

Chong, Alberto; Gradstein, Mark

Working Paper

Redistributional preferences and imposed institutions

Working Paper, No. 579

Provided in Cooperation with:

Inter-American Development Bank (IDB), Washington, DC

Suggested Citation: Chong, Alberto; Gradstein, Mark (2006) : Redistributional preferences and imposed institutions, Working Paper, No. 579, Inter-American Development Bank, Research Department, Washington, DC

This Version is available at:

<https://hdl.handle.net/10419/51518>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



*INTER-AMERICAN DEVELOPMENT BANK
BANCO INTERAMERICANO DE DESARROLLO (BID)
RESEARCH DEPARTMENT
DEPARTAMENTO DE INVESTIGACIÓN
WORKING PAPER #579*

REDISTRIBUTIONAL PREFERENCES AND IMPOSED INSTITUTIONS

BY

ALBERTO CHONG*
MARK GRADSTEIN**

***INTER-AMERICAN DEVELOPMENT BANK
BEN GURION UNIVERSITY/CEPR/CESIFO/IZA

OCTOBER 2006

**Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library**

Chong, Alberto.

Imposed institutions and preferences for redistribution / Alberto Chong, Mark Gradstein.

p. cm. (Research Department Working Papers ; 579)

Includes bibliographical references.

1. Consumers' preferences---Finland---Research. 2. Consumers' preferences---Estonia---Research. 3. Consumers' preferences---Latvia---Research. 4. Consumers' preferences---Lithuania---Research. 5. Consumers---Research. 6. Free enterprise---Research. I. Gradstein, Mark. II. Inter-American Development Bank. Research Dept. III. Title. IV. Series.

HF5415.33 .C46

339.47 C46-----dc22

©2006

Inter-American Development Bank

1300 New York Avenue, N.W.

Washington, DC 20577

The views and interpretations in this document are those of the authors and should not be attributed to the Inter-American Development Bank, or to any individual acting on its behalf.

This paper may be freely reproduced provided credit is given to the Research Department, Inter-American Development Bank.

The Research Department (RES) produces a quarterly newsletter, *IDEA (Ideas for Development in the Americas)*, as well as working papers and books on diverse economic issues. To obtain a complete list of RES publications, and read or download them please visit our web site at: <http://www.iadb.org/res>.

Abstract¹

To what extent do imposed institutions shape preferences? We consider this issue by comparing the market-versus-state attitudes of respondents from a capitalist country, Finland, and an ex-communist group of Baltic countries, and by arguing that the period of communist rule can be viewed as an “experiment” in institutional imposition. We find that, consistent with some earlier related work, citizens from ex-communist countries tend to be more supportive of state ownership than respondents from capitalist economies. However, they also favor increasing inequality and competition as the means to enhance incentives. We conclude that, in some important relevant dimensions, institutional imposition (which lasted for about 50 years) had a limited effect on preferences. The lessons for Latin America are straightforward.

JEL Classification: P30, P51, D30, D02, I31

Key Words: Institutions, markets versus state, redistributive preferences

¹ Alberto Chong: Inter-American Development Bank. Mark Gradstein: Ben Gurion University, CEPR, CESifo, IZA. Gianmarco Leon provided remarkable research assistance. We appreciate comments from Eliana La Ferrara, Hugo Ñopo, and Luisa Zanolini. The findings and interpretations are those of the authors and do not necessarily represent the views of the Inter-American Development Bank or its corresponding executive directors. Alberto Chong: Research Department, Inter-American Development Bank, Stop B-900, 1300 New York Ave, NW, Washington, DC 20577, USA. Fax: (202) 623-2481, Tel: (202) 623-1536. E-mail: albertoch@iadb.org. Mark Gradstein: Department of Economics, Ben Gurion University, Beer Sheva 84105, Israel, Tel: (972)-8-647-2288 Fax: (972)-8-647-2941. E-mail: grade@bgu.ac.il.

1. Introduction

How do institutions interact with preferences, and hence with the choices societies make (see Rodrik, 2000, for a broad conceptual discussion of some of these issues)? Typically, in analytical modeling, the preferences of a politically powerful coalition play an important role in shaping institutions (Acemoglu, 2006), which is, of course, consistent with the neoclassical approach whereby exogenously given preferences determine economic outcomes. On the other hand, an almost equally classical view—the Marxist and Weberian traditions—holds that institutions shape preferences. It seems, in fact, that this latter view may have been recently embraced, perhaps inadvertently, in influential literature arguing that transplanted institutions have the potential to reform recipient economies in developing countries. In the context of the legal system, this argument has been forcefully made by La Porta et al. (1998); in the context of political and contract enforcement systems, work reviewed in Acemoglu (2006) attributes the success or lack thereof of former European colonies to whether good institutions were imposed on them by the colonizers; and Easterly and Levine (2003) reject the significance of economic policies for growth in favor of good institutions.² There are, it seems, examples in support of the view that institutional transplantation can work and have positive durable effects. Thus, some literature makes the point that pre-independence institutions in colonized parts of the world often persevered and were sustained after independence, so that, in a sense, modern institutions in these countries took root under colonization.³

For transplanted institutions to endure, however, they ultimately need to have political support. This necessarily implies that transplantation can work only insofar as it changes the collective preferences of the recipient population from rejecting good institutions to embracing them. Two different channels can lead to this change. Either transplanted institutions change the composition of politically decisive constituencies or they change individual preferences through habitual addiction, for example. In this paper, we are interested in studying this second channel. Some related recent work, such as Corneo and Gruner (2002) and Alesina and Fuchs-Schuendeln (2005), examines attitudes toward the role of the state in the 1990s and finds significant

² The despair over the apparent inability to break the poverty cycle in parts of the developing world has even led the chief economist of the IMF to propose that a benevolent foreign authority run a poverty stricken country for a period in order to establish decent institutions (Rajan, 2005).

³ Ferguson (2003) argues that British colonization often had lasting beneficial economic effects, at least relative to other colonizing powers. The line of research that was initiated by Sokoloff and Engerman (2000) suggests that institutional change is more likely to have favorable consequences if supported by a more equal distribution of economic resources.

differences between West European market economies and the formerly communist countries of East Europe, with individuals in the second group being more favorable toward state ownership. Alesina and Fuchs-Schuendeln (2005) attribute this difference to the durable effect that the existing institutional environment has on the formation of preferences.

On the other hand, there are other examples where institutional change, inasmuch as it was forcibly imposed, did not endure. The relatively rapid transition of the former communist countries to market economies (see Shleifer and Treisman, 2005) illustrates precisely that. As will be argued in more detail below, the Russian revolution of 1917 entailed a decisive institutional change, dealing a death blow to the previously existing elites. Further, it led to a much more egalitarian distribution of economic resources than before, as well as to an ideological commitment to and relatively successful implementation of universal literacy, mass education, national health, and public housing. It is commonly agreed that as a result of these commitments—despite all the well-known problems and the frequent ruthlessness of their implementation—the degree of economic inequality in the Soviet Union, as well as in other countries within the Soviet domain, was among the lowest in the world.

