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ABSTRACT

Imposed Institutions and Preferences for Redistribution*

To what extent do imposed institutions shape preferences? We consider this issue by comparing the market-versus-state attitudes of respondents from a capitalist country, Finland, and an ex-communist group of Baltic countries, and arguing that the period under the communist rule can be viewed as an “experiment” in institutional imposition. We find, consistent with some earlier related work, that citizens from ex-communist countries tend to be more supportive of state ownership than respondents from capitalist economies. However, they also favour increasing inequality and competition as the means to enhance incentives. Our conclusion is that, in some important relevant dimensions, institutional imposition (that lasted for about fifty years) had a limited effect on preferences.

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1. Introduction

How do institutions interact with preferences, hence with choices societies make (see Rodrik, 2000, for a broad conceptual discussion of some of these issues)? Typically, in analytical modeling, preferences of a politically powerful coalition play an important role in shaping institutions (Acemoglu, 2006), which is, of course, consistent with the neoclassical approach whereby exogenously given preferences determine economic outcomes. On the other hand, an almost equally classical view, in the Marxist and Weberian traditions, holds that institutions shape preferences. It seems, in fact, that this latter view may have been recently embraced, perhaps inadvertently, in influential literature arguing that transplanted institutions have the potential of reforming the recipient economies in developing countries. Thus, in the context of the legal system, this argument has been forcefully made by La Porta et al., 1998; in the context of political and contract enforcement systems, work reviewed in Acemoglu., 2006, attributes the success or lack thereof of former European colonies to whether or not good institutions were imposed on them by the colonizers; and Easterly and Levine, 2003, reject the significance of economic policies for growth in favor of good institutions.¹ There are, it seems, examples in support of the view that institutional transplantation can work and have positive durable effects. Thus, some literature makes the point that pre-independence institutions in colonized parts of the world often persevered and were sustained after independence, so that, in a sense, modern institutions in these countries

¹ The despair with the apparent inability to break the poverty cycle in parts of the developing world has even led to the recent proposal of the chief economist of the IMF to let a benevolent foreign authority run for a period a poverty stricken country in order to establish decent institutions (Rajan, 2005).

took root under colonization.² For transplanted institutions to endure, however, they ultimately need to have political support. This necessarily implies that transplantation can work only insofar as it changes the collective preferences of the recipient population from rejecting good institutions to embracing them. Two different channels can lead to this change. Either transplanted institutions change the composition of the politically decisive constituencies; or they change the individual preferences through habitual addiction, for example. In this paper, we are interested in studying this second channel. Some related recent work, such as Corneo and Gruner, 2002, and Alesina and Fuchs-Schuendeln, 2005, examines the attitudes toward the role of the state in the 1990s and finds significant difference between West European market economies and formerly communist countries of East Europe, individuals in the second group being more favorable toward state ownership. The latter authors attribute this difference to the durable effect existing institutional environment has on the formation of preferences.

On the other hand, there are other examples, where institutional change, inasmuch as it was forcibly imposed, did not endure. In fact, the relatively rapid transition of the former communist countries to market economies (see Shleifer and Treisman, 2005) illustrates precisely that. Indeed, as will be argued more in detail below, the Russian revolution of 1917 entailed a decisive institutional change, dealing a death blow to the previously existing elites. Further, it did lead to a much more egalitarian distribution of economic resources than before, as well as to ideological commitment to and relatively successful implementation of universal literacy, mass education, national health, and public housing. It is commonly agreed that as a result of these commitments, with all the well known problems

² Ferguson, 2003, argues that British colonization often had lasting beneficial economic effects, at least relative to other colonizing powers. The line of research that was initiated by Engerman and Sokoloff (see Sokoloff and Engerman, 2000, for a review of this work suggests that institutional change is more likely to have favorable consequences if supported by a more equal distribution of economic resources.

– and often ruthlessness of their implementation - the degree of economic inequality in the Soviet Union, as well as in other countries within the Soviet domain, was among the lowest in the world. Yet, the system, which was mercilessly imposed for decades, did not endure, and was overthrown when an opportunity offered itself in the late 1980s as a result of Gorbachev’s policy reversal. One country after another engaged in economic liberalization and in attempts to reinvigorate private entrepreneurship.³ This important recent example – or, rather, a set of examples, as the system was implemented in about a third of the countries in the world – offers several suggestions. One is that breaking up with the old order with its inefficient institutions and creating an alternative regime with commitment to equality, as decisively and abruptly as it was done, is in itself no guarantee of economic success. Also, the institutions created as a consequence of the Russian revolution, such as central planning or state ownership, were thrown out as soon as the citizens were given an opportunity of free choice. Further, the data explored below seem to suggest that the populace in Soviet dominated countries developed a deep sense of dissatisfaction with economic equality – probably the most important tenet of the economic regime, pushed over the decades through school indoctrination, mass media, silencing of any discontent, and dissident’s repressions.

While revealed behavior – the relatively decisive move away from the communist system that occurred in many transition countries – speaks for itself, at least two important issues remain unsettled. First, it is not quite clear which specific aspects of the communist system aroused objection, leaving the possibility that some other features were acceptable or even approved. Second, it is unclear how widespread the protest against the system was, namely, was it expression of a mass disapproval or just an act of a relatively small group of interested parties.

³ As is shown in Beck and Laeven, 2005, there is a negative relationship between the amount of time countries

To study these issues we employ the emergence of the Soviet Union and, in particular, the imposition of the communist regime on some of its neighbors. The argument is that some of these cases come close to an “experiment” and enables us to study the likelihood of a long lasting imprint of a deep institutional change. The specific case we choose to focus on is the comparison between Finland and the Baltic States. While the latter came under Soviet occupation in 1940 and became a part of the Soviet Union until 1988, the former fought the Soviet military invasion and retained independent throughout. Arguing that the economic and social outlook of these places were similar in the period predating the Soviet invasion, we then study how the imposition of the Soviet model, with its emphasis on state planning and economic equality, affected the views of the citizens of the Baltic States as opposed to those in Finland.

We are able to replicate the previous findings that individuals in the former communist countries tended to view more approvingly state ownership and reliance on state support than individuals in market oriented economies. However, we also find strong evidence of their willingness to accept unequal distribution of income and to be exposed to more competition in order to enhance incentives. We regard these findings as a proof that institutional imposition may not be durable, especially if it is not perceived to be successful. Taken together, they seem to imply that individuals in the former communist countries, in comparison to a relevant group, welcomed at least some elements of transition to the capitalist system, such as increased competition, and were perfectly willing to accept growing inequality as the means to increase efficiency; but they were also reluctant to give up on government responsibilities. Moreover, during the course of the transition decade in the 1990s, these relative attitudes changed remarkably little, despite the wave of mass

spent under the communist system and their growth rates during the transition years.

privatization in the Baltics in the early 1990. We also find some tentative evidence that individual trust as well as confidence in government generally boost the support for capitalistic institutions and may partly account for the differences in attitudes between the Finnish and the Baltic respondents. We argue that understanding these distinctions may be helpful for conducting institutional reforms.

To summarize, the question of the relevance of institutions for development can be usefully divided into two somewhat separate although arguably related components. One is whether an imposed, or transplanted, institutional change can promote economic performance. It is this issue that has been most directly addressed by the recent literature. Another question, however, is to what extent imposed institutions are durable and can be sustained over time, especially when citizens in the recipient countries are able, to an extent at least, to exercise their political will. This research addresses this second question.

