Making the Grade in Transition:

Equality, Transparency, Trust, and Fairness*

Eric M. Uslaner

Department of Government and Politics

University of Maryland–College Park

College Park, MD 20742

euslaner@gvpt.umd.edu

Gabriel Badescu

Department of Political Science

Babes-Bolyai University

Cluj-Napoca, Romania

gbadescu@mail.dntcj.ro

“Honesty is the second best policy”

George Carlin, American comedian

and (no doubt) many oligarchs in transition countries

Successful (or "well-ordered") democracies are marked by high levels of trust in other people and in government, low levels of economic inequality, and honesty and fairness in the public sphere. Trust in people, as the literature on social capital has shown, is essential for forming bonds among diverse groups in society (see Uslaner, 2002). Trust in government is essential for political stability and compliance with the law. Corruption robs the economy of funds and leads to less faith in government (perhaps also to less faith in fellow citizens) and thus lower compliance with the law. And institutions seen as biased (unfair) cannot secure compliance and may exacerbate inequalities in society.

Transition countries are short on both trust in people and trust in government (see Badescu and Uslaner, 2003; Hayoz, 2003). Under totalitarian regimes, there was little sense of social solidarity. The state was feared rather than legitimate (Howard, 2003). Transition countries are also lacking in honest and fair institutions. And they have more than their share of corruption and an underground economy. It is hardly surprising that the road to transition has been rocky: Many citizens have little faith in their leaders or their fellow citizens. This low sense of solidarity leads to lower levels of tax compliance and higher levels of corruption, with negative effects for economic growth more generally.

Democratic governance is more than a set of institutional arrangements, a legislature, an executive, and courts. Establishing a constitution is the easy part. "Making democracy work" is the more difficult task (Putnam, 1993). Democratic governments need legitimacy (trust in institutions and their leaders) to enforce their laws. They also need an "underbelly" of social solidarity to foster a cooperative spirit of tolerance and compromise (Putnam, 1993; Uslaner, 2002, chs. 2, 8). Legislators must enact laws that people will obey; courts must enforce the laws impartially; and citizens must provide the supportive culture that demands both good governance and justice. Citizens must trust the government and each other and they must support the development of a market economy.

Under Communism, all citizens were theoretically equal and the overall distribution of income was, in comparison with other countries, fairly equitable.[1] Transition led to increases, often sharp, in inequality and this threatened both the social order and the legitimacy of government. We shall present some aggregate analyses of the consequences of inequality among countries in transition in Central and Eastern Europe and the former Soviet Union. However, the availability of data for our desired measures is often rather sparse, so these analyses (mostly confined to simple graphs) are merely suggestive rather than conclusive. Our main focus will be the *social psychology of transition economics, or how people reason about the linkage among inequality, trust (in both people and government), corruption, and outlooks for the future*. Drawing upon a recent survey of how people think about economic inequality in one country, Romania, we shall consider whether perceptions of inequality lead to lesser social cohesion, illegitimacy for the state, perceptions of corruption, and demands for transfer of wealth from the rich to the poor.

Our concerns in this paper are to show how economic inequality and corruption inhibit political legitimacy (trust in government), social solidarity (trust in people), and support for a market economy. First, we show some aggregate results for transition countries that support our general arguments about the deleterious effects of inequality and corruption. Then we outline a more general framework that posits government performance and optimism for the future as the foundations for a more trusting citizenry. Performance and optimism in turn depend upon perceptions of corruption and rising inequality and we show support for these arguments using a survey of Romanians in October, 2003. We expect that both political legitimacy and social solidarity will lead to more support for a market economy–but here our expectations not quite as well supported. Neither confidence in government nor trust in people leads to greater support for a market economy (measured in our survey by opposition to limiting the incomes of the rich). Belief in the market is most directly tied to perceptions of corruption (and to a lesser extent to growing inequality).

We estimate a simultaneous equation model of government performance on the quality of life, whether the country is moving in the right or wrong direction, trust in other people and in government, and whether the government should limit the incomes of the rich. *We find that people who perceive increasing income inequality are less likely to approve of government perormance and to trust other people and are more likely to support limits on incomes of the rich. More generally, when people see the government as corrupt and the country moving in the wrong direction, social solidarity (trust in other people) and confidence in the state will decline–and there will be increasing demands for curtailing market forces and placing limits on incomes. Most notably, people are largely inured to the petty corruption of everyday life; it is larger scale corruption–by business people and especially government officials–that threatens social solidarity and support for the state.* Rising inequality threatens economic inequality in at least two ways. First, growing inequities directly threaten the society's social fabric. Second, when people attribute growing inequality to rising corruption (as they do), this threatens the legitimacy of the state and the development of a market economy.

Rising inequality is not the only, or perhaps even *the most critical*, problem facing countries in transition. Persistent corruption seems to be even more problematic. Like inequality, it tears apart the social fabric and leads to a lack of confidence in government and demands for redistribution of income from the "dishonest" rich to the powerless poor. Corruption also makes people less likely to be optimistic for the future: When elites rob the public purse and when people must help elites line their own pockets (by extra payments for routine services), ordinary citizens will have negative views of government performance in improving the quality of life and will have less hope that the country is heading in the right direction. We shall see that it is *elite corruption* rather than dishonesty among ordinary citizens that leads people to become pessimistic about the future, government performance, and even whether to trust each other.

We end with a puzzle: There ought to be a link between rising income inequality and corruption. Corruption transfers resources from the mass public to the elites–and generally from the poor to the rich (see esp. Onishi and Banerjee, 2001). It acts as an extra tax on citizens, leaving less money for public expenditures (Mauro, 1997, 7; Tanzi, 1998, 582-583). Corrupt governments have less money to spend on their own projects, pushing down the salaries of public employees. In turn, these lower-level staffers will be more likely to extort funds from the public purse. Government employees in corrupt societies will thus spend more time lining their own pockets than serving the public. Corruption thus leads to ineffective government (Mauro, 1997, 5; LaPorta et al., 1998, 32). And corruption leads to lower rates of economic growth.[2] Yet, in both our aggregate data and our survey, the link between inequality and corruption is minimal.[3]

Both rising inequality and corruption constitute great threats to a successful transition. We move now to a discussion of why each is important and how they shape social solidarity and government legitimacy.

Inequality, Social Solidarity, and the Transition to a Market Democracy

A successful transition to democracy requires a sense of social solidarity (trust in other people), fair and honest institutions and leaders, obedience to laws, governmental legitimacy, and, perhaps above all, political institutions that deliver what citizens want most: prosperity. The post-communist societies in Central and Eastern Europe and the former Soviet Union all underwent severe economic shocks after transition. *Most people were worse off than they were under Communism.* Government performance and honesty are the keys to obedience of the law, especially on tax compliance (Uslaner, 2003b).

Economic prosperity depends upon the development of markets. Markets in turn depend upon the rule of law and honesty. However, markets can wreak havoc with both social solidarity and faith in government. Markets create winners and losers and thereby lead to economic inequality.

Inequality is dangerous for any society, but particularly for transition countries. **Rising inequality is one of the two great threats to transition.** As transition countries open their markets, a growing income gap is inevitable. Under Communism, the (reported) level of economic inequalty was small. Markets create winners and losers. As the security of state employment and low cost services vanishes and as some people get rich quickly, there will inevitably be jealousy, mistrust, and a loss of confidence in public institutions. Since transition countries will not readily establish democratic cultures with institutions that insure fairness. Rising inequality will threaten both social solidarity and confidence in political institutions, especially the courts. Jealousy can readily turn into ethnic conflict and political stability–singly or together. At the extreme, as some fear in Russia, democratic institutions may come under attack. Even under more "moderate" conditions, demands to redistribute the gains of entrepreneurs will lead to market instability, tax evasion, and weak democratic institutions.

Economic equality is the foundation of social solidarity. Generalized trust, the belief that "most people can be trusted," is a key component of what has been called "social capital" (Putnam, 1993, 2000, among others). Generalized trust leads to a more open and tolerant society, where people do good deeds (giving to charity and volunteering) and are tolerant of minorities; trusting societies open their markets, spend more on programs to help the poor (education and transfer payments), and are rewarded with greater economic growth (Uslaner, 2002, chs. 2, 7, and 8; Knack and Keefer, 1997). The foundation of trust, and social solidarity more generally, is the level of economic equality in a society: Both over time in the United States and across nations, economic inequality is the strongest predictor of generalized trust (Uslaner, 2002, chs. 6 and 8).

Generalized trust rests upon two social psychological foundations: optimism and control. The world is a good place, it is going to get better, and you can help make it better (Uslaner, 2002, ch. 2). Both optimism and control were particularly lacking under Communism. There was a brief spurt in optimism immediately after transition, but as the economies of transition countries soured, most people were no longer convinced that they faced a brighter future. And they increasingly became convinced that *it was impossible to get rich honestly*. Ordinary people could not prosper. Without a centralized economy, they had no guarantee of employment or of price control. As under Communism, you needed connections in high places to get rich and you had to make "extra" gift payments to doctors, university professors, the police, and many others just to make do (Kornai, 2000).

There was no easy transition from a state that controlled everything to a market system with fair and impartial rules. Instead, the "nomenclatura" of the old Communist systems reemerged as oligarchs in markets ruled by favoritism rather than contracts. In a world where unequal treatment is the rule, such fundamental contracts between the citizen and the state as tax compliance have little force (Owsiak, 2003, 73).

Inequality makes the transition to democracy difficult because:

* Economic equality is the foundation of social solidarity (generalized trust) and trust in government. Generalized trust leads to greater investment in policies that have longer-term pay-offs (education spending and transfer payments) as well as more directly leading to economic growth. Generalized trust is a bulwark against the politics of ethnic nationalism (Uslaner, 2002, chs. 2, 4). Trust in political institutions leads to greater compliance with the law, including paying taxes. Both kinds of trust are essential for the development of a market economy. A weak state with an ineffective legal system cannot enforce contracts; a government that cannot produce economic growth and the promise of a brighter future will not be legitimate (Kluegel and Mason, 2003b, 201). Generalized trust goes beyond the enforcement of contracts: In a trusting world, business people can make "deals on a handshake"; good will is a far more efficient method of cooperation than reliance on the courts (Macaulay, 1963; Sitkin and Roth, 1993). Generalized trust is also strongly related to crime rates (the more trust, the less crime), especially the rate of theft; and the connection between theft and trust is particularly strong in the transition countries (Uslaner, 2002, 210, 244-245).

* Unequal wealth leads people to feel less constrained about cheating others (Mauro, 1998, 12) and about evading taxes (Oswiak, 2003, 73; Uslaner, 2003b).
* Inequality leads to unequal treatment by the courts, which leads to less legitimacy for the government. A state that has no legitimacy will find it difficult to raise the revenue to pursue policies that might lead to greater economic growth.

Clearly some countries have fared better in transition than others. We shall present some evidence (preliminary because of sample sizes) that economic inequality makes transition rocky. **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** (Rosser, Rosser, and Ahmed, 2000). And all but one (Hungary) of the 17 countries for which there are data had a sharp increase (from .3 to 42 percent) in the size of the shadow economy (Schneider, 2003). The greater the share of the economy beyond the reach of the state, the more difficult it will be for a government to marshall the resources to gain public confidence that the state can provide essential services. And here we get into a vicious circle: If people have no confidence that politicians can pursue policies that will lead to prosperity and economic justice, they will hide their income from the tax collectors (Uslaner, 2003b; Torgler, 2003). Overall, the average share of the shadow economy more than doubled from 1989 to 1999-2000 (from 17 percent to 38 percent) and the average increase in the Gini index of inequality was 33 percent.

