CHAPTER 20

TRUST AND CORRUPTION

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While trust has long been recognized as an important virtue by philosophers and psychologists, only in recent years has it gained attention from social scientists. Robert Putnam's (1993) pioneering study on the importance of social capital, of which social trust is considered a key component, has fueled studies on the causes and consequences of social trust. Eric Uslaner's book, *The Moral Foundations of Trust* (2002), has ignited further interest in social trust among social scientists. Corruption, by contrast, has been recognized as an important topic by social scientists as well as philosophers; however, empirical studies of the subject were scarce until the mid-1990s largely because of the lack of available quantitative data. With the availability of data on social trust from various surveys—including the World Values Survey (WVS) that began in the early 1980s, and cross-national data on corruption, such as the Corruption Perceptions Index (CPI) published annually by Transparency International (TI) since 1995—quantitative studies on the relationship between trust and corruption have burgeoned.

This chapter reviews recent research into the relationship between trust and corruption. The first section engages in a conceptual discussion of trust, trustworthiness, fairness, and corruption. The second section introduces issues in conceptualizing and measuring corruption. It also discusses how two different understandings of corruption as an agency problem and as a collective action problem have different implications for the relationship between trust and corruption. The third section reviews empirical studies on the causal effect of social trust on corruption, the causal effect of corruption on social trust, and multiple equilibria in levels of social trust and corruption. It also analyzes the different trust-corruption patterns between democracies and nondemocracies that have not been explored by the existing literature. The last section offers concluding thoughts.

Trust, Trustworthiness, and Corruption

Trust and Trustworthiness

Trust can be both beneficial and costly. Trust enables us to form relationships and cooperate with people and to rely on them. Trust is also risky. A trustor can incur losses, both material and psychological, if the trustee turns out to be untrustworthy. Hence, we face questions of whom to trust. Our decision to trust others is based on our belief or expectations of their trustworthiness, but it is difficult to know the trustworthiness of other people without repeated interactions.

The trustworthiness of a person is reflected in characteristics such as honesty, fairness, benevolence, and competence. While incompetence of the trustee can also disappoint and incur losses to the trustor, it does not incur the psychological cost of "trust betrayal." Hence, trusting a stranger is not equivalent to merely taking a risky bet, because the former entails an additional risk of trust betrayal (Bohnet and Zeckhauser 2004). The term "confidence" may be more appropriate for a belief in the competence of the other party, but people often use the terms "trust" and "confidence" interchangeably. In particular, institutional trust, or trust in institutions, usually implies confidence not only in the integrity and fairness but also in the competence of institutions.

A difficult question is whether to trust a stranger or other people in general. Since social trust, or generalized interpersonal trust, is known to have many beneficial effects at both individual and societal levels, an important question is how people's generalized trust is formed. Some psychologists argue that trust is a person's dispositional tendency or personality trait formed in early life rather than a person's reflection of experienced trustworthiness of other people in social life. According to Erik Erikson ([1950] 1963: 249), trust is critically shaped by the quality of the maternal relationship in the first two years of life.

On the other hand, some scholars argue that trust is not fixed during early childhood but transformed over the course of life by social learning from the relevant experiences. Glanville and Paxton (2007) examine whether social trust is better explained by a psychological propensity formed in early childhood or by social learning from more contemporary, localized trust experiences. Data from the Social Trust Survey (Pew Research Center 1998) and the Social Capital Benchmark Survey (Roper Center for Public Opinion Research 2000) show results that are more consistent with social learning theory. If trust reflects life experiences, the decision as to whether to trust a stranger will largely depend on one's expected trustworthiness of average people based on one's own experiences. Hence, the average trustworthiness of people in a community is likely to influence people's trust in a stranger in the community. Thus, trustworthiness will likely affect trust at both individual and community levels (You 2012).

Whether to act in a trustworthy manner when one is uncertain if the other party will reciprocate one's trustworthiness is another challenge for individuals. In a one-shot prisoner's dilemma game, a person has to make a decision to cooperate or not. In many collective action problems for public goods or common-pool resources, individuals have to decide whether to take part or to free ride. While a rational choice model based on the assumption of self-interested rationality predicts that individual choices will always be noncooperation or free riding, many people in fact choose to cooperate or take part in collective action, even though their trustworthy behavior may not necessarily be reciprocated by the other party. Without trusting other people's trustworthiness, it will be hard to act unilaterally in a trustworthy manner. If you trust other people in general, it will be easier to act in a trustworthy manner. Trusting individuals are more inclined to act in a trustworthy manner; moreover, the average level of interpersonal trust in a community tends to influence the average level of trustworthiness of the people in the community positively. Thus, trust and trustworthiness will likely reinforce each other (You 2012).

Trust and Corruption

Corruption is a form of untrustworthy behavior. When a public official engages in corruption, s/he is abusing the entrusted power or betraying the public's trust in her/his integrity or fairness. While corruption as a form of untrustworthy behavior is likely to affect trust for those people who experience, observe, or hear about corruption, it is by no means certain how much the levels of corruption in a community will affect the levels of interpersonal trust.

First, people have different conceptions of corruption as well as different degrees of tolerance for corruption. Some may view nepotism and favoritism as intolerable corruption, while others may define corruption narrowly as illegal abuse of public office for personal material gain, such as bribery and embezzlement. And while some people may include abuse of private power, such as the influence of money, for broadly defined personal gain in their definition of corruption, others may exclude corruption in the private sector from their definition of corruption. There are not only individual differences in the understanding of corruption but also societal differences in cultural norms about corruption. If there are big cultural differences, the connection between corruption and trust will be weak.

Second, even if people in different cultures share the same broad definition of corruption and strongly condemn corruption, it is impossible for them to know the actual levels of corruption. Since only a small portion of corrupt acts are revealed, people may underestimate the levels of corruption. On the other hand, people may overestimate levels of corruption based on exaggerated information about alleged corruption cases. Ultimately, individuals' trust in other people's trustworthiness depends on their perceived levels of trustworthiness in others, including perceived levels of corruption,

not actual levels of trustworthiness or actual levels of corruption. Thus, the effect of corruption on trust can be radically different across individuals and societies.

