



Life in Transition

After the crisis

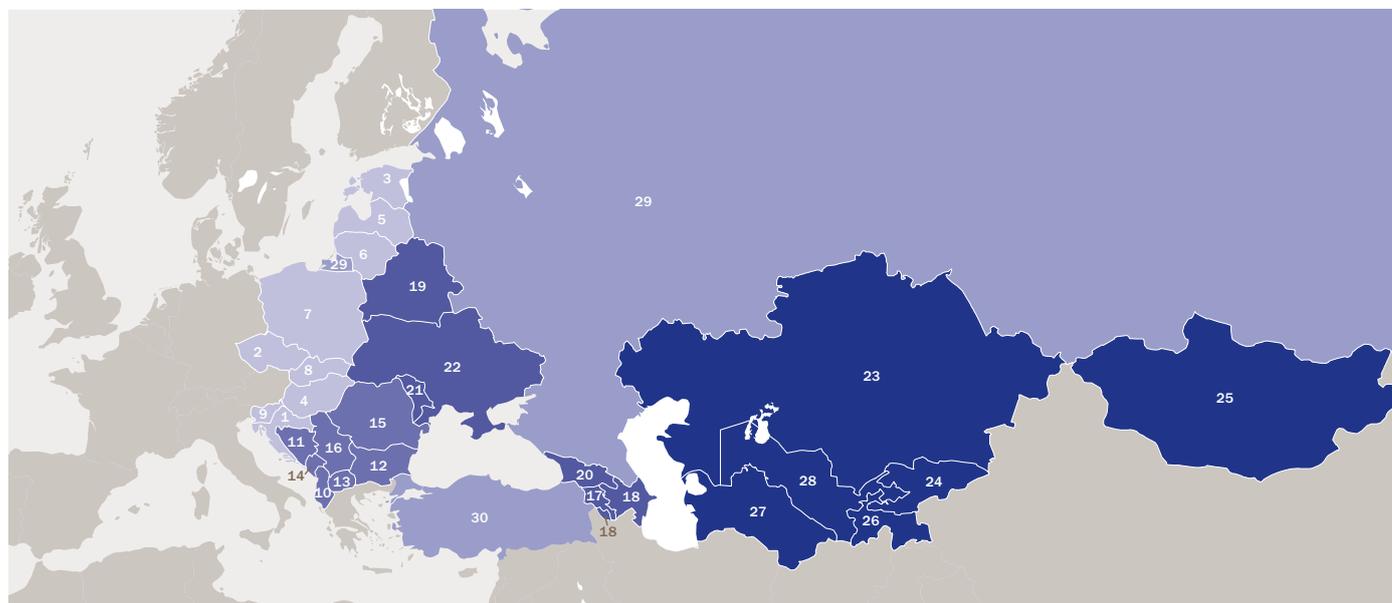


European Bank
for Reconstruction and Development

About this report

The European Bank for Reconstruction and Development (EBRD) seeks to foster the transition to an open market-oriented economy and to promote private and entrepreneurial initiative in central eastern Europe and the Baltic states, south-eastern Europe, the Commonwealth of Independent States and Mongolia. To perform this task effectively, the Bank needs to understand how transition is affecting the lives of people in the region and how it shapes their views on issues such as democracy and the market economy, the role of the state, and their hopes for the future.

In order to answer some of these questions, the EBRD in collaboration with the World Bank has carried out a major survey of households and individuals across the region – the Life in Transition Survey. This publication summarises the main results of the most recent round of the survey, conducted in 2010, and compares it with the first round, conducted in 2006, in order to share these results with our partners in the region and beyond.



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|---|-------------------------------|--|-----------------------|
| ■ Central Europe and the Baltic states | ■ South-eastern Europe | ■ Eastern Europe and the Caucasus | ■ Central Asia |
| 1 Croatia | 10 Albania | 17 Armenia | 23 Kazakhstan |
| 2 Czech Republic ¹ | 11 Bosnia and Herzegovina | 18 Azerbaijan | 24 Kyrgyz Republic |
| 3 Estonia | 12 Bulgaria | 19 Belarus | 25 Mongolia |
| 4 Hungary | 13 FYR Macedonia | 20 Georgia | 26 Tajikistan |
| 5 Latvia | 14 Montenegro | 21 Moldova | 27 Turkmenistan |
| 6 Lithuania | 15 Romania | 22 Ukraine | 28 Uzbekistan |
| 7 Poland | 16 Serbia | | |
| 8 Slovak Republic | | | ■ |
| 9 Slovenia | | | 29 Russia |
| | | | 30 Turkey |

¹ Since 2008 the EBRD has not made any new investments in the Czech Republic

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Foreword by the Chief Economist



In late 2006, the EBRD and World Bank carried out the first comprehensive survey of individuals and households across virtually the whole transition region. The purpose was to gain a better understanding of how people's lives had been shaped and affected by the upheavals of the previous 15 years. The results revealed a complex picture: hardship for many and relatively low levels of life satisfaction, but also optimism for the future and robust support for the guiding principles of transition – democracy and the market economy. The survey findings also suggested a large unfinished reform agenda, especially with regard to improving the quality and delivery of public services, boosting the degree of trust in institutions and tackling deep-rooted problems such as the level of corruption, which most people felt had increased since the collapse of communism.