Yet the system, which was mercilessly imposed for decades, did not endure and was overthrown when an opportunity presented itself in the late 1980s as a result of Gorbachev's policy reversal. One country after another engaged in economic liberalization and in attempts to reinvigorate private entrepreneurship.⁴ This important recent example—or, rather, set of examples, since the system was implemented in about one-third of the world's countries—leads to several observations. One is that decisively and abruptly breaking up an old order with inefficient institutions and creating an alternative regime with commitments to equality is in itself no guarantee of economic success. The institutions created as a consequence of the Russian revolution, including central planning and state ownership, were thrown out as soon as the citizens were given free choice. As the data explored below seems to suggest, the populace in Soviet-dominated countries had developed a deep sense of dissatisfaction with economic equality—probably the most important tenet of the economic regime and one that had been promoted for decades through school indoctrination, the mass media, the silencing of any discontent, and the repression of dissidents.

⁴ As is shown in Beck and Laeven (2005), there is a negative relationship between the amount of time countries spent under the communist system and their growth rates during the transition years.

While revealed behavior—the relatively decisive move away from the communist system that occurred in many transition countries—speaks for itself, at least two important issues remain unsettled. First, it is not quite clear what specific aspects of the communist system aroused objection, leaving open the possibility that some features were acceptable or even approved. Second, it is unclear how widespread was opposition to the system; did it reflect mass disapproval or just the views of a relatively small group of interested parties?

To study these issues, we examine the emergence of the Soviet Union and, in particular, the imposition of a communist regime on some of its neighbors. The argument is that some of these cases come close to being “experiments” and thus enable us to study the likelihood of a long-lasting imprint resulting from deep institutional change. Specifically, we compare the Baltic States, which came under Soviet occupation in 1940 and were part of the Soviet Union until 1988, and Finland, which fought the Soviet military invasion and remained independent throughout. Arguing that the economic and social outlook of the Baltic States and Finland was similar in the period predating the Soviet invasion, we then study how the imposition of the Soviet model, with its emphasis on state planning and economic equality, affected the views of the citizens in each of those areas.

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

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

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

This paper is related to the literature, some of which is mentioned above, that studies the determinants of high-quality institutions. Berkowitz et al. (2003) find in the context of transplanted (legal) institutions that their legality is no less important than their inherent quality; Rodrik (2000) suggests that appropriate institutions may differ across countries; and Rajan and Zingales (2006) argue that supportive constituencies are essential for the ultimate success of an institutional change. Since the particular institution addressed in this study is inequality and its subject matter is the attitudes toward the role of government, the paper is also related to the work that studies the determinants of such attitudes. This work has mainly been done in the context of the comparison between the United States, with its reliance on markets and relatively high inequality, and Europe, with its state provided social protection—see Alesina and Glaeser (2004) and references therein. In the U.S. context, Alesina and La Ferrara (2005) relate preferences for redistribution and social mobility.⁵ Some more recent work has also been done comparing attitudes within Europe, such as between Western and Eastern European countries (Corneo and Gruner, 2002; Alesina and Fuchs-Schuendeln, 2005). This work typically finds that individuals in the former communist countries tend to favor more state intervention than their Western counterparts; the authors then attribute the finding to habit formation or the effects of indoctrination. In contrast, Shiller et al. (1991, 1992) compare the United States and the Soviet Union in the early 1990s and do not find significant differences in regard to attitudes toward markets. Further, Di Tella and MacCulloch (2004) find that individuals in developing countries are generally quite suspicious of the institutions of capitalism, such as markets and private ownership. While concurring with these findings, we also provide evidence that individuals in ex-communist countries favor more inequality and competition to enhance incentives. Thus, while they were suspicious toward private ownership, these individuals were perfectly willing to support other essential capitalistic elements viewed as important for economic incentives. From

⁵ Ravallion and Lokshin (2000) reach similar conclusions in the context of Russia.

the viewpoint of the prospects for positive institutional change in a developing country, this conclusion can thus be considered as reflecting guarded optimism. On the other hand, we do not find much support in the data for theories suggesting that mass privatization creates constituencies in favor of further market reforms (see Biais and Perotti, 2002); at least within the span of a decade, the attitudes of the citizens in the Baltic states remained relatively stable despite the wave of mass privatization in the early 1990s.

The rest of the paper proceeds as follows. The next section describes the historical and institutional background. Section 3 then deals with data description. Section 4 presents some basic empirical findings, with a more detailed analysis in Section 5. Section 6 then concludes with discussion and interpretations.

2. Background

2.1 Historical Details

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

The beginning of the twentieth century was characterized by some continuing attempts at reform, along with the regime's confrontations with the emerging working class. The attempted 1905 revolution was followed by severe repression, which was in turn followed by the Stolypin land reforms of 1910-11. The Russo-Japanese War and World War I contributed to a severe and ongoing economic and social crisis. Though the 1917 revolution resulted in the abdication of the tsar and the formation of an elected government seemingly committed to progressive social reforms, the continuing war and a lack of visible economic progress brought about another, much more radical revolution led by Lenin's Bolshevik party (Walkin, 1962).

The ensuing civil war from 1918-1922, combined with droughts from 1920-1921, further contributed to the devastation of the country that became known as the Soviet Union, which

defined itself as a federation of republics. The revolution decisively upset the previous balance of power, practically eliminated the ruling elite, and led to the emergence of new institutions.⁶ In the late 1920s, in order to promote rapid industrialization, Stalin collectivized farms and imposed state ownership and central planning (Pipes, 1993). Massive investment, especially in heavy industries, brought about a period of strong economic growth. Much progress was also made in education—which was viewed as both a vehicle for modernization and a means of socializing individuals into the ruling ideology—and in the areas of science, health, and infrastructure. Although subsequently there were important deviations from these policies, they remained in place until Gorbachev introduced major changes in the late 1980s. While the Soviet Union's economic growth was initially very impressive, it slowed down considerably by the 1960s (see Nove, 1992). During the entire period of communist rule, all aspects of democratic governance—such as free elections, an independent media, and the freedom of speech and of political organization—were absent throughout the Soviet-dominated areas.

Soviet Union and Eastern Europe. During the period 1918-1940, the Soviet Union evolved as a political federation of separate republics. It came into being in 1922 as a union of the Russian, Ukrainian, Belorussian, and Transcaucasian republics. The autonomy and right of secession granted to the republics by the constitution were purely theoretical; political control was centralized. Some territories previously belonging to Imperial Russia—in particular, the Baltics—were lost in the course of the turbulent aftermath of the revolution. In 1940, however, some of these territories were regained as a result of a pact with Nazi Germany; thus, Moldavia, Estonia, Latvia, and Lithuania joined as new republics. Parts of Poland and Finland were also incorporated. By 1940, the Soviet Union had regained almost the entire territory of Imperial Russia, with the important exceptions of parts of Poland and Finland.

In the aftermath of World War II and as a part of the emerging Cold War, Stalin strengthened his grip on neighboring countries through political and military pressure, as well as through the signing of economic and military agreements. As a result, countries in Eastern Europe, including Poland, Hungary, Czechoslovakia, Romania, Bulgaria, and East Germany, came to be dominated by communist regimes with fairly similar ideologies and policies to that of the Soviet Union.⁷

⁶ The strict economic discipline, known as War Communism, was eased in the aftermath of the Bolshevik victory, and the New Economic Policy briefly introduced elements of free markets.