Corruption is similarly a plague on good government. It is associated with higher rates of crime and tax evasion, closed markets, lower economic growth, and less efficient government institutions (Leite and Weidemann, 1997; Mauro, 1997; Tanzi, 1998; Treisman, 2000; Uslaner, in press). Corruption is widespread in former Communist countries. The mean score on the Transparency International corruption indicator for east bloc countries is more than half the size of that for the West (with higher scores indicating greater honesty). Romania is in sixty ninth place out of 91 countries in the 2001 Transparency International rankings. Of the 16 transition countries TI has ranked for corruption, Romania ranks twelfth.. The evils of corruption are more well known and we need not dwell on them in great detail.

. Our main focus is on economic psychology: how people in one transition country (Romania in October, 2003) think about inequality, trust, political institutions, corruption, and hope for the future. These survey results permit a much finer test of our argument about how people reason about what makes transition a success or failure. While we are unable to examine all of the components of our argument--our survey has no questions on the fairness of the courts, nor can we use this survey to confirm other consequences of trust such as tolerance and willingness to act cooperatively with others (but see Uslaner, 2002, chs. 5, 8; Uslaner, 2003a). It does permit us to see how people reason from inequality and corruption to both forms of trust, and how perceptions of corruption and increasing inequality lead to demands for the redistribution of wealth in Romanian society. Egalitarian societies such as the Nordic countries are *more trusting* and *willingly redistribute wealth from the best off to those who have less* (Rothstein and Stolle, 2002; Uslaner, 2002, ch. 8). Increasing inequality, as we see in Romania and other transition countries, leads to demands by people who have less for *involuntary redistribution.* Ultimately the success of transition is as much psychological as it is economic.

We focus on Romania for two reasons. The practical reason is simple: One of the authors is Romanian and helped design this survey, so that we can test our arguments with the questions we need (rather than relying on a survey designed for other purposes).

Second, Romania is often considered one of the more troubled new democracies. It ranks low on trust and tolerance as well as on corruption (Badescu, Sum, and Uslaner, 2003; Uslaner and Badescu, 2004). Of 21 countries for which we have data on generalized trust from the World Values Survey, only Moldova ranks lower than Romania (although our own survey as well as another we conducted in 2001 places Romania considerably higher.) Romania ranks last of 11 countries on trust in the legislative branch.[4] For this reason, it seems to be a good test case for the trials of transition.

By two other key measures, Romania is a success. It ranks in sixth place out of 16 countries for which we have current data on economic inequality in transition countries: Its Gini coefficient of .278 is **below the mean** of .326 for the 16 countries. And it ranks third out of 17 countries in the size of the unofficial economy, with a mean share of 22.3 percent compared to 30.1 for the 17 nations. *On two key dimensions of performance Romania ranks as one of the most successful of transition nations; on several others, it lags behind badly.*

Yet, the actual level of income inequality may not always reflect public perceptions. Romanian media abound in reports about the fact that the number of very rich per capita is higher than in other countries. In November, 2003, a newspaper reported that the first Rolls-Royce dealer in the East Europe opened in Romania, and that Maserati plans to sell more units in Romania than in Austria in 2004 (Adevarul, 2003). So we need to examine not only aggregate data on income inequality, but also survey data–on how people perceive inequality and especially if they see it rising.

How Inequality and Corruption Matter

We begin with some aggregate results on how inequality matters in transition economies.

We express our results simply, through graphs, because of data limitations. For some of our analyses, limited data restricts our number of cases to as few as 12, so clearly any complicated modeling is impossible. These simple results do not represent a comprehensive theoretical argument–but rather a suggestive list of the consequences (and some determinants) of inequality in transition countries. Our focus here is structured by the available data; we focus on the ties between inequality and optimism for the future, the perception that courts are fair, and the size of the shadow economy. Optimism for the future underlies both generalized trust and confidence in government institutions. A fair legal system may lead to greater trust if people know that others cannot cheat them without retribution (Rothstein, 2000) or it may reflect an underlying level of trust in a society (Uslaner, 2002, chs. 5, 8). And a large informal economy is a sign that people have little faith in the government's ability to manage the economy (cf. Torgler, 2003; Uslaner, 2003b) and little faith in fellow citizens beyond their intimate circle (Gambetta, 1993). In each of these realms, inequality threatens the social fabric and the capacity of the state to govern.

There is a moderately strong relationship between optimism and economic inequality. Where economic equality is lower, a larger share of the public believes that they can count on success in life (see Figure 1). So economic equality will provide some basis of legitimacy for the state. And where we find economic inequality, we also find a greater perception (by elites) that courts are generally fair. In Figure 2, we present a plot of the share of a country's business elite who believe that the courts are generally *not* fair against economic inequality. Here the relationship is stronger (r^2 = .452): Countries with more equality have stronger legal institutions that have the legitimacy to punish lawbreakers, since they are perceived as fair. Tyler (1990) argues that people obey the law when they believe that there is procedural justice: Your direct experience with the courts has less to do with whether you obey the law than the belief that you would be treated fairly if brought to justice. An equal distribution of wealth goes hand in hand with perceptions of equal treatment before the law.[5] It is, of course, possible that the direction of the causal link could go the other way: A fair court system could lead to greater economic inequality. However, the causal chain for this argument is less clear.

There is even stronger support for the claim that a more equal distribution of wealth in transition countries leads to a lower level of flouting the law. First, we look at two related measures of the size of the unofficial economy. We find a strong relationship between Schneider's (2003) measure of the shadow economy in transition countries for 1999-2000 and the level of economic inequality in the 1990s (r^2 = .578, see Figure 3). For a slightly different indicator of the "unofficial economy" (partly based upon Schneider's calculations and reported in Djankov et al., 2001), we find almost as powerful a relationship (r^2 = .603, see Figure 4). Countries with greater disparities between the rich and the poor have larger informal sectors. This likely occurs for at least two reasons. First, the poor will find it difficult to get jobs in the formal economy and will thus be forced to forage for whatever sources of income they can get. Second, much of the "unofficial" economy comes from tax evasion–and in countries with high levels of economic inequality, people may become wealthy (or wealthier) by evading taxation (Feld, 2003). The informal economy will thus capture people at both extremes.

Most critically, ***changes in the level of economic inequality are strongly related to changes in the shadow economy*** (r^2 = .356, see Figure 5). As inequality has risen, so has the shadow economy. Perhaps more critical than *economic inequality* is the perception that political and legal influence was stacked against the ordinary citizen. Changes in the shadow economy are linked more closely to business executives' perceptions that the courts are not fair (the best surrogate for public attitudes, ($r^2 = .580$, see Figure 6). We saw above that perceptions that the courts are not fair is also linked to economic inequality. These views also track *increases in economic inequality* (data not shown, $r^2 = .500$, N = 16). Growing inequality clearly threatens both the ability to raise revenue and the perception that justice is tilted toward the rich. It would be nice if we could unpack the dynamics of this pattern, but our sample size is much too small.

Figures 1, 2, 3, 4, 5, 6 about here

Some of our expectations do *not* stand up. There is no aggregate connection between inequality and generalized trust ($r^2 = .0006$). There is a powerful relationship between generalized trust and economic inequality over time in the United States and across nations *without a legacy of Communism* (Uslaner, 2002, chs. 6, 8). Uslaner found no correlation between trust and democracy for transition countries–and, indeed, even a perversely *negative* correlation between trust and democratization from the 1980s to the 1990s (Uslaner, 2002, 220, 232). Perhaps some early measures of both inequality and trust were biased, but the persistence of the relationship for transition nations is puzzling, since trust is a key measure of social solidarity.[6] We now turn to our survey results and here we find support for the argument that growing inequality threatens social solidarity (generalized trust) as well as for linkages with government performance and limiting the incomes of the rich.

The effects of corruption are similar (if less surprising). In societies with large unofficial economies, there is also much corruption. This link might seem trivially true, but the relationship is not as powerful as we might expect ($r^2 = .600$, see Figure 7). The shadow economy seems to be reflect activity at all levels (especially for lower income people) while corruption points to dishonesty at the top. Corruption flourishes when the courts turn a blind eye to misdeeds, so it is hardly surprising that when corruption is strong, people believe that the courts are not fair (r^2 = .691, see Figure 8).

<u>Figures 7 and 8 about here</u>

The Economic Psychology of Transition Dynamics

We use our survey of the Romanian population, carried out in October, 2003 to examine a complex set of relationships linking economic inequality and corruption to the success of the democratic transition. The survey was carried out by the Center for Urban Sociology (CURS) in October 2003, as part of the Public Opinion Barometer program, sponsored by the Soros Foundation for an Open Society - Romania.[7]

We are primarily concerned with the impacts of two our our exogenous concepts, the perceived increase (or decrease) in income inequality in 2003 compared to 1995/1996 and measures of corruption, on the five endogenous variables in our model. Increasing inequality and corruption are the major threats to political legitimacy, social solidarity, and support for a market economy. We thus posit a causal chain from percpetions of corruption and rising inequality to less optimism for the future (country moving the wrong direction and a negative evaluation of government performance) to governmental legitimacy (trust in political institutions), social solidarity (trust in people), and less support for a market economy (favoring limitations on incomes of the rich). *In each of these models, we presume that what matters most to people is the overall performance of the economy rather than their own personal well-being*–what political scientists call “sociotropic” (as opposed to “pocketbook”) evaluations (cf. Kinder and Kiewiet, 1979). Personal economic circumstances do have some significant effects. Yet, political legitimacy, social solidarity, and support for the market depend more on overall performance than on personal well-being.

Perceptions of greater inequality should lead to greater pessimism for the future and less trust in others. When there is a great deal of inequality, those at the top and those at the bottom do not see the “shared fate” that underlies the solidarity that is generalized trust (Uslaner, 2002, chs. 2, 6). The belief that income inequality is increasing is widespread in transition countries (Stoyanov et al., 2000, 33; Vlachova, 2000, 63; Stephenson and Khakhulina, 2000, 85; Orkeny, 2000, 106). In our survey, 91 percent of Romanians believed that inequality had increased from 1995-1996 to 2003; 35 percent thought that it had become much greater (we created a four-fold classification of much greater, greater, somewhat greater, and all categories of lower and the same).

Corruption undermines both trust in other people and trust in government (Uslaner, in press). There are two dimensions of corruption that we consider here. We distinguish between “high level corruption” among people with power and money (politicians, parliamentarians, ministers, judges, local council members, and business people) and “low level corruption” among ordinary professionals (journalists, professors, teachers, and doctors). We also differentiate between large-scale corruption (as measured by the “how corrupt” are different groups in our survey) and more petty corruption, as reflected in “gift payments” that are necessary to get by in life (to doctors, banks, the police, the county, courts, the county, the city). These “gift” or “gratitude” payments are common in an economy marked by shortages and arrogant administrators; many people see these payments as a way to ensure supply and also to establish longer-term relations with their doctors and other professionals–or to obtain even routine services from local governments. Police regularly accept these "gift" payments in lieu of a speeding or even a jaywalking violation (Uslaner was warned not to jaywalk in Belgrade by a local resident who had just paid an officer the United States equivalent of $5 for a similar offense.)

