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Behind the Wall: What Remains of the "Communist Legacy" in Contemporary Europe

Abstract

The Wall of Berlin felt more than 20 years ago. Since then a deep transformation has characterised the Eastern countries. People in both Eastern and Western Europe have known dramatic changes related to the integration of former communist countries in the "western world". Using a new empirical approach, this paper proposes an inquiry into the people's preferences and attitudes towards competition and market regulation. The results show that strong and significant differences between Eastern and Western citizens still persist. The new approach is compared to the traditional, to show that the results are robust to different methodologies.

Keywords: transition, Eastern Europe, Western Europe, people's support, market economy

1. Introduction

As a result of the Second World War, from the end of the War until twenty-five years ago Europe was divided into two political blocs. After the collapse of the communist regimes in the East, a process of transition from a centrally planned to a market economy took place in the former communist countries. Although there was some degree of heterogeneity in the implementation of socialist policies, the market structures present before 1939 disappeared from all the eastern bloc countries. In 1990 a radical process of transformation of these economies started, leading most of the countries to join the European Union.

The shift from operating as a communist state to joining a capitalist world is not only a matter of reforms imposed by a government and/or a supranational institution. This process requires strong support from the people, especially in countries whose governments are democratically elected. This means that the convergence must not only be written into acts and regulations, but also has to arise from the preferences of the population, who must support the reforms over time. Given the particular situation of the former Soviet economies, it was not so clear that the population would support the process – especially at the beginning, when the losses largely exceeded the benefits. If it is true that Eastern Europeans wanted the communist regimes to fall and desired to adopt the western way of life, nevertheless the price to be paid could have cooled the initial enthusiasm and stopped the process, as predicted in the model by Fernandez and Rodrik (1991; see also Rodrik, 1995 and Fidrmuc, 1999 and 2000). If we consider election results during the past twenty years, the conclusion is that some doubt arose about the convenience of the transition, although this could just be an effect of a large proportion of workers continuing to be employed in the state sector (see Fidrmuc, 1999).

This paper analyses the problem of the convergence of people's preferences for a free market in Eastern Europe and compares these preferences with those of the population of western countries. In particular, the paper aims at: 1) establishing whether the two blocs differ with respect to these preferences, 2) proposing a new empirical way to capture the East–West divide, 3) capturing any signs of a legacy of communism in individual preferences through analysis of the main personal characteristics that correlate with the preference for, or against, a capitalist market. The analysis also controls for some country-specific economic variables that may affect individuals' preferences analysed in the paper.

Alesina et al. (2001) and Alesina et al. (2004) stress the link between people's preferences and implemented policies. In the case of democratic countries (i.e. those countries in which free political elections are regularly held), when the majority of the electors does not support the reforms

implemented by the government, they are likely to vote for a party (or a coalition of parties) which slows down, stops or even reverses the process. Kim and Pirttilä (2006) find further empirical evidence supporting this hypothesis. Knowing the preferences of the electors helps to predict the future path of the policies. This implies that if the preferences are divergent in the two blocs, the process of integration could to be hindered. For this reason the analysis of individual characteristics (age, education, gender and political orientation) is important in order to detect possible signs of the past. Moreover, no study directly comparing preferences in Western and eastern Europe exists; therefore this paper constitutes interesting ground on which further comparisons could be built.

Immediately after the collapse of the communist regimes, several authors studied the issue of people's support for competition in Eastern Europe. However most of the extant research focuses on only one country at a time (for example Migheli 2012 studies the transition in Germany) and no study compares the situation in the former communist countries with that of western Europe. We do not know whether Eastern and Western Europeans support the institutions of a capitalistic and private market to different extents. Yet some of the former communist countries have already entered the European Union (EU), and some others will be admitted soon. As the EU strongly supports an economy based on competition and private property, comparison of the levels of support for it in the two former blocs appears to be useful. In particular it can provide insights to better understand the future of the Union and to evaluate the probability that popular opposition could slow integration. Fernandez and Rodrik (1991) propose a theoretical model suggesting that a reform which initially obtains the support of the population can become unpopular and generate opposition, although in another theoretical model Blanchard (1997) suggests that support for economic reforms can evolve over a U-shaped time path, which is basically what this paper finds.[3] Moreover, Hibbs (1977), Alesina et al. (2001) and Alesina et al. (2004) show that people's preferences and implemented economic policies go hand in hand. Although the direction of causality is unknown, if the majority of the population dislikes the actual economic institutions in a democratic country, they can elect a government which promises – and perhaps will fulfil the promise – to restore the previous conditions.

Migheli (2012) shows that although the transition in Germany has been successful, differences in preferences regarding some aspects of a market economy still persist. However his analysis is limited to only two former countries (West and East Germany) which are now one unified country, which were culturally very similar and which adopted the policies of a country (West Germany) that already belonged to the western bloc. This paper extends Migheli's analysis to the most of the countries that formed the eastern bloc and shows that there is still some difference in preferences between Eastern and Western Europeans. In particular, the first prefer the government to intervene

in the economy more than western Europeans do. Compared to the western bloc, the citizens of formerly communist countries have a stronger preference for public ownership of firms and for a wider welfare state. I have to highlight, however, that the *World Value Survey* (*WVS*) captures a general preference for private ownership. More recently, Rovelli and Zaiceva (2013) analyse the support for political reforms in twelve transition economies from 1991 to 2004; they find that, after the first years of economic and social distress, it has constantly increased over time. The study that I present here goes further: here the people's support for a market economy in European transition countries is compared with that in Western Europe, to understand how wide is still the gap (if any) between the two sides of the former iron curtain.

This paper has a methodological aim: it attempts at showing that the East-West divide often found in the literature may originate also from how the countries are grouped. The traditional strategy is to assess whether some difference exists between the block of the former communist countries takes as a unique bunch and the block of the capitalistic European countries (again taken as a monolith). This paper provides evidence that the East-West effect depends on how the countries are grouped and shows that it is sensitive to small modifications in this strategy.

