# (Re-)Experiencing markets: Public attitudes towards markets in the post-communist transition.

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Author: Elodie Douarin*

*School of Slavonic and East European Studies, University College London, UK.

Email: e.douarin@ucl.ac.uk

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## Abstract:

This chapter reviews the literature on the determinants of support for market economies, and for values deemed compatible with markets, in the transition region from the 1990s. The critical review presented focuses on work using large household or population surveys collected at different points in time since the onset of transition. Key differences in indicators of support, and their interpretations, are emphasised to clarify how and why specific questions asked to citizens can be informative about support for reforms.

Overall, greater initial support for markets seems to have been important, early experiences with market reforms (whether extensive or partial) led to changes in views, and crises remain key turning points for further change. But maybe most importantly, it seems that people understood reforms had short-term costs, and as long as they remained hopeful that liberalization could bring improvement, they continued to support reforms towards markets. We emphasise throughout that analysing public opinion is difficult especially in the absence of benchmarks, and when clear definitions of what is being assessed is not provided: we highlight limitations with the questions typically used to measure support for policy change or economic systems, and possible issues with how these questions are understood by lay-person and researchers or policymakers alike.

Keywords: post-communist transition, economic reforms, public opinion, liberalization, economic systems

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## Introduction

The economic and political transformation of Central and Eastern Europe and the former Soviet Union started in the early 1990s remains one of the key events of the 20th century, with continued relevance to current economic and political outcomes in the region. While in some countries, the emergence of markets was demand-led, guided by a dissatisfaction with the economic stagnation experienced under central planning and/or a rejection of political repression, in other countries, it was less the case (Douarin and Mickiewicz 2017). Accordingly, support for markets was uneven to start with (Runst 2014) and understanding the determinants of increased or continued support for reforms seemed important at the time, and continues to be today, as many of these emerging economies have been argued to need further liberalization (Guriev 2021).

In this chapter, we propose to discuss how support for markets has changed from the early 1990s, in the post-communist countries of Central and Eastern Europe and the former Soviet Union, relying on a review of the literature. Data from several household or individual surveys collected from the 1990s to date will be presented to illustrate key points. Based on this review, we will suggest important stages in the evolution of market support and highlight pending issues and areas where the data collected call for careful and nuanced interpretations, based on a wider knowledge of the transition experience.

This exploration will be structured as follows. First, we will propose a short summary of transition, starting with a definition of "markets" and how progress in their development can be measured. We will then review the literature on support for reforms in transition and in particular reforms aiming at establishing or strengthening markets. This will be done emphasizing the survey questions that were analyzed to reach these conclusions, and issues with their formulation/interpretation. Finally, we will also present some illustrations based on household surveys and case-study discussions, to conclude on the continued relevance of the insights presented in Hellman (1998), and pending issues.

## Transition as creating markets

From 1989-1991, an intense period of economic reforms got underway throughout the former "communist bloc". Countries which had so far been characterized by their peculiar economic system, relying heavily on central planning, supported by autocratic political structures, started programs of reforms aiming at (re-)instating markets, accompanied, in most cases, with some level of democratization. While market reforms and democratic reforms were often intertwined and their progress correlated (Fidrmuc 2001), here we will focus primarily on discussing the creation of markets.

While markets are ubiquitous today and the concept may seem too mundane to require a definition, it is in fact crucial to reflect on what the end point of these reforms was (see Douarin and Mickiewicz (2022) for an extensive discussion of progress in reforms using different possible definitions and indicators for the "end point") and what a market actually is.

It would also be important to understand what the lay person understand by "markets", "market reforms" or "market economy", as these definitions may differ from that preferred by academics. As we will argue later on, and because the chapter aims to discuss support for markets and market-oriented reforms, it is important to frame our discussion to recognize that attitudes towards markets are likely to reflect expectations and experiences – hence respondents who are experiencing imperfect markets, which are not delivering on expectations may struggle to identify the cause of the failure to deliver: is it a move towards markets that is to blame or is it the market imperfections that were created by partial reforms? We will get back to this important point later. Let us start by defining markets.

## Market versus plan

In the "Economic Systems" literature, authors have typically presented markets as the opposite of plans, that is the focus has been on the use of prices for resource allocation rather than command. The first implication of this, and the implication the most frequently emphasized, is thus a withdrawal of the state, as exchange is dictated by decentralized decisions to produce and sell among economic actors. Exchange is no longer based on centralized decision-making at some level of the state apparatus, formalized in a plan. This aspect of market-generating reforms is called "liberalization", and can be split into internal and external liberalizations, i.e., reinstating price as a key vector of information for domestic markets and to liberalize trade respectively. However, this alone is insufficient to generate efficient markets, and market reforms are more than just price liberalization reforms.

Thus, a second implication of using prices as vectors of information in exchanges, is that the conditions supporting the emergence of efficient prices need to be present, created or supported. In "typical" economics textbook, markets will be described as places where actors exchange products and services for money. These actors are collectively contributing to price formation, as their individual decentralized decisions to buy or sell facilitate an aggregation of information across actors. This aggregation of information is optimized when none of these actors can distort price formation because of relative market powers and when everyone is motivated by selfishness – maximizing their own profit or utility. The implication is then that "perfect" markets rely on freedom of entry and competition, as well as private ownership. Market reforms thus also include privatization reforms, property rights protection and reforms aiming at generating and maintaining competition. For businesses relying on more complex structure than the "owner as manager", specific laws and regulations would also be needed to oversee and secure contracts and rights, generally protecting the less economically or politically powerful actors (e.g. shareholders rights, competition laws, lobbying regulations, etc.).

Finally, prices are more likely to be meaningful in context where macroeconomic stability exists, because unchecked inflation for example can be detrimental to long-term planning and thus investment and will alter strategic decision-making in the short run. Planned economies were at particularly high risk of inflation in the early stages of reforms (see discussion in Fischer et al. 1996 for example). Thus, as a pre-requisite and accompanying measure, the establishment of markets will also require macroeconomic stabilization in the short-run, and a degree of macroeconomic prudence in the longer run (Rodrik 1996).

In short, market-creating reforms required in transition are thus about (i) liberalization, (ii) privatization and competition, and (iii) macroeconomic stabilization. While liberalization (e.g. Billmeier and Nannicini 2013) or privatization (e.g. Estrin et al. 2009) are often the focus of studies on economic reforms, reforms that do not tackle all three dimensions can be described as partial and creating imperfect or underperforming markets (Rocha 2015 and Oliveira-Martins and Rocha 2021) in the specific context of a transition from a formerly centrally-planned economy.

### Measuring progress

With this model of reforms in mind, build on mainstream economic theory, the different aspects of reforms leading to establishing (relatively more) efficient markets are translated quite transparently in the EBRD indicators of progress in reforms. These indicators, known as Transition Indicators (TI) where developed in the mid-1990s to track progress in reforms and comprise 8 dimensions (see full description in Appendix) which are generally grouped into 2 main components (see for example Douarin and Mickiewicz 2017 or Svejnar 2002):

1. Liberalization or first-stage institutional reforms, including:
   a. Internal price liberalization
   b. External price liberalization (liberalization of trade and foreign exchange)
   c. Small scale privatization/Removal of internal barriers to entry (i.e. to developing and setting up new private enterprises)

2. Second-stage institutional reforms (i.e. changes in existing ownership structure and introduction of new regulatory frameworks)
   a. privatization of state enterprises or large-scale privatization
   b. governance and enterprise restructuring (hardening of the budget constraint, improve access to finance, improving corporate governance)
   c. competition policy (regulatory framework to improve and support competition)
   d. banking reform and interest rate liberalization
   e. security markets and non-bank financial institutions.