Kornai reports that barely more than a third of Hungarians see a moral problem when doctors demand "gratitude payments" for medical services (Kornai, 2000, 3,7, 9) . This system of "gift giving" is so widespread that almost all doctors accept "gratitude money"; 62 percent of physicians' total income came off the books. A majority of public officials in the Czech Republic, Bulgaria, Bulgaria, and Ukraine in 1997-98 found it acceptable to receive extra payments from clients. Between 11 and 39 percent of citizens of those countries (in that order) reported offering a "small present" to officials and between 6 and 24 percent offered "money or an expensive present" (Miller et al., 2001, 217, 241).

In our Romanian survey 35 percent of respondents who had contact with doctors in the past five years admitted making "gift payments" to them, compared to 22 percent for the courts (for people with contact) and seven percent to city or county officials (for contact over the past five years), and nine percent for the police (again for contact). *Even though these figures may be modest, most Romanians believe that professionals and government officials are corrupt.* Journalists are seen as the most honest (only 26 percent see them as corrupt), followed by professors (36 percent), government functionaries (56 percent), teachers (57 percent), local councilors (58 percent), doctors (65 percent), politicians (69 percent), judges (74 percent), business people (75 percent), government ministers (79 percent), and members of parliament (85 percent).[8]

Rothstein (2001, 491-492) presents a rationale for a close connection between strong legal institutions, corruption, and trust in others:

> In a civilized society, institutions of law and order have one particularly important task: to detect and punish people who are "traitors," that is, those who break contracts, steal, murder, and do other such non-cooperative things and therefore should not be trusted. Thus, if you think that particular institutions do what they are supposed to do in a fair and efficient manner, then you also have reason to believe...that people will refrain from acting in a treacherous manner and you will therefore believe that "most people can be trusted."

We reported in earlier research that low level corruption had little impact on generalized trust (Uslaner and Badescu, 2004; cf. Miller et al., 2001, 7). We extend that argument to trust in government as well. We expect that *high level corruption* and to a lesser extent *high level gift payments* will lead people to have less trust in each other and in governing institutions. People don't reason that dishonest doctors–or simply doctors who must supplement their income by "gift payments"–are a sign of a mistrusting society. Professionals' "gift payments" are not a sign of moral decay–and, apparently, not even "corrupt" professionals point to a failure of the social fabric or the state.

Government corruption and especially "gift payments" to the courts or other government officials should have greater impacts on people's optimism for the future, their evaluation of government performance, trust in both other people and in government, and on demands for redistribution of income. Different measures of corruption may shape different components of our model, but they all follow a common pattern: Petty corruption (gift payments) does not shape trust; it does shape optimism and evaluations of government performance; larger scale corruption has more pervasive effects–on both forms of trust, on government performance, and on demands for redistribution of income. Whenever corruption shapes people's evaluation of their state or their society, it is high level corruption. The misdeeds of ordinary professionals don't matter.

The endogenous variables in our model are: the successful performance of government in improving the quality of life, whether the country (Romania) is moving in the right or wrong direction, generalized trust, trust in government, and demands that the state limit the incomes of the rich. The success of government in improving the quality of life and the direction of the country are both measures of optimism for the future. Optimism in turn is the strongest determinant of both forms of trust. Uslaner (2002, chs. 2, 4) argues that an optimistic world view is *the* key determinant of generalized trust; such a perspective is based not upon short term fluctuations in the economy, but upon longer-term expectations. Our best measure in this survey is the direction of the country. Shorter-term expectations, especially government performance on the economy or quality of life, play a larger role in shaping people's support of trust in government (Citrin, 1974; Lipset and Schneider, 1983; Kluegel and Mason, 2000b, 201). There is mixed evidence on the link between generalized trust and trust in state insitutions; Uslaner (2002, chs. 5, 8) finds little relationship between the two types of trust, while Brehm and Rahn (1997) and Zmerli, Montero, and Newton (2003) argue that the two types of trust are strongly linked (but see also Badescu, 1999; and Uslaner, 2003a). Communist governments *did* seem to destroy generalized trust, so there is greater reason to expect a powerful relationship between the two types of trust in Romania than in the West.

State limitations on the incomes of the rich is our best measure in this survey of the *consequences* of growing inequality. It would be nice to get a more behavioral measure, such as tax evasion, but this is very difficult to measure, especially in a society with a long history of government repression. Putting a limit on the incomes of the rich taps suspicion of the market and reflects the belief that ordinary people cannot become wealthy. Almost 70 percent of Romanians favor limits on income. Wealth is a sign of strong connections and especially of dishonesty. Mateju (1997, 4-5) 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 changers as the result of social injustice...

Stoyanov et al. (2000, 35) 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 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 (Kluegel and Mason, 2000a, 167; cf. Orkeny, 2000, 109). When Russian entrepreneur Mikhail Khorodovsky confessed his sins of relying on "beeznissmeny" (stealing, lying, and sometimes killing) and promised to become scrupulously honest in early 2003, Russians regarded this pledge as "startling." When he was arrested and charged with tax evasion and extortion under orders from President Vladimir Putin ten months later, the average Russian was unphased: About the same share of people approved of his arrest as disapproved of it (Schmemann, 2003; Tavernise, 2003).

Fifty percent of Romanians in our survey say that people become rich by breaking the law and another 24 percent say that wealth comes from having connections; and additional six percent cite luck, and just eight percent saying that hard work brings wealth. In a companion survey in May, 2003, 55 percent proferred an "ideal" limit averaging $854 (United States) on wealth. Following a public debate on taxation, 66 percent favored such a limit in October, now averaging just $675 The demand for limiting income stems from growing inequality and the perceptions of corruption. In Romania, there is growing support for limiting the incomes of the rich

There is a direct link from growing inequality to demanding limitations on income, but it is not strong (see also Kluegel and Mason, 2000a, 184). We could draw this simple connection, but it would miss much of the bigger story about the impact of inequality and corruption on the transition to a market economy. *Growing inequality threatens the social fabric (generalized trust) directly and indirectly (through its effect on government peformance on the quality of life) on faith in political institutions. Corruption endangers social solidarity, but has even greater effects on government performance and (both directly and indirectly through performance) on governmental legitimacy (see also Kluegel and Mason, 2000b, 201).*

This more complex dynamic suggests that we would miss much of the story of the problems of transition were we to estimate only the simple model from increasing inequality to greater demands for limitations of income on the rich.

Transition countries rank low on both trust in institutions and in generalized trust. In the World Values Surveys (using the most recent year for all countries with data), an average of 42 percent of people in Western countries agree that "most people can be trusted," compared to an average of 24 percent in the former Communist nations; 42 percent of people in transition countries have confidence in their legal systems, compared to 57 percent in the West. Romanians in our survey expressed strong distrust of their political institutions: Just 24 percent had confidence in "government" broadly defined, with 39 percent for the President, 15 percent for parliament, 22 percent for the justice system, 37 percent for the police, and 9 percent for political parties. Only the army, at 66 percent, commanded much trust. Only a third of Romanians believe that "most people can be trusted." It was easy for transition countries to become democracies; it is more difficult for them to become democracies that "work" (Putnam, 1993).

Both forms of trust are low because Romanians don't have faith that the future will be better than the past and because they most emphatically do not credit the government for making their lives better. Just 41 percent of Romanians believe that their country is heading in the right direction (though 44 percent believe that the economy will improve over the next three years); and only 20 percent believe that the government is doing a good job in improving the quality of life.[9]

Inequality and corruption are the major "unmoved movers" of all five of our endogenous variables. These models also show strong support for our thesis that optimism for the future leads to greater generalized trust and to stronger support for government. Our framework posits a causal chain among our endogenous variables as follows:

- **Performance of government on the quality of life: positive views lead people to believe that the country is moving in the right direction and to have more confidence in government.**
- **Direction of the country: believing that the country is moving in the right direction leads to greater social solidarity (generalized trust) as well as to trust in government.**
- **Generalized trust should lead to greater trust in government.**
- **Greater trust in government should lead to more optimism for the future, more generalized trust, and to opposing demands to limit the income of the rich.**

We picture an economic psychology where people who are satisfied with government perofrmance will be optimistic for the country's future; greater optimism leads to more social solidarity and in turn to more support for the government. A stronger government in turn will create more social solidarity and make people sufficiently secure to oppose limits on incomes.

The Economic Psychology of Transition in Romania

What do our data tell us about the impacts of perceived inequality change and corruption–and about the determinants of positive perceptions of governmental performance in improving the quality of life, the direction of the county (right or wrong), generalized trust, trust in government, and beliefs that the government should limit the incomes of the rich?[10]

We have a lot to summarize, so we shall focus on the results that are critical to our analysis and leave other discussions to endnotes. Our models include variables not of direct relevance to our theoretical concerns here since we wanted to ensure that we minimize any specification error. We present our model in Table 1 below; in Figure 9, we present a more parsimonious summary diagram of our findings–eliminating variables not of immediate interest and aggregating variables by larger concepts (all corruption and gift giving variables listed under corruption).

Table 1, Figure 9 about here

We first focus on the two key exogenous variables, perceptions of rising inequality and of corruption. The most important results for our two key exogenous variables are simply stated: Perceptions of rising inequality lead to the perception that government is doing a poor job in improving the quality of life and to lower levels of interpersonal trust (both significant at $p < .0001$ or greater). There is a lesser and barely significant effect ($p < .10$) of rising inequality on demands for limiting the income of the rich.

The belief that business people are corrupt ($p < .0001$) and whether the respondent has made a gift payment to the city ($p < .05$) drive demands for limiting incomes. *Perceptions of high level, especially large scale, corruption are powerfully related to government performance, generalized trust, and trust in government as well.* Government success in controlling corruption is the strongest determinant of how people evaluate the state’s performance in improving the quality of life ($p < .0001$). People who have to make gift payments to courts are less likely to say that the government is performing well ($p < .01$). The belief that almost politicians are corrupt makes someone 23 percent less likely to trust fellow citizens compared to the (rare) expectation that no politicians are corrupt–and 15 percent less likely compared to the more common belief that only a few politicians are corrupt ($p < .01$). So dishonest behavior by leaders makes people less trusting; but when we include a measure of whether most *teachers* are corrupt (low level corruption), the coefficient is insignificant: We get similar results for doctors, professors, journalists, or police officers if we enter them into the model. There are also no significant effects for other higher level officials (ministers, judges, local councilors, or even business people). People make their societal judgments based upon their political leaders.

Corrupt politicians also lead people to distrust government ($p < .01$); government success in controlling corruption makes people *more trusting* in the state ($p < .05$). We see both direct and indirect (through the performance of government on the quality of life) effects for controlling corruption. But more important than how well the government improves the quality of life seems to be how well the state does in improving public safety, with a regression coefficient two and a half times the size of the endogenous quality of life measure (both measured on the same scale). With the close ties of organized crime and corruption, this measure of government success is also tapping a measure of public venality. *The several indicators of official dishonesty are* ***the major determinants of trust in government.***

Support for limiting incomes of the rich depend almost exclusively on perceptions of corruption and ties that most ordinary citizens would regard as less than upright: having connections in court and abroad. If you believe that most business people are corrupt, you are likely to favor limiting the incomes of the rich ($p < .0001$); if you have to make gift payments to the city government, you will also favor striking back at those with more ($p < .05$). Contary to our expectations, generalized trust is *not* a significant predictor of limiting incomes of the rich (including it yielded an insignficant t ratio and a loss of many cases from this equation, so we dropped it). Trust in government has the wrong sign and a modest t ratio. This does *not* mean that neither government legitimacy nor social solidarity shape the transition to a market economy. Support for the market, social solidarity, and trust in government all depend upon the fairness of economic and political institutions (corruption and economic inequality).

