

Revised Draft, October 7, 2008

**Lost in Transition:
Life Satisfaction on the Road to Capitalism**

Richard A. Easterlin

Contact info:

*Department of Economics
University of Southern California
Los Angeles CA, 90089-0253
E-mail address: easterl@usc.edu
Telephone: 213-740-6993
Fax: 213-740-8543*

Lost in Transition: Life Satisfaction on the Road to Capitalism

Abstract

In the 1990s transition from socialism to capitalism in Eastern Europe life satisfaction followed the collapse and recovery of GDP, but failed to recover commensurately. By 2005, with GDP averaging about 25 per cent above its early 1990s level, life satisfaction was typically back to its earlier level, but was arguably still below pre-transition values. Increased satisfaction with material living levels occurred at the expense of decreased satisfaction with work, health, and family life. In the decade of the 1990s, disparities in life satisfaction increased with those hardest hit being the less educated and persons over age 30; women and men suffered about equally.

JEL classification: I31, P5, P27, D60

Keywords: Happiness, transition, capitalism, socialism, loss aversion.

What has happened to subjective well-being as the former communist nations of Europe transitioned from centrally planned to market economies? Are people more or less satisfied with their lives? Have disparities in life satisfaction within the population widened or lessened? Are there differences between women and men, young and old, and the more and less educated? Although one might suppose these questions are of interest -- some might even say, fundamental interest, considering that they involve comparing capitalism and socialism -- they have received little attention in the voluminous literature on transition economies. This paper seeks to help fill this gap. The geographic scope is central, southern, and eastern Europe; the time, the first decade of transition, 1989-99, followed by an attempt to place this period in the perspective of recent and earlier experience.

The broad economic facts of the transition have been spelled out numerous times, especially for the period of the 1990s (see, for example, Campos and Coricelli 2002, Havrylyshyn 2006, Mickiewicz 2005, Murrell 1996, Philipov and Dorbritz 2003, Simai 2006, Svejnar 2002, UNICEF 2001, World Bank 2002). Most notable was an abrupt and massive economic collapse, with measured GDP falling to levels of around 50 to 85 per cent of the 1989 level, usually in a few years or less. Subsequently GDP recovered somewhat, though rarely by 1999 to the initial level. A visiting economist from Mars, confronted only with these GDP data, might well conclude that an economic disaster on the scale of the Great Depression had befallen some 400 million of the world's population.¹ On the plus side, consumer goods shortages -- a chronic condition under socialism -- largely disappeared. With regard to factor inputs, capital shrank and there

¹ The parallel to the Great Depression has not escaped the notice of transition analysts, most notably Branko Milanovic 1997.

was a significant increase in flows out of the labor force. Unemployment rates rose from near zero to double digit levels in many countries. “[P]overty and inequality ... both increased sharply in the beginning of the transition and have so far [1999] not shown signs of declining” (Campos and Corticelli, 2002, 816; cf. also World Bank 2000b). The social safety nets that prevailed under socialism were severely ruptured (Fox 2003, Orenstein and Haas 2005, Pascall and Manning 2000, Simai 2006, UNICEF 1999, 2001, World Bank 2000a). Accompanying these striking socio-economic developments were equally dramatic changes in the political system. Former police states were replaced by new, often democratic, regimes, and the populations endowed with much wider civil and political rights.

Exactly how such massive changes should play out in terms of people’s feelings of well-being is far from clear a priori. On the economic side, there is the debate on whether absolute or relative income determines well-being. If absolute income, then one might expect well-being more or less to follow the course of GDP. If relative income, then well-being might remain unchanged, people simply adapting hedonically to economic vicissitude. This would be in keeping with the growing evidence that in upper income nations (and those under study here fell in 1989 in the upper middle-income group) increasing GDP is not accompanied by growing happiness (Easterlin 1974, 1995, 2005).