Third, it can be argued that corruption can increase trust, especially among those involved in corrupt transactions. Hence, widespread existence of corruption networks may enhance overall levels of interpersonal trust. Some scholars distinguish between in-group trust and out-group trust, and between particularized interpersonal trust and generalized interpersonal trust, or social trust. Trust that can be functional for corrupt networks is considered particularized trust, as distinct from generalized trust (Uslaner 2002; 2008a). In a society in which basic public services such as education and health are not available without petty corruption, participating in petty corruption might enhance even generalized trust because corruption is considered a kind of lubricant for social life. Since we cannot rule out this possibility, the effect of corruption on trust is ultimately an empirical question.

Causal direction between trust and corruption may run the other way as well. If you trust that other people, in general, will not engage in corruption, you are less likely to act corruptly than when you perceive everyone else is engaging in corruption (Karklins 2005; Rothstein 2011: 100; Uslaner 2008b). Thus, the level of generalized interpersonal trust will likely affect the level of corruption. However, the effect of trust on corruption might be negligible depending on the prevailing conceptions and norms about corruption. If most people consider petty corruption as a social lubricant, trusting people may engage in petty corruption as frequently as nontrusting people.

Fairness, Trustworthiness, and Trust

Since it is inherently difficult to know both the actual degree of trustworthiness of a stranger or other people and the actual level of corruption, it is an important question how people form their perceptions about trustworthiness of other people in general. A number of social psychological studies suggest that individuals' perceived levels of trustworthiness of other people are strongly influenced by their perceptions of societal and institutional fairness.

DeConinck (2010) and Krosgaard et al. (2002) find that interpersonal and organizational trust is significantly influenced by perceptions of organizational justice, including procedural, distributive, and interactional justice. Fairness heuristics theory proposed by Lind (2001) suggests that fairness perceptions are formed more quickly than trustworthiness perceptions. Van Den Bos (2001) shows that individuals use fairness judgments to form their perceptions of trustworthiness. Roy et al. (2015) find empirical evidence that organizational fairness impacts trustworthiness of organizational members, which in turn increases customer trust in banking. These findings on the link from organizational fairness to trustworthiness to trust may be generalized at institutional or societal level. Institutional fairness, in terms of procedural, distributive, and interactional fairness, should directly affect institutional trust, which in turn may influence interpersonal trust as well.

Some psychological studies have indicated that people's "beliefs in a just world," or their perceptions of fairness of their societies, are highly correlated with interpersonal trust (Begue 2002; Lerner 1980). Since people's perceptions of others are an integral part of their "beliefs in a just world," strong believers in a just world are more trusting of other people in general. If the fairness/unfairness of a society affects people's perceptions of societal fairness, it will also affect the level of generalized interpersonal trust.

While we have considered corruption as a form of untrustworthy behavior, corruption can also be considered a breach of interactional fairness, which requires equal treatment of people. Alternatively, corruption can be understood as a breach of "formal justice," which John Rawls ([1971] 1999: 51) defines as "impartial and consistent administration of laws and institutions" (You 2012). Corruption as a violation of interactional or formal justice should affect people's perceptions of fairness, which should in turn influence their generalized interpersonal trust. Also, the effect of corruption, or perceived corruption, on perceived trustworthiness and trust will significantly depend on the degree of perceived unfairness of corruption, which should be closely correlated with tolerance for corruption at both individual and societal levels. This suggests that the effect of corruption on trust will vary depending on individual attitudes and social norms about corruption as well as the types of corruption.

Overall, these studies suggest that corruption as a form of unfair and untrustworthy behavior is likely to reduce institutional and interpersonal trust on the one hand, but on the other hand trusting people are less likely to engage in corruption. However, the strength of both directions of causal effect is uncertain without empirical analysis.

Different Conceptualizations, Measurements, and Understandings of Corruption

Conceptualizing Corruption

As the above section indicates, the link between trust and corruption will significantly depend on individuals' conceptions and norms about corruption as well as their perceptions of corruption. The link will be stronger for individuals and societies that have a broader conception of corruption, a greater sense of unfairness about corruption, and higher perceptions of corruption. Also, theoretical and empirical analysis of the relationship between trust and corruption can be significantly affected by conceptualization and measurement of corruption.

In the current literature, corruption is typically defined as "abuse of public office (or power, or entrusted authority) for private gain." It is often narrowly interpreted as public officials' misuse (mostly illegal) of discretionary power for personal material gain, such as bribery and embezzlement. However, corruption is often initiated by the

private sector, using economic power. Also, many legal practices such as the political influence of large campaign contributions can be considered corrupt. Indeed, ordinary people seem to define corruption much more broadly.

Alina Mungiu-Pippidi (2006; 2015) proposes an alternative definition of corruption as "particularism," as opposed to universalism or equal treatment of citizens. According to Transparency International's 2013 Global Corruption Barometer (GCB) survey of 114,000 respondents in 107 countries, a majority of people around the world seem to consider favoritism ("personal contacts get things done in the public sector") and influence of big interests ("the government is run by a few big interests") essentially synonymous with corruption (Mungiu-Pippidi 2015: 4–10). In the survey, people's perceptions of corruption ("most public officials/civil servants are very or extremely corrupt") correlated more highly with favoritism and influence of big interests than with their experiences of paying a bribe. Moreover, at least in European countries, those people who have participated in petty bribery to obtain public services do not seem to consider it a functional social lubricant. The data from the 2013 European Quality of Government Index (EQI), which is based on surveys of European Union (EU) member states and some accession-aspiring countries, shows that people with experience of petty bribery were much less satisfied with public services than those who did not pay a bribe. Also, over 90% of bribe payers claimed that they received unequal treatment, while a majority of non–bribe payers perceived equal treatment (Mungiu-Pippidi 2015: 8–9). The data indicate that the possibility of petty corruption acting as a social lubricant, enhancing social trust, is practically nil and that widespread petty corruption is likely to increase people's perceived unfairness and lower social trust, at least in European societies.