There is evidence of envy of people with special ties to people in high places: If you *are* well connected, using connections in your dealings with the courts or having connections in a foreign country, you will oppose limiting incomes. Relying on connections to get by in daily life–to stand in line for food, to help run errands, or to use a friend or relative to cut through the bureaucracy--was common practice under Communism (Flap and Voelker, 2003; Ledeneva, 1998). In Russia, the system was called *blat*, in Romania *pila*. These networks continued after the fall of Communism but people had more extensive connections than others. People with such ties may be more likely to know rich people or to have higher wealth themselves (the correlation between the number of connections for either courts or foreigners is about .27). Apart from inequality change and these measures of high level corruption, the only other significant predictor of support for limiting incomes is satisfaction with democracy in Romania: The happier you are, the less likely you will be to demand restrictions on income.[11]

The effects of rising income inequality and corruption on satisfaction, trust, and demands for redistribution are large. It is corruption at the top that matters, not from below–and even at the top, it seems concentrated in politicians, business people, local officials, and courts–precisely the officials most commonly cited when people discuss dishonesty in the transition countries. Lower level professionals are not held blameworthy.

We turn now to a summary of the models for our endogenous variables. Most of our predictions receive support. When people are satisfied with with governmental performance, they are more likely to believe that the country is headed in the right direction ($p < .0001$). Government performance on the quality of life and especially government performance on public safety lead to greater legitimacy for government ($p < .10$ and $p < .0001$, respectively). So does the belief that the country is heading in the right direction ($p < .05$). The direction of the country is the most powerful predictor of generalized trust: Someone believing that Romania is on the right track is 33 percent more to trust fellow citizens than a person who holds the country to be heading in the wrong direction, confiriming the link between optimism and trust that Uslaner (2002, chs. 2, 4, 8; 2003a) has found for the United States and across nations.

However, there are *no links between generalized trust and trust in government.* We expected some link because of the strong role of the state in Romania's recent history. However, this model confirms a different view of the two types of trust, articulated by Uslaner (2002, chs. 5, 8): Generalized trust represents a sense of social solidarity based upon a positive view of human nature, an optimistic world view. Trust in governmental institutions represents less of a long-term vision than the current evaluation of government performance and of particular political leaders and parties (Citrin, 1974; Uslaner, 2002, ch. 5). So it is hardly surprising that performance measures (including the success of government in controlling corruption) as well as contacts with public (and private) isntitutinos ($p < .05$) and especially supporters of the PSD, the governing party ($p < .0001$), shape trust in government–but *not* faith in other people.[12]

The two measures of optimism also have different roots. The performance of government on the quality of life reflects high level corruption and satisfaction with institutional performance (democracy and the market economy, both at $p < .01$). People with greater wealth also give higher marks to government performance. The direction of the country does depend to some extent on institutional performance–government skill in improving the quality of life does shape the direction of the country ($p < .01$); there is a weak link ($p < .10$) with trust in government.

There is *no* effect for any corruption measure; we included making gift payments to the city (and tested for many other forms of gift payments and corruption) but it was insignficant. Longer-term views and concerns for social equity, which form the basis for the kind of optimism that drives generalized trust (Uslaner, 2002, ch. 2) predominate: The longer-term fate of the economy (three years out) is the most powerful predictor of whether the country is moving in the right direction ($p < .01$); there is a significant, but weaker effect, for the quality of life people expect next year ($p < .05$). People who believe that the level of social protection has increased are also more upbeat about the direction of the country ($p < .05$).[13]

Our individual-level analysis also receives support from an analysis of 17 aggregated surveys conducted by the same firm from October, 1996 through October, 2003.[14] In Table 2 we present a two-stage least squares analysis of whether the country is moving in the right direction and trust in government. The aggregate models show that: (1) expectations for an improving life next year strongly shaped people's views that the country was headed in the right direction; and (2) so did perceptions that the government was handling corruption well. We found no impact for corruption in the individual-level modeling. However, only a handful of variables are available over time and the impact of corruption may be a surrogate for the trust measures or even the social safety net question. Our model also shows that (3) the endogenous measure of the direction of the country strongly shapes trust in government. So does (4) the electoral cycle, a variable measuring the number of months until the next parliamentary elections. In transition countries, as in the West, governments lose popularity as their time in office increases (Downs, 1957, 55-60, called this the "coalition of minorities" effect). And we see clear evidence of this here. We have confirming evidence over time that expectations for the economy as well as perceptions of corruption shape evaluations of the country’s overall democratic performance–and that strong government performance leads to greater legitimacy for poltical institutions.

The Demands of a Successful Transition

A successful transition depends upon strong institutions and a supportive civic culture (Almond and Verba, 1963). Strong institutions are necessary to give government legitimacy and power. Strong states can pursue justice through an independent and fair judiciary, can ensure compliance with laws (including tax statutes), and can enact policies that will lead to economic growth. A supportive culture will lead to greater tolerance for ethnic minorities–ethnic conflict is a major issue in many transition countries, including Romania–as well as to more smoothly functioning markets. A culture of generalized trust promotes openness to innovation and open markets and leads to greater economic growth and (in turn) to greater compliance with the law beyond the strong arm of state institutions.

Transition states rank low on both civic culture and legitimate political institutions. The democratic constitutions adopted in 1989 and the early 1990s do not guarantee that democracy can produce the benefits of the good life. Communism had a powerful effect on depressing faith in fellow citizens and in government more generally (Howard, 2003). New institutions do not guarantee greater legitimacy; establishing social solidarity is particularly difficult.

A growing economy can lead people to become more supportive of their political institutions and more tolerant of each other. When the economy is expanding, people will be less likely to see the world in zero-sum terms. Sztompka (1999, 179-90) saw hope for civil society in Poland in the late 1990s as the economy revived, crime fell, and young people became the vanguard of a new social order. But wealth can go only so far in restoring trust. Poland ranks sixty-ninth of 82 countries on trust and the wealthiest transition country, Slovenia, ranks seventy-second.

Our results suggests that inequality and corruption are the key factors leading to lower social solidarity and governmental legitimacy in transition countries. Inequality seems to have more direct effects on social solidarity and corruption is most powerful on legitimacy. Corrupt elites and the failure of government to curb them lead to demands for limiting the incomes of the rich and, by implication, for controlling markets more generally. Support for limiting incomes seems to reflect a critical view of government and business elites rather than social solidarity more generally. There is no significant effect of generalized trust, of increasing inequality, of the direction of the economy, or even the level of social protection on demands for restraining income. There is an insignificant (and wrongly signed) effect from trust in government, but satisfaction with democratic institutions and several measures of corruption are the major factors in shaping calls for limiting incomes.

Despite the minimal correlations between the two, our data do show a more indirect connection. Public concern for corruption seems more than just a demand for honest government. If people *only* objected to official dishonesty, then we would expect that *all levels of corruption* should affect governmental performance, trust in both people and the state, and demands to limit incomes. *However, this is not what we find*: Public distress focuses on high-level corruption–in the state, the courts, and and in business–but not lower-level demands for bribes (the police, doctors, and teachers, among others). People link corruption to larger social and political problems *when they see powerful and rich people exploiting average citizens*, not when they see minor officials padding their meager salaries. We need to know more about the connections between increasing inequality and corruption. We must also ask about the political consequences of increasing inequality (both directly and through generalized trust) and how views of the state shape social solidarity. Yet we already know enough to realize that both increasing inequality and corruption may be the biggest threats to a successful transition to market democracy in transition countries.

Figure 1

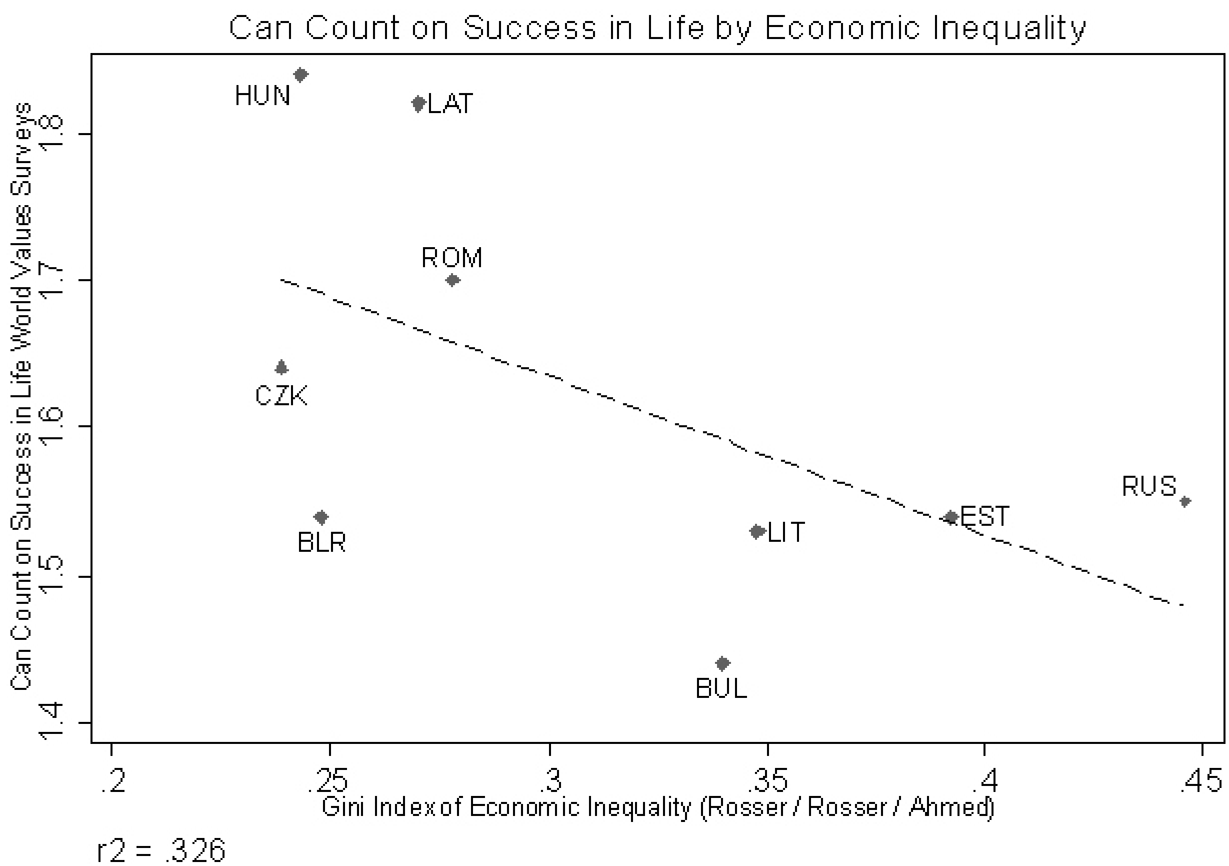

Can Count on Success in Life by Economic Inequality
Can Count on Success in Life World Values Surveys
1.4
1.5
1.6
1.7
1.8
HUN
LAT
ROM
CZK
BLR
BUL
LIT
EST
RUS
.2
.25
.3
.35
.4
.45
Gini Index of Economic Inequality (Rosser / Rosser / Ahmed)
r2 = .326

