

# 59. Inequality and corruption

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*Corruption generally hurts poor people more than the rich, and therefore serves as a regressive tax. An additional negative effect of widespread corruption is that it destroys support for policies that can decrease economic inequality. Such policies, for instance universal health care, education and social insurance systems, will be difficult to establish in countries with widespread corruption. The reason is that corruption destroys both social and political trust. Citizens who are in principle in favour of policies for increased economic equality will refrain from supporting such policies if they perceive that corruption in the public sector is widespread.*

For the vast majority of people, human well-being could be improved if inequality is decreased in their society (Radcliff, 2013). It is important to consider the necessary amount and type of solidarity needed to produce public policies that enhance social and economic equality, and whether this solidarity can be politically manufactured. We take as our starting point the notion that the level of social solidarity in a society is not culturally determined. The Nordic countries are not more equal than, for example, the UK or the USA because there is something special about the Nordic culture. Instead, the unusually broad-based political support for the welfare state has been politically constructed 'from above' by the universal (or near universal) design of the policies concerned (Rothstein, 2015). The recent introduction of a more universal type of social policy reform in several Latin American countries in areas such as health care, pensions and education shows the existence of the same causal logic as in the Nordic countries (Pribble, 2013), as does the contingent support for the National Health Service in the UK and the social security system in the USA. In sum, it is the specific design of the institutions, not history or culture, that matters for the possibility of establishing sustainable policies that reduce inequality.

## Social solidarity and 'human nature'

When trying to gain political support for decreasing inequality, it is important to start from a correct understanding of 'human nature', especially if you want your policies to have a lasting impact.

Needless to say, ideas about 'basic human nature' have a long history in the social sciences. The empirically most compelling theory is the work done in experimental research based on the idea of reciprocity (Fehr and Fischbacher, 2005). This research has refuted the idea of man as a *homo economicus* (the rational self-interested individual assumed by classic economics). The results from laboratory, fieldwork and survey research that speaks against humans as utility-maximizing rational agents are by now overwhelming. Self-interest is for sure an important ingredient when people decide how to act, but it is far from being as dominating as has been portrayed in neoclassical economics. Moreover, it would be impossible to create solidaristic or cooperative institutions of any kind, including democracy, the rule of law and the control of corruption, if individual utility-maximizing self-interest is the only game in town. The reason is that individuals who adopt this approach would sooner or later fall for the temptation to 'free-ride', and if the majority do this, such institutions will never be established. If they exist, they will soon be destroyed (Miller, 2000). If all agents act out of the template prescribed in neoclassical economic theory, they will sooner or later outsmart themselves into a suboptimal equilibrium. Also known as a 'social trap', this is a situation where all agents will be worse off despite knowing that they would all gain from cooperation. They abstain from cooperation because they do not trust others to cooperate (Rothstein, 2005).

## Understanding reciprocity

However, this new experimental (and to some extent field) research does not present humans as benevolent altruists. True, there is altruistic behaviour, but it is usually restricted to very small circles of family and close friends. Or it is simply too rare and unpredictable for building sustainable systems for solidarity at a societal level. This lesson is important, since it tells us that trying to mobilize political support for increased equality by referring only to people's altruistic motives is likely to fail. What comes out from this research is instead that reciprocity is the basic human orientation. The central idea here is that people are not so much motivated 'from the back' by utility-based calculations or culturally induced norms. Instead, human behaviour is to a large extent determined by forward-looking strategic thinking in the sense that what agents do, depends on what they think the other agents are going to do. Experimental studies show that people are willing to do 'the right thing', like paying their taxes and refraining from corruption, but only if they can be convinced that most others are willing to do the same (Bicchieri and Xiao, 2009). The idea of reciprocity fundamentally recasts how we should understand and explain human behaviour.

## Institutional design and control of corruption

Regarding the prospects for social solidarity, results from empirical research show that most people are willing to engage in cooperation for goals such as universal social insurance systems, even if they will not benefit personally benefit from them (Rothstein, 2015). But for this to happen, three specific conditions have to be in place. First, people have to be convinced that the policy is morally justified (substantial justice). Second, people have to be convinced that most other agents can also be trusted to cooperate (solidaristic justice): that is, that other agents are likely to abstain from 'free-riding' such as cheating on taxes and getting special favours by paying bribes. Third, people have to be convinced that the policy can be implemented in an uncorrupt and fair manner (procedural justice).

For the first issue, political ideology certainly plays a role. The second and third requirements, however, have to be resolved by institutional design, and this is where knowledge from research into policy implementation and anti-corruption is needed.

For example, it is not difficult to argue that universal access to high-quality health care and sickness insurance is a policy that caters to basic ideas about social justice. However, if a majority cannot be convinced that most people will pay the increased taxes required for producing these goods, that the goods will be delivered in a manner that is free from corruption and respectful, and that policies such as sickness insurance will not be abused or overused, they are not likely to support these policies (Rothstein, 2011). If health personnel are known to be corrupt, unprofessional or disrespectful, support for this policy will dwindle even if people in general would be in favour of the policy as such. In other words, solidarity for increasing social justice is conditional on the institutional design of systems that are supposed to bring about the policies that will enhance equality. In particular, corruption is 'enemy number one'. This has been formulated in the following words by the political philosopher John Rawls:

*A just system must generate its own support. This means that it must be arranged so as to bring about in its members the corresponding sense of justice, an effective desire to act in accordance with its rules for reasons and justice. Thus, the requirements of stability and the criterion of discouraging desires that conflict with the principles of justice put further constraints on institutions. They must not only be just but framed so as to encourage the virtue of justice in those who take part in them. (Rawls, 1971, p. 261)*

The central idea of this quote comes when Rawls specifies that for making a solidaristic system sustainable, we have to be aware of the existence of a feedback mechanism between people's support for just principles and their perceptions of the quality of the institutions set up to implement these principles.

## Why institutional design trumps ideology

Recent empirical research strongly supports Rawls's argument that individuals' perception of corruption or similar forms of malpractice in the public services influences their support for social solidarity. Using survey data for twenty-nine European countries that includes questions about the fairness of public authorities (in the health sector and tax authorities), as well as questions about ideological leanings and policy preferences, Svallfors (2013) has shown the following.

Citizens who have a preference for more economic equality but live in a country where they perceive that the quality of government institutions is low, will in the same survey indicate that they prefer lower taxes and less social spending. However, the same 'ideological type' of respondent who happens to live in a European country where they believe that the authorities that implement policies are basically just and fair, will answer that they are willing to pay higher taxes for more social spending. This result is supported in a study using aggregate data about welfare state spending and corruption in the public sector for Western liberal democracies (Rothstein, 2011). The higher the quality of government, the more countries will spend, controlled for variables that measure political mobilization and electoral success by left parties.

To summarize, citizens who live in a country where they perceive that corruption or other forms of unfairness in the public administration are common are likely to be less supportive of the idea that the state should take responsibility for policies for increased social justice, even if they support the goals of such policies ideologically. This has been formulated by Fehr and Fischbacher in the following way: 'If people believe that cheating on taxes, corruption and abuses of the welfare state are widespread, they themselves are more likely to cheat on taxes, take bribes or abuse welfare state institutions' (2005). What can prevent this is high quality in the government institutions responsible for implementing social policies. Widespread notions of favouritism, lack of impartiality, corruption and incompetence will result in declining support for policies that alleviate inequality, even in the part of the electorate that is ideologically in favour of a society with more equality.

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