



UNIVERSITY OF
GOTHENBURG

THE **QOG** INSTITUTE
QUALITY OF GOVERNMENT

Corruption, Happiness, Social Trust and the Welfare State: A Causal Mechanisms Approach

Bo Rothstein

QoG WORKING PAPER SERIES 2010:9

THE QUALITY OF GOVERNMENT INSTITUTE
Department of Political Science
University of Gothenburg
Box 711
SE 405 30 GÖTEBORG

April 2010

ISSN 1653-8919

Corruption, Happiness, Social Trust and the
Welfare State: A Causal Mechanisms Approach
Bo Rothstein
QoG Working Paper Series 2010:9
April 2010
ISSN 1653-8919

Abstract:

Does a more generous welfare state make people happier and increase their life satisfaction? Available empirical research gives a clear and positive answer to this question. This goes counter to many arguments that the welfare state creates a culture of dependency, leads to heavy-handed bureaucratic intrusions into private life, creates problems concerning personal integrity, is bad for economic growth, implies stigmatization of the poor, and crowds out civil society and voluntarism. This counterintuitive result is explained by to which degree social programs are universal in the coverage and structure. Four common misunderstandings of universal welfare states are discussed and refuted: This it is too costly for the economy, that it can not be combined with individual choice, that it does not redistribute in favour of the poor and that it should be detrimental to economic growth. Using a “social mechanism” approach, it is argued that the relation between subjective well-being and universal welfare states operates in a complicated causal pattern with two other variables, the degree of corruption and the level of social trust in society. This approach is used to explain why empirically, countries tend to cluster so that countries with large and mostly universal welfare state programs also have low levels of corruption, a high degree of social trust, and high levels of happiness and social well-being. And vice versa, why countries with smaller welfare systems tend to be higher on corruption, have lower levels of social trust, and lower levels of social well-being.

Bo Rothstein
The Quality of Government Institute
Department of Political Science
University of Gothenburg
bo.rothstein@pol.gu.se

Happiness, Politics and the Welfare State

It may be considered presumptuous to discuss what could be considered the ultimate goal of politics. A so-called realist (or cynic) would probably say that politics, also in established democracies, is to be considered as no more than a power game between different self-interested elites and expectations that it would produce “welfare” for the majority of the population are for the most part in vain. A more idealistic – or Aristotelian – approach would state that the goal of politics in a democracy is to create a population consisting of virtuous individuals. Virtue, according to this Aristotelian view of politics, is supposed to lead to life satisfaction which would then be the ultimate goal for the political system (Bradley 1991; Kraut 2006). Obviously, the democratic system as such (however defined) could not be the ultimate goal since it is merely a process for making collectively binding decisions about policies. Moreover, there is nothing in the democratic process that in itself can serve as a guarantee against normatively bad outcomes that would create the opposite to virtue. A number of possible alternatives to what should be the ultimate goal of politics in a democracy can of course be put forward. Protection of human rights could certainly be one suggestion as could an extension of human capabilities. Recently, a number of scholars have argued that various measures of population health would be a good measure of what should count as a *successful society*. From an empirical point of view, this has an obvious advantage because of the availability of a number of “hard” measures such as infant mortality and life expectancy. However, a political system that could guarantee people a long, healthy, but in other ways miserable, life would be hard to defend. Increasing citizens’ capabilities is also not without problems since individuals could use their capabilities to harm other people. This is where the idea of using more subjective indicators, such as “life satisfaction” and “happiness”, as the ultimate goal of democratic politics enters the discussion. One advantage with such measures is that it is non-elitist since instead of experts deciding what should be the ultimate goal of politics (economic prosperity, good health, personal capabilities, being actively religious), people themselves can state how satisfied they are with the lives they lead. Thanks to the increasing number of country comparative surveys, there is now a wealth of data that tries to capture this by posing questions to representative samples of the population in different countries regarding if and to what extent they perceive themselves to be “happy” or “satisfied” with the lives they lead, what in the social science literature has been termed “subjective well-being” (SWB). Since there is considerable variation in SWB between as well

as within countries, this has resulted in what is now a fairly large empirically based happiness research industry that even has its own international journal.

The list of potential causes for the variation in SWB at the individual level is certainly endless. Empirical research tends to indicate that being married, having children, feeling free and healthy, as well as religious activities increase individuals' SWB (Haller and Hadler 2006). It is easy to imagine that things like personal sorrows, long-term unemployment, mental problems, unsuccessful love affairs, and the like would make most people less happy. There are many good reasons for why politics cannot and maybe also should not try to get involved in many of these individual level variables. It has also been argued that the dominant "cultural mode" in a country (or a region) is more important for SWB than the welfare policies and social reforms that the political system may (or may not) produce. This seems to be the major explanation for why people in Latin America report higher levels of SWB than what can be predicted from more unobtrusive indicators, such as economic prosperity, levels of inequality and measures of population health (Haller and Hadler 2006, 200).

However, what is particularly interesting with the SWB survey data from a political perspective is that even a first inspection of the national variation reveals some unexpected results. The data reveals that there are not only, as could be expected, differences between the poor undemocratic developing countries and the rich industrial democratic countries but also large differences between the latter. Taking Western Europe as an example, one could expect that countries with a warm climate, where the sun is shining most of the year, where family and social relations are, at least according to the general stereotypes, intense and where most Europeans like to go for their vacations (think Italy, Spain, Greece) would be places with high levels of life satisfaction. Likewise, one could have expected that the cold, socially isolated, individualistic (again according to our stereotypical prejudices) and stern Nordic countries would be low on happiness and life satisfaction. But this is not the case; according to the latest Eurobarometer survey (issued in September 2009), only about 8,6 percent of the population in the three Southern European countries state that they are "very satisfied" with the lives they lead while in Denmark, Sweden and Finland, the average is 52 percent. These differences have also been pretty stable since the first Eurobarometer was launched in 1975. From a comparative perspective, these results are quite puzzling since we are dealing with countries that all are democratic, all are members of the European Union, all belong to the

rich industrial west, and all are considered to be welfare states. Obviously, we can already draw one important conclusion, namely that only some welfare states are able to produce happiness. Before trying to explain the relation between the welfare state and SWB, something should be said about the validity and reliability of the data. As can be expected, a fair amount of scepticism has been put forward concerning the possibility that anything as subtle and complex as this can be captured by simple survey questions. Going through the literature on this topic, the main conclusion is that most of this critique has been refuted. The survey-based measures of subjective well-being tends to correlate well with other measures of happiness, external evaluations from friends and families, and with clinical studies (Myers and Diener 1997)

The welfare state and happiness – what do we know?

