

What do Russians think about Transition?

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wiiw seminar

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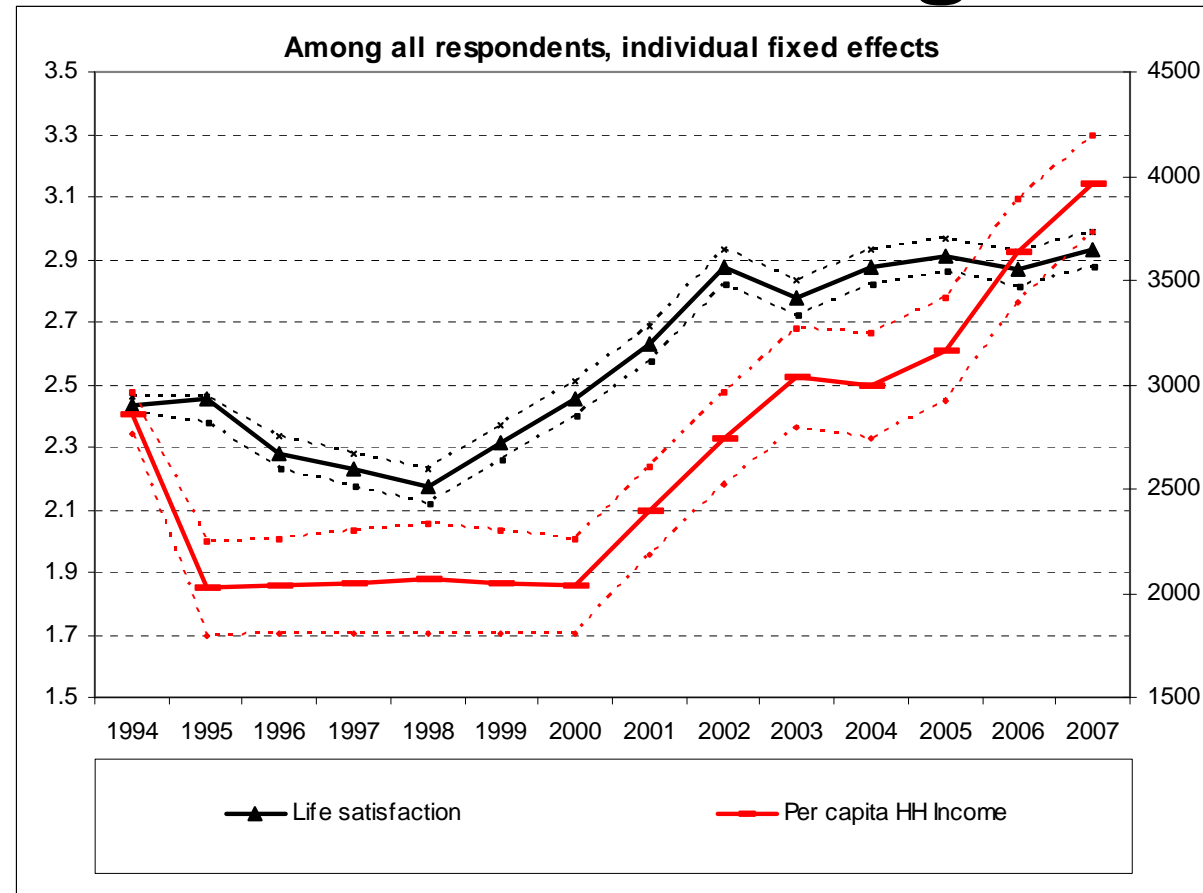
Motivation

- Shiller, Boycko, and Korobov (AER, 1991):
 - Attitudes towards free markets in 1990: NY vs. Moscow
 - Soviets were not more concerned about the fairness of free market prices and the possibility of a substantial rise in inequality as a result of free markets than Americans
 - even stronger appreciation of the importance of economic incentives
- Whether and how have attitudes towards free markets evolved in Russia since the beginning of the transition?
- Are Russians satisfied with transition and just as hopeful of free markets as they used to be in 1990?
- What accounts for the evolution of attitudes towards markets?

Data and Basic Facts

- RLMS (Russian Longitudinal Monitoring Survey)
 - Large-scale representative survey of the Russian population (over 10,000 respondents)
 - We focus on the round in fall 2006 that inquired this one time directly about:
 - the people's assessment of various aspects of transition
 - and their preferences towards regulation vs. the free market

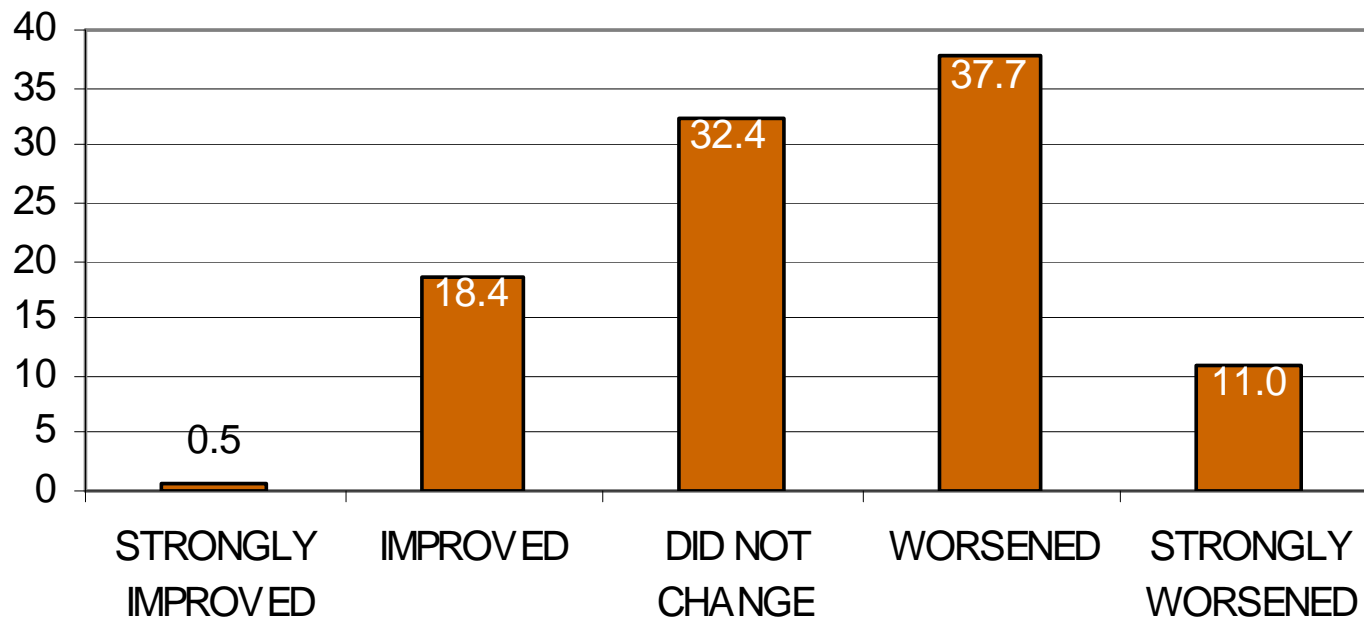
Background: life satisfaction and incomes have been growing