Figure 2

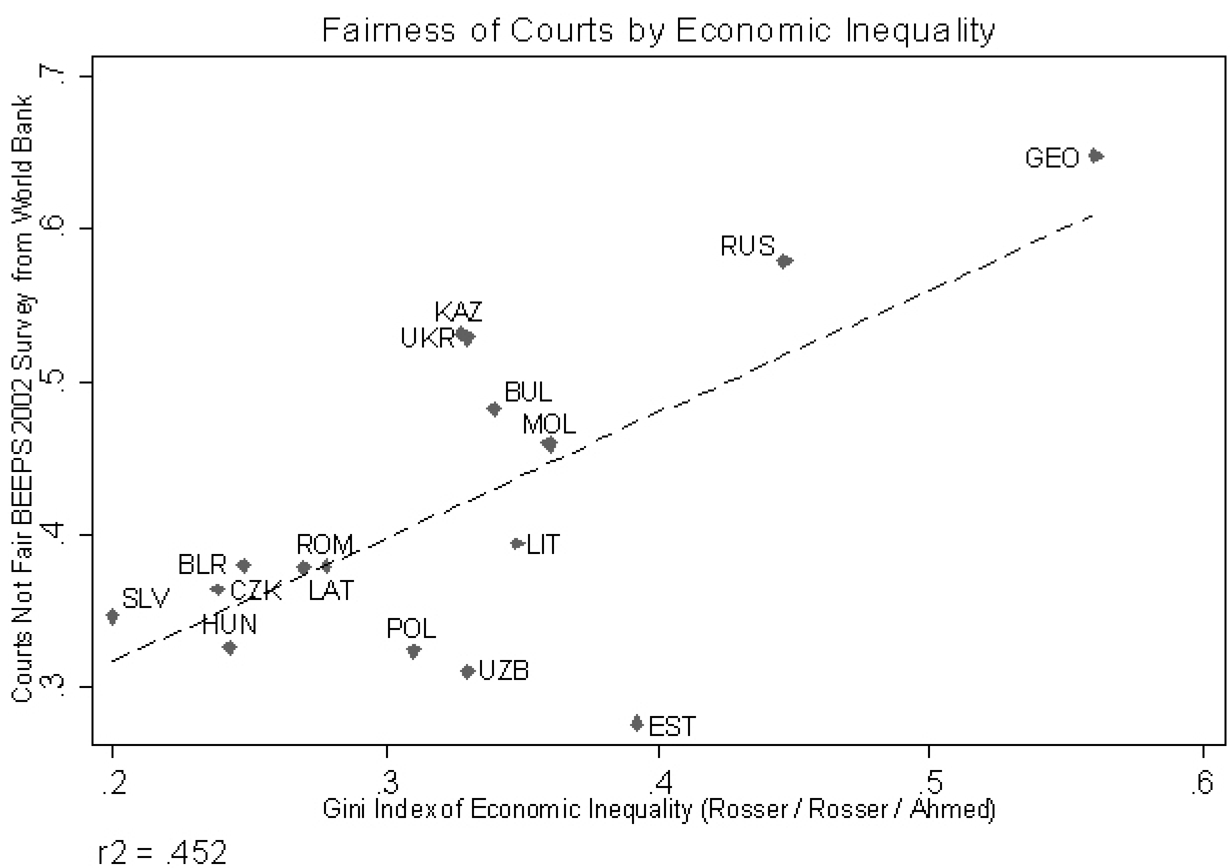

Fairness of Courts by Economic Inequality
Courts Not Fair BEEPS 2002 Survey from World Bank
.3
.4
.5
.6
.7
GEO
RUS
KAZ
UKR
BUL
MOL
LIT
ROM
BLR
SLV
CZK
LAT
HUN
POL
UZB
EST
.2
.3
.4
.5
.6
Gini Index of Economic Inequality (Rosser / Rosser / Ahmed)
r2 = .452

Figure 3

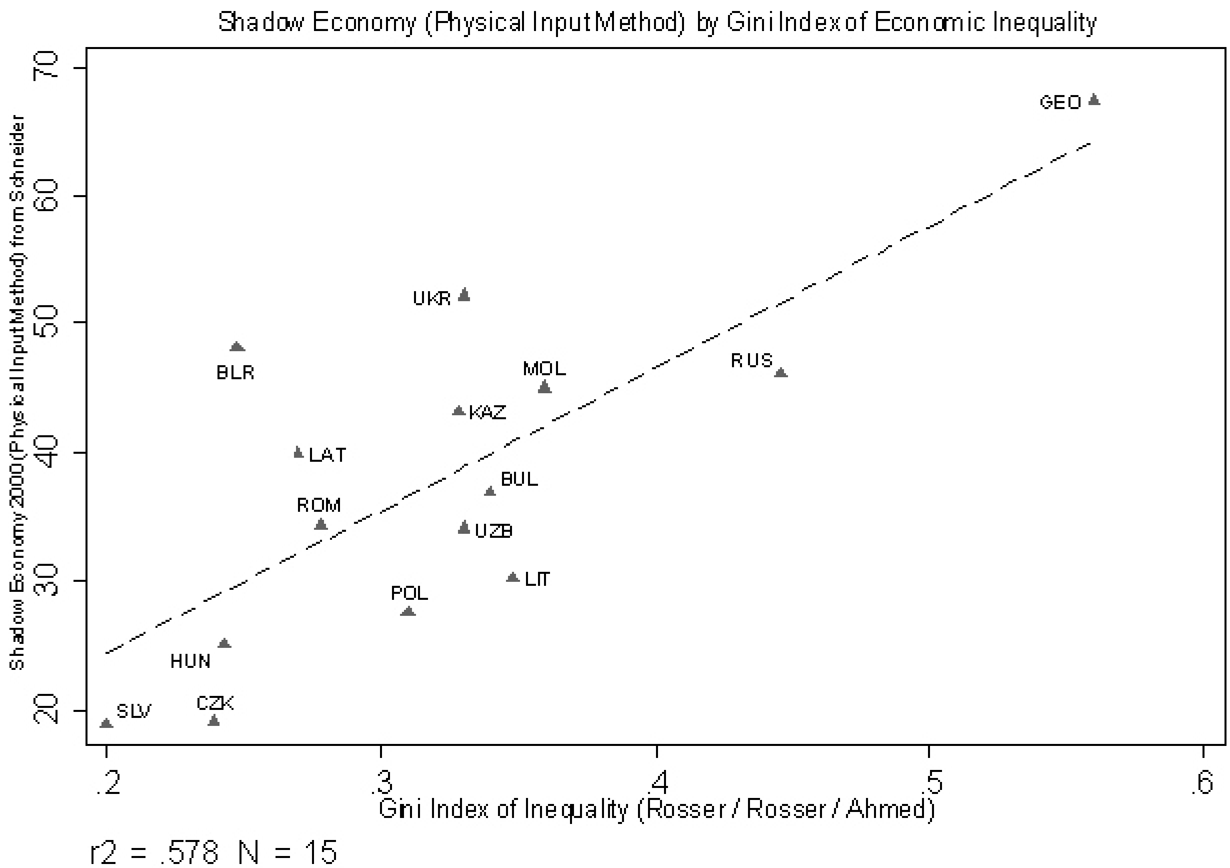
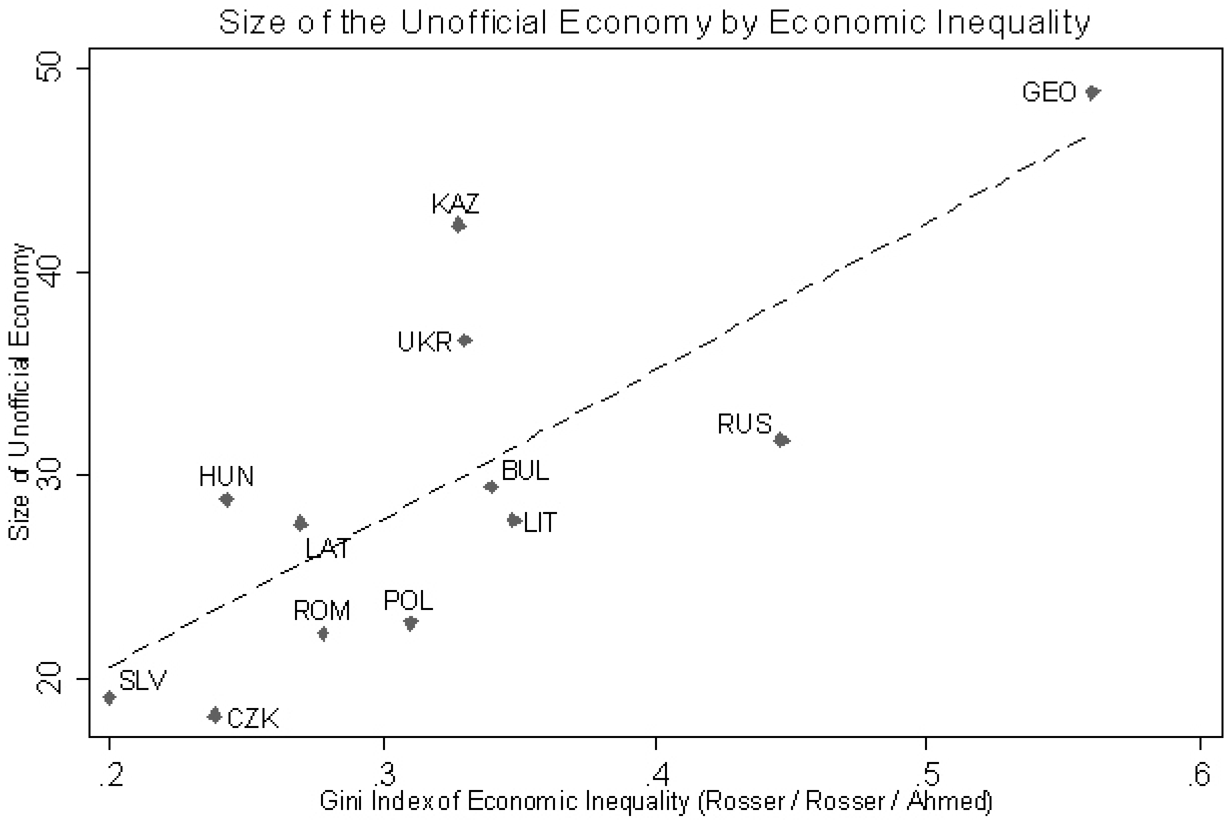

Shadow Economy (Physical Input Method) by Gini Index of Economic Inequality
Shadow Economy 2000 (Physical Input Method) from Schneider
70
60
50
40
30
20
GEO
UKR
BLR
MOL
RUS
KAZ
LAT
BUL
ROM
UZB
LIT
POL
HUN
SLV
CZK
.2
.3
.4
.5
.6
Gini Index of Inequality (Rosser / Rosser / Ahmed)
r2 = .578 N = 15

