

Eric M. Uslaner

Department of Government and Politics  
University of Maryland–College Park  
College Park, MD 20742

Senior Research Fellow, Center for American Law and Political Science  
Southwest University of Political Science and Law  
Chongqing, China

Honorary Professor of Political Science, Aarhus University (Denmark)  
[euslaner@umd.edu](mailto:euslaner@umd.edu)



Corruption, Inequality, and Trust in Transition

- 
- 
- ▶ In my 2008 book, *Corruption, Inequality, and the Rule of Law*, I presented an argument on how corruption rests upon a foundation of high inequality and low out-group (generalized trust).
  - ▶ I argued that inequality was low (at least reported inequality) in transition countries. But what mattered was the *increase* in inequality in these countries after the fall of Communism. There was a strong relationship between change in inequality and change in corruption.
  - ▶ Inequality rose in all former Communist countries except Slovakia. And in most corruption rose. People also saw a strong relationship between corrupt leaders and inequality. Trust was low under Communism and remained low after its fall.

- 
- I present the argument from my earlier work and follow up addressing the question: How have the transition countries fared over the past half decade?
  - There are two competing arguments on how transition countries have fared.
  - Daniel Treisman of UCLA has argued in a 2014 paper, “Twenty-five Years of Market Reform”: “Overall and on average, economic transformation has been a striking success. On numerous indicators, life has improved for citizens of the former communist countries. By 2012, in the average country, GDP per capita was 46 percent higher than it had been in 1990, and this probably underestimates the increase given inflated reporting of output at the outset.... Some—like Poland—have market systems resembling those of their West European neighbors, as well as democratic regimes and economies that have doubled in size. Then there is Turkmenistan, a sultanistic petrostate, which only re-attained its 1990 output level in 2008, and which experts today rate as less of a free market economy than Yugoslavia was *before* its transition began.”

- 
- ▶ Janos Kornai of Harvard University offered a more pessimistic view in a paper, “Threatening Dangers”:
  - ▶ “I’m Hungarian – my mind can barely stop processing the uninterrupted flow of gloomy news for a second.... the situation changed for the worse in 2010, when the political forces leading the country performed a U-turn. Instead of the strengthening of democracy we saw the abolition or drastic restriction of numerous fundamental institutions of democracy. Instead of private property being reinforced, the security of private property came under attack. Instead of continuing decentralization, the tendency to centralize was revived.... The other shadow over our celebration is cast by the Ukrainian situation. Nobody can tell for sure what the months to come will bring. But one thing has already happened, and this is the *de facto* annexation of the Crimean peninsula.”
  - ▶ Of the 15 successor states of the former Soviet Union, three Baltic countries have become relatively stable post-communist democracies.
  - ▶ There is not a single country in the post-communist region which is immune to the epidemic of nationalism. There are degrees, of course: at one end of the scale we find the quietly thrown anti-Semitic or anti-Roma terms of abuse in ‘gentlemanly’ style. Next degree: hateful, cruel words. Next, more frightening degree: beating of members of the minority, threatening parades of uniformed commandos. And at the other end of the scale: murder. Who knows where the incitement to nationalism will lead?”

- 
- Generalized trust is part of a “virtuous circle” of positive forces and outcomes in a society. Trust stems from equality and fairness and leads to less corruption, better government, open markets, and higher economic growth.
  - Mistrusting societies are caught in an “inequality trap.” They have higher (or increasing) rates of economic inequality, high levels of corruption, ineffective governments, closed markets, and lower growth.



# The Inequality Trap

- ▶ Corruption and inequality are linked together in a vicious cycle that enriches the wealthy and hurts the poor. They lead to poor service delivery and to a belief that the only way to get rich is to be corrupt.
- ▶ Ordinary people see the rich as more than as wealthy. In highly unequal societies, they may link inequality with corruption—and thus they will have no confidence in their leaders.

- 
- 
- ▶ Democracy may not create trust, but Communism certainly destroyed both trust and participation in voluntary associations. The totalitarian regime made it risky to trust *anyone*, even family members. So it is hardly surprising that few people in transition countries believe that “most people can be trusted.” As Marc Morje Howard argued in *The Weakness of Civil Society in Postcommunist Europe*, people in Communist countries saw civic associations as instruments of the state. Even after Communism fell, people still viewed civic associations with suspicion. They also remained wary of their fellow citizens.