This paper is related to the literature, some of which mentioned above, that studies the determinants of high-quality institutions. Berkowitz et al., 2003, in the context of transplanted (legal) institutions, find that legality is no less important than their inherent quality; Rodrik, 2000, suggests that appropriate institutions may differ across countries; and Rajan and Zingales, 2005, argue that supportive constituencies are essential for the ultimate success of an institutional change. Since the particular institution addressed in this study is inequality and its subject matter is the attitudes toward the role of government, the paper is also related to the work that studies the determinants of such attitudes. This work has mainly been done in the context of the comparison between the US, with its reliance on markets and relatively high inequality, and Europe with its state provided social protection - see Alesina and Glaeser, 2004, and references therein. Alesina and La Ferrara, 2005, in the

US context, relate preferences for redistribution and social mobility.⁴ Some more recent work has also been done comparing attitudes within Europe, such as between West and East European countries (Corneo and Gruner, 2002, Alesina and Fuchs-Schuendeln, 2005). This work typically finds that individuals in the former communist countries tended to favor more state intervention than their Western counterparts; the authors then attribute the finding to habit formation or the effects of indoctrination. In contrast, Shiller et al., 1991, 1992, comparing the United States and the Soviet Union in the early 1990s do not find significant differences in regard to the attitudes toward markets. Further, Di Tella and MacCulloch, 2004, find that individuals in developing countries are generally quite suspicious to the institutions of capitalism, such as markets and private ownership. While concurring with these findings, we also provide evidence that individuals in the ex-communist countries favor more inequality and competition to enhance incentives. Thus, while suspicious toward private ownership as found in the previous work, these individuals were perfectly willing to support other essential capitalistic elements viewed as important for economic incentives. From the viewpoint of the prospects of a positive institutional change in a developing country this conclusion can thus be considered as reflecting guarded optimism. On the other hand, we do not find much support in the data for theories suggesting that mass privatization creates constituencies in favor of further market reforms, see Biais and Perotti, 2002: at least within the span of a decade, the attitudes of the citizens in the Baltic states remained relatively stable despite the wave of mass privatization in the early 1990s.

The rest of the paper proceeds as follows. The next section describes the historical and the institutional background. Section 3 then deals with the data description. Section 4 presents some basic empirical findings, whose more detailed analysis is contained in Section

⁴ Ravallion and Lokshin, 2000, reach similar conclusions in the context of Russia.

5. Section 6 then concludes with discussion and interpretations.

2. Background

2.1. Historical details

Russia. In the first half of the nineteenth century the tsarist Russia was a very much traditional society, with a patrimonial state fully controlled by the autocratic bureaucracy. Land and mining were highly concentrated, much of the peasantry were serfs. The judiciary was an integral part of the governing system, and religion was a solid part of the state mechanism. The reforms of the 1860s were designed to institute a more modern system of governance, with a modicum of separation of powers and abolishment of the serfdom. The pace of their implementation was uneven, however, and only after two or three decades some elements of modernization started manifesting themselves. While the reforms gave impetus to the emergence of the bourgeoisie and to relatively rapid industrialization, they also exacerbated poverty (see Pipes, 1995).

The beginning of the twentieth century was characterized by some continuing reform attempts along with the regime's confrontations with the emerging working class. The revolution attempt of 1905 was followed by severe repression, which in turn was followed by the Stolypin land reforms of 1910-11. Wars, first with Japan and then World War I, contributed to the growing severe economic and social crisis. The revolution in February 1917 resulted in the abdication of the tsar and in the formation of an elected government, seemingly committed to progressive social reforms. Despite this, the continuing war without an end in sight and the lack of a visible economic progress, brought about the next, much more radical revolution led by the Lenin's Bolshevik party (Walkin, 1962).

The ensuing civil war, 1918-1922, and the droughts of 1920-1921, further contributed to the devastation of the country that became known as the USSR or the Soviet Union, and defined itself as a federation of republics. The revolution decisively upset the previous balance of power, practically eliminated the ruling elite, and led to the emergence of new institutions.⁵ In the late 1920s, in order to promote rapid industrialization, Stalin abolished this policy through collectivization of farms and imposing state ownership and central planning (Pipes, 1993). Massive investments, especially in heavy industries, brought about a period of strong economic growth. Much progress was also made in the areas of education, which was viewed both as a modernization vehicle and the means to socializing individuals into the ruling ideology, science, health, and infrastructure. Equality, state ownership, and central planning were important parts of this ideology and constituted aims in themselves. Although subsequently there were important deviations from these emphases and policies, their main thrust remained in place until the major changes in the late 1980s introduced by Gorbachev. While economic growth was very impressive initially, it slowed down considerably by the 1960s (see Nove, 1992). During the entire period of the communist rule, all signs of democratic governance – free elections, independent media, freedom of speech and of political organization – were absent throughout the Soviet-dominated areas.

Soviet Union and East Europe. During the period 1918-1940 the Soviet Union was shaped as a political federation of separate republics. It came into being in 1922 as a union of the Russian, Ukrainian, Belorussian, and Transcaucasian republics. The autonomy and the right of secession granted to the republics by the constitution were purely theoretical, and the

⁵ The strict economic discipline, known as War Communism, was loosened in the aftermath of the Bolshevik

political control was centralized. Some territories previously belonging to the Imperial Russia – in particular, the Baltics - were lost in the course of the turbulent aftermath of the revolution. In 1940, however, some of these territories were regained as a result of a pact with the Nazi Germany; thus, Moldavia, Estonia, Latvia, and Lithuania joined in as new republics; and parts of Poland and Finland were also incorporated in the Soviet Union. By 1940, Soviet Union regained almost the entire territory of the Imperial Russia with the important exceptions of Poland and Finland, and these newly acquired territories were fully incorporated into the Soviet system.

In the aftermath of World War II and as a part of the emerging Cold War, Stalin strengthened his grip on neighboring countries through political and military pressures, as well as through signing of economic and military agreements. As a result, countries in East Europe including Poland, Hungary, Czechoslovakia, Romania, Bulgaria, and East Germany came to be dominated by communist regimes with similar – although different in relatively minor for our purposes details – ideologies and policies to that of the Soviet Union.⁶

The disintegration of the Soviet Union and transition. In the late 1980s, the Soviet leader Mikhail Gorbachev embarked on the road of reforms. In the economic sphere, they primarily meant relaxation of the state control, abolishment of central planning, and mass privatization. In the political sphere, they led to democratization, and to the dismantling of the Soviet Union in 1991, its fifteen constituent republics becoming independent states.

The reforms had also consequences beyond the Soviet borders. Revolutionary movements spread all over the Eastern bloc resulting in ousting of the regimes imposed after World War I. One country after another replaced the prevailing communist regime with

victory, and the New Economic Policy briefly introduced elements of free markets.

another, less centralized governance system and a variation of the market economy. East Germany reunified with West Germany in 1990. The pacts and agreements between the Soviet Union and the neighboring countries were dissolved.

The transition period proceeded very differently in the different countries. This can be seen most clearly by comparing the growth rates across the transition economies. For example, in the period 1992-2002, the average real income per capita in countries like Estonia and Poland grew at the annual rate of about 4%; in Ukraine it shrank by more than 4%; in Russia it shrank by less than 1%, see Beck and Laeven, 2002. The political and economic reform pace differed across the transition economies greatly as well. By 2004-5, income per capita in several transition economies, such as Slovenia, the Czech Republic, Hungary, Estonia was approaching \$20000; whereas in Belarus and Ukraine it stagnated at less than \$4000 (World Development Indicators).

