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ABSTRACT

What do Russians think about transition?

We use data from the 2006 round of the Russian Longitudinal Monitoring Survey (RLMS) to describe perceptions of the Russian population about the transition process and the role of the state compared to that of free markets. We find that about one half of Russian population is disappointed with transition and a large majority is in favor of high state regulation and state provision of goods and services. High demand for government regulation and increased state intervention coexists with a low level of trust in government institutions and recognition of high and rising levels of corruption. The findings are consistent with the theory developed by Aghion et al. (2009). In an environment with poor social capital, private business imposes negative externalities on the society and society chooses to demand more state regulation and tolerate corruption in order to reduce these externalities. We also find that individual perceptions of social capital and corruption co-vary with the demand for regulation, as predicted by the theory.

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1. Introduction

In 1991, Shiller, Boycko, and Korobov published an influential paper which compared attitudes towards free markets in two random samples of population: the first in New York City and the second in a pre-transition and suffering-from-severe-shortages Moscow. The main conclusion of this study was that Soviet people surveyed had very similar attitudes towards free markets when compared to the Americans. In particular, in May 1990 – at the time of the survey – Soviets appeared to be no more concerned about the fairness of free market prices and the possibility of a substantial rise in inequality as a result of the introduction of free markets. Furthermore, they appeared to have a similar or, perhaps, an even stronger appreciation of the importance of economic incentives (Shiller et al. 1991, p. 399). Thus, the authors suggested that the view that Soviets were not ready for the transition towards free markets, which was very prominent at that time in the public debate, was incorrect.

Nineteen years have passed since this survey was conducted by Shiller et al. in 1990 and in a couple of years Russia will celebrate the 20th anniversary of the big bang price liberalization. It is useful to understand whether and how attitudes of the Russian population towards free markets evolved since the beginning of the transition. Are Russians satisfied with the transition and just as hopeful of free markets as they used to be in 1990? What accounts for the evolution of attitudes towards markets? According to the *Life in Transition Survey (LITS)* conducted by the European Bank for Reconstruction and Development and the World Bank in 2006, after having experienced transition, Russians now have the most negative attitudes towards the free market and democracy among 28 transition countries. Figure 1 illustrates this point.² Although, there are no recent studies which compare attitudes towards free markets between Russians and Americans, it is safe to assume that Russian have grown a lot more anti-market since the Shiller et al. (1991) survey, as it is unlikely that the US would compare so unfavorably to 27 transition countries included in LITS.

In this paper, we use evidence from a large-scale (over 10,000 respondents) representative survey of the Russian population, the *Russian Longitudinal Monitoring*

² For a detailed report on the results of the LITS survey, see EBRD (2007).

Survey (RLMS, <http://www.cpc.unc.edu/rlms>), to illustrate the attitudes of Russians towards transition, government regulation of markets, and direct involvement of the state in the economy. The RLMS is a survey of the living standards of Russia's population and provides comparable data for both a repeated cross-section and a panel of individuals; with data from 12 rounds between 1994 and 2007 used for research by many scholars. In 2006, a series of questions were added to the questionnaire this one time to inquire directly about the people's assessment of various aspects of transition and their preferences towards regulation vs. the free market. We focus on these questions in this paper.

Despite the overwhelming evidence of the economic success of transition in Russia in the last decade (we survey this evidence below), we find that the Russian population is divided in its assessment of the transition. About one half is disappointed with the results of the transition and has nostalgia about life under the communist regime. Russians exhibit a lot more unanimity in their attitudes towards the role of the state in the economy. The vast majority of population opts for very high state intervention into all spheres of economic life ranging from price regulation to direct involvement of the government in economic production. A perception that the state should be more involved in the economy is, however, combined with a deep distrust in specific state institutions and the recognition of a high and increasing level of corruption.

We apply the theoretical framework developed in a recent paper by Aghion et al. (2009) to interpret these basic facts. They built a model, which shows that the lack of social capital drives the demand for government regulation in countries with corrupt and inefficient governments. Regulation, in turn, has a feedback effect on social capital by lowering private incentives to invest in civiness. Two equilibria emerge in this model: one with low regulation and high trust and another with high regulation and low trust. A deregulation in a country characterized by low trust necessarily increases demand for regulation which moves it to the high-regulation-and-low-trust equilibrium. We test the implications of the Aghion et al. (2009) model on the individual-level data from the RLMS and find strong support for their story. The level of distrust in various groups across individuals and localities in Russia is significantly correlated with the individual attitudes towards regulation and government involvement in the economy, even after

controlling for individual-level characteristics. Moreover, general attitudes towards transition also co-vary with trust in government institutions and in private business. These findings contribute to a large literature which links government performance to trust and social capital (see Banfield 1958, Gambetta 1988, and Putnam 1993).³

The evidence presented in this paper is consistent with the evidence based on the World Values Survey (WVS) and the LITS multi-country surveys of individuals presented in Aghion et al. (2009) and Pinotti (2009). Unlike these two papers, we rely on data from a large-scale survey in a single country, Russia. Our approach has both advantages and disadvantages. The main advantages are as follows. First, studying within-country variation considerably reduces the scope of unobserved cultural variation, which may be correlated with social capital and has a direct effect on attitudes towards free markets and regulation. Second, the RLMS allows us to utilize a richer set of measures of social capital than in the other surveys. Third, the large sample from within one country ensures representativeness at a country level which is harder to guarantee with smaller samples. The main disadvantage is that the variation in social capital and the demand for regulation is a lot smaller among localities in a single country, even one as large as Russia, as compared to variation among countries.

Our paper is also related to the literature on determinants of perceptions in transition economies. See, for instance, Alesina and Fuchs-Schündeln (2007), who show how the legacy of communism shaped the attitudes of East German residents about the paternalism of the state; Grosjean and Senik (2008) who show that democracy increases public support for the market in transition economies (based on LITS); Guriev and Tsyvinsky (2009), who study the determinants of the anti-Western attitudes of the Russian population; Grosfeld and Senik (2008), who identify and explain the change in the relationship between individual satisfaction with the state of the country's economy and income inequality in transition using data from Poland. Individual determinants of perceptions in Russia based on RLMS are studied in, e.g., Ravallion and Lokshin (2000) who seek to explain support for governmental redistribution, and Senik (2004) who studies individual determinants of subjective life satisfaction.

³ For early empirical contributions, see, for instance, Knack and Keefer (1997) and La Porta et al. (1997); examples of more recent work include: Alesina and Glaeser (2004), Guiso, Sapienza, and Zingales (2004, 2006), Tabellini (2005), and Bloom et al. (2009).

This paper proceeds as follows. In Section 2, we present the basic facts about the attitudes of Russians towards the transition and free markets by summarizing the RLMS responses. Section 3 interprets these findings in light of the theory developed by Aghion et al. (2009) and tests its predictions using the RLMS data. Section 4 outlines the conclusions of our findings.