2. Reasons to support (or to oppose) a market economy

There are several reasons to expect that Eastern Europeans would oppose a competitive and private market, but there are also a number of motivations that could support the reforms undertaken during the transition. I would divide these reasons into macro-reasons (i.e. those linked to the general socio-economic environment in which a person lives) and micro-reasons (i.e. those characteristics that are intrinsic to each person, such as gender, marital status, age, employment status, etc.). The first set of factors may affect individual preferences about economic regulation and competition, as negative economic circumstances (recession, increase in unemployment, etc.) may elicit people's preference for public protection through some degree of governmental intervention in the economy. In this section I will focus on the main theories that justify positions against or in favour of a market economy in transition countries.

Fernandez and Rodrick (1991) propose a theoretical model, which focuses on how the uncertainty about winners and losers affects the people's support to reforms. In other words, when a government implements deep economic reforms, some categories benefit more than others do. In such a situation, people who feel to be potential losers will contrast the reforms. People can oppose to these reforms either voting against the political parties that support them, or demonstrating

against the government. As the authors highlight, the point here is not the risk aversion of the citizens, but the uncertainty about who will gain (lose) from the reforms in the end. However, this theoretical model is static, while the process of reforms and the people's preferences are dynamic. Rodrick (1995) proposes a model where the preferences are dynamic, and depend on whether the individual is employed in the public or in the private sector or s/he is unemployed. The model shows mixed patterns: on the one hand, the workers in the private sector and the unemployed wish a small public economic sector. On the other hand, the workers in this last sector have different preferences, and, in any case, they wish to slow down the reform process, in order to secure their job in the public sector, which is assumed to be protected and subsidised. In conclusion, the people's support to the reforms – in a dynamic perspective – depends on the number of employees in the public sector. Fidrmuc (1999) extends the previous model, focusing on the unemployed: he shows that the unemployed support the reforms at the beginning, but then "change side" and try to slow down them. All the transitions have created huge numbers of unemployed at the beginning of the process. However, some have been able to reduce the unemployment faster than others; this may imply that in these second group of countries, the unemployed have moved from the group of supporters of the reforms to the group of opponents (analysing real electoral data, Fidrmuc, 2000, finds empirical support for his theoretical model). Blanchard (1999) proposes a further theoretical model on how the people's support to the reforms evolves during time. He predicts that the people's support follows a U-shaped movement[1]. In other words, at the very beginning the citizens of a transition economy are enthusiastic about the reforms and strongly support them. As time elapses, this support decreases to a minimum (because of the negative effects of the first stages of the transition), and then increases as the positive outcomes of the reforms start prevailing on their negative effects. Finally, it is worthy to mention the two political theories of Newton (2006): these ground on social capital and civil society; the author concludes that countries rich in social capital and with strong civil societies are more supportive of reforms than countries poor in social capital and with weak civil societies. He also claims that during or immediately after an economic crisis, people's support for the incumbent government decreases in favour of populist and/or extremist political ideologies. The change in political preferences is linked also to a change in preferences for different economic policies. In other words, the macroeconomic situation leads the people to prefer policies that defend employment and well-being through direct public sector intervention in the economy.

To sum up, the theoretical models highlight reasons to support and to oppose to economic reforms in transition economies. The main reasons for supporting them are the initial enthusiasm and the perspective of higher salaries in the private sector. However, depending on how the process

develops, the unemployed and other categories may start opposing to the reforms and may try to slow them down. This suggests that in the countries where the transition has been faster and more effective, the population should support the continuation of the transition more than in the countries where the process had been slow or not effective. These theoretical results also mean that when the economic situation is adverse (as was the case in the early transitional phase), people tend to demand more public intervention. In such circumstances, it is very likely that people's preferences will shift from 'against' to 'for' public intervention in the economy[2].

In its first years, the transition brought losses rather than benefits to eastern European citizens. The deep and fast renovation of the economic system and the obsolescence of the Soviet productive systems and industries generated a wave of unemployment and poverty. Millions of workers lost their jobs and retirees had their pension benefits cut severely. Persistently high inflation hit some countries. It is not difficult to lose optimism and become pessimistic in such a situation. Therefore the initial desire for a market economy could have given way to a wish to go back to the past regimes. This is exactly what the model by Blanchard (1997) predicts, but it has to be interpreted as a transitory phenomenon and not as structural opposition to the market economy.

3. Data and methodology

The first variable considered as dependent measures the individual evaluation of competition *per se* and is the answer to the following question: '*Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between.*[3] *Sentences: Competition is good. It stimulates people to work hard and develop new ideas vs. Competition is harmful. It brings out the worst in people*'. 1 means that competition is seen as good and as stimulating people to work and develop new ideas, while 10 means that competition is seen as harmful. This variable captures the interviewee's general opinion about the effects of competition in the economy. A high value means that the responder deems competition as a good instrument to stimulate people to put effort in their job and, more in general, that it promotes innovation. A low value indicates that the interviewee perceives competition in the economy as a way to make people fight against each other.

The second and third questions that originate the other two dependent variables are related to public intervention in the economy and ask the respondents to grade the following sentences: '*Private ownership of business should be increased vs. Government ownership of business should*

be increased' and '*People should take more responsibility to provide for themselves vs. The government should take more responsibility to ensure that everyone is provided for*'. A 10 here implies definitive support for government intervention in the economy. The first of these two variables measures the preference of the respondent for the direct intervention of the Government as a producer in the economy. The second attains the interviewee's preferences for the welfare state; in other words it asks the respondent to state whether s/he thinks that the welfare state should cover the most of the basic needs of a citizen, or if this should be left free to provide for himself.

The fourth question (dependent variable) is about regulation: it asks the interviewee to express his/her preference regarding how much the government should regulate private firms. The sentence to be ranked is: '*The state should give more freedom to firms vs. The state should control firms more effectively*'. Here 1 means a preference for freedom vs. regulation. In other words, this dependent variable measures the respondent's preferences for a regulated market vs. a freer system, where the Government minimises its control on firms. Although the latter is not incompatible with a free market, I interpret high values in the answer as a lack of trust in the workings of a completely free and competitive market.

