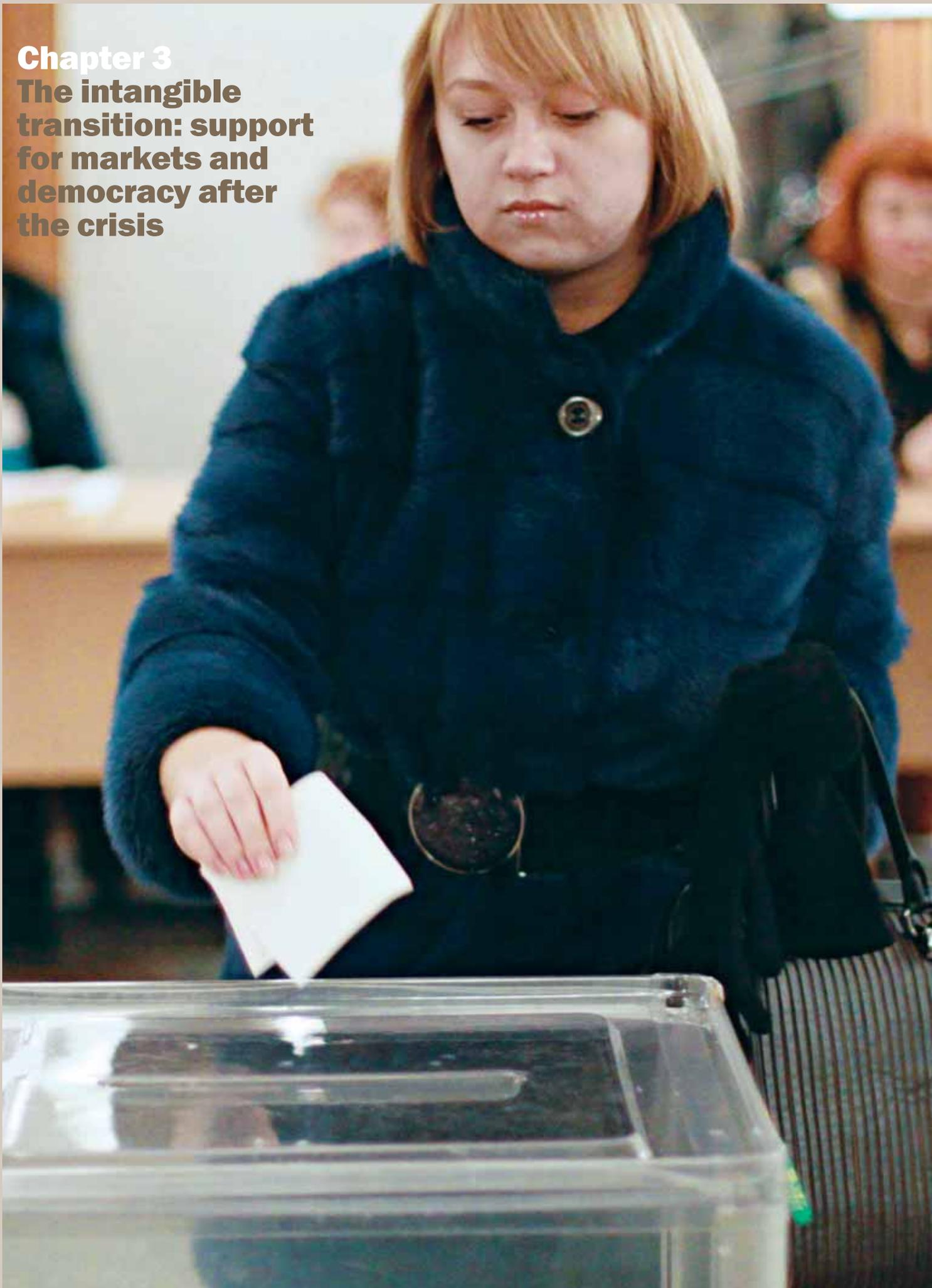


## **Chapter 3**

### **The intangible transition: support for markets and democracy after the crisis**



**Support for democracy and free markets decreased over the past four years in the new EU countries, whereas it rose in many CIS countries. Why? Analysis shows that the more people were hit by the crisis, especially compared with what they experienced in previous crises, the more they turned away from democracy and markets. In addition, the crisis seems to have made people “turn against what they had”. Those who lived in freer societies turned against democracy and markets, while people living in more state-dominated and authoritarian systems turned towards them.**

**Support for democracy in the transition region**

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10%

**fewer people support** democracy in the new EU countries compared with before the crisis

---

6%

**more people support** democracy in the CIS countries compared with before the crisis

---

14%

**University graduates are** 14% more likely to support democracy than those with a primary education

---

## The intangible transition: support for markets and democracy after the crisis

The previous chapter showed that the recent financial crisis significantly affected the material well-being and consumption of households in the transition region. But did it also impact them in less tangible ways? Did it bring about a change in their political and economic system attitudes? In particular, has it changed their support for democracy and the market economy, the very political and economic systems to which the transition process is supposed to lead?

The short answer to these questions is yes. Results from the 2010 Life in Transition Survey (LiTS) suggest that support for democracy and markets has changed significantly since the first round of the survey in 2006. It has declined in many of the more advanced transition countries, including all the new EU members except Bulgaria. On the other hand, it has increased in quite a few of the countries of the Commonwealth of Independent States (CIS), which are not as far along the path of transition. The changes have been significant enough so that in 2010, as opposed to 2006, almost all the strongest supporters of democracy and free markets were to be found in the CIS or other less advanced transition countries. How has the crisis led or contributed to the opposite movements in attitudes and the resulting re-alignment of democracy and markets support levels across the region?

This chapter shows that the more people were personally hit by the crisis, the more they turned away from democracy and free markets. The fact that many of the more developed transition countries experienced more severe downturns than their less advanced counterparts helps to explain the drop in support for democracy and markets among the former. Moreover, it seems that it was the *relative* impact of the crisis that mattered in changing attitudes, especially towards political systems. People became less supportive of democracy if the crisis hit them harder relative to their previous crisis experience. In many of the CIS countries, which endured much deeper downturns early in the transition process, the relative effect of the recent crisis was diminished by their previous experience. This reduced the negative impact of the more recent turmoil on attitudes towards democracy and markets.

However, except for a few CIS countries whose economies actually grew through the crisis, these findings do not explain why democracy and markets became *more* popular in many CIS countries. This phenomenon could be explained by another relationship, for which the analysis in this chapter finds empirical support. The crisis appears to have made people “turn against what they had”. Those who lived in freer societies and were impacted by the crisis turned against their current system and became less likely to choose democracy and markets over other

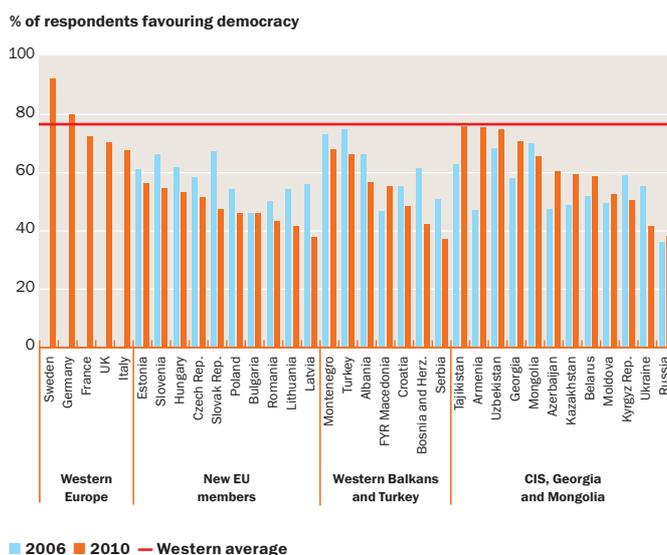
systems. Those in more authoritarian environments, however, became stronger supporters of freer systems after the crisis had hit them. Many of the CIS countries score lower on various external and LiTS-based measures of freedom, democracy and market development, and are therefore in the latter category.

This chapter lastly considers the impact of economic policy on changes in attitudes. It concludes that the availability of mechanisms to protect consumption – such as personal savings, the ability to borrow formally or informally or government-provided social safety nets – in the wake of a crisis-induced income shock reduces a negative attitudinal response. In addition, merely receiving government assistance seemed to diminish the extent to which people living in freer countries turned away from democracy and markets after the crisis impacted them, and *vice versa*.

