

# 1 *The Theoretical Framework*

Corruption is widespread in Greece. The widely recognized malfeasance is objectionable not just because it flaunts norms of honesty, but because it exacerbates inequality. As the American journalists Donadio and Alderman (2012) write:

Greece's economic troubles are often attributed to a public sector packed full of redundant workers, a lavish pension system and uncompetitive industries hampered by overpaid workers with lifetime employment guarantees. Often overlooked, however, is the role played by a handful of wealthy families, politicians and the news media – often owned by the magnates – that make up the Greek power structure. In a country crushed by years of austerity and 25 percent unemployment, average Greeks are growing increasingly resentful of an oligarchy that, critics say, presides over an opaque, closed economy that is at the root of many of the country's problems and operates with virtual impunity. Several dozen powerful families control critical sectors, including banking, shipping and construction, and can usually count on the political class to look out for their interests, sometimes by passing legislation tailored to their specific needs. The result, analysts say, is a lack of competition that undermines the economy by allowing the magnates to run cartels and enrich themselves through crony capitalism.

Corruption and its roots in inequality are not a new concern in Greece. Aristotle (1962, Book III, 1279a, 114; Book V, 1308b, 228) worried about this linkage in 350 BCE, 2,400 years earlier:

...when the One, or the Few, or the Many, rule with a view to the common interest, the constitutions under which they do so must necessarily be right constitutions. On the other hand the constitutions directed to the personal interest of the One, or the Few, or the Masses, must necessarily be perversions... The masses are not so greatly offended at being excluded from office... what really annoys them is to think that those who have the enjoyment of office are embezzling public funds.

Corruption persists over long periods of time (though not necessarily two dozen centuries). Corruption is not easy to eliminate. Systemic corruption is deeply rooted in the underlying social and historical political structure.

A country's history shapes the conditions for honesty in government: economic equality and a state that is strong enough to provide services to its citizens.<sup>1</sup> The most important service a state can provide is education. *Countries with higher levels of education in the past have less corruption today.*

Why education? Education promotes economic equality. The linkage between equality and lower levels of corruption is well established (cf. Uslaner, 2008; You, 2015; see below). And education promotes the civic values that underlie “good government” – or honesty in government. Education provides the foundation for ordinary people to take part in their governments – and to take power away from corrupt leaders.

Education empowers people to make their own way in the world without having to rely upon clientelistic leaders for their livelihood. When people depend upon “patrons” for their well-being, their welfare, even their sustenance, is tied to their loyalty. They may “tolerate” corruption by these leaders, either because these “big men” defend them against others who might exploit them even more or because ordinary people do not have alternative sources of income. The patron–client relationship is founded on inequality.

Education also promotes loyalty to the state rather than to local (or tribal) leaders. When governments provide services such as education, people will associate benefits with the state and will be more likely to have a broad identity with their fellow citizens (Darden, 2013; Peterson, 2016; Uslaner, 2002, 208). This broader identity is the foundation of generalized trust – trust in people we don't know who may not be like us. Higher levels of trust are strongly linked to lower corruption (Uslaner, 2008, chs. 2, 3). A common identity, like trust, is only possible where there is greater equality (Uslaner, 2002, chs. 2, 4, 6, 7). The strong aggregate relationship between trust and mean school years in 1870 ( $r^2 = .462$ ) suggests that education is part of the “inequality trap,” perhaps even a surrogate measure for trust.

I am not alone in arguing that education is critical for good governance. Aristotle argued: “All who have meditated on the art of governing mankind have been convinced that the fate of empires

depends on the education of youth”<sup>2</sup> and (Aristotle, 1962, V, 1309b, 233):

The greatest . . . of all the means . . . for ensuring the stability of constitutions . . . is the education of citizens in the spirit of the constitution. There is no profit in the best of laws, even when they are sanctioned by general civic consent, if the citizens themselves have not been attuned, by the force of habit and the influence of teaching, to the right constitutional temper . . .