Since there are comparative measures of the level of subjective well-being in different countries and measures of how generous or encompassing various welfare states are, it has been possible to carry out statistical analyses of if and under what conditions these are related. Simply put, does a more generous and encompassing welfare state make people happier and increase their life satisfaction. A review of the available empirical research gives a clear answer which is: Yes, definitively. Comparing the eighteen most developed OECD countries using a wealth of high quality data and controlling for a fair number of other variables (e.g., unemployment, the level of social trust, GDP per capita, the level of individualism), Pacek and Radcliff conclude that their analysis “clearly and unequivocally confirms the hypothesis that the welfare state contributes to human well-being” (Pacek and Radcliff 2008a, p272; Pacek and Radcliff 2008b). This result is confirmed by other studies with a similar approach, for example Haller and Hadler (2006), and Ryan, Hughes and Hawson (1998). To some extent this result is counterintuitive since it flies in the face of much of the criticism that has been launched against the welfare state, not least in the Anglo-Saxon countries. This list of accusations is pretty long and various commentators have put forward that the welfare state creates a culture of dependency, leads to heavy-handed bureaucratic intrusions into private life creating problems concerning personal integrity, is bad for economic growth, implies stigmatization of the poor, crowds out the civil society and voluntarism just to name a few (for a summary of these arguments see Rothstein 1998). This is thus a case where much of the public discourse is at odds with what can be found in the empirical research. If more “welfare

state” leads to more life satisfaction, how come the welfare state has been a scapegoat for all kinds of social ills for such a long time?

A closer inspection of the empirical studies shows that the more generous and encompassing the welfare state is, the higher the level of SWB is and these results are to a large extent driven by the Nordic countries. This poses questions like for example a) if there is anything qualitatively different with the welfare state in the Nordic countries that could possibly explain these results, and b) if there is something else in the survey data that we should suspect to be related to both these variables. To start with the latter question, the Nordic countries do not only have unusually high levels of SWB but they also have high levels for two other important variables when it comes to understanding people’s attitudes towards the welfare state, namely perceptions of corruption and social trust. Understanding how the causality operates between these variables is a very complicated project but we can start by identifying how the variables cluster. Confining the discussion to the 18 OECD countries mentioned above, encompassing and generous welfare states have populations that are more trusting towards “people in general”, have higher SWB, and perceive corruption in their country to be fairly infrequent. They also tend to vote more for parties that are in favour of the welfare state.

Welfare states and welfare states

Since it is obvious that only some types of welfare states are related to high levels of SWB, it is necessary to find ways to differentiate between them in a way that can explain the variation stated above. The large body of welfare state research that exists in political science and political sociology has to quite some extent been a taxonomic enterprise. Scholars in this field have put a lot of effort into constructing an adequate conceptual map that captures the extensive variation that exists in how different industrialized western states are doing “welfare” and what differentiates one social program from the other (Alber 2006; Pontusson 2005). Many scholars have come to single out the four Nordic countries as a special type of welfare state that has been labelled “the universal welfare state” (Alber 2006; Esping-Andersen 1990). By this is meant that there is a broad range of social services and benefits that are intended to cover the *entire* population throughout the different stages of life, and that the benefits are delivered on the basis of *uniform* rules for eligibility. A typical example

would be universal child-care or universal child allowances that are distributed without any form of means-testing. Universal health care or sickness insurances are other examples. This type of welfare policy may be distinguished from selective welfare programs that are intended to assist only those who cannot manage economically on their own. In a selective program, the specific needs and the economic situation of each person seeking assistance have to be scrutinized by some administrative process (Kumlin 2004). A third type of welfare state is the one in which benefits and services are distributed according to status group. In such systems, privileged groups of the population are singled out to receive more than the rest of the society, a benefit originally intended as an award for loyalty to the state. The status-oriented compartmentalized social insurance schemes in Germany, which are tailored to its specific clientele, are a case in point (Mau 2003)

It should be noted that all modern welfare states are mixes of these principles and that differences between various programs can be rather fine-grained. It is also the case that selectivity is carried out in a number of different ways. For example, there are programs that cater to almost the whole population except for the very wealthy and that are thus not singling out the poorest part of the population. Other welfare states have different programs for very broad categories of citizens based for example on occupational status (Mau 2003). Nevertheless, most welfare state and social policy researchers seem to have accepted the idea that it is reasonable to categorize different welfare states according to this universal-selectivity dimension based on what their typical “modus operandi” is (Goodin et al. 1999; Huber and Stephens 2001; Pontusson 2005).