Corruption as an Agency Problem

Over the last decades, most research on corruption has been based on the understanding of corruption as an agency problem (Klitgaard 1988; Rose-Ackerman 1978). Ugur and Dasgupta's meta-analysis of 115 studies on the effect of corruption on economic growth finds that they all took a principal-agent approach to corruption explicitly or implicitly (2011: 43). The principal-agent model posits that the agent can exploit their informational advantage over the principal to pursue their own interest, which diverges from that of the principal. The public can be considered the principal while public officials, both elected and appointed, can be considered the agents. Or, we can consider multiple layers of principal-agent relationships in the political system, such as voter-politician and politician-bureaucrat relationships. Here, corruption is a form of moral hazard by the agent. Anticorruption strategies based on this analysis typically stressed the need to reduce the discretionary power of public officials through deregulation, privatization, and liberalization, and to strengthen monitoring of officials and sanctioning of corrupt officials (Klitgaard 1988). The narrow focus of this approach is best expressed by the Nobel laureate Gary Becker (1995): "If you want to cut corruption, cut government."

The exclusive focus on corruption as an opportunistic behavior of public officials (politicians and bureaucrats) makes the link between trust and corruption rather thin. Even if most officials are corrupt, and hence untrustworthy, they are a small portion of the population. Hence, it may not have much impact on generalized interpersonal trust. The adverse effect of corruption on institutional trust is also likely to be confined to political institutions. On the other hand, the effect of trust on corruption will also be limited. Whether most people other than public officials are trusting or not is unlikely to influence public officials' behaviors.

Corruption as a Collective Action Problem

Recently, some scholars have questioned the utility of the principal-agent model of corruption and the anticorruption strategies based on this model. They have proposed an alternative understanding of corruption as a collective action problem (Mungiu-Pippidi 2015; Persson, Rothstein, and Teorell 2013; You 2016).

Impartial civil service and absence of corruption can be considered a public good of the second order, which is prone to the problems of free riding and opportunistic behavior (Rothstein 2013). In the case of petty corruption to obtain public services, for example, citizens will gain if they refuse to pay a bribe and demand that services be provided equally and impartially to everyone. In a society in which most citizens pay a bribe for services, however, it will be meaningless for individuals to not participate in petty corruption. This is a typical collective action problem. Even if the majority of citizens morally condemn corrupt practices and realize that they, as a collective, stand to lose from ongoing corruption, they still find it nearly impossible to resist the practices (Karklins 2005).

This is where the role of social trust comes into play. Social trust facilitates cooperation and helps to overcome collective action problems (Putnam 1993; Rothstein 2005; 2013; 2016; Uslaner 2002; 2008a). Thus, a substantial stock of social trust is necessary to control corruption. Also, in a society in which few people engage in corruption, it is much easier for individuals to resist corruption. Hence, we can expect multiple equilibria: societies with high social trust and low corruption and societies with low social trust and high corruption. Causal direction should run both ways. Trust and corruption control are likely to reinforce each other, while mistrust and corruption are also likely to do so. An important question is how countries trapped in the vicious circle of low trust and high corruption can escape from it and move to a virtuous circle of high trust and low corruption.

Measuring Corruption

Any study of corruption encounters the difficult problem of measuring corruption. Objective measures of corruption, such as the conviction rate in corruption cases or newspaper articles on corruption, may reflect the rigor and effectiveness of the

judicial system or the freedom of the press rather than the actual level of corruption (You 2015: 38–39). Hence, measures of perceived corruption may be more reliable than objective measures of corruption, especially for cross-national comparison.

Transparency International's CPI and the World Bank's Control of Corruption indicator are the most widely used cross-national measures of perceived corruption. Both are composite indexes of perceived corruption, aggregated from multiple sources that are based on either expert ratings or surveys of business people and/or households. Another perceived measure of corruption widely used by scholars is the Political Risk Service Group's International Country Risk Guide (ICRG) index of corruption. This index is available for a relatively long period of time going back to 1984, and there have been attempts to conduct panel data regressions using the data. However, Johann Lambsdorff (2006), architect of the CPI, raises doubt about the reliability of the ICRG index, noting that it measures *political risks* from corruption rather than *degrees* of corruption. The CPI has not included the ICRG measure as a source, while the Control of Corruption indicator uses it as one of many sources. Measurement error is a particularly serious concern for the purpose of trend analysis. Year-to-year changes of a country score may result not only from the changing perceptions of the country but also from changes in sources and methodology (Lambsdorff 2006).

Transparency International has also developed a measure of the "experience" of corruption. Its annual Global Corruption Barometer (GCB) survey has asked respondents about their experience of bribery since 2004. One concern is the possibility of underreporting. Focus-group research, however, has shown that the underreporting problem is surprisingly limited (Seligson 2006). Experience survey data also suffers from large measurement errors, with substantial yearly fluctuations within countries.

The Control of Corruption indicator and CPI largely represent the views of experts and businesspeople. Therefore, they are more likely to reflect high-level corruption rather than petty corruption experienced by ordinary people, which is reflected in data from the experience of bribery surveys. Fortunately, the two measures are highly correlated, suggesting the validity of both measures and a very high correlation between petty corruption and grand corruption. Political systems that are very corrupt at the level of day-to-day transactions are also highly corrupt at the top (Seligson 2006).

Some researchers have used official statistics on the conviction rate of corruption cases for the study of corruption in the United States (Kube 2013). Perhaps, official statistics on the prosecution or conviction of corruption can be better used for cross-time comparison within a country rather than cross-national comparison, because enormous variation in prosecutorial rigor and judicial efficacy across countries is largely fixed within countries.