Data are from the last wave of the *WVS*: 1999–2004. The variables analysed attain competition *per se* and preferences for public intervention in the economy. The theories of the free and competitive market state that perfect competition leads to Pareto efficiency (first theorem of welfare economics) and thus it is good; they also state that the public sector has to minimize its interventions in the economic system. The so-called western world funds its economic system on this theoretical ground, although some public corrections are implemented. However the trend of the past thirty years has been the progressive minimization of public ownership and the reduced provision of some public services. The new approach has gradually substituted direct intervention with ductile regulation. This process has been led mainly by the European Commission and the decisions taken by the European Council, and thus it is representative of the EU's vision. If the Eastern European countries want to integrate into the EU and to participate actively in its mission, then their citizens must support the recalled trend. This is why here I focus on the opinion of competition *per se*, and the individual preferences for public intervention in the economy.

A major methodological issue that arises here is how to identify the East–West divide.[7] The easiest and most widespread way is to divide the sample between formerly communist and capitalist countries. Such a division is in some ways appealing; however, it could be too simplistic and hide some important differences between formerly communist countries. In other words, the divide between Eastern and Western Europe may be more nuanced than is supposed: some countries in the

East may be more similar to countries in the West than to the other eastern countries. Indeed, while the communist experience has left a deep footprint in the recent past, the European countries have received other socio-cultural legacies during their history. As a consequence, while the East–West categorisation may be fashionable, it may also condition the results. However the problem is not as easy to solve: the most of the literature relies on the East–West dichotomy, while the rest runs analyses country by country. This implies that any division which is not based on the traditional divide will contain some degree of arbitrariness. The approach proposed in this paper aims at enhancing the robustness of the results, keeping in mind that the objective of this work is to capture the effect of living in a formerly communist country, rather than in a western country, on a set of preferences.

Following Ferrer-i-Carbonell and Frijters (2004) I treat the dependent variables as continuous cardinal variables. Although they are in fact discrete and ordinal, they have ten modalities, what allows for applying statistical and econometric techniques usually applied to cardinal continuous data (see also Luttmer, 2005; Thorisdottir et al., 2007 and van Praag et al., 2010). In particular, means can be compared and used instead of medians. The use of the latter remains the best and most correct empirical strategy, however the means allow for capturing more heterogeneity between the countries than the medians would. In other words, this procedure increases the usable information, without causing substantial distortions. Treating the dependent variable as continuous allows for grouping countries according to the average score; in addition it also allows for analysing the data using OLS instead of maximum likelihood estimation (i.e. ordered logit or ordered probit). Finally, as the data used in this paper are cross-sectional and not panel, following Clark and Oswald (1994), Ng (1996) and Oswald (1997), I correct the OLS estimates for country fixed effects, clustering variances and covariances at country level.

Operationally the set of countries is divided into two sub-samples according to the average response (score) to each of the questions considered. In particular, the first contains the countries where the average score is larger than the sample mean, while the other countries are selected to form the second sub-sample. Then the East–West divide is captured by the means of a dummy. This procedure enhances the robustness of the results, since it groups the countries which are similar to each other with respect to the variable of interest. In other words, any East–West difference is now sought within a very homogeneous group of countries. Since this procedure is quite new to the literature and since the extant literature has generally preferred the traditional categorisation, this paper then shows the results obtained using both approaches. I will then stress the results obtained with the new approach in particular, but I will also highlight the differences which result as a consequence of the two criteria applied.

The East-West dichotomy has widely been studied in the past years. However, all the papers on this topic have always divided the countries in the two "traditional" blocks of former-communist countries on the one side and capitalist countries on the other side. While this procedure is, of course, correct and provides results of utmost interest, the procedure proposed in my paper goes beyond this traditional approach. In particular, consider Figure 1, where two groups of countries (the black and the light grey) are represented with respect of two variables X and Y Imagine to regress Y on X on adding a dummy for "black." When the regression is run on the whole cloud of points, the dummy black may detect a significant difference between the two blocks of countries. However this difference would be led by the subsample in the lower half of the scatterplot. Considering the lower and the upper half of the graph separately, would confirm the difference between the black and the light grey for the first sub-sample while reveal no difference in the second. This shows that the effect of an independent variable may be hidden (or revealed) by how the countries are grouped. The analysis of the whole cloud of points would not reveal the complex reality (i.e. the fact that are not the two blocks that are different, but countries within and between blocks) "hidden" in the data. In other words, the usual East/West dichotomy may mask some overlaps that do not reflect this separation but, rather, differences in inequality, GDP per capita or other variables (some of which are included as controls in the regressions to capture also this effect).

Of course, in the case of Eastern and Western Europe the weights of the countries are less extreme than in the previous example. Nevertheless, the effect described may have affected (some of) the results presented in former studies. To account for this possible bias in the results I use the methodology described before. It has the advantage of grouping the countries first according to a criterion of homogeneity and then according to their past (i.e. their former belonging to the Eastern or to the Western block). In other words, the approach used here allows for highlighting that 1) some East-West divide still existed up to 2004 but 2) the two blocks are less homogeneous than one might think: there are Western countries that are similar to some Eastern in their skepticism with respect to a market economy, and vice versa. This grouping strategy allows for understanding whether 1) the pro-market country and the against-market country mirror the East/West divide and 2) there are significant differences between Eastern and Western countries within pro-reform and against-reform blocks. Should the "Eastern effect" be statistically significant and should it show that also in these sub-samples the Eastern Europeans are less supportive of a market economy than the Western European, strong evidence of the persistence of an East/West divide would emerge.

I present now the other independent variables included in the regressions. Education could exert a negative influence on support for the private market in Eastern Europe: education was one of

the main channels used to spread the communist doctrine among people. As a consequence, the longer the exposure to the official communist theories, the stronger the opposition to a reformed market might be. However, better educated people can access more information (meaning that they might know and perceive the shortcomings of the regime better than those with less education); moreover, human capital constitutes a sort of insurance against the unemployment produced by reforms,[3] and in this sense reduces uncertainty and risk. Indeed Vecernik, (1995), Orazem and Vodopivec (1995), Rutkowski (1996) and Brainerd (1998 show that returns on education are higher in a market economy than in a centrally planned economy; therefore more educated people would tend to be more in favour of reforms than others might be.