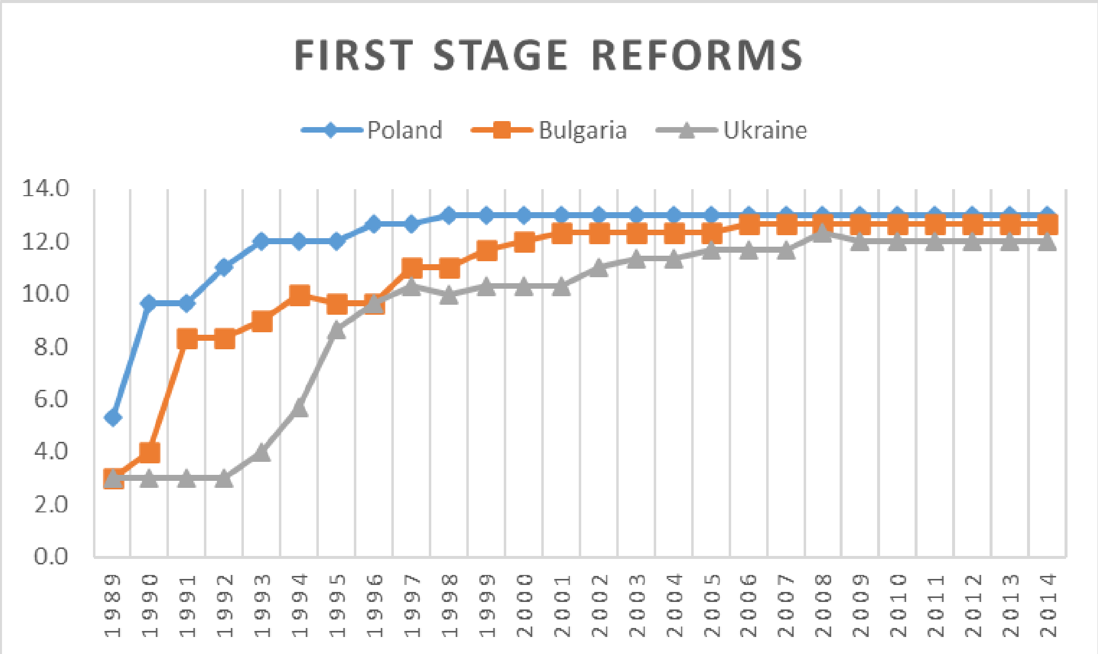
The first stage institutional reforms are relatively easy to implement - they are sometimes described as stroke-of-the-pen reforms – and they focus on making it easier to set up small businesses, and freeing prices, two fundamental aspects of creating markets. The second-stage reforms are more complex and may take longer to implement. Some aspects of these reforms may also be less visible for some economic actors (for example atomized consumers). They require the definition of new laws and regulations, as well as the structures to support and enforce them with a focus on two aspects: privatizing existing large-scale firms in a context geared towards maintaining competition and developing a viable private finance sector. These second stage reforms thus have an implicit state capacity-building dimension: they are about public governance, as the state needs to evolve from a planning institution to a body overseeing markets (see chapter 10 in Douarin and Mickiewicz (2017) for more on this).

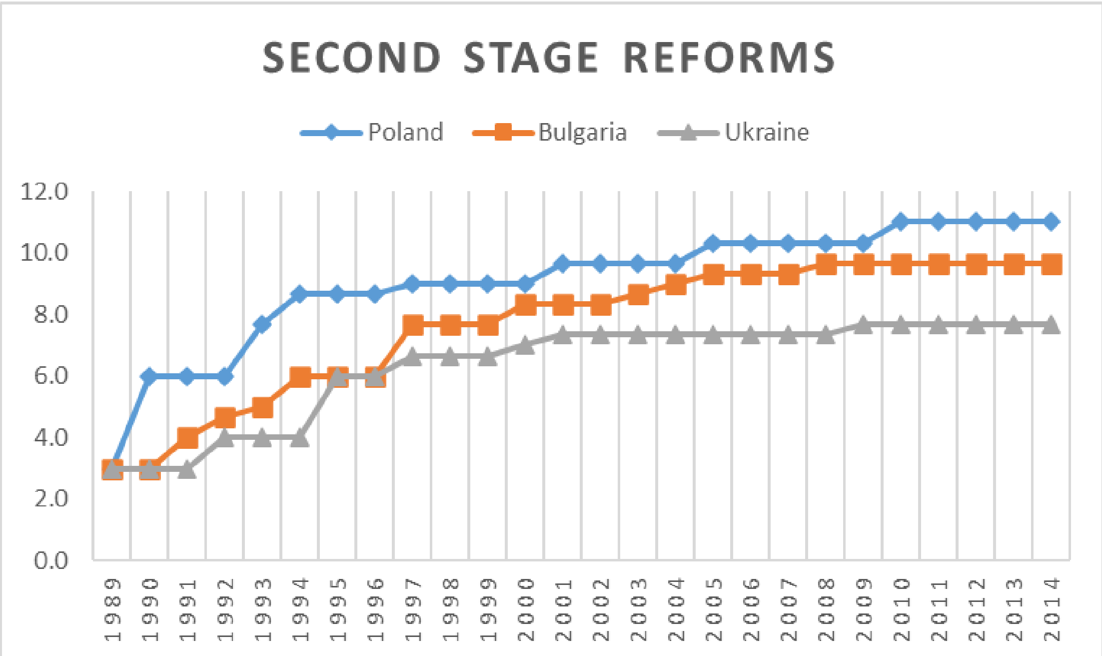
We note that macroeconomic stabilization does not require additional indicators, as it can be assessed using statistics typically collected by governmental agencies, such as inflation, government debts, etc.

At the early stages of reforms, policymakers and advisors did not know for sure how reforms would unfold. But we now have the benefit of hindsight, and Figure 1 below illustrates progress in reforms in the region according to these indicators of reforms. An analogous figure presenting the same data aggregated by regions: CEB, SEE, CIS and laggards, can be found in Douarin (2021), but we focus on three countries in this figure: namely Poland, Bulgaria and Ukraine, as each illustrate a slightly different approach to reforms, following the typology suggested by Havrylyshyn (2007). Poland is an example of fast reformers, where all reforms were implemented swiftly. Bulgaria, despite a political discourse centered on fast-reforms, struggled to keep the momentum going and delayed some key reforms to the mid-1990s. In particular, early efforts at stabilization failed, and more stringent measures had to be implemented in 1997. Finally, Ukraine only implemented tepid reforms that were rapidly stalled. With the benefit of hindsight, we now know that those who tackled reforms head-on, continued their reform efforts and mostly kept their head start (Havrylyshyn 2020, 2021). This is somewhat visible in Figure 1 as the rank order of our 3 case-studies remained unchanged for the period covered.

Of course, this figure gives us the benefit of hindsight, compared to many of the studies that were published analyzing support for reforms in the region. In the early years especially, policymakers and advisors did not know for sure how reforms would progress. But with these elements of definition for markets and reforms in mind, we can progress to discussing how support for reforms and market economies has been captured in surveys before we proceed to reviewing the empirical literature on support for reforms.

**Figure 1: 1st and 2nd stage reforms – Based on average EBRD TI, selected countries.**




Note: First stage reforms are the average of the country scores for liberalization, exchange and small-scale privatization, while second stage reforms are the average of large-scale privatization, competition and governance. In both cases, the lowest feasible score is 3 (which would reflect a situation where the economy is very much still centrally planned) to 13 (for situation that are typical of an advanced market economy).
Poland is usually presented as a fast reformer and has a profile quite typical of the countries of the CEB region.
Bulgaria had a slower start and has a profile quite typical of the countries in the SEE region.
Finally, Ukraine is usually described as a partial reformer, and has a profile quite typical of the CIS region.
Source: Author’s calculations based on EBRD Transition indicators.