There is also the question of how political change might weigh against economic in its impact on life satisfaction. On the one hand, there is the evidence that, when asked about their sources of well-being, people worldwide rarely mention political circumstances. Rather, they put foremost those concerns that principally occupy their

time, most notably making a living, family life, and health (Easterlin 2000). On this basis, one might argue that economic circumstances would carry the day. On the other hand, there are findings for Switzerland that direct democracy, in the form of access to initiatives and referenda, has a significant positive effect on well-being, other things equal (Frey and Stutzer 2000). Also, a recent cross-country analysis of mostly European nations finds a significant positive relation between democracy and happiness, controlling for income, language, and religion (Dorn et al 2007).² If political change were particularly stressed as determining life satisfaction, one might expect a rise in subjective well-being despite adverse economic events.

The few published empirical studies of trends in life satisfaction during transition usually relate to only one country, cover varying time periods, and give no consistent picture. Frijters and his collaborators find life satisfaction rising along with income in East Germany from 1991 to 2001 (Frijters et al. 2004ab) and also varying directly with ups and downs in income in Russia between 1995 and 2001 (Frijters et al. 2006). These results are, in their view, vindication of the importance of absolute income in determining well-being. Saris (2001) and Veenhoven (2001) both report declines in life satisfaction in Russia between 1988 and the late 1990s, and Lelkes (2006), a decline in Hungary from the early to late 1990s. Hayo and Seifert (2003) consider economic, as opposed to overall, well-being from 1991 to 1995 and find in seven of ten transition countries declines in the proportion saying their economic situation is satisfactory or very satisfactory. All in all, neither theory nor the existing evidence point conclusively to the course of life satisfaction during the transition. (A newly-published article by Sanfey and Teksoz [2007] is discussed in the final section of this paper.)

² In transition countries, however, the effect of the shift to democracy is not significant, *ibid.*, p. 514.

The analysis that follows first describes briefly the concept and methods employed. It then turns to evidence on the course of life satisfaction during the decade of the 1990s, and, following this, an analysis of who in the population gained and lost in life satisfaction. Finally, the movement of life satisfaction both before and after the 1990s is considered. The primary aim is to present the facts, but the facts immediately raise questions of “why”, and so some tentative explanations are ventured, essentially hypotheses deserving further exploration. As will be seen, life satisfaction gives a rather different perspective on the transition than that common in economic studies that seek to evaluate different types of economic reform.

1. Concept, data, methods

The concept of central interest here is that of overall satisfaction with life, the response to the question: “All things considered how satisfied are you with your life as a whole these days?” The response scale ranges in integer values from 1 (= dissatisfied) to 10 (= satisfied). Until the last decade, economists have typically inferred well-being from what are known as “objective” measures – GDP per capita, life expectancy, educational attainment, and the like – with GDP per capita typically the featured measure. Recently, however, increasing attention has been paid to measures of “subjective” well-being (SWB) – responses to questions on personal happiness or general life satisfaction.³ This growing literature analyzes both substantive and methodological issues, including the reliability, validity, and comparability of the responses to such questions (Clark et al., 2008; DiTella and MacCulloch, 2006; Frey and Stutzer, 2002ab; Graham, 2008; Layard,

³ Simon Kuznets’ insistence that GDP is a subjective, not objective, measure is conventionally ignored by economists (see the exchange between Kuznets [1948] and analysts at the National Income Division of the Department of Commerce).

2005; van Praag and Ferrer-i-Carbonell, 2004; van Praag and Frijters, 1999; Veenhoven, 1993). The methodological consensus is that SWB measures of the type used here are meaningful measures of well-being although, as with any well-being measures, including GDP, they have their shortcomings. The conclusion that SWB measures are meaningful is buttressed by numerous cross sectional regression studies starting with those of Andrew Oswald and his collaborators that find in country after country the same patterns of association between subjective well-being and a wide range of economic and social variables (Blanchflower and Oswald 2004, Oswald 1997). The interest of the present analysis is substantive, not methodological – what the life satisfaction measure tells us about the course of subjective well-being during the transition.