Additional regressors are: age, political orientation, religious orientation, the size of the interviewee's town, his/her marital status[5] and his/her employment status. While Grier (1997) and Guiso et al. (2003) control for religious denominations, I control only for being a convinced atheist or, since all the western countries (excluding Greece) are not Christian Orthodox, while the majority of the former communist countries are Orthodox, and therefore, should I control for the denomination, I would rather simply identify the two blocs than the true effect (if any) of the different religious orientations.[6] The religiosity of the respondents is revealed by a question from the WVS: *'Independently of whether you go to church or not, would you say you are… a religious person … not a religious person … a convinced atheist'*. The responder's religiosity is then coded through a couple of dummies, which capture "being a religious person" (1 for the affirmative case, 0 for the negative) and "being atheist" (1 for the affirmative case, 0 for the negative). In the analysis, the non-religious group (interpreted as the group of agnostics) is the reference group.

The size of the town in which the responder lives is an additional control. Firebaugh and Sandu (1998) show that urban residents in Romania are more prone to support a free market than the population living in the countryside are. Moreover, people living in suburban districts appear more likely to support accession of their country to the EU – and therefore the continuation of reforms that this accession implies – than are inhabitants of the countryside (Doyle and Fidrmuc, 2006). While it does not provide the precise dimensions of the towns where the interviewees live, the *WVS* classifies them in a discrete scale from 1 (less than 2,000 inhabitants) to 8 (more than 500,000 people). This large set of variables at individual level is necessary to isolate the individual fixed effects as much as possible. Indeed the dataset has not a panel dimension, and therefore individual fixed effects can be isolated only controlling for the largest number of variables as possible (see Di Tella et al., 2001 and Ferrer-i-Carbonell and Frijters, 2004).

Before commenting on the results, it is important to add a remark on the exact meaning of the regressors' effect on the dependent variable. Each of these is coded on a ten-digit scale, making them comparable. However each respondent compares his/her preferences with the *status quo* that s/he observes in the country, and answers with this in mind. This means that the coefficients and the standard errors estimated represent the regressors' effect on preferences with respect to the *status quo*. This is another good reason to use the grouping strategy proposed before. Furthermore, also the fact that the *status quo* is peculiar to each country has to be considered. In other words, this entails that the results shall be interpreted in relative terms. However, they are informative about the type of policies supported by the populations of the countries considered.

4. Results

Table 1 shows the distribution of the answers for the considered variables. We can see that the majority of both Eastern and western Europeans consider competition to be an incentive for employees to work harder (i.e. a grade lower than 6); however, a larger fraction of Western Europeans (20.07%) than of eastern citizens (15.70%) evaluates competition as harmful. Despite these results, Eastern Europeans prefer firms to be owned by the government, and the same holds in terms of their preference for more government responsibility in ensuring that everybody is provided for. These results appear to be in contrast with the previous findings: while Eastern Europeans have a better opinion about competition than Western Europeans, the latter want less state intervention in the economy than eastern Europeans wish for. It is possible that for eastern citizens the term 'competition' represents freedom from communism and therefore represents an ideal more than real competition *per se*.[8] It is possible that eastern Europeans like competition but are afraid of losing their jobs; hence they consider state ownership as insurance against this risk. However, an alternative explanation is possible: Staniszkis (1991) and Roland (2000) argue that Eastern Europeans have tended to support small-scale privatization and oppose large-scale privatization, and Barlow and Radulescu (2005) and Kim and Pirttilä (2006) have found empirical evidence which is partially consistent with this hypothesis. Thus it might be that the findings of my analysis are led by the opposition to large-scale privatization or, in other words, that the effect of this opposition prevails over support for small-scale privatization.

A first important result is the division of countries between the two sub-samples. Table 3 shows this information. We can see that the composition of the two groups varies; this corroborates the strategy of grouping the countries according to the average preference expressed by the interviewees rather than by the usual historic–geographical criterion.

Tables 3, 4 and 5 serve to show the stylized facts that are beyond this paper. In particular, we can notice that, grouping the countries in the traditional way, significant differences between the two blocks emerge. While in the light of the discussion presented in the previous section, the meaning of these differences is hard to assess, they still provide some substantiation to seek for the existence of an East-West divide in more homogeneous samples of countries.

Tables 4 and 5 are analogous to Table 3, but in them the sub-samples are also divided by respondents' gender. This further analysis is due to two main (antagonist) reasons. First: the communist doctrines teach that men and women are equal, especially in relation to work[9]. Second, as noted above, the economic literature often highlights that women are more risk-averse than men, and the transition from a socialist to a market economy tends to increase the variance of wages and the probability of losing a job. The two tables highlight that the detected differences hold for the two geographic sub-samples also when I cluster by gender. This evidence suggests that Eastern and Western Europeans are different from each other independent of gender or, equivalently, that both men and women have different preferences between the blocs. Further analyses[10] also show that the gender effect is highly significant in both geographic blocs. These findings suggest that current preferences about competition are not affected by communist principles, or, if so, that the gender effect is stronger than the doctrine. My results favour the hypothesis that women like the consequences of a market economy less than men do, and therefore support competition less. These findings suggest that Western and Eastern Europeans differ deeply in their support for a market economy, and the situation seems to remain far from that of full integration.

The next tables show the results of the multivariate analysis. Table 6 presents the results of the regressions run for the whole sample, with the inclusion of a dummy for Western Europe. Table 7 shows the results of the same regressions as those in Table 6, but restricted to the sub-sample of countries whose average scores for each of the dependent variables are above the sample mean. Table 8 reports the results of the same analyses for the sub-sample of coutnries whose average scores for each of the dependent variables are below the sample mean. As assessed before, this serves for the methodological discussion outlined before. The added value of these regressions is that it allows isolation of the 'geographic effect' from other characteristics (those listed in section 2) that may affect the preferences. As expected, in Table 6 the dummy for 'Western Europe' is always significant. In particular, the signs of the coefficients reveal that people living in western countries are less favourable to an intervention of the government in the market than people living in eastern countries. This effect is particularly strong for three variables: state ownership of firms, government responsibility in providing the citizens with goods and services, and regulation of firms. However, the Western Europeans consider competition in general less good to stimulate people to work hard,

than the Easterners do. This may reflect the recent past of the eastern countries, characterised by centralised ownership of the productive factors. These results are in line with the figures shown in Tables 7 and 8. In particular, only Spain (see Table 2) is positioned above the mean of the sample. This compels me to drop the dummy for 'Western Europe' from the regression[11], and suggests that people living in the eastern countries would prefer to increase state ownership of firms with respect to the *status quo*. The fast process of reform which has characterised Eastern Europe and which has dismantled most of the government-owned enterprises is the 'best candidate' to explain this outcome. As much as the firms were inefficient and obsolete, nevertheless they acted as employers and offered secure jobs for a number of workers. The first years of the transition were characterised by a big jump in unemployment and the loss of job security. In such an environment it is not surprising that people would like to invert the trend and ask for increased regulation of firms or even government ownership of firms.