- Same picture for people in relative poverty and elderly
- Even the most conservative estimates tell that standards of living bypassed the level at the beginning of transition by 2003
- No Easterlin paradox

How did the economic and social changes of the last 15 years affect your life?

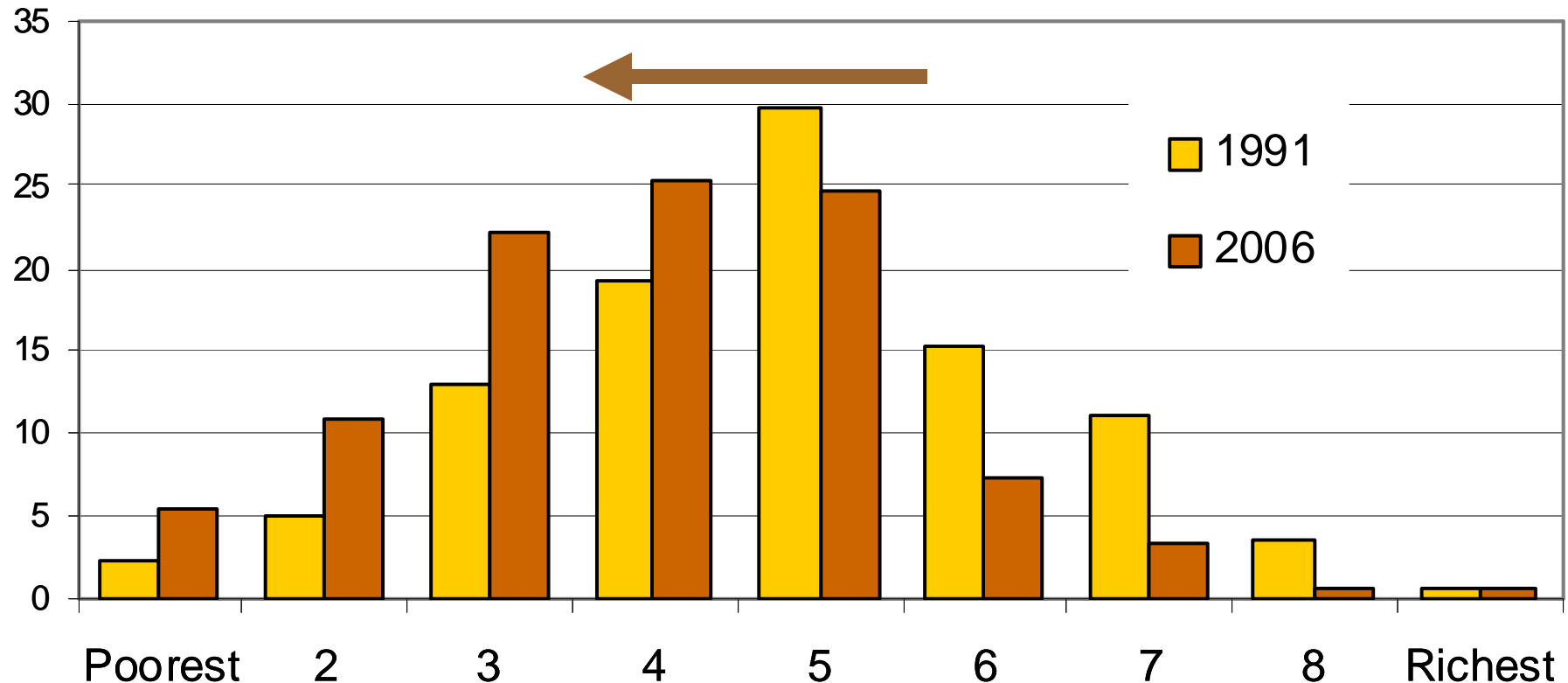
% of population



48.7%: “worsened”, 32.4%: “did not change”, 19%: “improved”