2. Basic Facts: What do Russians think about Transition?

2.1. Background

There is a large literature describing the economic effects of transition on many aspects of economic life of different groups in Russia's population (see, for instance, a collection of papers in Aslund and Kuchins, 2009, and references cited therein; Commander et al., 1999; Eggers et al., 2006). Two recent studies, Shleifer and Treisman (2005) and Guriev and Zhuravskaya (2009), summarize data from a multitude of sources to illustrate the economic success of Russia's transition. First, these papers argue that the official data on the initial output fall—official per capita GDP fell by 39 percent between 1991 and 1998—understate Russia's economic performance during the initial period of transition. In particular, Shleifer and Treisman (2005) name two important reasons for this: (1) the value of Russia's output before transition was overstated as it summed up wasteful government investment at arbitrarily inflated prices; and (2) the initial output fall after transition was overstated as official statistics failed to account for the rise in unofficial economic activity. Second, in the decade which preceded the current global economic crisis, Russia's real per capita GDP grew at an impressive rate of seven percent per year on average whereas real per capita consumption exhibited an even higher growth rate.

More importantly, the proceeds of this economic growth were benefiting not only the rich, but also disadvantaged groups of the population; namely, the poor, the uneducated, and the elderly. Real incomes and life satisfaction of these disadvantaged groups were also rising. To illustrate these points (originally made by Shleifer and Treisman 2005 and Guriev and Zhuravskaya 2009), we summarize the dynamics of the average real incomes and the average level of a measure of life satisfaction (i.e., the

response to the question “All in all, how satisfied are you with your life now?”) for different groups of the RLMS respondents in Panel A of Figure 2. The graphs plot the coefficients of survey round dummies (along with their 95% confidence intervals) in OLS regressions. The first of the three graphs is generated using the results of an OLS regression with individual fixed effects for the whole sample, and, therefore, represents the change in income and life satisfaction for an average RLMS respondent. The second and third graphs use results of the OLS regressions without individual fixed effects, but on the sub-samples of respondents in relative poverty (i.e., respondents with income below one half of the median “equivalized” disposable income) and the old (i.e., respondents with an age over 60 years) in every round of the survey. Life satisfaction and income rose substantially and (almost) monotonically for the average RLMS respondent since 1998 and so did the incomes and life satisfaction of the elderly and of the people at the bottom of the income distribution.⁴ Real per capita household income of the respondents in relative poverty had nearly tripled between 1998 and 2006, while for an average RLMS respondent it increased about 1.8 times. This fact is consistent with recent evidence on declining income inequality in Russia (e.g., World Bank 2005 and Gorodnichenko et al. 2009).

The fact that RLMS respondents have become richer and more satisfied with their lives is a very important indication of the broad-base positive effects of economic growth. The reason for this is that in the RLMS, just as in almost every other Living Standards Measurement Study (LSMS), the rich are heavily underrepresented (e.g., Deaton 2005). Thus, the RLMS data support the conclusions of Shleifer and Treisman (2005) and Guriev and Zhuravskaya (2009) that economically Russia has done well (particularly in the second half of its transition period) and the disadvantaged groups have gotten at least some benefits from this economic success. With this in mind, we now turn to summarizing how the RLMS respondents – whose incomes and life satisfaction rose

⁴ It is important to note that, since the second wave of the RLMS data started in 1994, they are insufficient to assess the dynamics of the individual incomes in the early stages of the transition period (i.e., before 1994); thus, for that purpose, we rely on other studies, e.g., Shleifer and Treisman (2005) who argue that even by the most conservative estimates living standards of Russians bypassed the pre-transition level in the early 2000s. It is interesting to note that there is an apparent slow down in the rise of life satisfaction around 2002-2003. More research is needed to understand this phenomenon. (Grosfeld and Senik 2008 find a similar pattern in Poland).

steadily over nine years – evaluate the transition process, their own place in it, and their attitudes towards the roles of the state and of free markets in the economy.

2.2. An overall assessment of the transition

Panel A of Table 1 summarizes the answers of RLMS respondents to questions about their general assessments of the transition. The questions are listed in the left column, while the possible answers along with the percentage of respondents who chose each particular answer are reported in the rest of the columns. Note that as the number of respondents is above 10000, the standard errors on the reported percentages are tiny, and therefore, all the differences between percentages of people who chose different answers to each question are statistically significant.

The most general assessment of transition is given by the answers to the question: “How did the economic and social changes of the last 15 years affect your life?” Only 19% of Russians think that their lives “strongly improved” or “improved” as a result of the transition, whereas 49% think that the transition “worsened” or “strongly worsened” their life.

This general picture translates also into the assessment of individual success since the start of transition: 55% of the respondents “do not agree” or “completely do not agree” with the statement that they live better now than before 1991, while only 23% “agree” or “completely agree” with this statement. One finds a similar level of disagreement with the statement that “Most people live better now than before the reforms of 1991.”

Respondents were asked to mark their relative income position on an imaginary 9-step wealth ladder at present and before the start of the transition. The vast majority of the sample feels that they have become poorer relative to others. The overall perceived wealth distribution shifts to the left and becomes more right-skewed, indicating a sharp increase in subjective income inequality. The share of respondents who placed themselves on the top five steps of the ladder as of 1991 was 60.4%, whereas only 36% of respondents viewed themselves on these top five steps in 2006. In addition, the share of respondents who considered themselves as very poor (i.e., on the first two steps of the

ladder) in 2006 is more than twice as large as the share of those who thought of themselves as being very poor in 1991: 16.2 vs. 7.5 %.

The following question sheds further light on evaluating the situation at present compared to that before transition: “Would you like your kids to grow up in an environment like the modern Russia or like the Soviet Union?” About one half of respondents would prefer their kids to grow up in the Soviet Union.

Since most of the objective data show that the majority of Russians in economic terms are better off today than they were before the transition (see, for instance, Shleifer and Treisman 2005 and Guriev and Zhuravskaya 2009), the respondents must be assessing transition and its effect on their lives on more than these economic criteria alone. As we argue below (in Section 3), the social environment and, in particular, the lack of civic engagement and trust may be responsible for such a negative assessment of transition by the Russian population.

Two questions are aimed at figuring out the perceptions of people about the change in social capital between pre-transition and 2006; both of them indicate a perceived sharp decrease in social capital (see Panel B of Table 1). First, respondents were asked about their general trust in people in 2006 compared with 1991: 38% of respondents say that most people could be trusted and 39% of respondents say that one could not be too careful in dealing with people in 1991. In contrast, only 16% say that most people could be trusted and 58% say that one could not be too careful in dealing with people at the time of the survey. (The rest of respondents chose the option that it “depends on personality.”) Second, respondents were asked about their opinion on what was most respected in the Russian society before transition and at the time of the survey. Possible answers were: “Money and power,” “Honesty and decency,” “Talent, hard work, and knowledge,” “Wisdom,” and “None of the above.” “Honesty and decency” is the most popular answer for the Soviet Union; 43.6% of respondents chose this option. In contrast, only 13.4% of respondents thought that “Honesty and decency” was most respected in 2006. The next most popular answer for the Soviet Union was “Talent, hard work, and knowledge;” 39.5% of respondents chose this response. Only 8.4% of respondents thought that “Talent, hard work, and knowledge” were most respected in

2006. “Money and power” is the most popular answer for 2006 with 72.1% of respondents making this selection.

A word of caution is in order here. It is quite possible that people have forgotten the true level of social capital in the Soviet Union and due to the hardships of transition they tend to overestimate trust before transition. Given the widespread snitching and under-cover KGB agents in all organizations, a relatively high level of trust was quite unlikely. In addition, according to a joke very popular in the Soviet Union, the state pretended to pay workers, while workers pretended to work. Therefore, the fact that talent, hard work, and knowledge were so much more respected in the old days than now also may be the result of a recall bias.

