

Trust and Transitions

Trust and Transitions: Social Capital in a Changing World

Edited by

Joseph D. Lewandowski and Milan Znoj



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Joseph D. Lewandowski and Milan Znoj
Prague

INTRODUCTION

Trust has repeatedly been identified in a wide variety of disciplines in the humanities and social sciences as a key factor in human flourishing. More specifically, individual beliefs about the shared moral horizons of others and the fairness of institutions have been singled out as crucial not only to the normative health of democratic societies but also to the efficiency of market economies. Indeed, it is often argued that without such beliefs the formation of the broader social networks, cooperative norms and associational ties that make markets and democracies work is undermined.

In the contemporary literature, such networks, norms and ties are generally conceived of as “social capital.” Yet what, precisely, is social capital? As it turns out, the answer to such a question has proven—and continues to prove—somewhat elusive. The generic definition of social capital is networks of trust, social norms and associational ties that are valuable insofar as they enable individual and collective actions of various kinds. In contrast to capital proper, where value is stored in physical objects, or human capital, where value resides in the skills and abilities of individual human beings, social capital is value accumulated in relations between and among individuals. What makes capital “social”, in other words, is that it is value laden in social connections, reciprocal ties, shared norms, trust networks, and so on. Unlike economic capital or human capital, social capital appears to be a distinctly “we” phenomenon.

It is often said that theories of social capital are simply variations on the everyday intuition that “it is not what you know, but whom you know” that matters. We would not necessarily reject such an intuition. But in the context of social scientific theory and research, we would try to formulate it with greater methodological precision. In the social sciences, the overarching goal of social capital studies is to measure and explain the effects that social connections, ties and trust have on specific individuals and their behaviors, the behaviors of others to whom such individuals are connected, and the society in which all those individuals are embedded. Broadly construed, social capital research provides empirically based explanations of the enabling and limiting conditions of human action at the micro level of individuals, the meso level of groups and associations, and the macro level of the state.

In its work, the Social Capital Research Group has sought to identify and scrutinize three prevailing threads in contemporary social capital theory and research: 1) an economic or rational thread, found most notably in the rational choice theory of Gary Becker and James Coleman, and central to policy-oriented theories of growth and economic development such as those pursued at the World Bank; 2) a critical or Marxist thread, exemplified by the work of Pierre Bourdieu, in which theories of social groups, stratification, and conflict are applied in the empirical study of socio-cultural practices; and, finally, 3) a political or democratic thread, first intimated by Alexis de Tocqueville and made popular by the work of Robert Putnam, in which civil associations are considered crucial to making democracy work.

Unavoidably, of course, the Research Group has also devoted considerable time to discussing the nature and functions of some of social capital's closest conceptual cousins, especially those of "civil society", "community", and "solidarity." In fact, as the contributions to this collection make clear, analytically distinguished threads in social capital theory and research quickly become intertwined in such familiar conceptions. This is particularly the case in periods of socio-economic and political transitions, when structural changes impact the webs of human relations in complex and often contradictory ways. Needless to say, in the course of the Research Group's work specific attention was given to the theoretical and empirical issues arising from the transition to a market-based democracy in the Czech Republic. To be sure, we also endeavored to develop comparative perspectives, in and through which the emergence of democratic institutions and market relations in different historical and cultural contexts of transition could be fruitfully analyzed.

Most generally, our aim in this volume is to extend a dialog, begun in the Research Group, about what appears to be two opposing tendencies in the nature and function of social capital. On the one hand, we want to explore the economic and democratic threads in contemporary social capital theory that characteristically argue for a causal link between high levels of social trust and associational memberships and prosperity and democracy. Indeed, the productive role that social capital has played—and may continue to play—in the economic, political, and moral health of market-based democracies is one of the central themes pursued by the contributors to this volume.

On the other hand, we have also sought to emphasize the critical thread in social capital theory—one that foregrounds problems of socio-economic and political stratification and the unequal effects of exclusive networks, in-group and out-group distinctions, and related issues of elitism and

clientism in market-based societies. In fostering and re-enforcing the stratification of civil society, social capital often appears to corrode democratic ways of life—in both existing market-based democracies and newly transitioning ones. This democratically counterproductive tendency toward stratification in social capital (re)production and circulation is the other core theme addressed by our contributors.

Hence this volume seeks to raise, but not resolve, fundamental questions about social capital in theory and practice. What role does trust play in relations of exchange and the forms of reflexive social cooperation that appear to be the pre-conditions for market-based democracies? How does trust, or social capital more generally, function both as a mechanism of civic participation and social justice as well as a source of inter-group conflict and stratification? Do transitioning market-based democracies continue to be the locus of the development of basic liberal values and social solidarity? How does trust promote or—depending on contextual variables—polarize economic development? What is the relationship between such development and newly emergent conditions of distrust, such as the globalization of elite networks and ties? What, if anything, can or should market-based democracies do to cultivate and redistribute social capital? How, precisely, is social capital created and transferred?

