

Are Russians Really Ready for Capitalism?

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Abstract

Has popular support for the operation and outcomes of a market economy permeated the population outside of Moscow? Does the next generation of Russian policy makers and business leaders hold views consistent with a competitive market economy? Using the questionnaire employed by Shiller *et al* (1991), a survey of Russian university students in mid-1999 takes a first step in answering these questions. The primary focus here is on whether there is evidence of popular support in Russia for: (1) private property / property rights, (2) prices adjusting to surplus and shortage conditions, (3) payment for services rendered or expenses incurred, (4) free enterprise, profit motive and rewards to successful business, (5) performance-based pay, and (6) taking a financial risk for future reward by investing in productive capacity. Probit regression results indicate significant differences between the opinions of Russian and American university students regarding market foundations and market outcomes. These survey results suggest that where significant differences emerge between Russians and Americans, the differences are likely to contribute to undermining the effective operation of a market economy in Russia. In some instances where significant differences between Russians and Americans emerge, these are driven by gender differences in Russia that are not matched in the U.S. In comparison to the 1990 survey results, there tends to be less support for market conditions and outcomes in the 1999 survey.

Key words: Russia, transition, opinion, market outcomes

JEL: O57

Are Russians Really Ready for Capitalism?

In January 1992, Russia announced a program intended to establish a market economy in relatively quick order (*Voprosy ekonomiki* 1993). Price liberalization and mass privatization formed the cornerstone of the reform effort, and, much in the Soviet tradition, “storming” defined the construction style used to build the requisite market-oriented infrastructure and institutions.¹ By 1995, Russian and Western policy makers and scholars, alike, proclaimed the success of establishing a market economy in Russia. Economic conditions from 1992 to the present, however, have deteriorated for the majority of the Russian population by almost every measure of well-being (Barberia *et al* 1997, Cox *et al* 1997, Klugman 1997, Goskomstat 1999, UNDP 1998 1999). Unlike other transition economies in Central and Eastern Europe, 50% of Russia’s population lives below the income poverty line; 30% of the population is not expected to survive to age 60 (UNDP 1999). Despite privatization and market-based pricing, manufacturing output in 1999 remained less than half of the 1990 level, cargo transport has fallen steadily, as has the stock of fixed capital assets and the overall size of the population (Goskomstat 1999). The objective reality in Russia, nearly a decade after the initiation of the transition from plan to market, stands in marked contrast to the anticipated gains associated with adopting capitalism.

¹ Berliner (1957) described storming, *shturmovshchina*, as the intensive work at the end of a planning period to fulfill the plan and receive the bonus. This characteristic was documented in the Soviet economy in the 1980s, as well (Gregory and Stuart 1990, Linz 1988 1989), despite the well-known quality reduction consequences.

Explanations for Russia's poor economic performance abound, including failure to adopt stringent macroeconomic stabilization policies, "crony capitalism," obsolete capital and technology, corruption (including the siphoning-off of international aid to private off-shore bank accounts),² under-developed communication and transportation infrastructures, predominance of monopoly power, lack of appropriate legal and banking/financial institutions, among others. While ample evidence to support each of these explanations is readily available, the focus here is on the extent to which popular attitudes toward free market operations and outcomes are impeding the transition to capitalism in Russia.

At the end of 1980s, it was not unusual to find articles in the Soviet press and scholarly journals devising schemes for transforming all or part of the planned economy. A recurring theme at the time was the lack of understanding or support among the general population regarding market operations and outcomes, compounded by obstacles imposed by well-placed bureaucrats, which impeded any progress toward successfully introducing market relations on a broad scale in the Soviet economy. Shiller *et al* (1991) questioned the extent to which lack of understanding or support for market operations and outcomes among the general population was in fact imposing an obstacle to change. Surveying several hundred Muscovites in 1990, and comparing the response patterns to those obtained from a similar number of New Yorkers, the authors conclude a "remarkable similarity between many of the Soviet and American results" (p. 399).

Has popular support for the operation and outcomes of a market economy permeated the population outside of Moscow? Does the next generation of Russian policy makers and business leaders hold views consistent with a competitive market economy? Using the questionnaire employed by Shiller *et al* (1991), a survey of Russian university students in the spring of 1999 takes a first step in answering these questions. For comparative purposes, the questionnaire also was administered to a similar number of university students in the United States. Using a control group enhances the validity of the results by

² Estimates by Russia's national police agency, the MVD, put the amount of money illegally leaving Russia each year at \$9 billion, with total capital flight running more than \$15 billion per year. Altogether, it is estimated that \$350 billion in capital has been removed from Russia since December 1991. *Transition* (August 1999), p. 11.

permitting identification of significant differences in response patterns emerging from Russia's transition economy from those associated with a developed market economy.