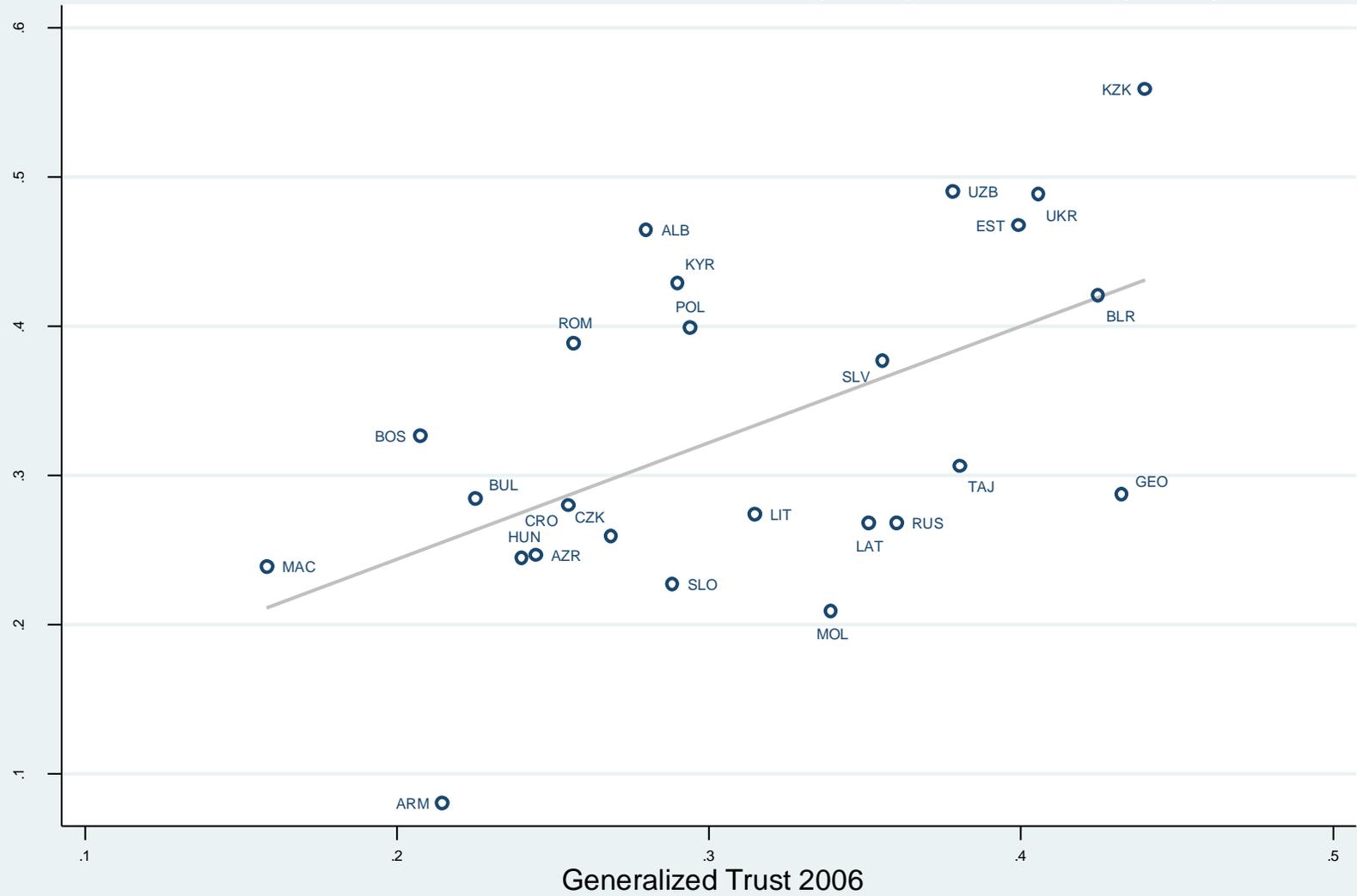




# Transition countries

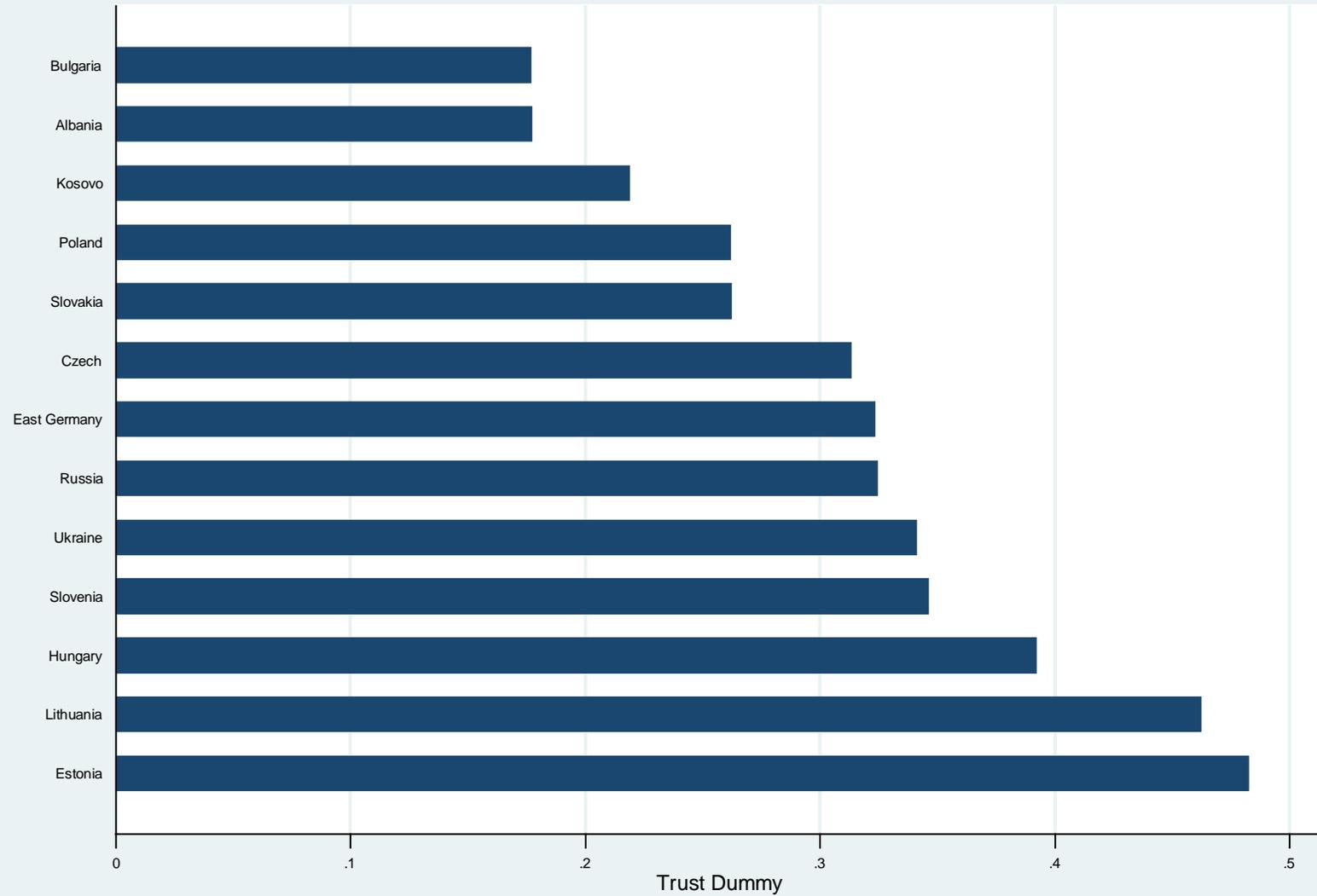
- There have been sharp increases in the historically low rates of inequality in the transition states since the fall of Communism in 1989 and 1990. The Rosser, Rosser, and Ahmed (2000) data on income distribution show an increase in economic inequality from 1989 to the mid-1990s for every country save one (Slovakia). The more recent WIDER Gini estimates indicate an average increase of 78 percent from 1989 to 1999—for each of 21 countries..
- Corruption was persistent under Communism. The emergence of democratic governments did not curb dishonesty. In 2004, every transition country had a higher level of corruption than *any Western country*. Later scores from Transparency International show marked gains for Estonia and Slovenia. Yet, all of the 11 formerly Communist countries ranked by Transparency International in 1998 had more corruption in 2004