Employing a range of theoretical and empirical approaches, the authors of the twelve chapters collected in this volume explore such questions in specific ways. In the first section, Eric Uslaner opens with an analysis of the role of informal networks under conditions of widespread social distrust. Drawing on his pioneering work on corruption and trust, Uslaner focuses on the legacy of largely instrumental and non-generalized informal connections that were essential for getting on in daily life under Communist rule. As Uslaner points out, such informal networks were often “as close to ‘social capital’ as most people were likely to get.” In fact, with its heavy reliance on strategic networks and “gift” payments to doctors and government officials, the informal sector during Communist times fostered a culture of corruption that continues today. Indeed, the informal sector has become a fact of life—a way of “coping”, as Uslaner puts it, with everyday existence and corrupt government in the post-Communist period. To what extent, Uslaner’s chapter asks, do the citizens of a transition country evaluate the success of their market-based democracy by the prevalence of a strong informal sector? The question is pursued in the context of rich empirical data, including a 2003 survey of the Romanian public in which questions about the role of informal connections in obtaining medical treatment, employment, business transactions and bank loans, as well as in dealings with police, courts, and

local government agencies. In light of the evidence, Uslander concludes that coping in the informal economy “neither builds nor destroys social capital.” Rather, it is market and policy failures, caused by large-scale corruption, that undermine the creation of social capital.

In Chapter 2, Iva Božović similarly inquires about the contemporary legacy of informal systems of exchange in post-Communist countries. Focusing on Serbia and Montenegro, Božović investigates the use of personal relations in such systems, and considers their ramifications for economic performance. Specifically, Božović aims to clarify how managers and owners of small and medium size enterprises (SMEs) use social networks in periods of transition. Based on in-person interviews with SME managers and owners in Serbia and Montenegro, Božović employs a transaction cost framework to understand an individual manager's decision whether to transact within his or her social network or in the impersonal market. The result of the analysis is that, in transitioning to a market-based economy, “a complete shift from personal to impersonal exchange is not desirable.” Indeed, Božović argues that “personal exchange can successfully complement impersonal exchange by providing an alternative form of contract enforcement that can lower enforcement costs even when disputes can be resolved in inexpensive and efficient courts.” Of course she recognizes, in keeping with Uslander's findings, that while the use of personal relations in exchange may have insignificant social costs, the use of connections in conducting network exchanges can have negative implications for market principles, as well as foster a culture of corruption and distrust in institutions.

Moving from analyses of the political economy of the informal sector to an account of “deliberative social capital” in Chapter 3, Gregory Streich breaks new ground in the theory of social capital and democracy. Here Streich brings together recent work in social science and political philosophy in an attempt to explain some of the problems and challenges facing countries in transition to market-based democracy. Specifically, Streich seeks to give analytic clarity to the notion of deliberative social capital, and then to operationalize that notion in a consideration of the extent to which such capital promotes processes of democratization. In the context of post-Communist countries, Streich argues that certain forms of deliberative social capital—normative networks and ties based on social solidarity and cross-group mobilization, for example—played a crucial role in ending Communist regimes. Yet he also suggests that while historically necessary, such forms are no longer sufficient. Indeed, additional stocks of deliberative social capital are crucial to making the constitutional, social, and institutional dimensions of democracy work

over the long term. Moreover, Streich argues that transition countries face a difficult future—one in which the democratic potential of deliberative social capital will be tested. In fact, and as Streich points out, in many ways this future has already arrived, as transition countries now must deal with the increasingly polarizing socio-economic effects of market liberalization, issues of ethno-racial divisions between dominant groups and various minorities, as well whether, how and on what normative basis to hold members of previous regimes accountable for their actions.

This last point is the explicit focus of Chapter 4, in which Max Pensky probes the complex relationship among transition, justice and trust in the context of South Africa's emergence from apartheid. Developing an empirically informed normative argument, Pensky examines South Africa's "brave experiment" in truth and reconciliation, in which amnesty for crimes against humanity during the apartheid era has been offered. Specifically, what interests Pensky in amnesty-based forms of justice is the tension between the normative demand for retributive justice and the pragmatic need for political stability in democratically transitioning nation-states. Understanding how and why amnesty does and does not work in such contexts requires, as Pensky says, taking seriously "the role of nationhood, national identity, and the dynamics of national solidarity in calculating what counts as success in transition." How a nation deals with past injustices in times of transition is in no small way bound up with its collective experiences, joint narratives and shared self-understandings as a nation. In other words, civic trust and national solidarity are, Pensky argues, "not just functional requirements for social integration" within a nation-state, but also, and more fundamentally the normative basis for what counts as transitional justice for that nation-state. Consequently, repairing broken civic trust and fractured national solidarity in periods of transition inevitably entails reconstructing the bases for national identity. One of the lessons to be learned from South Africa, Pensky suggests, is that such a reconstruction is best accomplished in a pincer-like approach to creating social capital. From the top-down, there must be an administrative effort to create solidarity and institutional trust, understood as rights-protected inclusion in the institutions of democratic deliberation. At the same time, and from the bottom-up, ordinary citizens must cultivate a street-level social trust in one another and the legitimacy of good governance.