The larger story is that the effects of education levels in the past have effects that persist over time. “Path dependence” is the argument that the present – and the future – look a lot like the past (North, 1990). Once a country’s trajectory is set, it is difficult to change. Countries with high levels of education in 1870 (when the available data begin) have the highest levels 140 years later.

Education leads to greater equality but it is the most equal societies that are most likely to provide universal education. Governments are most likely to provide education where there is public demand – where resources are more equal – and where the state has sufficient resources and power to provide widespread public education. These conditions were found mostly in Protestant Western European countries – and in some former colonies with large European populations. In colonies where most of the population was indigenous, the colonial powers provided few benefits such as education. This was also the case in other less developed countries with high levels of inequality, where education was provided largely by religious authorities or by local elites – and also in Catholic countries, where the church feared that educated people might challenge its authority.

Countries with high levels of education in the late nineteenth century – where there are the first cross-national measurements – not only were more equal then, but continued to have more equitable distributions of wealth a century and a half later. They also had less corruption and this “virtuous” cycle persists over long periods of time.

I first show (Chapter 2) that the mean number of years of schooling in 1870 is strongly related to the level of corruption across 78 countries in 2010. Historical levels of education remain tightly connected to contemporary corruption even controlling for current levels of education and historical income levels.

Where inequality was high – and especially where colonial powers exploited the local population and did not live among them – unequal

distributions of wealth persist over long periods of time. And this was fertile ground for dishonest governance well years later. Providing education is a policy choice – and “bad” decisions on social welfare can be reversed. They are easier to change than political institution or a country’s biological or technological legacy. Policies may not change readily, but they are not set in stone.

I do not try to resolve the debate as to what corruption means. There are many definitions of corruption, from Mungiu-Pippidi’s (2006) “ethical universalism” to Rothstein’s (2011) “impartiality” in the exercise of public power (Rothstein 2011). No single definition can cover what everyone means by corruption – and what constitutes corruption is often disputed. Are campaign contributions “corruption”? And where does one draw the line between private and public corruption? It is more straightforward to compare relative levels of corruption among countries than to engage in definitional disputes as to what corruption “means.” The measure I use for corruption, the Transparency International Corruption Perceptions Index, has considerable face validity – the countries ranking as honest or dishonest on this index reflect what most people would see as honest/dishonest in governance. While some have criticized this measure, other researchers have responded with a spirited defense of related measures (Kaufmann, Kraay, and Mastruzzi, 2007).

### A Cure for Corruption?

Much of the literature on malfeasance in public life is focused on ways to reduce corruption in the short term. Some of this literature comes from anti-corruption agencies such as Transparency International or the Mo Ibrahim Foundation or from economic institutions such as the World Bank or the European Bank for Reconstruction and Development.<sup>3</sup> Banks make loans and want to get repaid. Anti-corruption agencies and other research organizations also have stakes in immediate results, since their *raison d’être* is to reduce misbehavior in public life. Pessimism is not a message that will lead financial institutions to invest even more funds in borrowers who may not repay their debts. Nor will research shops or other non-governmental organizations find it easy to stay in business without remedies.

Academics gain visibility by promoting ready solutions: Michael Johnston (2015, ch. 3) suggests that incremental reforms – notably

by improving benchmarks for performance and enhancing the delivery of basic services – are small steps to “make haste slowly.” “Visible improvement in the effectiveness and fairness of just one or two of these key services can drive a process of institution-and-trust building” (Johnston, 2015, 64). Olken and Pande (2012) review a range of short-term fixes including audits of government programs, greater transparency of government procedures, and more competition among bureaucrats for the provision of services.