The primary focus here is on whether there is evidence of popular support in Russia for the following dimensions of a market economy: (1) private property/property rights, (2) prices adjusting to surplus and shortage conditions, (3) payment for services rendered or expenses incurred, (4) reward for hard work or performance-based pay, (5) free enterprise, profit motive and rewards to successful business, and (6) taking a financial risk for future reward by investing in productivity capacity. While certainly not exhaustive, the variables are quite comprehensive in terms of coverage of important elements in a market economy. Moreover, using the Shiller *et al* questionnaire permits comparisons, albeit imperfect, with response patterns generated before the transition to capitalism began in Russia.

Section 1 describes the sample and methodology used in this study. In particular, the rationale for using university students is explained, as is the procedure for evaluating whether response patterns between Russians and Americans are significantly different. Sections 2-7 present the results, several of which are noteworthy.

First, in most instances where significant differences emerge between Russians and Americans, the differences are likely to contribute to undermining the effective operation of a market economy in Russia. For example, Russians attach a much higher probability than do Americans to the potential nationalization of business, as well as to the potential for government to confiscate savings. Russians are much less likely than Americans to be in favor of flexible prices, and much more likely to be in favor of rationing or government control over prices.

Second, in some instances where significant differences in response patterns emerge between Russians and Americans, these are driven by gender differences. In particular, there are more differences between Russian men and women than there are between American men and women. This is not surprising, since market conditions have predominated in the United States much longer than in Russia. Ignoring these differences may be problematic for policy makers serious about introducing a market economy in Russia: women account for at least 60% of the total population, and represent an even greater

proportion of the over-40 population (Goskomstat 1999). Combined with the fact that life expectancy is rising for women, while notably falling for men for several years, in absolute numbers as voters and as economic agents, women will be contributing more to Russia's future than men.

Third, in some instances, gender is more important than country in explaining the results. For example, in both countries: (1) women are more likely than men to be bothered by someone taking a place at the front of the line, even though their relative position in line does not change; (2) women are more likely than men to want to settle accounts when expenses are shared among friends; (3) women are less likely than men to support a program that pays high wage differentials to skilled or hard working individuals. While gender differences were not investigated in the previous study (Shiller *et al* 1991), adopting appropriate policies to facilitate Russia's transition may hinge upon incorporating such information.

Finally, there tends to be less support for market conditions and outcomes among the university students outside of Moscow who were surveyed in 1999 than among Muscovites surveyed in 1990. That is, for the same questions, there are more significant differences between Russians and Americans in 1999 than in 1990, especially in those areas that may undermine the successful operation of a market economy. In part, this may be driven by the locations included in the two surveys. Numerous studies show a significant capital city effect with regard to the pace of transition in Russia.³

Section 8 provides concluding remarks.

I. Sample description and methodology

Are popular attitudes toward market outcomes, as well as attitudes toward the foundations of a market economy, imposing an obstacle to the introduction of and ongoing functioning of capitalism in

³ Indeed, Moscow has been likened to the Disneyland of Russia with regard to transition outcomes. While Muscovites might tend to be supportive of market outcomes, their experiences and conditions tend not to reflect the broader population of Russia (see Ellman 1994, Hanson 1996, Lehman *et al* 1999, Linz and Krueger 1996, for example).

Russia?⁴ Does the generation of Russians “coming of age” during the transition process support the objective of building a fully-functioning market economy? Information that leads to a greater understanding of current perceptions of market operations and outcomes helps to bridge the gap between assumptions and reality regarding popular support for capitalism in Russia. In this study, the null hypothesis is that Russians’ attitudes are no different than those found among a similar population in the United States.

⁴ Hedlund (1999) argues that a deeply rooted rule aversion, as well as elaborate schemes to evade rules and the lack of appropriate market institutions, may explain “the long string of discouraging events that have played out in Russia following the start of ‘reforms’ in January 1992 ...” (p. 17).

University students were selected as the target group for methodological and financial reasons. First, given their age and their relationship to the family situation, university students' life experiences are more likely to be comparable across countries than the experiences of randomly selected adults.⁵ Second, university students include a wide range of income and ethnic groups,⁶ holding education level approximately constant. Third, university students are likely to be shaping future economic policies, or voting for those that do. University students also are likely to assume leadership positions in the business community. The fact that they are enrolled in university may signal a willingness to consider a wider variety of options than the average citizen in problem solving situations. In Russia's transition economy, this is particularly important. Finally, in a university setting, the time and financial cost of distributing and collecting the questionnaires is negligible.

By design, locations outside of Moscow were selected to get a more representative picture of Russia than the capital city provides. Indeed, Taganrog, where 75% of the Russian survey instruments were administered, has been identified as the average or typical Soviet/Russian city (Grushin 1980,

⁵ The Shiller *et al* survey (1991) claims to be a randomly selected (albeit not representative) sample. Because citywide telephone directories did not exist in 1990, it is not clear from what population the random selection took place. Further complicating matters, less than half of the households had phones in 1990. It is not clear from the survey description whether more than one person per household was included in the sample. Thus, the results from the Shiller *et al* survey are presented here not so much to reflect popular support in Russia in 1990, and whether there are differences over time, but rather to indicate what seems to be consistent across response patterns of Russians with very different circumstances.