## Support for reforms and markets: what sort of measures are available?

To measure support for markets and market reforms, we will refer to questions that have been included in large household surveys conducted in the region starting in the 1990s and that have been used in studies focusing on support for reforms. These questions have been identified through our review of the literature as relevant to the focus of this chapter. It should however be clear that it is bold to ask a layperson for their assessment of economic reforms and economic systems. There is thus a need to clarify what the questions analyzed mean and the extent to which they capture pertinent information.

As early as 1990, data was being collected all over what was in the process of becoming the "transition region" through large scale, representative and comparable household surveys. Given the unprecedented events and their relatively unexpected nature, questions focusing on values and expectations were included to try and make sense of what would happen. Some of these surveys included specific questions pertaining to people's view of the economic change that lied ahead. However, and as noted above, while the expected path was to move towards markets, markets are not so easily defined, and market economies take multiple forms, making the formulation of a meaningful question difficult. We summarize in Table A1 in appendix the surveys available for analysis, the years and countries in which they were collected and finally the questions they contain that have been used in the literature to discuss some aspects of people's support towards market reforms or market as an economic system. We also describe them below, distinguishing between early surveys which often included a specific question on people's views of different economic systems, and surveys which cover more recent years and tend to have questions on preferences over specific economic reforms or policies, that can be assumed to align with archetypal definitions of specific systems. In our presentation we will emphasize some of the issues with these questions, especially regarding their ability to adequately measure support for markets and market reforms.

### Commonly used early surveys on attitudes to reforms

The first three surveys we will discuss were collected during the 1990s only, and where specifically targeted towards the transition region, with the aim of capturing what was happening to the population during a period of intense changes.

The first example of such survey is the "Central and Eastern Eurobarometer Survey" (CEEBS), which was collected yearly from 1990 and 1997 in a total of 22 countries, and from 1991, it contained a simple question about the perceived appropriateness of market reforms. Respondents were asked to state whether they personally felt that "the creation of a free market economy, that is one that is largely free from state control" was right or wrong for their country. While this question does include a brief definition of market economy as one where markets operate with limited state control, it does not engage with the elements of reforms needed to create it, and it is unspecific over the type of state control that is being eliminated. One can thus credibly argue that some respondents would answer the question focusing on the overall direction of travel (i.e. away from central planning) while others could take issue with a "free market" with an absent state. This caveat means that similar responses (either endorsement or rejection of markets) can in fact stem from very different perspectives. For example, similar scoring could reflect a rejection of markets or a rejection of an absence of state intervention, even as respondents support market mechanisms.

In 1992, a second question about the speed of reforms was added, whereby respondents were asked whether the speed of reforms was appropriate, too fast or too slow, or to state that no reforms were being implemented. This constitutes an interesting complement and allows respondents to further state their support for the pace of reforms. However, here again what constitutes market reforms is left unspecified, and the appropriate extent of state intervention is not investigated.

A second survey: the "New Democracy Barometer Survey" (NDBS) started being collected in 1991, with repeated but irregular waves until 2004. This survey was implemented in 16 countries of the transition region and included 2 sets of questions of relevance to this review. First, respondents were asked to assess how well different economic systems functioned in practice on a scale of -100 to +100. The economic systems considered were: the socialist economy they experienced domestically pre-1989 or pre-Perestroika, the economic system as it stands at the time of the survey being conducted and finally the economic system that they should face in 5 years' time. Because these questions are anchored in respondents' experience, it is arguably easier to interpret – we know what market system they are rating. However, respondents in different countries essentially rate very different systems, potentially complicating cross-country comparisons. Second, the questionnaire also included more detailed questions on values relating to economic policies. Indeed, respondents were asked to state their views on contrasting "opinions on public problems", with one opinion aligning more closely with the values embodied in central planning and socialism and the contrasting opinion reflecting values closer to those embodied in markets, but again markets devoid of state interventions. So, while these additional questions offer a complementary picture of the "type" of economic systems the respondents would support, making it possible to express support for some form of state interventions, they can be difficult to interpret, as meddling support for intervention is likely to indicate support for regulated markets, rather than a rejection of markets altogether. The relevant questions pertained to preference over income equality versus income reflecting personal achievements, individual versus collective/state responsibility over livelihood, state versus private enterprises, job security versus pay (they are listed in Table A1 in appendix in their original formulation).

The International Social Justice Project also implemented surveys in 1991 and 1996 in 8 post-communist economies. Respondents were asked to report their satisfaction with their current market economy and whether they thought a "free market" was essential for domestic economic development. Views on socialism and socialist values were also collected. The limited time and space coverage of this survey and the relative overlap in questions with the two previously mentioned datasets means it has less often been investigated. In 1991, five advanced market economies were also included, allowing for a relative benchmarking of the answers received in the post-communist world, something that isn't possible with the two previously mentioned surveys. However, the specific questions pertaining to respondents' preferences over economic systems were not asked in these comparator countries, most likely because it was too difficult to formulate questions that would be meaningful to respondents who had not experienced economic systems other than market-based ones, and thus relevant and interpretable comparatively in both sets of countries.

### Surveys with related questions on the characteristics of economic systems

Finally, two more surveys can be mentioned. The Life in Transition Survey (LiTS) collected by the EBRD and the World Bank in 2006, 2010 and 2016 in the entire transition region, includes a question on support for market economy as opposed to central planning. Specifically, respondents are asked whether they think that a market economy is preferable to any other system, that under some circumstances a planned economy may be desirable or whether it does not matter for people like them. While these statements can be answered even by people who have not lived through central planning, there may be differences in interpretation again, because in the first one, the alternative to markets is not clearly stated (are both unregulated markets and regulated markets understood as market economies by all?), in the second the circumstances in which central planning is desirable are not mentioned (it could be in times of war or for public goods or other, so what is rejected when selecting this response is unclear). The survey also includes a similar question contrasting democracy to autocracy and a short set of questions relating to competition and private ownership, as values that should support markets.

The World Value Survey (WVS) is collected through waves in a varying set of countries. It includes questions on preferences for public versus private ownership, competition, preference for redistribution, etc. Because the questions included refer to a number of policy-relevant dimensions or areas of state intervention, they can be relevant to our understanding the type of systems respondents prefers and the type of reforms they would support, but they do not include a direct question on central planning versus market mechanisms for allocating resources. The main advantage of this data source is that it allows for much broader cross-country comparisons.

We could also add the European Social Survey, however its rotating modules and changing country coverage makes it more complicated to summarize. It also seems to have been used less frequently in papers focusing on the acceptability of economic reforms in the specific context of transition. We will thus exclude it, as well as any other surveys not already mentioned. The literature review we present below thus focuses on the 5 surveys listed above. This provides adequate material for the scope of this chapter.

To conclude, the survey questions available have some important limitations that have implications for interpretations. An underlying assumption behind these seems to be that the opposite of central planning is unregulated markets. While this is theoretically not wrong, it is highly unlikely that policy makers ever had as an objective to implemented fully unregulated markets when transition started, and moderate support for free markets or for an absence of state intervention in some specific policy space should not be interpreted as a rejection of market mechanisms, when it can simply translate a rejection of unregulated markets.