2.3. Attitudes towards regulation and direct involvement of the state

Panel C of Table 1 summarizes the attitudes of Russians towards free markets compared to state regulation and towards the private provision of goods and services compared to state provision. The survey asked a series of questions: “Should the government or the market set prices for utilities, fuel, food, and housing?” State control over prices is overwhelmingly popular in Russia. Between 80% of the population (for food prices) and 95% (for utilities) think that the state should set prices for these particular goods and services rather than the free market. These percentages are rather high, given that the majority of population still should remember the basic economics lesson that they got at the start of transition when empty shelves in the shops, long lines for basic consumer goods, and coupons for food rationing disappeared over night as prices were freed on January 1, 1992. One should note, however, that as time progressed, people may have disassociated price regulation and shortages. It would have been even more informative if the question reminded the respondents of the possible costs of price controls. For instance, the question on price regulation in the Shiller et al. (1991) survey included such a reminder. Nonetheless, the basic fact is that the RLMS responses indicate a high demand for state price regulation.

A set of questions inquired about respondents’ opinions on whether the state or private firms should be responsible for the provision of employment and various goods

and services (such as the provision of medical care, the provision of garbage collection, and the building of roads). The list of possible answers consisted of: “mainly state,” “mainly private,” “both equally,” and “does not matter; only quality matters.” The “mainly state” was the most popular answer for all of these activities. The share of respondents who think that the state should be responsible for providing employment is 50%. As far as goods and services are concerned, the percentages of respondents who chose “mainly state” are as follows: for garbage collection – 45; roads – 51; and medical care – 60%. The maximum percentage of respondents who chose “mainly private” is 4.1% and it is for garbage collection.

Finally, respondents were asked about their opinion on what should be done with the majority of previously-privatized enterprises. The list of possible answers included: 1) “leave in the hands of current owners with no change;” 2) “leave in the hands of current owners, but make them pay the assets’ worth;” 3) “re-nationalize and keep in state hands;” and 4) “re-nationalize and then re-privatize again using a cleaner procedure.” 51.9% of respondents chose “re-nationalize and keep in state hands.” This figure is consistent with the results from the LITS survey (see Denisova et al. 2009a,b, who study the determinants of preferences towards legitimacy of privatization using LITS data).

Overall, we find that the vast majority of the Russian population demands price controls for basic goods and services and about one half of Russian population also demands direct involvement of the state in the provision of goods, services and employment.

2.4. The level of trust in state institutions and private business, perceptions of corruption

Given that the majority of Russian people demand increased state regulation and direct state involvement in the economy as a provider of goods and services, it is of interest to find out how much trust people have in various state institutions and how much trust they have in private business. Overall, we find that trust in government institutions and in private business is rather low.

Panels D and E of Table 1 summarize responses to questions on this topic. First, respondents were asked directly how much they trust different institutions and groups.

Only 38%, 25%, and 21% say that they “trust” or “rather trust” the government, courts, and police, respectively; whereas, 29%, 37%, and 49% of respondents say that they “distrust” or “rather distrust” these state institutions.⁵ (The rest of respondents say that they “neither trust nor distrust.”) The level of trust in private business is comparable and even slightly lower than in government institutions. Approximately, 33%, 41%, and 48% of respondents say that they “distrust” or “rather distrust” domestic banks, small business, and insurance companies. The corresponding percentages for “trust” and “rather trust” are 34, 22, and 21, respectively.

In addition, we find that there is an overriding concern about corruption: 73.8% of Russians do not agree that the level of corruption has declined in the past few years and only 20% disagree with the statement that judges are corrupt.⁶

Respondents were also asked if they feel that it is possible to achieve understanding and cooperation between the rich and the poor and between the “common” people and the people with political power. One half of Russia’s population (50.1% to be precise) think that understanding and cooperation between common people and people in power is impossible; a slightly lower share of Russians (41.5%) think that cooperation and understanding between the rich and the poor is impossible (see Panel B of Table 1). These two questions, unlike all the other ones that we describe in this paper, were asked consistently in each of the rounds in 1994, 1996, 1998 of the RLMS surveys and again in each round after 2001. Thus, we can trace the dynamics of the answers. Panel B of Figure 2 presents the mean response to the question about the possibility of cooperation between the rich and the poor over time on the scale from 1 to 5, where “surely possible” was given the value of 1 and “surely impossible” – the value of 5. An average respondent assessed the possibility of cooperation most negatively around the 1998 crisis. In other years, this assessment stayed relatively constant around the value 3.5 (which is in

⁵ Here (and below) “rather trust” refers to a situation in which a person is just slightly inclined to trust.

⁶ RLMS respondents report a rather high incidence of paying bribes while interacting with government agencies. Bribes are especially common when people interact with road police: about 8% of respondents interacted with road police and nearly 20% of those who encountered police report that they *always* paid bribes and 41% report that they *sometimes* bribed. We do not use the question on the actual level of bribery in our regression analysis below because it was asked only to people who encountered government officials (14% of respondents), whereas we are interested in perception of corruption among all respondents irrespective of whether they had or had not met officials.

between “in some circumstances” and “rather impossible”).⁷ It is worth noting that the dynamics of responses to the question about possibility of cooperation between the “common” people and those with political power looks exactly the same (these results are available from the authors upon request).

To summarize, the high demand for increased state intervention and government regulation coexists with a rather low trust in government institutions and recognition of high and rising levels of corruption. The level of distrust in private business is comparable and, for some questions, slightly higher than the level of distrust in government. In the next section, we will interpret these findings in light of the theory developed by Aghion et al. (2009).

3. An Economic Explanation for these Responses?

In the previous section, we showed that the Russian population demands high state regulation and direct involvement of the state in the production of goods and services even though the vast majority understands well that the government in Russia is corrupt and inefficient. A recent paper by Aghion et al. (2009) provides a useful framework for understanding this puzzling phenomenon: Why do individuals who recognize that government is corrupt and distrust it, nonetheless, demand less market and more state?

3.1. The theoretical framework of Aghion et al. (2009)

In the Aghion et al. (2009) model, individuals have a choice to become civic or uncivic, for instance, parents educate their children to be of either type. This choice is not associated with a direct cost, e.g., education is free. Once the choice of type – civic or uncivic – is made, individuals decide whether to become entrepreneurs or stay in routine production, i.e., working for a state-owned factory. State-owned factories are unproductive but do not impose any externalities on the society. Entrepreneurs, on the

⁷ The relatively poor and the elderly, on average, are more negative about the possibility of cooperation than the average respondent, but the dynamics of responses for these groups is slightly positive, i.e., towards a better possibility of cooperation. We describe how the individual characteristics explain the variation in responses in Section 3.

other hand, may be productive or unproductive and, if uncivic, entrepreneurs can impose a negative externality on the society (by producing poor-quality products or polluting). After the individual choices of civicness and employment (entrepreneurship or state factory) are made and the productivity level of entrepreneurs is realized, society in an election decides whether to regulate entrepreneurs' entry into the economy in order to curb externalities or not. If society decides to regulate, regulation is administered by public officials, chosen randomly from the society after all the individual choices are made. Public officials cannot observe the level of productivity or the civic-mindedness of entrepreneurs. Civic public officials always forbid entry, as they fear externalities. Entrepreneurs, who were forbidden entry, come back to work in a state factory. Uncivic officials use their position to collect bribes in exchange for allowing entry whereas uncivic entrepreneurs agree to pay bribes and enter.