# Generalized Trust in LiTS 1 (2006) and LiTS 2 (2011)

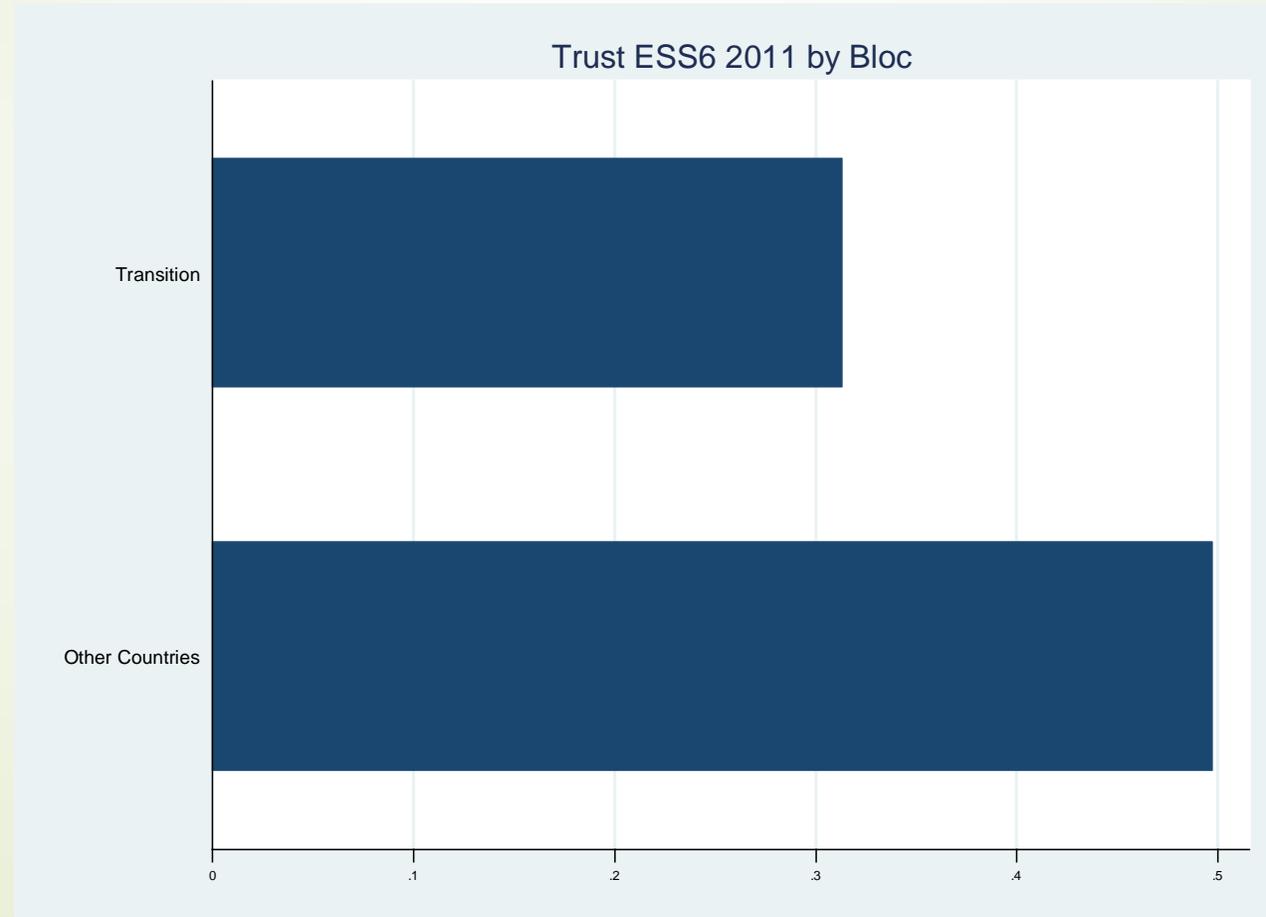


n = 25 RMSE = .096 R<sup>2</sup> = .30

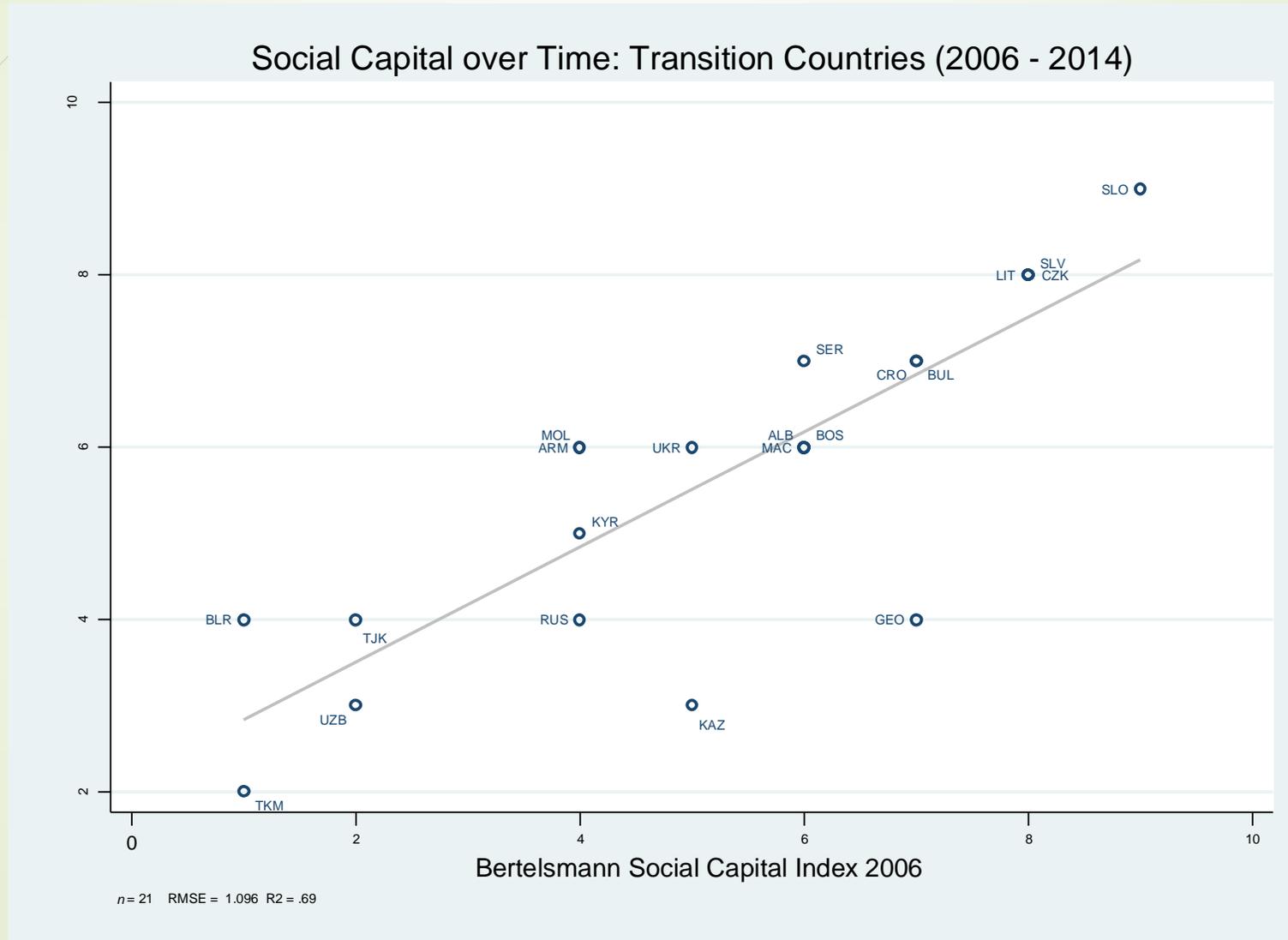
## Generalized Trust ESS Wave 6 2011



Lithuania and Estonia only transition countries in top half. Portugal, Cyprus, France, and Germany only other countries in bottom half. The mean level of trust for transition countries is .31, compared to .49 for other European countries. The size of the gap is about the same as it was in 1995.