### Changes in support for markets and democracy: an initial look at the data

The LiTS contains two analogous questions to gauge the strength of household support for markets and democracy, respectively. To assess market support, respondents were asked which of the following three statements they agreed with the most: (i) a market economy is preferable to any other form of economic system; (ii) under some circumstances, a planned economy may be preferable to a market economy; and (iii) for people like me, it does not matter whether the economic system is organised as

Chart 3.1  
Transition region support for democracy is below the Western average



Legend: 2006 (blue bar), 2010 (orange bar), Western average (red line)

Source: LiTS, 2006 and 2010.

Note: For each country, this graph plots the share of the population that unequivocally supports democracy. The horizontal line indicates the 2010 average for the Western comparator countries (France, Germany, Italy, Sweden and the UK).

a market economy or as a planned economy. The corresponding question on support for democracy similarly asks whether it is preferable to any other political system, whether in some circumstances authoritarian government may be preferable, or whether it does not matter what system is in place.

The data from the 2010 LiTS show that the levels of self-reported support for markets and democracy have undergone significant changes in many of the countries of the transition region since the 2006 round. Charts 3.1 and 3.2 plot the proportions of each country's populations who unequivocally preferred democracy and markets to any other political and economic system, respectively. They reveal large swings between the two survey rounds.

Turkey, Montenegro, Mongolia, Uzbekistan, Albania and Tajikistan have remained among the countries with the highest levels of support for democracy in the transition region. In 2010 they were joined by Georgia, Kazakhstan, Belarus as well as Armenia. The latter saw the biggest change in the level of democracy support since 2006. A 28 percentage point increase raised it from 26th place in the region to second. It is now only marginally behind Tajikistan, the 2010 regional leader, and at a level comparable to most of the Western comparator countries, where support for democracy ranged from 92 per cent in Sweden to 68 per cent in Italy. There were no new EU members among the top 10 supporters of democracy in 2010, which comprised only the CIS countries, Mongolia and Turkey.

Conversely, Hungary, the Slovak Republic and Slovenia, which had previously been among the top 10 supporters of democracy, all recorded significant falls – and by over 20 percentage points in the case of the Slovak Republic. In fact, the proportion of people who preferred democracy to any other political system was lower in 2010 than in 2006 in all of the new EU member countries except for Bulgaria, where it was already low in 2006. Apart from FYR Macedonia, support for democracy only increased in CIS countries. Ukraine was the most notable exception in the CIS, with a drop of almost 13 percentage points. Bulgaria, Russia and Serbia, which were among the least supportive of democracy in the 2006 survey, have been joined in this category in 2010 by, among others, no less than another five new EU members.

Support for markets has seen similarly significant changes since 2006. Mongolia, Albania, Tajikistan and the Kyrgyz Republic have remained among the strongest proponents of free markets in the transition region, while support in Uzbekistan has risen almost 20 percentage points to head the list. Azerbaijan and Armenia saw similarly strong increases. Apart from Albania and Mongolia, the 10 countries with the highest proportion of people who preferred markets to any other economic system were all in the CIS. Their support often surpassed that in the Western comparators, where it ranged from over two-thirds in Germany and Sweden to only one-quarter in France.

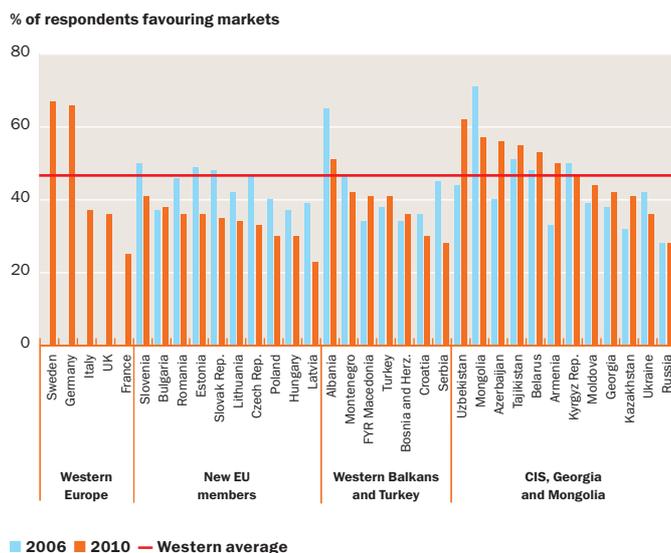
Once again, all those new EU members from among the top 10 supporters of markets in 2006 experienced a decline in their preference for a market system. The Czech Republic, Estonia, the Slovak Republic and Slovenia all saw their populations' support for markets shrink by at least 10 percentage points. With the exception of Slovenia, this placed them in the bottom 10 in 2010 (in a group comprising Croatia, Russia, Serbia and seven of the new EU members).

Chart 3.3 confirms what the preceding analysis suggests – that there is a strong correlation between the proportion of people who supported markets and those who supported democracy. A simple linear regression line shows that support for democracy was generally higher than that for markets in the countries surveyed in the 2010 LiTS. This was especially true in the Western comparator countries (apparent in Charts 3.1 and 3.2).

Do people who prefer democracy over other political systems participate more in the democratic process than others? Chart 3.4 suggests so, as it shows a positive correlation between the proportions of people in each country who supported democracy and who voted in at least one of the most recent elections. No transition countries matched the political involvement of the Swedes, where almost everyone seems to exercise their right to vote. Nevertheless, in all transition countries except Kazakhstan, at least two-thirds of people had voted in a recent election.

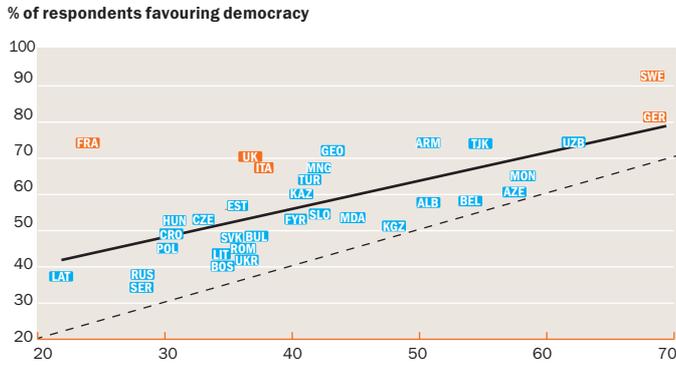
Interestingly, democracy enjoys stronger support wherever people have more trust in their government institutions. Chart 3.5 plots support for democracy against an index of trust in the presidency, the central government, regional government, local

**Chart 3.2**  
**Support for markets is down among new EU members**



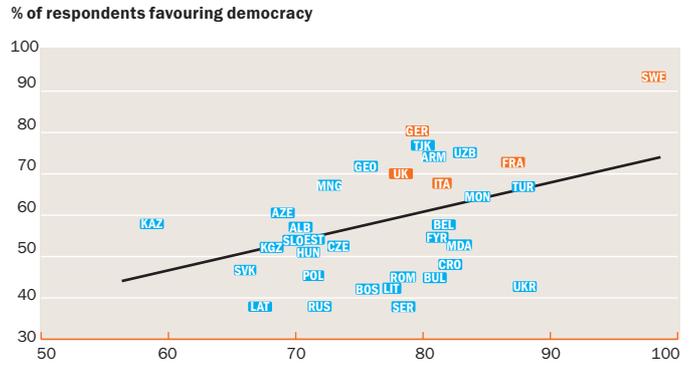
Source: LiTS, 2006 and 2010.  
Note: For each country, this graph plots the share of the population that unequivocally supports the free market. The horizontal line indicates the 2010 average for the Western comparator countries (France, Germany, Italy, Sweden and the UK).