One way to illustrate the differences between these two types of welfare states is to compare the situation for a person with low economic resources, for example a single-parent with low education (usually a woman). In a selective system, this is usually a person that does not work because she cannot afford daycare. It follows that she and her children have to exist on some form of selective benefits which in addition to the integrity problems that follow from means-testing usually also carries a lot of social stigma. This is thus a person that can be seen as someone who does not contribute to society (not working and not paying taxes) and survives on special benefits and therefore is thought of as a person outside the social fabric. In a universal system, this is usually a person that works because her children are in the public child care or pre-school system like (almost) everyone else’s children. The implication is that this is a person that is usually able to get by without applying for social assistance by

combining her (low) income with the universal benefits and services that goes to everyone. She is accordingly not seen as someone just benefiting from the welfare state and as being outside the social fabric (Sainsbury 1999). Moreover, the services and benefits that she gets do not carry any special social stigma and her integrity is not violated by a bureaucratic process scrutinizing her economic and social situation. It can be noted that the political metaphor “the welfare queen” does not exist in the Scandinavian languages.

The Universal Welfare State: Four Common Misunderstanding

There are many misunderstandings about the logic of the Nordic type of welfare state, even by sympathetic commentators (Judt 2009). The most common is that it is portrayed as a very costly undertaking that by its high level of taxation becomes a hindrance to economic growth. This reveals a misconception regarding what this welfare state is about. The large part of this type of welfare state is not benefits to poor people but universal social insurances and social services (like health care, pensions and public education) that benefit the whole, or very large, segments of the population. These goods are in high demand by almost all citizens and research shows that having these demands covered by universal systems in many cases becomes more cost effective. The economic theory about problems of asymmetric information on markets is well suited for understanding this. Although this theory is quite technical, the logic is very simple. For example, in private health insurance systems, the costs that such information problems lead to (overtreatment, overbilling, the administrative costs for insurance companies screening out bad risks, the costs for handling legal problems about coverage) can become astronomical as seems to be the case in the United States. Universal systems are much more cost effective in handling these problems since risks are spread over the whole population and the incentives for providers to overbill or use costly but unnecessary treatments are minimal. As stated by the British economist Nicholas Barr, these information problems “*provide both a theoretical justification of and an explanation for a welfare state which is much more than a safety net. Such a welfare state is justified not simply by redistributive aims one may (or may not) have, but because it does things which markets for technical reasons would either do inefficiently, or would not do at all*” (Barr 1992, 781). Simply put, if middle-class people in the Nordic welfare states would be deprived of their universal systems for social protection and social services, they would in all likelihood decide to buy these services on the market and that would become much more expensive. From the

standpoint of social equality, this has the advantage of including the segment of the population that from their “market wage” never would have had the chance to afford these services. Since the middle class is within these systems, they will demand high quality service which prevents the well-known fact that services for poor people will become poor services. Another advantage of such universal systems is that they do not contribute in stigmatizing poor people by needs-testing.

The second misunderstanding is that such welfare states by necessity cannot be combined with freedom of choice. This is for the most part wrong. An example is the publicly financed school systems in Denmark and Sweden which are full fledged charter systems. Public schools compete with private charter schools that are run on public money and have to accept to work under the same national regulations and education plans. For example, they have to accept students without any discrimination concerning their learning abilities. This can be compared with the intrusive inquires and testing used by many private schools in the US in their admission processes. The same choice systems have been developed when it comes to health care, elderly care and pre-schools in the Nordic countries. Simply put, public funding of social services can very well be combined with consumer choice and respect for personal integrity (Rothstein 1998).

A third general misunderstanding about the universal welfare state system is the neo-liberal argument that high public expenditures is detrimental to market-based economic growth. As shown by the economic historian Peter Lindert (2004) and also in a recent book by Nobel Laureate Douglass North (together with John Wallis and Barry Weingast), this is simply not the case (North, Wallis and Weingast 2009). In a global perspective, rich states have a level of taxation that is almost twice as high as compared to poor states. And when the rich western states are compared over time, the evidence that high public spending is negative for economic growth is simply not there. The reason, according to North et. al., is that large parts of public spending go to the provision of public goods that are necessary for economic growth but which markets cannot provide, partly for the information problems stated above. Interestingly, among those public goods, North et. al. does not only include the usual things like infrastructure, research, and the rule of law but also education and social insurances and social services (North, Wallis and Weingast 2009). It should be noted that these insights do not only pertain to theory. When the World Economic Forum (the main international business

organization) ranks countries' economic competitiveness, the Nordic countries come out at the very top, far higher than most low tax/low spending countries (Porter et al. 2007).

A forth common misunderstanding is that universal welfare states are less effective in achieving re-distribution than are selective ones. Intuitively, one would assume that redistributive policies that tax the rich and give to the poor would be the most efficient way to reduce poverty, while universal policies that give everyone the same service or benefits would not have a redistributive effect. But the facts are exactly the opposite. The technical reason for why universal systems are more efficient in reducing economic inequality is that taxes are usually proportional or progressive, but services or benefits are usually nominal - you get a certain sum or a certain type of service (Moene and Wallerstein 2003; Rothstein 1998; Swank 2002; Åberg 1989). The net effect of proportional (or progressive) taxes and nominal services/benefits is a considerable redistribution from the rich to the poor. The political reasons for why universal policies are more effective in terms of alleviating poverty are that if a state is going to tax the rich and give to the poor, the rich and semi-rich (that is the middle class) will not agree to pay high taxes because they perceive that they do not get enough back from the government (Korpi and Palme 1998). They will perceive social services and benefits programs as policies only for "the poor", and especially the middle class (who are also the "swing voters") will turn away from political parties that argue for an increase in taxes and social policies (Rothstein and Uslaner 2005).