## People's support for reforms and markets

With these caveats in mind, we can now review the literature that has analyzed attitudes towards markets in the transition region. We will follow a rough chronological ordering discussing attitudes in the early years first. This will allow us to discuss reforms in context. Indeed, after the strong reform focus of the early 1990s, looking at Figure 1 we can see that somewhere in the late 1990s to early

2000s reforms stalled, progress was slower after that. This is true even for the so-called first stage reforms – which, even though they are thought to be easier to implement in practice, continued to lag slightly behind the EBRD 4+ benchmark in some of the emerging markets of the transition region. Then the period from about 1998 until 2008 was marked by specific economic crises that could have spurred reforms, but also marked difficult times where other issues came to the fore. Finally, more recent years have been associated with a relative receding interest in market building in the region due to the emergence of more pressing issues in these economies (i.e. Covid19, the war on Ukraine), but also due to a relative paradigm shift in academic and policy circles recognizing more broadly the need to present markets as complex entities with differing levels of state intervention (Stewart 2009). This rough chronology also matches the periods at which the different datasets presented in section 3 were collected.

### The early years

Studies conducted with data collected in the 1990s, seem to present a quite coherent picture, as economic liberalization and market economy are generally more strongly supported in countries that are progressing well with reforms, and by people who are not losers of reforms, or who can hope that their economic situation will improve soon.

Indeed, aggregating data from the Central and Eastern Eurobarometer (CEEB) collected from 1990 to 1997 at the country-level, Kin and Pirttilä (2006) conclude that successful past reforms are associated with more relative support for market economy (measured as average net support for the introduction of market economy in the country – share of respondents reporting a positive assessment minus share reporting a negative assessment). Reforms producing more inflation and inequality, in particular, dampened support for continued reforms towards markets. They also report some evidence that small scale privatization and liberalization (i.e. what we have labelled 1$^{st}$-stage institutional reforms) appeared as desirable first steps in the reform process to try and build popular support. In addition, they find that ex-ante views on future reforms also matter for support, with concerns over a worsening of economic conditions reducing support for reforms, without dampening the effect of variables capturing the outcomes of past reforms. Analyzing the same data, Hayo (2004) reaches similar conclusions, while emphasizing that privatization reforms are particularly sensitive. This suggests that early reform success was important to build a consensus towards increased or continued reforms, but more generally both ex-ante and ex-post views on reforms shape support for the implementation of markets.

At the individual-level, support for reforms reflects personal status as winner or loser of reforms. Hayo (2004) complemented his aggregate analysis of the CEEB with an individual-level analysis of the New Democracy Barometer (NDB) data collected in 1995 and concluded that respondents who are unemployed, poorer, female, less educated and living in rural areas were all less likely to support markets. Using the same data source, but over the period 1991-2004, Rovelli and Zaiceva (2009 and 2013) also show that younger, more educated, and higher income respondents systematically rated reforms more positively, while older respondents, those with lower skills, or those living in rural areas reports more negative assessment. In this analysis, support for reforms is measured by comparing the rating of the current economic system with the economic system in place before transition. It is thus implicitly measuring how much better markets (as they experience them) are compared to central planning according to each respondent. By adding country-level indicators, Golinelli and Rovelli, 2013) added that growth led to increase support for reforms, but also that attitudes towards the past and the present was partly explained by institutional quality.

To complement this evidence, voting patterns in the early years of transition have also been analyzed. Mostly researchers have been interested in identifying the drivers for support for reformist parties in elections that followed the implementation of some market reforms. While a limited number of researchers interpret their findings as demonstrating a disillusionment with reforms (Gibson and Cielecka 1995), voting is often described as reflecting the outcomes of reforms as well as rationale expectations regarding the possible impact of further reforms, thus implying that as long as voters believed reforms would lead to positive change, they continued supporting them even in the face of short-term costs. In other term, both ex-ante and ex-post views on reforms appeared to matter to voters. For example, Fidrmuc (2000) analyzed the second and third election results after reforms started in Czech Republic, Hungary, Poland and Slovakia and concluded that voting was forward-looking, supporting programs that were likely to bring personal gains to voters, irrespective of whether they came from incumbent parties or not. In context where reformers were not re-elected, it wasn't necessarily because of the short-term losers (e.g. the unemployed) as they potentially had more to gain from further reforms - as argued theoretically in Rodrik (1995) and demonstrated for Bulgaria in 2000 by Valev (2004). While in Russia in 1995, some of the regions that had experienced the most intense reforms were also those where higher support for reforms continued to be recorded (Warner 2001).

When it comes to establishing why some countries have been able to implement reforms faster, were there also marked differences in initial popular support for economic reforms?

If we focus on support for market reforms and market economy as a system, many have noted that support was relatively low over the region in the 1990s. Hayo (2004) for example reports that in the CEEB data collected between 1990 and 1996, the mean support for reforms on a scale of -1 to 1 is only 0.12 overall. Using the NDB survey instead, Rovelli and Zaiceva (2009) notes that support for reforms was low initially but did rise between 1991 and 2004, and it rose especially in the Baltic and CIS after the 1998 crisis, leading to a convergence in views with CEE countries. In contrast, Mason (1995) reports high support for a free market economy in the region: using the International Social Justice Survey collected in 1991, he indeed notes that in all countries covered at least 70% of the respondents strongly or somewhat agree with the notion that a free market is essential to the economic development of their country.

One question however that emerges is around the appropriate benchmark for these evaluations. Is the 0.12 value reported by Hayo (2004) as reflecting the average support for markets on a scale of -1 to 1 low? And what does it mean if at least 70% of a representative sample taken from the same population simultaneously reports that markets are essential, as in Mason (1995)? If we were able to meaningfully formulate the underlying questions for respondents in not formerly-centrally planned economies, what would we expect a reasonable score to be[1]?

Essentially, these questions are not fully addressed by the literature discussing support for market economy and market reforms that we have reviewed in this section: It is not entirely clear what constitutes meaningful differences in views and how to interpret them. Especially, as the questions

[1] The CEEB and NDB do not have non-formerly centrally planned comparator countries, and while the ISJP was also administered in West Germany, Japan, the Netherland, Great Britain and the United States, the questions on support for economic systems were not asked in this comparator group.

analyzed refer to economic systems in terms that could be interpreted differently by respondents, as already stated.

### Support for markets after the first decade of reforms

After these early reform years, other events potentially shifted further policy preferences. For example, the experience of the 1998 crisis was associated with a renewed support for market principles and greater support for economic liberalization in the Baltic and the CIS (Rovelli and Zaiceva 2013), leading to a convergence in views with the CEE region.

Several authors had already noted that support for reforms appeared more resilient where institutional quality was greater (Rovelli and Zaiceva 2013) using data from the 1990s. But this was confirmed again in the 2000s, with democracy argued to be a potential pre-requisite for further economic liberalization in Grosjean and Senik (2010) based on their analysis of data from the LiTS 2006. Accordingly, with the financial crisis of 2008, Grosjean at al. (2013) noted that people seemed to learn to reject the systems that were not delivering, as the crisis lowered support for political and economic liberalization, but more so where institutional quality was weak.

Interestingly, from the 2000s onward, there appear to be a relative shift away from focusing on support for markets or plans, towards a consideration of elements of reforms, and preferences for specific policy options. As markets, as imperfect they may be, were in place by then, the focused turned towards policy preferences - potentially opening the way towards better measurement or definitions of the reforms being investigated.

### Preferences for specific elements of reforms or values supporting market mechanisms, and longer-term trends

In parallel to studies focusing on preferences for market over plans analyzing direct questions on system support, researchers have used surveys in which a set of comparator countries had been surveyed and which included a number of questions relating to key distinctive characteristics of markets versus plan, or specific policy views seen as better aligned with support for market reforms, to discuss possible differences within the region, and as compared to countries that did not experience central planning.

