

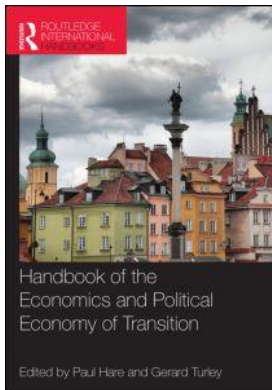
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## **Handbook of the Economics and Political Economy of Transition**

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### **People and Transition**

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# Part VII

## People

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## PEOPLE AND TRANSITION

## Life in Transition Survey

*Peter Sanfey*<sup>1</sup>**Introduction**

In 1989, when the communist system that had predominated for more than 40 years in central and eastern Europe and for more than 70 years in the Soviet Union began to collapse, few could have imagined the extent of the upheaval that would hit people's lives in the following 20 years. To say that transition has had a profound effect on ordinary individuals in this region is both a cliché and an understatement. The 'transition recession' that all countries suffered in the early 1990s caused widespread hardship, poverty and unemployment. The subsequent recovery and period of strong economic growth in the second decade, combined with increasing political and economic integration of many countries into global structures, created new opportunities and better living standards for many. The economic crisis that hit the region with full force in 2009 has been a serious setback. While a partial recovery has taken place in 2010 and 2011 in most countries, the global outlook as of mid-December 2011 is highly uncertain and a return to recession cannot be ruled out. Encouragingly, however, few of the reforms introduced during the transition have been reversed.

There is a wealth of data and research on how the transition has affected people's material well-being and labour market status. Living standards assessments by the World Bank and other institutions have used household survey data to document poverty and unemployment levels, the degree of access to public services and the level of informality in the labour market. The EBRD has analysed extensively the climate for business start-up and development and has provided substantial support to entrepreneurs, mostly channelled through financial institutions on the ground, for the establishment of micro and small businesses.

But until a few years ago there was a dearth of information on what people really thought about the transition. Did they think their situation had improved relative to pre-1989? Were they satisfied with their lives and optimistic about the future? Did they support the notions of democracy and the market economy? To what extent did they trust people in the new circumstances? Had corruption gone up or down?

Prior to 2006 there were limited data on which to base answers to these fundamental questions. Research on life satisfaction showed generally low levels across the region, with several transition countries being among the lowest in the world.<sup>2</sup> Cross-country studies of corruption and declining trust, carried out by institutions such as the World Bank and Transparency

International, suggested that these problems had become endemic in parts of the region. What was lacking was a systematic survey of these issues that covered the whole transition region in a consistent way.

### **The life in transition survey**

The EBRD-World Bank Life in Transition Survey (LiTS) was designed to address the major information gaps identified above. First carried out in autumn 2006 when most countries were growing strongly, it is an ambitious attempt to get inside the minds of ordinary people, randomly chosen across the whole region from central Europe to central Asia, and to find out how they feel about the transition process. The survey was repeated in late 2010, on a new sample of individuals and households, with a substantially modified questionnaire and an expanded country coverage that included five western European ‘comparator’ countries (see below). Both rounds included all EBRD countries of operations except Turkmenistan, where the prevailing political climate was not conducive to a survey like the LiTS, which includes a number of politically sensitive questions.

### ***Methodology and design of questionnaire***

In order to draw valid statistical inferences about the population, it is important to have a reasonably large sample size for each country and to ensure that individuals are randomly chosen. In the first round of the survey (LiTS I), 1,000 people were interviewed in each country, similar to the second round (LiTS II) although in the latter case up to 1,500 people were sampled in selected countries to allow for a telephone follow-up survey.

Briefly, the sampling methodology was as follows.<sup>3</sup> The first stage involved the establishment of Primary Sampling Units (PSUs) in each country. In some cases, census enumeration areas or electoral registers were used for this purpose, while alternative classification systems were used in other countries. Fifty PSUs were chosen randomly in each country, with selection probability weighted according to the size of the PSU.<sup>4</sup> Twenty households were then chosen in each PSU, again according to standard randomisation procedures. The person selected in each household to answer most questions was also determined randomly. Some questions relating to factual household matters (for example, the number of people in the household, access of family members to certain goods, and so on) were answered by the head of household, regardless of whether he/she was the person chosen to answer the rest of the questions. The questionnaire is lengthy and covers a range of topics. Each interview was meant to last approximately one hour but often took considerably more time.