2.2. Finland and the Baltic States

We would like to argue that the formation of the Soviet Union and the Eastern bloc and their subsequent disintegration constitutes a unique social experiment, in fact, several of them, in particular creating a division between market oriented economies in the West and planned economies in East Europe. The above historical account helps us in the identification.

Finland and the Baltic States, on which we focus here, share many features of common history. Previously loosely controlled by the Russian Empire, they became independent as a consequence of the Russian Revolution of 1917. For about a century controlled by the Russian bureaucracy, these countries then had to quickly set up their national institutions and define their respective identities. All of them opted for democratic

⁶ Yugoslavia, although following a distinct path, professed like-minded communist ideologies.

governance and a multiparty system. Comprehensive land reforms and advanced social legislation were high on the agenda of the new parliaments, dominated in basically all of these countries by right wing nationalistic parties.

They were also able to successfully develop their economies and build their respective social fabric. In 1930s, all these countries were relatively poor, definitely by the West European standards, with income per capita of about \$3000 in Finland and approaching that level in Estonia and Latvia – which constituted about one half of the income per capita in the US at the time. Although industrialization began taking off, agriculture and foresting still were dominant sectors of their respective economies. As a result of a land reform that took place in all these countries in or around 1920, the number of small farmers grew considerably, tenancy problem was almost completely resolved, and agricultural production rapidly increased. All these countries, but especially Finland and Estonia, developed extensive trade relationship with other European countries, in particular Germany and England. Industry – initially based on a particular niche, such as timber in Finland or textile in Estonia – gradually became more diversified (wood products, paper pulp, some oil products), and its relative share in total output increased. All these countries suffered significantly as a result of the Great Depression, but managed to rebound, so that in the late 30s standards of living were increasing, with minimal unemployment. Notably, almost universal literacy was achieved early on in the twentieth century, at least in Finland, Estonia, and Latvia, so that in the 1930s there was practically no illiteracy, and school standards across the Baltic states were relatively very high. Also, social legislation – women suffrage, child labor regulations, social insurance for disability and old age – was among the most progressive in the world. Even political developments were similar in these countries in many regards, with right-wing nationalistic governments dominating the scene. All these

suggest that, along relevant aspects, these countries were similar in the interwar period.

In 1940, the Soviet Union, through a pact with Germany, managed to acquire back the Baltic states (and a part of Finland), whereas Finland fought off the Soviet army and retained independent. Since the governments in all these countries were formed by right wing parties, vehemently opposed communist influence, these developments can be regarded as solely due to geopolitical reality that has nothing to do with any social differences between Finland and the Baltic states. The period after World War II and through the disintegration of the Soviet Union saw independent and democratic Finland, whereas the Baltic states came to be fully dominated by the centralized Soviet bureaucracy. In 1990, despite very much different economic systems, income inequality levels were roughly similar across all these countries, the Gini coefficients varying between 0.25-0.27, among smallest in the world.

To summarize, during the interwar period Finland and the Baltic states shaped themselves in very similar ways – economically, socially, and politically. The Soviet invasion of the latter, therefore, with a subsequent imposition of the communist regime there, as opposed to its defeat in the former case provides an opportunity to compare the long run effects of an imposed institutional regime.

3. Data

Our data source is the European and World Values Survey (WVS), two worldwide surveys comprised by the Inter-University Consortium for Political and Social Research (ICPSR) that consists of individual cross-national responses to a variety of questions on topics ranging from economy to politics, to identity, and includes the socio-economic background

of the respondents. The data are derived from face-to-face interviews with people of eighteen years of age and older from 83 developed and developing countries. Four waves of these surveys have been conducted in the years of 1981(wave 1); 1990-93 (wave 2); 1995-97 (wave 3), and 1999-2001 (wave 4). Altogether, these amount to more than 267,000 individual responses, on average 66,000 per survey⁷.

Within each country, the sample design and field work was done by professional survey organizations with great experience (most of them, members of the Gallup chain), in other cases, it was carried out by national academies of sciences or university based institutes. Each sample has a multi stage design and random selection of sampling points after stratification by region and degree of urbanization. National samples were used in all countries, but some of them were done just using country sub samples (Russia, Northern Ireland, Chile, Puerto Rico, Argentina, India, Nigeria, China). The response rates have a big variability, going from 25% in Spain to 95% in Slovakia. To correct for the sample design and the response rate, sample weights were constructed with specific criteria on each country; more detailed description of the variables used is in Appendix 1.

The main question of interest for us here is the following:

(i) OPINION ABOUT INCOME REDISTRIBUTION

How would you place your views on this scale? 1 means you agree completely with the statement on the left (Incomes should be made more equal); 10 means you agree completely with the statement on the right (We need larger income differences as incentives).

⁷ In practice, we are able to use only the second, third and fourth rounds of the survey since the questions of our interest were included in those surveys. Taking into account this restriction, our final sample is reduced to 228,469 individual respondents from 83 countries.

(ii) OPINION ABOUT COMPETITION

How would you place your views on this scale? 1 means you agree completely with the statement on the left (Competition is harmful. It brings out the worst in people); 10 means you agree completely with the statement on the right (Competition is good. It stimulates people to work hard and develop new ideas.).

In addition, for the sake of comparison with previous studies such as Corneo and Gruner, 2002, and Alesina and Fuchs-Schuendeln, 2005, we present data pertaining to the views on the role of the state:

(iii) OPINION ABOUT GOVERNMENT OWNERSHIP

How would you place your views on this scale? 1= Government ownership of business and industry should increase; 10= Private ownership of business and industry should increase.

We will focus on the comparison between Finland and the Baltic states – Estonia, Latvia, Lithuania - considering these groups of countries as most closely resembling an “experiment”. For the sake of robustness, we will however also refer to results pertaining to additional, more comprehensive groupings described more in detail below.

4. A Look at the Data – The Big Picture

We begin by presenting some very broad data regularities. Table 1 presents the average of responses to some main questions of interest among the sample of Finnish citizens and those

of the Baltic countries.⁸

INSERT TABLE 1 HERE

We see that in all three waves the survey respondents in the Baltic states are interested in larger income differences to increase incentives and in more competition than in Finland. At the same time, and in line with the previous work, they opt for more government ownership. The differences in responses are significant, and their direction remained almost unchanged over the period of the 1990s. Over the studied period, income inequality as measured by the Gini coefficient, increased in all these countries, somewhat more so in the Baltic States than in Finland. The Baltic states experienced a steep growth decline in the early 1990s, followed by a rapid economic growth during the third and fourth survey waves; Finnish growth changes – while exhibiting similar patterns – was somewhat less volatile.