Yet “corruption has outlived all predictions of its demise. Indeed, it appears to be thriving” (Keefe, 2015). While some countries seem to have been able to carry out substantial reductions of corruption, perceived levels of corruption remain high throughout much of the world. In the 2010 Corruption Perceptions Index from Transparency International (TI), measuring elites’ evaluations of the honesty (or dishonesty) of political and economic institutions in their countries, 131 of the 178 nations fell below the midpoint on the 10 points of the index, with higher scores representing low corruption. Only 23 nations had scores (7 or higher) indicating that their governments are basically honest. In the Global Corruption Barometer for 2013, public opinion surveys in 107 countries conducted by TI, a majority did not see corruption as a major problem in only one country (Denmark).

While Olken and Pande (2012) find that some interventions led to short-term declines in corruption, the longer-term effects of such reforms are often illusory: “. . . corrupt officials are resilient: over time, they adapt to changes in their environments, in some cases offsetting anti-corruption policies with new avenues for seeking out rents.” Johnston (2015, 60–61, italics in original) admits, “Where trust is weak, anti-corruption efforts are likely to have little credibility at the outset, and may appear to be – indeed may *be* – just another way for a political faction to gain or keep the upper hand.” So the most prominent proposals for reducing corruption – harsh penalties for officials who are “on the take,” the establishment of anti-corruption commissions, and public campaigns against corruption – are all likely to have minimal effects.

I am pessimistic about finding “quick fixes” to the problem of corruption. Corruption persists over time. Its roots lie in a nation’s history. My argument is in line with a growing body of historical institutionalism arguing that conditions ranging from institutions to natural resources can have long-term effects on economic prosperity as well as

governance. The legacy of the past has strong effects on the present, according to this framework. It is difficult for countries to change, but it is not impossible. When countries do fight corruption – successfully, they almost always combine this campaign with a program of economic reform. And such reforms put education policy at their center. Large-scale economic reform and the development of universal education is a much more demanding task than the structural reforms that anti-corruption agencies and some scholars propose.

### The Roots of Corruption

My account follows an argument that I made in an earlier book. There I argue (Uslaner, 2008, ch. 2) that corruption is part of an “inequality trap,” where inequality, mistrust, and corruption are mutually reinforcing. My model is:

**inequality – > low trust – > corruption – > more inequality**

The poor become trapped as clients to their patrons in corrupt societies. The well-off “redistribute” society’s resources to themselves and entrench themselves in power by controlling all of society’s institutions (Glaeser, Scheinkman, and Shleifer, 2003, 200–201). The poor who depend upon powerful leaders for their livelihood – and for justice – have almost no opportunity to challenge the balance of power (Scott, 1972, 149). Corruption stems from inequality and reinforces it.

Glaeser, Scheinkman, and Schleifer (2003, 200; see also You, 2005, 45–46) argue:

... inequality is detrimental to the security of property rights, and therefore to growth, because it enables the rich to subvert the political, regulatory, and legal institutions of society for their own benefit. If one person is sufficiently richer than another, and courts are corruptible, then the legal system will favor the rich, not the just. Likewise, if political and regulatory institutions can be moved by wealth or influence, they will favor the established, not the efficient. This in turn leads the initially well situated to pursue socially harmful acts, recognizing that the legal, political, and regulatory systems will not hold them accountable. Inequality can encourage institutional subversion in two distinct ways. First, the havenots can redistribute from the haves through violence, the political process, or other means. Such Robin Hood redistribution jeopardizes property rights, and deters investment by the rich.

Similarly, You and Kagham (2005, 138) argue: “The rich, as interest groups, firms, or individuals may use bribery or connections to influence law-implementing processes (*bureaucratic corruption*) and to buy favorable interpretations of the law (*judicial corruption*).”

Inequality breeds corruption by: (1) leading ordinary citizens to see the system as stacked against them (Uslaner, 2002, 181–183); (2) creating a sense of dependency of ordinary citizens and a sense of pessimism for the future, which in turn undermines the moral dictates of treating your neighbors honestly; and (3) distorting the key institutions of fairness in society, the courts, which ordinary citizens see as their protectors against evildoers, especially those with more influence than they have (see also Glaeser, Scheinkman, and Schleifer, 2003; and You and Khagram, 2005).