**Chart 3.3**  
Support for democracy and markets is strongly correlated



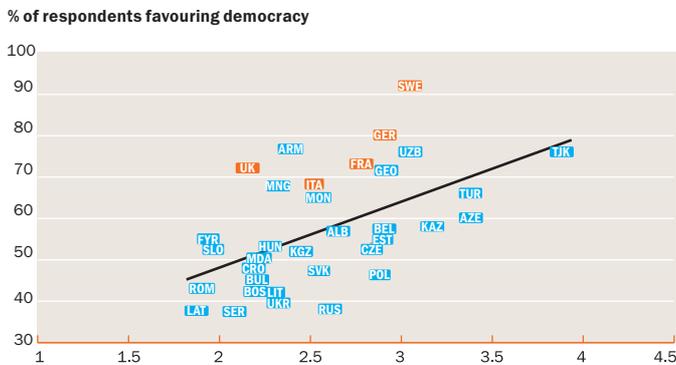
**% of respondents favouring markets**  
Source: LiTS, 2010.  
Note: For each country, this graph plots the share of the population that unequivocally supports democracy against the share of the population that unequivocally supports the free market. The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

**Chart 3.4**  
Democracy supporters are more inclined to vote



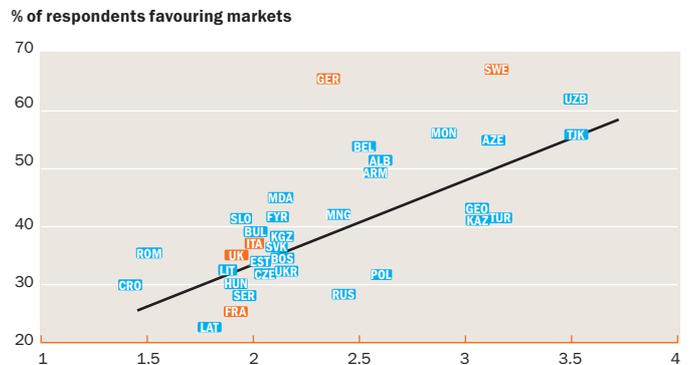
**% of people who voted in recent elections**  
Source: LiTS, 2010.  
Note: For each country, this graph plots the share of the population that unequivocally supports democracy against the share of the population that voted in the most recent local, national or presidential elections. The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

**Chart 3.5**  
Democracy is more popular where trust in government is stronger



**Average trust in government institutions**  
Source: LiTS, 2010.  
Note: For each country, this graph plots the share of the population that unequivocally supports democracy against the average trust among the population in the presidency, the government, regional government, local government and the parliament, on a scale from 1 to 5. The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

**Chart 3.6**  
Support for markets is higher where economy is seen as improving



**Average perception of improvement of the state of the economy**  
Source: LiTS, 2010.  
Note: For each country, this graph plots the share of the population that unequivocally supports the free market against the average response among the population to the question whether they agree that the economic situation in their country is better today than around 4 years ago, on a scale from 1 to 5 (individuals could strongly disagree (1), disagree (2), neither disagree nor agree (3), agree (4) or strongly agree (5)). The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

government and parliament. Respondents rated their trust in each public institution on a scale of 1 to 5. These ratings were averaged across the five institutions to create the trust index. The chart shows significant variation between countries, with the Tajiks trusting their government institutions particularly strongly. On the other hand, those in Latvia, FYR Macedonia, Romania and Slovenia did not express much faith in their elected representatives. Clearly, as some of these countries were hit hard by the financial crisis, the economic fall-out impacted on both the level of trust in elected officials and support for democracy.

Chart 3.6 echoes this conjecture as it depicts a strong correlation between support for markets and the perceived change in the economic situation in each country. Respondents in the 2010 LiTS were asked to state whether they agreed with the statement that “the economic situation in our country is better today than around four years ago”, on a scale of 1 to 5. Not surprisingly, people in very few countries (only in Tajikistan and Uzbekistan) believed that their countries’ economic situation had improved during the turbulent crisis years. While households in a few countries neither agreed nor disagreed with the statement, most on average disagreed. These were led by Croatia and Romania, whose populations were the least satisfied with the recent developments on the economic front in their countries, followed by Latvia and Lithuania.

A similar correlation is also present in the corresponding data for support for democracy and perceived change in the political situation (see Chart 3.7). Again, respondents were asked whether they agreed that “the political situation in our country is better today than around four years ago”. As with the question regarding the economic situation, only in Tajikistan and Uzbekistan did people think that the political climate had improved during the crisis years. In most transition countries, respondents believed that their political situation had worsened, particularly in Croatia and Romania. Households in these two countries were even more disappointed with the changes in their political situation than those in the Kyrgyz Republic, which experienced major political and social upheaval just months before the 2010 LiTS was conducted. This suggests that attitudes towards the political climate may be strongly related to a country’s economic performance.

Based on this initial analysis of the data, what might be plausible hypotheses to explain why markets and democracies have lost support in the EU countries but gained support in the CIS? The above charts suggest that there is a relationship between individuals’ perceptions of how well the economy has been doing and their support for both free markets and democracy. One reason may therefore be that the impact of the crisis was generally higher in the EU countries (see Chapter 2). Furthermore, while many CIS countries also suffered, the crisis may have appeared relatively minor to people who witnessed the post-communist collapse in output, which was particularly large and prolonged in the CIS. Perhaps it was the economic crisis as viewed through the lens of past crisis experiences, rather than

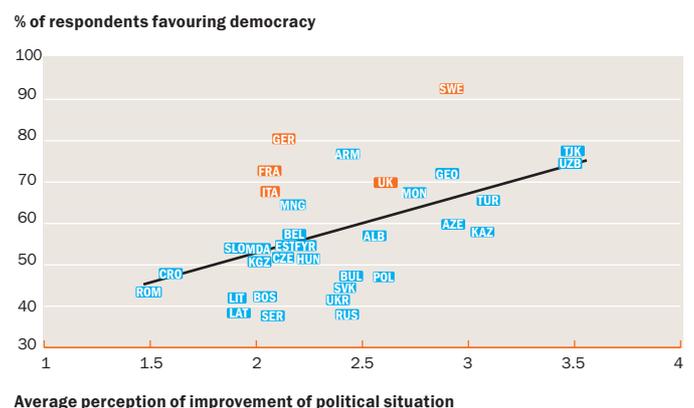
just its absolute size, that influenced shifts in attitudes towards markets and democracy. Lastly, it is possible that people in each country associated the crisis that hit them with the system that they lived under at the time, and consequently turned against it. If they were living under democratic and free market systems and yet were hurt by the economic downturn, as would tend to have been the case among the new EU members, their support for the two systems may have wavered. On the other hand, those who experienced the crisis under the more authoritarian or less market-oriented systems prevalent in several CIS countries may have reacted against those systems, resulting in greater support for democracy and markets.

The next three sections of this chapter explore each of the three hypotheses in turn and confirm that all three may be part of the story behind the changes in political and economic system preferences in the transition region.

### Negative impact of the crisis on support for markets and democracy

Charts 3.8 and 3.9 show a positive correlation between output growth in 2009 and the change in support for democracy and markets between 2006 and 2010. Many countries that experienced a comparatively mild crisis or even grew in 2009, such as Azerbaijan and Uzbekistan, saw an increase in both democracy and markets support, while harder-hit countries, such as Estonia, Latvia and Lithuania, experienced a decline. That said, there are some significant outliers in the two charts, such as Armenia, where support for markets and democracy grew in spite of a large output decline in 2009.

**Chart 3.7**  
Support for democracy is higher where political improvement is perceived



Source: LiTS, 2010.

Note: For each country, this graph plots the share of the population that unequivocally supports democracy against the average response among the population to the question whether they agree that the political situation in their country is better today than around 4 years ago, on a scale from 1 to 5 (individuals could strongly disagree (1), disagree (2), neither disagree nor agree (3), agree (4) or strongly agree (5)). The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

Why would households in countries with more severe economic downturns turn away from democracy and free markets? It may be that people associated these systems with the crisis itself. Between 30 per cent and 70 per cent of households in nearly all transition countries blamed the West<sup>1</sup> for the crisis (see Chart 3.10). In the new EU member countries

at least 45 per cent of people held that view. People who were affected in a negative way by the crisis may therefore have been inclined to turn away from values and systems associated with the West. Or they may simply have held free markets (and perhaps democracy, by association) responsible, without explicitly blaming the West.

To further investigate the relationship between the crisis and support for democracy and markets, this analysis turns to multivariate regressions, which take full advantage of the individual-level data from the 2010 LiTS. This approach enables an assessment of the impact of various individual characteristics, perceptions and external factors on attitudes towards political and economic systems at the same time. This is crucial to isolate the effect of, for example, the impact of the crisis on attitudes in a heterogeneous population that varies by gender, age, education, wealth and other attributes, which are also likely to affect individuals' attitudes.