Equilibrium in the Aghion et al. (2009) model is characterized by the fraction of civic individuals in the society, the level of regulation, externalities, and output produced by entrepreneurs who entered the market. There are two equilibria in this model: 1) with mass civicness, no regulation, no externalities, and a high level of production (good equilibrium); and 2) with mass uncivicness, regulation, externalities, and relatively low level of production (bad equilibrium). In order to understand the nature of these equilibria, note that if there is no regulation, all entrepreneurs enter and all uncivic ones impose externalities. In contrast, if there is regulation, civic entrepreneurs do not enter (as they refuse to pay bribes), while only those uncivic entrepreneurs enter who are regulated by an uncivic official (as civic officials ban entry) and who are sufficiently productive to find paying bribes worthwhile.

Thus, if the level of uncivicness in the society is high, it is optimal for the society to regulate and it is optimal for individuals to become uncivic. This is because civic individuals are engaged only in state production and do not earn anything as public officials, whereas uncivic individuals can earn extra money as entrepreneurs if sufficiently productive and/or by collecting bribes as public officials. In contrast, if the level of uncivicness is low, there is no additional benefit for individuals to become uncivic. If civic individuals are just an epsilon more productive than uncivic ones (which could happen, for instance, if production involves some social interaction), it is optimal

for individuals to become civic. Thus, unciviness creates demand for regulation even though officials are corrupt and regulation is ineffective (i.e., it does not allow for externalities).

3.1.2. Interpretation of basic facts in light of the Aghion et al. (2009) framework

Overall, the basic facts about the views of Russians that we presented in the previous section are described fully by the bad equilibrium in the Aghion et al. (2009) model. In this bad equilibrium, rational individuals, who distrust business and government, demand state regulation and production via state enterprises rather than private entrepreneurs even though they understand well that the government is corrupt and inefficient.

The Aghion et al. (2009) model also explains the (perceived) deterioration of social capital and the increase in corruption since the beginning of Russia's transition. If liberalization occurs in a low trust environment, the economy is predicted to converge to a bad equilibrium. Therefore, one should expect an increase in corruption and further deterioration of social capital (as more people would choose to become uncivic) before the economy reaches the steady state.

3.2. Tests of the theory

The main implication of the Aghion et al. (2009) model for empirical analysis is that distrust in government, distrust in business, corruption, demand for regulation, and regulation should all be positively correlated. To be more precise, since the model has multiple equilibria and in each equilibrium all agents have the same level of distrust, the empirical prediction is about the variation among economies in different equilibria. Indeed, Aghion et al. (2009) show that variation in distrust, regulation, demand for regulation, and corruption across countries is consistent with the predictions of the model.

Our aim here is to test the implications of the Aghion et al. (2009) model using the RLMS data, which covers only one country. There are two alternative approaches to thinking about within-country variation in reference to Aghion et al. (2009). The first and the most straightforward approach is to think about Russia – which is a large

federation – as a collection of local economies. In this case, the model predicts variation in equilibria among these local economies. With the RLMS data at hand, we can think about each primary sampling unit (PSU) as a local economy, and, therefore, can run individual-level regressions with a clustering of error terms at the PSU level. Another possible level at which to consider local economies would be the level of Russia’s regions, i.e., sub-national administrative units. The RLMS, however, is not representative at the regional level and, therefore, we use data from another source: the “Public Opinion Foundation” polling company (FOM, <http://english.fom.ru>), which collected data on the level of general trust for representative samples of individuals in 68 Russian regions.

The alternative approach is to introduce heterogeneous beliefs about the level of social capital in the society for individuals as was done in Pinotti (2009) who assumes that there is an idiosyncratic component in an individual’s belief about the share of civic (i.e., trustworthy in Pinotti’s terminology) individuals in the economy. In other words, people are not completely sure about which equilibrium the economy is in and have heterogeneous beliefs about it. In this case, the individual variation in distrust should explain the individual demand for regulation and individual perceptions of corruption. Those who believe that the share of civic (trustworthy) people in the economy is relatively large, expect relatively low negative externalities from private business, and, hence, have relatively low individual demand for regulation. In contrast, those who believe that business is not to be trusted expect large negative externalities and hence demand regulation, but also expect higher corruption.

Thus, we perform the following tests: First, we test whether the individual demand for regulation and state provision of goods and services positively correlates with individual distrust in business, individual distrust in state institutions, and other individual-level perceptions of social capital (such as the perceived degree of social cooperation) as well as individual perceptions of corruption. Second, we test whether individual demand for regulation is associated with regional-level general distrust (from FOM data). Third, we test whether our measures of distrust are also positively correlated with perceptions of corruption. In all regressions, we allow for a clustering of error terms at the level of PSUs because, as we discussed above, individual attitudes within localities are not independent. We perform all of these tests controlling for a wide range of

individual characteristics, such as age, education, income, labor market status, and labor market history. We expect these individual controls to have an independent direct effect on demand for regulation and state involvement in the economy due to variation in ideology or potential material benefits from state redistribution (for the role of individual attributes see, e.g., Fleisher et al., 2005, Graham and Pettinato, 2002).

3.2.1. Individual characteristics as determinants of the variation in attitudes

To illustrate the importance of controlling for individual characteristics, before testing the implication of Aghion et al. (2009) model, we report the results of regressions in which people's attitudes are regressed on individual characteristics only. Table 2 presents the results of selected probit regressions with general attitudes towards the transition (Column 2), attitudes towards the regulation of housing prices (Column 3), and towards whether mainly the state should organize removal of garbage (Column 4) as dependent variables. Using other measures of attitudes towards government regulation or state involvement in the economy generates very similar results. Throughout the analysis, we dichotomize the independent variables in order to ease the interpretation of the results (for detailed variable descriptions and summary statistics see the Appendix). The table reports the marginal effects from the probit regressions with PSU fixed effects (to condition on locality-level institutional variation) and with clustering of error terms at the level of PSU (to control for correlation of errors within localities).

As one would expect, we find that individual attitudes are affected by human capital, income and labor market experiences of respondents. In particular, the elderly are more likely to report that transition worsened their lives though they differ less from the young with respect to price regulation and direct state involvement. The more educated are not more pro-transition but are less pro-state both in terms of price regulation and direct state involvement. Exposure to more diverse and free sources of information via computer and internet usage makes people more pro-transition and adds to the effect of higher education when state regulation is concerned. The unemployed have a higher probability to report that the transition worsened their lives as compared to those who work for wages. They are also more supportive of direct state involvement in the

provision of services. Within the work-for-wages sector, those who work in private firms tend to support the idea of price regulation or direct state involvement to a lesser extent as compared to those employed in the public sector⁸. In contrast, there is no difference between the two groups with respect to their general assessment of the transition.

Labor market experiences during transition also matter. Those who had to accept a job below their qualification are more likely, while those who got a job in a new sector of the economy (e.g., services) are less likely, to report that the transition worsened their lives. In addition, respondents who got a job in a new sector demonstrate a lower level of support for the state regulation of prices and for direct state provision of services. Respondents with entrepreneurship or self-employment experience tend to be less supportive of state involvement in the economy, although they do not differ from those who work for wages in their general assessment of transition.