Corruption and inequality wreak havoc with our moral sense. Della Porta and Vannucci (1999, 146) argue that pervasive corruption makes people less willing to condemn it as immoral. As corruption becomes widespread, it becomes deeply entrenched in a society (Mauro, 2002, 16). In an unequal world, people of the dominant group may not see cheating those with fewer resources as immoral (Gambetta, 1993; Mauro, 1998, 12; Scott, 1972, 12) and about evading taxes (Mauro, 2002, 343; Oswiak, 2003, 73; Uslaner, 2006). People at the bottom of the economic ladder will have little choice but to play the same game even as they may resent the advantages of the well-off (Gambetta, 2002, 55).

Corruption leads to lower levels of generalized trust – the belief that “most people can be trusted.” This linkage is strong – but it holds only for “grand corruption,” malfeasance that involves large stakes and high-level officeholders. Grand corruption leads to less trust in others (notably to people who are different from yourself) because it leads to inequality. And inequality is the strongest determinant of trust – across countries without a legacy of Communism, over time in the United States, and across the American states (Uslaner, 2002, chs. 6, 7; Uslaner and Brown, 2005). Petty corruption – small payments to bureaucrats, police officers, doctors – for routine services do not lead to a loss of trust in others. These small payments do not enrich anyone and hence do not destroy the social fabric.

Inequality leads to more corruption (either directly or indirectly through trust – and education). But corruption also results in more inequality. The three components of the inequality trap are all

*sticky* – they do not change much over time. The  $r^2$  between the 2004 Transparency International estimates of corruption and the historical estimates for 1980–1985 across 52 countries is .742. Using the V-DEM estimates of corruption (Coppedge *et al.*, 2015), the  $r^2$  for this measure in 1900 and the TI index in 2010 is .704 for non-colonies (see Chapter 6). For 2010, the  $r^2$  is .740 for 39 countries in both data sets. Just as corruption is “sticky,” inequality and trust do not change much over time, either. The  $r^2$  for the most commonly used measures of economic inequality (Deininger and Squire, 1996) between 1980 and 1990 is substantial at .676 for a sample of 42 countries. A newer measure of inequality (Solt, 2009) also shows substantial continuity: The  $r^2$  for net inequality in 1981 and 2008 is .582 for 34 countries.

The  $r^2$  between generalized trust, as measured in the 1981, 1990–1995 World Values Surveys across between 1980 and the 1990s is .81 for the 22 nations included in both waves – the  $r^2$  between generalized trust in 1990 and 1995 is also robust (.851,  $N = 28$ ). The stickiness of corruption, inequality, and trust are the heart of the inequality trap. ***Inequality, low trust, and corruption are all sticky because they form a vicious cycle.*** Each persists over time and it is difficult to break the chain.

In addition to the “inequality trap” there may also exist a parallel problem that can be called the “corruption trap.” Countries that start out with a high level of corruption will not be able to raise taxes for launching social and education programs for alleviating poverty because corruption results in a high level of distrust in the ability of the state to: (a) collect taxes in a fair and efficient manner; and (b) implement the programs in a competent and fair manner. Even people with a preference for more economic equality will refrain from supporting higher levels of public spending (and higher taxes) if they perceive that corruption is high and competence low in the public administration that is supposed to implement the reforms (Svallfors 2013; Rothstein, Samanni and Teorell 2012). People distrust a state with high levels of corruption because it is not able to deliver services and so they will not support higher taxes. Yet the government cannot deliver better services and increase the competence of the civil service until it has more economic resources. The mutual distrust between citizens and the state that is the effect of systemic corruption creates an effective “social trap” (Rothstein 2005)



Rothstein and Uslaner (2005, 43) argued that universal social welfare programs are the key to building both trust and better governance. Universal programs provide benefits to people regardless of their economic (or social) circumstances. While “means-tested programs exacerbate class and often racial divisions within a society – and thus lead to less generalized trust and more in-group trust. By contrast, universalistic programs enhance social solidarity and the perception of a shared fate among citizens. Education opens up opportunities for greater equality.