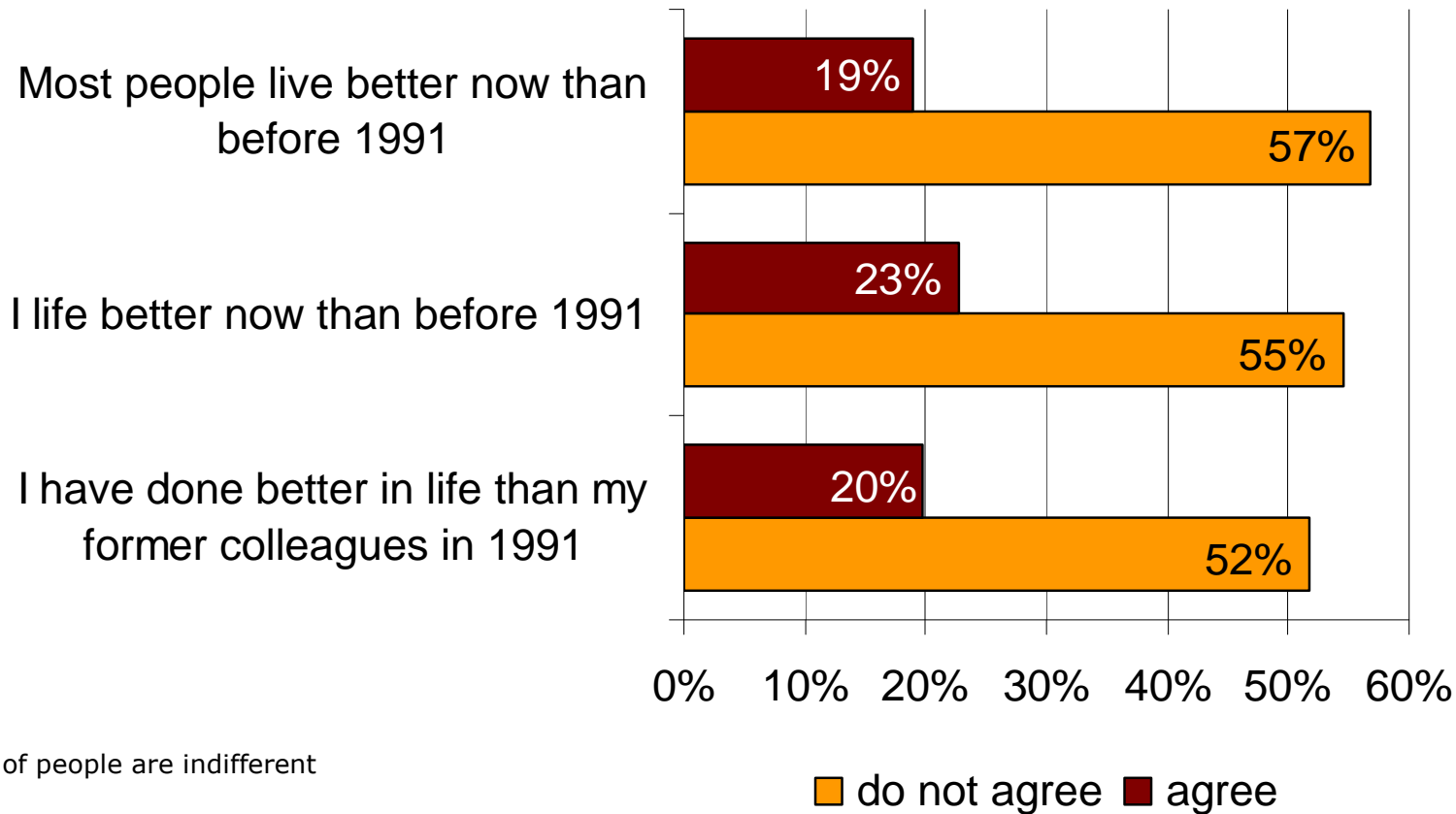
In addition: 50% would prefer their kids to grow up in the USSR

Position on 9-step wealth ladder: 2006 and before transition



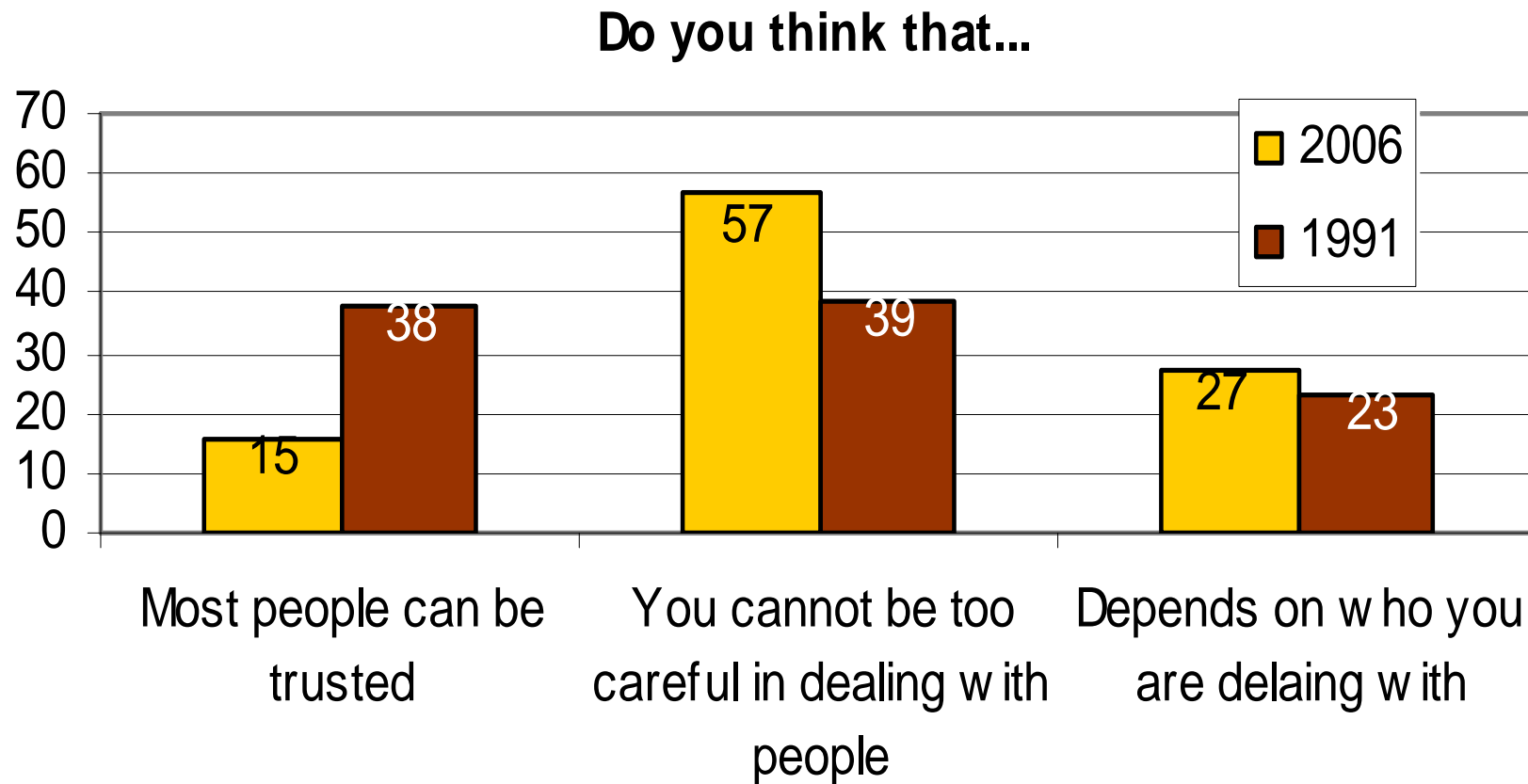
People feel that they have become poorer relative to others