However Tables 7 and 8 reveal that although they are concentrated in the eastern countries, these preferences are not homogeneous there. In particular, where the respondents' preferences are on average below the mean (Table 8), the coefficient for the 'western Europe' dummy is positive (second column) or non-significant (third and fourth columns). This indicates that the interviewees who live in the East would either prefer a decrease in state ownership of firms or have preferences no different from those of people living in western countries. The eastern countries included in this sub-sample are mainly former Yugoslav republics, what may suggest that this area has some peculiarity that would have not emerged in the canonical division between Eastern and Western Europe.

Preferences regarding increased governmental responsibility are affected by geographical location. In particular, Table 6 – where I used the traditional categorisation – suggests that eastern respondents are more prone than western respondents to desire an increase in governmental responsibility with respect to the *status quo*. The figures reported in Table 7 – estimated using the novel grouping of countries – partially confirm the results of Table 6. In particular, if the average preference in the country is above the global mean, the interviewees in the western countries have weaker preferences for an increase in governmental responsibility than the respondents in the East do. This supports the findings presented in Table 6. However, in the other sub-sample there is no significant difference between East and West. In other words it seems that the respondents in the western countries are distributed around the average value (i.e. are rather supportive of the *status quo*), while those in the eastern countries are more polarised towards the extremes. This also shows that the traditional partition between East and West hides this non-trivial inhomogeneity.

Table 6 indicates that competition is perceived as less stimulating for workers by western than by eastern Europeans. However Tables 7 and 8 reveal that this is more a matter of how the countries are grouped than a real fact. Indeed, the coefficient for the geographical dummy is negative for the sub-sample of countries that are above the sample mean, while it is positive, but not statistically significant, within the countries that score below the sample average. This indicates that although some subdivision of the European countries is possible according to the perception of competition[12], a simple geographical division is misrepresentative, as it leads to imprecise conclusions. In particular, the perception of competition as potentially harmful for the job market for people apparently has nothing to do with recent experience of communism. The same, however, is not true for preferences regarding the other economic aspects considered in the paper.

These results are not only very interesting, but are also extremely novel in least two aspects. The first is that competition per se is seen differently to its implementation in the public/private mix. The second relates to the traditional position of many scholars, who have viewed and often found the former socialist European countries as generally hostile to competition, because people there identified the negative outcomes of the transition with the results of competition and the market economy. As for the first, the results shown in the paper may suggest that competition and governmental intervention in the economy are perceived (at least partially) as separate. In particular, considering the magnitude of the marginal effects, Eastern and Western Europeans have different preferences especially in relation to matters concerning the relationships between firms and the public sector. This fact is particularly interesting, because it confirms the hypothesis that the changed political regime in the eastern countries has particularly affected the job market. More specifically, the loss of job security seems to have hurt people most, and this is reflected in the desire for increased public ownership and public regulation of production. A final worthwhile remark relates to the magnitude of the marginal effects for the geographical dummy in Tables 7 and 8: it is quite small. This indicates that although a difference between East and West exists, it is not great.

The dichotomy that exists between opinions about competition and preferences for governmental intervention in the economy is not only apparent, but is also substantial. The question about competition is more theoretical than the others, since competition *per se* is an abstract concept, while the rise in unemployment resulting from the transition process was a concrete experience. In this sense, competition may still represent a good in the minds of both Western and Eastern Europeans, while the shock of the transition may be responsible for the divergence in preferences – although this presents some inhomogeneity, as highlighted before.

Let us now consider the other controls and their effects on the dependent variables. Consistently with Andreoni and Vesterlund (2001), Gabriel (1992), Firebaugh and Sandu (1998), Hayo (1999a and 1999b) and Kaltenthaler et al. (2006), this study finds that women are less prone to support a system based on the free market and competition (whose outcome is in general more risk and more income inequality than is the case in an ideal socialist system). However, while gender attitude might be independent of the past regimes (i.e. women support a market economy less than males do simply because females have been found to have a greater disliking for inequality and risk), risk aversion[13] should be on average more pronounced among people who formerly lived under a communist regime than those in the other countries, and this should hold for both genders. The reason is that Eastern Europeans had to abandon a system which ensured food and jobs for everybody[14] and become accustomed to a new environment in which they are no longer provided with food and jobs by the government and the risk of losing a job – once it has been taken – is real and probable. Western Europeans have been accustomed to this situation since birth. This is consistent with the extant literature on gender and competition, which claims that men are more in favour of competition than women. More educated people are more market-oriented and have a better opinion of competition than less educated people. As a market economy rewards education, this result is not surprising. The effect of education is negative and significant for any composition of the sub-samples, suggesting that it is independent of residing in a western or an eastern country. Also, self-employed workers are more pro-competition and more market-oriented than employees. Again, in spite of the risks connected to entrepreneurial activity, the self-employed are rewarded more in a market-oriented economy than in one that is (strongly) regulated. Age has, in general, a reverse-U shape. This indicates that the young and the old are generally more market-oriented than middle-aged people. Once more this result holds independently of the country in which the interviewee resides, and is an important finding. Several works (see for example Easterlin and Plagnol, 2008) claim that the experience of communism has generated contrasting sentiments. On the one hand aversion to a non-democratic and corrupt regime, on the other nostalgia for its end: the elderly, who spent their youth during the establishment of the communist regimes and whose life standards worsened during the transition, are generally especially affected by this type of nostalgia. Living in a stable relationship generally has a negative sign, indicating some preference for more regulation and public intervention in the economy, but the coefficient is not always significant.

Being atheist is associated with a preference for wide social policies and strong regulation over firms in western Europe, while the opposite holds in eastern Europe. This supports the hypothesis that belonging to a religious community under a communist dictatorship developed a

sentiment of solidarity and mutual support among members. This is an indirect effect of the past regimes' attempts to eradicate religious beliefs.