The remaining two chapters in the first section pursue decidedly more skeptical arguments about the democratic potential of social capital and trust. In Chapter 5, Joseph Lewandowski develops the critical thread in social capital theory in a discussion of the political economy of

globalization and the effects of that economy on contemporary civil societies. In particular, Lewandowski argues that globalization has opposing effects on elites and populaces. On the one hand, globalization characteristically disembeds elites, producing networks of elite social capital and “elites without borders.” On the other hand, globalization tends to re-embed everyday populaces, producing impoverished networks and “peoples without power.” The resultant problem is that transnational elites characteristically evade popular democratic control. In highlighting the functional emergence of elite social capital and the global rise of class-based social distrust, Lewandowski draws skeptical conclusions about claims for “democracy without borders” and the prospect of transnational popular democratic control of elites. Indeed, for Lewandowski, finding ways to tame existing globalized mechanisms of stratification and social distrust is decisive for realizing the democratic potential of contemporary civil societies—both those long-established and those still in transition.

In Chapter 6, Pavel Barša concludes section I in a related skeptical vein as he pursues a theoretical archaeology of some of the cornerstones of contemporary neo-Tocquevillean research with an eye toward rethinking the theory of social capital and the nature of trust. In particular, what interests Barša here is not simply social capital and trust, but rather the existential sources of civic solidarity. In extended treatments of the work of Putnam, Uslander, Alexander and Tilly, Barša argues that one of the methodological conclusions to be drawn from these recent discussions of trust—and social capital more generally—is that a social science of human sociability can only be had by erasing “the radical contingency of social life.” Indeed, Barša maintains that the source of civic solidarity cannot be adequately conceived as attitudes and beliefs to be measured in opinion polls and surveys, but rather must be rethought as creative actions and practices of “radical or pure trust.” The core of Barša’s methodological claim, in other words, is to suggest that, in the face of contingent lifeworld contexts, what is needed is an existentially-informed social philosophy—rather than a social science—of trust and social capital.

Section II focuses exclusively on social capital theory and research in the Czech Republic, and in doing so it constitutes a unique interdisciplinary kaleidoscope of contemporary perspectives on trust and transition in the wake of the “velvet revolution.” In Chapter 7, Petr Matějů and Anna Vitásková seek to conceptualize and measure social capital in the context of post-Communist societies. The authors argue for a measurement model that identifies and distinguishes two distinct dimensions of social capital. The first dimension is understood holistically, as generalized trust attributable to a given society that in turn promotes

reflexive social cooperation. The second dimension, understood in the terms of methodological individualism, involves individuals' capacities to participate in informal networks in ways that enable mutually beneficial exchanges. This conceptual measurement model is then operationalized in an analysis of data taken from the Social Networks survey in the Czech Republic (2001). Based on the results, Matějů and Vitásková argue that while social capital understood as generalized trust has only a weak link to social stratification, social capital understood as an individual's involvement in mutually beneficial exchanges does in fact show significant variation among groups defined by relevant stratification variables.

In Chapter 8, Arnošt Veselý examines the complex processes in and through which social capital is created in the Czech Republic. In response to much of the current research in social capital theory, which fails to explain the nature of intergenerational differences in social trust and civic engagement, the origins and long-term development of such differences, and their interconnections over time, Veselý develops a trans-generational perspective on social capital, focusing especially on the development of social capital in Czech youths. He identifies four forms of social capital: social trust, civic engagement, participation in extra-curricular activities, and, in line with Matějů and Vitásková, informal networks based on mutually beneficial exchanges. Veselý then elaborates the different mechanisms that produce each form, develops a comparative analysis of all four forms, and examines the relative levels of such forms of social capital in Czech parents and their children. His analysis reveals significant but modest intergenerational transmission of social capital. In particular, Veselý identifies participation in extra-curricular activities as the strongest mechanism for civic participation in the Czech Republic.