Achieving a representative sample is a challenging task. The LiTS is a face-to-face survey and involves a lot of knocking on (random) doors, explaining to people the reason for calling and the nature of the survey, and asking them if they would be willing to participate. One problem that arose in most countries is that interviewers are more likely to find older, female people at home, especially if the house call was made during the daytime. Household members who are away permanently, either for work or studies, were excluded and this group is more likely to include young males. To correct for this problem, the data generated by the survey are weighted to adjust for the actual age and gender breakdown in the country’s population.<sup>5</sup> All results referred to below are based on these weighted calculations.

In LiTS I, there were four broad areas investigated. First, the head of the household was asked about household characteristics such as income and possession of certain household and personal goods, as well the household’s access to public services. Second, the selected

respondent in the household was asked a series of questions concerning reforms, markets and democracy, life satisfaction and other attitudes and values. Third, the questionnaire contained a series of questions about people's experiences during the previous 15–20 years, including some of the important life events (jobs, marriages and the like) that took place during this time. Fourth, the questionnaire included a number of 'social capital' questions related to issues such as crime, corruption and trust.

In LiTS II, the questionnaire underwent an extensive revision. There were two main reasons for this. First, some questions from LiTS I had either not worked well, or were seen as less relevant from the perspective of 2010 rather than 2006. Many of the 'life history' questions were dropped as they had proved to be time-consuming and, because people's memories are fallible, the data they produced were rather suspect. Second, there was a desire on the part of both the EBRD and the World Bank to expand coverage of certain issues and to introduce new topics. LiTS II therefore includes questions on tolerance of minorities, on the experience of corruption in public services and on climate change. Given the timing, it also had a section on the impact of the global economic crisis – how it shaped people's attitudes and how individuals coped with the negative effects. One of the main reasons for carrying out a second round of the LiTS was to see whether the crisis had significantly altered people's views on the merits of transition, an issue of vital importance for institutions like the EBRD and the World Bank that try to promote reforms in the region.

LiTS II contains another important innovation. The survey was also carried out in five non-transition, western European countries: France, Germany, Italy, Sweden and the UK. The idea was to create a benchmark of advanced market economies and see how the transition region shapes up in comparison. As discussed below, the results from LiTS II show a striking divergence in many respects between these 'old EU' countries and the transition region.

### **LiTS I: main results**

The first round of the survey revealed a number of new findings, some rather disturbing but others giving grounds for hope. The balance between negative and positive views is best captured by considering simultaneously the answers to three questions (Figure 25.1). When asked if they agree or disagree that their household lives were better now than in 1989, almost half of the respondents disagreed, and only 30 per cent agreed (the remainder said that they neither agreed nor disagreed). When it comes to life satisfaction, however, around 45 per cent of people proclaimed themselves satisfied with their lives, as against 32 per cent who are dissatisfied. Lastly, a majority of people (about 56 per cent), with only 25 per cent disagreeing, show a sense of optimism for the future, in the sense that they believe that children born now will have a better life than the respondent's generation.

People's views on transition in LiTS I were rather mixed. Two of the fundamental attributes of a successful transition – democracy and the market economy – attracted moderately strong support. More than one-third of people unequivocally favoured both concepts. However, 10 per cent of respondents said that, under some circumstances, they would opt for both a planned economy and an authoritarian political system. A further 20 per cent said that it did not matter to them which systems – democracy or authoritarianism, and market or planned economy – were present. (The remainder answered with some other combination – for example, some favoured democracy but also said a planned economy was preferable under some circumstances.)