⁶ In Russia, the practice of providing free university education for all students meeting the entrance requirements is no longer the norm. Students enrolling in some departments (business-related, for example) are required to pay for their university education, while students in other departments (physics, for example) attend free of charge, or for a minimal fee. To broaden the ethnic and income base of U.S. sample, the survey included both

Rimashevskaya 1992, Chichilyimov 1999).

public and private universities in three geographical regions.

Altogether, the market opinion questionnaire was completed by more than 1,280 university students in both Russia and the United States. Questionnaires were distributed to students at Rostov State University, Stavropol State University, Taganrog State University for Radio Engineering, and the Institute for Teacher Training, also located in Taganrog, Russia, in May and August, 1999. Of the 850 questionnaires distributed, some 746 were completed and returned,⁷ for a response rate of 88%. Overall, classes in which the questionnaire was administered included students from the first to the fourth year of the undergraduate program. The average age of the Russian students participating in the project is 20 years old.⁸ Sixty-three percent of the Russian respondents are women.

Just over 750 students attending Michigan State University, New York University, and the University of Southern Mississippi were asked in March and April, 1999, to participate in the survey. Of these, 537 completed the questionnaire, for a response rate of 72%.⁹ About half were undergraduates currently enrolled in an economics class. The average age of the U.S. respondents is twenty-one. Forty-eight percent of the U.S. respondents are women.

Survey participants were presented with the same hypothetical situations involving different dimensions of a market economy as those participating in the 1990 survey. Table 1 provides a listing of the variables defined in the Shiller *et al* (1991) survey that are included in this study, as well as the mean values for both Russian and American respondents in the 1999 survey. Where significant differences

⁷ With instructor permission, project coordinators took the questionnaires to classrooms, described the project, requested students to complete and return the forms to the instructor, or to the main office. Students were informed verbally and in writing that their participation was voluntary, and that the results would be presented in statistical form only; thus their anonymity and the confidentiality of their responses was guaranteed. Students were not asked to put their name anywhere on the questionnaire. The questionnaires were not coded in any way to be able to identify in which class the student received the questionnaire. The only respondent-specific questions asked were year born and gender.

⁸ Some 2.1% of the sample was born prior to 1972. While these would be considered non-traditional students, they have not been excluded from the sample. Moreover, the results presented in this paper do not vary significantly by age. That is, a dummy variable for age (OLD = 1 when respondent was born before 1975, and zero otherwise) was included to see if responses of those born before 1975 was significantly different from those born after 1975. The coefficient on OLD (age) was not significant for the variables included in this analysis.

⁹ The procedure followed for distributing and collecting the questionnaire was the same in the U.S. and Russia.

between Russians and Americans emerge in response patterns, they are denoted by “Yes” in Table 1. For comparative purposes, Table 2 reports the percent of Russians and Americans in both the 1999 and 1990 surveys that responded affirmatively to each variable. Most interesting to me was the fact that more differences between Russians and Americans emerged in 1999 than in 1990. Policy makers would benefit from knowing if popular support for capitalism is concentrated only in Moscow.

Since age and education level are held approximately constant by the nature of the 1999 sample, it is possible to examine the extent to which there are significant gender differences in response patterns. Table 3 reports the mean response value by gender in Russia and the United States for the 1999 survey.¹⁰ Where significant differences emerge between men and women, they are noted in Table 3. The last column in Table 3 identifies the variables where gender differences are the same in both countries.

Regression analysis is used to identify where differences between Russians and Americans, as well as between men and women, are significant. In particular, probit regressions, with dummy variables for Russian and American men and women,¹¹ are used to evaluate whether differences in response patterns are significant and/or gender related – that is, are the differences between Russian men and women the same as differences between American men and women? Given past and ongoing social, cultural, political and economic differences between the two countries, there is no reason to expect *a priori* that gender differences in Russia will match those in the United States.

The following sections describe the exact questions asked and the results obtained.

II. Private Property and Property Rights

It is not uncommon for the Russian popular press to carry articles discussing the possibility of re-nationalizing major companies, especially in the energy sector, and especially before general elections. Perceptions which place a high probability on the likelihood of re-nationalization will not only undermine

¹⁰ This information is not provided in the Shiller *et al* survey results.

¹¹ American men are used as the control group (omitted variable).

investment activities but also the foundation upon which a market economy is built.

Do Russians view nationalization as a likely outcome (NATIONLZ)? Respondents were asked:

How likely do you think it is that in the next few years the government will, in some way, nationalize (that is, take over) most private business with little or no compensation to the owners? Is nationalization quite likely, possible, unlikely, or impossible?