The variables to be explained in these and all further regressions are dummy variables. The democracy variable takes on the value of 1 if the respondent expressed an unequivocal preference for democracy over any other political system. It equals 0 where the respondent thought that under some circumstances an authoritarian regime might be preferable or that it did not matter whether the system was democratic or authoritarian. Similarly, the free market variable takes on the value of 1 if the respondent expressed an unequivocal preference for markets over any other form of economic system. It equals 0 when he or she thought that under some circumstances a planned economy may be preferable or that it did not matter

**Chart 3.8**  
Support for democracy decreased more where the crisis hit harder

Change in share of supporters of democracy, 2006–10 (%)



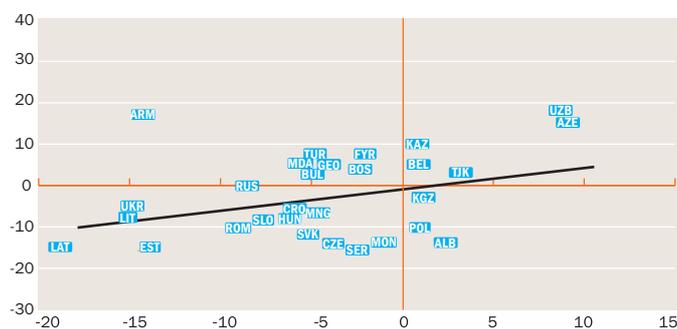
Real GDP growth, 2009 (%)

Source: LiTS, 2006 and 2010, World Development Indicators.

Note: For each country, this graph plots the change in the share of the population that unequivocally supports democracy between 2006 and 2010 against the country's real GDP growth rate in 2009. The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

**Chart 3.9**  
Markets support declined steeply where the crisis hit more

Change in share of supporters of markets, 2006–10 (%)



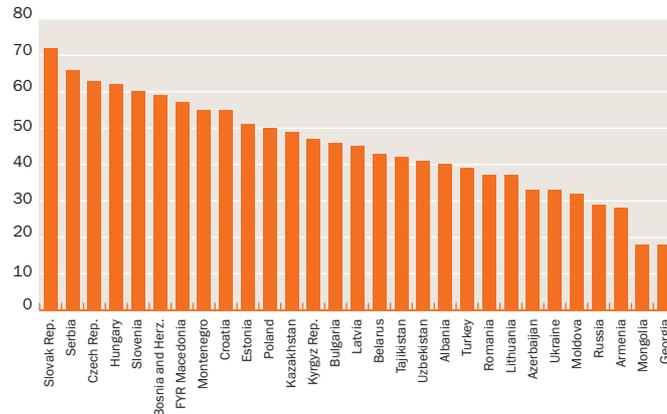
Real GDP growth, 2009 (%)

Source: LiTS, 2006 and 2010, World Development Indicators.

Note: For each country, this graph plots the change in the share of the population that unequivocally supports the free market between 2006 and 2010 against the country's real GDP growth rate in 2009. The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

**Chart 3.10**  
At least a third in most transition countries blame the West for the crisis

% of respondents who blame the West



Source: LiTS, 2010.

Note: For each country, this graph plots the share of the population that blames the West (the US, the EU or the West in general) for the crisis.

<sup>1</sup>The United States, the European Union or the West in general.

whether the system was organised as a market economy or as a planned economy. The coefficients on the two variables express the effect of a one unit increase in the factors that potentially shape attitudes on the likelihood that a person will support markets or democracy.

As described in Chapter 2, the 2010 LiTS includes several potential measures of the impact of the crisis on respondents and their households. The measure used throughout this chapter is a version of the base consumption response index defined in Chapter 2. It awards one point for each positive response to questions of whether the households had to reduce consumption of staple foods, reduce tobacco smoking, postpone or skip medical treatment, stop buying regular medications or had utilities cut off because of delayed payment.

This measure captures the way that a household had to adjust its most basic consumption in response to changed circumstances (such as unemployment, reduced wages, and

so on) and how it felt the impact of the crisis after any mitigating effect of actions it may have taken in response to crisis-related shocks – for instance, attempting to find a new job, drawing on household savings, borrowing from friends or applying for, and receiving, government benefits. It is this extent to which the household felt the crisis that is most likely to have had an impact on a respondent's attitudes, rather than the primary events triggered by the crisis such as reduced working hours or wages.

Table 3.1 presents the results of the basic regression of individual support for markets and democracy on this crisis-response measure and other individual-level control variables. The results are presented for the transition region as a whole, for the subsets of the CIS and new EU member countries and for the five Western comparator countries. They confirm that people who were hit harder by the crisis were less likely to support markets or democracy. More specifically, one additional point on the consumption response index makes it 2 to 3 per cent less likely

**Table 3.1**  
**Impact of the crisis on support for democracy and free markets**

Region	Transition		CIS		New EU		West	
	Democracy [1]	Free market [2]	Democracy [3]	Free market [4]	Democracy [5]	Free market [6]	Democracy [7]	Free market [8]
Crisis consumption response	-0.0212*** (0.00437)	-0.0259*** (0.00637)	-0.0168* (0.00830)	-0.0319** (0.0118)	-0.0260*** (0.00373)	-0.0302*** (0.00518)	-0.0446*** (0.00595)	-0.0459** (0.0152)
Wealth	0.00912*** (0.00230)	0.00855*** (0.00236)	0.00641 (0.00512)	0.00363 (0.00453)	0.0123*** (0.00322)	0.0158*** (0.00411)	0.00560 (0.00481)	0.0186** (0.00474)
Woman	-0.0240*** (0.00722)	-0.0280*** (0.00826)	-0.0291** (0.0121)	-0.0501*** (0.00957)	-0.0128 (0.0116)	-0.0295* (0.0158)	0.00114 (0.0145)	-0.0120 (0.0151)
Married	0.0149* (0.00728)	0.0223*** (0.00560)	0.0197 (0.0112)	0.0269** (0.0106)	0.0106 (0.0137)	0.0163* (0.00796)	0.0254** (0.00619)	0.0206 (0.0125)
High school	0.0764*** (0.0162)	0.0369*** (0.0129)	0.0545 (0.0324)	0.0685** (0.0228)	0.113*** (0.0144)	0.0446*** (0.00996)	0.0499 (0.0512)	-0.0135 (0.0327)
University	0.144*** (0.0207)	0.0896*** (0.0151)	0.103** (0.0335)	0.104*** (0.0274)	0.229*** (0.0224)	0.133*** (0.0196)	0.167* (0.0757)	0.00546 (0.0228)
Age	0.000872 (0.000898)	0.00121 (0.000791)	0.0000533 (0.00146)	0.000533 (0.00126)	-0.0000899 (0.00189)	0.00171 (0.00149)	0.00350** (0.00113)	-0.00198 (0.00178)
Age^2	-0.0000311** (0.0000143)	-0.0000459*** (0.0000126)	-0.0000127 (0.0000209)	-0.0000393** (0.0000159)	-0.0000142 (0.0000274)	-0.0000530** (0.0000222)	-0.0000390** (0.0000108)	0.0000273 (0.0000302)
Health	-0.0473*** (0.00981)	-0.0596*** (0.00997)	-0.0520** (0.0188)	-0.0539** (0.0206)	-0.0561*** (0.0146)	-0.0683*** (0.0129)	-0.0367 (0.0214)	-0.0555* (0.0243)
Urban	0.00606 (0.0136)	-0.0103 (0.0129)	-0.0238 (0.0214)	-0.0210 (0.0268)	0.0267 (0.0197)	-0.00404 (0.0171)	-0.0304 (0.0273)	-0.0334 (0.0316)
Constant	0.651*** (0.0301)	0.443*** (0.0262)	0.687*** (0.0520)	0.451*** (0.0446)	0.302*** (0.0613)	0.267*** (0.0472)	0.842*** (0.0812)	0.282*** (0.0358)
Observations	28312	27457	10382	10117	9428	9164	5248	4864
Adj. R-squared	0.082	0.068	0.083	0.057	0.062	0.065	0.078	0.146
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Sources: LiTS 2010.

Notes: Standard errors in parentheses are clustered at the country level. Estimation is done by OLS. The dependent variables are as follows: in regressions (1), (3), (5) and (7) Democracy, which is a dummy variable equal to 1 if respondent unequivocally prefers democracy to any other political system; in regressions (2), (4), (6) and (8) Free Market, which is a dummy variable equal to 1 if respondent unequivocally prefers the free market to any other economic system. Sample: all respondents within region listed for a particular regression. \*\*\* significant at the 1% level, \*\* significant at the 5% level, \* significant at the 10% level.

<sup>2</sup>The value of the consumption response index for the average household in the transition region is just below 1.

that a person would prefer democracy or markets.<sup>2</sup> This means that members of a household hit particularly hard by the crisis could be more than 10 per cent less likely to favour democracy or markets over any other political and economic systems, respectively. This is true in the transition region as a whole and in the new EU members. The relationship is rather weaker in the CIS countries regarding attitudes to democracy – support for which, at whatever level it may be, seems to be less responsive to the impact of the crisis.