Assessment of transition

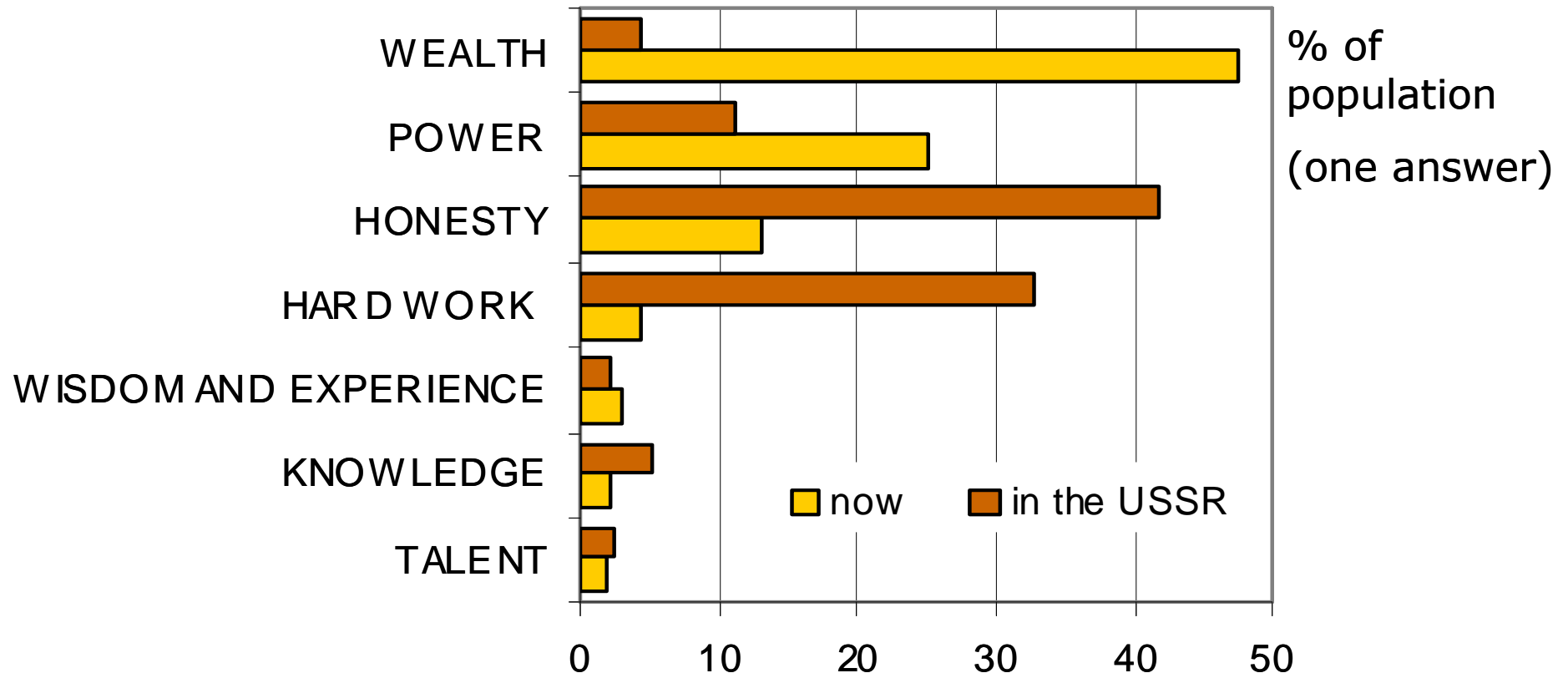


Evidently, people make transition-related assessments not only on the basis of economic criteria

Perceived decline in general trust toward people



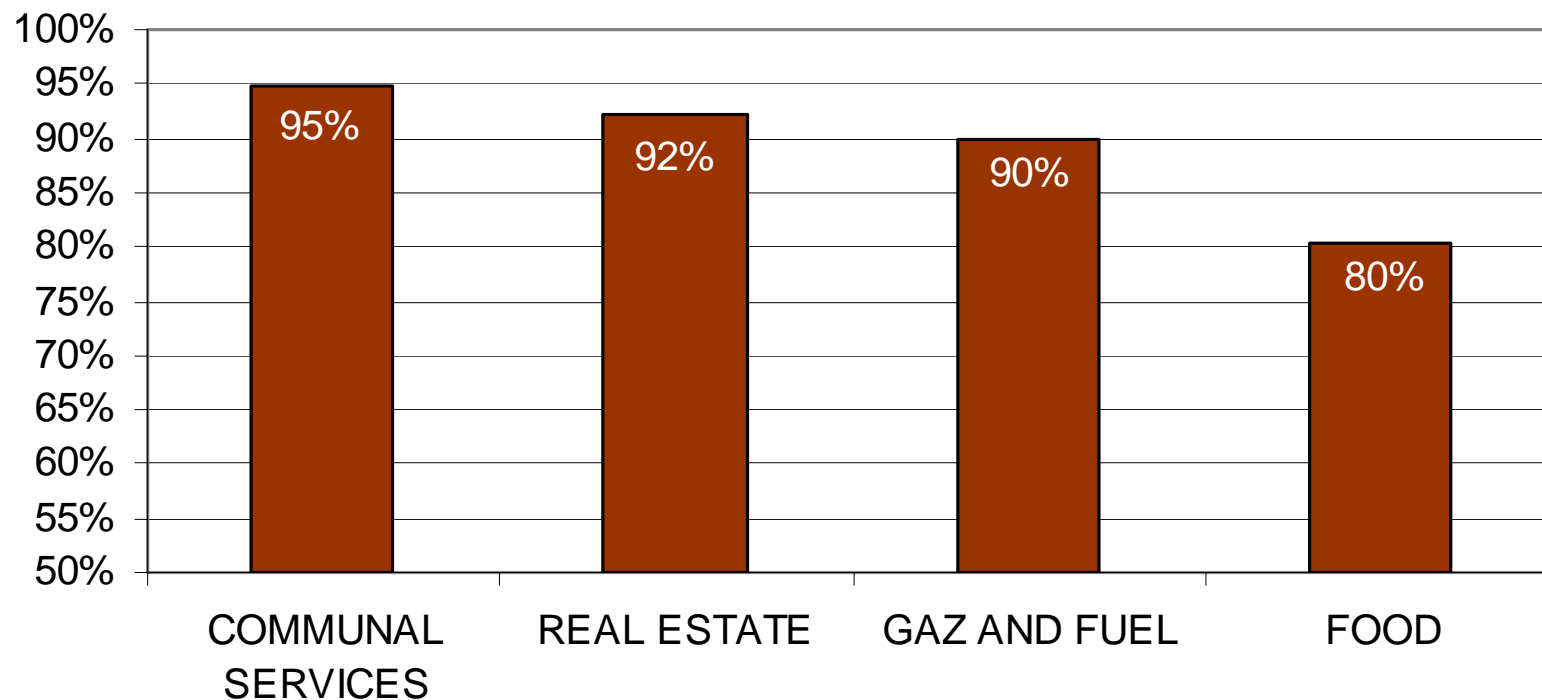
What is most valued now and what was most valued in the Soviet Union?