While there has been substantial improvement in the availability and reliability of various measures of cross-national and subnational measures of corruption over the last two decades, the large measurement error is still a hurdle for empirical studies of corruption. In particular, there is a concern about conducting panel analysis of corruption data because the substantial part of yearly fluctuations in corruption measures may be a noise rather than a reflection of real changes.

Review of Empirical Studies on the Relationship between Trust and Corruption

Evidence of Causal Effect of Trust on Corruption

Since Robert Putnam (1993: 111–112) found that regions with lower levels of social trust had higher levels of political corruption in Italy, many subsequent studies have examined the causal effect of social trust on corruption. La Porta et al. (1997) test Putnam's theory, using data from the World Values Survey (WVS, 1990–1993), and find strong cross-national evidence for the beneficial effect of social trust on corruption control as well as on bureaucratic quality and tax compliance, holding per capita GNP constant. A series of subsequent cross-national studies confirm the significant effect of social trust on corruption (Bjornskov 2010; Graeff and Svendsen 2013; Kube 2013; Uslaner 2004; 2008a).

Eric Uslaner (2004) finds that change in social trust from 1981 to 1990–1995 (WVS) explains change in corruption from 1980–1985 to 1998 (TI's historical CPI for 1980–1985 and CPI 1998), while the reverse effect is insignificant. Uslaner (2008a) further extends the causal link, which starts from (high) inequality and runs through (low) social trust to (high) corruption and back to (high) inequality. This causal chain creates a vicious circle of high inequality and high corruption, or an "inequality trap," in which social trust plays a mediating role. He tests his theory at both country and individual levels. Using a simultaneous equation model, he presents cross-national evidence for the effects from income inequality (Gini index) to social trust (WVS) to corruption (TI's CPI) and back to income inequality (Uslaner 2008a: 70–71). In particular, countries with higher social trust have much lower levels of corruption, controlling for regulation of business, fairness of legal system, gross national product (GDP) per capita, ethnic fractionalization, and Freedom House score of democracy.

Uslaner (2008a) also provides individual-level evidence that links generalized trust to perceived corruption. Using data from a survey of the Romanian population, he shows that trusting people are much more likely to believe that government is successful in handling corruption. However, individuals' generalized trust is not explained by their belief in the government's successful handling of corruption but mainly by perceived change in inequality and their belief that the country is heading in the right or wrong direction (2008a: 133–136). In surveys of the Estonian public and public officials, the perceived increase in corruption was significantly explained by generalized trust. In addition, people's perception of increased corruption was less affected by their experience and perceptions of petty bribery but more heavily affected by their perceptions of grand corruption (2008a: 158–165).

Bjørnskov (2010) attempts to disentangle two separate mechanisms connecting social trust and good governance: bureaucratic and electoral mechanisms. A bureaucratic effect can occur because the moral cost of corruption for public officials will

depend on trust that their fellow citizens abide by the rules of the game, which will be higher in countries with higher levels of social trust. On the other hand, the electoral effect of social trust may come from civic-minded citizens, who demand punishment of corrupt politicians. This argument is based on the assumption that trusting citizens are more civic-minded than nontrusting people. Using instrumental variable regressions, he shows that social trust has a significant causal effect on corruption, and that this is mainly due to bureaucratic effect rather than electoral effect.

Graeff and Svendsen (2013) examine causal direction between social trust and corruption, using the Granger causality test. They find that social trust in 1990 was a significant determinant of CPI 2000, controlling for CPI 1995, on a sample of 23 countries. However, CPI 1995 was not significant for social trust in 1999, controlling for social trust in 1990. Thus, trust is Granger causal for reduction of corruption, but corruption cannot be called Granger causal for trust.

While these studies all focus on the effect of social trust or generalized interpersonal trust on corruption, some scholars examine the effect of particularized trust or institutional trust on corruption. Uribe (2014), for instance, presents a theoretical model of corrupt public contracts embedded in networks of trust. Lambsdorff (2002) shows empirical evidence that confidence in corrupt deals enhances further spread of corruption in a cross-section of countries. Uslaner (2002; 2008a) emphasizes the contrasting effect of particularized trust and generalized trust. Their findings suggest that particularized trust facilitates corruption, whereas generalized trust deters corruption.

Drawing on data from an original opinion survey conducted in the Estonian public sector, Sööt and Rootalu (2012) show that institutional trust of individual public officials influences their awareness and tolerance of corruption. On the other hand, Wroe, Allen, and Birch (2013) find that less trusting individuals are more likely to perceive the presence of corruption than are their more trusting peers, using data from the United Kingdom.

Considering all the empirical studies reviewed above, there is considerable evidence supporting the causal effect running from social trust to corruption. However, it is difficult to establish causal direction convincingly because the correlation between social trust and corruption may be due to endogeneity or the reverse causality from corruption to social trust. There are some conflicting studies and, to date, there is still disagreement about the causal direction (Serritzlew, Sonderskov, and Svendsen 2014).

A difficult challenge is to show micro-level evidence that trusting public officials engage in corruption less frequently than their nontrusting counterparts, and that trusting citizens and entrepreneurs are less likely to participate in corruption or more likely to report and fight against corruption. Without this micro-foundation, a causal effect of social trust is uncertain as it may rest on a fallacy of composition, and spuriousness might be at play, as Serritzlew, Sonderskov, and Svendsen (2014) have noted.

In this regard, Uslaner's (2008a) micro-level analysis of Romanian and Estonian survey data is an important contribution to strengthen the micro-foundation of the causal claim. However, what his analysis shows at the individual level is not the effect of social trust on the actual experiences of corruption but on perceived effectiveness of

the government's anticorruption efforts (Romania) or perceived increase of corruption (Estonia). While one could argue that the effect of social trust on perceived corruption will further translate into individuals' propensity to participate in or resist corruption, this additional causal path needs to be empirically tested.