⁷ Yugoslavia, although following a distinct path, professed like-minded communist ideologies.

The disintegration of the Soviet Union and the transition period. In the late 1980s, Soviet leader Mikhail Gorbachev embarked upon a series of reforms. In the economic sphere, they primarily meant relaxation of state control, abolishment of central planning, and mass privatization. In the political sphere, they led to democratization and to the dismantling of the Soviet Union in 1991, with its 15 constituent republics becoming independent states.

The reforms also had consequences beyond the Soviet borders. Revolutionary movements spread all over the Eastern bloc, resulting in the ousting of the regimes imposed after World War II. One country after another replaced the prevailing communist regime with another, less centralized governance system and a variation of the market economy. East Germany reunified with West Germany in 1990, and the pacts and agreements between the Soviet Union and the neighboring countries were dissolved.

The transition period proceeded very differently in the different countries. This can be seen most clearly by comparing the growth rates across the transition economies. For example, in the period 1992-2002, average real income per capita in countries like Estonia and Poland grew at an annual rate of about 4 percent; in Ukraine it shrank by more than 4 percent; and in Russia it shrank by less than 1 percent (Beck and Laeven, 2002). The political and economic reform pace greatly differed across the transition economies as well. By 2004-2005, income per capita in several transition economies, such as Slovenia, the Czech Republic, Hungary, and Estonia was approaching \$20,000; whereas in Belarus and Ukraine it stagnated at less than \$4,000 (World Development Indicators).

2.2 Finland and the Baltic States

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

Finland and the Baltic States, which are the focus here, share many common historical features. Previously loosely controlled by the Russian Empire, they became independent as a consequence of the Russian Revolution of 1917. They then had to quickly set up their own national institutions and define their respective identities. All of them opted for democratic governance and a multiparty system. Comprehensive land reforms and advanced social legislation

were high on the agendas of the new parliaments, which were dominated for the most part by right-wing nationalistic parties.

They were also able to successfully develop their economies and build their respective social fabrics. In the 1930s, all these countries were relatively poor by Western European standards, with per capita incomes of about \$3,000 in Finland and almost that in Estonia and Latvia—about one half of per capita income in the United States at the time. Although industrialization began taking off, agriculture and foresting were still the dominant sectors. As a result of a land reform that took place in all these countries in or around 1920, the number of small farmers grew considerably, the tenancy problem was almost completely resolved, and agricultural production rapidly increased. All these countries—especially Finland and Estonia—developed extensive trade relationships with other European countries, in particular Germany and England. Industry—initially based on a particular niche, such as timber in Finland or textiles in Estonia—gradually became more diversified (wood products, paper pulp, some oil products), and its relative share in total output increased. All these countries suffered significantly as a result of the Great Depression, but managed to rebound, so that in the late 1930s, standards of living were increasing, with minimal unemployment. Notably, almost universal literacy was achieved early in the twentieth century, at least in Finland, Estonia, and Latvia, so that in the 1930s there was practically no illiteracy, and school standards across the Baltic states were relatively very high. Also, social legislation—women’s suffrage, child labor regulations, social insurance for disability and old age—was among the most progressive in the world. Even political developments were similar in these countries in many regards, with right-wing nationalistic governments dominating the scene. All these suggest that, in relevant aspects, these countries were similar in the interwar period.

In 1940, the Soviet Union managed to reacquire the Baltic states (and a part of Finland) through a pact with Germany, whereas Finland fought off the Soviet army and retained independence. Since the governments in all these countries were formed by right-wing parties vehemently opposed to communist influence, these developments can be regarded as being solely due to a geopolitical reality that had nothing to do with any social differences between Finland and the Baltic states. The period from World War II through the disintegration of the Soviet Union saw an independent and democratic Finland, whereas the Baltic states came to be fully dominated by the centralized Soviet bureaucracy. In 1990, despite very different economic

systems, income inequality levels across all these countries were roughly similar, with Gini coefficients varying between 0.25-0.27, among the smallest in the world.

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

3. Data

Our data sources are the European and World Values Survey (WVS), two worldwide surveys conducted by the Inter-University Consortium for Political and Social Research (ICPSR) that consist of individual cross-national responses to a variety of questions on topics including the economy, politics, and identity, and includes the socio-economic background of the respondents. The data are derived from face-to-face interviews with people 18 years of age and older from 83 developed and developing countries. Four survey rounds have been conducted: 1981 (Wave 1); 1990-1993 (Wave 2); 1995-1997 (Wave 3), and 1999-2001 (Wave 4). Altogether, these amount to more than 267,000 individual responses, or an average of 66,000 per survey.⁸

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

Our main questions of interest were the following:

(i) **OPINION ABOUT INCOME REDISTRIBUTION**

⁸ In practice, we are able to use only the second, third, and fourth rounds of the survey since our questions of interest were included in those surveys. Taking this restriction into account, our final sample is reduced to 228,469 individual respondents from 83 countries.

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

(ii) OPINION ABOUT COMPETITION

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

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

(iii) OPINION ABOUT GOVERNMENT OWNERSHIP

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

We will focus on Finland and the Baltic states—Estonia, Latvia, and Lithuania—because we consider the historical paths of these countries to most closely resemble an “experiment.” For the sake of robustness, we will however also refer to results pertaining to additional, more comprehensive groupings, which are described in more detail below.

4. A Look at the Data: The Big Picture

We begin by presenting some very broad data regularities. Table 1 presents the average of responses to some main questions of interest among the sample of Finnish citizens and those of the Baltic countries.⁹

⁹ A fuller description of the distributions of the main variables of interest and the correlations between them can be found in Appendices 2 and 3.

Table 1. Opinions among Respondents in Finland and in the Baltic States*

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

(*) Averages of responses.

In the three waves used for this paper, the Baltic survey respondents are interested in larger income differences to increase incentives and more competition than the Finnish respondents. At the same time, and in line with previous studies, they opt for more government ownership. The differences in responses are significant, and they remained almost unchanged during the 1990s. During the study period, income inequality as measured by the Gini coefficient increased in all the countries, though somewhat more so in the Baltic States than in Finland. The Baltic States experienced a steep growth decline in the early 1990s, followed by rapid economic growth during the third and fourth survey waves; Finnish growth changes—while exhibiting similar patterns—were somewhat less volatile.