Potentially a recall bias: people may have forgotten the true level of social capital

State price controls are immensely popular

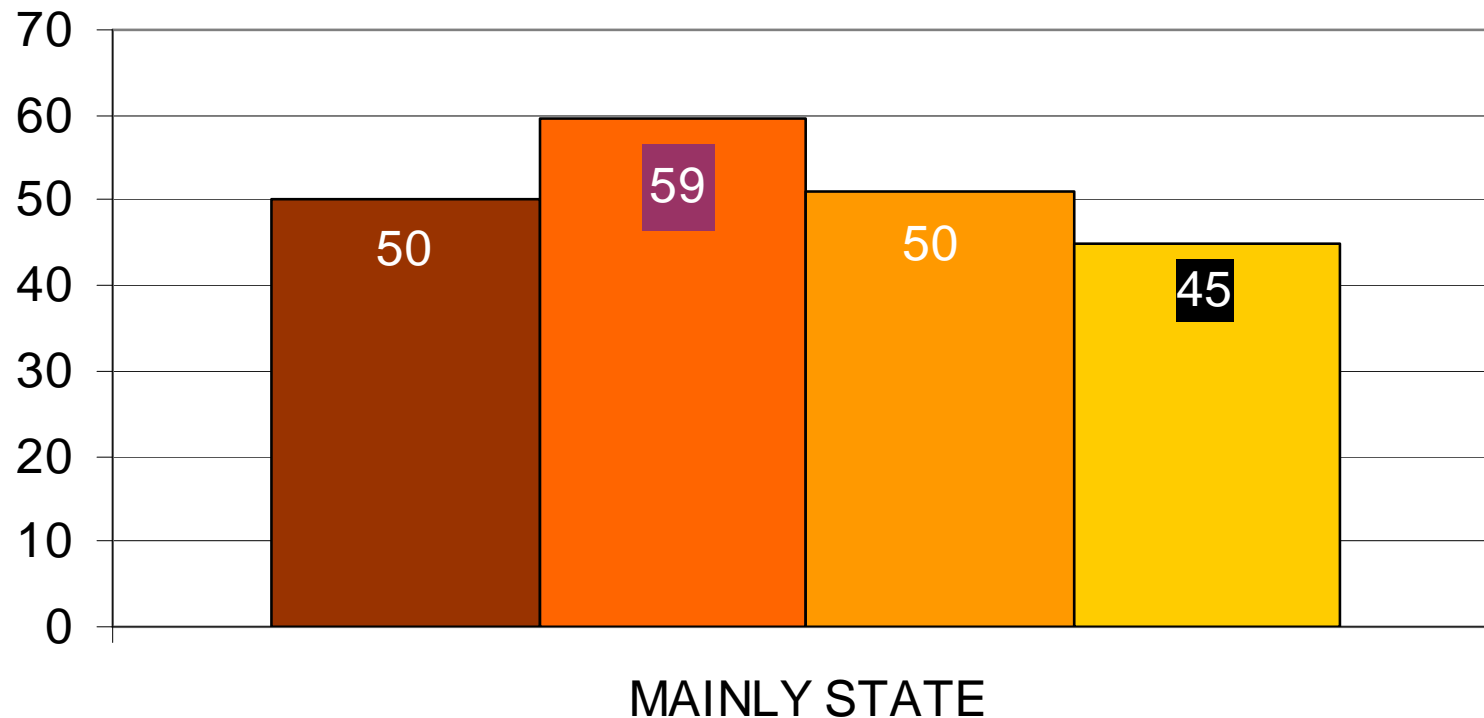
% of population who think that the state rather than the market should set prices for the following goods and services:



