



# Did growth and reforms increase citizens' support for the transition?

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## ABSTRACT

How did post-communist transformations affect people's perceptions of their economic and political systems? We model a pseudo-panel with 89 country-year clusters, based on the aggregation of about eighty thousand interviews conducted in 14 countries between 1991 and 2004, to identify the macro and institutional drivers of the public opinion. We find that: (i) When the economy is growing, on average people appreciate more extensive reforms and dislike unbalanced reforms. They dislike reforms when they are associated with higher unemployment. (ii) Nostalgia for the past regime increases when worsening income distribution or higher inflation interact with more privatizations of state enterprises. (iii) Cross-country differences in the attitudes towards the present and future are largely explained by differences in the institutional indicators for the rule of law and corruption. (iv) Cross-country differences in the extent of nostalgia towards the past are related to differences in the deterioration of standards of living.

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## 1. Introduction

The fall of the Berlin Wall in 1989 brought about a new world of hope and opportunities for peoples and countries that engaged along the path of post-communist transformation. Many of these countries, especially those nearer to the Eastern boundaries of the European Union,<sup>1</sup> soon adopted democratic institutions and agreed that the setting up of a market economy would be an essential ingredient of it.<sup>2</sup> People gained at the same time freedom of thought, speech and action, and the opportunity to grow rich. Under these circumstances, it might have been reasonable to expect that the new, post-communist citizens should just work hard and be happy. But the transformation proved to be a bumpier road than it had been envisaged by some. People soon began to voice their doubts and concerns, rather than an overwhelming satisfaction, and those doubts have not yet faded away. In fact, political scientists had warned not to expect that everything would flow smoothly during the

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<sup>1</sup> Until 1989 the EU (then the European Community) had only 12 members. Austria, Finland and Sweden joined only in 1995, after the fall of the Wall.

<sup>2</sup> Note that the opposite would not be necessarily true, as a market economy does not always require democracy. [Staeher \(2006\)](#) provides an empirical confirmation of this presumption.

transformation. “Because a communist regime had a non-market command economy run by bureaucrats, post-communist regimes must create market institutions at the same time as democratic institutions. The simultaneous transformation of polity and economy, and the potentially explosive interaction between the two, makes outcomes uncertain. ... The practice of governance in a newly created democracy is a process of trial and error, a search across a terrain for which there is no map. ... Change can lead in more than one direction. Only a ‘democratic bolshevik’ would believe that introducing democratic institutions in place of a communist regime could immediately produce a stable democracy.” (Rose et al., 1998, p.7).

In respect to this transformation, we observe at least two different patterns. In those countries that were closer to the EU, democracy has proved remarkably stable, while setting up *ex novo* a market economy has proved difficult, and many citizens have been disappointed in the process. On the other hand, in countries belonging to the Commonwealth of Independent States (CIS) uncertainty has been more fundamentally centered on the characteristics of the political process. Overall, according to a broad survey conducted in 2007 by the EBRD, almost half of the people interviewed disagreed (and only 35% agreed) with the statement that the economic situation in their country today is better than around 1989, and a similar number gave the same response for the political situation (EBRD, 2007a; see also Guriev and Zhuravskaya, 2009). But why is that? Of course, it may be possible to interpret these (and other findings of a similar tone) as only signaling the end of a “honeymoon effect”, or as an exercise in the rhetoric of self-deprecation. Or, alternatively, they might point to a real source of discontent – in which case it becomes interesting to find out more about its causes.

One way to analyze discontent, or disillusionment, as the consequence of a rational (re)assessment, is to link it to the evidence of unfulfilled or disappointed expectations, which in turn may have been nurtured by the experiences of individual failures and defeats. In fact, personal disappointment may become a relevant political factor, as it might explain how a majority that initially supported reforms could turn into a majority that opposes their continuation or even demands their reversal.<sup>3</sup>

A search for evidence in favor of such explanations motivates this paper, which is organized as follows. In Section 2 we motivate our research questions, in reference to the relevant literature. In Section 3 we describe the data set, and discuss the method of analysis. This leads us to formulate an aggregate (macro) pseudo-panel model. In Section 4 we evaluate the results from this model, and find that the state of advancement of the reform process and macroeconomic performance are important determinants of the public opinion about the transition process and of future expectations; other macro variables that measure the impact of transition on different social groups are the main determinants of nostalgia for the past. In Section 5 we re-parameterize the empirical model to emphasize cross-country differences. We find that differences between countries are not imputable to the different impact of those variables that explain responses within each country; on the contrary, they are strongly related to relatively time-invariant cross-country institutional and governance differences, such as the enforcement of the rule of law and control of corruption. Section 6 concludes.

## 2. A framework for the analysis: how do reforms affect the welfare of citizens?

### 2.1. Objective and prior studies

The objective of this paper is to explain why apparently similar policies adopted in different transition countries generated different levels of popular support. The political and economic transformations brought along by the transition profoundly affected the well being and future expectations of the people involved. Right after the start of the transition, it became clear that “the most important strategic choices [would] arise... out of the interplay between economics and politics. System-wide reform is an intensely political process: indeed, the main differences among reform strategies largely reflect differing views of what will be politically sustainable. ... Technocratic solutions for optimal transitions cannot be designed without taking account of the political constraints.” (Fischer and Gelb, 1991). A political economy perspective may take these constraints fully into account. This approach must build on the observation that the “transition from socialism undermines the privilege and the status that determined the past allocation of rents and creates new rents to be contested” (Hillman, 1994). As the means through which individuals gain access to their consumption baskets (and also to certain degrees of protection and social insurance) are enormously different between the socialist and the market economies,<sup>4</sup> different conditions of entitlement necessarily produce gainers and losers from the transition.

But what determines the actual distribution of these gains and losses? As the transition requires a substantial shift of economic activities to the private sector, two main drivers of this shift were the privatization of state-owned enterprises and the reallocation of labor from the state to the private sector. These two processes also imply a re-definition of the role of the state, as the “all-encompassing role of the state must be ‘un-bundled’ into separate ownership, financing and regulatory roles” (Hinds and Pohl, 1991), and the latter role must be entirely re-configured, to provide new social services and especially unemployment and hardship insurance. This generates a further issue, due to the growing gap between revenues and expenditures which characterizes most

<sup>3</sup> This observation is related to Fernandez and Rodrik (1991), whose central idea was in turn foreshadowed by Machiavelli’s (1513) remarks on the difficulty and danger of an “attempt to introduce a new order of things in any state”. From these contributions we retain the idea that, once introduced, reforms may lose popular support, as the *ex post* distribution of gains and losses may no longer generate a democratic majority of supporters. We discuss specific aspects of this idea in Section 2.

<sup>4</sup> In a market economy, access to a consumption basket is generally conditional on the ability or willingness to pay; in a socialist economy, access follows from entitlement hierarchies related to membership in “socialist clubs”, such as the party or the factory, as in Hillman (1993).

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