The data on which the analysis principally focuses are those of the World Values Survey (WVS), conducted in an increasing number of countries throughout the world in four waves 1981-84, 1989-93, 1994-99, and 1999-2004 (European and World Values Surveys Four-Wave Integrated Data File 2006). The basic data used here are given in Appendix Table A-1. The WVS data have the special advantage of asking the same question in different countries and in successive surveys, thus ensuring substantial comparability. Transition countries first make their appearance in wave 2 of the WVS (except for Hungary which is included in wave 1), some very shortly after the start of the transition. Wave 5 of the WVS was done in 2005-2007 and is not scheduled to be in the public domain until 2009, but a newly available Eurobarometer survey makes possible an update of the change in life satisfaction to 2005 presented in the last section of this paper.⁴ Also included in this analysis are annual data for East Germany (the former GDR)

⁴ The 4-category happiness measure from the WVS is not used here. The 10-response life satisfaction measure has the obvious advantage of greater sensitivity, but there is a more fundamental reason for not

from June 1990 onward gathered in the German Socio-Economic Panel (GSOEP, Appendix Table A-2).⁵ This longitudinal survey contains a general satisfaction question very similar to that in the WVS. In all, the analysis covers thirteen transition countries spanning central Europe, the Baltic States, the Balkans, and the former Soviet Union. The transition countries of central Asia are not represented, because they were not surveyed until wave 3 of the WVS.

In any given wave the WVS surveys often differ from one country to another in both the year and month of the survey. The life satisfaction observations have been dated here to match the annual GDP observation that they most likely reflect.⁶ Thus a survey conducted in the first four months, say, of 1991, is dated 1990; a mid-year survey, May-August 1991, is dated 1990.5 and compared to the GDP average of 1990 and 1991; and a survey in the latter part of the year, September - December 1991, to 1991 GDP. For six countries (Poland, Czech Republic, Slovakia, Hungary, Bulgaria, Romania) the surveys in waves 3 and 4 both fall in years close together toward the end of the decade, and these surveys have been merged for simplicity and increased reliability.

Based on the data for which the earliest life satisfaction observation is available, the thirteen countries fall into two groups. For eight, the first observation occurs early in

using the happiness measure. In most of the transition countries, the happiness measure rises between waves 2 and 3 despite marked declines in life satisfaction. The reason for the increase appears to be a “primacy” bias resulting from a change in the instruction accompanying the happiness question. In wave 2, interviewers were instructed to alternate the order of response choices from one respondent to the next. Thus respondent 1 would be presented with choices ranging from “very happy” down to “not at all happy,” while respondent 2 would be presented with “not at all happy” first. There are a number of survey studies demonstrating a tendency for respondents to favor earlier over later choices [Belson 1966, Chan 1991, Schuman and Presser 1981, pp. 56-77]. In wave 2, therefore, half the respondents would have been more inclined toward less happy choices by virtue of being presented with the more negative options first. In wave 3, the “very happy” option appears first, and the instruction to alternate response options no longer appears. Hence happiness responses in wave 3 would tend to be biased upward relative to wave 2.

⁵ Cf. Haisken-DeNew and Frick 2005. The German data were made available by the German Socio-Economic Panel Study of the German Institute for Economic Research (DIW), Berlin.

⁶ GDP data here are from Economic Commission of Europe 2003, except those for 1986-88, which are from Philipov and Dorbritz 2003.

the transition, when GDP is typically 95 per cent or more of its 1989 level and the unemployment rate around 2 per cent or less (Table 1). For the other five, the first observation comes later in the transition when GDP is on the order of 85 per cent of its 1989 level and the unemployment rate, usually 10 per cent or more. The eight countries for which early-transition life satisfaction observations are available provide the fullest picture of the trend in life satisfaction in the first decade of transition and are principally relied on here.

2. The trend in well-being

What can be said about the course of life satisfaction in transition countries during the 1990s? The data for the countries available, although less than comprehensive, give a fairly consistent picture. They suggest two generalizations.

First, life satisfaction plummets and then recovers, roughly following the course of the economy as indexed by real GDP. Second, the recovery of life satisfaction falls short of that in GDP.