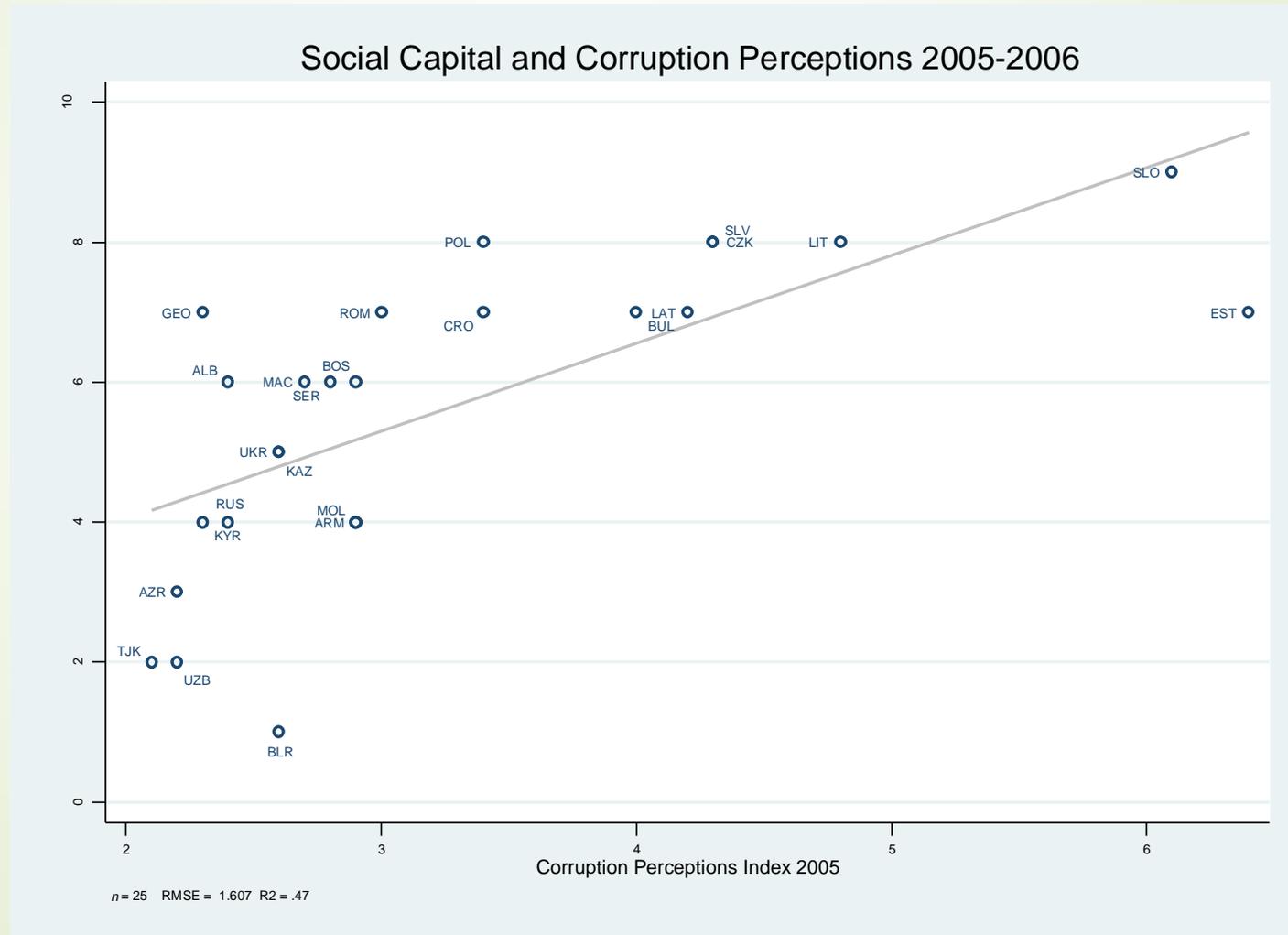


The Bertelsmann data, which are based upon elite perceptions, suggest greater continuity.

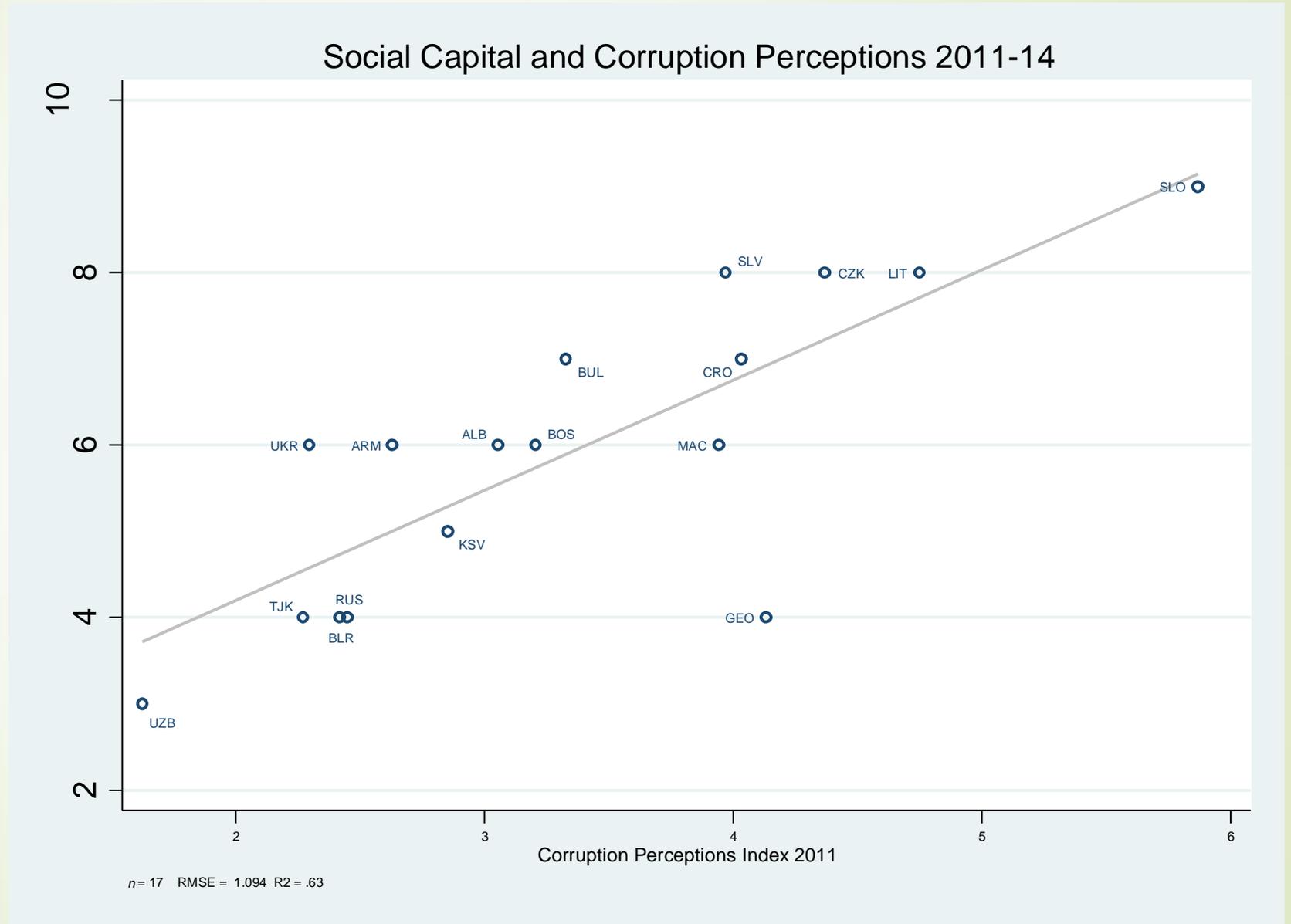


- 
- 
- The story we see in the social capital data from Bertelsmann help us to understand the “debate” between Treisman and Kornai.
  - Countries that did well right after transition do *very well* today. Countries that had greater challenges after transition still confront problems in fighting corruption and building trust.
  - The legacy of Communism has not been overcome easily and even the greatest success stories still face significant challenges.