Figure 4



r2 = .603

Figure 5

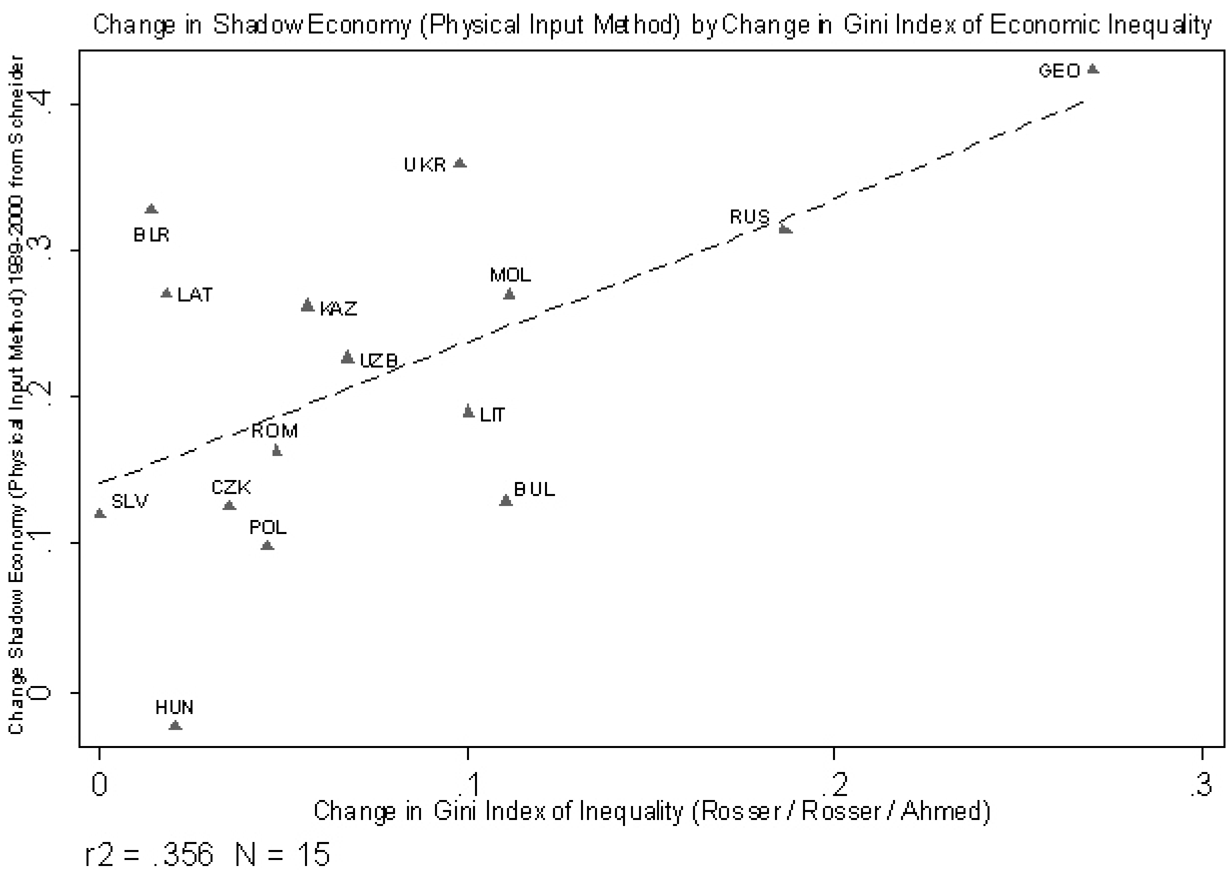
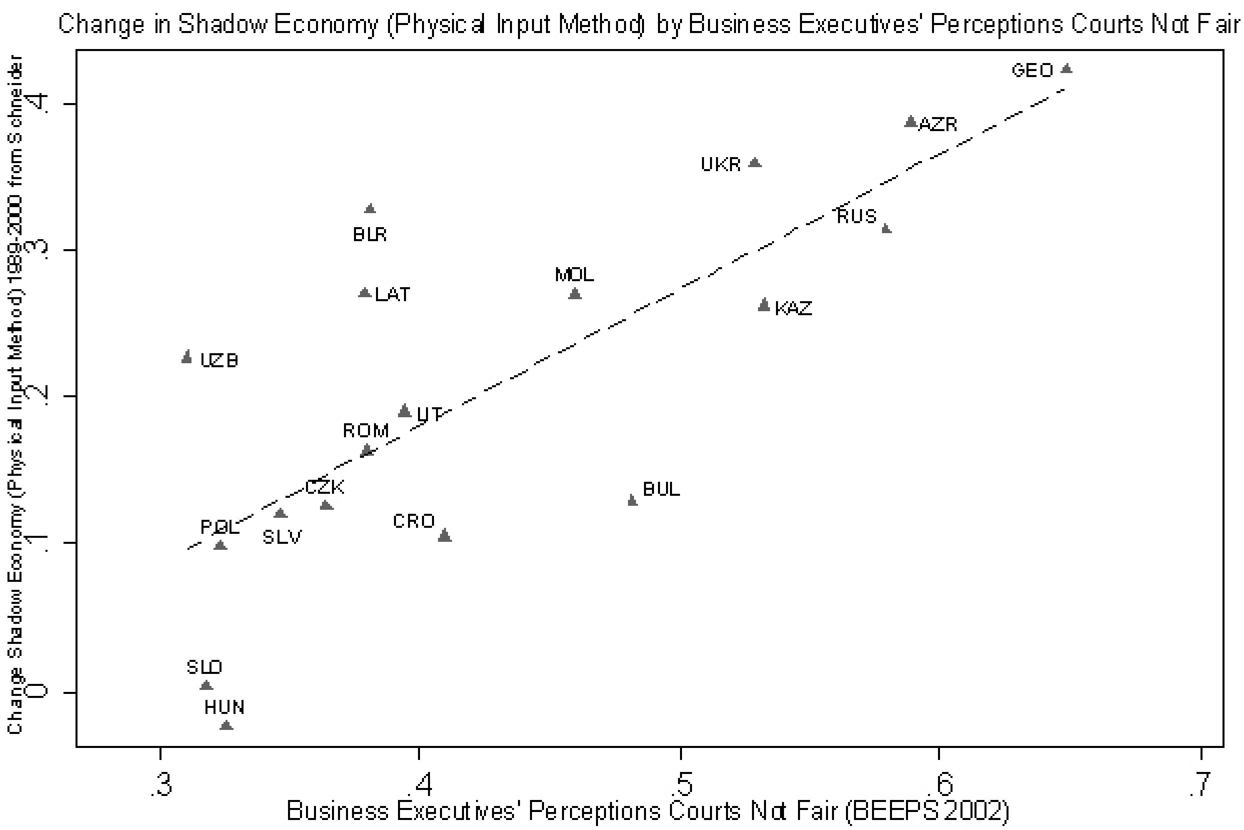

Change in Shadow Economy (Physical Input Method) by Change in Gini Index of Economic Inequality
Change Shadow Economy (Physical Input Method) 1989-2000 from Schneider
Change in Gini Index of Inequality (Rosser / Rosser / Ahmed)
0
.1
.2
.3
.4
GEO
UKR
RUS
BLR
LAT
KAZ
MOL
UZB
LIT
ROM
SLV
CZK
BUL
POL
HUN
r2 = .356 N = 15

Figure 6



r2 = .580 N = 18 BEEPS data at http://info.worldbank.org/governance/beeps2002/

Figure 7

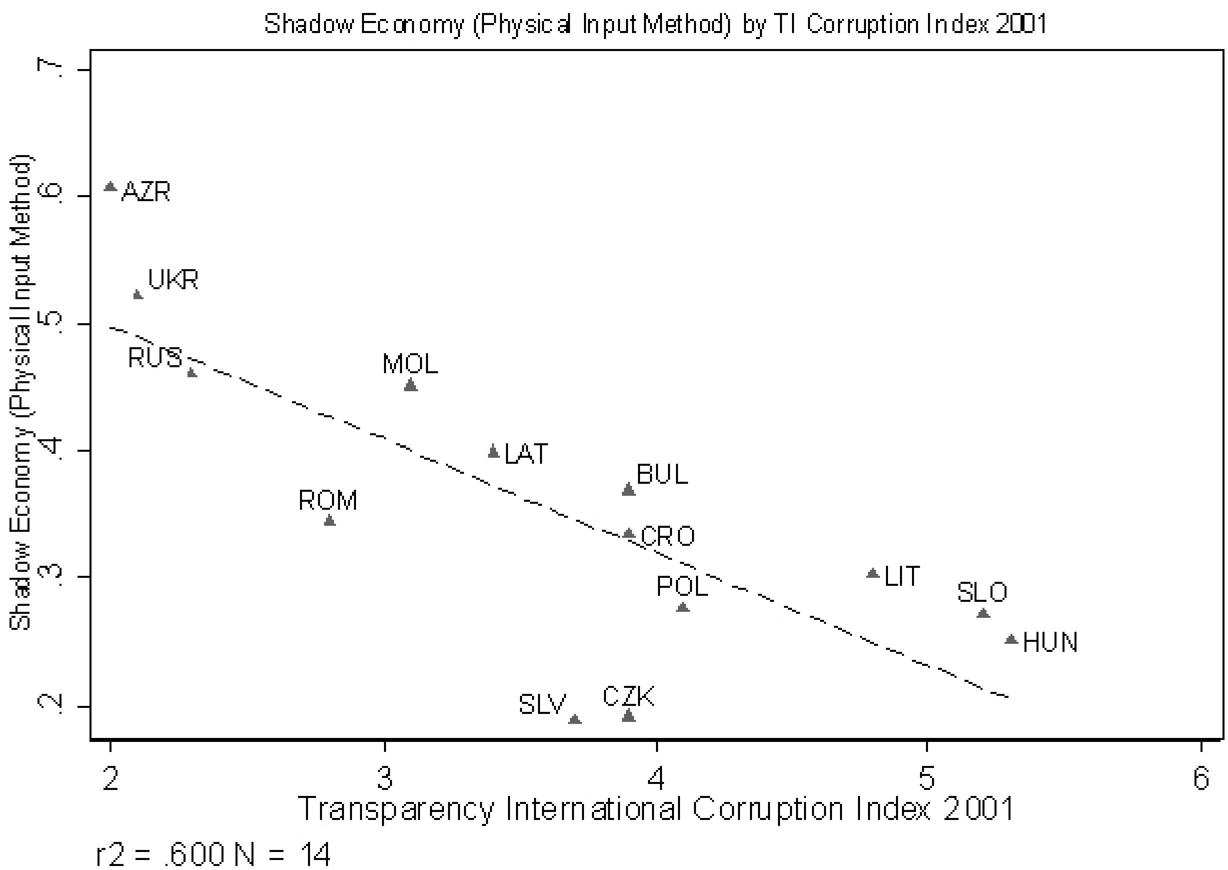

Shadow Economy (Physical Input Method) by TI Corruption Index 2001
Shadow Economy (Physical Input Method)
.2
.3
.4
.5
.6
.7
AZR
UKR
RUS
MOL
LAT
BUL
ROM
CRO
LIT
SLO
POL
HUN
SLV
CZK
2
3
4
5
6
Transparency International Corruption Index 2001
r2 = .600 N = 14