The evidence for the first is as follows. Of the eight countries in the upper panel of Table 1 with early transition observations, there is one, the former GDR, for which annual life satisfaction data are available, and five with life satisfaction observations for the mid-nineties as well as the late nineties. When the observations for these six countries are plotted against time and compared with annual GDP data, life satisfaction in all six follows a V-shaped pattern fairly similar to that of GDP (Figure 1). In a seventh country

(Slovenia), which also has three well-spaced observations, with the first falling close to the GDP trough, life satisfaction conforms to the recovery phase of GDP.⁷

Such sizeable and rapid declines in life satisfaction as those in Figure 1 are very rare. The magnitudes of the decline from peak to trough in the six transition countries of Figure 1 fall outside the range of virtually all of the between-wave changes (both positive and negative) observed in fourteen non-transition European countries in the entire survey period since 1980-84.

The finding that in this set of upper middle income countries life satisfaction moves directly with GDP is in stark contrast to the usual one for countries at this income level, namely, that as GDP increases, SWB changes very little. Is it possible to reconcile these disparate results on the association of SWB and GDP?⁸

The answer, perhaps, is that the response to a drop in GDP differs from that to an increase, and what one is observing in the transition countries is “loss aversion” writ large. A considerable number of small group studies by social psychologists and behavioral economists have found that an increase in income from an initial reference point means considerably less to people in terms of well-being than a loss of equivalent amount (the pioneering study is Tversky and Kahneman 1991; see also Rabin 1998, Kahneman 2003). The relevance of this argument here can be illustrated by adapting a figure from Easterlin (2001).

Assume that at a given point in time, mean income is y_1 and happiness u_1 on the utility function A_1 , which illustrates the usual cross sectional positive relation observed

⁷ Some analysts describe the 1990s GDP movement in several countries as more L-shaped than V-shaped. For the limited number of life satisfaction observations in Figure 1, however, the V-shaped designation seems most appropriate.

⁸ Throughout this analysis GDP and GDP per capita are used interchangeably, because total population size changes very little during the 1990s in these transition countries.

between happiness and income (Figure 2). If when income increases, aspirations rise commensurately, then when GDP per capita increases from y_1 to y_2 , average happiness remains unchanged at u_1 (a movement from point 1 to point 2, illustrated by the heavy broken line connecting the two points). This is because the positive effect on happiness of the growth in GDP per capita (an upward movement along A_1) is undercut by a downward shift in the utility function from A_1 to A_2 as rising material aspirations shrink the happiness value of a given dollar of income. If, however, GDP per capita falls, say from y_1 to y_3 , and income aspirations remain fixed at their initial level, then happiness falls from u_1 to u_2 (a downward movement along A_1 from point 1 to point 3, illustrated by the broken line connecting these points). Correspondingly, a recovery in GDP per capita from y_3 that moves people back along A_1 toward the reference level, point 1, raises happiness back toward u_1 . For illustrative purposes the diagram pictures the extreme case of complete hedonic adaptation to an income gain, and zero adaptation to an income loss.

Put simply, the argument is that people adapt hedonically to an increase in income from a given initial level, their aspirations tending to rise commensurately with income. But aspirations are much less flexible downward. Once people have attained a given level of income, they cling to this reference point -- the well-known "endowment effect" (Kahneman, Knetsch, and Thaler 1991). Hence, if income falls they feel deprived, and their subjective well-being declines. In turn, a recovery in income that returns them toward the reference level increases subjective well-being. Readers will note that the kink in the broken line at point 1 of Figure 2 is analogous to that in diagrams of loss aversion (Kahneman, Knetsch, and Thaler, p. 200).

As an illustration, consider the contrasting experience of East and West Germany, sitting side by side, with a common language, history and culture. In East Germany in 1990 GDP per capita collapses and then recovers with life satisfaction following a roughly similar course. In West Germany real GDP per capita increases by 15 per cent from 1990 to 2004, but life satisfaction drifts slightly downward (Easterlin and Plagnol 2008). East Germany's pattern conforms roughly to the broken line movement between points 1 and 3 in Figure 2; West Germany's, to that between points 1 and 2.

