 2005).

<sup>85</sup> Brehm and Rahn (fn 17), Knack and Zak (fn 38), Robert D. Putnam, "Bowling Alone: America's Declining Social Capital," *Journal of Democracy* 6 (1995, 65-78), Uslaner (fn 1), ch. 4, Eric M. Uslaner, "Trust and Civic Engagement in East and West," in Gabriel Badescu and Eric M. Uslaner, eds., *Social Capital and the Transition to Democracy* (London: Routledge, 2003).

<sup>86</sup> Bjornskov, Christian, "Social Trust and the Growth of Schooling" (Unpublished paper, Aarhus School of Business, Aarhus University, Denmark, 2004).

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<sup>87</sup> Louis Fel! Endast huvuddokument.Hartz, *The Liberal Tradition in America* (New York: Harcourt, Brace, and World, 1955).

<sup>88</sup> Alberto Alesina and Edward Glaeser, *Fighting Poverty in the U.S. and Europe: A World of Difference* (New York: Oxford University Press, 2004).

<sup>89</sup> Hacker (fn 35), 255.

<sup>90</sup> Gilbert M. Gaul, “Bad Practices Net Hospitals More Money,” *Washington Post*, July 24, 2005, A1, A12, A13.

<sup>91</sup> See <http://www.washingtonpost.com/wp-dyn/content/custom/2005/07/22/CU2005072201387.html>. Details of the statistical analysis below are available from the authors.

<sup>92</sup> Klaus Deininger and Lyn Squire, “A New Data Set Measuring Income Inequality,” *The World Bank Economic Review* 10 (3), 565-591 (1996).

<sup>93</sup> The data can be obtained at <http://utip.gov.utexas.edu/web/>.

<sup>94</sup> J. Barkley Rosser, Marina V. Rosser and Ehsan Ahmed, “Income Inequality and the Informal Economy in Transition Countries,” *Journal of Comparative Economics* 28 (2000).

<sup>95</sup> Petr Mateju, “Beliefs About Distributive Justice and Social Change: Czech Republic 1991-1995” (*Socialni Trendy/Social Trends*, Prague, Czech Republic, 1997), 4-5.

<sup>96</sup> Uslaner (fn 1), chs. 4-8.

<sup>97</sup> Uslaner (fn 1), chs. 4, 6. Uslaner (fn 85) cf. Susan Rose-Ackerman, Public Participation in Consolidating Democracies: Hungary and Poland. In *Building a Trustworthy State in Post-Socialist Transition*, edited by J. Kornai and S. Rose-Ackerman (New York: Palgrave/Macmillan, 2004).

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<sup>98</sup> Serge Schemann, “In Going Legit, Some Russian Tycoons Resort to Honesty,” *New York Times* (January 12, 2003), at <http://www.nytimes.com/2003/01/12/weekinreview/12SCHM.html>, accessed January 14, 2003. Sabrina Tavernise, “Russia Is Mostly Unmoved by the Troubles of Its Tycoons,” *New York Times* (Washington edition, November 3, 2003), A3.

<sup>99</sup> European Commission Employment and Social Affairs, *Social Protection in the 13 Candidate Countries: A Comparative Analysis* (Luxembourg: European Commission Directorate-General for Employment and Social Affairs Unit E.2, 2003), available at [http://europa.eu.int/comm/employment\\_social/publications/2004/ke5103649\\_en.pdf](http://europa.eu.int/comm/employment_social/publications/2004/ke5103649_en.pdf).

<sup>100</sup> Rothstein (fn 67).

<sup>101</sup> If we would have a choice, governments in high inequality/low social trust societies should opt for high quality universal education programs. There are several reasons for this. One is that universal public education creates both a sense of equal opportunity and generates more economic equality. Secondly, it should give parents a sense of optimism for the future of their children, and since optimism is strongly connected to social trust, this would have positive effects. Thirdly, such programs would bring children and young people from different ethnic, religious and social groups together. Results from social psychology shows that this is one important generator of social trust (Toshio Yamagishi, “Trust as a form of social intelligence,” In K.S. Cook, ed., *Trust in Society*. New York: Russell Sage Foundation, 2001).