Table 2 presents averages of responses by representatives of three groups of countries. One group consists of the original components of the Soviet Union that entered a federation agreement in 1918, in the aftermath of the Russian revolution. Another group of countries consists of parts of East Europe that were under communist domination since the end of World War II, or, more, precisely, since the beginning of the Cold War. These countries include those that were under direct Soviet domination such as Poland or Hungary, as well as countries that were perhaps inspired by the Soviet example but pursued their own, relatively independent path, such as Yugoslavia. For comparison, a third group of countries

⁸ A fuller description of the distributions of the main variables of interest and correlations between them is in Appendices 2 and 3.

includes West European democracies, in particular those with well developed welfare state.⁹

INSERT TABLE 2 HERE

The results are quite revealing. Comparing the average responses across the three groups, it looks like the longer exposure to communism the more averse individuals are to equity and more approving of competition; whereas the respondents from the communist countries view more approvingly government ownership than their Western counterparts. Thus, the respondents in the core of the Soviet Union seem to be most averse to the equity ideal propagated by the Soviet system, viewing it perhaps as an impediment to good incentives, whereas the West European welfare states are most open to it, respondents in the communist countries in the post World War II period taking intermediate positions. These findings hold true for all three survey waves. Comparing these results with those in Table 1, we see an almost exact replication of the pattern; specifically, a spell under the communist regime leads individuals to prefer a less equitable and more competitive regime and to be less satisfied with their own regime.

Finally, Table 3 contains an ordered probit regression with country groupings as above, the group of communist countries between 1918-1990 constituting the baseline. It follows that all groups are interested in having less inequality, Finland and the Northern welfare states being most interested, followed by the former communist countries and the Baltic countries. With respect to preferences for competition, the countries with a larger exposition to communism are the once that favor it the most, while Finland and the Northern

⁹ We played with the composition of this group, including additional West European countries, without significant changes in the results.

welfare states tend not to prefer it. Finally, when it comes to preferences for private ownership, these results are basically reversed, being the Finnish and the welfare states the ones who have stronger preferences, while the Baltics and the other former communist countries being the ones who have lower preferences for private ownership. These findings are consistent with those presented in Tables 1 and 2 above. The results in this table also indicate that between the second wave and the third and fourth survey waves, there has been a secular increase in the willingness to redistribute, a desire for more government ownership and towards less competition. Further – and consistent with the Meltzer-Richard (1981) paradigm – higher income, better educated, white collar individuals are less prone to redistribution, and more open to competition, personal responsibility and private ownership than the rest. Younger as well as working individuals seem to exhibit similar preferences although statistical significance here is less clear.

INSERT TABLE 3 HERE

We next proceed with a more specific and focused empirical analysis.

5. Results

The empirical analysis focuses on comparing the respondents' attitudes from Finland and the Baltic states.¹⁰ As argued above, the period of the Soviet occupation of the latter, from 1945-90, is viewed as an “experiment” in the course of which the Baltic states were exposed to communist institutions and values. Our primary interest is to understand how this

¹⁰ For robustness, we have also replicated the analysis comparing Finland with Estonia, the most similar country among the Baltic states. The results get even somewhat stronger in this case. We prefer to report the Baltic states' regression specification because it contains about twice as many respondents.

exposure has affected the respondents' attitudes toward equality and redistribution, as well as toward state involvement. Here we run ordered probit regressions, using robust and clustered standard errors in order to control for possible heteroskedasticity and possible correlation within the responses of each country, respectively.

5.1. Empirical Evidence

The basic regression results are presented in Table 4 and include the last three waves of the survey.¹¹ They show that employed, higher income, better educated individuals in white collar occupations favor larger inequality, more competition, and private ownership; gender also matters, with males likewise exhibiting more pro-capitalist attitudes - i.e., more inequality, competition, and private ownership - relative to females. Also, younger individuals are more pro-capitalist than older ones - consistent with earlier findings, such as in Ravallion and Lokshin, 2000. More importantly for our purposes, there are differences between the respondents in Finland and in the Baltic states: the dummy variable for the latter is significant, highly so when it comes to attitudes toward inequality. Generally, in the course of the 1990s, preferences for income redistribution have increased, especially when comparing the third wave with the second one¹².

Note that in regard to the issue of state ownership, we replicate earlier results, Alesina and Fuchs-Schuendeln, 2005, observing that income, younger age, being employed, education level – all these factors reinforce pro-state attitudes. There also are differences between the two types of countries, the respondents from the Baltic states preferring less

¹¹ A separate analysis of the second wave only, conducted right after the fall of the communist system, yields very similar results.

¹² For the sake of economy we include the marginal effects of selected coefficients of Table 4, only. They are presented in Appendix 4. Additional results for this table and for the rest of tables in this paper may be provided upon request.

private ownership than Finnish respondents. These latter results, also obtained in Alesina and Fuchs-Schuendeln, 2005 are, again, highly significant; in particular, being a respondent for the Baltic states decreases the likelihood of support for private ownership as opposed to state ownership.

INSERT TABLE 4 HERE

Summarizing, we observe that communist legacy seems to have had an impact on the attitudes of the Baltic States in the following way: they prefer more inequality – and competition - as the means to enhance incentives, while at the same time favoring more government ownership than their Finnish counterparts.

5.2. The Effect of Transition

Having data on the transition decade enables us to analyze whether the above differences in attitudes between ex-communist and Western countries narrow over time. To do so, we run regressions as above but also including the interactive terms with survey waves.

INSERT TABLE 5 HERE

We observe that the coefficients of the interactive terms between the Baltics and the survey waves are all insignificant. In particular, the differences in taste for income inequality and competition have remained similar between these groups, the Baltic countries being the ones who show a higher preference for it during the nineties. Recalling that the Baltics experienced a wave of mass privatization in early 1990s, this finding can be interpreted as

implying that mass privatization does not necessarily – at least in the span of several years - develop a sense of identification with markets by creating constituencies with stakes in them, as suggested by some important recent work, see Biais and Perotti, 2002.

5.3. Individual vs. Government Responsibility

So far, the results seem to be contradictory: citizens in the Baltic states favor higher inequality to boost incentives, but also more state involvement than Finnish citizens. To highlight the contradiction, we now include in our base specification an additional variable which captures the opinion about the level of responsibility that people should have to provide by themselves, in opposition to the responsibility the government should take.

The results in Table 6 suggest that the individual view on how responsible should people be is positively linked with more inequality, as well as with a more market oriented economy. In general, therefore, it appears that individuals who consider personal responsibility more favorably also like more competition, more inequality, and more private ownership. (While this holds for both groups, it is somewhat more pronounced for the Finnish citizens than in the case of the Baltics' respondents in their support to more income inequality, and the contrary holds for the case of the support for more competition and more private ownership.)

INSERT TABLE 6 HERE

5.4. Ex-Communist Countries

In this sub-section we briefly test whether our main findings hold more generally. To this end, we replicate Table 4 replacing the Baltic states with all ex-communist countries and Finland – with northern welfare state (see precise definition above). This exercise provides

a robustness check as well as generates a much larger sample of responses, although its relative disadvantage is that the “experiment” is not as clean as before. (We note, however, that the levels of inequality in the two groups of countries were similar to each other over the covered period – which was the reason for focusing on northern welfare states as a comparison group.)

As is seen from Table 7, the qualitative results match almost exactly those in Table 4. In particular, the dummy variable of ex-communist countries is positively correlated with inequality and with pro-competition attitudes (although the latter is only mildly significant); and is negatively correlated with private ownership. Thus, the pattern described above basically generates itself: relative to individuals in western economies, ex-communist respondents seem to favor more inequality and competition to boost incentives, while at the same time supporting opposing to private ownership.

INSERT TABLE 7 HERE

5.5. Making sense of the results

How to reconcile the apparent willingness, in the Baltic (and, more generally, ex-communist) states, to increase inequality and competition while at the same time retaining or even increasing state ownership? To provide at least some tentative answers to this question we now focus more closely at the determinants of the latter.