The evidence for the second generalization, that the 1990s recovery of life satisfaction falls short of that in GDP, is presented in Figure 3. For the eight countries in the upper panel of Table 1, those with both an early transition and late 1990s observation, the change in life satisfaction over the full period is plotted against the change in the GDP index, and an OLS regression line fitted to the data. If life satisfaction typically recovered to its 1989-90 level when GDP did, then the regression line would go through the origin. In fact, the y-axis intercept is a significant negative .25 when GDP fully recovers to its initial level (zero change in GDP). Given that the peak to trough decline in life satisfaction is typically around 1.00 or less, the .25 shortfall is sizeable.

Why does life satisfaction fail to recover commensurately with GDP? The most obvious hypothesis is the sharp deterioration in employment conditions in the transition countries. In the WVS data in every one of the thirteen transition countries included here the employment rate, the percentage of the population employed, decreases substantially between the first and last dates for which life satisfaction is observed, with most countries experiencing double-digit declines. The declines reflect increases in both the unemployment rate and the proportion not in the labor force, with increased

unemployment typically the larger of the two, especially for men (Table 2). As one might expect, the declines in the employment rate are less for the group of five countries whose initial observation occurs later in the transition, but the same pattern is observed in both groups of countries with regard to the increase in the unemployment rate and labor force exit (cf. panels A and B).

Trends in the absolute level of real wages also provide evidence of the deterioration of employment conditions. In 1999, average real wages ranged from around 40 to less than 90 per cent of those in 1989, save for the Czech Republic, at 107 per cent and Poland, 96 per cent (UNICEF 2001, App. Table 10.9). But while deterioration in employment and wages in the 1990s is universal in the countries under study here, there is considerable variation in the specific form this takes. In the Russian Federation, for example, labor hoarding by state firms occurred along with growing wage arrears of sizeable magnitude. Such variations make difficult simple overall quantitative comparisons of countries' labor market conditions (Barr 2005 provides a good overview).

The significance of the deterioration in employment conditions goes beyond the direct economic effect, for it is also symptomatic of the deterioration of the social support system. Prior to transition there was what has been called the "socialist greenhouse", "an artificial environment typical for the state socialist societies of Eastern Europe..." (Sobotka 2002, p. 41; chapter 4 gives details). A key feature of this system was that many social benefits were tied to employment -- "[w]ith a huge appetite for able labour, the state encouraged women to study, marry and have jobs and babies, and, where kinship support was weak, the state provided the means to help women manage competing demands" (UNICEF 1999, p. viii). With the collapse of employment and the socialist

state there occurred a substantial reduction in these additional sources of support (World Bank 2000a).

The implications for life satisfaction of the loss or reduction of such benefits is suggested by data for two countries, the former GDR and Hungary, for which evidence is available on satisfaction with specific domains of life. What stands out is that satisfaction declines in domains with formerly assured support. Thus, in the former GDR satisfaction with health, work, and childcare all decline (Table 3, panel A). In contrast, satisfaction with conditions relating to living level is typically greater in 1999 than 1990 -- indeed, much greater in the case of goods availability and the environment, two notably deficient areas under socialism. In Hungary, where the first observation is unfortunately not until 1992, satisfaction with work, home, neighborhood, and health are all lower in 1997, while satisfaction with income and standard of living are virtually unchanged (Table 3, panel B).

The experience of another transition country, China, perhaps provides additional support for the importance for life satisfaction of employment and social support conditions. The reported growth of China's real GDP has been truly stunning -- the 2004 level is estimated to be almost three times that in 1990 (Maddison 2003). Despite such unprecedented growth, life satisfaction has declined. Based on Gallup World Poll data for four dates between 1994 and 2004, Kahneman and Krueger (2006) report a steady decline in the per cent of the population somewhat or very satisfied with life. The WVS data span a longer period and give a similar picture:⁹

⁹ The value for 1990 is based chiefly on the urban population; however, the 1995 data reveal no significant difference between the urban and rural population's life satisfaction. The series is given in Inglehart et al 2008, p. 283.