Table 2 shows the response averages from three groups of countries. One group consists of the original members of the Soviet Union that entered into federation in 1918. Another group consists of certain Eastern European countries that came under communist domination in World War II, or, more, precisely, at the beginning of the Cold War. These countries include those that were under direct Soviet domination, such as Poland or Hungary, as well as those that were perhaps inspired by the Soviet example but pursued their own relatively independent paths, such

as Yugoslavia. A third comparison group of countries includes West European democracies with well-developed welfare states (Sweden, Norway, and Denmark).¹⁰

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

	Survey years	Northern welfare states*	Countries under communist domination between 1945-1990	Countries that were Communist between 1918-1990***
Larger income inequality is an incentive.	1990-1993	6.12	6.92	7.33
	1995-1997	5.58	5.22	6.36
	1999-2000	5.66	5.29	6.81
Competition is good. It stimulates people to work hard and develop new ideas.	1990-1993	7.84	8.04	7.71
	1995-1997	7.58	7.59	7.04
	1999-2000	7.60	7.69	7.01
Ownership of business and industry should increase.	1990-1993	6.84	6.98	5.41
	1995-1997	6.56	6.15	3.85
	1999-2000	7.33	6.37	5.20
GINI coefficient	1990-1993	30.8	26.2	28.3
	1995-1997	31.1	28.5	42.0
	1999-2000	27.4	30.7	37.9
Average per capita growth rates	1990-1993	0.4%	-5.8%	-12.9%
	1995-1997	3.0%	8.5%	0.1%
	1999-2000	2.3%	3.3%	5.6%

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

The results are quite revealing. Comparing the average responses across the three groups leads to the conclusion that the longer the exposure to communism, the more averse individuals are to equality and the more approving they are of competition. Respondents from the communist

¹⁰ We played with the composition of this group, including adding Western European countries, without significant changes in the results.

countries also view government ownership more approvingly than their Western counterparts. Thus, respondents from core areas of the Soviet Union seem to be most averse to the equality ideal propagated by the Soviet system, viewing it perhaps as an impediment to good incentives, whereas the Western European welfare states are most open to it and respondents in the post-1945 communist-dominated countries take intermediate positions. These findings hold true for all three survey waves. Comparing these results with those in Table 1, we see an almost exact replication of the pattern; specifically, more time spent under a communist regime leads individuals to prefer a less equitable and more competitive regime and to be less satisfied with their own regime.

Finally, Table 3 contains an ordered probit regression with country groupings as above, with the group of 1918-1990 communist countries constituting the baseline. It follows that all groups are interested in having less inequality, with Finland and the Western European welfare states being the most interested, followed by the former communist countries and then the Baltic countries. With respect to competition, the countries with the longest exposure to communism favor it the most, while Finland and the Western European welfare states do not tend to prefer it. Finally, when it comes to private ownership, these results are basically reversed; the Finnish and Western European welfare states are the ones who have stronger preferences for it, while the Baltic states and the other former communist countries have weaker preferences. These findings are consistent with those presented in Tables 1 and 2 above. The results in this table also indicate that, between the second wave and the third and fourth waves, there was a secular increase in the willingness to redistribute, and in the desire for more government ownership and less competition. Furthermore—and consistent with the Meltzer-Richard (1981) paradigm—white-collar individuals with higher incomes and better education are less prone to favor redistribution, and are more open to competition, personal responsibility, and private ownership than others. Younger individuals as well as working individuals seem to exhibit similar preferences, although the statistical significance here is less clear.

Table 3. Illustrative Regressions for Countries of Interest

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.114 (2.24)**	-0.088 (3.05)***	-0.278 (4.22)***
Age 55 or more	-0.079 (12.74)***	-0.137 (5.50)***	-0.392 (2.73)***
Gender (male=1)	0.116 (1.98)**	0.165 (7.78)***	0.162 (8.47)***
Secondary education	0.280 (5.82)***	0.018 (0.43)	0.134 (2.17)**
Tertiary education	0.307 (6.80)***	0.121 (3.27)***	0.425 (6.69)***
Married	0.066 (12.69)***	-0.025 (3.87)***	-0.066 (4.88)***
Number of children	0.004 (0.73)	0.010 (1.60)	0.008 (6.72)***
Retired	-0.115 (5.64)***	-0.066 (3.04)***	-0.238 (3.99)***
Unemployed	-0.067 (1.30)	-0.067 (1.66)*	-0.042 (3.49)***
White-collar worker	0.110 (1.88)*	0.151 (18.17)***	0.196 (28.05)***
Deciles of incomes	0.057 (20.27)***	0.034 (14.29)***	0.039 (11.24)***
Communist domination 1940-1990	-0.345 (2.78)***	0.288 (3.34)***	0.905 (6.46)***
Northern welfare states	-0.599 (6.60)***	0.013 (0.26)	0.841 (12.05)***
Baltic States	-0.278 (2.22)**	0.175 (3.45)***	0.631 (9.05)***
Finland	-0.641 (11.06)***	0.015 (0.44)	1.325 (34.72)***
Wave 1995-1997	-0.636 (5.16)***	-0.195 (3.93)***	-0.228 (2.24)**
Wave 1999-2000	-0.620 (3.60)***	-0.247 (4.25)***	-0.017 (0.15)
Pseudo R-squared	0.04	0.01	0.08
Observations	38,220	41,102	35,911

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent. Columns (1) and (3) do not include information for the Northern welfare states in the last survey round.

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

5. Results

The empirical analysis focuses on comparing the Finnish and Baltic respondents' attitudes.¹¹ As argued above, the period of the Soviet occupation of the latter, from 1945-90, is viewed as an "experiment," during the course of which the Baltic states were exposed to communist institutions and values. Our primary interest is to understand how this exposure has affected the respondents' attitudes toward equality and redistribution, as well as toward state involvement. Here we run ordered probit regressions, using robust and clustered standard errors in order to control for possible heteroskedasticity and possible correlation within the responses of each country, respectively.

5.1 Empirical Evidence

The basic regression results are presented in Table 4 and include the last three waves of the survey.¹² They show that employed, higher-income, better-educated individuals in white-collar occupations favor greater inequality, more competition, and private ownership; gender also matters, with males likewise exhibiting more pro-capitalist attitudes—i.e., more inequality, competition, and private ownership—relative to females. Also, younger individuals are more pro-capitalist than older ones—consistent with earlier findings, such as in Ravallion and Lokshin (2000). More importantly for our purposes, there are differences between the respondents in Finland and in the Baltic states: the dummy variable for the latter is significant, highly so when it comes to attitudes toward inequality. Generally, in the course of the 1990s, preferences for income redistribution have increased, especially when comparing the third wave with the second one.¹³

Note that in regard to the issue of state ownership, we replicate earlier results from Alesina and Fuchs-Schuendeln (2005), observing that income, younger age, employment, and education level all reinforce pro-state attitudes. There also are differences between the two types of countries; respondents from the Baltic states prefer less private ownership than Finnish

¹¹ For robustness, we have also replicated the analysis comparing Finland with Estonia, the most similar country among the Baltic states. The results get even somewhat stronger in this case. We prefer to report the Baltic states' regression specification, however, because it contains about twice as many respondents.

¹² A separate analysis of the second wave only, conducted right after the fall of the communist system, yields very similar results.

¹³ For the sake of economy, we only include the marginal effects of selected coefficients in Table 4. They are presented more completely in Appendix 4. Additional results for this table and for the rest of the tables in this paper may be provided upon request.

respondents. These results, also obtained in Alesina and Fuchs-Schuendeln (2005) are, again, highly significant.