Interestingly, people in the Western comparator countries seem to have responded to the same crisis-induced consumption adjustment twice as intensely as those in the transition region in respect of their preferences for democracy and markets. While country-level support for democracy in particular was initially much higher in the Western comparators than in most transition countries, the attitudes of western Europeans appear to have changed to a greater extent in response to a crisis shock of a similar magnitude. This suggests a greater resilience of transition region attitudes to a given reduction in consumption, even though these countries still have a long way to go to reach Western levels of support for democracy in particular. The greater sensitivity of Western households may reflect the fact that they were far less likely to experience a one unit compression in base consumption than their transition counterparts, and hence would have suffered a more extreme event relative to other households in their country.<sup>3</sup>

The results also suggest that the impact of the crisis on attitudes may be less than that of education. More educated people were stronger supporters of both democracy and markets. This may be because education has enabled them to take better advantage of the free market system and to understand why and how democracy gives them a bigger say in political decisions. In the transition region as a whole, someone with a high school education was almost 8 per cent more likely to support democracy than someone with no, or only primary education, and almost 4 per cent more likely to favour a market economy. The effect of a university education was even stronger, making preferences for democracy and markets 14 per cent and 9 per cent more likely, respectively.

While this effect is also discernible in the CIS region, it is particularly pronounced among the new EU members, especially with regard to democracy. People with a high school education in the new EU countries were over 11 per cent more likely to prefer democracy to any other political system, and those with a university degree almost 22 per cent more likely. On the other hand, the level of education appears to have had little or no effect on support for democracy and markets in the Western comparators. This does not necessarily mean that such support was lower among the more educated – rather, it may imply that a larger proportion of people, even at lower education levels, appreciated, and could take advantage of, markets and democracy.

Women were less likely to support democracy and free

markets in the transition region. This was particularly so in the CIS countries, where a woman was 5 per cent less likely to prefer markets than a man. Wealthier households were more likely to prefer democracy and markets. Especially with regard to markets, the richer were likely to have already benefited, and would perhaps benefit more in the future, from a market system, and would therefore favour it more strongly. This result is driven by the new EU countries within the transition region and is also present in the West. Older people in the transition region were rather less enamoured of markets and democracy, while in the Western countries they were particularly supportive of democracy. In addition, married people were more likely to prefer markets and democracy, while those with health concerns were less inclined.

### The role of crisis impact relative to past crisis experiences

As suggested in the first section of this chapter, it is possible that the impact of the crisis on people's attitudes towards political or economic systems depends on their past crisis experiences. If they had experienced a much larger crisis in the past, then they might be less likely to view a more recent, but less significant episode as severe enough to change their attitudes towards political and economic systems or other issues.

How can previous crisis experiences be measured? The biggest economic contraction in recent history for transition countries occurred right after the fall of communism. Therefore, a reasonable country-level proxy may be the amount of output lost in the early 1990s relative to the pre-1990 peak: specifically, the real output drop in percentage points between 1990 and the year with the lowest real output following the start of the transition period. For some countries, such as Poland or Slovenia, output and growth recovered early in the post-communist era (1991 or 1992). For others, including Russia, recovery did not occur until the late 1990s, and five of the transition countries have yet to fully restore their pre-transition output levels according to official data.<sup>4</sup>

Chart 3.11 shows that support for democracy declined less between 2006 and 2010 in countries that had experienced a deeper crisis at the start of the transition process. Indeed, support increased in several countries that went through particularly deep downturns in the early to mid-1990s, such as Georgia, Moldova and Tajikistan. A similar pattern is apparent in support for markets. This chart of course does not account for the size of the recent crisis and other factors, therefore the analysis again turns to individual-level regressions based on the 2010 LiTS data.

On an individual level, past crisis experience can be captured in two ways using the data from the LiTS and from external sources. First, the approach of measuring the depth of the post-1990 crisis using the total drop in real output can be "individualised", based on the age of a LiTS respondent. Only people above a certain age will have experienced an economic downturn in their own country. If one assumes that people

<sup>3</sup> The average value of the consumption response index in the Western countries is below one-third, therefore the average impact of the crisis on support for democracy and markets is smaller than in the transition countries (see Chapter 2).

<sup>4</sup> Georgia, Moldova, Serbia, Tajikistan and Ukraine.

remember crisis experiences that occurred when they were at least 15 years old, then the total real fall in output relevant to an individual is equal to the one used in Chart 3.11 if a particular respondent was at least 15 years old in 1990 (born in 1975 or before). For individuals born after 1975, it is assumed to be equal to the largest total output decrease experienced by the respondent's national economy after his or her 15th birthday – which will necessarily be smaller or equal to the decline seen by their older compatriots.

This approach does not, however, take into account the fact that people of different ages when the downturn occurred would have experienced it to varying degrees. During the transition recession of the early 1990s, an 18-year-old might have had a harder time finding a job, or might have had to reduce his or her consumption of certain goods. However, a 40- to 50-year-old employee who lost a supposedly secure job after many years of service might have had trouble providing for his or her family in the absence of a previously strong social safety net. To account for the potentially greater impact of previous crises on older people, the regressions include not only the “individualised” output drop measure attributable to the post-1990 crisis, but also an interaction term between the output drop and the individual's age.<sup>5</sup>

A second approach focuses on a LiTS question which asked respondents about their level of satisfaction with the state of their country's economy. The answer would, of course, reflect many factors – including individual characteristics, such as wealth, education, gender and, importantly, life satisfaction – as well as the impact of the crisis on the respondent's household. A relationship between the answer to this question and these

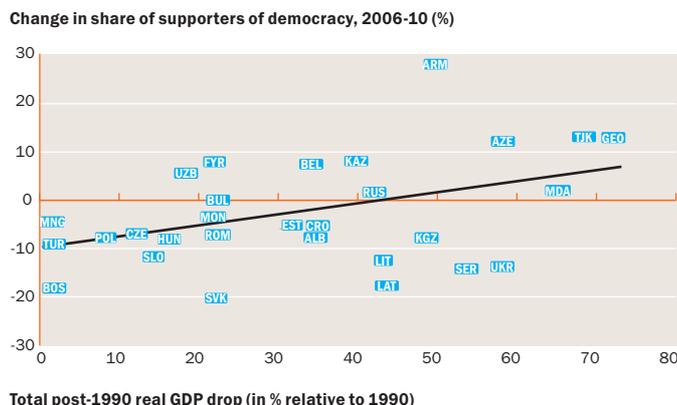
factors can be estimated using the LiTS II data and a linear regression model. This reveals how an average person, with given individual characteristics, who has been hit by the crisis to a certain degree would feel about the country's economy. The difference between the stance regarding the economy of a particular person and the stance that a person with his or her characteristics should have according to the regression model is the *residual* attitude towards the state of the economy, unexplained by the characteristics of the individual that are accounted for in the regression.

This *residual* can help to identify the extent to which people have had to face economic adversity in the past. If they expressed optimism about their country's economy beyond what would be expected of people with the same individual characteristics, life satisfaction and recent crisis experience, it may be because of their different *relative* perspectives. For example, respondents may think that their country's economy is not performing particularly well but, if they were strongly affected personally by a previous crisis (in the early 1990s or otherwise), the response would likely be more upbeat than that of respondents with similar individual characteristics but with no such experience. The *residual* should therefore have a positive relationship with support for markets and democracy, mitigating the direct negative effect of the most recent downturn.

Table 3.2 confirms the importance of past crisis experience for people's attitudes towards democracy. It presents the results of linear regressions that account for the post-1990 output decline that a respondent experienced in adult life or use the individual's “unexplainable optimism about the economy” (the above-described residual) as an indirect measure of previous crisis exposure. The regressions control for the same individual characteristics as those in Table 3.1, but as the coefficients on those variables remain qualitatively the same, they are not presented here.