<u>1990</u>	<u>1995</u>	<u>2001</u>	<u>2007</u>
7.29	6.83	6.53	6.76

Though China did not experience the severe economic collapse of the European countries, several features of the European transition are evident there, notably rising unemployment, increasing inequality, and dismantling of the social safety net. It is possible that these conditions have exerted both in China and Europe a similar drag on life satisfaction.¹⁰

3. Winners and losers

Those with the biggest loss in life satisfaction during the 1990s are the less educated and the population ages 30 and over; women and men are about equally affected.¹¹ Disparities in life satisfaction, as measured by the Gini coefficient, typically widened.

The impact of the transition on different demographic groups is evidenced by comparing the coefficients of a multiple regression on end-of-decade data with those on beginning-of-decade data, where the regression is life satisfaction on gender, age, and education.¹² In the case of education the gradient in life satisfaction is typically negligible at the start of the transition, but turns noticeably and significantly positive over the course of the decade (Figure 4 left panel). Education is measured here by the age at which

¹⁰ For those who find it hard to believe that life satisfaction did not improve in a poor country like China experiencing such enormous improvement in real income, it is worth noting that in China's neighbor, Japan, life satisfaction has not increased in the last half century, despite an over five-fold rise in GDP per capita from initially low levels (Easterlin 1995, Kusago 2007).

¹¹ It is likely that some ethnic minorities are also among the losers, but this has not been explored here.

¹² There are no controls for life circumstances because the impact of the transition operates via life circumstances. If, say, deteriorating employment conditions differentially affect those with more and less education, one wants to see the effect of this on the relative life satisfaction of the more and less educated, and a control for employment status would eliminate this effect.

education is completed, the only education measure available in the WVS at both dates, with 7 years or less typically the minimum value and 23 years or more, the maximum. Both panels of the figure are plots based on coefficients from a multiple regression with country dummies on pooled data for the seven WVS countries in the upper panel of Table 1. Regressions on the individual country data yield quite similar results.

There is fairly little evidence of an age gradient in life satisfaction at the start of the transition, a result similar to that for education (Figure 4, right panel). By the late 1990s, however, a significant negative gradient emerges. The age categories here are less than 30 years, 30 - 44, 45 - 59, and 60 +, and the end-of-decade coefficients for the last three are all significantly less than that for the youngest group. The two oldest age groups suffer, on average, the largest declines in life satisfaction relative to those under 30 years old. Regressions on data for each country separately typically yield similar results, except that for those 60 years old and over there is more variation among countries, probably due to differences in pension policy.

It is plausible to suppose that the leveling of life satisfaction within the population at the start of the transition is linked to the socialist policies of wage equalization (political standing aside) and full employment, and that the appearance of the differentials just noted is to a considerable extent a reflection of the growth of income and unemployment differences as free market forces take hold. A simple comparison of the change in the Gini coefficient for life satisfaction with that for income provides some support for this hypothesis. In almost all of the eight countries in the upper panel of Table 1, inequality in life satisfaction rose in the 1990s and this rise tends to be associated positively with the rise in income inequality (Figure 5; the slope coefficient of the

regression line is slightly short of significance at the 10 per cent level).¹³ The rise in income inequality is probably due to several things -- the emergence of substantial wage differentials (Brainerd 1998, Milanovic 1999), the growth and differential incidence of unemployment in the population, and the associated demise of the social support system.

Why, controlling for education, is there a greater decline in life satisfaction among those in the population 30 and over than among young adults? For those ages 60 and over, the answer probably lies largely in the deterioration of old-age pension support. For those between ages 30 and 59, the answer is perhaps that, when free market conditions were established, most persons age 30 to 59 were already well-embarked on a life course set under the conditions of the socialist greenhouse -- both spouses working, career paths set, and families established with housing and child-rearing arrangements in place. The collapse of the established system left many such families in turmoil, seeking to cope with family responsibilities while job opportunities and social support were disappearing.¹⁴ Some families were literally uprooted, moving back to small villages in reasonable proximity to urban centers where an attempt could be made to couple subsistence agriculture with nonfarm employment.¹⁵ Symptoms of social stress grew markedly -- increased alcoholism, smoking, and use of drugs; increased male mortality; and a rise in domestic violence against women (UNICEF 1999, 2001; Brainerd and

¹³ The exception to the rise in life satisfaction inequality is the former GDR, where massive income transfers from West to East Germany buttressed especially the income of the poorer segments of the East German population. See Busch 1999, Headey et al 1995, Schwarze 1996.