The picture of Europe that emerges from this analysis is that of a continent which is still separated by a wall: in the eastern countries people tend to view competition more favourably than in the West (perhaps because it represents the 'new ideology'), but they have a greater preference for the state to take a role in employment and regulation than is the case for western Europeans (and this tends to confirm the previous statement).

5. Conclusions

This paper provides new evidence in two respects. On the one hand it sheds some light on how Eastern and Western Europeans differ with respect to their preferences regarding a market economy. On the other, the paper uses a new empirical approach, grouping the European countries in a way that allows for better inquiry into the very nature of the East–West divide. In particular, the countries are grouped according to their similarities, irrespective of whether they are eastern or western. In such a way it was possible to identify an interesting fact: while the preferences in the western countries are substantially massed around the median response (indicating that the Western Europeans generally approve of the *status quo*), the respondents in the eastern countries mass in a bimodal way towards the extremes. This suggests that they are either very pro or very anti-market. The findings are interesting, as they may have political implications. Where the *status quo* is approved by the majority of the citizens there is less risk of social tension than in the case of bimodal distributions such as those observed in the eastern European countries. In these, the risk that extreme parties may obtain a large share of the vote should not be neglected. The risk does not rely only in the possible extremism of these political movements, but it is rather incidental to the bimodal distribution of the preferences in these countries.

The results observed may be a consequence of the experience of communism in Eastern Europe. In particular, this recent past may be responsible of both nostalgia and desire of a net change with respect to the past. It is important to stress that the effects presented in this paper are relative to the *status quo* in each country, and therefore provide information about how the population may react to further reforms. In addition, the data used for the analysis are limited to 2004. Further research is needed to confirm my results beyond 2004. In any case, the results suggest that the governments of the eastern countries may have to deal carefully with further reforms to the economic system and its regulation, in order to preserve social stability.

Table 1. Distribution of answers to free market and competition indicators. (Percentage figures)

	Competition is harmful		More public ownership	
	Western	Eastern	Western	Eastern
1	18.52	31.79	14.43	14.85
2	13.82	13.63	10.47	8.17
3	17.83	15.29	15.20	11.24
4	13.55	10.14	12.45	9.09
5	16.21	13.45	22.73	17.69
6	6.19	4.37	8.62	7.57
7	4.59	3.13	5.70	6.54
8	4.21	3.21	5.24	8.27
9	1.98	1.55	2.13	5.33
10	3.10	3.46	3.05	11.26
St. deviation	2.34	2.42	2.31	2.90

	More Government responsibility		More regulation over firms	
	Western	Eastern	Western	Eastern
1	13.47	8.47	12.39	12.31
2	9.23	4.62	9.17	6.32
3	13.23	7.50	12.32	7.43
4	10.85	6.78	10.41	5.90
5	15.41	12.17	19.98	14.29
6	8.76	11.13	8.44	6.80
7	8.18	8.44	8.47	7.32
8	8.81	11.15	8.42	11.84
9	4.53	8.30	3.86	9.02
10	7.54	21.45	6.55	18.77
St. deviation	2.73	2.92	2.61	3.08

Note: the Western bloc includes Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Greece, Netherlands, Portugal, Spain, and United Kingdom. The Eastern bloc includes Albania, Belarus, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR of Macedonia, Moldova, Poland, Russia, Serbia, Slovak Republic, Slovenia and Ukraine.

Table 2. Groups of countries				
	Competition is harmful	Increase regulation of firms	Increase public ownership of firms	Increase government responsibility
Above the mean				
	Belgium	Belgium	Belarus	Albania
	Denmark	Croatia	Bulgaria	Bosnia
	Estonia	Czech Republic	Czech Republic	Belarus
	Finland	Estonia	Estonia	Estonia
	France	Greece	Latvia	Greece
	Greece	Hungary	Lithuania	Hungary
	Ireland	Latvia	Moldova	Italy
	Italy	Netherlands	Poland	Latvia
	Lithuania	Poland	Russia	FYR of Macedonia
	Moldova	Portugal	Slovak Republic	Moldova
	Netherlands	Russia	Spain	Poland
	Poland	Slovak Republic	Ukraine	Russia
	Portugal	Slovenia		Serbia
	Russia	Spain		Slovak Republic
	Spain	Ukraine		Slovenia
	Ukraine			Spain
	United Kingdom			
Below the mean				
	Albania	Austria	Albania	Austria
	Bosnia	Bulgaria	Austria	Belgium
	Bulgaria	Belarus	Belgium	Bulgaria
	Belarus	Denmark	Bosnia	Croatia
	Croatia	Finland	Croatia	Czech Republic
	Czech Republic	France	Denmark	Denmark
	Germany	Germany	Finland	Finland
	Hungary	Iceland	France	France
	Iceland	Ireland	Germany	Germany
	Latvia	Italy	Hungary	Iceland
	FYR of Macedonia	Lithuania	Iceland	Ireland
	Serbia	Sweden	Ireland	Lithuania
	Slovak Republic	United Kingdom	Italy	Netherlands
	Slovenia		Netherlands	Portugal
			Portugal	Sweden
			FYR of Macedonia	United Kingdom
			Serbia	
			Slovenia	
			United Kingdom	

Table 3. Raw preferences of Western and the Eastern Europeans. Average figures

	Western	Eastern	Significance (t-test)
More Government ownership of firms	4.27	5.08	***
More Government responsibility in the economy	4.88	6.32	***
Competition is harmful	3.87	3.35	***
More regulation over firms	4.87	5.98	***

Significance: *** 99% level; ** 95% level; * 90% level.

Table 4. Raw preferences of male Western and the Eastern Europeans. Average figures

	Western	Eastern	Significance (t-test)
More Government ownership of firms	4.13	4.76	***
More Government responsibility in the economy	4.74	6.14	***
Competition is harmful	3.70	3.18	***
More regulation over firms	4.72	5.77	***

Significance: *** 99% level; ** 95% level; * 90% level.

Table 5. Raw preferences of female Western and the Eastern Europeans. Average figures

	Western	Eastern	Significance (t-test)
More Government ownership of firms	4.41	5.36	***
More Government responsibility in the economy	5.02	6.49	***
Competition is harmful	4.02	3.50	***
More regulation over firms	5.00	6.16	***

Significance: *** 99% level; ** 95% level; * 90% level.