Trust

It has recently been noted that trust affects attitudes and economic behavior in a significant way; for example, trusting individuals are more open to trade opportunities (see Guiso et al., 2006, for a review). Along these lines, one can theorize that trusting individuals may be less

suspicious toward private ownership. In contrast, less trusting people may suspect potential fraud and cheating – especially in a context where regulatory ability is weak - resulting from private ownership. To test this hypothesis, we employ a dummy variable obtained by the re-codification of responses to a question in the WVS as follows:

Most people can be trusted: 0 = need to be very careful; 1= most people can be trusted.

Adding this variable to the base specification, the results in Table 8 imply that, generally, trust is positively associated with supporting inequality, competition, and private ownership thus being consistent with the results in Guiso et al., 2006. The interaction variable with Baltics is significant in explaining larger income differences, implying that trust does play a larger role in the Baltic states in this regard; but its significance is small when explaining attitudes to competition and to private ownership. It seems therefore that trust alone cannot explain the puzzle.¹³

INSERT TABLE 8 HERE

Confidence in government

Another potentially useful suggestion comes from Di Tella and MacCulloch, 2004, who find that individuals in developing countries, possibly because of lack of confidence in their governments, tend to disapprove capitalistic institutions. Consequently, the regressions in Table 9 include new variables that capture the confidence in the government and the political system as well as the perceived degree of corruption and their interactions with the

¹³ We also tested another trust related variable, confidence in government, obtaining similar results.

Baltic countries dummy. The expected results here are that perception of government effectiveness will lead to a more favorable attitude and confidence in market economy institutions. Our findings are consistent with Di Tella and MacCulloch (2004) as we obtain positive signs in the corresponding coefficient linked with the confidence variable to imply that individuals with more confidence in government are also pro-market, and the signs on the interaction term with the Baltic States indicate that the relationship between confidence in government and support for market institutions is stronger in the Baltic states. While the significance of the Baltics dummy is reduced in some specifications, it still remains quite robust¹⁴.

INSERT TABLE 9

6. Concluding remarks

Using the example of otherwise previously similar groups of countries, Finland versus the Baltic states, this research documents significant differences in attitudes toward redistribution and markets among citizens in capitalist countries and in ex-communist countries in transition. Further, they little changed in the course of the transition decade, despite significant changes in the economic system, specifically pro-market trends. These differences, however, are seemingly inconsistent: while approving larger income differences and competition, the respondents from the Baltic states also favor more state ownership than those in Finland. Whereas the latter finding accords well with the earlier work, Corneo and

¹⁴ Note that these results are based on the WVS surveys for the 95-97 and 99-01 rounds in the case of the confidence variable and for 95-97 only for the corruption variable, as the related questions were not included in all

Gruner, 2002, and Alesina and Fuchs-Schuendeln, 2005, our other findings lead us to disagree with the flavor of these papers' conclusion, that communist institutions and/or indoctrination were successful in instilling anti-capitalist attitudes in the citizens of ex-communist countries. Specifically, in regard to some important features of capitalism, the respondents from the Baltic states display definitely more pro-capitalist attitudes than those from Finland – which is, of course, consistent with the course of transition events, in particular, the often sweeping markets reforms. Similar results hold, more generally, for other ex-communist countries. We, therefore, tend to qualify the earlier work's conclusion arguing that imposed institutions, in this case, at least, have had a limited effect on individual attitudes.

We also find that trust and confidence in government are associated with pro-capitalist attitudes as suggested by other related work, respectively, Guiso et al., 2006, and Di Tella and MacCulloch, 2004. Yet, these factors do not fully account for the differences between the respondents in the Baltic states and Finland.

The presented pattern of attitudes being complex and puzzling, we can only hypothesize why the citizens in ex-communist countries favor more competition and larger income differences while at the same time supporting state ownership. Our sense is that – contrary to the previously offered theories - they, in fact, opposed leaving communist institutions, such as egalitarianism and central planning, in place. On the other hand, they were reluctant to completely dismantle the social protection system offered by the state. While, unfortunately, existing data do not enable us to directly test this hypothesis, such research would be indicative of the type of reforms that is likely to enjoy popular support in the course of institutional change.

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Table 1. Opinions among the respondents in Finland and in the Baltic states*

	Survey years	Finland	Baltic states
Larger income inequality as incentive	1990-1993	6.62	7.48
	1995-1997	4.16	5.78
	1999-2000	4.60	6.01
Competition is good. It stimulates people to work hard and develop new ideas.	1990-1993	7.60	8.19
	1995-1997	7.17	7.65
	1999-2000	6.71	7.07
Ownership of business and industry should increase	1990-1993	7.35	6.67
	1995-1997	6.78	5.68
	1999-2000	6.80	5.65
GINI coefficient	1990-1993	22.9	29.3
	1995-1997	25.2	33.0
	1999-2000	26.9	35.3
Average per capita growth rates	1990-1993	-3.4%	-12.4%
	1995-1997	4.2%	6.3%
	1999-2000	3.0%	5.2%

(*) Averages of responses.

**Table 2. Opinions among Respondents in Former Communist
East European Countries versus a Sample of West European Countries**

	Survey years	Northern welfare states*	Under communist domination since the end of World War II**	Communist between 1918-90***
Larger income inequality to as incentive	1990-1993	6.12	6.92	7.33
	1995-1997	5.58	5.22	6.36
	1999-2000	5.66	5.29	6.81
Competition is good. It stimulates people to work hard and develop new ideas.	1990-1993	7.84	8.04	7.71
	1995-1997	7.58	7.59	7.04
	1999-2000	7.60	7.69	7.01
ownership of business and industry should increase	1990-1993	6.84	6.98	5.41
	1995-1997	6.56	6.15	3.85
	1999-2000	7.33	6.37	5.20
GINI coefficient	1990-1993	30.8	26.2	28.3
	1995-1997	31.1	28.5	42.0
	1999-2000	27.4	30.7	37.9
Average per capita growth rates	1990-1993	0.4%	-5.8%	-12.9%
	1995-1997	3.0%	8.5%	0.1%
	1999-2000	2.3%	3.3%	5.6%

*Includes Denmark, Norway, and Sweden; **Includes Albania, Bulgaria, components of Czechoslovakia and of Yugoslavia, East Germany, Hungary, Poland, Romania.; ***Includes Belarus, Georgia, Russian Federation, and Ukraine; averages of responses.