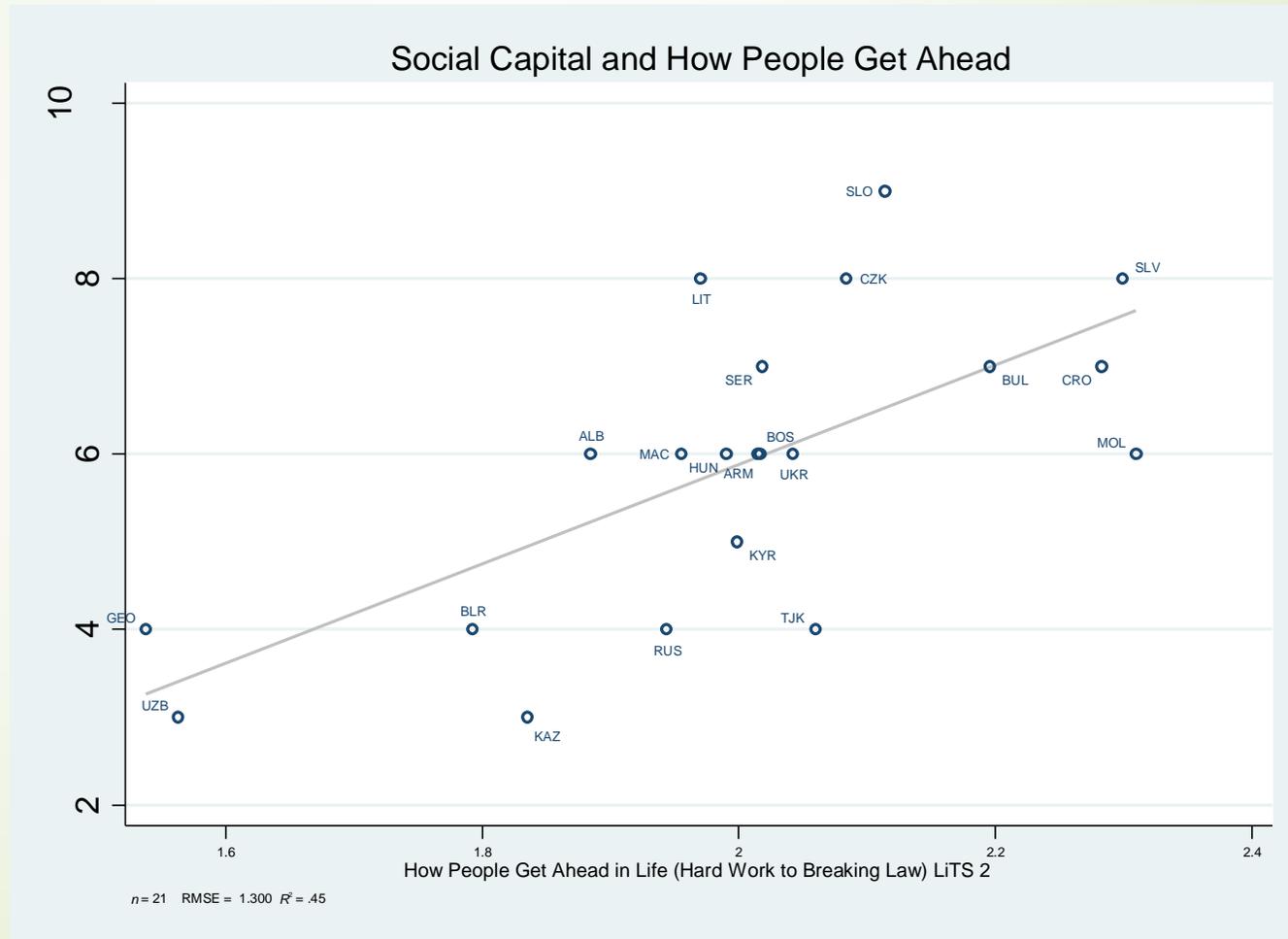
Countries that ranked high on social capital in 2006 have less corruption in 2005-2006.



The relationship is even stronger for 2011-2014.



And there is a strong relationship between social capital and how people believe that they get ahead in life (although the responses for Moldova and Belarus seem puzzling).



- 
- 
- It is more difficult to evaluate changes in the effect of inequality on trust or corruption. Inequality data are available only for a smaller number of countries.
  - Where the data are available, they show that:
    - Inequality is *lower* in 2005 compared to 2000 for Estonia (.325 compared to .361).
    - Inequality is about the same in Hungary from 1991 to 2005 (.283 / .289)
    - Inequality is *higher* in Poland in 2010 (.31) than in 1986 (.27) or 1992 (.26), but has been flat since 1995.
    - Inequality is somewhat lower in Russia in 2010 (.353) than in 2000 (.405), but it is still relatively high.
    - Inequality is higher in Slovakia in 2010 (.26) than in 1992 (.19) but flat since 1996.
    - Inequality was flat in Slovenia from 1997 to 2007 (.23) but increased slightly in 2010 (.25).
  - Overall inequality remains low in most transition countries for which we have data. It is considerably higher in Russia.

- 
- 
- ▶ Perceptions of life success (in LiTS) do not track changes in inequality or levels of inequality. Optimism is high where inequality is high (Estonia and Lithuania) and where it is low (Slovenia).
  - ▶ Concern for reducing inequality is high Croatia and Latvia (where inequality is moderate) as well as in Romania (where it is low). It is lower in the Czech Republic and Poland (with low and moderate inequality).
  - ▶ Demands to reduce inequality are *not* greater when corruption is high.
  - ▶ There is a moderately strong relationship ( $R^2 = .24$ ) between perceptions of life success compared to one's parents and corruption, although there is both optimism (Albania, Belarus, Romania) and pessimism (Azerbaijan, Georgia, Kyrgyzstan, Macedonia, Bosnia) where corruption is high.



# The “winners” and the “losers”

- Treisman and Kornai agree that there some transition countries have fared better than others. The issues remain:
- (1) Are there more winners than losers?
- (2) Why are some countries “winners”?
- (3) How much have the “winners” won?



# Institutions and economic reform

- ▶ In my 2008 book, I gave short shrift to the importance of institutions. I found little relationship between democratization and trust, corruption, or inequality.
- ▶ My argument is consistent with Rothstein, *The Quality of Government*, and with John Mueller in *Capitalism, Democracy, and Ralph's Pretty Good Grocery*. Mueller argued that democracy was easy—all it takes is the absence of “thugs with guns.” Ridding transition countries of tyrants such as Ceausescu, Jaruzelski, and Honecker would pave the path to prosperity and market democracy. For Mueller, economic reform was more important than political reform. Treisman emphasized both but argued that political reforms (democracy) led to economic reforms.
- ▶ It wasn't so simple.

- 
- 
- ▶ The eight formerly Communist countries included in the World Values Survey in both 1990 and 1995-97 (Belarus, East Germany, Estonia, Latvia, Lithuania, Poland, Russia, and Slovenia) became five percent *less* trusting, but the average democracy score from Freedom House increased from a “not free” 11 in 1988 to a more “free” 4.75 in 1998.
  - ▶ To many people in transition countries, market democracy seems a false promise to many in transition countries and their citizens see little prospect that things will improve any time soon. Corruption leads to the belief that there is no way to get ahead fairly.
  - ▶ 34 percent of people in societies where corruption was seen as widespread thought the only way you could get ahead was by luck, compared to 29 percent in honest societies. People who believed that the future looked bright were significantly less likely to condone buying stolen goods or taking bribes. If you live in a more honest society, you are less likely to condone cheating on taxes.