Table 4. Baltic Countries and Finland

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.253 (7.21)***	-0.177 (17.75)***	-0.056 (1.80)*
Age over 55	-0.051 (5.26)***	-0.062 (2.76)***	0.090 (1.41)
Gender (1=male)	0.254 (18.02)***	0.097 (14.22)***	0.088 (3.95)***
Secondary education	0.152 (23.11)***	-0.127 (3.99)***	-0.013 (2.24)**
Tertiary education	0.266 (7.48)***	-0.136 (1.22)	0.128 (3.48)***
Married	0.043 (5.52)***	-0.086 (4.24)***	-0.129 (28.48)***
Number of children	-0.010 (10.61)***	0.028 (9.11)***	0.018 (9.99)***
Retired	-0.160 (24.95)***	-0.098 (14.46)***	-0.442 (6.99)***
Unemployed	-0.148 (16.21)***	0.010 (0.73)	-0.105 (7.33)***
White-collar worker	0.288 (16.91)***	0.225 (8.47)***	0.266 (10.03)***
Scale of incomes	0.063 (10.72)***	0.041 (5.46)***	0.034 (9.78)***
Wave 1995-1997	-0.723 (6.94)***	-0.410 (5.22)***	-0.377 (2.36)**
Wave 1999-2000	-0.659 (3.84)***	-0.584 (5.55)***	-0.375 (1.64)
Baltic States	0.503 (3.21)***	0.320 (4.30)***	-0.592 (9.14)***
Pseudo R-squared	0.04	0.01	0.02
Observations	8,580	9,212	8,301

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. Data for Latvia for the 1999-2001 round are not available in columns (1) and (3); (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent.

In summary, we observe that the communist legacy seems to have had an impact on the attitudes of respondents in the Baltic States in the following ways: they prefer more inequality and more competition as a means of enhancing incentives, while at the same time favor more government ownership than their Finnish counterparts.

5.2 The Effect of Transition

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

Table 5. Baltic Countries and Finland: Interactive Dummies

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.253 (7.24)***	-0.177 (17.64)***	-0.057 (1.81)*
Age 55 and above	-0.051 (5.61)***	-0.063 (2.78)***	0.089 (1.38)
Gender (1=male)	0.254 (17.97)***	0.096 (14.79)***	0.087 (3.99)***
Secondary education	0.154 (40.03)***	-0.125 (3.77)***	-0.009 (1.11)
Tertiary education	0.275 (13.36)***	-0.131 (1.20)	0.139 (4.03)***
Married	0.043 (5.50)***	-0.087 (4.30)***	-0.130 (25.09)***
Number of children	-0.010 (10.84)***	0.028 (9.13)***	0.018 (10.01)***
Retired	-0.160 (27.64)***	-0.096 (16.05)***	-0.438 (6.81)***
Unemployed	-0.148 (17.24)***	0.011 (0.81)	-0.103 (7.15)***
White-collar worker	0.288 (16.10)***	0.222 (8.06)***	0.259 (9.21)***
Scale of incomes	0.063 (11.25)***	0.042 (5.87)***	0.035 (8.86)***
Baltic States	0.470 (3.86)***	0.458 (3.58)***	-0.344 (2.78)***
Wave 1995-1997	-0.745 (30.19)***	-0.294 (5.67)***	-0.165 (7.29)***
Wave 1999-2000	-0.785 (32.22)***	-0.462 (13.24)***	-0.168 (9.45)***
Baltic*wave 1995-1997	0.013 (0.08)	-0.158 (1.48)	-0.287 (1.53)
Baltic*wave 1999-2000	0.185 (0.77)	-0.150 (0.99)	-0.249 (0.83)
Pseudo R-squared	0.04	0.01	0.02
Observations	8,580	9,212	8,301

All are ordered probit regressions corrected for clusters; robust z-statistics in parentheses. Data for Latvia for the 1999-2001 round are not available in columns (1) and (3). All regressions include country clusters; (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent.

We observe that the coefficients of the interactive terms between the Baltics and the survey waves are all insignificant. In particular, the differences in support for income inequality and competition have remained similar between these groups, with the Baltic countries showing a higher preference for both during the 1990s. Recalling that the Baltic states experienced a wave of

mass privatization in early 1990s, this finding can be interpreted as implying that mass privatization does not necessarily—at least in the span of several years—develop a sense of identification with markets by creating constituencies with stakes in them, as suggested by some important recent work (Biais and Perotti, 2002).

5.3 Individual vs. Government Responsibility

So far, the results seem to be contradictory: citizens in the Baltic states favor higher inequality to boost incentives, but also more state involvement than Finnish citizens. To highlight the contradiction, we now include in our base specification an additional variable that captures opinions on individual responsibility as opposed to government responsibility.

The results in Table 6 suggest that individual responsibility is positively linked with more inequality, and with a more market-oriented economy. In general, therefore, it appears that individuals who consider personal responsibility more favorably also like more competition, more inequality, and more private ownership. (While this holds for both groups, Finnish citizens are somewhat more pronounced in their support of more income inequality, whereas Baltic respondents are somewhat more pronounced in their support for more competition and more private ownership.)

Table 6. Baltic Countries and Finland: Government Responsibility

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.198 (6.64)***	-0.178 (15.56)***	-0.048 (1.68)*
Age 55 and above	-0.058 (7.00)***	-0.061 (3.09)***	0.077 (1.30)
Gender (1=male)	0.231 (16.43)***	0.097 (18.21)***	0.093 (5.28)***
Secondary education	0.092 (21.65)***	-0.123 (3.84)***	-0.022 (2.38)**
Tertiary education	0.212 (4.43)***	-0.150 (1.41)	0.095 (2.58)***
Married	0.000 (0.14)	-0.095 (4.12)***	-0.141 (46.38)***
Number of children	-0.010 (13.49)***	0.028 (8.98)***	0.019 (9.88)***
Retired	-0.091 (8.19)***	-0.089 (13.24)***	-0.407 (6.85)***
Unemployed	-0.100 (8.72)***	0.016 (1.07)	-0.060 (5.76)***
White-collar worker	0.268 (15.53)***	0.226 (8.60)***	0.265 (10.14)***
Scale of incomes	0.054 (8.56)***	0.044 (4.85)***	0.036 (24.34)***
Wave 1995-1997	-0.704 (7.05)***	-0.383 (3.98)***	-0.307 (2.12)**
Wave 1999-2000	-0.724 (3.67)***	-0.585 (6.07)***	-0.394 (1.83)*
Baltic States	0.996 (4.69)***	0.106 (0.85)	-0.886 (10.97)***
People take more responsibility	0.122 (47.06)***	0.000 (0.71)	0.035 (35.98)***
Responsibility*Baltic	-0.052 (5.09)***	0.051 (3.65)***	0.085 (7.89)***
Pseudo R-squared	0.06	0.01	0.02
Observations	8,487	9,109	8,233

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent.

5.4 Ex-Communist Countries

In this subsection we briefly test whether our main findings hold more generally by replacing the Baltic states with all ex-communist countries and by replacing Finland with the Western European welfare states (see the precise definition above). This exercise provides a robustness check and also generates a much larger sample of responses, although its relative disadvantage is that the “experiment” is not as clean as before. (We note, however, that the levels of inequality in the two groups of countries were similar to each other during the study period, which was the reason for focusing on Western European welfare states as a comparison group.)