<sup>102</sup> Vinod Ahuja, Benu Bidani, Francisco Ferreira, and Michael Walton, *Everyone’s Miracle? Revisiting Poverty and Inequality in East Asia* (Washington: The World Bank, 1997).

<sup>103</sup> Uslaner (fn 1).

<sup>104</sup> Uslaner (fn2).

Figure 1

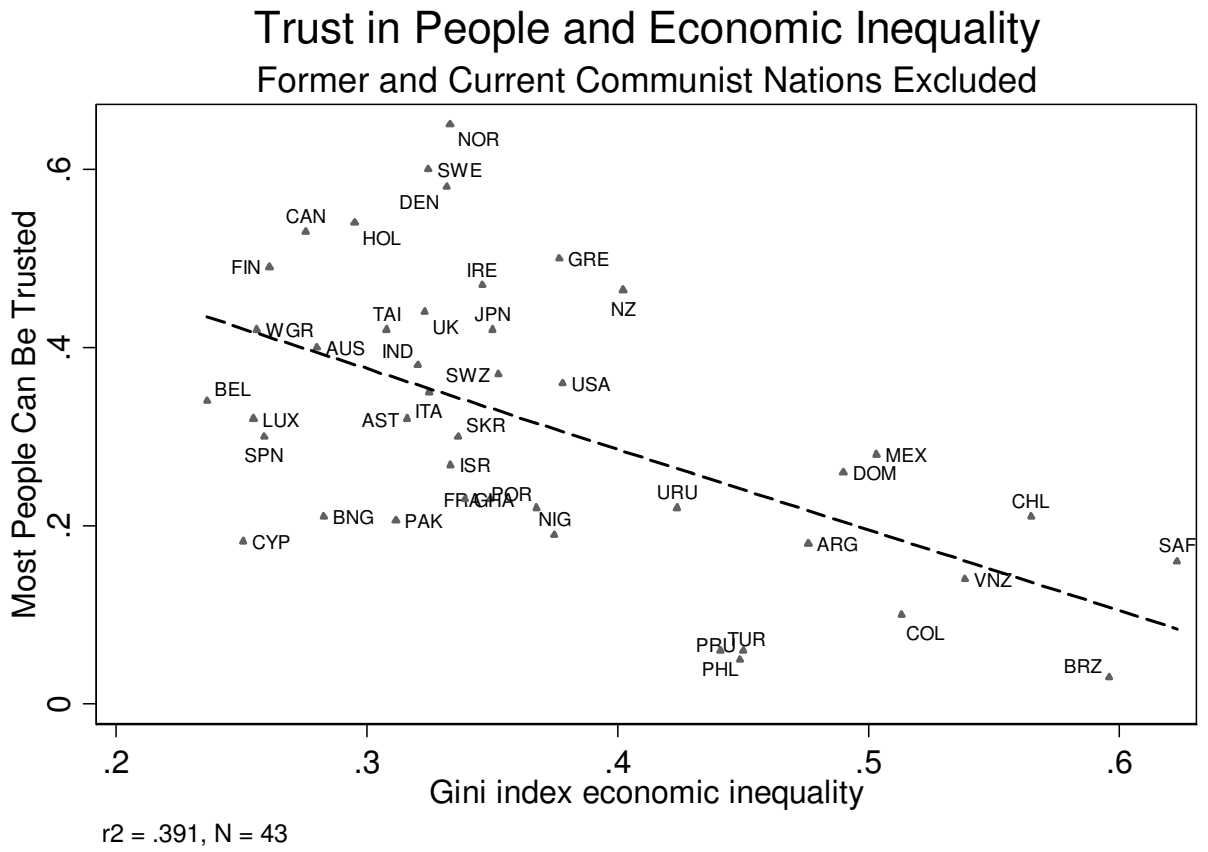


Figure 2

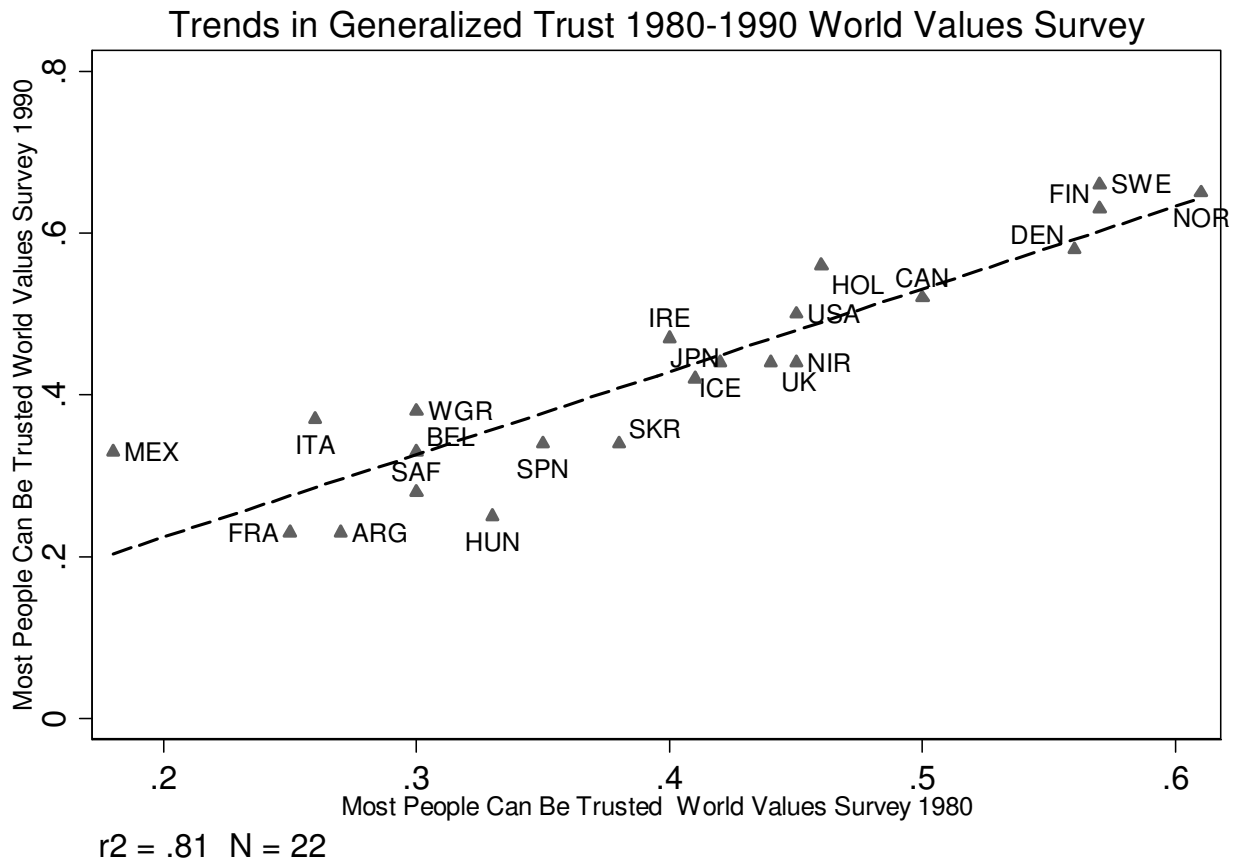


Figure 3

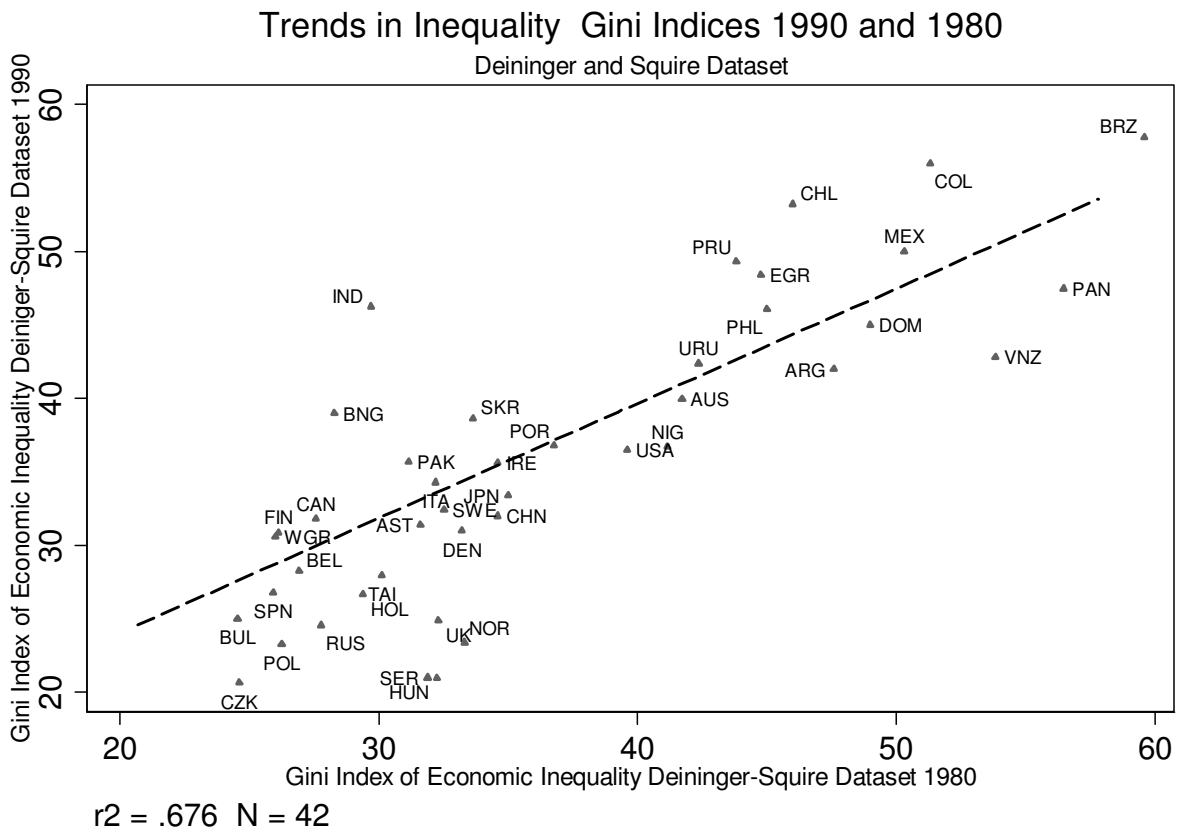


Figure 4

### Trends in Inequality Gini Indices 1996 and 1963

Galbraith Data Set

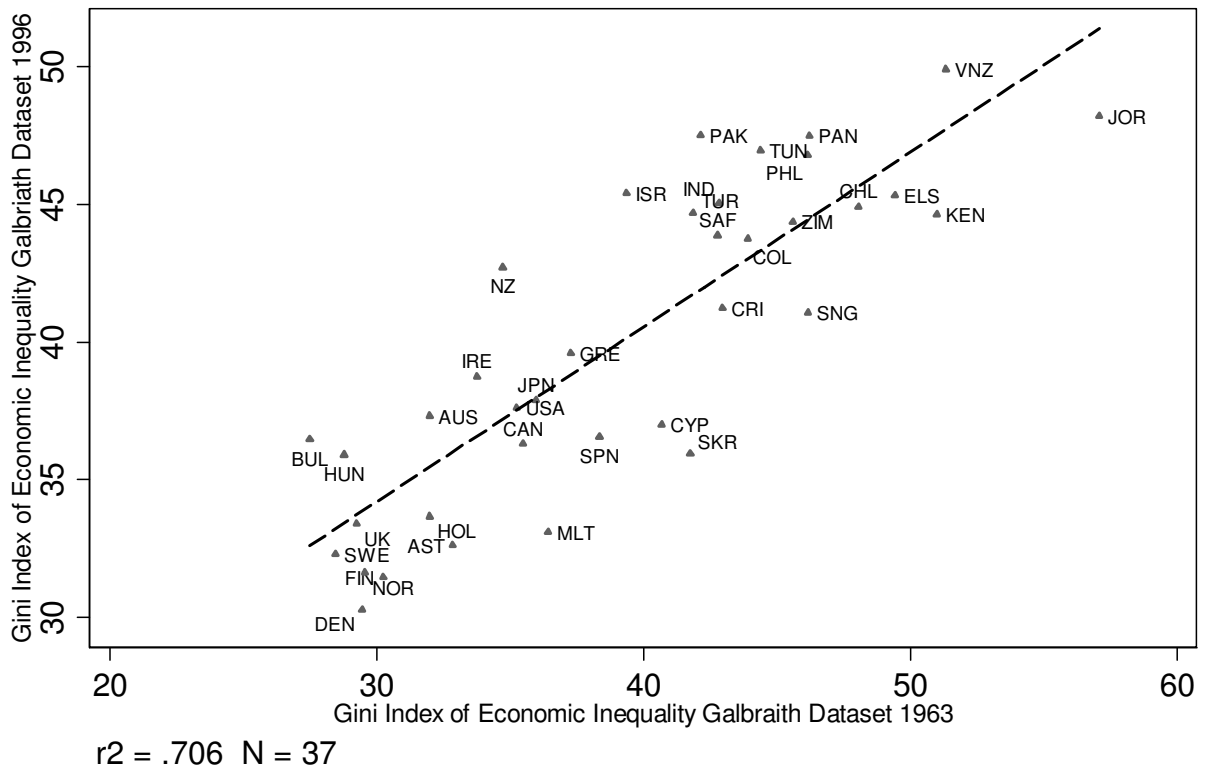




Figure 5

Corruption by Trust

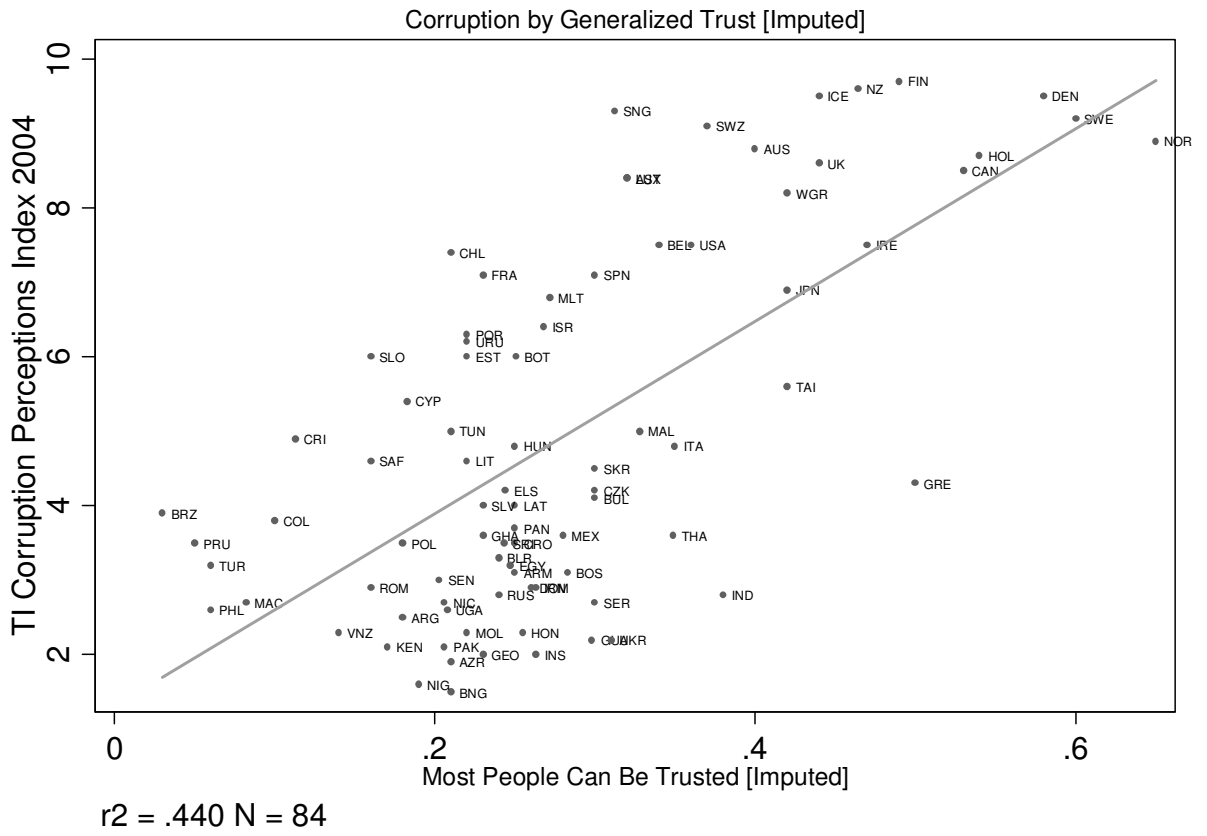


TABLE 1

Trust and Inequality Equations from Simultaneous Model of Trust, Inequality, and Corruption

*Trust equation*

Economic inequality (Gini index)	-.461***	.195	-2.36
Civil war	-.086****	.025	-3.41