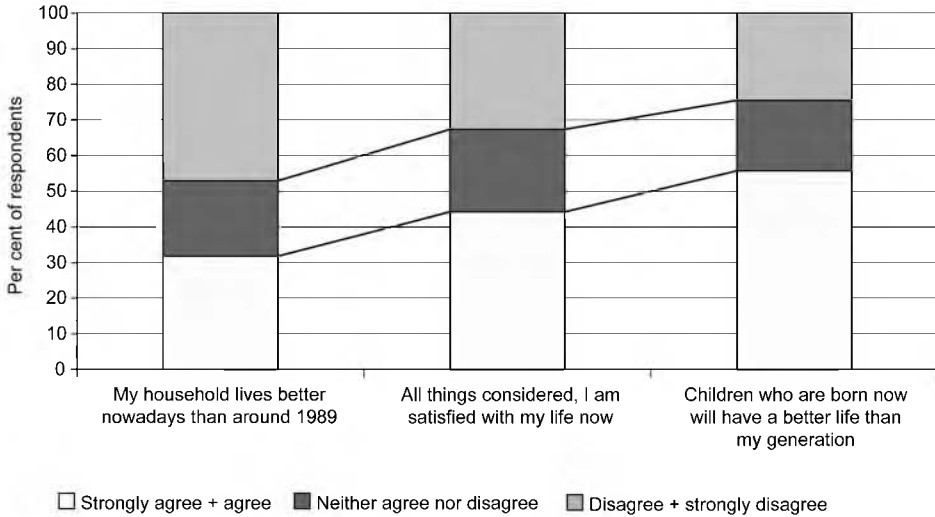


Figure 25.1 Views about the transition process  
 Source: EBRD/World Bank, *Life in Transition Survey*.

The results varied significantly according to different socio-economic factors, as well as by region. Subsequent econometric research by the EBRD showed that the better-off, professional classes and those with higher levels of education tended to favour democracy and markets.<sup>6</sup> This is hardly surprising, as these groups tended to have benefited most from the new system. The same patterns emerged when people were asked about the extent to which the state should intervene in the economy. In short, a divide appeared to have opened up between the winners and losers of transition, with the former group favouring democracy and a reduced role for the state, and the latter, consisting disproportionately of older, unemployed people, hankering after a return to the past. Support for democracy and the market economy was also strongest in the countries of central Europe and the Baltic states (CEB), and considerably weaker elsewhere, especially in the largest country in the region, Russia.

The questions on corruption and trust revealed a serious perceived deterioration relative to the pre-transition years. Two-thirds of respondents felt that the level of corruption was as bad as, or worse than, it was before the transition began. ‘Irregular payments’ appeared to be common in many areas of life, notably in gaining access to health services, providing acceptable education (and exam results) for one’s children, and paying off the road police. The decline in trust was also striking. Only one-third felt that people could be trusted now, while two-thirds felt that they could be trusted prior to 1989. When it comes to institutions, people generally felt that they could trust the army, the presidency and the banks, but not political parties, the parliament or the courts.

Lastly, LiTS I provided a valuable snapshot of the extent to which different socio-economic groups were able to enjoy the benefits of the modern consumer society. There was particularly wide regional variation in some of the responses. For example, three-quarters of households in central Europe and CEB had a bank account and around 60 per cent a credit or debit card, compared to just 10 per cent (for both categories) in the Commonwealth of Independent States. Mobile phone and computer ownership had also penetrated widely by that point in CEB and south-eastern Europe (SEE) but much less so further east. The survey also showed the

extent to which rural areas lag behind their urban counterparts in terms of access to certain public services such as a fixed telephone line.

## **LiTS II: main results**

In LiTS II, people were interviewed in autumn 2010, at a time when memories of the worst global economic crisis in 70 years were still fresh. Many countries were still effectively in the thick of the crisis, or had only barely started to recover. Some of the key findings from LiTS I – on life satisfaction and optimism for example – remained broadly unchanged, despite the buffeting suffered by the region from mid-2008 onwards, but important regional differences emerged with regard to attitudes towards markets and democracy.

The crisis caused a big drop in GDP – more than 10 per cent on average between 2007 and 2009 – and affected huge numbers of people across the whole region. More than 40 per cent of respondents said that they had been affected ‘a great deal’ or ‘a fair amount’ by the crisis, compared to about 30 per cent in the western comparators. Interestingly, the perceived impact of the crisis, which is what the LiTS attempts to measure, had only a limited correlation with the actual impact, as measured by the fall in GDP. For example, the highest percentage of people affected in this way – more than 70 per cent in both cases – was in Bulgaria and Serbia, two countries where the drop in GDP in 2009 was no worse than the overall transition region average. In contrast, less than half of those interviewed in Ukraine replied the same way, notwithstanding a fall in real GDP in 2009 of 15 per cent. Interestingly, the crisis was felt quite strongly even in some countries that managed to avoid recession, such as Azerbaijan and Tajikistan. Further research may be needed to explain the apparent disconnect between subjective feelings about the crisis and actual outcomes.