In American big cities in the early twentieth century, political bosses provided immigrants with the needs of daily life: jobs, loans, rent money, contributions of food or fuel to tide them over . . .” (Cornwell, 1964, 30). Free public education liberated their children from submission to political bosses. Especially the free education at the City University of New York created a new professional class who did not need the “benefits” of the political regime – and founded a reform movement to fight the bosses and establish clean government (Uslaner, 2008, 236–241). Education became a major tool in the fight against corruption in the United States. It also was a key element in the development of universal social welfare programs in the Nordic countries, where it has been a central focus of programs designed to promote equality (Knudsen, 1995).

Education also has a more direct payoff. Countries with higher levels of education fare better in long-term economic growth (Glaeser *et al.*, 2004; Gylfason and Zoega, 2003) and to more wealth (Glaeser, Scheinkman, and Shleifer, 2003). Gylfason and Zoega (2002, 24) report that a 1 percent increase in public expenditure on education reduces the Gini index by 2.3 points across 74 countries from 1980 to 1997.

The Industrial Revolution took hold in nations that had the greatest levels of increase in book production – and this led to faster growth (Baten and van Zanden, 2008, 232–233; Easterlin, 1981, 14; Glaeser *et al.*, 2004, 285; Goldin and Katz, 1999, 699). Mass education developed as institutions for economic opportunity for the mass public. In the United States, local governments sought to fulfill the demands of the manufacturing sector for managers with training in “accounting, typing, shorthand, and algebra” and blue collar workers “trained in mathematics, chemistry, and electricity” (Galor, Moav, and Vollrath, 2009, 165).

The mean education level across countries has increased markedly (by sixfold) from 1870 to 2010. Yet the past has a heavy hand: The countries with the highest levels of education at the start of the series were also those at the top 140 years later ( $r^2 = .576$ ). And those countries that departed most from this linear relationship were the countries with the highest levels of education in 1870. While education may be the way to break out of the “inequality trap,” the high correlation over time between levels of education across countries indicates that it is not easy to break out of the trap. Mean school year attainment, I shall argue, is strongly related to economic inequality in the late nineteenth century. The 1870 educational attainment measure is just as strongly related to contemporary post-redistribution inequality.<sup>4</sup>

### Corruption and Education

Darden (2013) and Uslaner (2002) argue that universal education creates strong social bonds among different groups in a society. In turn, this makes cleavages based upon clientelism and corruption less likely. The introduction of free universal education should lead to a “virtuous cycle” of widespread education and increased socio-economic equality. High levels of inequality enable the elite to undermine the legal and political institutions and use them for their own benefit. If inequality is high, the economic elite is likely to pursue socially harmful policies, since the legal, political, and regulatory systems will not hold them accountable (Dutta and Mishra, 2013; Glaeser *et al.*, 2004, 200; You, 2008).

Access to education provided more people with the skills to find gainful employment so they did not have to rely on corrupt, or clientelistic, structures of power (Goldin and Katz, 2008, 29, 133; Uslaner, 2008, 239–241). Over time, the educational inequalities between the rich and the poor in countries that established universal education were sharply reduced, though not eliminated (Morrison and Murtin, 2010). Literacy had direct economic payoffs. Countries with higher levels of book production in the early nineteenth century were more likely to industrialize and to have greater levels of economic growth by the twentieth century (Baten and van Zanden, 2008, 233).

More widespread education was critical for increasing gender equality. Nineteenth century school enrollments were highest where girls had access to education, notably the United States and lowest when girls