Protestant share of population 1980	.174***	.063	2.79
Former Communist nation	-.091**	.045	-2.01
Government effectiveness	.028	.024	1.18
Constant	.479****	.077	6.19

*Inequality equation*

Trust	-.152	.187	-.81
Corruption	-.028***	.009	-3.23
Former Communist nation	-.166****	.025	-6.59
Protestant share of population 1980	.123	.052	2.38
Muslim percent of population	-.001****	.000	-3.77
Constant	.583****	.035	16.77

<i>Equation</i>	R <sup>2</sup>	S.E.E.	Mean	F Statistic
Trust	.664	.081	.296	21.35
Inequality (Gini)	.534	.072	.360	12.34

\* p < .10 \*\* p < .05 \*\*\* p < .01 \*\*\*\* p < .0001 (all tests one tailed except for constants) N = 63

Trust includes several imputed values as discussed in Uslaner (2005). The government effectiveness variable is a factor score of six indicators of effectiveness derived from the **Fel! Endast huvuddokument**.cross-national surveys of business executives (the 2004 Executive Opinion Survey of the World Economic Forum) as also discussed in Uslaner (2005). The corruption measure is the 2004 score from Transparency International's Corruption Perceptions Index (where high scores indicate *less* corruption).

Instrumental variables: Religious fractionalization (from Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg, 2003); English legal tradition (from the Levine-Loyaza-Beck data set at <http://www.worldbank.org/research/growth/llbdata.htm>), GNP per capita (State Failure Data), constraints on the executive branch of government (Glaeser, La Porta, Lopez-de-Silanes, and Shleifer, 2004); military in politics (at [www.freetheworld.com](http://www.freetheworld.com)); terrorism risk (ICRG); bureaucratic quality (ICRG), parliamentary system and proportional representation (from the Data Base of Political Institutions at <http://www.worldbank.org/wbi/governance/pubs/wps2283.html>).

**Fel! Endast huvuddokument. Table 2**

Probit Analysis for Trust, 1992 American National Election Study

<b>Fel! Endast huvuddokument. Independent Variable</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>t Ratio</b>	<b>Effect</b>
Receives means tested benefit	-.273**	.154	-1.77	-.090
Standard living better in 20 years	.090****	.018	4.96	.122
Have no say in politics	-.068***	.024	2.83	-.092
In-group trust	-.006***	.002	-3.04	-.168
Worry less about inequality	-.038**	.025	-1.54	-.051
Talk to neighbors	.239****	.083	2.88	.080
African-American	-.606****	.117	-5.17	-.199
High school education	.056****	.014	4.13	.202
College education	.064****	.010	6.03	.369
Own home	.168**	.078**	2.17	.057
Child should be curious	.085****	.019	4.35	.117
Child should be considerate	.077****	.020	3.89	.106
Age	.009***	.002	4.13	.163
Constant	-1.048***	.257	-4.08	

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

-2\*Log Likelihood Ratio = 2063.578 Estimated R<sup>2</sup> = .299 N = 1753  
Percent Predicted Correctly: Probit Model 70.0 Null Model: 54.5

Effect is the difference in estimated probabilities from the minimum to the maximum

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values of the independent variable (except for age, where we use the range 18-75).

For a description of the data and variables, see Uslaner (2002, ch. 4).