In contrast to Veselý, Markéta Sedláčková and Jiří Šafr reconsider the role of generalized interpersonal trust in the Czech Republic in Chapter 9. They aim to test the hypothesis that interpersonal trust should be linked not so much to formal membership in voluntary organizations but rather to non-institutionalized participation based on collective action. The effects of non-institutionalized participation, in contrast to conventional participation, are examined using survey data. Sedláčková and Šafr assess the structure of generalized trust using regression analysis with three additive models: the first model applies to different types of institutionalized participation, such as voluntary organizational membership in a church, sports clubs, or union; the second model applies to non-institutionalized political participation, such as social and political action in demonstrations, contacts with media, or donations; while the third model indexes trust in

political institutions, and levels of satisfaction with political and economic performance. The authors find that there is in fact a link between interpersonal trust and non-institutionalized participation. Indeed, the strongest predictors of social trust are satisfaction with the political and economic situation combined with trust in state institutions. Such a finding casts new light on contemporary studies of civic participation in the Czech Republic, which typically focus only on conventional forms of participation, and view low levels of participation in such forms as confirmation of the decline of civil society.

In Chapter 10, Milan Znoj provides an historically informed analysis of recent socio-political developments in the Czech Republic as he seeks to characterize “the uncongenial paradox” of post-Communist civil society. Put bluntly, that paradox lies in the fact that the very civil society that serves as a catalyst for the fall of Communism characteristically becomes inert in the post-Communist period. Focusing on the Czech Republic, Znoj explores why and how such inertia besets the initially democratic transformative force of civil society. One reason, according to Znoj, is that even before democracy has taken hold, civil society in post-Communist countries is “thrashed by a neo-liberal state and capitalist economy.” In such cases, transition countries become globalized market societies at the long-term expense of their democratic potential—in this regard, the shortcomings of democracy in post-Communist transition countries are more acute than those in more robustly developed democratic societies, as Znoj points out. Moreover, in his analysis of the paradox of civil society, Znoj highlights three additional factors that have conspired to deflate the democratic power of post-Communist civil society: the rise of populism, the (re)emergence of nationalist struggles for independence, and the degrading of the emancipatory narratives of civil society prominent during the Communist era. With its probing contextualization of the concept of civil society and reflections on the “velvet revolution” and its aftermath of social distrust, populism, and corruption, Znoj’s analysis stands as a cautionary analysis of the democratic potential of social capital in the Czech context.

Chapter 11 adopts a similarly measured tone, as Marek Skovajsa examines what he calls the “two faces” of civil society in post-Communist countries. Taking aim directly at neo-Tocquevillean and Putnam-style arguments in social capital theory, Skovajsa shares with Znoj the argument that the effects of civil society-based associations cannot be studied independent of the broader social and political settings and histories in which they operate. Here Skovajsa examines not only the associational history of the Czech lands, but also that of Germany during the

Wilhelminian and Weimar era. In this way, Skovajsa scrutinizes the generic assumption that civic associations are the generators of positive social capital and schools of democratic virtues necessary for the functioning of successful and stable democratic systems with a more detailed account of context-dependent variables—in particular the nature, degree, and history of connectedness between civil society and the state. Indeed, for Skovajsa, civil society and the state must create “the necessary setting in which citizens’ associational activism can effectively contribute to the development and strengthening of democracy.” Applying this insight, Skovajsa finds that civil associations are, on balance, no more or less likely or equipped to foster democracy than they are to stratify society and give rise to nationalist tendencies.

By contrast, in Chapter 12 Ondřej Matějka uses the history and present of the Sudetenland as a context in which to examine the necessary and sufficient conditions for the growth of social capital. With its complicated history, the Sudetenland constitutes, according to Matějka, a kind of “laboratory” for the study of social capital creation. Working within the neo-Tocquevillean framework in social capital theory, and drawing on ethnographic research, Matějka outlines three mutually related preconditions for the successful development of democratic social capital. These are: the existence of a reliable order for the functioning of society; the existence of local patriotism (i.e., a conscious and positively experienced relation to place); and the existence of enterprising individuals (“activists”) who can initiate and organize social life.

In many ways this last chapter brings us back full circle to a consideration of the productive role that social capital may play in contexts where the transition to a market-based democracy remains unfinished. Of course it does so here only against the backdrop of several more guarded analyses of such a consideration—analyses such as those of Znoj and Skovajsa in this section, and Lewandowski and Barša in the previous one. In this regard the work gathered in this collection—when taken as a whole—highlights a kind of dialectic of the democratizing and stratifying tendencies of social capital in times of transition. Indeed, if there is an overarching conclusion to be drawn from the essays collected here, it is that democratization and stratification constitute the mutually opposing tendencies characteristic of social capital. The extent to which this dialectic of social capital can be resolved is a question not only for future work in social capital research, but also for everyday citizens, civil associations, and policy makers who, for better and worse, continue to live in a changed and changing world.

I. Trust and Transitions: Social Capital in Theory and Practice

CHAPTER ONE

COPING AND SOCIAL CAPITAL:
THE INFORMAL SECTOR
AND THE DEMOCRATIC TRANSITION¹

ERIC M. USLANER

Successful (or “well-ordered”) democracies are marked by high levels of trust in other people and in government, low levels of economic inequality, and honesty and fairness in the public sphere. Trust in people, as the literature on social capital has shown, is essential for forming bonds among diverse groups in society (see Uslaner 2002). Corruption robs the economy of funds and leads to less faith in government (perhaps also to less faith in fellow citizens) and thus lower compliance with the law (Uslaner 2003b). And institutions seen as biased (unfair) cannot secure compliance and may exacerbate inequalities in society.