Ways of causality

So far I have identified four important variables that correlate in a distinct way in this puzzle, namely *social trust*, *subjective well-being*, *the welfare state* and *corruption*. In the rest of this article, I will provide arguments for why they cluster and how they are related. This is based on a so-called "social mechanism" approach that implies that in order to understand causality in social science it is not enough to show that variables correlate at the aggregate level (Shapiro 2005). In addition to this, two more things are needed. The first is a theory that describes the logic of why there would exist a causal relation between these variables at the individual (or micro) level. The reason is that the social structures we are dealing with can only be reproduced by individual agency which makes it necessary to provide an explanation for how this works. Secondly, we need some empirical indicators that support this logic. This

is admittedly much harder to come by due to lack of data. In reality, such data can only be produced in experimental research where it is possible to control for all other possible variables. As for now, we simply have to make do with whatever available empirical indicators that exist. Four variables result in six pairs of correlations and in theory twelve different causal mechanisms since we are likely to find causality in both directions (happiness may cause social trust and social trust may cause happiness...). Given the limited space, I can only provide a speculative overview of the argument of how these four variables may interact and why they tend to form two specific clusters or, using the language of economics, two distinctly different equilibriums explaining the relation between welfare states and happiness.

The welfare state and happiness

Why would people in a universal welfare state report higher levels of subjective well-being than people living in other types of welfare states? Several possible hypotheses have been suggested. One is that universal welfare states are more likely to produce more economic and social equality which, according to recent studies by social epidemiologists, has a strong positive impact on the overall subjective health in the population (also among the middle class) which in turn is a very good predictor for subjective well-being (Marmot 2004; Wilkinson and Pickett 2009). Secondly, the universal distribution of resources and opportunities probably plays a role in establishing the belief that people share a common destiny and have similar fundamental values. When resources and opportunities are distributed more equally, people are more likely to perceive a common stake with others and to see themselves as part of a larger social order. And if there is a strong skew in wealth or in the possibilities to improve one's stake in life, people at each end may feel that they have little in common with others (Uslaner 2002). A third major reason for why a universal welfare state may generate SWB has to do with procedural fairness. The problem with needs-testing from the perspective of procedural justice is that it places great demands on both public employees and citizens seeking assistance. The public employee must actively interpret a complicated body of regulations and apply them to each individual seeking to qualify for a public service. The difficulty is that the regulations are seldom so exact that they provide completely unambiguous direction as to what is the right decision in an individual case. As Michael Lipsky has argued, "grassroots bureaucrats" must develop their own practice in interpreting the regulations in order to deal with this difficulty. This interpretive practice is frequently

informal and less explicit in nature and, consequently, the bureaucracies applying the needs tests are easily suspected of using “*prejudice, stereotype, and ignorance as a basis for determination*” (Lipsky 1980). The citizen, for her part, has an incentive and opportunity in this situation to withhold relevant information from the bureaucrat and to try in various ways to convince the latter that she should qualify for the service in question. This easily escalates into a vicious spiral of distrust from the client leading to increasing control from the bureaucrat (who, moreover, is equipped with a large scope of discretion) that in its turn results in still more distrust from the client, and so on. There are reasons to believe that this is not a system inclined to produce high levels of happiness on either side of the table. Joe Soss (2000, 46) writes about means-tested benefits in the United States through the Aid to Families with Dependent Children (AFDC) program:

The act of welfare claiming, especially in a public assistance program, can be mortifying. The degraded identity it conveys can effectively strip individuals of full and equal community membership.

One AFDC recipient spoke of the how she felt degraded when applying for benefits (Soss, 2000, 99):

They’re the cowboys and you’re a cow....You go all the way through this line to do this, and then this time to do that. It’s like a cattle prod....I felt like I was in a prison system....these people are like, ‘I’m helping you. This is something I’m doing for you. So just be quiet and follow your line.

This type of argument can be contrasted to how people who receive Social Security disability benefits in the US, which is a universal program, perceive their situation. Recipients of this program are not required to answer detailed questions about their personal life and they do not feel threatened with loss of benefits and believe that their case workers treat them with respect—and they are not alienated from others (Soss, 2000, 144-145, 154).

Denigrating recipients of means-tested government programs is likely to lead to social strains and loss of SWB in two ways: Recipients feel isolated and that others deem them unworthy which is likely to lead to social stigma. Experimental research shows that especially for racial

and ethnic minorities this can lead to negative “self-stereotyping” which in its turn has a negative impact on the possibility to perform at the level of the individual’s real ability (Steele 1997). The programmatic denigration of welfare recipients feeds on public perceptions that the poor are seen as responsible for their own poverty – a public discourse about “the undeserving poor” (Katz 1989). Neither side sees a shared fate with the other. In contrast, universal programs do not cast aspersions on the responsibility of benefits and thus do not destroy social trust. When they work well, they can even help to create it by increasing feelings of equal treatment and equality of opportunity (Rothstein and Uslaner 2005).

Corruption and the Welfare State

If a universal type of welfare state has a positive impact on happiness and life satisfaction, a central question is of course why not all industrial liberal democracies have established such systems of social insurances and social services. This question has generated a huge amount of research over the last three decades and one reason for this is that these societies share a number of basic structural, social, political and institutional features. This, one could argue, should have produced similarities and convergencies in their levels of social protection and equality-enhancing policies and not the huge and persisting, and in some cases increasing, differences that exist (Alber 2006; Pontusson 2005; Scruggs and Allan 2006). For example, given that they are all culturally to be seen as western liberal market-oriented democracies, the variation in their systems of social protection can hardly be explained by reference to basic historically inherited cultural traits that would result in generally held beliefs about what is just and fair, or what sort of risks should be handled by individual responsibility rather than collective/public systems. As Larsen and others have shown, there is in fact very little that speaks for the notion that the variation between, for example, on the one hand the encompassing and universal character of the Scandinavian welfare states and on the other hand the residual and targeted system for social protection that exists in the United States can be explained by reference to variation in popular beliefs about social justice or wage inequalities (Larsen 2006; Larsen 2008).