- 
- ▶ Corruption has increased in almost all countries for which we have data from 1998 to 2003:

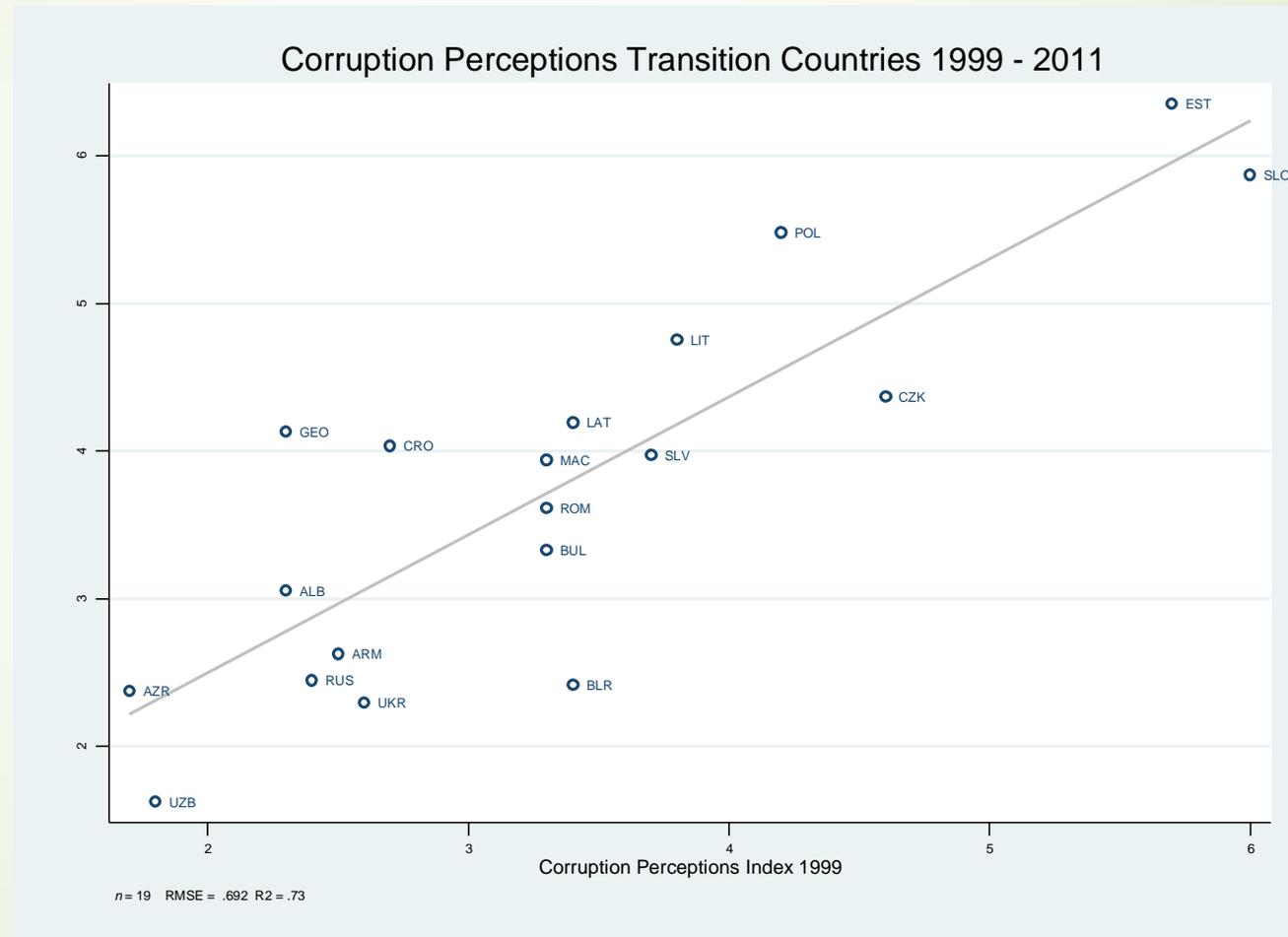
- ▶ Country    Change in Corruption

▶ Belarus	-1.9
▶ Bulgaria	-3.2
▶ Czech	-1.3
▶ Estonia	1.2
▶ Hungary	-.2
▶ Latvia	-3.5
▶ Poland	-1.8
▶ Romania	-4.2
▶ Russia	-4.9
▶ Slovakia	-2.4
▶ Ukraine	-4.9

- ▶ A positive score indicates less corruption, a negative score indicates more corruption. The index ranges from 1 (very corrupt) to 10 (very honest).

- 
- 
- ▶ Things improved in the next decade, though by a modest amount.
  - ▶ Corruption has declined from 1999 to 2010 by an average score of .5 on the 1-10 point scale of Transparency International.
  - ▶ However, corruption remains prevalent in transition countries. The mean score for transition countries in 2010 was 4 on the TI scale compared to 7.5 for the West. Only Estonia and Slovenia had scores above 5.0 (ranking 26<sup>th</sup> and 27<sup>th</sup> of 178 countries). Five formerly Communist countries had scores of 2.1 or lower (Russia, Tajikistan, Kyrgyzstan, Uzbekistan, Turkmenistan)—Armenia and Belarus had scores of 2.5 and 2.6.

While there seems to be less corruption now than in the past, the legacy of the past weighs heavily upon the present.



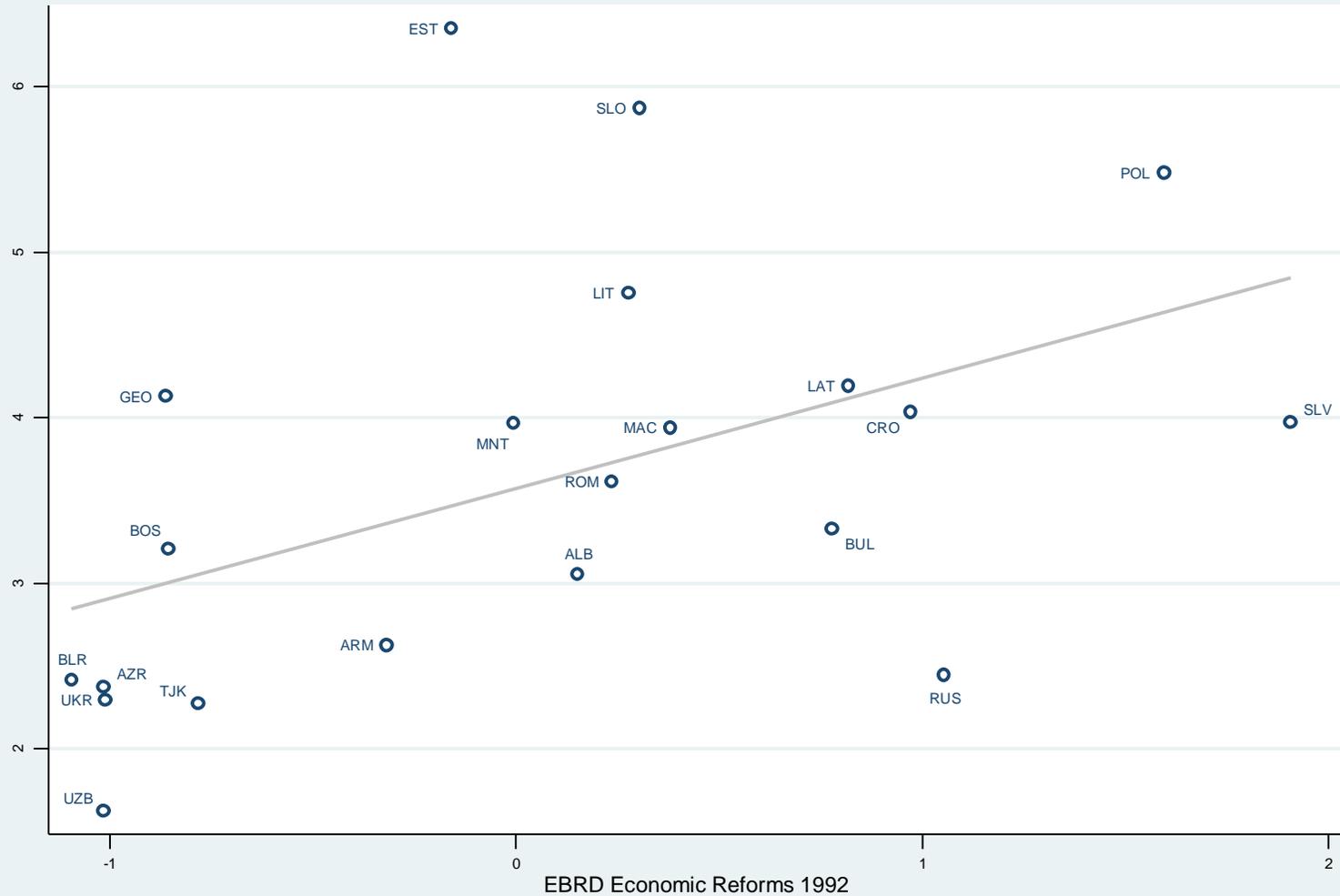
- 
- 
- ▶ Over time, the effects of democratization have proved themselves real. The Bertelsmann index of social capital is strongly correlated with the Freedom House indices of political rights and civil liberties ( $R^2 = .68$  and  $.73$ ,  $N = 20$ ) as well as the Bertelsmann index of governance for 2006 ( $.76$ )—and especially the *change* in governance from 1989 to 2010 ( $.71$ ).
  - ▶ Economic reforms matter as well. Countries with policies enhancing competition, large and small scale privatization, and easing of trade and price restrictions—all led to greater social capital. What matters for economic reforms is not the change in policies from 1989 to 2010, but the contemporary policies.