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

Table 7. Former Communist Countries vs. Northern Welfare States

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.064 (21.21)***	-0.061 (14.93)***	-0.317 (13.18)***
Age over 55	-0.069 (12.14)***	-0.157 (17.49)***	-0.497 (16.51)***
Gender (1=male)	0.055 (8.06)***	0.185 (26.61)***	0.185 (15.90)***
Secondary education	0.337 (13.21)***	0.040 (1.43)	0.092 (0.78)
Tertiary education	0.367 (14.06)***	0.128 (4.22)***	0.356 (2.69)***
Married	0.064 (7.81)***	-0.019 (2.17)**	-0.048 (4.18)***
Number of children	0.009 (7.35)***	0.004 (5.15)***	0.009 (4.58)***
Retired	-0.092 (7.64)***	-0.052 (4.33)***	-0.222 (6.73)***
Unemployed	-0.014 (0.96)	-0.101 (3.79)***	-0.017 (0.58)
White-collar worker	0.056 (4.72)***	0.150 (12.17)***	0.205 (22.30)***

Table 7., continued

	Larger income differences	Competition is good	Increase private ownership
Scale of incomes	0.056 (11.30)***	0.035 (15.35)***	0.041 (24.03)***
Former communist	0.472 (5.74)***	0.116 (1.81)*	-0.509 (5.80)***
Wave 1995-1997	-0.449 (4.19)***	-0.348 (5.82)***	-0.708 (4.34)***
Wave 1999-2000	-0.645 (5.05)***	-0.217 (3.15)***	0.062 (0.31)
Observations	36,333	39,221	34,093
Pseudo R-squared	0.02	0.01	0.05

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent. Northern Welfare States include Norway, Denmark, and Sweden. Former communist countries include Albania, Bulgaria, parts of Czechoslovakia and Yugoslavia, East Germany, Hungary, Poland, Romania, Belarus, Georgia, Russian Federation, and Ukraine.

5.5 Making Sense of the Results

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

5.5.1 Trust

It has recently been noted that trust affects attitudes and economic behavior in a significant way; for example, trusting individuals are more open to trade opportunities (see Guiso et al., 2006, for a review). Along these lines, one can theorize that trusting individuals may be less suspicious of private ownership. In contrast, less trusting people may suspect potential fraud and cheating—especially in a context where regulatory ability is weak—as a result of private ownership. To test this hypothesis, we employ a dummy variable obtained by the re-codification of responses to a question in the WVS as follows:

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

Adding this variable to the base specification, the results in Table 8 imply that, generally, trust is positively associated with supporting inequality, competition, and private ownership, which is consistent with the results in Guiso et al. (2006). The Baltics interaction variable is significant in explaining larger income differences, implying that trust does play a larger role in the Baltic states in this regard; but its significance is small when explaining attitudes to

competition and to private ownership. It seems therefore that trust alone cannot explain the puzzle.¹⁴

Table 8. Baltic Countries and Finland: Trust

	Larger income differences	Competition is good	Increase private ownership
Age 35-54	-0.257 (7.20)***	-0.188 (17.16)***	-0.042 (1.19)
Age 55 and above	-0.032 (4.12)***	-0.075 (3.54)***	0.122 (1.69)*
Gender (1=male)	0.258 (18.74)***	0.102 (16.83)***	0.089 (4.13)***
Secondary education	0.164 (22.40)***	-0.149 (4.39)***	-0.025 (3.40)***
Tertiary education	0.273 (9.76)***	-0.151 (1.24)	0.105 (3.05)***
Married	0.052 (5.61)***	-0.082 (4.06)***	-0.122 (23.31)***
Number of children	-0.011 (11.60)***	0.027 (8.79)***	0.018 (8.91)***
Retired	-0.183 (36.64)***	-0.083 (13.07)***	-0.472 (6.87)***
Unemployed	-0.156 (20.94)***	0.021 (1.45)	-0.094 (6.69)***
White-collar worker	0.286 (16.80)***	0.220 (8.20)***	0.266 (9.52)***
Scale of incomes	0.065 (10.66)***	0.041 (5.40)***	0.032 (8.47)***
Wave 1995-1997	-0.723 (6.81)***	-0.407 (5.08)***	-0.383 (2.40)**
Wave 1999-2000	-0.656 (3.88)***	-0.588 (5.68)***	-0.386 (1.73)*
Baltic States	0.422 (2.72)***	0.371 (4.59)***	-0.582 (8.03)***
Most people can be trusted	-0.138 (18.45)***	0.091 (27.32)***	0.084 (21.64)***
Trust*Baltic	0.170 (12.45)***	-0.082 (1.67)*	0.075 (1.87)*
Pseudo R-squared	0.04	0.01	0.02
Observations	8,409	9,031	8,142

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent.

5.5.2 Confidence in Government

Another potentially useful suggestion comes from Di Tella and MacCulloch (2004), who find that individuals in developing countries, possibly because of a lack of confidence in their governments, tend to disapprove of capitalistic institutions. Consequently, the regressions in

¹⁴ We also tested another trust-related variable, confidence in government, and obtained similar results.

Table 9 include new variables that capture confidence in the government and the political system as well as the perceived degree of corruption and their interactions with the Baltic countries dummy. The expected results here are that perception of government effectiveness will lead to a more favorable attitude and confidence in market economy institutions. Our findings are consistent with Di Tella and MacCulloch (2004); we obtain positive signs in the corresponding coefficient linked with the confidence variable, implying that individuals with more confidence in the government are also pro-market. The signs on the Baltics interaction term indicate that the relationship between confidence in government and support for market institutions is stronger in the Baltic states. While the significance of the Baltics dummy is reduced in some specifications, it still remains quite robust.¹⁵

¹⁵ Note that these results are based on the WVS surveys for the 1995-1997 and 1999-2001 rounds in the case of the confidence variable and for 1995-1997 only for the corruption variable, as the related questions were not included in all the survey waves.