LiTS II also provides valuable insights into the different ways in which people coped with the crisis. In some EU member countries, people who lost their job were able to draw on unemployment insurance; elsewhere, this was usually not an option. As a result, roughly 70 per cent of those respondents who said they were affected by the crisis had to cut back on their consumption of staple foods and healthcare. Most people also reduced spending on other, non-core items. Social safety nets were generally inadequate, in contrast to the western comparator countries where they had a strong influence in mitigating the effects of the crisis. More encouragingly, a significant proportion of people, especially among those with higher incomes and greater asset ownership, were able to adopt a more ‘active’ approach, by taking an extra job, for example, or by working longer hours. However, these options were not available to the majority of people in the region.

The crisis had a much smaller effect on life satisfaction than might have been expected, given the severity of the economic downturn. In LiTS I, 44.2 per cent agreed or strongly agreed that they were satisfied overall with their life. In LiTS II this figure dropped to 42.7 per cent, a minor reduction under the circumstances. However, the corresponding average figure for the five western European comparator countries was 72 per cent, highlighting the large satisfaction gap that persists between the transition region and western Europe. The biggest decreases in life satisfaction tended to be in countries that endured severe economic contractions, such as Romania, Slovenia and the three Baltic states. Levels of optimism held up reasonably well. Nearly 50 per cent of respondents in LiTS II think that children born now will have a better life than the current generation, versus 56 per cent in LiTS I. These two variables – life satisfaction and optimism – are positively correlated, even when other variables are controlled for.

The crisis is associated with some weakening of support for democracy and the market economy. In LiTS II approximately one-third of people gave unequivocal support to both concepts, a figure similar to that in LiTS I. Only 10 per cent would like a return – under some



circumstances – to both authoritarianism and the planned economy. However, a closer examination of the data shows that fewer people favour either option relative to four years previously. Interestingly, the drop in support for both is most pronounced in EU members, with the sole exception of Bulgaria where the proportion in favour of democracy and the market economy rose slightly. Further east, however, people living in more state-dominated systems appear to be more receptive to these ideas. In a sense, therefore, the crisis seems to have encouraged people to ‘turn against what they had’.<sup>7</sup>

Corruption remains a serious problem for many transition countries, and the results of LiTS II are far from encouraging. Only a small minority of respondents believes that the level of corruption has fallen in the past four years. In virtually all countries of the region, it is perceived to be much higher than in the western European comparators. The problem is especially acute when it comes to dealing with the road police, public healthcare and the courts. One interesting finding of LiTS II is that people who use services such as the courts are more likely to report that people like them typically encounter corruption.<sup>8</sup> Another is that people’s perceptions of corruption may actually lag behind the reality. In a majority of countries, the percentage of respondents who said that they or a member of their household made an irregular payment in the past year to receive a service exceeds the percentage who say that people like them typically have to pay to get the service. A closer analysis, however, shows that some of these payments are actually voluntary rewards for good service, for example to doctors and nurses.

More encouragingly, the level of generalized trust appears to have held up or even increased since 2006. Thirty-four per cent of respondents in LiTS II said they have some trust or complete trust in other people, versus 30 per cent in LiTS I. The corresponding figure for the western comparator countries is 42 per cent. The rise in trust, albeit rather modest, is surprising when one takes into account the strong correlation between this variable and life satisfaction, which (as noted) dropped slightly between 2006 and 2010. The survey also shows how trust in institutions varies across the region and how it has evolved over the four-year period. Interestingly, people in a number of former Soviet countries tend to express high levels of trust in political institutions such as the presidency and government. Throughout the region, trust in banks and foreign investors has remained steady, suggesting that these institutions are not in general blamed for the economic downturn that most countries suffered in 2009.

LiTS II contains some interesting findings on issues not covered in the first round, some of which are worth mentioning briefly. One controversial issue explored in LiTS II is ‘tolerance’, as measured by the expressed willingness of people to have as immediate neighbours certain groups of the population. The attitudes vary considerably across the population and with regard to different groups. For example, the vast majority of people do not mind living next to people of a different religion, but significant minorities (above 10 per cent in most countries and reaching 30 per cent in some cases) are averse to living beside immigrants or people of a different race. A second issue explored in LiTS II is satisfaction with public services, which appears to be relatively high, and rising since 2006, though it is lower than in western European comparator countries. Lastly, LiTS II contains some questions on people’s attitudes to climate change. More than half of the sample – 54 per cent – said they are concerned about the problem, exactly the same percentage as in the five western European comparator countries.