Questions considered in this context generally focus on the desirability of competition, preferences for fairness or redistribution, support for private ownership or generally support for state intervention. The degree to which these adequately capture something aligned with preferences for market versus central planning or support for economic reforms is generally accepted, but a note of caution is needed. First support for market economy, as a system is generally broader than support for market reforms, because as the literature on varieties of capitalism has made clear markets exists in many shapes and forms, and in particular, they are compatible with high levels of state intervention and redistribution – so it is possible to support "market economy", but to reject some aspects of market liberalization. In addition, while support for market economy can be stated in absolute term, support for specific market liberalization reforms can be context specific and depends on the current state of liberalization or privatization, in particular, with further reforms being potentially seen as undesirable in contexts with already high levels of liberalization or privatization for example.

Interestingly, authors have emphasized that a general support for market reforms was often not associated with a full rejection of state intervention. Even when respondents appear to support market reforms and the replacement of central planning with market mechanisms, they still support some form of state intervention. In fact, several authors have noted that support for state intervention is relatively high in the post-communist region, compared to countries without that experience. Runst (2014) uses data collected in 1995 through the World Value Survey to show that respondents in post-communist countries generally appear to support greater levels of state intervention, view public ownership more positively, are more left leaning, support strong leaders and are less supportive of competition. A similar argument can be found in Roland (2014) also building on data from the WVS for the period from 1990 to 2004. Aggregating responses from a much broader set of questions to construct an indicator of support for economic intervention and an indicator of preference for political authoritarianism respectively, he concludes that preferences in the post-communist region are both strikingly different from preferences in the US or an aggregated group of European economies, and relatively stable through time.

However, the difference between post-communist countries and the rest of the world on preferences for state intervention have been interpreted very differently by different authors. Indeed, still analyzing the WVS, Landier et al. (2008) concluded that views on competition and privatization overshoot in the early years of transition: focusing on support for private ownership, stakeholder control of firms and the desirability of competition, they showed that post-communist countries displayed higher rating than could be expected from their levels of market development in the early 1990s, but beliefs in the region were later revised as respondents gained more insight into competition and private ownership. Neher (2013) focused on competition only and made an explicit comparison with established market economies (i.e. OECD countries) also stating that support for competition overshoot in early years of transition and later converged to other market economies level.

In addition, Runst (2014) argued that regional differences tended to be under-emphasized in the literature analyzing differences in views between post-communist countries and the rest of the world. He contends that, in the Eurobarometer data, 2 clusters of countries can be described with respondents in Poland, Estonia, the Czech Republic and Romania showing attitudes more supportive of “market principles”, whereas those from Belarus, Armenia, Macedonia, Russia and Ukraine appear less supportive.

These differing interpretations arguably stem from (i) differences in the way values are measured (whether authors are focusing on responses to one specific survey question or aggregating information over several questions) and (ii) differences in the way comparisons are made (how, or whether, countries are aggregated in groups or regions and what comparator group is used). Accordingly, and as noted in Douarin (2021), country-specific average responses (unconditional) for different questions pertaining to values aligned with market mechanisms and state intervention are not strikingly different when comparing former communist countries to their European neighbors, but differences are more marked when compared to the US. Differences are also more marked when focusing on democratic values, rather than preferences related to market or state intervention in markets. In a more thorough quantitative analysis, Pop-Eleches and Tucker (2017) thus illustrates much smaller (conditional) differences in values relating to market support between post-communist countries and the rest of the world (about -0.12 standard deviation) in the WVS, when values relating to democratic support and welfare state support show much stronger differences, at about -0.25 and

+0.31 standard deviation respectively [all reported in Figure 1.1. page 2 in Pop-Eleches and Tucker 2017].

This discussion underscores the issue of presenting market economy as a system characterized by an absence of state intervention, in a region where people tend to reject central planning but still support state intervention, and thus illustrates some of the issues associated with phrasing meaningful survey questions and interpreting them that we have explained in section 3.1.

### A few more points

Before moving on to the lessons of this review of the literature, we should mention the work of Denisova et al. (2009, 2012). The authors for these 2 papers propose an interesting analysis into support for privatization. Their focus is narrower than that of studies focusing on support for markets. However, many authors have emphasized the importance of privatization for economic outcomes in transition, but importantly many emphasized its relevance in context. Indeed, outcomes of privatization could not be considered in isolation as they were also dependent on progress in reforms elsewhere. Accordingly, Estrin et al. (2009) shows that the disparate effects of privatization on growth and productivity over the region are better understood if one consider the underlying development of institutions; while da Rocha (2015) essentially argues that privatization reforms could only succeed where other reforms were progressing well: privatization without (or with limited) liberalization could actually be damaging to growth. Somewhat consistently, Denisova et al. (2009) concluded their analysis of support for privatization in the 28 countries covered by the 2006 LiTS survey by stating that support, while driven partly by individual economic outcomes (reflecting winners and losers of privatization), also depends on the institutional context: in less democratic countries, or countries with poorer governance, everyone rejects privatization, while where institutional quality is better, only those with less market-skills reject it. Digging further, Denisova et al. (2012) proposed new analyses into support for privatization, they showed that rejection of privatization could be argued to be brought out by true preferences for public ownership among those with low levels of human capital, but it also translated a rejection for the way privatization had been conducted among those experiencing hardship because of the reforms.

In another strand of literature, Pop-Eleches and Tucker (2017) emphasized the long-term legacies of communisms on views and values, using the WVS data up until 2009, the LiTS up until 2010 and some country-specific surveys, typically focusing on the 1990s. This work suggests that policy preferences in several areas where shaped by the experience of living through communism, leading to marked differences when compared to preferences reported in countries without that experience. In the same spirit, and more recently, some authors have argued that the experience of transition itself, also impacted preferences in the longer-run. For example, Pyle (2021) draws on the 2006 LITS survey to show that those who suffered the worst labor market hardships (in the form of unemployment and wage cuts or arrears) in 1989 to 1994 are, over 20 years later, showing less support for democracy and markets than their peers, and a lower tolerance for inequality. He also shows that similar experiences after 1994 do not carry the same effect, implying that this early experience with markets constituted a formative experience, which tinted preferences in the long run. However, Russia at the time had markets that were underdeveloped and imperfect, as reforms were partial – but it appears that Russians learned to reject markets rather than inadequate reforms.