One clue for explaining this puzzle can be found in Theda Skocpol’s well-known book *Protecting Soldiers and Mothers* (1992). Her argument starts from the welfare sector in the

US that was comparatively large during the late 19th century. A central part of this was the pension system for war veterans who participated in the Civil War and their dependent family members, a program that during the decades after the end of the war became a huge operation both in terms of finances and the number of people that were supported. The problem, however, was that the system for deciding eligibility was complicated and entailed a large portion of administrative discretion. It is not difficult to imagine what kind of health issues that should count as resulting from combat or military service in general. However, to determine what is due to the general bodily fragilities that come with aging is a delicate and complicated problem to solve in each and every case. The result, as Skocpol writes, was that “the statutes quickly became so bewildering complex that there was much room for interpretation of cases” (Skocpol 1992:121). What happened was that the war veteran pension administration became a source for political patronage:

Because the very successes of Civil War pensions were so closely tied to the workings of patronage democracy, these successes set the stage for negative feedbacks that profoundly affected the future direction of U.S. social provisions. During the Progressive Era, the precedent of Civil War pensions was constantly invoked by many American elites as a reason for opposing or delaying any move toward more general old-age pensions.... Moreover, the party-based “corruption” that many U.S. reformers associated with the implementation of Civil War pensions prompted them to argue that the United States could not administer any new social spending programs efficiently or honestly (Skocpol 1992:59)

The point Skocpol makes is that the reason for why the United States of today has a comparatively small, targeted, and not very redistributive welfare state cannot be explained only by the lack of a European type of Social Democratic labor movement or with references to normative ideals about the population being devoted to a “rugged individualism”. On the contrary, the US welfare state was comparatively well developed at the beginning of the 20th century. But it was thereafter politically delegitimized due to what was generally perceived of as its low quality of government.

Based on this reasoning, citizens (and their political representatives) have to handle two trust dilemmas when deciding if they are going to support a social policy, for example unemployment insurance or public health care system. Citizens have to trust that when they come into a situation where they need and are entitled to support, the system will actually deliver what it has set out to deliver. In some cases, we must think of this as a quite problematic “leap of faith”. Not only is the demand here substantial in the sense that it concerns the quality of outcome, but it is in all likelihood also procedural. People do not only want to get just the “technical side” of, say, health care delivered to them according to professional standards. They also want to be respected, listened to, and have rights to appeal when they believe that they have not been treated according to established standards of professionalism and fairness. In other words, the perceived level of procedural fairness is probably as important as the level of substantial fairness (Kumlin and Rothstein 2005). Using very detailed survey data from Sweden, one of the most encompassing welfare states in the world, Staffan Kumlin has shown that citizens’ direct experience from interactions with various social policy programs have a clear influence on their political opinions and, moreover, that such experiences are more important than citizens’ personal economic experiences when they form opinions about supporting or not supporting welfare state policies (Kumlin 2004, 199f). Based on a large survey from four Latin American countries, Mitchell Seligson (2002) concludes that the perceived level of corruption have strong negative effect on beliefs about the legitimacy of the government controlling for partisan identification. Using World Value Survey data from 72 countries, Bruce Gilley states that a set of variables measuring the quality of government (a composite of the rule of law, control of corruption and government effectiveness) “has a large, even overarching, importance in global citizen evaluation of the legitimacy of states” (Gilley 2006, 57).

In addition, many welfare state programs, both the ones that are intended to be redistributive and the ones that are more social insurance oriented, have to establish processes against overuse and outright abuse. For example, even people in favour of generous unemployment insurance are likely to demand that people who can work, and for whom there are suitable jobs, also work. Neither the level of tolerance for “free-riding” nor the willingness to stand as the “sucker” are generally very high. This is the third dilemma facing citizens in need of social protection. The issue of whether the welfare state system will lead to an undermining of personal responsibility is thus important and such discourses can lead to a loss of legitimacy for the general idea of social protection by the state (Schmidt 2002; Townsend 1958). In other

words, in order to be legitimate, the welfare state system should be able to distinguish between what should be personal risks for which agents have to take private responsibility, and risks for which they have the right to claim benefits (Paz-Fuchs 2008). Those in favour of a generous system for work accident insurance or the right to early retirement for people hit by chronic illness may have legitimate reason to fear that such systems can be abused. Our point is that even people who are true believers in social solidarity and have a Social Democratic vision of society are likely to withdraw their support for an encompassing welfare state if these three requirements are not met. Put differently, their support is “contingent” upon how they view the quality of the public institutions that are to implement the programs. The quote below from John Rawls’ famous book “A Theory of Justice” explains this moral logic well:

For although men know that they share a common sense of justice and that each wants to adhere to existing arrangements, they may nevertheless lack full confidence in one another. They may suspect that some are not doing their part, and so they may be tempted not to do theirs. The general awareness of these temptations may eventually cause the scheme to break down. The suspicion that others are not honoring their duties and obligations is increased by the fact that, in absence of the authoritative interpretation and enforcement of the rules, it is particularly easy to find excuses for breaking them (Rawls 1971, 240).

In sum, we can think of this as citizens facing two interrelated trust dilemmas when they decide if they should support a policy for social insurance or redistribution: the question if it can be expected to be implemented in accordance with *procedural fairness* and the amount of “*free-riding*” that can be expected (Rothstein 2001). This is thus the logic why corruption and inequality is causally linked (You and Khagram 2005).

