

Life in Transition: Current Attitudes

While nostalgia for the past remains, a sense of optimism about the future prevails

Peter Sanfey, Franklin Steves and Utku Teksoz

The transition from socialism to a market economy has transformed the lives of many people. What are people's perceptions and attitudes to transition? What are the current attitudes to market reforms and political institutions?

To analyze these issues, the EBRD and the World Bank have jointly conducted the comprehensive, region-wide "Life in Transition Survey" (LiTS), which combines traditional household survey features with questions about respondents' attitudes and is carried out through two-stage sampling with a random selection of households and respondents.

The survey explored four key areas in 29 countries: access to consumer goods and public services; people's views on how transition has affected their lives; attitudes to markets, democracy and the role of the state; and the issues of corruption and lack of trust. The main findings are broken down by sub-regions — contrasting Central Eastern Europe and Baltic States (CEB) with South-Eastern Europe (SEE) and the CIS and Mongolia (CIS+M).

Material Well-Being

Prior to the start of transition, socialist economies were often characterized by a shortage of consumer goods and a lack of choice in the shops. The transition has opened up a new world of con-

sumer goods to people in the region, at least to those able to afford them. Access to credit and strong growth in financial markets has helped to fuel a strong consumer boom that is driving economic growth. However, the transition has highlighted the huge investment needed in public infrastructure, and that access to reliable services often remains problematic, especially for poorer people.

Ownership of Consumer Goods

The survey investigates whether the so-called necessities of Western countries, such as a car or mobile phone, have also become commonplace in the transition countries. Responses reveal the strong degree of mobile phone ownership across the region, while access to other goods and services varies widely (see Graph 1). For example, in CEB nearly 77% of households have a bank account compared to only 10% in CIS+M.

Regarding public services, the regional variation is less marked. For example, there is virtually 100% access in all regions to electricity from the public grid.

Within each region there are important urban/rural differences in access to goods and services. It is particularly noticeable for some public services in CIS+M. Access to a fixed telephone line, for example, is close to 70% in urban areas compared with only about 22% in rural areas.

children born today will have a better life than their own generation. Perhaps people are being influenced by strong economic growth and a growing realization that there is no going back to the past.

Young people have a much more favorable view than older people. In CEB more than 50% of people aged 18-34 think that there is a better economic situation today than in 1989, with the share declining to about 35% of those aged 65 and over. Not surprisingly, those in the upper income bands are far more likely to agree that things are better today than before, both economically and politically, than those in the lower bands.

Where does this leave the overall level of happiness? More people declare themselves to be satisfied with life than dissatisfied, with things looking gloomy only in SEE, where living standards have dropped significantly. In general, young people feel satisfied with their lives, especially in CEB (65%) although this falls to just over 40% in SEE. Interestingly, people in the highest age group (65+) report on average the lowest levels of satisfaction in SEE and the CIS+M, in contrast to studies for non-transition countries that tend to show life satisfaction declining with age up to a certain point (usually in the 40s) and rising thereafter.

Values and Priorities

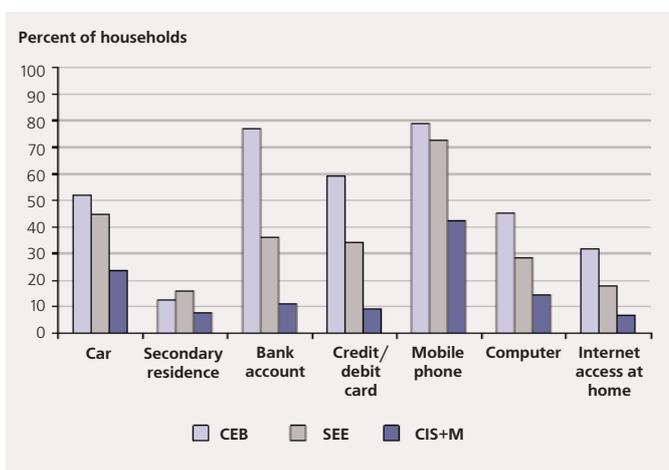
The process of transition has been fundamentally about promoting democracy and the market economy and reducing the all-encompassing role of the state in economic affairs. Have these values taken root? Overall, the survey shows moderately strong support for democracy and markets. Around 10% of respondents support a combination of a planned economy and authoritarian government, and about 20% of people believe that the form of political and economic system does not matter at all. Typically these are the elderly, women, those in lower income groups, as well as the unemployed.