Figure 8

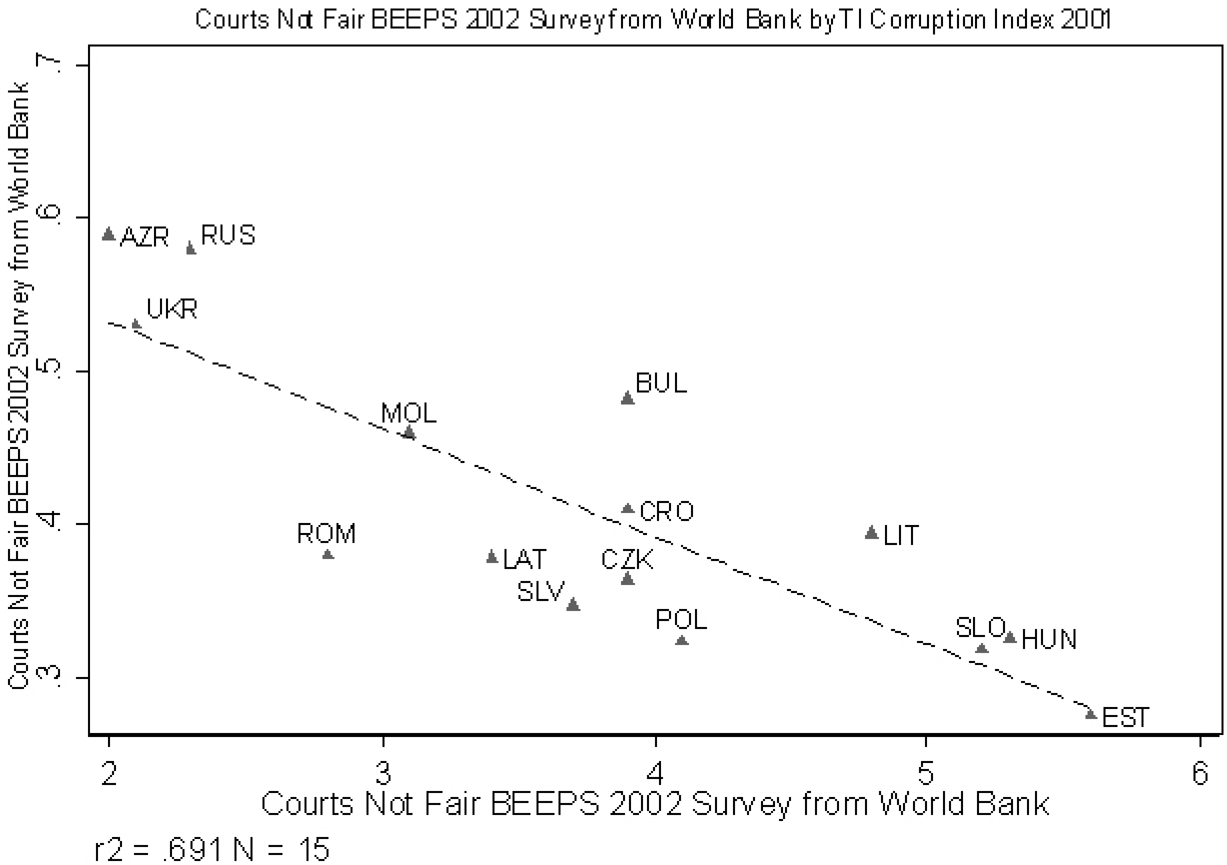

Courts Not Fair BEEPS 2002 Survey from World Bank by TI Corruption Index 2001
Courts Not Fair BEEPS 2002 Survey from World Bank
.3
.4
.5
.6
.7
AZR
RUS
UKR
BUL
MOL
CRO
LIT
ROM
LAT
CZK
SLV
POL
SLO
HUN
EST
2
3
4
5
6
Courts Not Fair BEEPS 2002 Survey from World Bank
r2 = .691 N = 15

Figure 9

Linkages from Romanian Survey Models

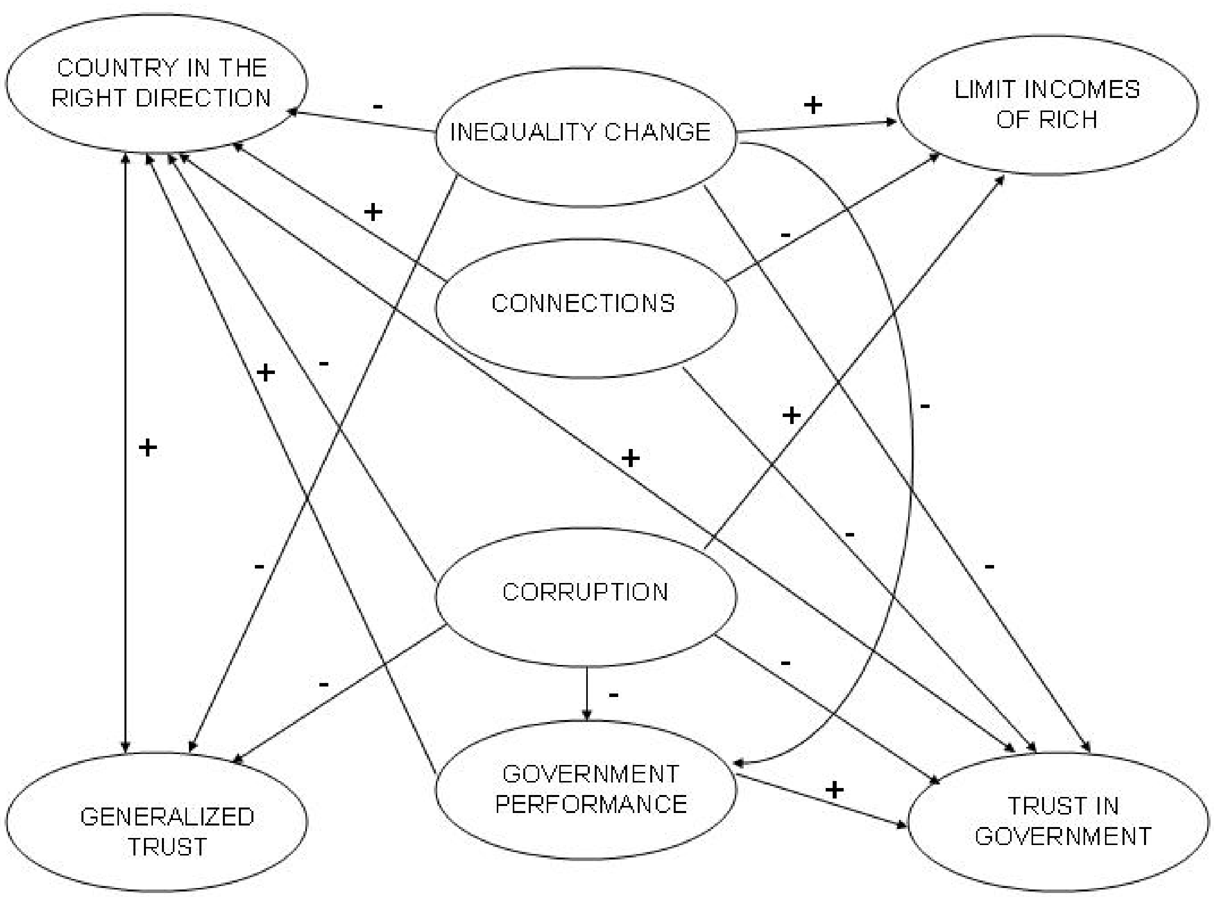


TABLE 1

Simultaneous Equation Estimation of Inequality and Trust Models for Romanian Survey 2003

Variable	Coefficient	Std. Error	t Ratio
Performance of Government on Quality of Life			
Inequality change	-.106***	.036	-2.94
Government success in controlling corruption	.215****	.031	6.85
Make gift payments to courts	-.347***	.131	-2.65
Satisfied with democracy in Romania	.118***	.030	3.91
Satisfied with market economy in Romania	.161****	.031	5.25
Wealth (can afford consumer goods)	.020***	.008	2.67
Constant	.297**	.105	2.83
Direction of Country Right or Wrong			
Generalized trust	.294**	.143	2.06
Trust in government scale	.073*	.051	1.45
Performance of Government on Quality of Life	.160***	.063	2.54
Level of social protection increased or decreased	.061**	.028	2.20
State of national economy in three years	.078***	.024	3.24
Quality of life next year	.041**	.024	1.71
Number of connections you can rely upon	.042***	.016	2.58
Make gift payments to city	-.088	.101	-.86
Hungarian ethnicity	-.114*	.078	-1.47
Constant	.455	.190	2.40
Generalized trust			
Direction of country right or wrong	.331***	.117	2.82
Trust in government scale	.024	.050	.47
Inequality change	-.089***	.031	2.86
Level of social protection increased or decreased	-.050	.029	1.70
Most politicians are corrupt	-.075***	.030	-2.47
Most teachers are corrupt	-.032	.026	-1.26
Constant	.276*	1.39	1.99

TABLE 1 (continued)

Variable	**Coefficient**	**Std. Error**	**t Ratio**
Trust in government scale			
Generalized trust	-.064	.317	-.20
Direction of country right or wrong	.427**	.244	1.75
Performance of Government on Quality of Life	.221*	.139	1.59
Performance of Government on Public Safety	.252****	.060	4.23
Government success in controlling corruption	.101**	.046	2.18
Most politicians are corrupt	-.136***	.050	-2.71
Inequality change	-.105**	.058	-1.82
Number of contacts to public and private institutions	.049**	.022	2.25
State should control media and political parties	-.049**	.025	-1.94
Church attendance	.035*	.023	1.47
Support PSD	.212****	.027	7.89
Live in Bucharest	-.214***	.086	-2.48
Constant	-1.308****	.253	-5.16
State Limit Incomes of Rich (Agree)			
Trust in government scale	.121	.078	1.56
Inequality change	.091*	.069	1.34
Satisfied with democracy in Romania	-.138***	.052	-2.63
Most business people are corrupt	.155***	.048	3.21
Make gift payments to city	.400**	.234	1.71
Rely on connections in court	-.282**	.125	-2.26
Rely on connections in foreign country	-.246**	.124	-1.98
Constant	-1.878****	.253	7.41

* p < .10 ** p < .05 *** p < .01 **** p < .0001 N= 610

RMSE (R^2) by equation: Performance: .560 (.361), Direction: .426 (.277), Generalized trust: .452 (.129), Trust in government scale: .708 (.471), State limit incomes of rich: 1.001 (.054). Endogenous variables in **bold;** endogenous dependent variables in ***bold italics.*** Inequality change in *italics.*

Exogenous variables: Gender, age, education, make gift payments to doctors, make gift payments to county, Romania needs strong leader, tolerance of gays, government performance on jobs, government performance on agriculture, government performance on privatizztion, maximum salary that should be allowed, economic situation of country, life satisfaction.

TABLE 2

Simultaneous Equation Model of Trust in Government and

Country Moving in the Right Direction from Aggregated Surveys

Variable	Coefficient	Std. Error	t Ratio
	Direction of country right or wrong		
Government success in controlling corruption	.346**	.172	2.01
Quality of life improving next year	.836***	.316	2.65
Constant	1.655	9.289	.18
RMSE = 8.294 R^2 = .683 N = 17			
Trust in government scale			
Direction of country right or wrong	.567****	.150	3.78
Electoral cycle	.351***	.137	2.56
Constant	2.547	3.924	.65
RMSE = 5.296 R^2 = .832 N= 17			

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

Endogenous variables in **bold;** endogenous dependent variables in ***bold italics.***

Exogenous variables: Trust in justice, growth rate in gross domestic product for the year, taken from Penn World Tables from 1996-2000 and from http://www.dfat.gov.au/geo/fs/roum.pdf for 2001-2003..

REFERENCES

Adevarul. 2003. "Feeling the smell of the money, Rolls-Royce Phantom enters to East Europe through Romania," November 19: 2.

Almond, Gabriel and Sidney Verba. 1963. The Civic Culture. Princeton: Princeton University Press.

Badescu, Gabriel. 1999. "Miza Politica a încrederii" ("The Political Consequences of Trust") Sociologie româneasca, 2: 97-122.

_______________. 2003. "Social Trust and Democratization in the Post-Communist Societies." In Gabriel Badescu and Eric M. Uslaner, eds., Social Capital and the Transition to Democracy. London: Routledge.