Of the 731 Russians responding, 40% selected *quite likely* or *possible*. This compares to 60% of the respondents in the Shiller *et al* survey who viewed nationalization of cooperatives or leased enterprises as *quite likely* or *possible* in 1990.¹² As seen in Table 2, more than 84% of the Americans in both surveys selected *impossible* or *unlikely*, essentially ruling out the possibility, in their view, of nationalization.

While it may be taken as good news that, five years after the end of Russia's mass privatization program, more than half of the participants in the 1999 survey felt that re-nationalization was unlikely, that such a large percentage of the next generation of business leaders continued to select *quite likely* or *possible* does not bode well for confidence in the institution of private property. In both countries, in the 1999 survey, women tended to view nationalization as more likely to occur than men, but the gender difference was not statistically significant.

A second question related to confidence in the security of private property asked respondents about the likelihood that government would take measures to confiscate their savings (TAKESAVE). When the question was first posed in the 1990 survey, government restrictions on withdrawals from bank accounts had not yet been imposed, nor had central government frozen or confiscated foreign currency deposits. When the question was posed in 1999, families still were recovering from the ruble and dollar losses associated with bank failures in Russia's August 1998 financial crisis, in addition to having survived numerous government policies which effectively reduced or eliminated savings in bank accounts (Krupp and Linz 1997). Thus, in response to the question:

How likely is it, from your point of view, that the government in the next few years will take measures, in one way or another, to prevent those who have saved a great deal from making use

¹² While the question did not specify cooperatives or leased enterprises, these were the only non-state-owned organizational structures at the time (see Frydman et al 1993, Linz 1999).

of their savings? Is it quite likely, possible, unlikely, or impossible that the government will do this?

it was somewhat surprising to find relatively more optimism about the relative security of their savings among Russian respondents in 1999 than in 1990. That is, while Russians were more likely than their American counterparts to view the confiscation of savings as likely – 47% of the Russians selected *quite likely* or *possible*, compared to 33% of the Americans – Russians in 1999 were much less likely than those in 1990 to respond affirmatively (see Table 2). In the Shiller *et al* survey, 61% of the respondents selected *quite likely* or *possible* in response to this question. Quite surprising in the Shiller *et al* survey was the lack of significant difference in the responses of Russians and Americans to this question, especially given the relatively high percentage of affirmative responses.

A question that touches on property rights asked respondents to consider the following scenario

(CUTLINE):

You are standing in a long line to buy something. You see that someone comes to the line and is very distressed that the line is so long, saying he is in a great hurry and must make this purchase. A person at the front of the line offers to let him take her place in line for \$10. Would you be annoyed at this deal, even though it won't cause you to wait any longer?

As seen in Table 2, 60% of the Russians found the interruption harmless; a comparable percentage of Americans responded similarly. In the Shiller *et al* survey in 1990, when shortages of goods were still the norm, nearly 70% of the Russian respondents were annoyed by the deal, compared to 44% of the Americans; a significant difference in response patterns (see Table 2). Interestingly, there were significant gender difference in both Russia and American responses to this question in 1999 (see Table 3).¹³ Women in both countries were more likely than men to be annoyed by this transaction.

Private property and property rights are part of the foundation of a market economy. That they are viewed with some skepticism in Russia is certainly partial explanation for the substantial capital flight. That they are viewed with some skepticism in Russia may be undermining individuals' willingness to expend effort, plan, invest, and bear risk. Without such activities, the likelihood is diminished that Russia

¹³ Information is not provided about the gender composition of the 1990 sample, or whether the results vary by gender.

will soon close the technological gap in the industries and sectors of the economy that were behind the West at the beginning of the transition process. The ability to compete with foreign-made products in domestic markets, or to produce export-quality goods, becomes similarly diminished as the existing capital stock depreciates.

III. Popular Attitudes Toward Price Flexibility

Prices freely adjusting to surplus and shortage conditions represents a second basic tenet of a market economy. While resistance to price increases that were considered unfair has been documented in survey results obtained in market economies (Kahneman *et al* 1986), popular support for market-based pricing by cooperatives in the former Soviet economy is nowhere evident: survey results and wealth of newspaper articles underscore widespread resistance prior to 1992 to prices adjusting to offset shortage conditions (Jones and Moskoff 1991). Since 1992, annual inflation rates (see Table 4) have put Russian perceptions of price changes into a new dimension.¹⁴

Table 4: Annual Inflation Rates

Year	rate	Year	rate
1992	1,700%, 2,600%	1996	22%, 48%
1993	838% , 919%, 940%	1997	11%, 15%
1994	215%, 257% , 307%, 320%	1998	27%, 84%
1995	125%, 131%, 198%, 230%	1999 (1 st Q)	102%

Source: Goskomstat, Bloomberg Financial Markets, IMF, Central Bank of Russia, EBRD.