Now we turn to our tests of the Aghion et al. (2009) model. In what follows we always condition on individual backgrounds since they have an important effect on perceptions of the role of the state, free markets and on their assessments of the transition.

3.2.2. How do distrust and perceptions of corruption co-vary with individual attitudes?

Table 3 explores whether variations in the level of distrust and in the perceptions of corruption have explanatory power for the variation in the individual attitudes towards government regulation, direct involvement of the state, and general attitudes towards the transition. The table reports marginal effects along with the respective z -statistic from probit regressions with attitudes as the dependent variable and various measures of distrust and perception of corruption included in the regressions on a one-by-one basis, controlling for all individual characteristics which we discussed in the previous subsection (listed in the Table 2). We omit PSU fixed effects from these regressions in contrast to Table 2 because the main focus of these regressions is on variation in locality-level institutional environment measured by distrust, corruption perception variables and

⁸ The difference is insignificant at conventional levels (significance level is about 14-19%) for the regressions reported; the difference is significant at 1% level for demand for price controls over fuel and demand for state involvement into provision of employment and health services (not reported).

demand for regulation. We continue to cluster the errors at the PSU-level to control for intra-locality correlations.

At the individual level, we consider three measures of distrust in private business: distrust in small business, in insurance companies, and in domestic banks; two measures for the lack of cooperation in society: the perceptions that no cooperation is possible between the rich and the poor and between “common” people and those in power; three measures of distrust in state institutions: distrust in government, in courts, and in political parties; and two measures of perception of corruption: whether the respondent agrees that judges are corrupt and disagrees that corruption decreased in the last years. In addition, we consider a measure of general distrust at the regional level from the FOM data, i.e., the regional fraction of individuals who do not agree that most people can be trusted and who think that one cannot be too careful in dealing with people.⁹ All of these measures are described and summarized in the Appendix.

Overall, the results are consistent with the predictions of the Aghion et al. (2009) model. In particular, we find that all measures of distrust in private business are significantly associated with all of the measures of the demand for the state regulation and direct state provision of goods and services (with the exception of price regulation of utilities, for which the correlation has the right sign but is insignificant at the conventional levels). The measures for the lack of cooperation and of general distrust have a strong significant association with the demand for price regulation, but have no significant correlation with the demand for direct involvement of the state in the economy. Distrust in state institutions is more significantly and positively correlated with the demand for direct involvement of the state than with the demand for price regulation, for which all the coefficients are also positive, but many are imprecisely estimated. The perception that judges are corrupt is positively and significantly related to the demand for

⁹ The RLMS provides an additional question on general trust (presented in the top row of Panel B in Table 1): “In your opinion, could most people be trusted or one could not be too careful in dealing with people?” This would have been an ideal (and rather standard) measure of general trust had there not been an option to answer “depends on personality.” This option is not included in the standard version of this question. Since this option is included as a possible answer in the RLMS, we cannot use the responses to this question to test the Aghion et al. (2009) theory. The reason is that the responses are not informative as in both the good and in the bad equilibrium people may wish to answer “depends on personality”, i.e., on the civicness of people, but this would imply completely different levels of social capital.

state provision of goods and services and unrelated to the demand for regulation.¹⁰ The perception that corruption increased in the last years is positively and significantly related to the demand for price regulation of fuel and utilities.

Table 4 highlights the conditional correlations between distrust and perceptions of corruption. As above, we regress individual perceptions of corruption on our measures of social capital and distrust in state institutions one-by-one conditional on individual level controls and report the coefficients of interest only. As above, PSU fixed effects are excluded from the list of covariates. We use OLS estimation and allow for a clustering of error terms at the level of PSUs. Again, just as the Aghion et al. (2009) model predicts, we find a strong and robust positive correlation between distrust and perceptions of corruption.¹¹

It is worth noting that the different measures of social capital, perceived corruption, and of the demand for government regulation and state provision of goods and services, which we consider, reflect different aspects of the phenomena we are trying to measure and they are noisy. Therefore, it is important to look at the general pattern that emerges. This general pattern is supportive of the predictions of the Aghion et al. (2009) model. It points to a robust positive association between the measures of the demand for regulation and the demand for the direct involvement of the state in economic production, on the one hand, and the lack of social capital and corruption on the other.

The last column of Table 3 also relates measures of social capital and corruption to the general assessment of the transition by respondents. All of the measures of distrust in private business, distrust in state institutions, perception of the lack of cooperation in society, and perceptions of corruption (with the only exception being the general regional-level of distrust) have a significant, very strong and robust positive association with the perception that the transition had a negative effect on the life of the respondent. The results are practically identical for the answers to the question where people would have liked their kids to grow up: in an environment like the Soviet Union or like modern

¹⁰ There is one exception, i.e., for the demand for regulation of prices for utilities, the corruption of judges is marginally significant with the wrong sign. This is the only significant coefficient which has the opposite sign of what was expected among 99 regressions which we present.

¹¹ We made additional tests to make sure that our results are not driven by cohort effects. In particular, we re-ran regressions reported in Tables 3 and 4 separately for three age groups: 18-30, 31-55 and 55+. Overall, the results are robust to restricting age of respondents to a particular group.

Russia (available from the authors upon request). Since these results about the general assessment of the transition are conditional on all the individual characteristics, including income and labor market status, we can conclude that the social environment, indeed, plays an important role in the assessment of the transition process by individuals. The inclusion of the measures of social capital to the list of covariates in regressions which explain the assessment of transition with all individual characteristics adds approximately additional 2 percentage points of explained variation in perceptions (i.e., pseudo R^2 increases from 0.13 to 0.15).

4. Conclusions

We use data from the 2006 round of the Russian Longitudinal Monitoring Survey to describe perceptions of the Russian population about the transition process and the role of the state compared to that of free markets. We find that about one half of Russian population is disappointed with the transition and has nostalgia about the life under the communist regime. A large majority of Russians is in favor of very high state intervention in all spheres of economic life, starting with regulation and ending with the direct provision of goods and services. The high demand for increased state intervention and government regulation coexists with a rather low level of trust in government institutions and recognition of high and rising levels of corruption. We apply the theory developed by Aghion et al. (2009) to interpret these basic observations. It is the lack of social capital in Russia that drives the demand for government regulation. In an environment with low social capital, private business imposes negative externalities on the society and society chooses to demand more state regulation and tolerate corruption in order to reduce these externalities. We also show that variation in the individual demand for the state regulation co-varies with distrust and perceptions of the extent of corruption as predicted by this theory.

According to Shiller et al. (1991), the attitudes of Soviets and Americans towards free markets (before Russia's transition) were very similar in all aspects but two. Soviets and Americans differed in: 1) their expectation about the security of property rights, and 2) their attitudes towards civicness of private entrepreneurs. In light of our findings, it is

clear that these two differences have foretold the nature of transition. Just as the Aghion et al. (2009) model predicts, Russia has been trapped in a bad “uncivic” equilibrium in which the government is corrupt and predatory but the public demands regulation and high involvement of the government in the economy in order to protect itself from untrustworthy business.