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

	Larger income differences		Competition is good		Increase private ownership	
Age 35-54	-0.255 (8.53)***	-0.230 (17.35)***	-0.181 (19.60)***	-0.154 (17.57)***	-0.054 (2.04)**	-0.049 (2.59)***
Age 55 and above	-0.099 (7.71)***	0.009 (1.74)*	-0.061 (3.41)***	0.033 (5.45)***	0.085 (1.72)*	0.123 (3.95)***
Gender (1=male)	0.255 (21.29)***	0.250 (23.58)***	0.092 (24.06)***	0.098 (33.61)***	0.078 (4.05)***	0.104 (12.68)***
Secondary education	0.169 (28.16)***	0.151 (34.67)***	-0.138 (6.39)***	-0.148 (13.64)***	-0.019 (1.34)	-0.073 (6.83)***
Tertiary education	0.264 (5.37)***	0.304 (3.20)***	-0.152 (1.21)	-0.271 (1.68)*	0.156 (2.10)**	0.240 (1.67)*
Married	0.045 (13.78)***	0.083 (14.10)***	-0.071 (3.88)***	-0.137 (12.99)***	-0.146 (23.42)***	-0.139 (19.00)***
Number of children	-0.008 (9.27)***	-0.008 (22.41)***	0.028 (11.78)***	0.029 (18.85)***	0.018 (11.69)***	0.021 (45.71)***
Retired	-0.157 (20.53)***	-0.243 (69.35)***	-0.120 (20.79)***	-0.108 (34.61)***	-0.430 (8.84)***	-0.466 (12.87)***
Unemployed	-0.157 (17.42)***	-0.156 (26.74)***	0.016 (1.34)	0.014 (1.85)*	-0.098 (9.40)***	-0.106 (8.41)***
White-collar worker	0.283 (13.78)***	0.297 (25.29)***	0.224 (12.53)***	0.230 (22.88)***	0.268 (10.72)***	0.278 (14.03)***
Scale of incomes	0.064 (11.40)***	0.052 (21.20)***	0.043 (6.78)***	0.054 (18.33)***	0.035 (18.02)***	0.033 (5.79)***
Wave 1995-1997	-0.741 (4.41)***		-0.451 (3.57)***		-0.413 (2.11)**	
Baltic States	0.545 (3.12)***	0.409 (4.05)***	0.329 (3.30)***	0.396 (3.97)***	-0.560 (6.97)***	-0.626 (9.51)***
Extent of political corruption		-0.230 (268.75)***		0.075 (182.10)***		-0.010 (1.97)**
Corruption*Baltic		0.265 (2.70)***		-0.120 (1.12)		-0.007 (0.17)
Confidence in the government	0.109 (92.70)***		0.087 (120.59)***		0.016 (18.74)***	
Confidence*Baltics	-0.130 (3.90)***		-0.041 (0.65)		-0.177 (4.64)***	
Pseudo R-squared	0.04	0.03	0.01	0.01	0.02	0.02
Observations	5,999	3,520	5,994	3,506	5,879	3,484

All are ordered probit regressions corrected for clusters; also, robust z-statistics in parentheses. (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent. Columns (1), (3), and (5) include data for the 1990-1993 and the 1995-1997 survey rounds only. Columns (2), (4), and (6) are only for the 1995-1997 round.

6. Concluding Remarks

Using otherwise previously similar groups of countries—Finland versus the Baltic states—this paper documents significant differences in attitudes toward redistribution and markets among citizens in capitalist countries and in ex-communist countries in transition. Further, these attitudes changed very little in the course of the transition decade, despite significant changes in the economic system such as pro-market trends. These differences, however, are seemingly inconsistent: while approving larger income differences and competition, the respondents from the Baltic states also favor more state ownership than those in Finland. Whereas the latter finding accords well with earlier work (Corneo and Gruner, 2002, and Alesina and Fuchs-Schuendeln, 2005), our other findings lead us to disagree with the tenor of these papers' conclusions—that communist indoctrination and/or institutions were successful in instilling anti-capitalist attitudes in the citizens of ex-communist countries. Specifically, in regard to some important features of capitalism, the respondents from the Baltic states display definitely more pro-capitalist attitudes than those from Finland—which is, of course, consistent with the course of transition events, in particular the often sweeping market reforms. Similar results hold, more generally, for other ex-communist countries. We therefore tend to qualify the earlier works' conclusions, arguing that imposed institutions, in this case at least, have had a limited effect on individual attitudes.

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

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

References

- Acemoglu, D. 2006. "Modeling Inefficient Institutions." Cambridge, United States: Massachusetts Institute of Technology.
- Alesina, A., and E. Glaeser. 2004. *Fighting Poverty in the US and Europe: A World of Difference*. Oxford, United Kingdom: Oxford University Press.
- Alesina, A., and N. Fuchs-Schuendeln. 2005. "Good Bye Lenin (or Not?): The Effect of Communism on People's Preferences." Mimeographed document.
- Alesina, A., and E. La Ferrara. 2005. "Preferences for Redistribution in the Land of Opportunities." *Journal of Public Economics* 89: 897-931.
- Beck, T., and L. Laeven. 2005. "Institution Building and Growth in Transition Economies." Washington, DC, United States: World Bank. Mimeographed document.
- Berkowitz, D., K. Pistor, and J.F. Richard. 2003. "Economic Development, Legality, and the transplant effect." *European Economic Review* 47: 165-195.
- Biais, B., and E. Perotti. 2002. "Machiavellian Privatization." *American Economic Review* 92: 240-258.
- Corneo, G. and H.P. Gruner. 2002. "Individual Preferences for Political Redistribution." *Journal of Public Economics* 83: 83-107.
- Di Tella, R., and R. MacCulloch. 2004. "Why Doesn't Capitalism Flow to Poor Countries?" Mimeographed document.
- Easterly, W, and R. Levine. 2003. "Tropics, Germs, and Crops: The Role of Endowments in Economic Development." *Journal of Monetary Economics* 50: 3-39
- Ferguson, N. 2003. *Empire: The Rise and Fall of the British World Order and the Lessons for Global Power*. New York, United States: Basic Books.
- Guiso, L., P. Sapienza, and L. Zingales. 2006. "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives* 20(2): 23-48.
- La Porta, R., F. López-de-Silanes, A. Shleifer, and R.W. Vishny. 1998. "Law and Finance." *Journal of Political Economy* 106: 1113-1155.
- Meltzer, A., and S. Richard. 1981. "A Rational Theory of the Size of Government." *Journal of Political Economy* 89:914-927.
- Nove, A. 1992. *An Economic History of the USSR*. Third Edition. Harmondsworth, United Kingdom: Penguin Books Ltd.

- Parming, T., and E. Jarvesoo, editors. 1978. *A Case Study of a Soviet Republic: The Estonian SSR*. Boulder: Westview Press.
- Pipes, R. 1993. *Russia under the Bolshevik Regime: 1919-1924*. New York, United States: Knopf.
- , 1995. *Russia under the Old Regime*. Second edition. London, United Kingdom: Penguin Books.
- Rajan, R. 2005. "Failed States, Vicious Cycles, and a Proposal." Chicago, United States: University of Chicago. Mimeographed document.
- Rajan, R., and L. Zingales. 2006. "The Persistence of Underdevelopment: Institutions, Human Capital, or Constituencies?" NBER Working Paper 12093. Cambridge, United States: National Bureau of Economic Research.
- Ravallion, M., and M. Lokshin. 2000. "Who Wants to Redistribute? The Tunnel Effect in 1990 Russia." *Journal of Public Economics* 76: 87-104.
- Rodrik, D. 2000. "Institutions for High-Quality Growth: What They Are and How to Acquire Them." *Studies in Comparative International Development* 35(3): 3-31.
- Shiller, R., Boycko, M., and V. Korobov. 1991. "Popular Attitudes toward Free Markets: The Soviet Union and the United States Compared." *American Economic Review* 81: 385-400.
- , 1992. "Hunting for Homo Sovieticus: Situational versus Attitudinal Factors in Economic Behavior." *Brookings Papers on Economic Activity* 1: 127-181.
- Shleifer, A., and D. Treisman. 2005. "A Normal Country? Russia after Communism." *Journal of Economic Perspectives* 19(1): 151-174.
- Sokoloff, K.L., and S. Engerman. 2000. "Institutions, Factor Endowments, and Paths of Development in the New World." *Journal of Economic Perspectives* 14: 217-232.
- Von Rauch, G. 1974. *The Baltic States: The Years of Independence*. Berkeley and Los Angeles, United States: University of California Press.
- Walkin, J. 1962. *The Rise of Democracy in Pre-Revolutionary Russia: Political and Social Institutions under the Last Three Tsars*. New York, United States: Praeger.
- Wuorinen, J.H. 1965. *A History of Finland*. New York, United States: Columbia University Press.