Four years later, the EBRD and World Bank commissioned a second round of the survey. The circumstances facing most people were significantly different between the first and second rounds. The Life in Transition Survey I (LiTS I) was carried out at a time when the region's economies were, with few exceptions, growing strongly. Average growth across the whole region was 7.3 per cent in 2006, and cumulative growth in the period 2000-06 was 40.3 per cent. In contrast, LiTS II took place in late 2010, at a time when most countries were still facing the aftershocks of a severe global economic crisis. Average GDP growth in 2009 was minus 5.2 per cent, and although most countries saw an upturn in 2010, the recovery has been patchy or negligible in many cases. One of the main reasons to repeat the survey was to see how attitudes, beliefs and values had been affected by the crisis.

LiTS II advances and improves on LiTS I in two important ways. First, the questionnaire was substantially revised. The new questionnaire includes sections on the impact of the crisis and on climate change issues, as well as improved and expanded questions in areas such as corporate governance, public service delivery, and economic and social attitudes. Second, the coverage has been expanded to include five western European "comparator" countries – France, Germany, Italy, Sweden and the UK. This allows us to benchmark the transition region against some advanced market economies, thereby giving a clearer perspective on the remaining challenges facing transition countries.

Taken together, the two rounds of LiTS contain an extraordinary wealth of information about economic and social life in the transition region before, and in the aftermath of, the great crisis. The chapters in this current report summarise the main findings on the impact of the crisis, attitudes and values, public

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service delivery, trust and corruption, and gender differences. The picture that emerges is one of great diversity, but there are also cross-cutting themes. Three of these themes deserve special mention.

First, the survey provides some vivid evidence of just how hard the crisis hit households in many countries in the transition region. In 17 out of the 29 countries surveyed, more than half of respondents thought that the crisis had affected them “a great deal” or “a fair amount.” The same was true in only one of the five western comparator countries (Italy). By far the most important channels through which the crisis affected households were wage reductions, delays or suspensions. Most dramatically, in transition countries, 70 per cent of households which claim to be affected by the crisis report having reduced staple food and health expenditures as a result of the crisis. This proportion is almost twice as high as in the western comparator countries.

Second, in light of these dramatic deteriorations in material well-being during the crisis, the attitudes, values and levels of satisfaction among households appear surprisingly resilient. On average, 42.7 per cent in the region considered themselves “satisfied with my life now” in 2010, against 44.2 per cent in 2006. Compared with the 2006 survey, life satisfaction fell in 16 countries (not surprisingly, this group includes the countries hardest hit by the crisis) but rose in 13. The proportion of respondents who declared themselves to be optimistic about the future declined moderately from a cross-country mean of 55 per cent in 2006 to 49 per cent in 2010. Noticeable but not dramatic falls were also registered in levels of support for the market economy (declined in 16 countries, rose in 13) and democracy (declined in 18 countries, rose in 11). Interestingly, generalised trust in people increased, and so did satisfaction with government services. In contrast, trust in banks, financial institutions and foreign investors fell – but this trust remains much higher than in the western European comparator countries.

Finally, the 2010 survey confirms some regional patterns that are likely to be related to common histories and institutions. Specifically, the central European and Baltic countries have many attitudes, values and social outcomes in common, and so do most but not all countries on the territory of the former Soviet Union, whereas south-eastern Europe represents a much more mixed group. However, the way in which these groups compare to each other and to western Europe is not straightforward. In some ways the advanced European transition economies are close to the western European comparator group – for example, with regard to corruption, which is relatively low, and satisfaction

with public services, which is quite high. In contrast, most of the advanced European transition economies report significantly lower levels of life satisfaction, optimism about the future, faith in the market, support for democracy, and trust in public institutions than both western European countries and less advanced transition economies in the east.

In summary, the 2010 LiTS confirms the resilience of transition – but also that transition is a work in progress. The fact that markets and democracy are least popular in the transition countries that have most experience with them is sobering but perhaps not surprising, since it is the existing political and economic systems that, in the eyes of respondents, must share the blame for the crisis. Diminishing expectations in the aftermath of the crisis and relentless negative demographic trends will no doubt put these systems under renewed pressures. But while markets and democracy come with their own baggage, they are more likely to provide constructive answers to these pressures than any plausible alternative.



Erik Berglöv
EBRD Chief Economist

Executive summary

Chapter 1

Impact of the global economic crisis

It is well-known that the crisis of 2008-10 led to exceptionally severe output falls in many transition countries, but what did this mean for individual households? Two-thirds of respondents in the transition region report that they were affected by the crisis. More than two-fifths report being hit “a great deal” or “a fair amount”, compared to only about 15 per cent in Germany. Thirty per cent of households suffered reduced wages, and 17 per cent job losses. On average, however, there was little change in overall levels of life satisfaction relative to four years previously. Satisfaction with life dropped in 16 countries but increased in 13. Changes in life satisfaction are loosely correlated with the severity of the output decline across countries.