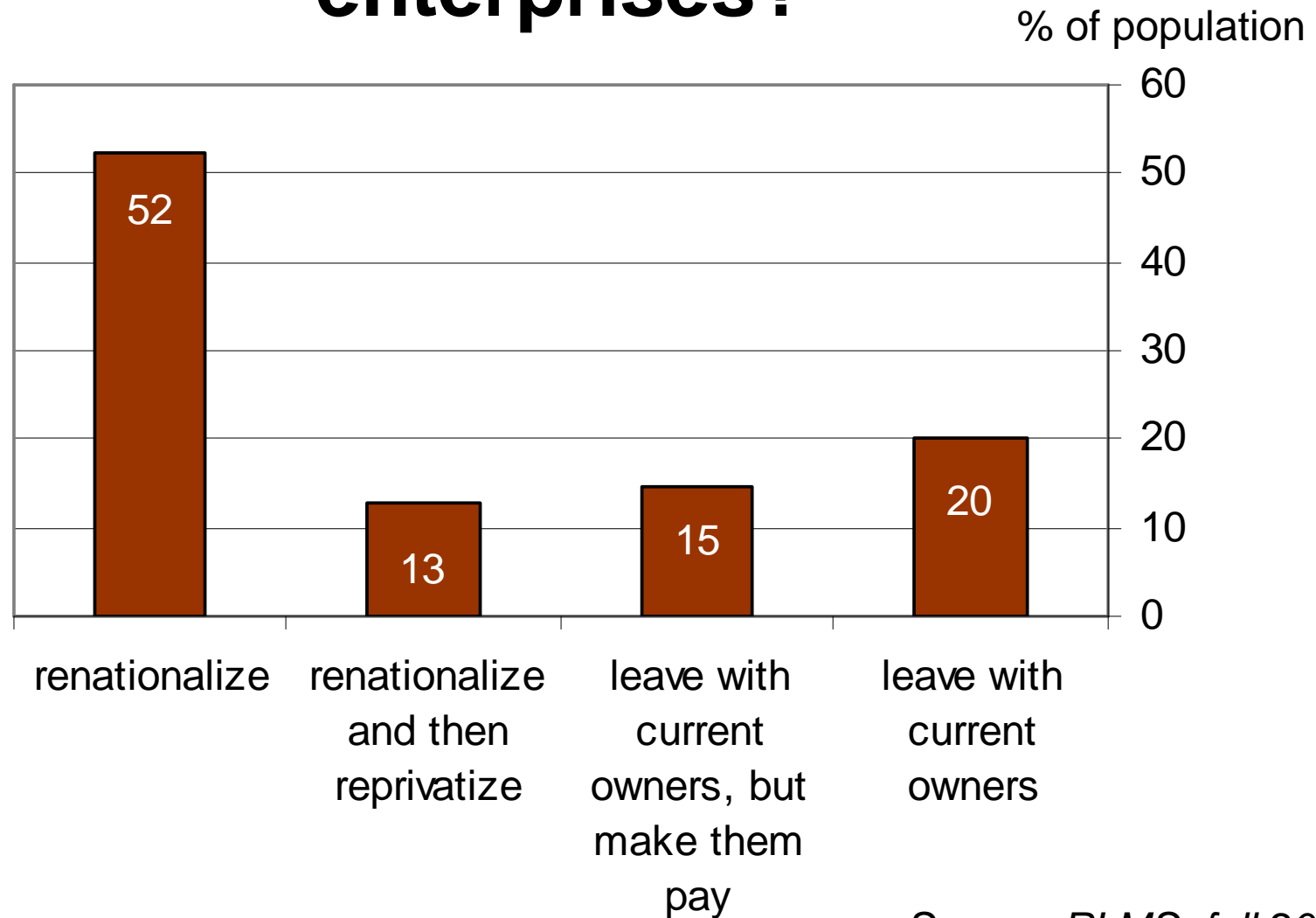
Price regulation vs. experienced shortages; no reminder on costs of price controls

Mainly state or market should provide employment, medical care, build roads, and collect trash?