Table 3. Illustrative Regressions on Countries of Interest

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.114 (2.24)**	-0.088 (3.05)***	-0.278 (4.22)***
Age 55 or more	-0.079 (12.74)***	-0.137 (5.50)***	-0.392 (2.73)***
Gender (male=1)	0.116 (1.98)**	0.165 (7.78)***	0.162 (8.47)***
Secondary education	0.280 (5.82)***	0.018 (0.43)	0.134 (2.17)**
Tertiary education	0.307 (6.80)***	0.121 (3.27)***	0.425 (6.69)***
Married	0.066 (12.69)***	-0.025 (3.87)***	-0.066 (4.88)***
Number of children	0.004 (0.73)	0.010 (1.60)	0.008 (6.72)***
Retired	-0.115 (5.64)***	-0.066 (3.04)***	-0.238 (3.99)***
Unemployed	-0.067 (1.30)	-0.067 (1.66)*	-0.042 (3.49)***
White collar worker	0.110 (1.88)*	0.151 (18.17)***	0.196 (28.05)***
Deciles of incomes	0.057 (20.27)***	0.034 (14.29)***	0.039 (11.24)***
Communist domination 40-90	-0.345 (2.78)***	0.288 (3.34)***	0.905 (6.46)***
Northern welfare states	-0.599 (6.60)***	0.013 (0.26)	0.841 (12.05)***
Baltic States	-0.278 (2.22)**	0.175 (3.45)***	0.631 (9.05)***
Finland	-0.641 (11.06)***	0.015 (0.44)	1.325 (34.72)***
Wave 1995-97	-0.636 (5.16)***	-0.195 (3.93)***	-0.228 (2.24)**
Wave 1999-2000	-0.620 (3.60)***	-0.247 (4.25)***	-0.017 (0.15)
Pseudo R-squared	0.04	0.01	0.08
Observations	38220	41102	35911

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent. Columns (1) and (3) do not include information for the northern welfare states in the last survey round.

Table 4. Baltic Countries and Finland

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.253 (7.21)***	-0.177 (17.75)***	-0.056 (1.80)*
Age over 55	-0.051 (5.26)***	-0.062 (2.76)***	0.090 (1.41)
Gender (1=male)	0.254 (18.02)***	0.097 (14.22)***	0.088 (3.95)***
Secondary education	0.152 (23.11)***	-0.127 (3.99)***	-0.013 (2.24)**
Tertiary education	0.266 (7.48)***	-0.136 (1.22)	0.128 (3.48)***
Married	0.043 (5.52)***	-0.086 (4.24)***	-0.129 (28.48)***
Number of children	-0.010 (10.61)***	0.028 (9.11)***	0.018 (9.99)***
Retired	-0.160 (24.95)***	-0.098 (14.46)***	-0.442 (6.99)***
Unemployed	-0.148 (16.21)***	0.010 (0.73)	-0.105 (7.33)***
White collar	0.288 (16.91)***	0.225 (8.47)***	0.266 (10.03)***
Scale of incomes	0.063 (10.72)***	0.041 (5.46)***	0.034 (9.78)***
wave==1995-97	-0.723 (6.94)***	-0.410 (5.22)***	-0.377 (2.36)**
wave==1999-2000	-0.659 (3.84)***	-0.584 (5.55)***	-0.375 (1.64)
Baltic States	0.503 (3.21)***	0.320 (4.30)***	-0.592 (9.14)***
Pseudo R-squared	0.04	0.01	0.02
Observations	8580	9212	8301

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. Data for Latvia for the 1999-2001 round is not available in columns (1) and (3); (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent.

Table 5. Baltic countries and Finland: Interactive Dummies

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.253 (7.24)***	-0.177 (17.64)***	-0.057 (1.81)*
Age 55 and above	-0.051 (5.61)***	-0.063 (2.78)***	0.089 (1.38)
Gender (1=male)	0.254 (17.97)***	0.096 (14.79)***	0.087 (3.99)***
Secondary education	0.154 (40.03)***	-0.125 (3.77)***	-0.009 (1.11)
Tertiary education	0.275 (13.36)***	-0.131 (1.20)	0.139 (4.03)***
Married	0.043 (5.50)***	-0.087 (4.30)***	-0.130 (25.09)***
Number of children	-0.010 (10.84)***	0.028 (9.13)***	0.018 (10.01)***
Retired	-0.160 (27.64)***	-0.096 (16.05)***	-0.438 (6.81)***
Unemployed	-0.148 (17.24)***	0.011 (0.81)	-0.103 (7.15)***
White collar	0.288 (16.10)***	0.222 (8.06)***	0.259 (9.21)***
Scale of incomes	0.063 (11.25)***	0.042 (5.87)***	0.035 (8.86)***
Baltic States	0.470 (3.86)***	0.458 (3.58)***	-0.344 (2.78)***
wave==1995-97	-0.745 (30.19)***	-0.294 (5.67)***	-0.165 (7.29)***
wave==1999-2000	-0.785 (32.22)***	-0.462 (13.24)***	-0.168 (9.45)***
Baltic*wave 95-97	0.013 (0.08)	-0.158 (1.48)	-0.287 (1.53)
Baltic*wave 99-00	0.185 (0.77)	-0.150 (0.99)	-0.249 (0.83)
Pseudo R-squared	0.04	0.01	0.02
Observations	8580	9212	8301

All are ordered probit regressions corrected for clusters; robust z-statistics in parentheses. Data for Latvia for the 1999-2001 round is not available in columns (1) and (3). All regressions include country clusters; (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent.

Table 6. Baltic Countries and Finland: Government Responsibility

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.198 (6.64)***	-0.178 (15.56)***	-0.048 (1.68)*
Age 55 and above	-0.058 (7.00)***	-0.061 (3.09)***	0.077 (1.30)
Gender (1=male)	0.231 (16.43)***	0.097 (18.21)***	0.093 (5.28)***
Secondary education	0.092 (21.65)***	-0.123 (3.84)***	-0.022 (2.38)**
Tertiary education	0.212 (4.43)***	-0.150 (1.41)	0.095 (2.58)***
Married	0.000 (0.14)	-0.095 (4.12)***	-0.141 (46.38)***
Number of children	-0.010 (13.49)***	0.028 (8.98)***	0.019 (9.88)***
Retired	-0.091 (8.19)***	-0.089 (13.24)***	-0.407 (6.85)***
Unemployed	-0.100 (8.72)***	0.016 (1.07)	-0.060 (5.76)***
White collar	0.268 (15.53)***	0.226 (8.60)***	0.265 (10.14)***
Scale of incomes	0.054 (8.56)***	0.044 (4.85)***	0.036 (24.34)***
wave==1995-97	-0.704 (7.05)***	-0.383 (3.98)***	-0.307 (2.12)**
wave==1999-2000	-0.724 (3.67)***	-0.585 (6.07)***	-0.394 (1.83)*
Baltic States	0.996 (4.69)***	0.106 (0.85)	-0.886 (10.97)***
People take more responsibility	0.122 (47.06)***	0.000 (0.71)	0.035 (35.98)***
Responsibility*Baltic	-0.052 (5.09)***	0.051 (3.65)***	0.085 (7.89)***
Pseudo R-squared	0.06	0.01	0.02
Observations	8487	9109	8233

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent.

Table 7. Former Communist Countries vs. Northern Welfare States

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.064 (21.21)***	-0.061 (14.93)***	-0.317 (13.18)***
Age over 55	-0.069 (12.14)***	-0.157 (17.49)***	-0.497 (16.51)***
Gender (1=male)	0.055 (8.06)***	0.185 (26.61)***	0.185 (15.90)***
Secondary education	0.337 (13.21)***	0.040 (1.43)	0.092 (0.78)
Tertiary education	0.367 (14.06)***	0.128 (4.22)***	0.356 (2.69)***
Married	0.064 (7.81)***	-0.019 (2.17)**	-0.048 (4.18)***
Number of children	0.009 (7.35)***	0.004 (5.15)***	0.009 (4.58)***
Retired	-0.092 (7.64)***	-0.052 (4.33)***	-0.222 (6.73)***
Unemployed	-0.014 (0.96)	-0.101 (3.79)***	-0.017 (0.58)
White collar	0.056 (4.72)***	0.150 (12.17)***	0.205 (22.30)***
Scale of incomes	0.056 (11.30)***	0.035 (15.35)***	0.041 (24.03)***
Former communist	0.472 (5.74)***	0.116 (1.81)*	-0.509 (5.80)***
wave==1995-97	-0.449 (4.19)***	-0.348 (5.82)***	-0.708 (4.34)***
wave==1999-2000	-0.645 (5.05)***	-0.217 (3.15)***	0.062 (0.31)
Observations	36333	39221	34093
Pseudo R-squared	0.02	0.01	0.05

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent. Northern Welfare States include Norway, Denmark, and Sweden. Former communist countries include Albania, Bulgaria, components of Czechoslovakia and of Yugoslavia, East Germany, Hungary, Poland, Romania, Belarus, Georgia, Russian Federation, and Ukraine.