### **Research using the LiTS**

The data in the two rounds of the LiTS constitute an extraordinarily rich source of information about the transition region. The second round was released in June 2011 and is only now starting to be exploited by the research community. However, LiTS I is increasingly being analysed by

researchers. There is little space to do justice to this work here. However, it is worth mentioning a couple of 'hot' topics and several key papers that have appeared so far.

### **Historical legacy**

One of the most exciting areas of economic research in the past decade has been into the ways in which historical institutions, sometimes going back hundreds of years, affect current economic variables, such as long-term growth, and socio-political attitudes such as support for democracy and markets and trust in institutions. The LiTS allows further investigation of these topics because of the wide variation in historical background across the region. Recent papers in this literature include Grosjean (2011), Grosjean and Senik (2011) and Becker *et al.* (2011). Grosjean (2011) shows that a history of occupation by the Ottoman empire in south-eastern Europe is associated robustly with lower levels of financial development today. The explanation proposed is that Islamic institutions forbade lending with interest for a much longer period than in other parts of Europe, and the lingering effects of this prohibition are still seen today.

Grosjean and Senik (2011) examine the two-way relationship between support for democracy and for the market economy. The LiTS allows them to get around identification problems in two respects. First, one can identify people who live close to the border of their country and hence may have a common market experience with, but a different democratic tradition compared to, those across the border. Second, within a given country, people experience a similar level of democracy wherever they live but may have very different exposure to markets and competition, depending on the particular region. The main finding of this paper is a significant causal relationship from democracy to the market, but no evidence of a reverse relationship. Becker *et al.* (2011) use similar techniques to identify a 'Habsburg effect', in the sense that those living today in areas once occupied by the Habsburg empire have higher trust in courts and the police.

### **Life satisfaction**

Several researchers have begun to dig more deeply into the LiTS data to see what drives life satisfaction and how it is shaped by past events and other socio-economic variables. Econometric research from the EBRD (2007b) suggests that the correlates of life satisfaction often found in studies from other parts of the world also appear in the transition region. For example, life satisfaction is positively correlated with income and education and negatively with unemployment status. The U-shape relationship between satisfaction and age found in numerous other studies also emerges from these data. Interestingly, women in LiTS I seem to be less satisfied than men, *ceteris paribus*. Senik (2009) explores the relationship between satisfaction and different types of benchmarks. Her results suggest a hierarchy of importance. *Internal* benchmarks, meaning your own income or other variable at some time in the past, matter most for subjective well-being. They are followed by local *external* benchmarks such as the performance of your parents or colleagues/neighbours, and then more general benchmarks such as your self-ranking on a subjective income or wealth ladder. Dabalén and Paul (2011) link the level of satisfaction with certain life events, such as the loss of a job, and they also explore the correlations with social capital variables such as generalized trust and participation in civic groups.

### **Concluding remarks**

One can take many messages from the Life in Transition Survey, both positive and negative. The survey conveys how difficult transition has been for many people, and how life satisfaction levels

in even relatively successful countries in the region still lag behind prosperous western countries. It helps to explain the obstacles that face reform-minded policy makers. However, there is also an impression of resilience, which shows through clearly in the results of the second round. Despite the severity of the global crisis and its impact on the region, life satisfaction is almost unchanged from four years earlier, markets and democracy still attract more support than the alternatives, and people are generally optimistic about the future. The big question is whether attitudes and values in the transition region will converge on those in the west during the coming years. Future rounds of the LiTS will, one hopes, reveal the answer.

### Notes

- 1 Comments from the editors, Paul Hare and Gerard Turley, and from Elena Nikolova, are gratefully acknowledged. The views expressed in this chapter are those of the author only and not of the EBRD.
- 2 See Sanfey and Teksoz (2007) and Guriev and Zhuravskaya (2009).
- 3 See EBRD (2007a, 2011a) for a more detailed description of the underlying methodology in each round.
- 4 The geographical coordinates of each PSU can be subsequently traced.
- 5 To give a simple illustration, suppose that in a given country, the male/female ratio is 50:50 according to the census, but in the survey, twice as many females as males are interviewed. The 'solution' is to give double weight to the male responses, thereby correcting the bias in the sample. A similar (slightly more complicated) principle applies to the age breakdown.
- 6 See EBRD (2007b).
- 7 This argument is developed in Chapter 3 of EBRD (2011b).
- 8 See EBRD (2011b, Chapter 4).

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