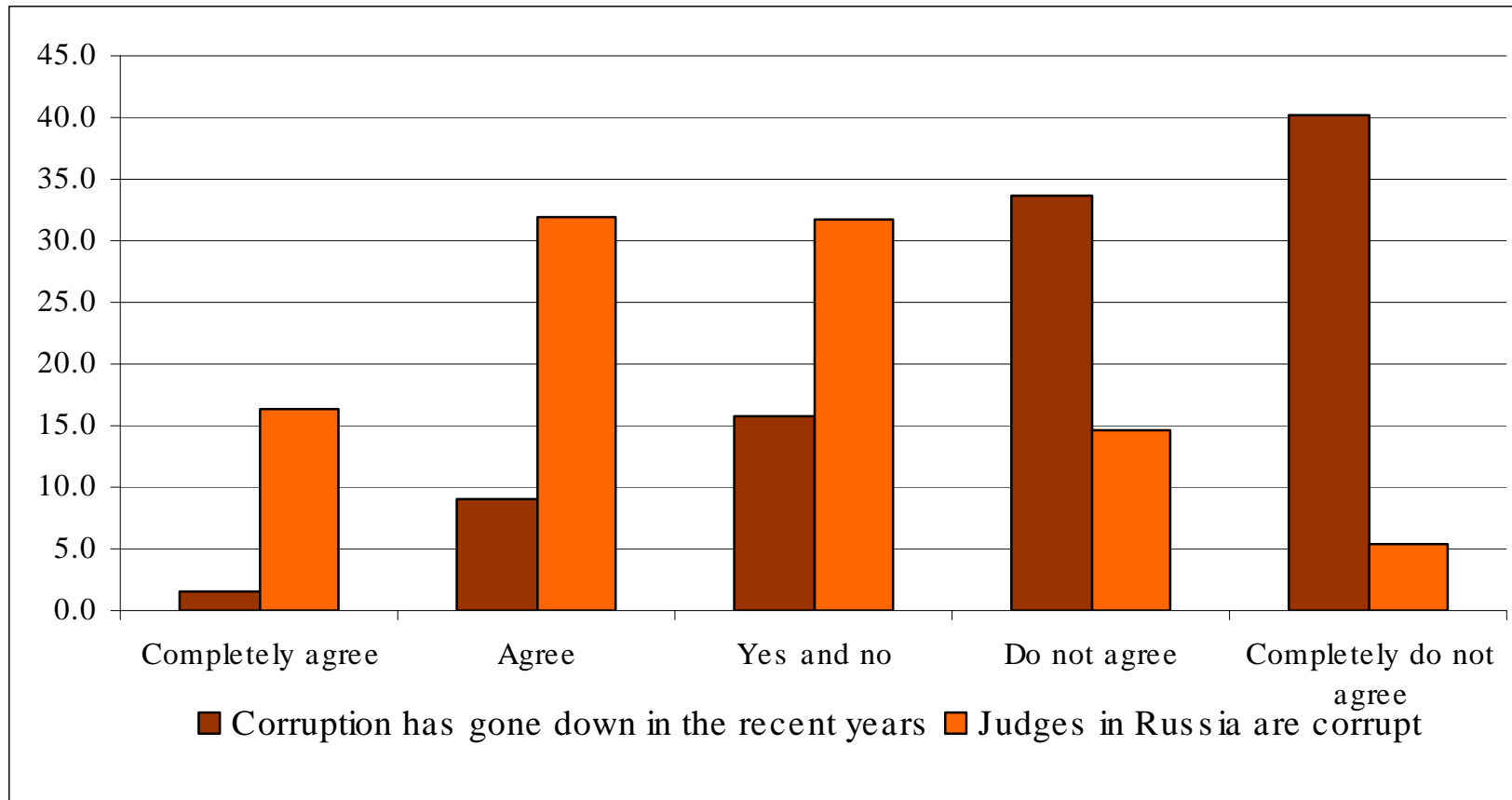
■ SUPPLYING EMPLOYMENT ■ MEDICAL CARE
■ BUILDING ROADS ■ COLLECTING TRASH



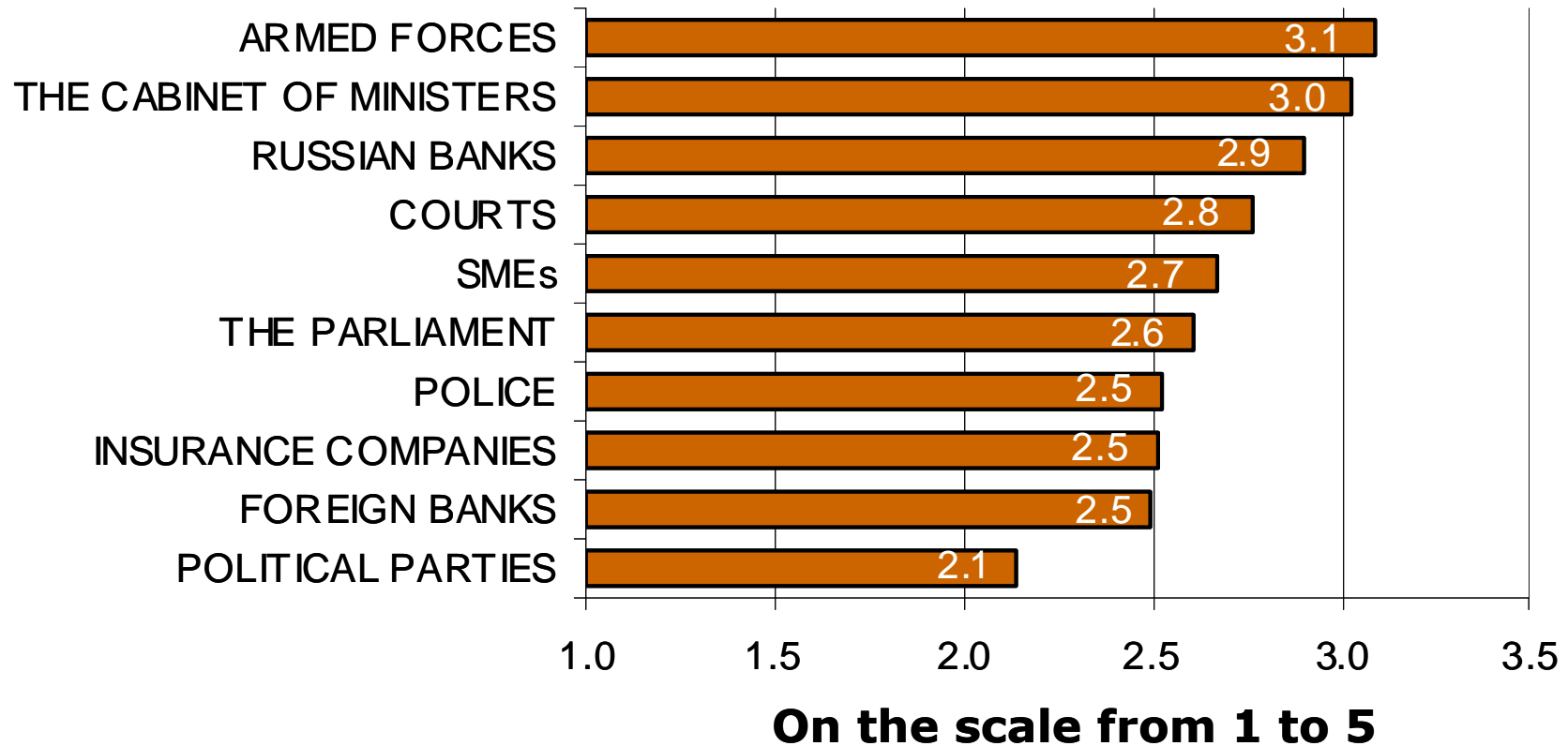
What should be done with the majority of previously-privatized enterprises?



Nonetheless... perception of high and growing corruption



Trust towards organizations and certain groups of people



1 is "completely distrust", 2 is "rather distrust", 3 is "neither trust nor distrust", 4 is "rather trust", and 5 is "completely trust"

Evidence which requires explanation

- High demand for government regulation and increased state involvement in the provision of goods and services



- Low level of trust in government institutions and recognition of high and rising levels of corruption

=> *Why do individuals who distrust the government nonetheless want more government intervention?*

Aghion, Algan, Cahuc, and Shleifer (2009): The Model (1)

- Continuum of risk-neutral individuals of mass one
- Individual decisions:
 - Become civic or uncivic
 - Become entrepreneur or routine producer (work for state-owned factory)
 - If uncivic & entrepreneur: negative externality (pollution, cheating) on the society is imposed; may be productive or unproductive
 - State-owned factories do not impose externalities, but are not productive

Aghion et al. (2009): The Model (2)

- Societal decision by election:
 - Regulate entrepreneur's entry into the economy to reduce externalities or do not regulate
 - Regulation is administered by public officials (randomly drawn from the population)
 - » The more officials, the less neg. externalities but also the less the incentive to be civic
 - civic official & uncivic entrepreneur: no entry (forbidden by official)
 - uncivic official & civic entrepreneur: no entry (entrepreneur refuses to pay bribes)
 - uncivic official & uncivic entrepreneur: entry (entrepreneur pays bribes)
 - If entry is denied: entrepreneur returns to routine production

Aghion et al. (2009): Solution (1)

- Solved by backward induction
 - Two equilibria:
 - “Good” equilibrium: mass civickness, no regulation, no externalities, maximum level of production
 - “Bad” equilibrium: mass uncivickness, regulation, neg. externalities, relatively low level of production, high degree of corruption
 - Only the most productive entrepreneurs can enter (only they can afford to pay the bribes)
 - The society would be worse off if all uncivic (also those who are less productive) would enter, because of more overall negative externalities
- ⇒ Preference for more regulation, even though the regulators are corrupt! *Government is bad, business is worse*

Aghion et al. (2009): Implications

- More civicness, more trust => less demand for regulation
- If liberalization occurs in a low trust environment, the economy would converge to a bad equilibrium
 - Increase in corruption, more demand for regulation, further reduction in social capital (lower trust)
- Interpretation of Russia's views:
 - Russia seems to converge to the bad “uncivic” equilibrium