Appendix 1. Description of Variables

Larger income differences	Answer to the question: OPINION ABOUT INCOME REDISTRIBUTION How would you place your views on this scale? 1 means you agree completely with the statement on the left (Incomes should be made more equal.); 10 means you agree completely with the statement on the right (We need larger income differences as incentives.).
Competition is good	Answer to the question: OPINION ABOUT COMPETITION How would you place your views on this scale? 1 means you agree completely with the statement on the left (Competition is harmful. It brings out the worst in people.); 10 means you agree completely with the statement on the right (Competition is good. It stimulates people to work hard and develop new ideas.)
Increase private ownership	Answer to the question: OPINION ABOUT GOVERNMENT OWNERSHIP How would you place your views on this scale? 1= Government ownership of business and industry should increase. 10= Private ownership of business and industry should increase.
Age 35-54	Dummy variable that equals 1 when the respondent is between 35 and 54 years old.
Age 55 or more	Dummy variable that equals 1 when the respondent has more than 55 years old
Gender	Dummy variable that equals 1 when the respondent is male and 0 when is female.
Secondary education	Dummy variable that equals 1 when the respondent has secondary education.
Tertiary education	Dummy variable that equals 1 when the respondent has attended to college or university.
Married	Dummy variable that equals 1 when the respondent is formally married, or lives for a long time with a stable partner; and 0 otherwise.
Number of children	Number of children in the respondents' household.
Retired	Dummy variable that equals 1 when the respondent has retired from work.
Unemployed	Dummy variable that equals 1 when the respondent has no formal job.
White-collar worker	Dummy variable that equals 1 when the respondent works as a professional worker, non-manual supervisor, non-manual office worker, or a foreman supervisor; and 0 otherwise.
Income deciles	Deciles of income constructed within each country. The respondents are asked to place themselves in the income ladder of the country according to their incomes.
Wave 1990-1993	Dummy variable that equals 1 when the observation corresponds to the 1990-1993 round of the survey; and 0 otherwise.
Wave 1995-1997	Dummy variable that equals 1 when the observation corresponds to the 1995-1997 round of the survey; and 0 otherwise.
Wave 1999-2001	Dummy variable that equals 1 when the observation corresponds to the 1999-2001 round of the survey; and 0 otherwise.
Communist between 1918-1990	Dummy variable that equals 1 when the respondent was interviewed in Belarus, Georgia, Russian Federation, or Ukraine; and 0 otherwise.
Communist between 1945-1990	Dummy variable that equals 1 when respondent was interviewed in Albania, Bulgaria, parts of Czechoslovakia and Yugoslavia, East Germany, Hungary, Poland, or Romania; and 0 otherwise.
Northern welfare states	Dummy variable that equals 1 when the respondent was interviewed in Denmark, Norway, or Sweden; and 0 otherwise.
Baltic states	Dummy variable that equals 1 when the respondent was interviewed in Lithuania, Estonia, or Latvia; and 0 otherwise.

Finland	Dummy variable that equals 1 when the respondent was interviewed in Finland; and 0 otherwise.
People take more responsibility	Answer to the question: GOVERNMENT MORE RESPONSIBILITY. How would you place your views on this scale? 1 means you agree completely with the statement on the left (People should take more responsibility to provide for themselves.); 10 means you agree completely with the statement on the right (The government should take more responsibility.)
Confidence in the government	Dummy variable obtained by recodifying the question: CONFIDENCE IN THE GOVERNMENT AND THE POLITICAL SYSTEM: 0= not very much or not at all; 1= a great deal or quite a lot.
Extent of government corruption	Dummy variable obtained by recodifying the following question: EXTENT OF POLITICAL CORRUPTION: 0 = almost none or very few public officers are corrupt; 1= Most or almost all public officers are corrupt.
Most people can be trusted	Dummy variable obtained by recodifying the following question: MOST PEOPLE CAN BE TRUSTED: 0 = need to be very careful; 1= most people can be trusted.

Appendix 2. Descriptive Statistics

	Observations	Mean	Std. Dev.	Min	Max
Larger income differences	59,841	5.8	2.9	1	10
Competition is good	63,566	7.2	2.4	1	10
Increase private ownership	56,112	4.8	2.9	1	10
Age 35-54	71,722	0.4	0.5	0	1
Age 55 or more	71,722	0.3	0.5	0	1
Gender (Male = 1)	73,495	0.5	0.5	0	1
Secondary education	56,866	0.6	0.5	0	1
Tertiary education	56,866	0.1	0.3	0	1
Married	74,359	0.6	0.5	0	1
Number of children	74,130	3.2	2.9	0	20
Retired	71,662	0.3	0.4	0	1
Unemployed	71,662	0.1	0.3	0	1
White-collar worker	64,038	0.4	0.5	0	1
Income deciles	63,756	4.5	2.4	1	10
Wave 1990-1993	74,584	0.0	0.2	0	1
Wave 1995-1997	74,584	0.9	0.3	0	1
Wave 1999-2001	74,584	0.1	0.2	0	1
Communist between 1918-1990	74,584	0.6	0.5	0	1
Communist between 1945-1990	74,584	0.1	0.3	0	1
Northern welfare states	74,584	0.0	0.1	0	1
Baltic states	74,584	0.0	0.1	0	1
Finland	74,584	0.2	0.4	0	1
People take more responsibility	65,797	4.4	2.8	1	10
Confidence in the government	37,059	0.3	0.5	0	1
Extent of government corruption	22,263	0.7	0.4	0	1
Most people can be trusted	71,007	0.3	0.5	0	1

Appendix 3. Pairwise Correlation Matrix

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

p-values in second row

Appendix 4. Selected Marginal Effects from Ordered Probits

	P [Y=1/X]		P [Y=2/X]		P [Y=9/X]		P [Y=10/X]	
Larger income differences								
Wave 1995-1997	0.117	***	0.045	***	-0.042	***	-0.052	***
Wave 1999-2000	0.201	**	0.034	***	-0.015	***	-0.012	***
Baltic States	-0.093	***	-0.033	***	0.026	*	0.029	*
Competition is good								
Wave 1995-1997	0.007	***	0.007	***	-0.035	***	-0.112	***
Wave 999-2000	0.028	**	0.021	***	-0.056	***	-0.099	***
Baltic States	-0.006	***	-0.006	***	0.028	***	0.084	***
Increase private ownership								
Wave 1995-1997	0.016	**	0.007	*	-0.025	*	-0.090	*
Wave 1999-2000	0.031		0.011		-0.025		-0.059	*
Baltic States	0.056	***	0.018	***	-0.037	***	-0.085	***

Marginal effects calculated after ordered probits in Table 4. We only show some interest coefficients, but the complete results can be provided upon request to the authors. All regressions include country clusters; also, standard errors are robust. (*) statistically significant at 10 percent; (**) statistically significant at 5 percent; (***) statistically significant at 1 percent.