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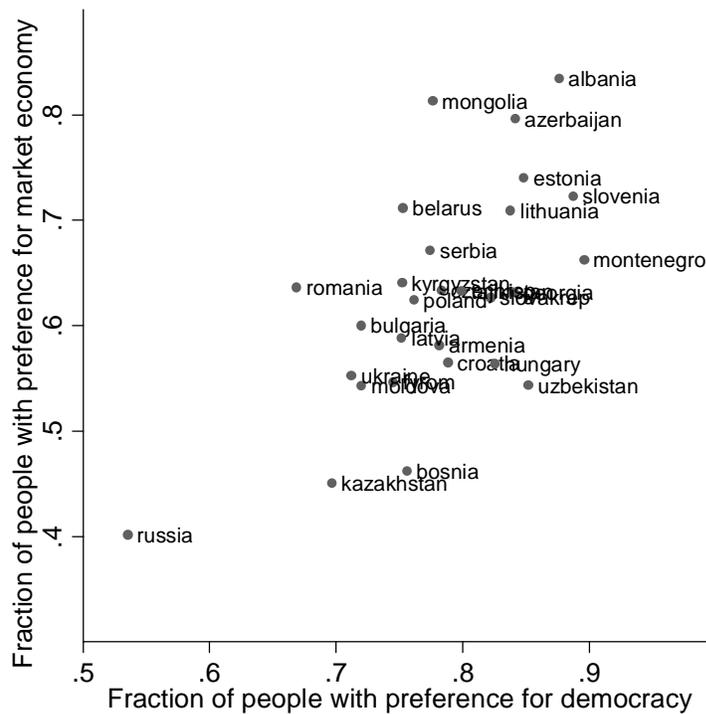


Figure 1. Support for free markets and democracy across transition countries.

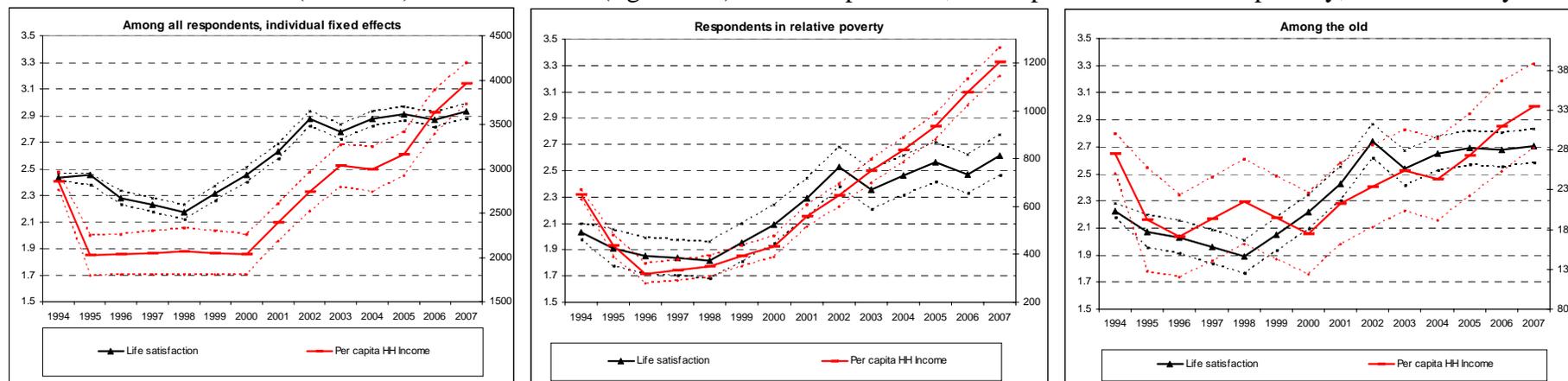
Source: *Life in Transition Survey*

(<http://www.ebrd.com/country/sector/econo/surveys/lits.htm>).

Note: The figure summarizes the proportions of respondents by country who chose option (1) to the following two questions (those who chose option (3) are not included for calculation of the mean by country):

- a) With which one of the following statements do you agree most: (1) “Democracy is preferable to any other form of political system”; (2) “Under some circumstances, an authoritarian government may be preferable to a democratic one”; (3) “For people like me, it does not matter whether a government is democratic or authoritarian”.
- b) With which one of the following statements do you agree most: (1) “A market economy is preferable to any other form of economic system”; (2) “Under some circumstances, a planned economy may be preferable to a market economy”; (3) “For people like me, it does not matter whether the economic system is organized as a market economy or as a planned economy”.

Panel A. Life satisfaction (left scale) and real income (right scale) for all respondents, the respondents in relative poverty, and the elderly



Panel B. Assessment of a possibility of cooperation and understanding between the poor and the rich for all respondents, the respondents in relative poverty, and the elderly on the scale from 1 to 5 where 1 is “surely possible” and 5 is “surely impossible”

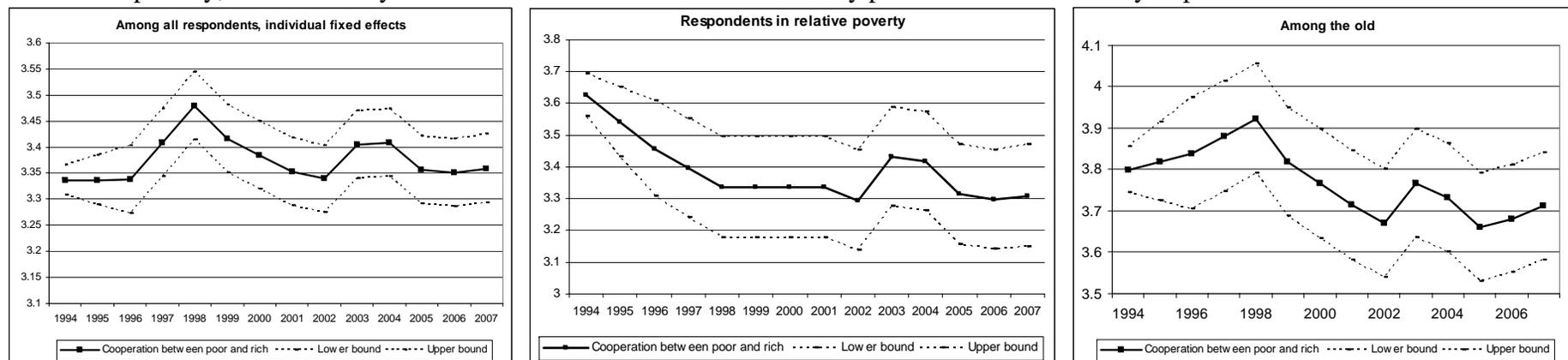


Figure 2. Dynamics of real incomes, life satisfaction, and the perceptions of social cooperation. Source: RLMS.

Note: The values for 1997 and 1999 are simple linear interpolations since the RLMS did not take place in these years. For each series we present the 95% confidence interval along with the mean estimate. “Relative poverty” refers to respondents with income below one half of the median disposable income and “the old” refers to respondents with an age over 60 years. The real income is measured in 1992 Russian rubles.