Corruption and happiness

Corruption is an issue that recently has risen from obscurity to prominence in the social sciences. In a major empirical study of more than seventy countries based on data from the World Value Survey and WHO, Helliwell and Huang conclude that “the effects of good government remain as the single most important variable explaining international differences

in life satisfaction in the full global sample, while international differences in per capita incomes are frequently insignificant.” (Helliwell and Huang 2008a, 617). Samanni and Holmberg reach a similar conclusion: “Quality of Government,” measured as a country’s degree of adhering to principles such as the rule of law, impartiality in the civil service, control of corruption and government effectiveness, “has an independent impact on the life satisfaction of people in rich as well as in poor countries” even when variables such as religiosity, the level of democracy, healthy life expectancy and post-materialist values are controlled for (Samanni and Holmberg 2010, 11). The reasons for why living under corrupt, clientelistic, and discriminatory government institutions would produce unhappiness is certainly a complex issue, but it may be related to the reverse logic as argued above for the universal systems of provisions of social services and benefits. An illustration of this can be taken from a report issued by the United Nations Human Development program about the situation in Bosnia and Herzegovina in 2002. After having reported results from a survey showing that about 70 percent of the people in Bosnia and Herzegovina believed that their local authorities as well as the international aid organizations in place (including the UN organizations) were “severely corrupt,” the report made the following conclusion: “For the average citizen, therefore, it seems that corruption has broken down all barriers and dictates the rules of life. That is not very different from saying that they interpret life in terms of corruption” (UNDP 2002, 77). It seems to be a reasonable conclusion that individuals who “interpret life in terms of corruption” are not likely to be happy people.

Social Trust and Happiness

As with corruption, research on social trust (and the related concept of social capital) has increased tremendously since the mid-1990s. This is in part because empirical research shows that high levels of social trust at the individual level is connected to a number of important factors such as tolerance towards minorities, participation in public life, education, health, and subjective well-being. How to understand a concept like social trust is not easy, obviously most people do not really know if most other people in their society can be trusted. One interpretation that has been launched by Uslaner is that social trust is an expression of optimism about the future and the possibility that one has control over one’s destiny in life (Uslaner 2002). Another interpretation has been put forward by Deely and Newton saying that when people answer the survey question if they believe (or not) that most other people can be trusted, they are in fact answering another question, namely that they are making a moral evaluation of the society in which they live (Delhey and Newton 2003). Both these

interpretations of the social (or generalized) trust question that have been used in numerous surveys imply that social trust should be connected to SWB since it makes sense to argue that people that are optimistic about the future and think that the moral standards in the society in which they live is high should also have a more happy outlook on life. And vice versa, people that have a pessimistic outlook and a low opinion about the moral standards in the society are not likely to express feelings of happiness. Another example of the proximity between these variables is the finding from several large Canadian surveys that life satisfaction correlates highly with workplace trust (i.e, trust in co-workers and trust management) even after controlling for economic rewards from the work in question (Helliwell and Huang). The connection to generalized trust is that for many people, work-life experiences are important for the general outlook on issue like the moral standards of “other people in general”.

Social trust and the welfare state

As stated above, people in the Nordic countries are much more likely than people in other parts of the world to believe that “most other people can be trusted”. According to the 1995-97 World Value Study survey, the average stating that they believe that “most people can be trusted” is 64 percent for the Nordic countries which is almost three times as high as the world average. Moreover, for the Nordic countries there are no traces of the decline of social trust that has been reported for the United States (Larsen 2007). The high level of social trust in the Nordic countries can be seen as puzzling for several reasons. One is that not least in some influential policy circles, social trust has been thought to be generated from activity in voluntary associations which has been seen as an alternative to the state for “getting things done”. One could therefore expect that we should see a “crowding out” effect such that the huge expansion of the responsibility of the government that the universal welfare state represents should be detrimental to the development of a vibrant civil society (Ostrom 2000). Moreover, one could argue that in a society where the government takes on the responsibility for a large number of social needs, people do not have to develop and maintain trusting relations and invest in social networks. However, as stated above the empirical reality contradicts these expectations. Studies show that social trust is highest in the Nordic countries and that citizens in these countries are among the most active in voluntary associations (Wollebæck and Selle 2003). Thus, the relation between social trust and the Nordic type of universal welfare state presents us with a puzzle. One way to think about how these variables

are connected is to perceive a universal welfare state as what is known as a large scale “collective action” problem (Rothstein 2001). In a universal welfare state, citizens have to trust that most other citizens will cooperate instead of acting as “free-riders”. At least two types of free-riding are problematic in this system. First, since this is a system that demands a relatively high level of taxation, citizens must trust that most other citizens are paying their taxes and resist the temptation of free-riding on other citizens. Secondly, most social service and benefit systems can be abused – citizens that are not really sick may decide to use the sickness insurance and citizens that can find suitable work may try to use the unemployment insurance scheme to take two examples. It would probably be impossible to establish a universal welfare state in a society in which most citizens were convinced that most other citizens would evade most of their taxes and abuse or overuse the benefits. It could therefore be argued that a universal welfare state could only be established in a society where citizens have a fair deal of social trust. However, the causality could also operate in the opposite direction. Empirical studies show that perceptions of being even-handedly and fairly treated by government welfare state agencies, something that is more likely to happen if the programs are universal, have a positive impact on social trust, especially for ethnic minorities (Kumlin and Rothstein 2005; Kumlin and Rothstein forthcoming; Nannestad and Svendsen 2005).

Social trust and corruption

The last issue for understanding the relation between our four variables is the question of how social trust and corruption are related. Is social trust necessary to overcome corruption or is corruption destroying social trust. The first thing to underline in this discussion is that corruption exists in many forms. If we are talking about what in the corruption literature is known as “systemic corruption”, it is reasonable to understand the problem as a strategic trust game. Most agents in a corrupt network tend to understand that they would all benefit if they could agree to stop taking and paying bribes. However, for the individual corrupt policeman, judge or public health doctor, it makes no sense to opt for this strategy unless they are convinced that most of their colleagues would be willing to do the same (Rothstein 2000; Teorell 2007). This logic was well captured by Nobel Laureate Gunnar Myrdal already in the late 1960s when he wrote about the problem of the “soft state” in developing countries. According to Myrdal, the agent would reason like this: “Well, if everybody seems corrupt, why shouldn’t I be corrupt.”(Myrdal 1968, 68). Overcoming corrupt practices thus requires a

high level of social trust. At the aggregate level, this is also what is found – low corruption countries tend to have high levels of social trust and vice versa.