Aghion et al. (2009): Empirical Tests

- Distrust in government, distrust in business, corruption, demand for regulation, and regulation should all be positively correlated
- but this is variation among equilibria
 - Treat Russia as collection of local economies with their own equilibria => variation among equilibria at the PSU level
 - Introduce individual heterogeneity into the model: beliefs about how many civic people are there (Pinotti 2009)
=> prediction about correlation of individual demand for regulation and individual perceptions of corruption and distrust

Tests support the theory

- Controlling for a wide range of individual characteristics, such as age, education, income, labor market status, and labor market history, we find strong **positive conditional correlation between:**
 - individual and PSU-level demand for regulation and state provision of goods and services
 - individual and PSU-level distrust in business, distrust in state institutions, and perceptions of social capital
 - individual and PSU-level perceptions of corruption
- Social capital explains a significant share of variation in assessment of transition

Individual characteristics as determinants of the variation in attitudes

	General attitudes towards transition	Price regulation	Direct involvement of the state
	Worsened life	Housing	Garbage
Age	0.025 [5.85]***	0.001 [1.58]	-0.003 [1.50]
Age Squared	-0.0001 [4.93]***	-0.0001 [1.01]	-0.0001 [3.00]***
Education [compared to "Secondary and below"]			
= "Junior and Secondary Professional"	-0.003 [0.23]	0.000 [0.02]	-0.038 [2.92]***
= "University and higher"	0.011 [0.42]	-0.031 [4.27]***	-0.102 [5.36]***
Used personal computer last 12 months	-0.069 [3.90]***	-0.031 [4.93]***	-0.047 [2.86]***
Used the internet last 12 months	-0.039 [1.50]	-0.026 [4.23]***	-0.016 [0.76]
Self-reported health [1-poor, 5-excellent]	-0.1 [8.07]***	-0.005 [1.30]	-0.003 [0.41]
Log of per capita household consumption	-0.089 [7.95]***	-0.008 [3.15]***	-0.051 [5.38]***
Employment [compared to "Work for wages in public sector"]			
= "Work for wages in private sector"	0.004 [0.25]	-0.009 [1.36]	-0.028 [1.48]
= "Unemployed"	0.172 [5.32]***	-0.019 [1.62]	0.054 [1.77]*
= "Out of labor force"	0.097 [3.74]***	-0.019 [3.47]***	0.018 [1.08]
Has experience as entrepreneur or self-employed	-0.006 [0.26]	-0.018 [2.71]***	-0.044 [2.38]**
Had to accept less qualified job	0.114 [6.08]***	-0.006 [0.96]	-0.009 [0.48]
Got job in new sector	-0.091 [3.85]***	-0.025 [3.29]***	-0.06 [2.74]***
Gender [Male compared to Female]	0.009 [0.96]	-0.018 [3.80]***	-0.032 [2.66]***
Location [Urban compared to Rural]	0.022 [0.42]	-0.019 [1.65]*	0.008 [0.15]
PSU dummies	Yes***	Yes***	Yes***
Observations	7329	10019	10127
Pseudo R-squared	0.13	0.12	0.09
Log Likelihood	-4417.34	-2347.66	-6276.84
LR Chi Square	2407.95	39729.56	123342.49

Distrust and corruption correlate with demand for state regulation and state involvement

	Price regulation	Direct involvement of the state	Transition worsened
	Food	Employment	life
Distrust in private business			
Distrust small business	0.034 [5.05]***	0.05 [4.52]***	0.039 [5.48]***
Distrust insurance companies	0.013 [2.29]**	0.024 [2.66]***	0.038 [5.87]***
Distrust domestic banks	0.011 [2.03]**	0.027 [3.76]***	0.038 [5.07]***
Lack of cooperation			
No cooperation between rich and poor	0.016 [2.85]***	0.013 [1.48]	0.038 [5.50]***
No cooperation between common and powerful	0.013 [2.10]**	0.016 [1.74]*	0.036 [5.40]***
General distrust (regional-level)			
General distrust (FOM)	0.057 [0.82]	-0.145 [0.95]	-0.024 [0.33]
Distrust in state institutions			
Distrust government	0 [0.03]	0.018 [1.78]*	0.045 [6.44]***
Distrust courts	0.017 [2.36]**	0.015 [1.75]*	0.04 [5.12]***
Distrust of political parties	0.002 [0.36]	0.026 [2.28]**	0.044 [5.75]***
Corruption			
Judges are corrupt	0.004 [0.64]	0.028 [2.79]***	0.02 [3.29]***
Disagree that corruption decreased in the last years	0.005 [0.68]	0.004 [0.60]	0.027 [3.18]***

Conditional correlation between distrust and corruption

	Judges are corrupt	Disagree that corruption decreased in the last years
Distrust in private business		
Distrust in small business	0.141 [6.05]***	0.178 [8.24]***
Distrust insurance companies	0.201 [8.07]***	0.224 [10.53]***
Distrust domestic banks	0.198 [9.20]***	0.213 [12.98]***
Lack of cooperation		
No cooperation between rich and poor	0.059 [3.50]***	0.134 [8.07]***
No cooperation between common and powerful	0.102 [5.90]***	0.158 [9.65]***
General distrust		
General distrust, regional level (FOM)	-0.072 [0.18]	0.482 [2.16]**
Distrust in state institutions		
Distrust government	0.271 [12.28]***	0.233 [10.74]***
Distrust courts	0.406 [19.14]***	0.236 [10.15]***
Distrust in political parties	0.27 [9.84]***	0.264 [11.42]***

Conclusions (1)

- 1st paradox: although living standards and life satisfaction have broadly improved 2000-2007, a majority of Russians is disappointed with transition
- 2nd paradox: a high demand for government regulation and increased state intervention coexists with a low level of trust in state institutions and recognition of high and rising corruption

Conclusions (2)

- Theory by Aghion et al. (2009) helps to resolve these paradoxes:
 - It is the *lack of social capital* in Russia that drives the demand for government regulation and bad attitudes towards transition
 - Society chooses to demand regulation and tolerate corruption in order to reduce externalities imposed by uncivic business
=> ***bad equilibrium trap***

Back to Shiller et al. (1991)

- According to Shiller et al. (1991), Soviets and Americans' attitudes in 1990 were very similar in all aspects but two:
 1. expectation about the security of property rights
 2. attitudes towards civicness of private entrepreneurs
- In light of our findings, it is clear that these two differences have foretold the nature of transition