In all regressions the crisis consumption response remains a strong predictor of reduced support for markets and democracy. In addition, the first two columns of Table 3.2 confirm that witnessing a larger output decline in the early transition years implies a stronger level of support for markets and democracy. The interaction term between the recent and past crisis is not statistically significant, implying that merely experiencing a crisis at an age of 15 or over did not make an individual more resilient to events in 2008-09 as far as attitudes towards markets and democracy were concerned. The interaction term between exposure to past crisis, recent crisis consumption response and age in the first column, however, is positive and significant. This means that older people who were more strongly impacted by the recent crisis and also lived through a previous significant downturn were more likely to prefer democracy to authoritarian political systems. As mentioned earlier, these people were likely more severely affected by the crisis that followed the fall of communism. Consequently, the recent crisis was not sufficient to make them turn against democracy, at least not by as much as

**Chart 3.11**  
Recent decline in support for democracy was greater in countries with smaller post-1990 recessions



Source: LiTS, 2006 and 2010, World Development Indicators.  
Note: For each country, this graph plots the change in the share of the population that unequivocally supports the free market between 2006 and 2010 against the total percentage drop in the country's real GDP after 1990, relative to the 1990 GDP level. The line represents the best linear approximation of the relationship between the two variables, as determined by an OLS regression model.

<sup>5</sup> This term is the product of the individualised output drop measure and the individual's age and therefore increases in either variable.

their younger compatriots. This result does not appear to apply in respect of support for markets.

The third column of Table 3.2 supports the above finding using the economy residual measure. It appears that people who are “unexplainably optimistic” about the state of the economy (their residual value is high) are more supportive of markets. More interestingly, respondents who were hit by the recent crisis *and* have a particularly sanguine outlook on the economy are more likely to support democracy than those similarly hurt by the crisis, but who are not “unexplainably optimistic”.

Both approaches to measuring previous crisis experience therefore suggest that, at least for preferences with respect to democracy, it is to some extent the *relative* crisis that matters. If people had experienced a worse economic event in the past that had impacted on them deeply, they would probably view the effects of the most recent crisis less gravely – and therefore it would be less likely to sway their attitudes away from democracy.

**Table 3.2**  
**Impact of past crises on support for democracy and free markets**

Region	Transition		Transition	
	Democracy [1]	Free market [2]	Democracy [3]	Free market [4]
Crisis consumption response	-0.0271*** (0.00460)	-0.0315*** (0.00644)	-0.0217*** (0.00400)	-0.0267*** (0.00638)
Post-1990 output drop	0.000583* (0.000304)	0.000659* (0.000376)		
Crisis consumption response * post-1990 output drop	0.000211 (0.000153)	0.000219 (0.000250)		
Crisis consumption response * post-1990 output drop * age	0.0000258** (0.0000102)	0.0000139 (0.0000120)		
Economy view residual			-0.00506 (0.00623)	0.0184** (0.00730)
Crisis consumption response * economy view residual			0.00835** (0.00348)	0.00380 (0.00492)
Constant	0.580*** (0.0242)	0.363*** (0.0193)	0.621*** (0.0246)	0.404*** (0.0169)
Observations	25632	24958	25605	24943
Adj. R-squared	0.080	0.070	0.081	0.071
Individual controls	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes

Sources: LITS 2010, World Development Indicators.  
Notes: Standard errors in parentheses are clustered at the country level. Estimation is done by OLS. The dependent variables are as follows: in regressions (1) and (3) Democracy, which is a dummy variable equal to 1 if respondent unequivocally prefers democracy to any other political system; in regressions (2) and (4) Free Market, which is a dummy variable equal to 1 if respondent unequivocally prefers the free market to any other economic system. Sample: all respondents within region listed for a particular regression. \*\*\* significant at the 1% level, \*\* significant at the 5% level, \* significant at the 10% level.

### The crisis and turning against the existing system

While the tough experience of the early transition years may have made the attitudes of people in the CIS region more resilient in the recent downturn, it does not explain the increase in support for democracy and markets in some CIS countries. Many people in the transition region blamed the West or markets and democracy more generally for causing the crisis, irrespective of the system in place in their own countries (see Chart 3.10). On the other hand, others blamed their own governments or may have believed that their authorities could have responded more effectively to the downturn. This would imply a belief that the economic and political systems in place in their own countries somehow contributed to the crisis, even if it originated abroad.

Some initial evidence that people “turned against what they had” when hit by the crisis, or blamed the system in place at home, has already been suggested in Table 3.1. The crisis had the strongest negative impact on preferences for democracy and markets in the Western comparator countries, which have the strongest democratic and market institutions in the LITS sample. The impact was weakest in the CIS, with some of the least democratic countries. When the CIS sample is further restricted to the six countries with the lowest 2010 World Bank governance score – Uzbekistan, Tajikistan, Kyrgyz Republic, Belarus, Azerbaijan and Russia – the negative coefficient on the crisis variable loses its statistical significance. Within that group, the crisis did not turn people against democracy and free markets – systems that, according to external measures such as the World Bank score, were less developed there than in other countries of the region.

If the hypothesis that citizens of transition countries who are particularly affected by the crisis changed their political and economic system preferences against “their” systems be tested at the individual level? According to the hypothesis, respondents would not turn against the systems that they objectively had in their countries according to external measures, but rather against the systems that they thought they enjoyed. The LITS does not provide such an individual-level measure for the perceived economic system, but it is available for the perceived political system (which can then feed into perceptions regarding the economic system as well). Specifically, respondents were asked to what extent they agreed that (i) free and fair elections, (ii) freedom of speech and (iii) freedom to travel abroad existed in their countries. The responses can be used to define a subjective liberties index for each individual respondent, which is the simple average of the response to these three questions, on a scale from 1 to 5.

If people who were affected by the crisis turned against the system that they perceived as having been in place, the coefficient on the interaction term between the crisis consumption response and the liberties index should be negative. In other words, if people living under a democracy were hit by the crisis, they would support that system less. If, on the other hand,

they were similarly impacted by the crisis in a non-democratic regime, they would favour democracy more.

Table 3.3 shows that this is indeed the case. The first line of the table confirms that, even when accounting for the liberties index, the crisis consumption response retains its negative direct effect on attitudes towards democracy and free markets. The line below, as a baseline, shows that respondents were more likely to support democracy and free markets if they felt that they were already enjoying basic freedoms. This effect is stronger for democracy than for markets. The last line of the table shows the main result – the negative coefficient on the interaction term between the crisis consumption response and the liberties index. While those who felt that they had more liberties generally preferred democracy and markets, the same people responded *negatively* in their preferences for the two systems if they were hit by the crisis.

In other words, people did indeed turn against the systems they believed functioned in their country when they were affected by economic turmoil. Those who enjoyed more freedoms wanted less democracy and markets when they were hurt by the crisis, while those who felt that their liberties were more limited became more likely to support these systems. This effect is magnified in countries with limited freedoms *and* higher levels of corruption, where people seem to have increased their support for democracy and free markets more strongly (see Box 3.1).

**Table 3.3**  
**Impact of perceived level of freedom on support for democracy and free markets**

Region	Transition	
	Democracy [1]	Free market [2]
<b>Dependent variable</b>		
Crisis consumption response	-0.0253*** (0.00441)	-0.0323*** (0.00641)
Liberties index	0.0633*** (0.00968)	0.0439*** (0.00951)
Crisis consumption response * liberties index	-0.0148*** (0.00410)	-0.0173*** (0.00564)
Constant	0.680*** (0.0232)	0.442*** (0.0215)
Observations	28075	27247
Adj. R-squared	0.092	0.073
Individual controls	Yes	Yes
Country fixed effects	Yes	Yes

Sources: LITS 2010.

Notes: Standard errors in parentheses are clustered at the country level. Estimation is done by OLS. The dependent variables are as follows: in regression (1) Democracy, which is a dummy variable equal to 1 if respondent unequivocally prefers democracy to any other political system; in regression (2) Free Market, which is a dummy variable equal to 1 if respondent unequivocally prefers the free market to any other economic system. Sample: all respondents within region listed for a particular regression. \*\*\* significant at the 1% level, \*\* significant at the 5% level, \* significant at the 10% level.

### The mitigating effect of government aid on attitude changes

Chapter 2 shows that a variety of mechanisms – personal savings, family aid, bank borrowing or possibly government assistance – allowed households to cushion the impact of crisis events on their actual consumption. Many households were therefore able to mitigate a decline in consumption despite crisis-induced falls in their income levels. Did such mechanisms also attenuate the change in their preferences towards democracy and markets? In other words, would access to safety nets limit the impact of the crisis on people's attitudes? If this is the case, policy-makers attempting to help households through the crisis would be also limiting the attitudinal consequences of the downturn.