- 
- Corruption (the TI measure for 2011) is also much lower when political rights and civil liberties are strong ( $R^2 = .68$  and  $.73$ )—and when a composite index of economic reforms (composite index from EBRD data) is strong ( $.42$ ). There is only a modest effect for trust ( $R^2 = .13$ ) but (as noted above) much stronger for social capital. This may reflect the state of polling in some transition countries.
  - Countries with the most extensive economic reforms are Estonia, Slovakia, Hungary, Lithuania, Latvia, Poland. The “least reformed” countries are Turkmenistan, Uzbekistan, and Belarus.
  - But:

- 
- 
- ▶ Contemporary reforms are not the key to understanding why some countries have done better than others.
  - ▶ The path toward market democracy and levels of corruption was set for most countries right after transition.
  - ▶ The exceptions, ironically, are the two countries generally considered to be among the most successful: Slovakia and Estonia. Both have considerably less corruption than one would expect from their 1992 levels of economic reform.
  - ▶ Russia, on the other hand, is *more* corrupt than its economic reforms would lead us to expect.

# The long-term effect of reforms

## Corruption Perceptions Index 2011 and EBRD Economic Reforms 1992



n = 21 RMSE = 1.138 R<sup>2</sup> = .23 without Estonia and Slovenia: .41, .54 without Estonia, Slovenia, and Russia

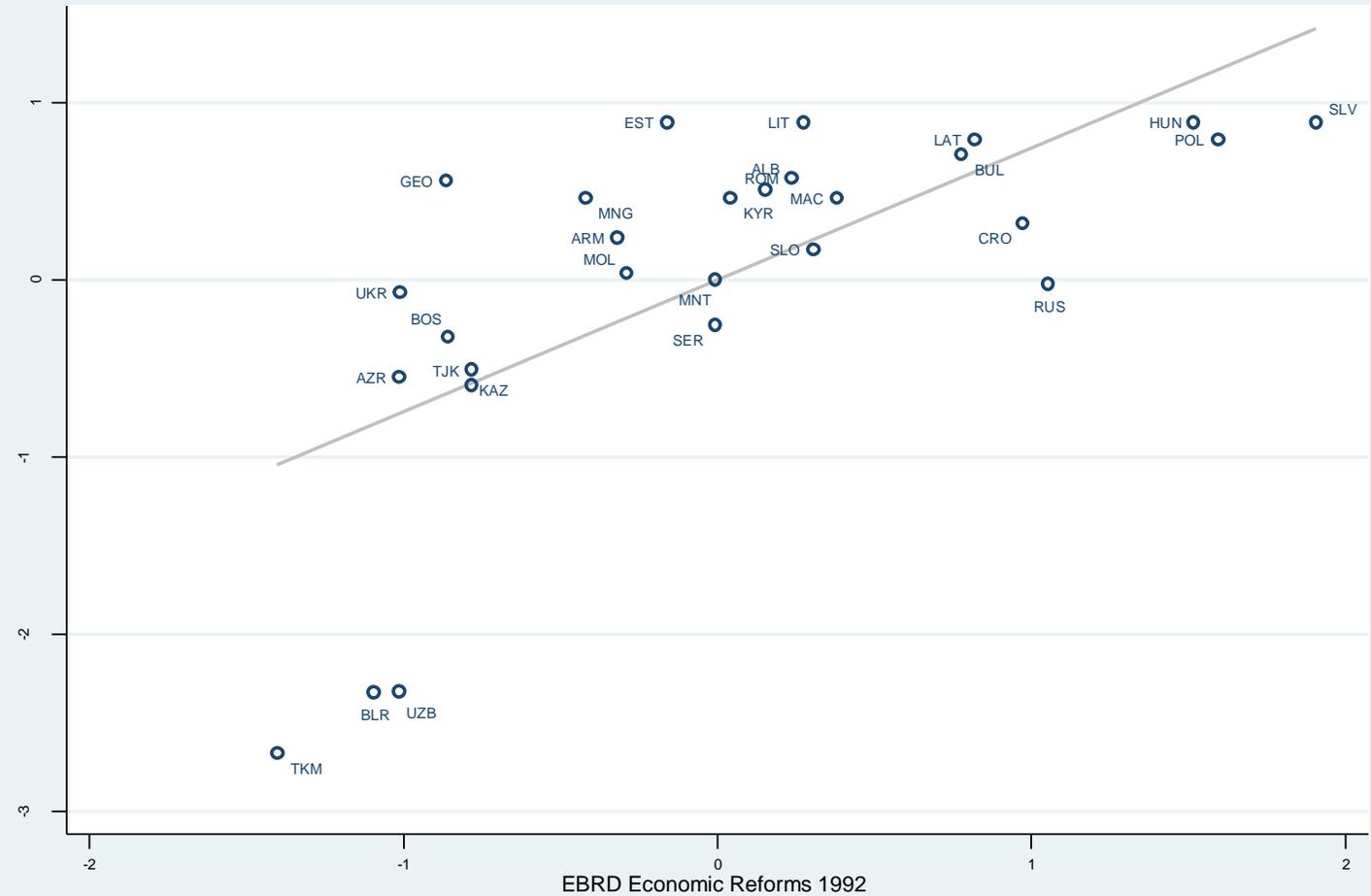


# The powerful legacy of the past

- ▶ Countries that scored well on the economic reform scale of 2012 were largely the same countries that scored well in 1992 ( $R^2 = .46$ ).
- ▶ The graph below indicates that most countries improved their economic reform scores in the 20 year period. But some did not: Turkmenistan, Belarus, and Uzbekistan.
- ▶ The path to reform was thus set at transition. Countries that began the reform path at transition developed high levels of social capital and had lower levels of corruption.