Given the rather traumatizing experience with overall price changes since 1992, how receptive are Russians to price adjustments, and how much do they differ from their American counterparts in this regard? Several different scenarios explored.

Changes in demand conditions

¹⁴ Inflation rates reported in Table 4 include annual rates reported in a number of sources. All reporting agencies are equally credible, thus all rates are included.

How fair is it for price to increase in response to an increase in demand? Respondents were asked several questions that addressed this topic. In the first scenario (PRICEUP), gender plays an important role in explaining the results.

On a holiday, when there is a great demand for flowers, their prices usually go up. Is it fair for flower sellers to raise their prices like this?

While nearly 60% of the Russians responded affirmatively to this question, women were significantly less likely to agree that such a price increase is fair (see Table 3). In contrast, nearly 85% of the Americans viewed the price increase as fair; there were no significant gender differences among American respondents. Indeed, the differences between Russians and Americans about the perceived fairness of this price increase is largely driven by the differences between Russian men and women; Russian men are only marginally more likely than Americans to say that the price increase is unfair. In 1990, there was no significant difference in the response patterns of Russians and Americans to this question (see Table 2).

As a follow up question, respondents were asked (LIMITPRI):

Should the government introduce limits on the increase in prices of flowers, even if it might produce a shortage of flowers?

Nearly twice as many Russians (25%) as Americans (15%) said yes, although relatively speaking, there is not much support for government restriction in this instance. What support there is tends to come from Russian women (see Table 3). Support for government restriction was more prominent in the Soviet economy. As seen in Table 2, in the 1990 survey, 54% of the Russian respondents thought flower prices should be restricted by government; only 28% of the Americans selected this option (Shiller *et al* 1991). Although the absolute magnitude differs in 1999 compared to 1990, the relative ratios in the response patterns have remained roughly the same, suggesting perhaps an age effect that is influencing the two sets of results:¹⁵ younger respondents are more willing to allow prices to adjust to demand conditions.

Respondents were asked about the fairness of a price increase when demand conditions change in

¹⁵ The age composition of the 1990 sample is not reported, nor are any results reported to vary by age. In the 1999 sample, age is approximately the same for all participants. When a dummy variable constructed for age (OLD = 1 if born before 1972, zero otherwise) was included in the regression, it was not significant for any of the variables included in this study.

a second scenario (TABLEPRI):

A small factory produces kitchen tables and sells them at \$200 each. There is so much demand for the tables that it cannot meet it fully. The factory decides to raise the price of its tables by \$20, when there is no change in the cost of producing tables. Is this fair?

Over half of the Russians thought such a price increase was fair (54%), compared to 81% of the Americans (see Table 2). Interestingly enough, in the 1990 survey, only about one-third of the Russian and American respondents found the price increase fair. While still much less likely than their American counterparts to find fairness in price increases, that more than half of the Russian participants in the 1999 survey responded affirmatively might be taken as a positive development.

Like the flower scenario, a follow up question was asked (RAISEPRI): *Apart from fairness, should the factory have the right to raise the price in this situation?* At least two-thirds (68%) of the Russians said yes; 94% of the Americans responded affirmatively. In the 1990 survey, no significant difference in response patterns of Russians and Americans emerged: just under 60% thought the furniture factory should have the right to raise price under these conditions (see Table 2). Unlike the flower scenario, Russian women in 1999 did not differ significantly from men in their response pattern.

A third scenario was used to gauge popular support for prices responding to changing demand conditions (RAISRENT). Respondents were asked:

A new railway line makes travel between city and summer homes positioned along this rail line substantially easier. Accordingly, summer homes along this railway line become more desirable. Is it fair if rents are raised on summer homes there?

As seen in Table 2, 71% of the Russians responded affirmatively, while 85% of the Americans thought such a price increase was fair. As in the first scenario, Russian women were least likely to find the price increase fair (see Table 3). In the 1990 survey, there was virtually no difference in the response patterns of Russians and Americans: about 60% of those responding thought that in this situation raising rents was fair (see Table 2).

In these three scenarios, where price increases are associated with changing demand conditions, at

least half of the Russians find the situation fair, despite the fact that women, comprising more than half of the Russian sample, were least likely to agree. With regard to popular support for the market, is the glass half empty or half full? The fact that the participants represent the next wave of business leaders and consumers, and that they are located well beyond the Moscow environment, may suggest a “half full” interpretation to the results.

Rationing

Do Russians prefer rationing to price increases when demand conditions exceed supply?

Respondents were asked (LIMITGAS):

Suppose that the government wishes to reduce consumption of gasoline. They propose two methods of attaining this goal. First, the government could prohibit gas stations from selling, for example, more than five gallons to one person. Second, the government could put a tax on gasoline, and the prices of gasoline would go up. From your point of view, which of these methods is better?