Table 6. Preferences over different charcteristics of a market economy (whole sample).

	Competition harmful	State ownership of firms	Government resposibility	Market regulation
Western Europe	0.592	-0.776	-0.640	-1.074
	(0.155)***	(0.180)***	(0.323)*	(0.197)***
Country-specific controls				
GDP growth	-0.016	-0.052	-0.067	-0.093
	(0.026)	(0.029)*	(0.037)*	(0.055)*
Inflation rate	-0.003	-0.012	-0.010	-0.010
	(0.005)	(0.009)	(0.008)	(0.008)
Unemployement	0.014	0.049	0.060	0.019
	(0.016)	(0.029)*	(0.038)	(0.024)
Public expenditure for education	-0.021	-0.042	-0.030	-0.147
	(0.054)	(0.047)	(0.070)	(0.054)**
Public expenditure for health	-0.142	-0.329	-0.357	-0.297
	(0.051)***	(0.095)***	(0.111)***	(0.086)***
Gini index	0.023	0.065	-0.004	-0.002
	(0.014)	(0.020)***	(0.023)	(0.019)
Male	-0.277	-0.355	-0.164	-0.243
	(0.036)***	(0.043)***	(0.036)***	(0.034)***
Atheist	0.143	0.363	0.118	0.336
	(0.106)	(0.086)***	(0.139)	(0.112)***
Education	-0.065	-0.125	-0.115	-0.139
	(0.013)***	(0.021)***	(0.018)***	(0.020)***
Size of town	0.006	0.021	0.013	-0.008
	(0.014)	(0.016)	(0.015)	(0.016)
Retired	0.038	0.050	0.055	0.113
	(0.066)	(0.091)	(0.070)	(0.091)
Self-employed	-0.287	-0.562	-0.317	-0.884
	(0.096)***	(0.102)***	(0.096)***	(0.128)***
Age	0.018	0.026	0.006	0.025
	(0.008)**	(0.011)**	(0.008)	(0.010)***
Age squared	$-2*10^{-4}$	$-2*10^{-4}$	$-8*10^{-5}$	$-2*10^{-4}$
	$(9*10^{-5})$**	$(1*10^{-4})$*	$(8*10^{-5})$	$(1*10^{-4})$**
Stable relationship	-0.102	-0.090	-0.106	-0.040
	(0.042)***	(0.031)**	(0.031)***	(0.043)
Constant	4.546	6.141	9.022	10.095
	(0.648)***	(0.823)***	(1.105)***	(0.700)***
R-squared	0.045	0.137	0.072	0.102
Number of observations	24,576	25,009	24,867	22,817
Total variance	141,868.33	102,644.95	180,334.18	181,558.54
Explained variance	6,384.07	14,062.36	12,984.06	18,518.97
Root MSE	2.349	2.361	2.595	2.674

OLS estimates, standard errors in brackets.
Significance levels: * 10%; ** 5%; *** 1%

Table 7. Preferences over different charcteristics of a market economy (subsample of countries whose average response is above the sample mean).

	Competition harmful	State ownership of firms	Government resposibility	Market regulation
Western Europe	-0.108	-	-0.772	-0.727
	(0.155)	-	(0.201)***	(0.324)**
Country-specific controls				
GDP growth	-0.043	-0.025	-0.224	-0.011
	(0.025)*	(0.006)***	(0.045)***	(0.036)
Inflation rate	-0.004	0.012	-0.019	-0.006
	(0.004)	(0.001)***	(0.006)***	(0.009)
Unemployement	-0.007	0.086	0.038	0.025
	(0.013)	(0.007)***	(0.020)*	(0.021)
Public expenditure for education	-0.093	0.225	-0.160	-0.028
	(0.037)**	(0.016)***	(0.066)**	(0.081)
Public expenditure for health	0.121	-0.003	0.382	-0.447
	(0.052)**	(0.032)	(0.136)**	(0.058)***
Gini index	0.003	0.025	0.058	-0.038
	(0.018)	(0.006)***	(0.023)**	(0.021)*
Male	-0.326	-0.351	-0.154	-0.263
	(0.044)***	(0.097)***	(0.055)**	(0.050)***
Atheist	0.294	0.204	0.166	0.192
	(0.108)***	(0.088)*	(0.215)	(0.128)
Education	-0.072	-0.157	-0.143	-0.142
	(0.011)***	(0.025)***	(0.030)***	(0.029)***
Size of town	0.015	$8*10^{-4}$	0.039	-0.014
	(0.015)	(0.017)	(0.016)**	(0.015)
Retired	0.161	0.238	0.235	0.123
	(0.073)**	(0.103)*	(0.140)	(0.102)
Self-employed	-0.288	-0.803	-0.184	-1.022
	(0.094)***	(0.126)***	(0.080)**	(0.139)***
Age	0.030	0.045	0.018	0.027
	(0.008)***	(0.017)**	(0.011)	(0.014)*
Age squared	$-3*10^{-4}$	$-4*10^{-4}$	$-2*10^{-4}$	$-2*10^{-4}$
	$(8*10^{-5})$***	$(1*10^{-4})$**	$(9*10^{-5})$***	$(1*10^{-4})$
Stable relationship	-0.155	-0.063	-0.091	-0.019
	(0.048)***	(0.054)	(0.046)*	(0.066)
Constant	5.009	3.183	4.696	10.897
	(0.773)***	(0.830)***	(1.156)***	(0.621)***
R-squared	0.033	0.141	0.037	0.089
Number of observations	15,325	12,419	10,699	12,799
Total variance	92,715.76	71,294.82	108,103.98	101,386.37
Explained variance	3,059.62	10,052.57	3,999.85	9,023.39
Root MSE	2.420	2.506	2.584	2.676