Table 8. Baltic Countries and Finland: Trust

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.257 (7.20)***	-0.188 (17.16)***	-0.042 (1.19)
Age 55 and above	-0.032 (4.12)***	-0.075 (3.54)***	0.122 (1.69)*
Gender (1=male)	0.258 (18.74)***	0.102 (16.83)***	0.089 (4.13)***
Secondary education	0.164 (22.40)***	-0.149 (4.39)***	-0.025 (3.40)***
Tertiary education	0.273 (9.76)***	-0.151 (1.24)	0.105 (3.05)***
Married	0.052 (5.61)***	-0.082 (4.06)***	-0.122 (23.31)***
Number of children	-0.011 (11.60)***	0.027 (8.79)***	0.018 (8.91)***
Retired	-0.183 (36.64)***	-0.083 (13.07)***	-0.472 (6.87)***
Unemployed	-0.156 (20.94)***	0.021 (1.45)	-0.094 (6.69)***
White collar	0.286 (16.80)***	0.220 (8.20)***	0.266 (9.52)***
Scale of incomes	0.065 (10.66)***	0.041 (5.40)***	0.032 (8.47)***
wave==1995-97	-0.723 (6.81)***	-0.407 (5.08)***	-0.383 (2.40)**
wave==1999-2000	-0.656 (3.88)***	-0.588 (5.68)***	-0.386 (1.73)*
Baltic States	0.422 (2.72)***	0.371 (4.59)***	-0.582 (8.03)***
Most people can be trusted	-0.138 (18.45)***	0.091 (27.32)***	0.084 (21.64)***
Trust*Baltic	0.170 (12.45)***	-0.082 (1.67)*	0.075 (1.87)*
Pseudo R-squared	0.04	0.01	0.02
Observations	8409	9031	8142

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent.

Table 9. Baltic Countries and Finland: Political Corruption and Confidence in Government

	Larger income differences		Competition is good		Increase private ownership	
Age 35-54	-0.255 (8.53)***	-0.230 (17.35)***	-0.181 (19.60)***	-0.154 (17.57)***	-0.054 (2.04)**	-0.049 (2.59)***
Age 55 and above	-0.099 (7.71)***	0.009 (1.74)*	-0.061 (3.41)***	0.033 (5.45)***	0.085 (1.72)*	0.123 (3.95)***
Gender (1=male)	0.255 (21.29)***	0.250 (23.58)***	0.092 (24.06)***	0.098 (33.61)***	0.078 (4.05)***	0.104 (12.68)***
Secondary education	0.169 (28.16)***	0.151 (34.67)***	-0.138 (6.39)***	-0.148 (13.64)***	-0.019 (1.34)	-0.073 (6.83)***
Tertiary education	0.264 (5.37)***	0.304 (3.20)***	-0.152 (1.21)	-0.271 (1.68)*	0.156 (2.10)**	0.240 (1.67)*
Married	0.045 (13.78)***	0.083 (14.10)***	-0.071 (3.88)***	-0.137 (12.99)***	-0.146 (23.42)***	-0.139 (19.00)***
Number of children	-0.008 (9.27)***	-0.008 (22.41)***	0.028 (11.78)***	0.029 (18.85)***	0.018 (11.69)***	0.021 (45.71)***
Retired	-0.157 (20.53)***	-0.243 (69.35)***	-0.120 (20.79)***	-0.108 (34.61)***	-0.430 (8.84)***	-0.466 (12.87)***
Unemployed	-0.157 (17.42)***	-0.156 (26.74)***	0.016 (1.34)	0.014 (1.85)*	-0.098 (9.40)***	-0.106 (8.41)***
White collar	0.283 (13.78)***	0.297 (25.29)***	0.224 (12.53)***	0.230 (22.88)***	0.268 (10.72)***	0.278 (14.03)***
Scale of incomes	0.064 (11.40)***	0.052 (21.20)***	0.043 (6.78)***	0.054 (18.33)***	0.035 (18.02)***	0.033 (5.79)***
wave==1995-97	-0.741 (4.41)***		-0.451 (3.57)***		-0.413 (2.11)**	
Baltic States	0.545 (3.12)***	0.409 (4.05)***	0.329 (3.30)***	0.396 (3.97)***	-0.560 (6.97)***	-0.626 (9.51)***
Extent of political corruption		-0.230 (268.75)***		0.075 (182.10)***		-0.010 (1.97)**
Corruption*Baltic		0.265 (2.70)***		-0.120 (1.12)		-0.007 (0.17)
Confidence in the government	0.109 (92.70)***		0.087 (120.59)***		0.016 (18.74)***	
Confidence*Baltics	-0.130 (3.90)***		-0.041 (0.65)		-0.177 (4.64)***	
Pseudo R-squared	0.04	0.03	0.01	0.01	0.02	0.02
Observations	5999	3520	5994	3506	5879	3484

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent. Columns (1), (3) and (5) include data for the 1990-93 and the 1995-97 survey rounds only. Columns (2), (4), and (6) are only for the 1995-97 round.

Appendix 1. Description of Variables

Larger income differences	Answer to the question: OPINION ABOUT INCOME REDISTRIBUTION How would you place your views on this scale? 1 means you agree completely with the statement on the left (Incomes should be made more equal); 10 means you agree completely with the statement on the right (We need larger income differences as incentives).
Competition is good	Answer to the question: OPINION ABOUT COMPETITION How would you place your views on this scale? 1 means you agree completely with the statement on the left (Competition is harmful. It brings out the worst in people); 10 means you agree completely with the statement on the right (Competition is good. It stimulates people to work hard and develop new ideas.)
Increase private ownership	Answer to the question: OPINION ABOUT GOVERNMENT OWNERSHIP How would you place your views on this scale? 1= Government ownership of business and industry should increase; 10= Private ownership of business and industry should increase.
Age 35-54	Dummy variable that equals one when the respondent is between 35 and 54 years old.
Age 55 or more	Dummy variable that equals one when the respondent has more than 55 years old
Gender	Dummy variable that equals one when the respondent is male and zero when is female.
Secondary education	Dummy variable that equals one when the respondent has secondary education.
Tertiary education	Dummy variable that equals one when the respondent has attended to college or university.
Married	Dummy variable that equals one when the respondent is formally married, or lives for a long time with a stable partner, and zero otherwise.
Number Of children	Number of children in the respondents' household.
Retired	Dummy variable that equals one when the respondent has is retired from work.
Unemployed	Dummy variable that equals one when the respondent has no formal job.
White collar worker	Dummy variable that equals one when the respondent works as a professional worker, or as a non manual supervisor; or non manual office worker, or a foreman supervisor; and zero otherwise.
Income deciles	Deciles of income constructed within each country. The respondents are asked to place themselves in the income ladder of the country according to their incomes.
wave 1990-93	Dummy variable that equals one when the observation corresponds to the 1990-93 round of the survey and zero otherwise.
wave 1995-97	Dummy variable that equals one when the observation corresponds to the 1995-97 round of the survey and zero otherwise.
wave 1999-01	Dummy variable that equals one when the observation corresponds to the 1999-01 round of the survey and zero otherwise.
Communist between 1918-1990	Dummy variable that equals one when the respondent was interviewed in Belarus, Georgia, Russian Federation, or Ukraine and zero otherwise.
Communist between 1945-1990	Dummy variable that equals one when respondent was interviewed in Albania, Bulgaria, components of Czechoslovakia and of Yugoslavia, East Germany, Hungary, Poland, or Romania and zero otherwise.
Northern welfare states	Dummy variable that equals one when the respondent was interviewed in Denmark, Norway, or Sweden and zero otherwise.
Baltic states	Dummy variable that equals one when the respondent was interviewed in Lithuania, Estonia, or Latvia and zero otherwise.