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

Trust is more than simple honesty (Uslaner 2002, chaps. 2, 3, 5). But honesty is a minimal requirement for trust—which, in turn, promotes open markets, tolerance, programs that benefit people and groups with less, and reconciliation across ethnic and religious lines within a society. A “well-ordered” society has high levels of trust—and “everyone accepts and knows that the others accept the same principles of justice, and the basic social institutions satisfy and are known to satisfy these principles” (Rawls

1971, 454). It is prosperous and its government earns the approval of its citizens.

This picture of the “well-ordered society”, where democracy, in Putnam’s (1993a) felicitous term, “works”, stands in contrast to most transition countries, and Romania in particular. The formerly Communist nations of Central and Eastern Europe have become democracies with functioning electoral systems. But they rank low in generalized trust—with an average share of 24.9% believing that “most people can be trusted”, compared to 41.9% in the West. When trust is low, it is more difficult to manage conflicts within a society. Social strains make a society more difficult to govern—and governments will have more difficulty winning the support of their citizens. Low confidence in government and beliefs that democracy is not working and that the market is unfair all lead to lower compliance with the law.

The informal sector loomed large under Communism. Scarcity and corruption meant that ordinary citizens had to use informal connections to accomplish everyday tasks such as obtaining goods, getting medical treatment, obtaining a loan, and especially dealing with governmental institutions. The informal networks that arose were essential to getting by in daily life. They were not networks of sociability, but in a society where any sort of trust was hazardous, they constituted one of the few sources of social connections available to most people.

Survey evidence suggests that these ties were purely instrumental: People generally did not see their connections as personal confidants, nor did they “generalize” the trust they had in these informal networks to others in the society. However, under Communism, this was as close to “social capital” as most people were likely to get. Ordinary people also regularly had to make extra “gift” payments to doctors and government officials (from the police to the courts to city hall). These “connections” were potentially a source of “anti-social capital”, since the “gifts” were made for services that should have been provided without additional costs.

The fall of Communism did see the emergence of a market economy where people had to stand in line to obtain consumer goods or food. However, corruption persists (and some say it has become worse). The culture of corruption that persists in post-Communist society also means that informal connections are still an essential part of dealing with daily life (especially with the government).

Reliance on connections and gift payments are key parts of the informal sector. In a market democracy, neither should be necessary. In a market, people should be able to pay the set price for a good without “hidden” payments being required. In a democracy, all citizens *should*

have equal access to decision-makers without having to rely upon informal connections (although this is rarely met in the real world). The reliance on informal connections and gift payments are two measures of the power of the informal economy and the weakness of market democracy.

Do post-Communist citizens judge the success of their market democracies by the prevalence of a strong informal sector? I propose to examine this question by a survey of the Romanian public conducted in October, 2003. The survey asks about a wide variety of informal connections that people use in their daily lives. Do people have connections that they rely upon to get medical treatment, to find jobs, to deal in the business world, to obtain loans from a bank, to deal with courts or the police, to handle problems at city hall, or in a foreign country? Have people made gift payments to doctors, to bank officers, to the police, to the courts, or to city officials?

How do these informal connections shape people's attitudes toward the trustworthiness of their fellow citizens, satisfaction with democracy, and satisfaction with the market economy? A modern democratic market economy where people trust each other and their institutions should not be dependent upon "gift payments" that violate norms of trust and reciprocity or special connections that are not available to all citizens. Special treatment for some could undermine the social solidarity that is encapsulated in generalized trust (in other people) and might lead people to lose confidence in impartial governmental institutions and the development of a market democracy.

Do people see the persistence of the informal sector as harming the transition from communism to market democracy? Or might people with connections be satisfied with the system as it presently operates?

A third possibility is that lower-level corruption such as the informal sector plays only a minimal role in shaping people's attitudes toward each other or government. People *do* care about corruption, but their ire is focused on high-level corruption (corrupt politicians, judges, business executives) rather than on the lower-level corruption of the informal sector (cf. Uslaner and Badescu 2004b).

I test these claims by ordered probit and regression models of survey responses to questions on trust in other people (generalized trust or social solidarity), trust in government institutions, satisfaction with democracy, satisfaction with the market economy, and perceptions of changes in economic inequality in Romania. Bo Rothstein has suggested that the courts are the key instrument of impartial treatment of citizens, so gift payments or connections with the courts in particular may shape people's attitudes toward each other and toward their government.