The more complex issue is if corruption also destroys social trust (and thereby SWB). Using an experimental approach comparing respondents in high corruption/low trust Romania and low corruption/high trust Sweden, Rothstein and Eek (2009) have shown that experiencing corruption from public authorities does not only diminish people's trust in these authorities, but also their trust in "people in general". The causal logic they present is that since people cannot really know if "most people" can be trusted, they have to use short cuts and heuristics when they form their opinions about the moral standards of the society. One source people use is how they perceive the behaviour of local officials, such as public health doctors, social insurance officials and policemen. If these cannot be trusted, then neither can "people in general" (Rothstein and Eek 2009).

Conclusions

The question if the welfare state is positively related to happiness can be answered clearly in the affirmative. However, it is not all welfare states but a particular kind of welfare state that is most conducive to the subjective well-being of citizens, namely the universal welfare state. This welfare state, however, seems to be connected to two other important social features, namely the level of social trust and degree of corruption. One can say that, empirically, countries tend to cluster so that countries with large and mostly universal welfare state programs also have low levels of corruption, a high degree of social trust, and high levels of happiness and social well-being. And vice versa, countries with smaller and means-tested welfare systems tend to be higher on corruption, have lower levels of social trust, and lower levels of social well-being. Lacking good historical data it is difficult to sort out how the causality operates between these variables, but I have tried to, given available data, to make an argument for why these variables are causally related. One thing seems clear, namely that for the Northern European countries, systemic corruption was rooted out well before any universal welfare state programs were launched (Rothstein, forthcoming). However, in general one should bear in mind that there is likely to exist many instances of so-called "feedback" mechanisms and "path-dependency" between these variables resulting in complicated patterns of causation over time which makes it extremely difficult to sort out

precisely in what direction the causality works. For the Nordic countries we can ask: Was it the high level of happiness during the first half of the 20th century that increased social trust that made it possible to minimize corruption which in its turn resulted in the enactment of universal social policies? Or did the enactment of some initial universal social policy increase happiness that spurred social trust that made it possible to handle corruption? And did the initially low level of corruption make people think of their societies as having an overall good moral standard which in its turn increased social trust that fostered happiness which lead to ideas about the extension of social solidarity? The difficulties and complexities in how the causal logic operates should serve as a mild warning for drawing easily implemented policy lessons from this type of analysis.

References

- Alber, Jens. "Das "europäische Sozialmodell" und die USA". *Leviathan - Berliner Zeitschrift für Sozialwissenschaft* (January 2006): 207-240.
- Barr, Nicholas. "Economic Theory and the Welfare State: A Survey and Interpretation." *Journal of Economic Literature* 30:4 (1992): 741-803.
- Bradley, A. C. "Aristotle's Conception of the State." *A Companion to Aristotle's Politics*. Ed. David Keyt and Fred D. Jr. Miller. Oxford: Blackwell, 1991.
- Delhey, Jan, and Kenneth Newton. "Who trusts? The origins of social trust in seven societies." *European Societies* 5:1 (2003): 93-137.
- Esping-Andersen, Gøsta. *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press, 1990.
- Gilley, Bruce. "The Determinants of State Legitimacy: Results for 72 countries." *International Political Science Review* 27:1 (2006): 47-71.
- Goodin, Robert E., Bruce Headey, Ruud Muffles, and Henk-Jan Dirven. *The Real Worlds of Welfare Capitalism*. Cambridge: Cambridge University Press, 1999.
- Haller, Max, and Markus Hadler. "How social relations and structures can produce happiness and unhappiness: An international comparative analysis." *Social Indicators Research* 75:2 (2006): 169-216.
- Helliwell, J. F., and H. F. Huang. "How's your government? International evidence linking good government and well-being." *British Journal of Political Science* 38:3 (2008a): 595-619.

- Helliwell, John F., and Haifaing F. Huang. "How's the Job? Well-Being and Social Capital in the Workplace." *Industrial & Labor Relations Review* 63:2 (2008b): 205-227.
- Huber, Evelyne, and John D. Stephens. . *Development and Crisis of the Welfare State*. Chicago: The University of Chicago Press, 2001.
- Judt, Tony. "What is Living and What is Dead in Social Democracy." *The New York Review of Books* 17 December 2009.
- Katz, Michael B. *The Undeserving Poor: From the War on Poverty to the War on Welfare*. New York: Pantheon Books, 1989.
- Korpi, Walter, and Joakim Palme. "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries." *American Sociological Review* 63:3 (1998): 661-687.
- Kraut, Richard. *Aristotle political philosophy*. Oxford: Oxford University Press, 2006.
- Kumlin, Staffan. *The Personal and the Political: How Personal Welfare State Experiences Affect Political Trust and Ideology*. New York: Palgrave/Macmillan, 2004.
- Kumlin, Staffan, and Bo Rothstein. "Making and Breaking Social Capital. The Impact of Welfare State Institutions." *Comparative Political Studies* 38:3 (2005): 339-365.
- Kumlin, Staffan, and Bo Rothstein "Questioning the New Liberal Dilemma: Immigrants, Social Networks and Institutional Fairness." *Comparative Politics* (forthcoming).
- Larsen, Christian Albrekt. "How welfare regimes generate and erode social capital - The impact of underclass phenomena." *Comparative Politics* 40:1 (2007): 83-110.
- Lindert, Peter H. *Growing public : social spending and economic growth since the eighteenth century*. Cambridge: Cambridge University Press, 2004.
- Lipsky, Michael. *Street-level bureaucracy: dilemmas of the individual in public services*. New York: Russell Sage Foundation, 1980.
- Marmot, Michael. *The status syndrome: how social standing affects our health and longevity*. New York, N.Y.: Henry Holt, 2004.
- Mau, Steffen. *The moral economy of welfare states: Britain and Germany compared* London: Routledge, 2003.
- Moene, Karl-Ove., and Michael Wallerstein. "Earnings inequality and welfare spending - A disaggregated analysis." *World Politics* 55:4 (2005): 485-510.
- Myers, David, and Ed Diener. 1997. "The Science of Happiness." *The Futurist* 31, 1997.
- Myrdal, Gunnar. *Asian Drama: An Enquiry into the Poverty of Nations*. New York: Twentieth Century Fund, 1968.
- Nannestad, Peter, and Gert T. Svendsen. "Institutions, Culture and Trust." Göteborg: The Quality of Government Institute, Göteborg University, 2005. www.qog.pol.gu.se