To some extent the results presented in the preceding tables already suggest that this must be the case, since they show a strong impact of the consumption response to the crisis on preferences towards markets and democracy. Therefore, anything that mitigates the impact of the crisis on consumption should also have an effect on attitudes. However, it is possible to test the role of safety nets more directly. The two measures of the crisis in the 2010 LITS – actual crisis events, such as job loss, on the one hand and the ensuing consumption response on the other – enable the creation of a measure of each household's mitigation mechanisms. A linear regression model can predict the household consumption response expected for a given set of individual characteristics and the value of the index of crisis events introduced in Chapter 2. The crisis event index awards one point for each possible event, including job loss by a household member, reduced working hours, reduced wages and so on. The difference between a household's actual crisis consumption response and the response predicted by the regression in light of the crisis events experienced by the household is taken to be a measure of the mitigation mechanism available to the household. If the mechanism is strong, the residual is negative – the household had to reduce its consumption by less than would be expected given what happened to it during the crisis. On the other hand, if it is weak – meaning a relatively large reduction in consumption – the residual will be positive.

Table 3.4 presents the results of a linear regression of support for markets and democracy on the crisis events index as well as on the households' smoothing mechanism measure. The first line of the table shows that a weaker mitigation mechanism (positive residual) led people to turn more against democracy and markets. This result holds for the transition region as a whole, new EU countries as well as the CIS sample in the case of support for markets. Only the preference for democracy in the CIS appears to be solely driven by the extent to which a household is impacted by exogenous crisis events, rather than by its capacity to shield its consumption as well.

Based on these results, government-provided safety nets would be expected to cushion the effect of the crisis on attitudes towards democracy and markets to the extent that they helped

## Box 3.1

### Political development in corrupt countries: the crisis as a chance for democracy and markets?

In 2006 support for markets and democracy was lower in countries with the weakest institutions, which, then and now, also experience the highest levels of corruption and are lagging behind in terms of liberal reforms. However, in 2010 the picture was reversed and support for democracy and markets had increased a great deal in such countries, in contrast with limited progress on the path of reform. Turning against existing institutions when hit by the crisis only partly explains the increase of support for democracy and markets by respondents in these countries and particularly in the CIS. This box illustrates another phenomenon. The increase in support for democracy and markets has been particularly strong in the countries with the highest perceived levels of corruption, and among segments of the population that were most excluded from the political-economic system in place, namely the young and unemployed.

Previous research has found that corruption affects attitudes towards free markets. Even though “capitalism” is the system

most conducive to growth, there are persistent negative attitudes towards it in developing countries. There is also evidence that high levels of corruption are associated with support for left-leaning policies. According to Di Tella and MacCulloch,<sup>6</sup> a reason for this is that when people perceive capitalists as being corrupt, they are more inclined to favour policies that limit their activities. In countries with weak institutions and limited checks and balances on politicians, anti-market policies appear as the solution to limit the freedom of capitalists and, in turn, political capture. In such countries, people who believe that there are high levels of corruption are less likely to support free markets in order to constrain capitalism. However, an unintended consequence of anti-market policies is that they may ultimately hurt the economic interests of the majority and in particular of those most excluded from the political-economic system: the young and unemployed, as well as those who would most benefit from more open societies and freer markets, such as mobile individuals.

An economic crisis may lead people to realise that such a system is not optimal and generate a strong reaction against statist policies and in favour of free markets and, possibly, democracy. On this basis, one would expect people who perceive high levels of corruption and live in countries with weak institutions to become more supportive of the market as they are hit by the crisis,

Table 3.1.1  
Impact of corruption on support for democracy and free markets

Region	Transition				CIS				New EU			
	Democracy		Free market		Democracy		Free market		Democracy		Free market	
Group	All [1]	Young [2]	All [3]	Young [4]	All [5]	Young [6]	All [7]	Young [8]	All [9]	Young [10]	All [11]	Young [12]
Crisis consumption response	-0.0219***	-0.0147*	-0.0265***	-0.0284***	-0.0204**	-0.0138	-0.0373**	-0.0299	-0.0242***	-0.00839	-0.0297***	-0.0449***
	(0.00412)	(0.00792)	(0.00668)	(0.0102)	(0.00722)	(0.0116)	(0.0121)	(0.0169)	(0.00414)	(0.0141)	(0.00509)	(0.0123)
Corruption	-0.0132*	-0.0254**	-0.00748	-0.0124	-0.0128	-0.0143	0.00174	0.0118	-0.0123	-0.0531*	-0.00854	-0.0468
	(0.00769)	(0.0105)	(0.00820)	(0.0131)	(0.0133)	(0.0159)	(0.00957)	(0.0160)	(0.0157)	(0.0278)	(0.0143)	(0.0263)
Crisis consumption response* corruption	0.00641	0.0137**	0.00575	0.0184**	0.0152**	0.0247***	0.0159**	0.0335***	-0.00783	-0.0129	0.00170	0.0223
	(0.00449)	(0.00532)	(0.00484)	(0.00817)	(0.00607)	(0.00455)	(0.00616)	(0.00839)	(0.0102)	(0.0254)	(0.00823)	(0.0174)
Constant	0.632***	0.657***	0.410***	0.310***	0.676***	0.559***	0.442***	0.250***	0.288***	0.604***	0.193***	0.401***
	(0.0226)	(0.0309)	(0.0215)	(0.0382)	(0.0530)	(0.0725)	(0.0452)	(0.0649)	(0.0234)	(0.0504)	(0.00789)	(0.0590)
Observations	27664	7101	26840	6886	10097	2779	9855	2719	9248	1815	8989	1742
Adj. R-squared	0.082	0.053	0.068	0.042	0.084	0.056	0.057	0.038	0.062	0.051	0.065	0.040
Individual controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Sources: LITS 2010.

Notes: Standard errors in parentheses are clustered at the country level. Estimation is done by OLS. The dependent variables are as follows: in regressions (1), (2), (5), (6), (9) and (10) Democracy, which is a dummy variable equal to 1 if respondent unequivocally prefers democracy to any other political system; in regressions (3), (4), (7), (8), (11) and (12) Free Market, which is a dummy variable equal to 1 if respondent unequivocally prefers the free market to any other economic system. Sample: all respondents within region listed for a particular regression. \*\*\* significant at the 1% level, \*\* significant at the 5% level, \* significant at the 10% level.

<sup>6</sup> R. Di Tella, and R. MacCulloch, “Why Doesn’t Capitalism Flow to Poor Countries?”, Brookings Papers on Economic Activity (Spring 2009), pp. 285-321.

compared with people who have been spared by the crisis. Such a reaction should be stronger for individuals who benefit less from the capitalist-constraining environment, either because the lack of free markets limits their own options – for instance, the young or the more geographically mobile – or because the system has failed them – such as the unemployed.

Table 3.1.1 presents results from multivariate linear regressions that confirm these expectations. The explanatory variables used in these regressions include, apart from the usual individual characteristics including the consumption-based crisis measure used in the earlier regression tables, a measure of corruption perceptions from the 2010 LiTS. Each respondent was asked how frequently, in their opinion, unofficial payments were made across a wide range of public services that are meant to be free – including traffic policing, public education and health care. The response scores from these categories (from 1 for “never” to 5 for “always”) are averaged to produce a single measure of corruption perception for every individual.<sup>7</sup> In addition to the crisis and corruption measures, the regression also includes an interaction of the two. This reflects the combined effect of the perception of corruption and of being personally hit by the crisis.

The first four columns of the table summarise the models for the transition region as a whole. Regression results are presented in turn for the entire population and for those younger than 35 only. In additional specifications (not shown), the analysis proceeds in the same way, by considering the subsamples of the unemployed and of those who are geographically mobile.

Results in the first and third columns suggest that, for the entire population of the region, corruption tends to be negatively correlated with support for democracy. This is a weak confirmation of the hypothesis that corruption drives people to desire more restrictive economic and political systems so as to constrain capitalists. More importantly, the coefficients on the interaction term between the crisis impact and corruption is positive and significant in the second and fourth columns (but not in the first and third), where only the subsample of young people (younger than 35 years old) is considered. In other words, the young have significantly increased their support for democracy and markets as a response to the combined effect of high levels of corruption and being personally hit by the crisis. Similar results were obtained for the unemployed and for those who are geographically mobile (results not displayed here).

Columns [5] to [12] repeat these regressions in subsamples comprising countries of different levels of institutional quality, namely the CIS countries on the one hand and the new EU countries on the other. The mechanism described above is only expected to work in countries with low institutional quality, which

leads to insufficient checks and balances to prevent capitalists from exerting political capture (this is what leads the majority to support state-oriented policies in the first place). Again, the results are in line with this expectation: as columns [5] and [6] show, the interaction term between crisis impact and corruption perceptions is positive and significant for entire populations only in the CIS countries. This is driven particularly by a very strong interaction effect for the young in the CIS (columns 7 and 8),<sup>8</sup> which also drives the impact among the young in the transition region as a whole. By contrast, the effect is never observed in countries with better quality institutions, such as the new EU members (see columns [9] to [12]).