The results are striking: Perceptions of increasing inequality reflect negative evaluations of government economic performance and of corrupt leaders. Trust in other people largely reflects optimism for the future and perceptions that inequality is decreasing, as well as the belief that politicians are *not* corrupt. Support for democracy reflects expectations of economic performance and perceptions of how well the government is handling large-scale corruption. Support for the market economy reflects similar economic judgments as well as perceptions that private firms are trustworthy and large-scale corruption is being controlled.

For each of these measures: 1) the informal sector plays a minor role in shaping public evaluations; and 2) the institutions that do have some impact are those that are perceived to be most fair and impartial: the courts and the police. Gift payments are almost always *insignificant* predictors of trust in fellow citizens, satisfaction with democracy and the market, and even perceptions of rising inequality. Using informal connections is sometimes associated with perceptions of rising inequality, but also with *better performance of democratic government* (where its effects are moderately strong). People see connections and gift payments as part of the routine of getting by in daily life in contemporary Romania. They do not condemn their fellow citizens for relying on these techniques for making life a little bit less difficult in most circumstances. Making “gift payments” to courts *do* make citizens believe that their fellow citizens are less trustworthy, that inequality is increasing, and that democracy is not working well.

The overall story of the informal sector is that what matters most to people in post-Communist societies is government performance—both in managing the economy and in curbing high-level corruption. The informal sector remains a key part of life in these societies, but it is mostly seen as a way of coping with a political and economic system rife with corruption. The informal sector does not destroy social cohesion. It does not make people less supportive of government or the market (except for the more “neutral” institutions of the courts and the police). Even as they realize that “gift payments” may be an unfair tax, they are generally minor irritants when political and business leaders may be plundering much larger amounts from the public purse. Citizens in transition countries have lived with the necessity of an informal sector for many years. They see it as a minor factor at best impeding the development of a market democracy. With increasing economic inequality and the harshness of the market, it may be a small price to pay to ensure coping.

The Informal Sector and the Transition to Democracy

Under Communism, the state controlled daily life and neighbors were pitted against each other. Trusting strangers must seem a quaint (or even dangerous) idea to people who are afraid to trust all but their closest friends. An oppressive state terrifies all of its citizens. Acting on moral principles makes little sense in a world where even simple reciprocity among strangers is too dangerous to contemplate. Scarcity makes life hard and leads people to seek ways of making their own lives better (Banfield 1958, 110). People have no sense of control and little basis for optimism—so they have little reason not to do whatever they need to do to get by.

If goods and services are in short supply and manipulated by the state, bribery and gift giving seem reasonable ways to obtain routine services. And state officials will find petty corruption a useful means of getting more resources themselves. Corruption will trickle up throughout the system and at the top will be far more than petty. Autocratic societies, with high levels of scarcity and little accountability, are breeding grounds for dishonesty. When people have little reason to trust one another, they will not only engage in corruption but will treat it as just another transaction, marked by no particular moral disapprobation.

In the old Soviet Union, “the official claim that bribery and graft are alien to socialist man conflicts with the prevailing popular attitude that there is nothing wrong with officials who practice what Russians commonly call *vzyatka* (literally ‘the take,’ a bribe or graft)” (Kramer 1977, 220). Barely more than a third of Hungarians see a moral problem when doctors demand “gratitude payments” for medical services (Kornai 2000, 3, 7, 9). This system of “gift giving” is so widespread that almost all doctors accept “gratitude money”; 62% of physicians’ total income came off the books. A majority of Russians found it necessary to use connections to get clothes and medicine and 10% still needed someone’s help in getting into a hospital after the fall of Communism (Ledeneva 1998, 8). In an economy marked by shortages and arrogant administrators, many people saw these payments as a way to ensure supply and also to establish longer-term relations with their doctors.

In many of the transition countries, there is a longing for the “bad old days”, where governments were corrupt and totalitarian, but people had a minimum of financial security. Now, many see democracy and the market as false hopes as inequality has risen dramatically. Corruption persists. The only way to get rich, many believe, is to be corrupt. Wealth is a sign of strong connections and especially of dishonesty (Mateju 1997, 4–5; Stoyanov et al. 2000, 35). While most Westerners believe that the path to

wealth stems from hard work, 80% of Bulgarians, Hungarians, and Russians say that high incomes reflect dishonesty (Kluegel and Mason 2000, 167; cf. Orkeny 2000, 109).

When Russian entrepreneur Mikhail Khorodovsky confessed his sins of relying on *beeznissmeny* (stealing, lying, and sometimes killing) and promised to become scrupulously honest in early 2003, Russians regarded this pledge as “startling.” When he was arrested and charged with tax evasion and extortion under orders from President Vladimir Putin ten months later, the average Russian was unphased: about the same share of people approved of his arrest as disapproved of it (Tavernise 2003). The arrest of Khorodovsky stands out as exceptional: Corrupt officials and business people are rarely held to account. While crime spiraled in Russia after the fall of Communism, *conviction rates plummeted* (Varese 1997). Market democracy seems a false promise to many in transition countries and their citizens see little prospect that things will improve any time soon. Many would find much to agree with the comment of the satirical group, The Royal Canadian Air Farce, in the 1980s: “Things are going to get a lot worse before they turn bad.”