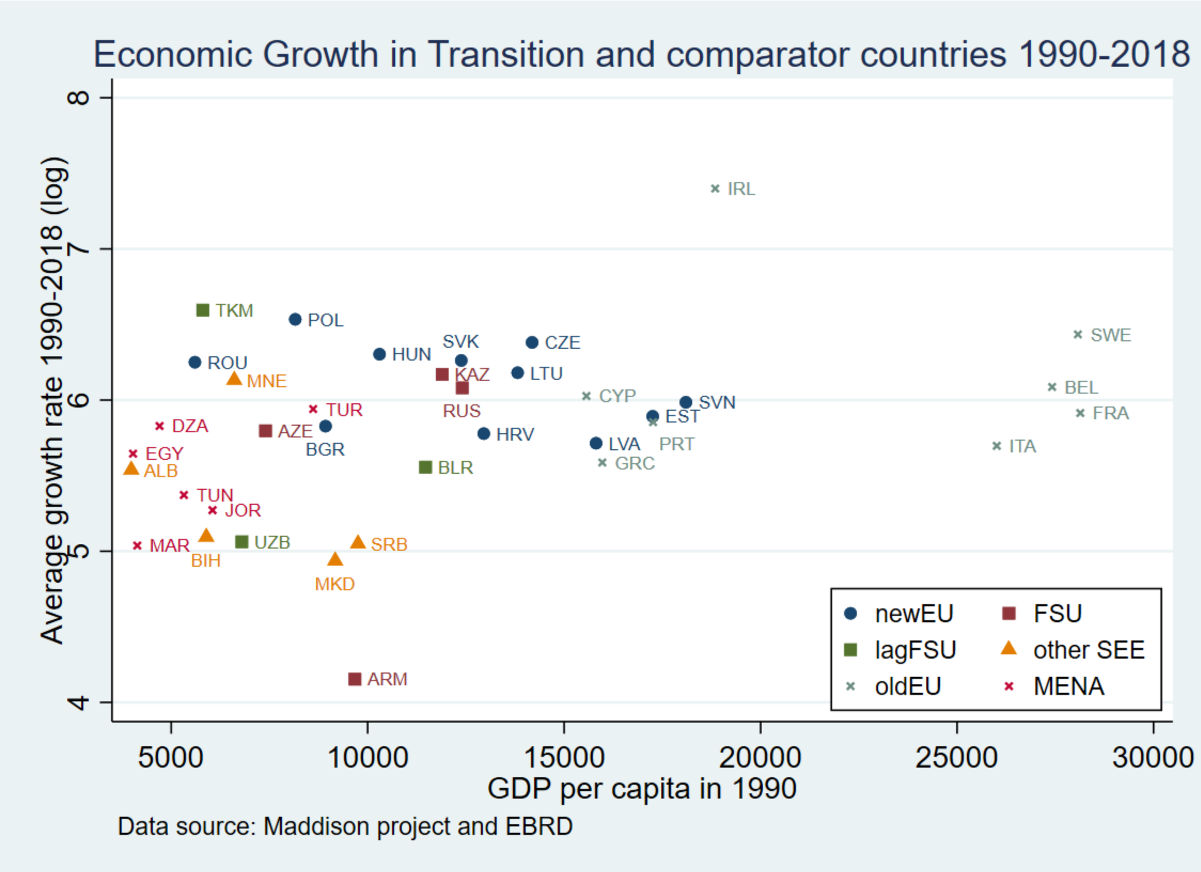
While Denisova et al. (2009, 2012) do not deal with support for reforms overall, these papers still allow us to emphasize again the difficulty of capturing true preferences for reforms, when a rejection of privatization can come from very different perspectives on what is wrong with the reforms – making interpretation more difficult. Maybe more importantly, the results discussed in this section underscore an endogeneity of support for reforms and the personal experience and perception of said reforms. We can note that Gaber et al. (2019) demonstrate a similar endogenous path focusing on support for democratization in Russia. But returning to economic reforms: Where reforms were more broadly supported, they were implemented more consistently, increasing support in the short-run thanks to the winners of reforms, and the hope generated, but also increasing support in the longer-run, thanks to better institutional development and a reduced risk of an anti-reform backlash – less reform fatigue.

## To sum up: the J-curve of reform!

The patterns that emerged from our review of the literature essentially illustrate the conclusions reached by Hellman (1998). For him, reforms essentially followed a virtuous or vicious circle path, depending on early reforms. His reasoning relied on a recognition that political constraints regarding reform progress were of two types: reformers had to gain the support of the population at large (often through ballots) to be able to implement reforms, but then short-term winners of reforms that were strong enough to act as veto players were a bigger threat to continued reforms than the mass of voters overall. This view thus places a lot of importance on the early reforms, which need to be balanced and exhaustive enough not to create small and powerful interest groups that would benefit from the status quo of partial reforms. As we have already mentioned when describing Figure 1, these patterns are also translated when one simply tries to track progress in reforms in the region ex-post: the countries that made the best progress with first-stage institutional reforms early on, kept their lead and progressed towards market faster while suffering lower transformational costs.

Transition was expected to generate long-term benefits, but also to have short-term costs – in line with the J-curve of reform paradigm (Hellman, 1998). The extend of restructuring required to undo some of the worst distortions of central planning meant that unemployment would rise, and inflation would bite, while the economy went through extensive restructuring and prices returned to being a meaningful vector of information, while governments learned to master macroeconomic prudence, and worked on developing market-supporting institutions. In practice, most countries experienced these negative effects, but a return to growth and reduction in unemployment only materialized in some countries and the patterns of development in the region overall are thus very varied, with all countries emerging from the post-communist blocs essentially struggling to catch up to the GDP per capita enjoyed in key comparator countries in Western Europe (see Figure 2).

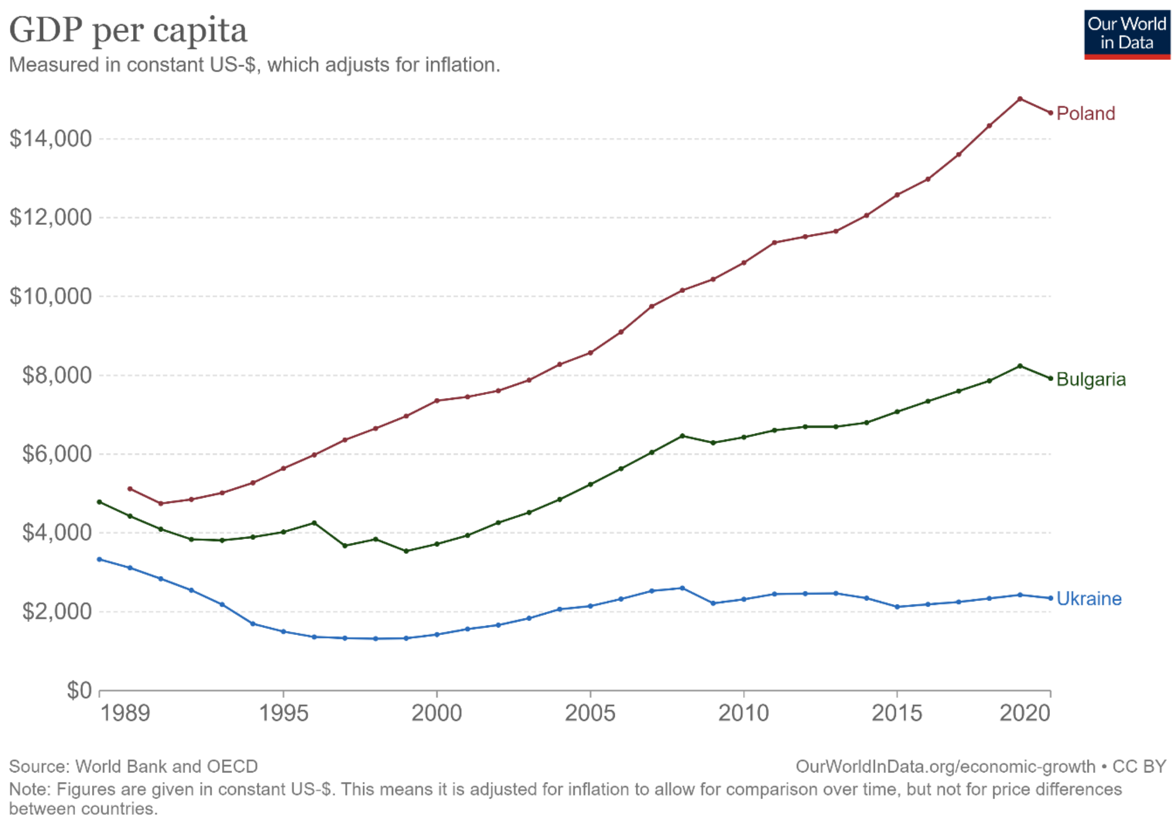
**Figure 2: GDP growth 1990-2018**




Illustrative case-studies can be presented to illustrate the diverging paths experienced by countries in the region. Here we will briefly focus on 3 countries: Poland, Bulgaria and Ukraine (as we did earlier in Figure 1). This selection is driven by several consideration. First to offer an illustration based on countries with markedly different experiences, while also being able to provide a good coverage of the data on support for reforms in some of the key surveys we have discussed above – so that outcomes, progress in reforms and evolution of support for reforms can be illustrated.