Badescu, Gabriel, Paul Sum, and Eric M. Uslaner. 2003. "Civil Society Development and Democratic Values in Romania and Moldova," Eastern European Politics and Society.

Badescu, Gabriel and and Eric M. Uslaner, eds. 2003. Social Capital and the Democratic Transition. London: Routledge.

Brehm, John and Wendy Rahn. 1997. "Individual Level Evidence for the Causes and Consequences of Social Capital," American Journal of Political Science, 41 (July):888-1023.

Citrin, Jack. 1974. "Comment: The Political Relevance of Trust in Government," American Political Science Review, 68 (September):973-988.

Downs, Anthony. 1957. An Economic Theory of Democracy. New York: Harper and Row.

Flap, Henk and Beate Volker. 2003. "Communist Societies, the Velvet Revolution, and Weak Ties: The Case of East Germany." In Gabriel Badescu and Eric M. Uslaner, eds., Social Capital and the Transition to Democracy. London: Routledge.

Gambetta, Diego 1993. The Sicilian Mafia: The Business of Private Protection. Cambridge: Harvard University Press.

Hayoz, Nicolas. 2003. "Arms'-Length Relationships, Political Trust, and Transformation in Eastern and Central Europe," Finance and Common Good, 13/14: 35-48.

Howard, Marc.Morje. 2002 The Weakness of Civil Society in Post-Communist Europe. New York: Cambridge University Press.

Kluegel, James R. and David S. Mason. 2000a. "Market Justice in Transition." In David S. Mason and James L. Kluegel, eds., Marketing Democracy. Lanham, MD: Rowman and Littlefield.

________________________________. 2000b. "Political System Legitimacy: Representative? Fair?" In David S. Mason and James L. Kluegel, eds., Marketing Democracy. Lanham, MD: Rowman and Littlefield.

Knack, Stephen and Philip Keefer. 1997. "Does Social Capital Have An Economic Payoff? A Cross-Country Investigation," Quarterly Journal of Economics, 112:1251-1288.

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

LaPorta, Rafael, Florencio Lopez-Silanes, Andrei Schleifer, and Robert W. Vishney. 1998. "The Quality of Government," Unpublished ms., Harvard University.

Ledeneva, Alena. 1998. Russia's Economy of Favours. Cambridge: Cambridge University Press.

Leite, Carlos and Jens Weidmann 1999, Does Mother Nature Corrupt? Natural Resources, Corruption, and Economic Growth? Washington: International Monetary Fund Working

Paper WP/99/85.

Lipset, Seymour Martin and William Schneider. 1983. The Confidence Gap: Business, Labor, and Government in the Public Mind. New York: Free Press.

Macaulay, Stewart. 1963. "Non-Contractual Relations in Business: A Preliminary Study," American Sociological Review, 28:55-67.

Mateju, Petr. 1997. "Beliefs About Distributive Justice and Social Change: Czech Republic 1991-1995," Socialni Trendy/Social Trends, Prague, Czech Republic.

Mauro, Paolo. 1997. "Why Worry About Corruption?" Washington: International Monetary Fund.

____________. 1998. "Corruption: Causes, Consequences, and Agenda for Further Research," Finance and Development (International Monetary Fund), March: 11-14.

Miller, William L., Ase B. Grodeland, and Tatyana Y. Koshechkina. 2001. A Culture of Corruption: Coping with Government in Post-Communist Europe. Budapest: CEU Press.

Orkeny, Antal. 2000. "Trends in Perceptions of Social Inequality in Hungary, 1991-1996." In David S. Mason and James L. Kluegel, eds., Marketing Democracy. Lanham, MD: Rowman and Littlefield.

Owsiak, Stanislaw. 2003. "The Ethics of Tax Collection," Finance and Common Good, 13/14: 65-77.

Putnam, Robert D. 1993. Making Democracy Work: Civic Traditions in Modern Italy. Princeton: Princeton University Press.

________________. 2000. Bowling Alone. New York: Simon and Schuster.

Rosser, J. Barkley, Marina V. Rosser, and Ehsan Ahmed. 2000. "Income Inequality and the

Informal Economy in Transition Countries," Journal of Comparative Economics, 28: 156-171.

Rothstein, Bo. 2001. "Trust, Social Dilemmas, and Collective Memories: On the Rise and Decline of the Swedish Model," Journal of Theoretical Politics, 12:477-499.

Rothstein, Bo and Dietlind Stolle. 2002. "How Political Institutions Create and Destroy Social Capital: An Institutional Theory of Generalized Trust." Paper prepared for delivery at the Annual Meeting of the American Political Science Association, Boston, August-September.

Schemann, Serge. 2003. "In Going Legit, Some Russian Tycoons Resort to Honesty," New York Times (January 12), at http://www.nytimes.com/2003/01/12/weekinreview/12SCHM.html, accessed January 14, 2003.

Schneider, Friedrich. 2003. "Shadow Economies around the World: What do we know?" University of Linz, Linz, Austria.

Sitkin, Sim B. and Nancy L. Roth. 1993. "Explaining the Limited Effectiveness of Legalistic 'Remedies' for Trust/Distrust," Organization Science, 4: 367-392.

Stephenson, Svetlana and Ludmila Khakhulina. 2000. "Russia: Changing Perceptions of Social Justice." In David S. Mason and James L. Kluegel, eds., Marketing Democracy. Lanham, MD: Rowman and Littlefield.

Stoyanov, Alexander, Maragarita Pavlikianova, Andrej Nontchev, and Galja Krasteva. 2000. "Bulgaria: Political and Economic Crisis; Democratic Consolidation." In David S. Mason and James L. Kluegel, eds., Marketing Democracy. Lanham, MD: Rowman and Littlefield.

Tanzi, Vito. 1998. "Corruption Around the World: Causes, Consequences, Scope and Cures." IMF Staff Papers, 45: 559-594.

Tavernise, Sabrina. 2003. "Russia Is Mostly Unmoved by the Troubles of Its Tycoons," New York Times (Washington edition, November 3): A3.

Torgler, Benno. 2003. "Tax Morale in Central and Eastern European Countries." Presented at the Conference on Tax Evasion, Trust, and State Capabilities, St. Gallen, Switzerland, October 17-19.

Tyler, Tom R. 1990. Why People Obey the Law. New Haven: Yale University Press.

Uslaner, Eric M. 2002. The Moral Foundations of Trust. New York: Cambridge University Press.

____________. 2003a. "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.

____________. 2003b. "Tax Evasion, Trust, and the Strong Arm of the Law." Presented at the Conference on Tax Evasion, Trust, and State Capabilities, St. Gallen, Switzerland, October 17-19.

____________. In press. "Trust and Corruption." In Johann Graf Lambsdorf, Markus Taube, and Matthias Schramm, eds., Corruption and the New Institutional Economics. London: Routledge.

Uslaner, Eric M. and Gabriel Badescu. 2004. "Honesty, Trust, and Legal Norms in the Transition to Democracy: Why Bo Rothstein Is Better Able to Explain Sweden than Romania."

In Janos Kornai, Susan Rose-Ackerman, and Bo Rothstein, eds., Creating Social Trust: Problems of Post-Socialist Transition. New York: Palgrave.

Vlachova, Klara. 2000. "Economic Justice in the Czech Republic, 1991-1995." In David S. Mason and James L. Kluegel, eds., Marketing Democracy. Lanham, MD: Rowman and Littlefield.

Zmerli, Sonya, José Ramón Montero, and Ken Newton. 2003. "Trust in People, Confidence in Political Institutions, and Satisfaction with Democracy." University of Mannheim manuscript.

NOTES

* We are grateful to the Starr Foundation, through the Institutional Research and Exchanges Board of the United States Department of State for a grant in conjunction with Paul Sum of the University of North Dakota, Mihai Pisica, and Cosmin Marian, all of Babes-Bolyai University under the IREX Caspian and Black Sea Collaborative Program (2001) to conduct a survey that formed the basis of our current work. Uslaner is also grateful to the Russell Sage Foundation and the Carnegie Foundation for a grant under the Russell Sage program on The Social Dimensions of Inequality (see http://www.russellsage.org/programs/proj_reviews/social-inequality.htm) and to the General Research Board of the Graduate School of the University of Maryland—College Park. Some of the data reported here come from the Inter-University Consortium for Political and Social Research (ICPSR), which is not responsible for any interpretations. Mark Lichbach made many helpful suggestions on an earlier draft of the mansucript.

1. The mean score on the Gini index of inequality for former and current (China) Communist regimes in the Deininger and Squire (1996) data set is .295; for the West, the mean is .316 and for other nations it is .464. The East-West differences are not significantly different from zero, but they are at $p < .03$ if China is excluded.

2. Using Penn World Tables data on the gross domestic product in 1993 and 2000, we calculated GDP growth; the r^2 bewteen GDP growth and the 2001 Transparency International measure of corruption is .509 for 12 transition countries, but it is only .050 for economic inequality.

3. Across 12 nations the r^2 between the TI 2001 index of corruption and the Gini index of inequality is just .024 (.048 for change in inequality). In the survey, none of the "gift" measures has a correlation with perceived increasing inequality exceeding .02; the correlations for the various corruption measures are slightly higher–with the strongest being for perceptions that the government is doing much to control corruption (.175), but most are around .10 or below.

4. The data on trust and confidence in the legislative branch come from the World Values Surveys (1995) and the data on corruption from the 2001 Transparency International estimates. For the unofficial economy, the data come from a cross-national data set of Florencio Lopez-de-Silanes of Yale University at http://iicg.som.yale.edu/data/datasets.shtml; and the data on inequality from Rosser, Rosser, and Ahmed (2000).

5. The data on business elites perceptions of justice come from the BEEPS 2002 survey of business executives in transition countries conducted by the World Bank. There are no comparable data for the mass public for more than a handful of societies.

6. Unreleliable surveys may be part of the reason. See Badescu (2003).

7. Information about this program and data sets can be found (in Romanian) at http://www.osf.ro/ro/bop/cercetare.html.

8. Here we report dichotomies for corruption; in the analyses below, we use the full four point scale on how many members of each group are corrupt.

9. Miller et al. (2001, 50) report that majorities of Bulgarians, Czechs, Slovaks, and Ukrainians were also pessimistic about the future in 1997-98 surveys.

10. Our measure of trust in government is a factor score from trust in the following institutions: government (generally), president, parliament, justice, the army, police, city hall, and political parties. We use the overall measure because the relationships we investigate do not vary much by specific institution–and, indeed, the findings are more crisp for the factor score. We did examine trust in justice separately because of our belief that the legal system might have a distinctive role in creating trust. We did not find any distinctive results for trust in court. Perhaps a better measure such as the fairness of justice in courts would yield stronger results (note the impact for gifts to courts in the performance equation).

11. Trust in government has the incorrect sign and, hence, is not significant even at $p < .10$.

12. Where one lives also plays a role–living in Bucharest makes one less trusting of government ($p < .0001$); people who attend church regularly also develop a deeper faith in governmental institutions, but the effect is weak ($p < .10$). Support for a more authoritarian state (giving government the power to control media and political parties) leads to less support for government.

13. Hungarians, a minority that has faced discrimination, are also less optimistic, but the relationship is weak ($p < .10$).

14. The surveys were conducted once in 1996, three times each in 1996 and 1997, and twice

annually thereafter, generally in March and October (the third surveys were conducted in June). The generalized trust question was asked in only 10 surveys and government performance was asked in just 15. Government performance was not significant as a predictor of trust in government when direction of the country was endogenous; and it added little as an exogenous variable.