Some studies attempt to solve the endogeneity problem using instrumental variables. However, it is difficult to find valid instruments that are strongly correlated with social trust but are not directly correlated with corruption. Serritzlew et al. (2014) raise doubt on the validity of the instruments employed by existing studies. For example, Bjørnskov (2010) instruments social trust with the form of government (monarchy vs. other forms of ruling) and the average temperature in the coldest month of the year. It is, however, unclear why the form of government is directly correlated only with social trust but not with corruption. He argues that trust and social cohesion historically have been more important in regions with cold winters and that the cultures of such regions may have selected high-trust institutions through an evolutionary process. If so, why is cold winter not correlated with corruption?

Considering the difficulty, if not impossibility, of finding valid instruments, longitudinal analysis could be a good strategy for establishing causal direction. However, a sufficiently long time-span will be needed for such analyses because both social trust and corruption are known to be sticky and also because there will be substantial measurement errors for both variables. While Graeff and Svendsen (2013) have made an important contribution by conducting the Granger causality test, using data on social trust in 1990 and 1999 and CPI for 1995 and 2000 on a sample of 23 countries, it is uncertain how much the changes in social trust and CPI over the relatively short time span (5–9 years) in a small sample of countries reflect real changes rather than measurement errors. Uslaner's (2004) study examines changes in CPI (from 1980–1985 to 1998) and social trust (from 1981 to 1990–1995) for somewhat longer time spans, but TI warns that its historical data for 1980–1985 is not comparable with its annual data officially published since 1995 (Lambsdorff 2006).

Evidence of Causal Effect of Corruption on Trust

Studies on the causal effect of corruption on social trust and institutional trust are generally based on the theory that institutional fairness, of which corruption is an important element, affects individuals' institutional trust as well as social trust. However, it requires empirical tests to determine whether corruption really impacts social trust to a considerable extent. First, if people's propensity to trust others is mostly formed during the first two years of life and little affected by life experiences (Erikson [1950] 1963), then cultural influence will overwhelm the influence of life experiences, and there is little room for institutional influence. Second, there may be other factors that affect people's social trust more strongly than corruption and institutional fairness even if life experiences shape social trust. Hence, other competing explanations, such as the impact of participating in voluntary associations and the

negative effect of ethnic diversity on social trust, also need to be considered. Besides, the role of institutional effectiveness may be more important than that of institutional fairness, and corruption may be a minor factor that shapes people's perceptions of institutional fairness.

Peter Dinesen (2012a; 2012b) tests the cultural and experiential explanations of social trust by examining the social trust levels of non-Western immigrants in high-trust European countries, utilizing the natural experiment of migration. Dinesen (2012a) examines whether social trust of first-generation immigrants from three low-trust countries of origin (Turkey, Poland, and Italy) has changed after migrating to high-trust countries in Northern Europe. Using the method of matching, his analysis shows that the destination-country context strongly influences trust of immigrants. Dinesen (2012b) finds that second-generation immigrants in Denmark are considerably more trusting than their parents and, to a large extent, acculturate to the trust levels of native Danish children. In addition, children's perceptions of institutional fairness, such as equal treatment of native Danes and immigrants, and fairness of teachers in school were important determinants of social trust. Dinesen and Hooghe (2010) also find that second-generation immigrants tend to adapt more to the level of trust of natives in the destination country than first-generation immigrants do. Nannestad et al. (2014) analyze migration from several non-Western countries to Denmark, and they demonstrate that institutions rather than culture matter for social trust. Together, these studies lend strong support to the experiential perspective on trust rather than the cultural explanation. Sonderskov and Dinesen (2014) also point out that the remarkable increase of social trust in Demark from 1979 (when 47% of Danes agreed that most people can be trusted) to 2009 (when this share reached 79%) is hard to explain through cultural perspective. They present evidence that the rise in social trust is due to improved quality of state institutions and a concomitant increase in citizens' trust in these institutions, among other factors. On the other hand, Uslaner (2008b) finds both cultural and experiential effects on trust, but the cultural impact from ethnic heritage seems stronger from a study of immigrants in the United States. People whose grandparents came to the United States from countries that have high levels of trust (Nordics and the British) tend to have higher levels of generalized trust.

A number of studies have examined the effect of corruption and institutional quality on institutional and social trust. Some studies confirm the effect of corruption or institutional quality on social trust (Charron and Rothstein 2014; Delhey and Newton 2005; Freitag and Buhlmann 2009; Herreros and Criado 2008; Richey 2010; Rothstein and Eek 2009; Tsai, Laczko, and Bjornskov 2011; Uslaner 2008a, 2016; Wang and Gordon 2011; You 2012). Other studies verify the effect of corruption and institutional quality on institutional trust or political trust (confidence in political institutions) (Chang and Chu 2006; Choi 2014; Choi and Woo 2015; Hakhverdian and Mayne 2012; Kube 2013; Mishler and Rose 2001; Morris and Klesner 2010; Seligson 2002; Uslaner 2016; Wang 2016; Wong, Wan, and Hsiao 2011; Ziller and Schubel 2015), and the effect of institutional or political trust on social trust (Brehm and Rahn 1997; Rothstein and Stolle 2008; Sonderskov and Dinesen 2016; Steinhardt 2012; Tao et al. 2014; You 2012). Of

these studies, some theoretical advancements, methodological innovations, and significant empirical findings are worthy of mention.

Rothstein and Stolle (2008) distinguish between partisan institutions (parliament, political parties, government, and civil service), neutral and order institutions (army, police, and legal institutions), and power-checking institutions (the press and TV) when considering institutional trust. While trust in partisan institutions largely reflects the partisan orientation of individuals, trust in neutral and order institutions reflects perceptions of impartial treatment of people from these institutions. They argue that it is trust in the impartiality of neutral and order institutions that are closely related to generalized trust, and demonstrate that institutional impartiality is a significant determinant of social trust at both national and individual levels. Their study relies on cross-sectional data, but they nevertheless make a causal claim based on theoretical argument on the causal mechanism. On the other hand, a cross-national panel analysis of 74 countries for the 1980–2009 period by Blaine Robbins (2012a) shows the quality of property rights institutions increases trust, but the effect of corruption has not been tested. A cross-national study by Tsai, Laczko, and Bjornskov (2011) finds an interaction effect between governance and democracy, implying that the effect of governance on social trust is higher in democracies than in autocracies.