- North, Douglass C., John J. Wallis, and Barry R. Weingast. *Violence and social orders : a conceptual framework for interpreting recorded human history*. Cambridge: Cambridge University Press, 2009.
- Ostrom, Elinor. "Crowding out Citizenship." *Scandinavian Political Studies* 23:1 (2000): 3-16.
- Pacek, Alexander C., and Benjamin Radcliff. "Assessing the Welfare State: The Politics of Happiness." *Perspectives on Politics* 6:2 (2008a): 267-277.
- Pacek, Alexander C., and Benjamin Radcliff. "Welfare policy and subjective well-being across nations: An individual-level assessment." *Social Indicators Research* 89:2 (2008b): 179-191.
- Paz-Fuchs, Amir. *Welfare to Work: conditional rights in social policy*. Oxford: Oxford University Press, 2008.
- Pontusson, Jonas. *Inequality and prosperity: social Europe vs. liberal America*. Ithaca, New York: Cornell University Press, 2005.
- Porter, Michael E., Klaus Schwab and Xavier Sala-i-Martin. *The global competitiveness report 2007-2008*. Basingstoke: Palgrave Macmillan, 2007.
- Rawls, John. *A Theory of Justice*. Oxford: Oxford University Press, 1971.
- Rothstein, Bo. 1998. *Just Institutions Matter: The Moral and Political Logic of the Universal Welfare State*. Cambridge: Cambridge University Press.
- Rothstein, Bo. "Trust, Social Dilemmas and Collective Memories." *Journal of Theoretical Politics* 12:4 (2000): 477-503.
- Rothstein, Bo. "The Universal Welfare State as a Social Dilemma." *Rationality and Society* 14:2 (2001): 190-214.
- Rothstein, Bo. "Anti-Corruption: The Indirect "Big-Bang" Approach " *Review of International Political Economy* (forthcoming).
- Rothstein, Bo, and Daniel Eek. "Political Corruption and Social Trust - An Experimental Approach." *Rationality and Society* 21:1 (2009): 81-112.
- Rothstein, Bo, and Eric M. Uslaner. "All for All. Equality, Corruption and Social Trust." *World Politics* 58:1 (2005): 41-73.
- Sainsbury, Diane. *Gender and welfare state regimes*. Oxford: Oxford University Press, 1999.
- Samanni, Marcus, and Sören Holmberg. "Quality of Government Makes People Happy." Gothenburg: The Quality of Government Institute, University of Gothenburg. (Working Paper 2010:1). www.qog.pol.gu.se
- Schmidt, Vivien A. "Does discourse matter in the politics of welfare state adjustment?" *Comparative Political Studies* 35:1 (2002): 168-193.

- Scruggs, Lyle, and James P. Allan. "The material consequences of welfare states - Benefit generosity and absolute poverty in 16 OECD countries." *Comparative Political Studies* 39:4 (2006): 880-904.
- Seligson, Mitchell A. "The Impact of Corruption on Regime Legitimacy: A Comparative Study of Four Latin American Countries" *Journal of Politics* 64:2 (2002): 408-433.
- Shapiro, Ian. *The Flight From Reality in Human Sciences*. Princeton: Princeton University Press, 2005.
- Skocpol, Theda. *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States*. Cambridge, Mass.: Harvard University Press, 1992.
- Soss, Joe. *Unwanted Claims: The Politics of Participation in the U.S. Welfare System*. Ann Arbor: Michigan University Press, 2000.
- Steele, Claude M. "A Threat in the Air: How Stereotypes Shape the Intellectual Identity and Performance." *American Psychologist* 52:4 (1997): 613-629.
- Swank, Duane. *Global capital, political institutions, and policy change in developed welfare states*. New York: Cambridge University Press, 2002.
- Teorell, Jan. "Corruption as an Institution: Rethinking the Nature and Origins of the Grabbing Hand." Gothenburg: The Quality of Government Institute, University of Gothenburg (Working Paper 2007:5). www.qog.pol.gu.se
- Townsend, Peter. "A Society for People." in *New Statesman*, October 18, 1958. Reprinted in *Social Policy and Society* 8:2 (2009): 147-158.
- UNDP. *Human Development Report 2002 - Bosnia and Herzegovina*. New York: United Nation Development Program, 2002.
- Uslaner, Eric M. *The Moral Foundation of Trust*. New York: Cambridge University Press, 2002.
- Wilkinson, Richard G., and Kate Pickett. *The spirit level: Why more equal societies almost always do better*. London: Allen Lane, 2009.
- Wollebæk, Dag, and Per Selle. "Participation and social capital formation: Norway in a comparative perspective." *Scandinavian Political Studies* 26:1 (2003): 67-91.
- You, Jong-Sung., and S. Khagram. "A comparative study of inequality and corruption." *American Sociological Review* 70:1 (2005): 136-157.
- Åberg, Rune. "Distributive Mechanisms of the Welfare State - a formal analysis and an empirical application." *European Sociological Review* 5:2 (1989): 188-214.