Table 1. Basic facts

Panel A. General attitudes towards transition

	Strongly improved	Improved	Did not change	Worsened	Strongly worsened
How did the economic and social changes of the last 15 years affect your life?	0.5	18.4	32.4	37.7	11.0
Agree or disagree?	Completely agree	Agree	Yes and no	Do not agree	Completely do not agree
- I live better now than before reforms of 1991	4.8	17.9	22.7	29.1	25.5
- Most people live better now than before reforms of 1991	3.2	15.7	24.4	32.2	24.6
Imagine a ladder where on the 1st step there are the poorest people and on the 9th step there are the richest people. On which of the nine steps you...?	1 or 2	3 or 4	5	6 or 7	8 or 9
- Were in 1991	7.5	32.1	29.8	26.4	4.3
- Are now	16.2	47.7	24.6	10.6	0.9
Would you like your kids to grow up in the Soviet Union or in Russia nowadays?	in USSR	in Russia			
	49.6	50.4			

Panel B. Social capital

In your opinion, could most people be trusted or one could not be too careful in dealing with people...?	Most can be trusted	One cannot be too careful	Depends on personality		
- In 1991	38.0	39.2	22.8		
- Now	15.9	58.1	25.9		
In your opinion, what people respect the most today and what they respected the most in the Soviet Union?	Money and power	Honesty and decency	Talent, hard work, knowledge	Wisdom	Nothing of the listed
- In the Soviet Union	14.2	43.6	39.5	2.3	0.5
- Now	72.1	13.4	8.4	2.8	3.3
Is it possible to reach understanding and cooperation between...?	Surely possible	Rather possible	In some circumstances	Rather impossible	Surely impossible
- The rich and the poor	5.9	17.6	35.1	22.4	19.1
- The "common" people and the people with political power	3.6	13.0	32.5	27.8	23.0
Agree or disagree?	Completely agree	Agree	Yes and no	Do not agree	Completely do not agree
- If senior government officials violate the law, citizens can do it too	10.3	23.6	19.0	30.2	16.9

Continued to the next page...

Panel C. Attitudes towards regulation vs. free market and state vs. private provision of goods and services

Should the government or the market set prices for...?	State	Market
- Utilities	94.8	5.2
- Fuel	89.8	10.2
- Food	80.3	19.7
- Housing	92.2	7.8

In your opinion, should state or private organizations provide...?	Mainly state	Mainly private	Both equally	Does not
				matter, only quality matters
- Employment	50.0	2.1	37.0	10.9
- Medical care	59.5	1.5	23.2	15.8
- Garbage collection	45.0	4.1	26.7	24.2
- Building roads	50.9	2.8	23.9	22.3

What should be done with the majority of previously-privatized enterprises?	Leave as it is	Make current	Re-nationalize	Re-privatize
		owners pay extra	and keep state-owned	using cleaner procedure
	20.3	15.1	51.9	12.7

Panel D. Trust in specific institutions and groups

To what extent do you trust the following institutions and groups?	Trust	Rather trust	Neither trust		Distrust
			not distrust	Rather distrust	
- Government	6.7	31.6	32.8	17.5	11.5
- Courts	3.1	22.3	38.0	22.0	14.7
- Police	3.3	17.3	30.3	25.6	23.6
- Political parties	1.6	8.1	26.6	29.2	34.4
- Domestic banks	3.8	29.8	33.3	18.5	14.6
- Small business	2.5	19.2	37.2	23.0	18.0
- Insurance companies	2.4	18.2	31.6	25.7	22.2

Panel E. Corruption

Agree or disagree?	Completely	Agree	Yes and no	Do not agree	Completely
	agree				do not agree
- Corruption has gone down in the recent years	1.6	9.0	15.7	33.6	40.1
- Judges in Russia are corrupt	16.4	31.8	31.7	14.6	5.4

Note: Percentages of respondents who chose a particular answer reported for each question.

Table 2. Individual determinants of attitudes. Marginal effects.

	General attitudes towards transition		Direct involvement of the state
	Worsened life	Price regulation 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

Note: Probit model. Marginal effects reported. Absolute value of z statistics in brackets. Robust Huber-White standard errors, clustered on primary sampling units (PSUs). PSU fixed effects included. * significant at 10%; ** significant at 5%; *** significant at 1%

Table 3. Distrust and corruption correlate with demand for state regulation. Marginal effects.

	Price regulation				Direct involvement of the state				Transition worsened life
	Food	Housing	Fuel	Utilities	Employment	Garbage	Health	Roads	
Distrust in private business									
Distrust small business	0.034 [5.05]***	0.02 [4.60]***	0.016 [3.39]***	0.009 [3.52]***	0.05 [4.52]***	0.038 [3.87]***	0.045 [4.45]***	0.039 [3.78]***	0.073 [6.58]***
Distrust insurance companies	0.013 [2.29]**	0.008 [2.52]**	0.008 [1.94]*	0.006 [2.85]***	0.024 [2.66]***	0.026 [2.40]**	0.034 [3.42]***	0.027 [2.41]**	0.067 [4.74]***
Distrust domestic banks	0.011 [2.03]**	0.01 [2.88]***	0.008 [1.81]*	0.002 [1.22]	0.027 [3.76]***	0.031 [4.20]***	0.025 [3.24]***	0.036 [4.19]***	0.055 [4.69]***
Lack of cooperation									
No cooperation between rich and poor	0.016 [2.85]***	0.01 [3.72]***	0.014 [4.12]***	0.008 [4.49]***	0.013 [1.48]	-0.004 [0.48]	0.009 [1.12]	0.01 [1.03]	0.077 [7.76]***
No cooperation between common and powerful	0.013 [2.10]**	0.009 [2.94]***	0.01 [2.22]**	0.005 [2.96]***	0.016 [1.74]*	-0.002 [0.21]	0.012 [1.32]	0.008 [0.84]	0.075 [7.81]***
General distrust (regional-level)									
General distrust (FOM)	0.057 [0.82]	0.073 [3.18]***	0.088 [1.70]*	0.047 [2.87]***	-0.145 [0.95]	-0.082 [0.55]	-0.159 [1.06]	-0.126 [0.85]	-0.083 [0.58]
Distrust in state institutions									
Distrust government	0 [0.03]	0.004 [0.89]	0.001 [0.23]	0.001 [0.82]	0.018 [1.78]*	0.023 [2.09]**	0.01 [0.82]	0.032 [2.95]***	0.08 [7.62]***
Distrust courts	0.017 [2.36]**	0.011 [2.64]***	0.005 [0.98]	0.002 [0.90]	0.015 [1.75]*	0.024 [2.68]***	0.005 [0.50]	0.028 [3.43]***	0.082 [6.74]***
Distrust in political parties	0.002 [0.36]	0.009 [2.49]**	0.003 [0.62]	0.004 [1.62]	0.026 [2.28]**	0.023 [1.93]*	0.025 [1.97]**	0.033 [2.64]***	0.071 [5.58]***
Corruption									
Judges are corrupt	0.004 [0.64]	0.001 [0.42]	0.002 [0.47]	-0.003 [1.71]*	0.028 [2.79]***	0.03 [2.87]***	0.021 [1.70]*	0.037 [3.10]***	0.028 [3.21]***
Disagree that corruption decreased in the last years	0.005 [0.68]	0.002 [0.52]	0.008 [2.31]**	0.004 [1.92]*	0.004 [0.60]	-0.003 [0.33]	0.005 [0.71]	0.006 [0.59]	0.063 [5.71]***

Note: Probit model. Marginal effects reported. Abbreviated results: each reported figure comes from a separate regression with all individual controls from Table 2 except for PSU dummies (as the main variation explored in these regressions is among equilibria in different PSUs). Absolute value of z statistics in brackets. Robust Huber-White standard errors, clustered on primary sampling units (PSUs). * significant at 10%; ** significant at 5%; *** significant at 1%

Table 4. 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]***

Note: OLS model. Abbreviated results: each reported coefficient comes from a separate regression with all individual controls from Table 2 except for PSU dummies (as the main variation explored in these regressions is among equilibria in different PSUs). Absolute value of t statistics in brackets. Robust Huber-White standard errors, clustered on primary sampling units (PSUs). * significant at 10%; ** significant at 5%; *** significant at 1%

Appendix

Table A1: Description of Variables used in the Regressions¹²

(1) General perception of transition

Transition worsened life Dummy equals 1 if the respondent marked that the economic and social changes of the last 15 years worsened, or strongly worsened her/his life; 0 if the respondent stated that the economic and social changes of the last 15 years did not change, improved or strongly improved her/his life.