Twice as many Russians (51%) preferred rationing as Americans (25%) in 1999; Russian women were especially strong in their preference of rationing over a price increase (tax). In the 1990 survey, 43% of the Russians and 36% of the Americans selected rationing over a price increase (see Table 2).

Causes of price increases

High prices resulting from speculative activities carried not only a negative connotation in the former Soviet economy, but also a jail term. It may be that the Soviet legacy of punishing those who try to take advantage of a shortage situation continues to affect opinions in Russia’s transition economy. To examine in more detail whether Russians might be linking price increases to speculative behavior, respondents were asked about possible causes of a price increase: government intervention (GOVT), changes in supply or demand conditions (HARVEST), speculative behavior (SPECULAT).

If the price of coffee on the world market suddenly increased by 30 percent, what do you think is likely to be the blame?
Interventions of some government?

Only 28% of the Russians surveyed responded affirmatively to this option; nearly 50% of the Americans

selected government intervention as a possible explanation for the price increase.¹⁶ There were no significant gender differences in response patterns related to this option.

If the price of coffee on the world market suddenly increased by 30 percent, what do you think is likely to be the blame? Such things as bad harvest in Brazil or unexpected changes in demand?

More than two-thirds (70%) of the Russians participating in this survey thought that changes in supply or demand conditions would be the most likely cause of the price increase; 92% of the Americans selected this option. As seen in Table 2, in the 1990 survey, 51% of the Russians and 36% of the Americans responded correspondingly. This is one of the few instances where gender differences, albeit marginal, emerge in American response patterns, but not in Russian responses. American women participating in the 1999 survey were more likely than their male counterparts to select this option (see Table 3).

Respondents were given a third option for explaining the price increase:

If the price of coffee on the world market suddenly increased by 30 percent, what do you think is likely to be the blame? Speculators' efforts to raise prices?

Russian respondents were much more likely than their American counterparts to view speculators' efforts as the source of price increases: 56% to 39%, respectively. The opposite result holds in the 1990 survey: 32% of the Russians and 51% of the Americans cited speculators as the likely cause of the price increase (see Table 2).

Perhaps most striking in these results is the fact that Russian women appear quite hostile toward free-market pricing. In all pricing questions asked, there are significant differences between Russian and American response patterns; in most cases, these are driven by gender differences in Russia that are not matched in the United States. Second, while more differences appear in 1999 than in 1990 – in the 1990 survey, for two-thirds of these same questions, there were no significant differences between Russian and

¹⁶ Respondents were given a chance to select *Yes* or *No* for each of the three options given to this question. Thus, the sum of the affirmative responses is more than 100%. In the Shiller *et al* survey, respondents could select only one option. Less than 20% of the respondents in the Russian and American samples selected government intervention (17% and 13%, respectively).

American response patterns – the fact that a somewhat greater percentage of the Russian respondents tend to be in favor of flexible pricing may be taken as a sign of growing popular support. That they are still much less likely than their American counterparts to support flexible prices, however, tends to suggest that a groundswell of popular support for this dimension of a market economy has not been pervasive in Russia.

IV. Popular Attitudes Toward Payment for Services Rendered

According to Shiller *et al* (1991, p. 392), “the essence of a market system is the ability of persons to secure the things they want by the voluntary and unrestricted exchange of money.” Does the Soviet legacy of acquiring goods and services by connections (*blat*) continue to influence opinions related to the payment for services rendered in the Russian transition economy?¹⁷ Respondents were asked whether they would charge interest on a loan to a friend (CHGINTST):

Suppose you have agreed to lend a friend some money for six months, so that he will not miss a good opportunity to buy a summer home. Suppose banks are offering interest rates of 3 percent per year. Would you charge your friend interest on the loan?

Nearly 25% of the Russian participating in this survey said yes; 27% of the American respondents answered in the affirmative. In the 1990 survey, there were significant differences in response patterns: “about five times as many U.S. respondents answered ‘yes,’ compared to their Soviet counterparts ... although most people in both countries said they would not charge a friend interest” (Shiller *et al* 1991, p. 393). Indeed, even though a significantly greater proportion of Russians responded affirmatively in 1999 (24%) than in 1990 (6%), it is still the case that more than three-quarters of those who answered the question in 1999 would not charge interest on a loan to a friend (see Table 2). It could be that Russians’ experience with interest rates in double and triple digits makes single-digit rates somewhat passe.