## EBRD Economic Reform Scales 1992 and 2012



$n=28$  RMSE = .728  $R^2 = .46$

- 
- 
- Was it economic or political reforms that matter most?
  - Both mattered. The countries that established political reforms also fared better as market democracies.
  - So Treisman was right but it is not so clear that political reforms led to economic reforms using the Bertelsmann data. If anything, it seems that economic reforms mattered more.

- 
- 
- ▶ Economic reforms were far more extensive in 1992 than were political reforms. Only four countries had “moderate” political reforms: Estonia, Latvia, Poland, and Slovenia. And only one country had extensive political reforms: Hungary. Economic and political reforms in 1992 were moderately correlated ( $R^2 = .36$ ), but the plot shows almost all of the cases at the lower end of the governance scale. The early reforms were economic.
  - ▶ The governance reforms were more extensive in 2012 than they were in 1992—but again the leaders were largely the same as in 1992 (with Croatia, Slovakia, and Lithuania added).  $R^2$  for 1992 and 2012 = .50.



# Problems remain

- ▶ Even with the gains from both political and economic reforms, most transition countries face social and economic problems.
- ▶ Kornai writes: “A vicious, self-inciting cycle evolves from disappointment in democracy, the attempts at anti-democratic governance, nationalism, and economic dissatisfaction. There are government intentions and mass sentiments at work which mutually reinforce each other.... Hungarian current events remind me of the end of the Weimar Republic. There is great economic dissatisfaction. Millions of patriotic Germans feel humiliated by the terms of peace. More and more join the Nazi side. In the meantime, the anti-Hitler forces are at each others' throats. In the 1933 multi-party election, which are conducted lawfully, Hitler's party emerges victorious, but without a parliamentary majority. And then the moderate right-wing Centrum party is ready to enter a governing coalition with the Nazis...”

- 
- 
- Hungary is the big success story on the graph of economic and political reforms. It stands out from the other countries. Yet Kornai is worried and I heard those same concerns in 2013 when I gave talks at the Central European University, the “gold standard” of universities in transition countries. Young people were worried about economic uncertainty and a lack of jobs. Of course, they are so concerned in the US and Europe, but nowhere did I see signs of hope based upon Hungary’s success. On a tour of Jewish Budapest, the tour guide spoke of moving to Israel, not just because he feared the anti-Semitism of the Jobbik party but because he thought he would have brighter economic prospects there.

- 
- 
- ▶ Poland is another success story. But *The Economist* (June 28, 2014) gave a largely positive verdict on its record. Poland was not hurt by the economic crisis of 2008—and its GDP increased by 20 percent from 2008 to 2013, with strong economic growth each year.
  - ▶ Yet economic inequality between the more prosperous West and the poorer East remain. The public sector is still “bloated” and the productivity of Polish companies is just 60 percent as high as competitors in the West. Youth unemployment is at 26 percent and since 2004, 2.1 million Poles have moved abroad. Overall, the situation is positive—political life is less tainted by nationalistic groups than in Hungary.
  - ▶ Even in Slovenia, one of the two great success stories on honesty (according to TI), my friends teaching at the main university tell me that nothing gets done in the country without a bribe (or two).

- 
- 
- ▶ Those are the success stories. At the bottom of the scales are the former Soviet republics in Asia—Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan. And, of course, Ukraine, where everything has its price and where sovereignty is in question. And Belarus, which may be the last remaining Soviet state.
  - ▶ And then there is Russia, where there petty corruption is so pervasive that, like snow for northern peoples, it has multiple names: *blat* (pull), *pomochi* (mutual aid), *sviazy* and *znakomstvo* (connections), *protektsiia* (patronage), *vzyatka* (the “take”), *sistema* (network-based system of informal governance among elites).

- 
- ▶ Corrupt “oligarchs” have amassed billions of dollars after getting the state to sell them state-owned businesses, especially oil and gas fields, for very little money.
  - ▶ But other, less well-connected tycoons, have shifted their money—over \$70 billion in 2011—out of Russia so that the state cannot take it away from them.
  - ▶ Fraud cases in the courts against Putin’s allies have been dismissed. A four-term legislator and former KGB agent, Gennadi V. Gudkov— was expelled from the Duma, the legislator, after he called for Putin to give up power.

- 
- 
- ▶ A Molodovan émigré to the US who regularly visits Russia wrote: “Corruption in Russia is so pervasive tht the whole society accepts the unacceptable as normal, as the only way of survival, as the way things ‘just are.’” They see corruption as “Russia’s own special way.”
  - ▶ The traffic police alone get \$800 million a year in bribes. Parents applying for child care or kindergarten places pay bribes regularly. But the health care system is the biggest source of bribery—\$1.2 billion a year.
  - ▶ A Molodovan émigré to the US who regularly visits Russia wrote: “Corruption in Russia is so pervasive tht the whole society accepts the unacceptable as normal, as the only way of survival, as the way things ‘just are.’” They see corruption as “Russia’s own special way.”

- 
- 
- ▶ Alena Ledeneva in “Economies of Favors or Corrupt Societies” writes of Russia:
  - ▶ “The blat exchanges of early socialism have matured into a fullfledged economy of favors and become an open secret of late socialism, alongside its other competences: “to read between the lines”, “to see through the façade”, “to beat the system”, that enabled the reproduction of daily interactions without pressure of recognition of one’s own compromised behavior or the failures of the system. It allowed people to get on with their daily lives and helped the system to reproduce itself. A society of double standards and open secrets was thus formed.”

- 
- 
- ▶ The European Union has issued reports criticizing Romania and Bulgaria as too corrupt for full integration. Bulgaria has been marked by a series of scandals, notably in the banking industry and in Presidential appointments of unqualified people to high posts. Romania has long had high levels of corruption. The current government has put the fight against corruption on the top of the agenda. But many argue that this campaign is more directed at political enemies than against corruption more generally.
  - ▶ Georgia has adopted a strong attack on petty corruption especially in the police and government offices. Its rating on Transparency International has improved dramatically—in 2002 it ranked 85<sup>th</sup> of 102 countries. In 2012 it ranked 51<sup>st</sup> of 176 countries—with the Czech Republic and Latvia not far behind.
  - ▶ Georgia remains an authoritarian state, with a Bertelsmann governance score equal to that of Russia and Ukraine.



# A mixed record

- ▶ Some transition countries have done better than others. The ones with the “best” records on corruption and social capital got a head start right after Communism fell. It wasn’t easy to catch up.
- ▶ Almost all transition nations are doing much better now than after transition. Even in Russia, with corruption everywhere, and Hungary, with corruption in many places, daily life is much better for most people.
- ▶ Some former Communist countries have done well financially. Of the 190 nations in the 2010 Penn World Tables estimates of GDP per capita (adjusted for purchasing power parity), Slovenia was 37<sup>th</sup>, the Czech Republic 42<sup>nd</sup>, Slovakia 47<sup>th</sup>, Estonia 49<sup>th</sup>, Poland 50<sup>th</sup>, and Hungary 51<sup>st</sup>. Georgia, even with its fight against corruption, was 115<sup>th</sup>.

- 
- ▶ But the replacement of Communism with nationalism has made life difficult even in some of the most “reformed” countries. And corruption persists.
  - ▶ Reforms matter. Open economies have created greater economic opportunities and more prosperity almost everywhere. The increase in inequality seems to have been halted in most countries.
  - ▶ But...the transition countries may be in NATO and/or the EU, but they are not yet full-fledged members in terms of honest government and prosperity