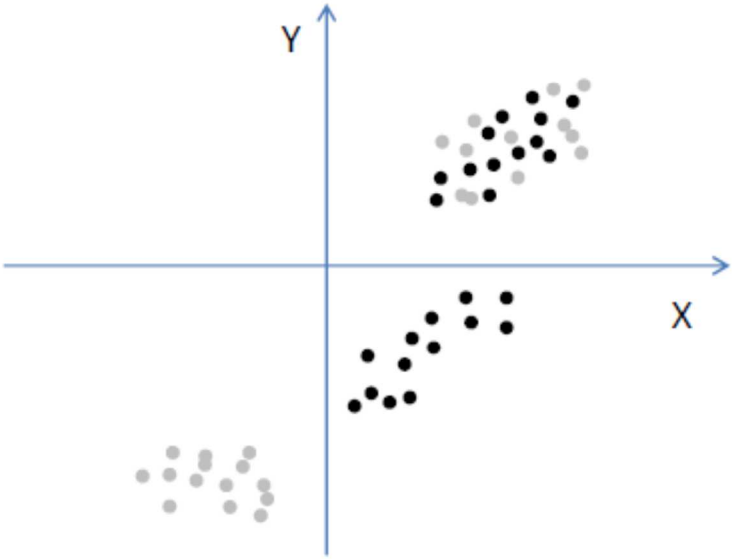
OLS estimates, standard errors in brackets.
Significance levels: * 10%; ** 5%; *** 1%

Table 8. Preferences over different charcteristics of a market economy (subsample of countries whose average response is below the sample mean).

	Competition harmful	State ownership of firms	Government resposibility	Market regulation
Western Europe	-0.964	4.618	-0.388	-0.221
	(0.141)***	(0.143)***	(0.279)	(0.206)
Country-specific controls				
GDP growth	-0.156	-0.285	0.004	0.086
	(0.016)***	(0.013)***	(0.022)	(0.017)***
Inflation rate	0.155	0.872	0.161	0.589
	(0.012)***	(0.019)***	(0.134)	(0.075)***
Unemployement	0.074	-0.487	0.020	0.080
	(0.009)***	(0.015)***	(0.021)	(0.025)***
Public expenditure for education	-0.972	1.503	-0.090	0.103
	(0.101)***	(0.035)***	(0.060)	(0.055)*
Public expenditure for health	0.112	1.655	-0.042	0.245
	(0.018)***	(0.041)***	(0.077)	(0.084)**
Gini index	0.274	-0.160	-0.009	0.061
	(0.029)***	(0.005)***	(0.022)	(0.013)***
Male	-0.212	-0.356	-0.181	-0.215
	(0.058)***	(0.038)***	(0.049)***	(0.057)***
Atheist	-0.091	0.392	0.133	0.459
	(0.072)	(0.085)***	(0.155)	(0.128)***
Education	-0.105	-0.103	-0.091	-0.122
	(0.013)***	(0.024)***	(0.022)***	(0.017)***
Size of town	-0.005	-0.003	-0.005	-0.013
	(0.012)	(0.017)	(0.016)	(0.011)
Retired	-0.150	0.007	0.102	0.200
	(0.089)	(0.091)	(0.097)	(0.117)
Self-employed	-0.240	-0.484	-0.545	-0.793
	(0.150)	(0.098)***	(0.086)***	(0.191)***
Age	-0.001	0.016	0.005	0.029
	(0.013)	(0.010)	(0.008)	(0.008)***
Age squared	$6*10^{-5}$	$-2*10^{-4}$	$-9*10^{-5}$	$-3*10^{-4}$
	($1*10^{-4}$)	($1*10^{-4}$)	($9*10^{-5}$)	($1*10^{-5}$)**
Stable relationship	0.036	-0.056	-0.092	0.027
	(0.072)	(0.051)	(0.040)**	(0.053)
Constant	0.559	-9.176	7.039	0.478
	(0.418)	(0.544)***	(0.793)***	(1.131)
R-squared	0.034	0.061	0.043	0.072
Number of observations	7,503	13,917	14,168	9,262
Total variance	37,865.39	23,889.51	58,928.80	65,266.28
Explained variance	1287,44	1,457.26	2,533.94	4,699.17
Root MSE	2.210	2.195	2.523	2.598

OLS estimates, standard errors in brackets.
Significance levels: * 10%; ** 5%; *** 1%

Figure 1. Distribution of X and Y for two groups of countries (black and light gray)



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Notes

1. Empirical evidence of this is also found for China (Migheli, 2010).

2. On other effects of pro-market reforms on household well-being see also Mogstad and Pronzato (2012)

3. This part of the question is equal also for the following quotes. As a consequence I will not report it, but I will only quote the sentences to be graded.

4. Notice that a large part of this unemployment was long-term (see Fidrmuc, 1999).

5. In reality I control for a stable relationship, i.e. married or not married but living together.

6. It is possible to claim that as atheism could be a legacy of the communist past, the introduction of the dummy for being atheist is improper. I acknowledge that this may be a valid point, but I claim that factors other than political doctrines might have affected the religious orientation of people in the two blocs, leading to the current situation in which Eastern Europeans are on average more likely to be atheist than western citizens are. The following finding supports my claim: the large majority of eastern countries belong to the Orthodox denomination, as Greece does. The orientation of Greeks and Eastern Europeans towards religion does not differ significantly in my sample. This means that Greeks are on average as atheist as Eastern Europeans are. Therefore, to claim that atheism in Eastern Europe is just a legacy of communism is incorrect. For this reason I control also for this variable and claim that this does not bias the analysis, but rather reinforces its results.

7. I wish to thank an anonymous referee for highlighting this methodological issue and for suggesting its discussion in the paper.

8. However this is just a possible interpretation and the present analysis does not offer any supportive or contrary evidence.

9. Of course the implementation of this high principle has often failed also in communist countries, but I have to account for 1) some indoctrination effect and 2) some successful implementation of the ideology.

10. Available upon request.

11. This is compulsory, given that each country-specific control takes only one value for each country. Since the dummy for Western Europe would then coincide with a dummy for Spain, this dummy would be perfectly collinear, and therefore has to be dropped.

12. In other words this shows that, selecting some criterion, it is always possible to split the countries in different groups. Nevertheless a simple and non-pondered criterion (such as the easy geo-historical division between former communist and western European countries) may generate results that are intriguing, but are not robust to further, more 'scientific' inquiries.

13. Risk aversion would (at least partially) explain why women (who are generally more risk-averse than men – see Andreoni and Vesterlund, 2001) prefer more regulation than men.

14. Regardless of the quality of the job and (above all) of the food, and the quality of delivery of the latter (with long queues), people had relatively equal access to both.