In a second question, which abstracts from relative differences in banking institutions and interest

¹⁷ In a survey conducted in the early 1980s of more than 3,000 Soviet emigrants to the United States, 37% reported using *blat* or *protektisia* in making contacts (to get things done); 45% reported using *blat* in making purchases in state stores; 30% reported relying on *blat* in obtaining their job. *Blat* or *protektisia* also was considered important in career advance / job promotion decisions. *Soviet Interview Project General Surveys Codebook* (1988). For further discussion, see Millar (1987).

rates across countries, respondents were asked about people paying for their share of expenses (SETTLE):

If you went on a vacation with friends and there were a lot of shared expenses, would there be a careful accounting of who spent what and a settling of accounts afterwards?

Just under one-third of the Russians said yes, compared to nearly half (48%) of the Americans (see Table 2).

Russians' reluctance, compared to their American counterparts, to undertake a careful expenditure accounting also is evident in the 1990 survey results: 70% of the Russian respondents said "no;" only 53% of the Americans responded negatively. While no gender differences are reported in the 1990 survey results, in this instance in the 1999 survey, gender differences in Russia and the U.S. are significant and identical: women are more likely than men to want to settle the accounts (see Table 3).

Russians appear to place less importance than Americans on the payment for services rendered if friends are involved. If this attitude is more widely applied, to transactions which involve acquaintances, for example, it could serve to undermine successful market operations. Russians living outside of Moscow, given residence restrictions and housing shortages in the Soviet economy, typically did not move from one region to another.¹⁸ This is especially true for Russians living in formerly "closed" regions – those dominated by defense-related production (Gaddy 1996). Moreover, in the Soviet economy where many goods were routinely unavailable, Russians developed widespread social and kinship networks to obtain deficit commodities. Thus several generations of extended families, where mobility is low between cities and tradition underscores the importance of connections,¹⁹ tend to live in one city in order to turn to each other for help when needed. The lack of mobility for several generations and the widespread use of *blat* in the Russian economy (Ledeneva 1998), raises the probability that any given transaction will involve an acquaintance.

V. Performance-based Pay and Rewarding Hard Work

¹⁸ Exceptions relate to higher education and post-education job assignments, with Moscow acting as a magnet, as well as to population relocation policies that were implemented during Stalin's regime.

¹⁹ Economic necessity appears to have replaced tradition in the Russian economy in terms of reliance on family and friends for assistance when wages are not paid, or jobs are lost, or individuals/families find themselves in unsustainable conditions (UNDP 1998).

Do Russians support reward for hard work? In response to the question (PBASEPAY): *Do you think that people work better if their pay is directly tied to the quantity and quality of their work?* the vast majority, 92%, of Russians responded affirmatively. The mean response varied little by country or gender. Russians were equally supportive as Americans of a proposal to pay people with high skills or those who work harder an amount of money three times greater than the average. That is, when asked (PRODINC):

Suppose the government wants to undertake a reform to improve the productivity of the economy. As a result, everyone will be better off, but the improvement in life will not affect people equally. A million people (people who respond energetically to the incentives in the plan and people with certain skills) will see their incomes triple, while everyone else will see only a tiny income increase, about 1 percent. Would you support the plan?

just over 60% of the Russians and Americans responded affirmatively (see Table 2). This result is comparable to that found by Shiller *et al* in 1990 – of the 114 Russians who responded to the question, 55% supported the proposal; only 38% of the Americans responding did so. Albeit too small to be statistically significant, differences in the 1999 survey results appear to be driven by the fact that American women tend not to support the proposal.

Should people be allowed to control the fruits of their labor? Respondents were asked about their rights to pass their wealth on to their children (INHERTAX):

In your opinion, what inheritance tax rate for really wealthy people do you think we should have? A tax rate of 0 percent means that they can pass all of their wealth to their children, making them as rich as their parents. A rate of 50% means that they can pass half of their wealth to their children. A rate of 100 percent means that they can pass none at all to their children. Select a rate from 0-100%

Russians responded no differently than their American counterparts: inherited wealth should be taxed at a rate of 18 percent (see Tables 2 and 3). In the Shiller *et al* survey, there too was no difference between responses of Russians (39%) and Americans (37%), although the tax rate suggested by both was more than double that emerging from this survey. To the extent that university students may view themselves as the recipient of parental bequests, it is not surprising that the tax rate they select is relatively low.

VI. Profit Motive and Rewards to Successful Business

A major theme in transition lore are the gains associated with legalizing and facilitating

entrepreneurial activities that in socialist times received harsh punishment. No one questioned the existence of entrepreneurial skill in the former Soviet economy – one need only consider the size of the second economy, as well as the rapid expansion of cooperatives in the mid-1980s, to be quite confident that the incidence of entrepreneurship was widespread (Gregory and Stuart 1990, Grossman 1990, Jones and Moskoff 1991, Linz 1988, O’Hern 1980, Schroeder and Greenslade 1979). Indeed, a survey of more than 3,000 Soviet emigrants to the United States in the mid-1980s (Millar 1987) indicated that nearly two out of every ten adults in the Soviet economy earned income by participating in the second economy; more than half of the respondents (54%) reported routinely making purchases in the second economy (*na levo*).²⁰ Moreover, managers of Soviet manufacturing plants in heavy industry were given relatively high rankings by the emigrants participating in the survey in terms of perceived influence and competency.