There are plenty of goods in the market, but few have sufficient income to buy anything but the basics. People do not need to stand in line for shoes or meat. But they still make extra “gift” payments for medical services, to get into the university, and to the police for minor infractions. A majority of public officials in the Czech Republic, Slovakia, Bulgaria, and Ukraine in 1997–98 found it acceptable to receive extra payments from clients. Between 11% and 39% of citizens of those countries (in that order) reported offering a “small present” to officials and between 6% and 24% offered “money or an expensive present” (Miller et al. 2001, 217, 241). Across the four countries surveyed, from 47% to 78% of officials admitted accepting a gift from a client. The police and legal services were the most “honest” and health services personnel were most likely to admit accepting a favor (Miller et al. 2000, 10).

Under Communism, people did have social networks of those they could trust. People formed small networks to help them get by in daily life—to stand in line for scarce products, to help out close friends, relatives, and neighbors (Ledenva 1998). While Putnam (2000a, 288) argues that these strong ties are the stepping stones to trust in strangers, there is little evidence that one form of trust leads to another, either in formerly Communist countries or in the United States.

The helping networks that played such a key role in the Communist regimes were *substitutes* for the wider social networks that were simply not possible under repressive governments (Flap and Voelker 2003;

Gibson 2001; Ledeneva 1998, chap. 5). When communism fell in Central and Eastern Europe (mostly around 1989), reformers hoped that state control of political life would give way to a civil society with trusting and tolerant citizenries and where property rights would be respected. The downfall of corrupt dictators would energize people, make them optimistic for the future, and provide the foundation for trust and the civic culture more generally (Rosenberg 1956; Lane 1959, 163–166).

In a world where elites are routinely seen as dishonest—79% of World Values Survey respondents from post-Communist countries said that either most or all leaders are corrupt—people might be unlikely to believe that they live in a trusting (much less trustworthy) society. The end of state control of the economy meant the demise of many of the networks that people used to get by. Yet corruption persisted.

How and Why Corruption Matters

Generalized trust, as the belief that people who are different from yourself may still be part of your “moral community”, is a value stressing cooperation and compromise. Particularized, or in-group trust, is a more exclusionary attitude. Taking advantage of people who are different from you may be a necessary evil—or perhaps not an evil at all. Gambetta (1993) links high in-group trust and low generalized trust in Italy as the social foundations for the Mafia. Corruption depends upon a *limited form of trust—trust in close associates*. But it is the antipathy of generalized trust, where you should treat strangers as yourself (Uslaner 2004).

Generalized trust (in other people) rests upon two social psychological foundations: optimism and control. The world is a good place, it is going to get better, and you can help make it better (Uslaner 2002, chap. 2). Both optimism and control were particularly lacking under Communism. There was a brief spurt in optimism immediately after transition, but as the economies of transition countries soured, most people were no longer convinced that they faced a brighter future. At the societal level, the foundation of trust, and social solidarity more generally, is the level of economic equality in a society: Both over time in the United States and across nations, economic inequality is the strongest predictor of generalized trust (Uslaner 2002, chaps. 6 and 8). Every country for which there are data on changes in economic inequality save one (Slovakia) showed an increase in economic inequality from 1989 to the mid-1990s (Rosser, Rosser, and Ahmed 2000). And all but one (Hungary) of the 17 countries for which there are data had a sharp increase (from .3% to 42%) in the size of the shadow economy (Schneider 2003). The greater the share

of the economy beyond the reach of the state, the more difficult it will be for a government to marshal the resources necessary to gain public confidence in its ability to provide essential services. The average share of the shadow economy more than doubled from 1989 to 1999–2000 (from 17% to 38%) and the average increase in the Gini index of inequality was 33%.

Corruption is associated with higher rates of crime and tax evasion, closed markets, lower economic growth, and less efficient government institutions (Leite and Weidemann 1997; Mauro 1997; Tanzi 1998; Treisman 2000; Uslaner 2004). Corruption is widespread in former Communist countries. The mean score on the Transparency International corruption indicator for east bloc countries is more than half the size of that for the West (with higher scores indicating greater honesty).

Corruption matters because it:

- Creates social strains by increasing (perceptions of) economic inequality and destroying the senses of optimism and control over your life, which are the building blocks of generalized trust.
- Leads to perceptions that the market and the democratic system have failed. For many transition citizens, market democracy seemed to pave the road to the prosperity and the political freedom that Western nations had achieved. Corruption brings forth the fatalism of people living in the old Soviet bloc. By diverting funds from public purposes, corruption is a drag on the economy. As the economy sags, so will support for the market and democracy.
- Can destroy social solidarity, both directly and indirectly. The direct effect is through the impact of corruption on trust—where people feel few compunctions about benefitting themselves and their in-group at the expense of the larger society. The indirect effect comes from the connection with economic inequality.