(2) Demand for state price regulation and direct state involvement

State price regulation Dummy equals 1 if the respondent marked that the state and 0 if the market should fix prices for (a) food goods, (b) accommodation, (c) petrol and fuel, or (d) housing and communal services.

Direct involvement of the state Dummy equals 1 if the respondent marked that mainly the state should (a) supply people with work, (b) organize removal of garbage, (c) give medical services, or (d) build roads; 0 if the respondent marked that these tasks should be executed mainly by the private sector or by both the state and the private sector equally or if she or he marked that it does not matter whether the state or the private sector are primarily responsible if only it would be qualitatively (i.e. subject to satisfactory quality of this provision).

(3) Distrust

General distrust, regional level Regional fraction of individuals who do not agree that most people can be trusted and who think that one cannot be too careful in dealing with people. Regionally-representative individual-level data on social trust were aggregated – using weights to the regional level. *Source: Public Opinion Foundation (FOM), Russia, <http://english.fom.ru>.*

Distrust in state institutions and private business To what extent does the respondent trust in (a) the government, (b) courts, (c) political parties, (d) domestic banks, (e) insurance companies, (f) small and middle private business: (1) completely trust, (2) rather trust, (3) trust nor distrust, (4) rather distrust, (5) completely distrust)

Lack of social cooperation To what extent is it possible to have mutual understanding and cooperation between (a) poor and rich people, (b) “common” people and those who have a lot of power: (1) surely possible, (2) rather possible, (3) somewhat possible and somewhat not, (4) rather impossible, (5) surely impossible.

(4) Corruption

Disagree that corruption declined in the past few years To what extent does the respondent agree or disagree that the level of corruption in Russia has declined in the past few years: (1) strongly agree, (2) somewhat agree, (3) both yes and no, (4) somewhat disagree, (5) strongly disagree.

Agree that judges are corrupt To what extent does the respondent agree or disagree that judges in Russia are corrupt: (1) strongly disagree, (2) somewhat disagree, (3) both yes and no, (4) somewhat agree, (5) strongly agree.

¹² *Source* of variables (if not explicitly indicated): *Russian Longitudinal Monitoring Survey (RLMS)*, Data Round 15, 2006, Carolina Population Center at the University of North Carolina at Chapel Hill, <http://www.cpc.unc.edu/rlms>.

Table A1: Continued

(5) Individual-level controls

Age of the respondent in 2006	In years, adults are those 14 and over.
Educational degree	Highest educational degree obtained by the respondent, compressed to following categories: (1) secondary school and below, (2) junior and secondary professional, (3) university and higher.
Used personal computer last 12 months	Dummy indicating whether the respondent has used in the last 12 months a personal computer for any purpose.
Used the internet last 12 months	Dummy indicating whether the respondent has used in the last 12 months the internet.
Self-reported health status	Subjective assessment of the respondent's health conditions: (1) very bad, (2) bad, (3) not good but not bad, (4) good, (5) very good.
Log of per capita household consumption	Log of total household consumption expenditures per household member
Current employment status	Derived from the type of primary occupation in 2006: (a) worked for wages in the public sector, (b) worked for wages in the private sector, (c) out of labor force, (d) unemployed.
Has experience as self-employed	Dummy equals 1 if (i) in the current primary or secondary job the respondent was not working at an enterprise nor at an organization but was involved in entrepreneurship or individual labor activity, (ii) in the current primary or secondary job the respondent was working at an enterprise or organization and doing entrepreneurial work at this job, or (iii) if the respondent ever tried to organize her/his own enterprise or begin her/his own business; 0 otherwise.
Had to accept less qualified main job	Dummy indicating that from 1991 till 2006 the respondent had to change a place of work for another permanent job, which didn't correspond to her/his qualifications and she or he didn't like it.
Got job in new sector	Dummy indicating that from 1991 till 2006 the respondent decided to try himself in a new economic sector, which had appeared only in the period of reforms.
Gender	Gender of the respondent (0=female, 1=male).
Location	Location of the respondent (0=rural, 1=urban).

Table A2: Summary Statistics for Variables used in the Regressions

Variable	No. of obs	Mean	SD	Min	Max
Transition worsened life	6059	0.49	0.50	0	1
State rather than market should fix prices for food goods	8479	0.80	0.40	0	1
State rather than market should fix prices for accommodation	8447	0.92	0.27	0	1
State rather than market should fix prices for petrol and fuel	8431	0.90	0.30	0	1
State rather than market should fix prices for housing and communal services	8437	0.95	0.22	0	1
Mainly state should supply people with work	8650	0.49	0.50	0	1
Mainly state should organize removal of garbage	8558	0.44	0.50	0	1
Mainly state should give medical services	8664	0.59	0.49	0	1
Mainly state should build roads	8634	0.50	0.50	0	1
General distrust, regional level (FOM)	8764	2.72	0.14	2.4	2.9
Distrust in the government	8409	2.96	1.11	1	5
Distrust in courts	8031	3.23	1.06	1	5
Distrust in political parties	7443	3.87	1.03	1	5
Distrust in domestic banks	7778	3.11	1.11	1	5
Distrust in insurance companies	7116	3.48	1.10	1	5
Distrust in small and middle private business	7238	3.36	1.07	1	5
Impossibility to reach understanding and cooperation between poor and rich people	8524	3.32	1.13	1	5
Impossibility to reach understanding and cooperation between “common” people and those who have a lot of power	8514	3.55	1.08	1	5
Disagree that corruption declined in the past few years	7645	4.01	1.03	1	5
Agree that judges are corrupt	7608	3.39	1.10	1	5
Age of the respondent in 2006	8222	45.10	18.17	18	96
Educational degree: secondary school and below	8764	0.31	0.46	0	1
Educational degree: junior and secondary professional	8764	0.50	0.50	0	1
Educational degree: university and higher	8764	0.19	0.39	0	1
Used personal computer last 12 months	8753	0.39	0.49	0	1
Used the internet last 12 months	8750	0.19	0.39	0	1
Self-reported health status	8719	3.14	0.73	1	5
Log of per capita household consumption	8148	8.41	0.82	2.5	13.1
Current employment status: work for wages in the public sector	8764	0.19	0.39	0	1
Current employment status: work for wages in the private sector	8764	0.29	0.45	0	1
Current employment status: out of labor force	8746	0.19	0.40	0	1
Current employment status: unemployed	8746	0.03	0.17	0	1
Has experience as self-employed	8764	0.10	0.29	0	1
Had to accept less qualified main job	8764	0.13	0.34	0	1
Got job in new sector	8764	0.06	0.23	0	1
Gender (male compared to female)	8764	0.46	0.50	0	1
Location (urban compared to rural)	8764	0.74	0.44	0	1

Note: For the summary statistics we apply weights to ensure that the population as a whole is represented.