Where does this leave the role of the state and where should government resources be targeted? Two sectors stand

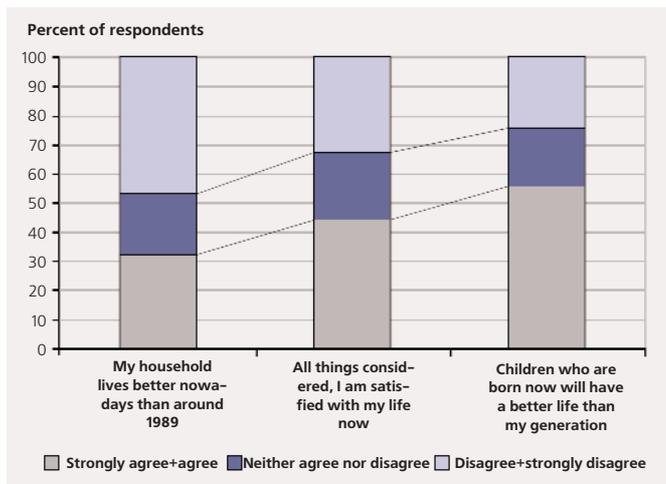
Views on Transition

Regarding people's subjective experience of the effects of transition, there appear to be mixed feelings: on the one hand, there is some evidence of nostalgia for the past (see Graph 2). On the other, there is a sense of optimism, with 54% agreeing that

Graph 1. Does Anyone in Your Household Have...



Graph 2. Views on Transition



out as respondents' priority areas for investment by the state — health care and education, whereas housing, public infrastructure and the environment are generally viewed as less important areas.

Corruption and Trust

According to the survey, 67% of respondents indicate that corruption is the same or worse than it was before transition began. The perception of worsening corruption seems to be particularly strong in SEE, where 75% of respondents believe that corruption is now as bad as, or worse than, in 1989.

government investment since unofficial payments are presumably seen by workers in these sectors as compensation for low salaries and general under-investment.

In line with the general increase in perceived corruption, general levels of trust in society have fallen during transition. While approximately two-thirds of respondents believe that people could generally be trusted before the beginning of transition, the proportion falls to less than one-third today. While general trust seems to have declined, trust in institutions differs widely. In general, people in the region place a high degree of trust in the armed forces, the presi-

The public health system stands out as the area where "irregular payments" are most common: more than 20% say that such payments are usually or always needed. Payments also seem to be quite common when dealing with the road police and in public education. The results for health and education help to explain why people see these areas as top priorities for further gov-

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Conclusions

After more than 15 years of transition, the region stands at a crossroads. Overall, the message coming through from the survey is a positive one: the balance is clearly in favor of the optimists when it comes to seeing a better future ahead. And there is robust support for both democracy and the market economy. Young people tend to support these trends the most.

However, major challenges lie ahead, even in some of the most advanced countries in the region, including a strong urban/rural divide and scarcer private sector services in rural areas. And politicians face a particularly strong challenge in raising the level of public trust in institutions, such as the government and parliament, and in fighting corruption.

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Russian Fiscal Policy: Challenges Ahead

In three years the budget surplus fed by high oil prices will disappear

Yevsei Gurvich

The period 2007 to 2010 will in many ways mark a macroeconomic turning point in Russia, witnessing a change in the external conditions of the development of the Russian economy and in the character of government policy.

First, the rapid growth of world commodity prices is expected to be replaced by their decline. The Urals oil prices, after growing by more than 2.5 times in the last three years, are expected to go down to US\$50 per barrel in 2010.

Second, the production and export of hydrocarbons will be lagging behind economic growth in Russia. Nevertheless the

massive inflow of foreign capital will further strengthen the ruble and thus reduce the share of export-oriented sectors in GDP. As a result, the share of the oil and gas sector in the country's GDP will plummet from 23% in 2006 to 13% in 2010. Accordingly, the size of the resource rent in the sector will drop almost by half from 19.1% of GDP in 2006 to 10.6% in 2010 (see Graph 1).

A sharp reduction of the relative weight of the oil and gas sector will significantly reduce the total budget revenue. This is due to the increased tax burden for both sectors (following the

recent tax reform) and eased burden for other sectors. As a result, in 2006 the tax burden on the oil sector was twice that on the rest of the economy, and on the gas sector it was 1.5 times higher. Accordingly, the drop in oil and gas revenues cannot be compensated by other sources, so that the total federal and enlarged budget revenue will drop by 5.4% of GDP in 2007-2010.

Balanced 3-Year Budget

The drop in oil and gas budget revenue will be accompanied by tougher budgetary rules. A special regime will