Not all corruption is the same. Bribery and extortion are high-level corruption, while the informal economy is low-level malfeasance. Where you find one, you will find the other.² But they are not the same.

Low-level corruption includes “gift payments” to both public officials (the police, government workers, court officers) and to other service providers (especially doctors, business people, and bankers) to get things

done in a society where traditional market mechanisms do not work well. All lower-level officials have an incentive to shirk on the job—to take naps, take time off, or simply to sit and do nothing. But in a world of shortages, low pay, and little respect, there are even fewer incentives to perform your job. People may stand in line for hours waiting for their turn to register their cars or to see the doctor; police officers may stop helpless motorists and pedestrians and threaten tickets for minor offenses. Petty corruption is a sure-fire way for such bureaucrats to supplement their meager salaries—and it is often the best or *only* way for powerless citizens to obtain services (DiFrancesco and Gitelman 1984, 611, 617–618; Hutchcroft 2002, 502).

Petty corruption also includes the use of “connections” to survive in daily life. In the Communist era, it included taking turns standing in line for different products—you would wait for meat and I would wait for shoes. But it also included informal networks of influence with local officials in government or the courts. In Russia, this was called *blat* (Ledeneva 1998), as well as *sviazy*, *znakomstvo*, or *protektsiia* (DiFrancesco and Gitelman 1984). In Romania, it is *pile*; in China, it is *guanxi*. As with gift payments (and bribes), they reflect market failure.

High-level corruption, which includes bribery and cronyism, differs from petty corruption in two ways. First, it is *presumptively illegal*. Second, high-level corruption enriches the small share of the population wealthy enough to pay off public officials and business executives. High-level corruption reinforces (and expands) the economic inequality that is the foundation of generalized trust. So it is hardly surprising that countries with high levels of corruption have low levels of trust and greater economic inequality.³ High-level corruption exacerbates economic inequality—and especially perceptions of inequality; this in turn drives down generalized trust and trust in government. Perceptions of high-level corruption are particularly important in shaping both forms of trust as well as satisfaction with both democracy and the market—and, of course, in the view that inequality is increasing.

It is less clear what to expect of petty corruption. On the one hand, connections are a form of social capital. But these close ties with a small number of people were generally a substitute for generalized trust, rather than a facilitator of it. Interactions with people like yourself do *not* lead to generalized trust, and may even work against it (Uslaner 2002, chap. 5). If these connections are seen as enhancing inequalities in a society, they may constitute negative social capital by increasing social tensions.

Is making “extra” or “gift” payments close enough to the bribery of high-level corruption to create social strains? Hardly, in most cases;

neither the donor nor the recipient of these payments gets “rich.” Ordinary citizens make small payments to cope with the inefficiencies of poorly functioning bureaucracies and markets. There may be something unfair when someone uses connections or makes a small payment to get a traffic ticket fixed, to jump in line at the doctor’s office, or even to get a job. The inequalities are not large and there is no moral approbrium in doing what others would do under similar circumstances. So there is less reason to believe that making gift payments would lead to a loss in faith in other people since neither the payment nor the acceptance of a small “gift” sets one apart from the larger community. Transition citizens learn to cope with low-level corruption.

High-level corruption should have much more profound effects on perceptions of growing inequality, satisfaction with democracy and the market, generalized trust, and confidence in government than petty dishonesty. Participation in the informal economy may lead to perceptions of greater inequality, but the effects should be small. There is even the possibility that having connections may make people *more satisfied* with democratic government—if you have the properties, you can make the system work for you.

There is one case in which even low-level corruption might affect attitudes toward democracy, the market, and trust in both people and government, as well as the growth in equality. Rothstein (2001, 491–492) argues that institutions of law and order, the police and especially the courts, can create “trust from above” by ensuring that people who flout the law are punished. Courts can promote fairness and thus send a message that they are the defenders of trust in a society. In Romania people who believe that the courts treat everyone fairly *are* more trusting of fellow citizens (Uslaner and Badescu 2004a). Other governmental institutions are not based upon a presumption of fairness. Even minor violations of equity, such as gift payments to courts or the police or having connections in either, might lead to less faith in people and diminished satisfaction with democracy.

The Effects of Big and Little Corruption

Romania is often considered one of the more troubled new democracies. It ranks low on trust and tolerance (Badescu, Sum, and Uslaner 2004). Romania is in sixty-ninth place out of 91 countries in the 2001 Transparency International rankings and twelfth of 16 transition countries. My data come from a survey of the Romanian population, carried out in October, 2003 to examine a complex set of relationships