Among the micro-level studies on the effect of perceived corruption or objective measures of corruption on social trust, some scholars have attempted to identify the causal effect using instrumental variable regressions, experimental design, or panel data analysis. Uslaner (2008a: 162–164), for instance, finds a significant effect of perceived corruption on social trust among the Estonian public, public officials, and entrepreneurs (but not among Romanians) by employing instrumental variable regressions. Rothstein and Eek (2009) demonstrate that experiences of corruption lead to a reduced level of trust in an experimental study. A group of 64 Swedish students and a group of 82 Romanian students responded to a number of scenarios involving or not involving bribery and different outcomes. Experiences of corruption made them lose trust not only in corrupt officials but also in people in general. Richey (2010) tests the impact of corruption on individuals' generalized trust, using the state-level number of corruption convictions and the American National Election Study (NES) panel data from 2000, 2002, and 2004. The panel data analysis shows a large impact of corruption on generalized trust. Sonderskov and Dinesen (2016) provide convincing empirical evidence for the causal direction, using two Danish panel data surveyed over a long time-span (up to 18 years). Employing individual fixed effects and cross-lagged panel models, their results present strong evidence of institutional trust exercising a causal impact on social trust, whereas the evidence for a reverse causality is limited.

Some studies have utilized multilevel analysis at both individual and national or regional levels simultaneously. Herreros and Criado (2008) find that state efficacy, including corruption control, fosters social trust through a multilevel analysis of a sample of 35,221 individuals nested in 22 European countries, using the European Social Survey (2002–2003) data. Their measure of state efficacy was built from the Public Institutions Index from the World Economic Forum's 2003–2004 Global Competitiveness Report,

which is the mean of the contracts and law subindex and corruption subindex. Freitag and Buhlmann (2009) find not only that individuals' confidence in the police affect their generalized trust but also that country characteristics such as corruption, inequality, and power sharing also influence people's trust in others in a multilevel analysis of 67,617 individuals nested in 58 countries. Jong-sung You's (2012) multilevel analysis of 168,334 individuals nested in 80 countries shows that both individuals' perceptions of corruption as well as political trust and country-level corruption, inequality (and skewness), and democracy have significant and important effects on social trust, while ethnic diversity and per capita GDP lose significance when these variables are taken into account. Charron and Rothstein (2014; 2016) present a multilevel analysis of over 85,000 respondents nested in 206 regions in 24 European countries. They find robust evidence that both regional-level quality of government and individual-level corruption perceptions and experiences are strong determinants of social trust. Robbins (2011) and Wang and Gordon (2011) also find a significant effect of legal property rights institutions on social trust through multilevel analyses.

In summary, there is very strong and robust empirical evidence of the causal effect of corruption and institutional fairness on social trust as well as institutional trust. The variety of methods (experimental study, instrumental variable regression, panel data analysis, multilevel analysis), the variety of measures of corruption (cross-national measures such as CPI and Control of Corruption, and individuals' perceptions and experiences of corruption), and the wide coverage of a variety of data (hundreds of thousands of individuals, hundreds of subnational regions in Europe and America, close to a hundred countries, and up to 18 years of time span) used in these studies add weight of evidence. Overall, the evidence for causal effect from corruption to social trust seems to be stronger than that for causal effect from social trust to corruption.

Multiple Equilibria in the Levels of Social Trust and Corruption

The strong evidence for the causal effect of corruption on social trust and the considerable evidence for the causal effect of social trust on corruption suggest vicious circles of low trust and high corruption as well as virtuous circles of high trust and low corruption. Robbins (2012b) uses an identified nonrecursive structural equation model and instrumental variables to test if a reciprocal relationship exists between institutional quality and generalized trust. The results indicate a statistically significant and positive feedback effect between institutional quality, including corruption, rule of law and property rights protection, and generalized trust. He finds that the path is stronger from generalized trust to institutional quality. Although his use of monarchy as an instrument for generalized trust is not very convincing, the validity of informational technologies as an instrumental variable for institutional quality sounds more plausible. Becker et al. (2016) find long-run persistence of institutional trust and corruption

by comparing the communities on both sides of the long-gone Habsburg border. The communities have shared common formal institutions for a century but show stark differences in corruption and institutional trust between those formerly affiliated with the Habsburg Empire and those without a Habsburg-affiliated history.

Some scholars suggest expanded virtuous and vicious circles between social trust, corruption, and inequality. Rothstein and Uslaner (2005) argue that greater equality and less corruption produce greater generalized trust, which promotes more inclusive (universalistic) social welfare programs, leading to a greater level of equality and social cohesion. While this circular causality and feedback effect may lead to a positive equilibrium, it can also lead to a negative equilibrium, or an "inequality trap," for countries with high inequality and corrupt governments. Uslaner (2008a; 2013) argues that the causal chain runs from (high) inequality to (low) social trust to (high) corruption and back to (high) inequality. Rothstein (2011) suggests that "the reinforcing effects of equality and high quality of government on trust and social policy—and the feedback to greater trust and less inequality—lead to a positive equilibrium for societies that initially took the steps to adopt universalist social welfare policies." He cites his own empirical study with Staffan Kumlin (Kumlin and Rothstein 2005) that found that contacts with universal welfare-state institutions tend to increase social trust, whereas experiences with needs-testing social programs undermine it. You (2012) argues that people's perceptions of institutional and societal fairness, including corruption as a breach of formal justice (or interpersonal justice), income inequality (skewness of income distribution, in particular) as an issue of distributive justice, and functioning democracy as a political system to ensure procedural justice, should determine their generalized trust. He suggests social trust is also likely to affect corruption and inequality. Although it may be impossible to sort out how exactly the causal chain runs, the existence of multiple equilibria for trust, corruption, and inequality is an important topic that requires further research.