Do Russians view profit motive and the rewards to successful business in a positive light?

Respondents were asked:

Suppose that as a result of successful business dealings you unexpectedly become rich. How do you imagine it would be received by your relatives at a holiday family gathering? Would they congratulate you and show great interest, or would they be judgmental and contemptuous.

- (A) *They would show interest, would congratulate.*
- (B) *They would be judgmental and contemptuous.*

There are no significant differences in response patterns to the first question (CONGRAT): 95% of the Russians and Americans participating in this survey said “yes.” Nearly twice as many Americans (11%) as Russians (5%) said “yes” to the second question (JUDGE) in 1999, hence the significant difference identified in Table 2. Like the 1990 results, the vast majority of respondents selected “no.”

However, responses to a second question (HONEST):

Do you think that those who try to make a lot of money will often turn out to be not very honest people?

do indicate significant differences between Russians’ and Americans’ perceptions: three-quarters of the

²⁰ These same data do not support the proposition that, prior to perestroika, there was a groundswell of support for private enterprise in the Soviet economy, however.

Russians agreed with the statement, compared to 34% of the Americans (see Table 2). The contrast in the Russian responses between these two questions suggests that while survey participants think that family members would congratulate them for their successful business activities, they also believe that the community at large would tend to think their success was dishonestly gained. This perception is not unwarranted. Given the reality of Russia's tax codes and legal structure, it is hard to find examples of successful business dealings that do not entail dishonest components (Linz and Krueger 1998).

The success of Russia's transition will depend in large part on the pool of talent entering the ranks of the business community. It hardly needs saying that successful companies are one of the main pillars of a market economy. Yet, in Russia, given the obstacles associated with under-developed institutions and infrastructure, as well as those imposed by a largely inappropriate capital stock and widespread corruption, the hurdles individuals must overcome to establish and operate a successful business are not trivial. Is this an occupation to which young Russians aspire? How much different are Russian business people than the average citizen? Are they viewed in a negative way? While these questions were not asked, two questions were asked which permit some inference about how business people are viewed in Russia.

Do you think that it is likely to be difficult to make friends with people who have their own business (privately-owned, or small corporation) and are trying to make a profit?

Do you think that if you worked independently today as a businessperson and received profit, that your friends and acquaintances would respect you less and not treat you as you deserve?

Significant differences are evident for both questions (see Table 2). Nearly five times as many Russians (49%) as Americans (10%) said "yes" to the first question (OWNBIZ); almost twice as many Russians as Americans (15% and 9%, respectively) responded positively to the second question (DESERVE). These same differences were also reported in the 1990 survey (Shiller *et al* 1991). While it is the case that the majority of survey participants would not find it difficult to make friends with business people and would expect to be treated well by their friends if they join ranks with the business community, the negative connotation associated with business in Russia is strikingly evident, and has remained so for nearly a decade.

VII. Popular Attitudes Toward Investment

Quite unlike the transition economies in Central and Eastern Europe, Russia continues to struggle with chaotic economic conditions. How willing are Russians to invest in the future? Survey participants were asked (INVEST):

Suppose that a group of your friends is starting a business that you think is very risky and could fail, but might also make investors in that business rich. Would you be tempted to invest a substantial portion of your savings in it?

As seen in Table 2, Russians responded no differently than their American counterparts: about 40% would be tempted to invest their savings in the proposed business venture. This perhaps is the most positive result emerging from these survey data – young Russians, despite rather difficult economic conditions and facing rather large obstacles, are no less likely to consider investment options than young Americans.

VIII. Conclusions

Are Russians ready for capitalism? Survey data collected from more than 1,280 university students in Russia and the United States suggest that Russians view market foundations and market outcomes much differently than their American counterparts. In comparison to the survey done in Moscow and New York in 1990, from which the questions used here were drawn, more significant differences emerge in the 1999 response patterns (see Table 2). This is somewhat surprising, given the composition of the 1999 sample which holds age and education level approximately constant across countries. From the policy makers' perspective, this outcome may be somewhat distressing – after nearly a decade of transition from plan to market, there does not appear to be among the young Russians living outside of Moscow a widespread acceptance of market outcomes. In particular, Russian women tend to view standard market outcomes as unfair. Moreover, young Russians attach a relatively high probability to the prospect of the government confiscating their property and/or savings.

These survey data highlight gender differences in Russia that account for many of the differences between Russians and Americans (see Table 3). That is, the fact that gender differences in Russia are not

like gender differences (or lack thereof) in the United States frequently is the explanation for differences in response patterns across countries. Ignoring this information is likely to undermine the success of implementing policies to support market foundations and market outcomes in Russia.

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