In Figure 1 earlier in this chapter, we illustrated Poland's reform path as characterized by a prompt and comprehensive start followed by continued progress in reforms until the early 2000s. In other words, Poland adopted big bang style reforms and kept its status of front runner in reforms throughout the period illustrated. Bulgaria instead experienced a slower start, followed by an acceleration in the mid 1990s, which allowed it to nearly catch-up with Poland. Finally, Ukraine started with tepid reforms and continued to lag behind. These three pathways are associated with markedly different growth paths as illustrated in Figure 3: while Poland experienced a short-term slump in the early 1990s, growth rapidly resumed, Ukraine's development slumped too but never seemed to recover, with GDP per capita still estimated to be below the 1990's level in 2020. Bulgaria's performance tracing a path in-between these two extremes with a long depression followed by a period of progressive but steady growth.

**Figure 3: GDP 1989-2020, selected countries**

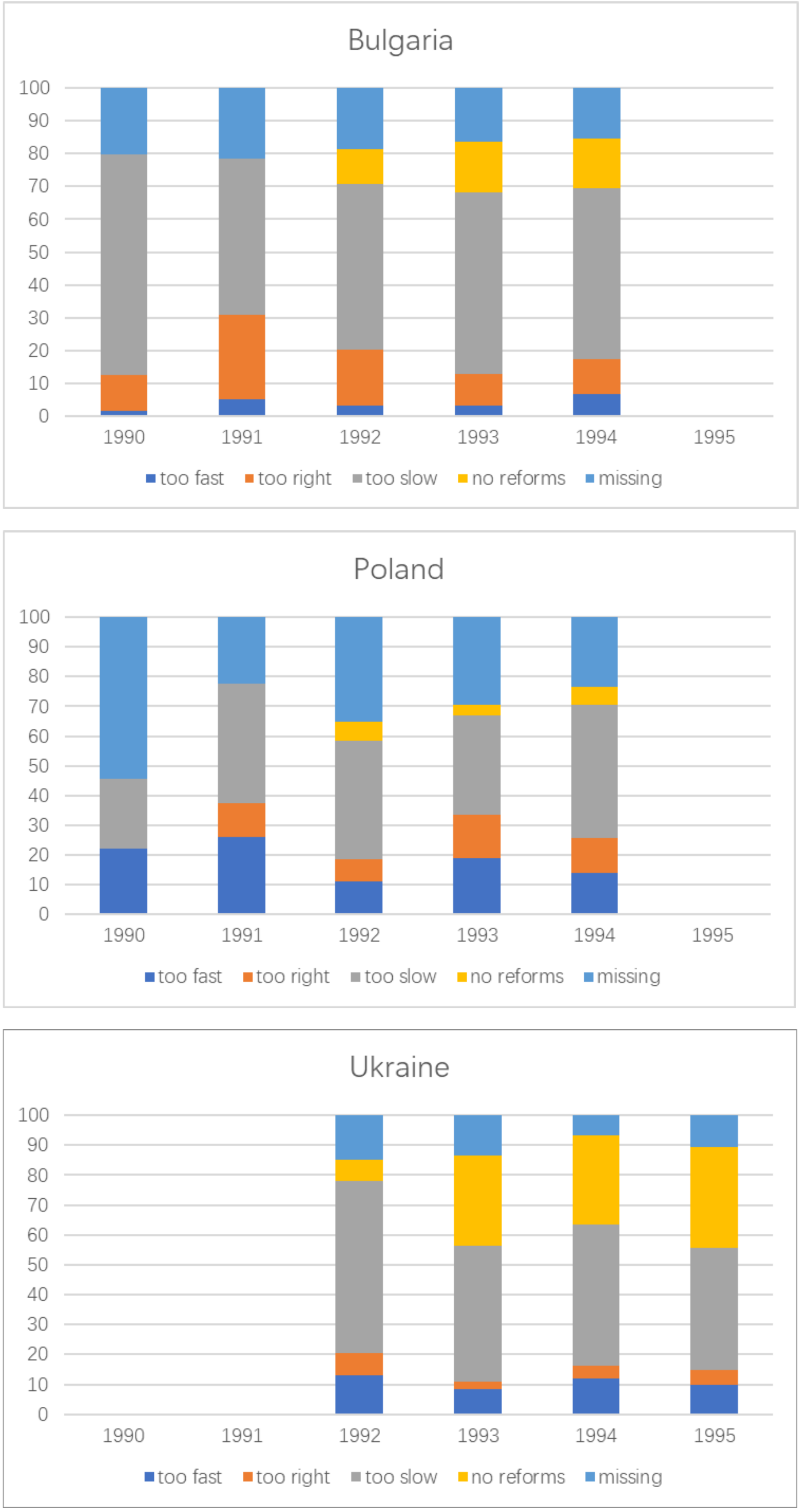



Looking at support for different economic systems in these three countries (Figure 4 below), we can illustrate some of the findings from our review of the literature. Looking first at how people assessed different systems in these three countries as reform unfolded, we can note that views on socialism remained positive for a majority of respondents in Bulgaria and Ukraine over the period 1991 to 2004. Views on the current economic systems were also largely critical: a negative assessment was the most frequent response in Romania over the 1990s and the response of the vast majority of respondents in Ukraine, except in 2004. An important difference however was that Romanians kept a positive outlook: they overwhelmingly thought things would get better and reforms would lead to a better system. In contrast, while polish respondents were only marginally less positive about socialism as a system than Romanians, their views on their current economic system and their expectations towards the future were more positive throughout, but especially in the 1990s. This somewhat confirms the notion that support for reforms facilitated early implementation, but faith in future outcomes also mattered.

Figure 5, focusing on views on market-oriented reforms, reinforce this, by showing how Bulgarians were overwhelmingly frustrated by slow-paced reforms, as were the Ukrainians reporting too slow or non-existing reforms, while Polish respondents were more divided and unsure in their assessment, with many choosing not to answer the question, but also with reforms being assessed as "too slow" more frequently than "too fast".

Figure 4: Views on systems from the NDB – Bulgaria, Poland and Ukraine

Figure 5: Views on reforms from the CEEB – Bulgaria, Poland and Ukraine



## Conclusions

Summing up, it is quite clear that understanding the link between reforms and outcomes is difficult: because of the complexity of the reforms required to build markets. Academics have thus worked hard to disentangle the impact of different aspects of reforms on outcomes, as well as the importance of the extent of reforms implemented. The role of public opinion is to some extend even more complicated to analyze. In this chapter, we have presented a critical discussion of the survey questions typically used to measure support for reforms – noting their limitations, but also noting why it was hard to formulate useful questions that would be easily understood by all and interpreted in the same way by respondents irrespective of their point of view.

With this caveat in mind, the review of the empirical work carried out focusing on the drivers of support for economic systems and market reforms still brings important take-away messages. Crucially, we have illustrated how, if reform costs are higher at intermediate levels of reforms and full reforms generate better outcomes, it is critical to understand the extent to which citizens living in countries at meddling levels of reforms understand the disappointing outcomes they experience as being due to unfinished reforms or just due to reforms. On balance, the evidence presented here probably suggests that people's views are affected by their initial preferences, personal experience and expectations regarding future reforms. Importantly, personal experience of hardship in the short-run can have long-lasting impact, which means that weak reforms, bringing disappointing results, are more likely to lead to weaker support for further reforms. This represents an additional mechanism reinforcing the vicious/virtuous circles posited by Hellman (1998): it is not only veto players that support the status quo of partial reforms, after a while, the population at large may form preferences that are less supportive of market systems and market-oriented reforms, as they lose faith in reforms overall.