Trust and Corruption in Democracies and Authoritarian Regimes

One very interesting pattern between trust and corruption that the literature has neglected is the striking contrast between democracies and authoritarian regimes. Figure 20.1 shows scatterplots of Control of Corruption (2012, from World Bank's Worldwide Governance Indicators) and country-level social trust, measured as the percentage of people who agree that most people can be trusted (2009–2014, from the World Values Survey), by democracy status. Democracies denote the countries that Freedom House considers "Free," as opposed to "Partly Free" or "Not Free" (2012). The scatterplot for democracies reveals a very strong correlation between the levels of control of corruption and the levels of social trust at the country level ($r = 0.74$). However, the correlation is essentially nil for nondemocracies ($r = 0.04$). While there seem to

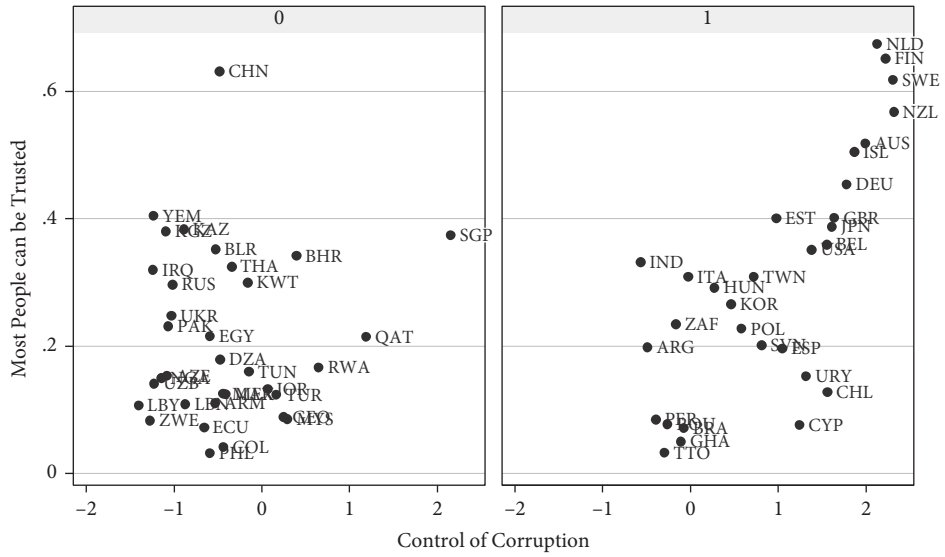

FIGURE 20.1 The Association between Control of Corruption and Social Trust, by Democracy Status

Notes: The left box (democracy = 0) scatterplots nondemocracies ("partly free" or "not free" countries), and the right box (democracy = 1) scatterplots democracies ("free" countries), based on Freedom House ratings (2012).

be multiple equilibria for corruption and trust among democracies, we cannot see that among nondemocracies. This contrasting pattern also applies to the relationship between confidence in the police and social trust (r = 0.76 for democracies and r = -0.0015 for nondemocracies; see Table 20.2).

Tables 20.1 and 20.2 show the descriptive statistics for these variables and the percentage of bribe payers (to the police), income inequality (Gini index), and pairwise correlations by democracy status. Overall, democracies (average Control of Corruption = 0.92, average percentage of bribe payers = 12.3%) are considerably less corrupt than nondemocracies (average Control of Corruption = -0.45, average percentage of bribe payers = 36.3%). Also, democracies have higher levels of social trust (average percentage of trusting population = 30.4%) than nondemocracies (average percentage of trusting population = 21.2%) on average. However, not all democracies enjoy low corruption and high trust. And those democracies with high levels of corruption (Control of Corruption < 0, i.e., more corrupt than the average country) tend to have low levels of social trust.

There is not much difference in people's confidence in the police between democracies (average confidence = 2.66, on a scale of 1 = "none at all" to 4 = "a great deal") and nondemocracies (average confidence = 2.62). Among nondemocracies, the correlation between confidence in the police and either Control of Corruption (r = 0.51) or the percentage of bribe payers (r = -0.54) is no less strong than among democracies (r = 0.74 with Control of Corruption; r = -0.27 with the percentage of bribe payers).

Table 20.1 Descriptive Statistics, by Democracy Status

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Democracies (Free)					
Control of Corruption	30	0.92	0.94	-0.56	2.32
Paid a bribe to police	28	12.3%	19.5%	0.0%	79.2%
Social trust	30	30.4%	18.7%	3.2%	67.4%
Confidence in police	30	2.67	0.34	1.97	3.30
Inequality (Gini)	24	35.81	9.50	25.59	63.38
Nondemocracies (Partly Free or Not Free)					
Control of Corruption	34	-0.45	0.77	-1.40	2.15
Paid a bribe to police	30	36.3%	20.5%	3.0%	80.6%
Social trust	34	21.2%	13.3%	3.2%	63.1%
Confidence in police	34	2.62	0.42	1.79	3.71
Inequality (Gini)	21	38.14	8.73	24.74	53.54

* ***Data source***: Teorell et al. (2016), The QoG Standard Dataset 2016.* Democracies are countries that Freedom House considers "Free," as opposed to "Partly Free" or "Not Free" (2012).

* Control of Corruption (world mean = 0, standard deviation = 1), from World Bank's Worldwide Governance Indicators (2012).

* Paid a bribe to police (during the last year; percentage of respondents), from TI's Global Corruption Barometer survey (2009–2013).

* Social trust (percentage of respondents who agree that most people can be trusted), from World Values Survey (2009–2014).

* Confidence in police (1 = "none at all" to 4 = "a great deal"), from World Values Survey (2009–2014).

* Gini index of income inequality (0 = perfectly equal to 100 = perfectly unequal), from World Bank's World Development Indicators (2009–2013).

In summary, both perceived and experienced corruption is strongly correlated with institutional trust for both democracies and nondemocracies. Both perceived and experienced corruption are also strongly correlated with social trust for democracies, but not for authoritarian countries. Also, the correlation between institutional trust and social trust is very strong for democracies, but it is nil for authoritarian countries.