<sup>7</sup> Some readers may be worried that perceptions of corruption are heavily correlated with respondents' attitudes to the political-economic system in general, and support for democracy and markets in particular. To address this issue, the regressions were also run using the number of times that respondents used public services as an instrumental variable for the perception of corruption. The validity of this instrument rests on the assumption that the use of public services is a good, and more objective (that is, uncorrelated with political attitudes), predictor of perceived corruption. All the results discussed above are robust to this alternative estimation method.

<sup>8</sup> Similarly, the effect is particularly strong for the other categories of people mentioned above, that is, the unemployed and the more geographically mobile (not shown in Table 3.1.1).

**Table 3.4**  
**Impact of smoothing mechanisms on support for democracy and free markets**

Region	Transition		New EU		CIS	
	Democracy [1]	Free market [2]	Democracy [3]	Free market [4]	Democracy [5]	Free market [6]
Smoothing mechanism	-0.0190*** (0.00465)	-0.0245*** (0.00601)	-0.0236*** (0.00409)	-0.0254*** (0.00539)	-0.0144 (0.00880)	-0.0291** (0.0115)
Crisis events	-0.0118** (0.00429)	-0.0101 (0.00611)	-0.0147*** (0.00425)	-0.0217** (0.00723)	-0.0120** (0.00481)	-0.0159* (0.00835)
Constant	0.629*** (0.0234)	0.411*** (0.0200)	0.319*** (0.0219)	0.317*** (0.0124)	0.686*** (0.0565)	0.439*** (0.0450)
Observations	28312	27457	9428	9164	10382	10117
Adj. R-squared	0.082	0.068	0.063	0.066	0.083	0.058
Individual controls	Yes	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Sources: LITS 2010.

Notes: Standard errors in parentheses are clustered at the country level. Estimation is done by OLS. The dependent variables are as follows: in regressions (1), (3) and (5) Democracy which is a dummy variable equal to 1 if respondent unequivocally prefers democracy to any other political system; in regressions (2), (4) and (6) Free Market, which is a dummy variable equal to 1 if respondent unequivocally prefers the free market to any other economic system. Sample: all respondents within region listed for a particular regression. \*\*\* significant at the 1% level, \*\* significant at the 5% level, \* significant at the 10% level.

**Table 3.5**  
**Impact of government programmes on support for democracy and free markets**

Region	Transition		New EU		CIS	
	Democracy [1]	Free market [2]	Democracy [3]	Free market [4]	Democracy [5]	Free market [6]
Crisis consumption response	-0.0207*** (0.00457)	-0.0255*** (0.00635)	-0.0240*** (0.00401)	-0.0279*** (0.00467)	-0.0164* (0.00869)	-0.0321** (0.0118)
Apply for social assistance	0.00000488 (0.0168)	0.0242 (0.0253)	-0.0517 (0.0336)	-0.0117 (0.0308)	-0.0173 (0.0218)	0.000550 (0.0371)
Receive social assistance	0.0110 (0.0250)	-0.0112 (0.0262)	0.0810* (0.0393)	0.0465* (0.0219)	-0.00551 (0.0326)	-0.0411 (0.0390)
Apply for unemployment benefits	-0.0206 (0.0181)	-0.0144 (0.0205)	-0.0193 (0.0417)	-0.0399 (0.0449)	0.00115 (0.0355)	0.0310 (0.0226)
Receive unemployment benefits	-0.0272 (0.0290)	-0.0376 (0.0261)	-0.0288 (0.0508)	-0.0189 (0.0511)	-0.0318 (0.0723)	-0.133* (0.0617)
Constant	0.653*** (0.0244)	0.431*** (0.0201)	0.349*** (0.0199)	0.346*** (0.0149)	0.704*** (0.0593)	0.468*** (0.0410)
Observations	27861	27014	9255	8999	10201	9936
Adj. R-squared	0.083	0.068	0.064	0.068	0.083	0.058
Individual controls	Yes	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Sources: LITS 2010.

Notes: Standard errors in parentheses are clustered at the country level. Estimation is done by OLS. The dependent variables are as follows: in regressions (1), (3) and (5) Democracy, which is a dummy variable equal to 1 if respondent unequivocally prefers democracy to any other political system; in regressions (2), (4) and (6) Free Market, which is a dummy variable equal to 1 if respondent unequivocally prefers the free market to any other economic system. Sample: all respondents within region listed for a particular regression. \*\*\* significant at the 1% level, \*\* significant at the 5% level, \* significant at the 10% level.

households maintain their consumption in the face of crisis events. However, Chapter 2 finds that these safety nets were generally not very effective in the transition region. Did receiving these forms of assistance have an impact on peoples' attitudes to markets and democracy even when they did not make a material difference on the consumption response to the crisis reported by households? Table 3.5 presents the results of linear regressions that investigate the direct impact of such government programmes on political and economic system preferences, while controlling for the consumption response of these households. The LiTS asked respondents whether they sought unemployment, social assistance, child and housing benefits during the crisis and whether they were successful. The set of regressions in Table 3.5 controls for eight relevant variables – for each of the four benefit programmes it includes a dummy variable that equals 1 when the household applied for it and another dummy equalling 1 if the household was successful. In addition, it uses the same index of consumption crisis response that was included in Tables 3.1, 3.2 and 3.3. For conciseness, only results for unemployment and social assistance benefits are presented.<sup>9</sup>

No benefit programme had a significant direct impact on attitudes to political and economic systems in the transition region as a whole.<sup>10</sup> Among the new EU members, however, receiving social assistance did increase respondents' preferences for markets and democracy. The fact that these countries have high levels of democracy and free market development suggests that safety nets can help governments maintain support for the political and economic systems in place, at least to some extent.

Interestingly, within the CIS region, receiving unemployment benefits reduced support for free markets. While this coefficient has the opposite sign to the coefficient for social benefits in the new EU members, its interpretation may be very similar. CIS countries generally have rather undeveloped free markets. Here, it seems, the government can then also buy support for the system in place – by providing unemployment benefits. Their recipients are less likely to support free markets, that is, they are happier with the system in place.

Overall, these results suggest a general role for mitigation mechanisms in reducing the attitudinal crisis impact. They also confirm the direct role that governments can play in lessening the effect of economic downturns on people's preferences regarding political and economic systems. On a positive note, democracies and free market economies can bolster citizen support for the

systems in place. Perhaps more negatively, people in countries with limited, or no, free markets can also be influenced to desire less change in their country's economic system as a result of a crisis.

### Conclusion

The 2010 LiTS reveals that preferences for political and economic systems in transition countries have changed significantly since the first round. Support for democracy and markets has dropped in many of the more advanced transition countries, but increased in some of the less-developed ones. The analysis in this chapter finds two main drivers for these diverging developments, and both relate to the recent crisis.

First, a higher crisis-induced reduction of consumption, especially relative to any past crisis experience, has driven people away from supporting markets and democracy. This may have occurred for a variety of reasons, including that they blamed these systems (or Western countries with these systems) for causing the crisis in the first place.

Second, people impacted by the crisis turned against the political and economic systems that they perceived to be in place in their own countries. Individuals who had been enjoying fuller freedoms at the time of the crisis tempered their preference for democracy and markets, while the popularity of markets and democracy rose in countries where such systems were less established.

Governments can, to some extent, mitigate the effects of the above mechanisms on people's attitudes and help maintain support for prevailing political and economic systems. Social safety nets can limit a crisis-induced decrease in support for democracy and markets in freer countries. Perhaps less fortunately, however, they can also induce a drop in support for free markets in countries with constrained freedoms, thereby to some extent counteracting the crisis-induced increase.

### References

**R. Di Tella and R. MacCulloch (Spring 2009)**

"Why Doesn't Capitalism Flow to Poor Countries?", *Brookings Papers on Economic Activity*, pp. 285-321.

<sup>9</sup> Child and housing benefit variables are not statistically significant in these regressions. This is not entirely surprising, as they are the least likely to be applied for as a result of a crisis event.

<sup>10</sup> The actual importance, quality and efficiency of the four benefit programmes varies considerably across the transition subregions, which may contribute to this finding.