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**Appendix 1: EBRD Transition Indicators – a short description**

Starting from the mid-1990s, the European Bank for Reconstruction and Development (EBRD) published a set of indicators measuring progress in economic reforms in the region. Effectively, these indicators measure progress towards the establishment of “typical” markets, as the indicators relate to the key characteristics of functioning/efficient markets and are assessed from 1 to 4+, with 1 representing the situation typically seen in a planned economy while, 4+ is described as reflecting the situation in a typical advanced market economy. In 2003, some legal and infrastructure indicators were added. We will however limit ourselves to a discussion of the 8 original indicators here.

1. Internal price liberalization: this measure focuses on the removal of administrative prices and price controls and the phasing out of state procurement at non-market prices.

2. External liberalization, which relate both to foreign trade (measuring progress in removing quantitative and qualitative restriction on trade flows) and foreign exchange.

3. Competition policy, which refers to unrestricted entry to most markets; competition and anti-trust institutions and legislation; enforcement actions to counteract any abuse of a dominant market position and to strengthen competition, break-up of monopolies.

4. Large-scale privatization, where progress is measured as the percentage of large-scale enterprise assets being transferred to private owners, plus indicators relating to the quality of governance of these privatized enterprises.

5. Small-scale privatization and freedom of entry. Complete privatization of small companies resulting in ownership rights that can be transferred with no restriction; effective tradability of ownership rights for land; last but not least, freedom of entry for new enterprises.

6. Enterprise reform (governance and enterprise restructuring) ‘Hard’ budgets: tight credit and subsidies policies; enforcement of bankruptcy legislation; effective corporate governance provided by capital markets and banks; active owners and investors; well-functioning markets for corporate control; evidence of real effects: of efficient restructuring and investment by companies.

7. Bank reform and interest rate liberalization. Full interest rate liberalization; no preferential access to cheap refinancing; banking laws and regulations consistent with Bank for International Settlements (BIS) standards related to capital requirements, supervision and market discipline (Basel Committee on Banking Supervision 2004); availability of a full set of banking services; financial deepening; significant provision of lending to private enterprises, privatization of banks.

8. Securities markets and non-bank financial institutions (NBFI). Fully developed NBFI (collective investment schemes, private insurance and pension funds, leasing companies); substantial market liquidity and capitalization of the stock exchange; substantial issue of securities by private enterprises; convergence of securities laws, regulations and practice with international standards set by the International Organization of Securities Commissions (IOSCO, 2003); protection of minority shareholders and, generally, of all other customers of financial services; fair, efficient and transparent organization of financial markets, minimizing systemic risk; secure clearance and settlement procedures.

These indicators are scored using experts’ assessments, which translate regulatory frameworks and rules, as well as observed practices, into a synthetic score.

These scores are available until 2014 and can be downloaded from the EBRD website.

**Appendix 2**

**Table A1: Datasets**

| **Name** | **Time coverage** | **New market economies covered** | **Comparators** | **Questions** |
|---|---|---|---|---|
| Central and Eastern Eurobarometer (CEEB)<br><br>Link: [CEEB trend file – Eurobarometer (gesis.org)] | 1990-1997 | Albania, Armenia, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine, Yugoslavia | None | (V14) Market Economy right or wrong (1991-1997)<br>Do you personally feel that the creation of a free market economy, that is one largely free from state control, is right or wrong for (our country's) future?<br>Categorical: (1) right, (2) wrong, (8) don't know<br><br>(V17) Economic reforms speed (1992-1995)<br>The way things are going, do you feel that the economic reform programme initiated by (our country's) government is going:<br>Categorical: (1) too fast, (2) about right speed, (3) too slow and (4) there are no economic reforms |
| New Democracy Barometer Surveys (NDBS)<br><br>Link: [New Democracies - CSPP]<br><br>[data available from UK data Archive] | 1991-2004 | Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Serbia, Slovenia and Ukraine | None | Economic evaluation:<br>Q.1 'Here is a scale for ranking how the economy works (from +100 at top to −100).<br>(a) Where on this scale would you put the socialist economy before the revolution of 1989/perestroika?<br>(b) Where on this scale would you put our current economic system?'<br>(c) Where would you put our economic system in five years time?<br><br>More detailed questions on values relating to economic systems:<br>Values relating to economic systems: |

| | | | | |
|---|---|---|---|---|
| | | | | E1. On this card you will find a set of contrasting opinions about public problems. Please say which alternative you agree with, whether strongly or somewhat<br><br>E1 a) Incomes should be made more equal, so there is no great difference<br>Definitely agree 1<br>Somewhat agree 2<br>OR<br>b) Individual achievement should determine how much people are paid<br>Definitely agree 3<br>Somewhat agree 4<br><br>E1 c) Individuals should take responsibility for themselves and their livelihood<br>Definitely agree 1<br>Somewhat agree 2<br>OR<br>d) The state should be responsible for everyone's material security<br>Definitely agree 3<br>Somewhat agree 4<br><br>E1 e) State ownership is the best way to run an enterprise<br>Definitely agree 1<br>Somewhat agree 2<br>OR<br>f) An enterprise is best run by private entrepreneurs<br>Definitely agree 3<br>Somewhat agree 4<br><br>E1 g) A good job is one that is secure even if it doesn't pay very much<br>Definitely agree 1<br>Somewhat agree 2<br>OR<br>h) A good job pays a lot of money, even if it is not so secure |

| | | | | |
|---|---|---|---|---|
| | | | | Definitely agree 3<br>Somewhat agree 4 |
| International Social Justice Project<br><br>Link: ICPSR | 1991 and 1996 | Bulgaria, Czech Republic, East Germany, Estonia, Poland, Russia, Slovakia, Slovenia | 1991:<br>West Germany, Japan, Netherland, Great Britain, United States | (MQ*36G) How satisfied are you with our current market economy?<br>0 missing<br>From 1- completely dissatisfied to 7-completely satisfied<br>8 DK, 9 NA<br><br>(MQ*36+G – in 1996 only) How satisfied were you with the planned economy?<br>0 missing<br>From 1- completely dissatisfied to 7-completely satisfied<br>8 DK, 9 NA<br><br>(MQE1) A free market economy is essential to our economic development.<br>0 missing<br>From 1- completely dissatisfied to 7-completely satisfied<br>8 DK, 9 NA<br><br>(MQE2) People have different views about socialism. Based on your experience in COUNTRY of socialism, would you say that you are very much in favour, somewhat in favour, neither for nor against, somewhat against, or totally against socialism?<br>0 missing<br>From 1- very much in favour to 5- totally against<br>8 DK, 9 NA<br><br>Plus a battery of questions relating to “socialist values” and views on the role of the state, including views on whether pay should be proportionate to family size, state should guarantee minimum standard of living, there should be a state-enforced upper limit to income, state should provide job to all, preferences for redistribution. |
| Life in Transition Surveys (LiTS) | 2006, 2010 and 2016 | Albania, Armenia, Belarus, Bulgaria, | 2006 – none | Regarding market support, respondents were asked which of the following three statements they most agreed with: “(i) a market economy is preferable |

| | | | | |
|---|---|---|---|---|
| | | Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine | 2010 – Britain, France, Germany, Italy and Sweden 2016 - | 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 organized as a market economy or as a planned economy". <br><br> To assess support for democracy, respondents were asked whether they agreed that (i) democracy is preferable to any other form of political system, or (ii) under some circumstances an authoritarian government may be preferable to a democratic one, or (iii) for people like me, it does not matter whether a government is democratic or authoritarian. |
| World Values Surveys (WVS) | Wave 1 – 1981-1984 Wave 2 - 1989-1993 Wave 3 – 1994-1999 Wave 4 – 2000-2004 | | varied | The WVS questionnaires do not include an assessment of systems, but instead there are a number of questions relating to preferences that have been analysed to discuss preferences associated with specific characteristics of systems, including preferences for redistribution, competition, privatization, etc. |