This puzzling contrast between democracies and nondemocracies in terms of the relationship between social trust and corruption has not been explored by the existing studies. While Tsai et al.'s (2011) finding of a significant interaction effect between governance and democracy implies a significant difference between the slope among democracies and that among authoritarian regimes, this topic has not received adequate attention. Now, an important question is what explains this contrasting pattern.

Table 20.2 Pairwise Correlations, by Democracy Status

Democracies (Free)					
	CoC	Bribed	Social trust	Conf. police	Gini
Control of Corruption	1				
Paid a bribe to police	-0.623	1			
Social trust	0.744	-0.394	1		
Confidence in police	0.743	-0.270	0.758	1	
Inequality (Gini)	-0.331	0.262	-0.509	-0.448	1
Nondemocracies (Partly or Not Free)					
	CoC	Bribed	Social trust	Conf. police	Gini
Control of Corruption	1				
Paid a bribe to police	-0.544	1			
Social trust	0.044	-0.050	1		
Confidence in police	0.510	-0.541	-0.002	1	
Inequality (Gini)	0.136	-0.119	-0.451	0.129	1

It is beyond the scope of this chapter to address this question thoroughly. Let me briefly consider some possible explanations.

First, corruption may be a more salient factor affecting people's perceptions of fairness and interpersonal trust in democracies than in nondemocracies. Democracies are supposed to treat every citizen equally and impartially, whereas under authoritarian regimes certain forms of privilege, discrimination, and arbitrariness are formally institutionalized. People are likely to have higher expectations of fair and impartial treatment from the government and public officials under democracies than under authoritarian regimes. Hence, corruption as an unfair treatment of people is likely to have a stronger negative effect on both institutional trust and interpersonal trust. Also, the information about corruption, especially grand corruption, is tightly controlled under authoritarian regimes; therefore, the salience of corruption is likely to be weaker than in democratic countries.

Second, the effect of social trust on corruption is likely to be stronger in democracies than in dictatorships because of the different forms of corruption that exist in various regime types. The prevailing types of corruption under democracies are different from those under dictatorships, and corruption is generally more centralized in the latter. Under authoritarian regimes, predation by the dictator and the ruling elite may be the most important form of corruption. Since corruption is concentrated in a few

powerful people, the effect of average people's social trust will be minimal. Also, this type of corruption will erode trust in the government but not in people in general. Under democracies, the involvement of the private sector and special interests in various forms of corruption may be more frequent. Also, democracies typically have more extensive programs for social welfare and social services, with more people involved in and affected by fairness and impartiality of the administration of these programs. If trusting people are less likely to be involved in corruption, the effect of social trust on corruption will be higher under democracies because corruption is more decentralized and opportunities for corruption are more widespread. Also, people may consider corruption not just extortion by public officials but also private actors' opportunistic behavior. Hence, corruption is likely to erode not only trust in the government but also trust in other people in general in democracies.

Third, corruption as a collective action problem will be more salient in democracies than in authoritarian regimes (You 2016). As the ultimate principal in democracies, a democratic citizenry, or voters, will face more difficult collective action problems than authoritarian rulers or ruling groups. Voters (principals) are supposed to select politicians (agents) as well as monitoring and sanctioning corrupt politicians; however, the former may become the clients of the latter, as their patrons, if the primary mode of electoral mobilization and competition is clientelistic rather than programmatic. Although voters stand to gain collectively by promoting programmatic politics, they may be individually better off giving their votes in exchange for particularistic benefits. Thus, voters lose the ability to select honest and competent representatives and hold them accountable under clientelistic politics. Hence, democracies whose citizenry can successfully overcome the collective action problem by developing programmatic competition will be more competent at controlling corruption than those democracies that suffer from prevalent and persistent clientelism. Since collective action capacity is directly influenced by the level of social trust, the relationship between social trust and corruption control will be stronger in democracies than in dictatorships.

Fourth, the answer to the puzzle may come partly from the relationship between corruption and inequality. You (2015: 240–243) and You and Khagram (2005) find a strong correlation between inequality and corruption across democracies, especially in countries with a long duration of democracy, but no significant correlation between inequality and corruption across authoritarian countries. You (2015: 243–244) also finds a stronger correlation between inequality and clientelism in countries with a longer duration of electoral democracy. Table 20.2 indicates a relatively strong negative correlation between Control of Corruption and income inequality (Gini index) for democracies ($r = -0.33$), but an insignificant correlation with a wrong sign for nondemocracies ($r = 0.14$). A similar pattern is found with regard to the correlation between inequality and the percentage of bribe payers.

Since inequality is highly correlated with social trust across countries for both democracies ($r = -0.51$) and nondemocracies ($r = -0.45$), the differences in the correlation between corruption and social trust by democracy status may be, to a considerable extent, due to the difference in the correlation between corruption and inequality by

democracy status. You (2015) argues that inequality fuels corruption in democracies by increasing clientelism, patronage, and elite capture. He provides strong empirical evidence through a large N cross-national analysis using instrumental variable regressions and via a comparative historical analysis of South Korea, Taiwan, and the Philippines.

Conclusion

The voluminous literature on the relationship between trust and corruption, or broader institutional quality, over the last couple of decades has contributed to expanding and deepening our understanding of the topic. Understanding of corruption as a collective action problem illuminates why social trust is necessary to control corruption, especially in democracies, and why endemic corruption erodes social trust. The causation seems to run both ways—from trust to corruption as well as from corruption to trust—creating vicious and virtuous circles especially for democracies. However, more research is needed on micro-level evidence for the effect of social trust on corruption. Considering the difficulty of finding valid instrumental variables for both social trust and corruption, we may still need to wait for decades in order to find convincing empirical evidence for causality using panel data analysis. The most intriguing topic for future research is probably the different patterns of trust-corruption relationships between democracies and nondemocracies.

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