Households used a variety of methods to cope with the crisis. About 70 per cent of households effected by the crisis report cutting back on spending on staple foods and health as a result of the crisis, a much higher proportion than in western Europe. Richer households tended to reduce spending on non-essential goods and increased their borrowing from friends and families. About one quarter of respondents engaged in “active” coping strategies, such as securing a second job or working longer hours.

One noticeable difference between the transition region and the western European comparators is the extent to which households in the latter were better able to draw on public safety nets to help cope with the downturn. In the transition region, the extent of coverage provided by benefits such as unemployment insurance varies significantly, with only a small proportion of the unemployed receiving such benefits in non-EU countries.

Chapter 2

Attitudes and values

Life satisfaction in most transition countries remains noticeably lower than in western European countries. Higher levels of life satisfaction are associated with employment, higher education and good health, as well as with income and economic growth. About half of respondents feel optimistic that children born now will have a better life than their generation. Compared to 2006, optimism has moderately declined, but it remains much higher than in western Europe, where over 70 per cent of respondents feel that the next generation will not fare better.

Support for democracy and markets has held up reasonably well in the transition region despite the difficult economic circumstances during the recent past. However, positive attitudes towards both have fallen relative to 2006 in a majority of countries, including in all EU countries except Bulgaria. In 21 of the 28 transition countries surveyed, less than one half of respondents felt that the market economy was better than any alternative (however, the same is true for France, Italy and the UK). In contrast, democracy continues to be preferred by more than one half of respondents in a majority of transition countries.

Respondents were also asked a series of questions designed to measure their “tolerance” of those different from themselves. In general, people in the transition region are tolerant towards those of a different religion. When it comes to immigrants and those of a different race, however, the variation across countries is wider, with sizeable population shares in some countries expressing some intolerance toward these social groups.

Chapter 3

Governance and public service delivery

Satisfaction with the delivery of public services has risen in most transition countries relative to 2006, although it tends to be lower than in the western European comparators. People are generally happy with the public education system and with the process of acquiring official documents and social security, but much less so when dealing with traffic police or the courts. Overall satisfaction levels tend to be highest among the EU member states and Turkey, and lowest in the Commonwealth of Independent States (CIS) countries. Overall satisfaction is typically lower in countries with a high usage rate of services.

Unofficial payments are often made to access public services and/or improve the quality of service received. The public health system is the area where unofficial payments are most common, especially in eastern European countries such as Moldova and Ukraine and in parts of Central Asia. The extent to which these payments are used typically exceeds that in western Europe. Those who feel that unofficial payments are always necessary are more likely than others to report a strong degree of dissatisfaction with the quality of service provided.

Chapter 4

Corruption and trust

Many transition countries are characterised by high levels of corruption, particularly in Central Asia and some countries of eastern Europe and the Caucasus, and in general people do not believe that corruption has fallen in the past four years. Among the various social services, the perceived level of corruption is highest among the road police and lowest when it comes to accessing unemployment and other social security benefits.

However, in most countries the reported experience of unofficial payments is even higher than people's perceptions of the need for such payments. Part of the reason may be that such payments are, in some circumstances, made voluntarily to express gratitude. In fact, in those countries where satisfaction with public services is highest, unofficial payments are typically voluntary expressions of appreciation for the service. This is especially the case in some western comparators such as Sweden and the UK, but also in new member states of the EU such as Estonia and Hungary.

The level of trust in other people has increased modestly since 2006, but is significantly lower than in the western European countries. Generalised trust is positively correlated with life satisfaction and with economic growth in the period 2006-09. Levels of trust in one's family are typically high in the transition region and comparable to western European levels. Compared to EU countries, trust in institutions is strikingly high in many CIS countries, with the notable exception of the courts and the police.

Chapter 5

Gender differences in social integration

Men and women differ with regard to their experience of, and attitudes towards, transition. The most important change in the past 20 years has been in the labour market, and specifically women's access to employment. Over this period, women have become significantly less likely than men to work for wages. They are also less likely to participate in political activities. However, the survey results show that women do not differ significantly from men in terms of their attitudes towards democracy and the market economy.

In some other important attitudinal respects, there are only minor or negligible differences between women and men. Both groups are equally likely to report themselves satisfied with life, or to report that they have been successful in their lives. However, only 16 per cent of single parents – 90 per cent of whom are mothers – report that they are satisfied with their lives. The level of trust in institutions is also similar between men and women. Perhaps surprisingly, women were just as likely as men to report that they had tried to start a business, and they did not seem to be less successful in accessing funding.

Country assessments

The country assessments present some of the main results from the survey for each country, often contrasted with those from the 2006 LiTS. Certain key attitudes and values are shown by age and income groups. Comparisons with simple cross-country averages for the whole transition region and for five western European comparators are also drawn in a number of cases.