Finland	Dummy variable that equals one when the respondent was interviewed in Finland and zero otherwise.
People take more responsibility	Answer to the question: GOVERNMENT MORE RESPONSIBILITY. How would you place your views on this scale? 1 means you agree completely with the statement on the left (People should take more responsibility to provide for themselves); 10 means you agree completely with the statement on the right (The government should take more responsibility)
Confidence in the government	Dummy variable obtained by re codifying the question: CONFIDENCE IN THE GOVERNMENT AND THE POLITICAL SISTEM: 0= not very much or not at all; 1= a great deal or quite a lot
Extent of government corruption	Dummy variable obtained by the re codification of the following question: Extent of political corruption. 0 = almost no or few public officers are corrupt; 1= Most or almost all public officers are corrupt.
Most people can be trusted	Dummy variable obtained by the re codification of the following question: Most people can be trusted. 0 = need to be very careful; 1= most people can be trusted.

Appendix 2. Descriptive Statistics

	Observations	Mean	Std. Dev.	Min	Max
Larger income differences	59,841	5.8	2.9	1	10
Competition is good	63,566	7.2	2.4	1	10
Increase private ownership	56,112	4.8	2.9	1	10
Age 35-54	71,722	0.4	0.5	0	1
Age 55 or more	71,722	0.3	0.5	0	1
Gender (Male = 1)	73,495	0.5	0.5	0	1
Secondary education	56,866	0.6	0.5	0	1
Tertiary education	56,866	0.1	0.3	0	1
Married	74,359	0.6	0.5	0	1
Number Of children	74,130	3.2	2.9	0	20
Retired	71,662	0.3	0.4	0	1
Unemployed	71,662	0.1	0.3	0	1
White collar worker	64,038	0.4	0.5	0	1
Income deciles	63,756	4.5	2.4	1	10
wave 1990-93	74,584	0.0	0.2	0	1
wave 1995-97	74,584	0.9	0.3	0	1
wave 1999-01	74,584	0.1	0.2	0	1
Communist between 1918-1990	74,584	0.6	0.5	0	1
Communist between 1945-1990	74,584	0.1	0.3	0	1
Northern welfare states	74,584	0.0	0.1	0	1
Baltic states	74,584	0.0	0.1	0	1
Finland	74,584	0.2	0.4	0	1
People take more responsibility	65,797	4.4	2.8	1	10
Confidence in the government	37,059	0.3	0.5	0	1
Extent of government corruption	22,263	0.7	0.4	0	1
Most people can be trusted	71,007	0.3	0.5	0	1

Appendix 3. Pairwise Correlation Matrix

	Larger income differences	Competition is good	Increase private ownership	Age 35-54	Age 55 or more	Gender	Secondary education	Tertiary education	Married	Number of children	Retired	Unemployed	White collar worker	Income deciles	People take more responsibility
Competition is good	0.216														
	0.000														
Increase private ownership	-0.021	0.247													
	0.000	0.000													
Age 35-54	0.023	0.010	0.044												
	0.000	0.010	0.000												
Age 55 or more	-0.113	-0.098	-0.232	-0.533											
	0.000	0.000	0.000	0.000											
Gender	0.043	0.073	0.105	0.051	-0.075										
	0.000	0.000	0.000	0.000	0.000										
Secondary education	0.208	0.005	-0.121	0.129	-0.249	0.020									
	0.000	0.247	0.000	0.000	0.000	0.000									
Tertiary education	0.141	0.074	0.074	0.037	-0.120	-0.016	-0.406								
	0.000	0.000	0.000	0.000	0.000	0.000	0.000								
Married	0.078	0.032	0.019	0.178	-0.116	0.179	0.064	0.046							
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000							
Number of children	-0.069	0.017	0.113	-0.171	-0.050	0.071	-0.094	-0.045	-0.265						
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000						
Retired	-0.141	-0.107	-0.228	-0.386	0.781	-0.111	-0.251	-0.135	-0.161	-0.021					
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000					
Unemployed	-0.066	-0.022	0.060	0.072	-0.173	0.071	0.025	-0.059	-0.049	0.092	-0.194				
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
White collar worker	0.099	0.082	0.138	0.083	-0.117	-0.227	0.041	0.315	0.062	-0.079	-0.107	-0.073			
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000			
Income deciles	0.233	0.115	0.111	0.110	-0.225	0.111	0.137	0.203	0.274	-0.106	-0.297	-0.153	0.187		
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000		
People take more responsibility	0.120	0.104	0.362	0.045	-0.161	0.072	-0.033	0.026	0.070	0.046	-0.165	0.015	0.100	0.116	
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
Confidence in the government	0.027	0.032	0.066	-0.053	0.105	0.003	-0.044	-0.024	-0.014	0.031	0.110	-0.022	-0.003	-0.034	0.046
	0.000	0.000	0.000	0.000	0.000	0.611	0.000	0.000	0.009	0.000	0.000	0.000	0.622	0.000	0.000

p-values in second row

Appendix 4: Selected Marginal Effects from Ordered Probits

	P [Y=1/X]		P [Y=2/X]		P [Y=9/X]		P [Y=10/X]	
Larger income differences								
Wave 1995-97	0.117	***	0.045	***	-0.042	***	-0.052	***
Wave 1999-2000	0.201	**	0.034	***	-0.015	***	-0.012	***
Baltic States	-0.093	***	-0.033	***	0.026	*	0.029	*
Competition is good								
Wave 1995-97	0.007	***	0.007	***	-0.035	***	-0.112	***
Wave 999-2000	0.028	**	0.021	***	-0.056	***	-0.099	***
Baltic States	-0.006	***	-0.006	***	0.028	***	0.084	***
Increase private ownership								
Wave 1995-97	0.016	**	0.007	*	-0.025	*	-0.090	*
Wave 1999-2000	0.031		0.011		-0.025		-0.059	*
Baltic States	0.056	***	0.018	***	-0.037	***	-0.085	***

Marginal effects calculated after ordered probits in Table 4. We only show some interest coefficients, but the complete results can be provided upon request to the authors. All regressions include country clusters; also, standard errors are robust. (*) statistical significant at ten percent; (**) statistical significant at five percent; (***) statistical significant at one percent.