¹⁴ A good overview of economic coping strategies, with empirical evidence for Latvia is Gassman and deNeubourg 2000, 2002 (cf. also Gorniak 2001). A forerunner of this type of analysis of coping strategies is Modigliani (1949), who argued that during the Great Depression households sought to maintain their habitual consumption in the face of falling income by reducing their savings rates.

¹⁵ Cf. Brown et al 2005, Tammaru et al 2004. On the rise of subsistence agriculture see Alber and Kohler 2008, Mickiewicz 2005, p. 86. In the WVS data, in 5 countries for which comparison is possible, between the beginning and end of the 1990s the population living in places with less than 2,000 population rises noticeably -- by an average of 7 percentage points -- a redistribution of population that contrasts markedly with increasing urbanization invariably observed during long term economic growth.

Cutler 2005). Though not confined to those over age 30, these developments were usually more pronounced in the older age groups.

In contrast, those under age 30 were less wedded to the “socialist greenhouse”. Raised, so to speak, more nearly in the wild, younger adults were in a better position to adapt to the new environment. Consistent with this greater degree of adaptation, Alesina and Fuchs-Schündeln (2005) find that younger cohorts in the former GDR are less favorably disposed toward welfare policies than their elders.

Many of those under 30 years old at the start of the transition had the option of postponing marriage and/or having children. This demographic strategy for coping with economic stress was a feature of the Great Depression, and, as the evidence shows, it has been widely exercised in the transition countries (Philipov 2002, Philipov and Dorbritz 2003, Sobotka 2002, 2003, Szivós and Giudici 2004). Some of these demographic changes were already underway in a few countries before the transition, but in the 1990s they appear in virtually every transition country, usually at an accelerated pace. They are not the result of young adults reducing their family size goals as free market forces replace the socialist greenhouse. Surveys conducted in seven of the transition countries included here typically find that the completed family size expected by women ages 20-24 in the mid-1990s is no different from that for women fifteen years older (Philipov and Dorbritz 2003, p. 115, Table 2.5.2). Rather, they reflect decisions to postpone family formation as a way of coping with the less stable economic environment.

Why do women and men have about equal declines in life satisfaction? The answer may lie in two parallel and related developments. On the one hand, unemployment rises and this affects men more than women; on the other, family

dissolution increases and this impacts women more than men. Both cross sectional and panel studies in the SWB literature repeatedly indicate sizeable negative effects on life satisfaction of both unemployment and marital dissolution (Blanchflower and Oswald 2004, Diener, Lucas, and Scollon 2006, Frey and Stutzer 2002a, Helliwell and Putnam 2004, Winkelmann and Winkelmann 1998, Zimmermann and Easterlin 2006). End-of-decade regressions for the countries included here give the same result.

4. The 1990s in current and historical perspective

Since the late 1990s, GDP per capita has grown rapidly in all but one of the transition countries included here. Leaving aside the former GDR, the total increase from the late nineties through 2004 averaged 36 per cent, with a range from 18 to 56 per cent. In addition, unemployment rates declined in most countries (TransMONEE 2008, Tables 10.1 and 10.6).

How has life satisfaction fared? To answer this, there are data available for every country except Belarus. The series already used here for the former GDR extends through 2005 (Table A-2). For ten other countries there is a Eurobarometer survey conducted in the first two months of 2005 that included a question on life satisfaction similar to that in the WVS (Directorate of General Research, European Commission 2005). Finally, the wave 5 life satisfaction value for Russia has just been published in a new paper by Inglehart, Foa, Peterson, and Welzel (2008, p. 283).¹⁶

Consistent with the recovery of GDP, life satisfaction has rebounded sharply almost everywhere (Table 4, column 2). Slight declines occurred only in the former

¹⁶ The paper also gives life satisfaction estimates for four other transition countries included here. The Eurobarometer survey data were chosen because ten countries are covered including these four and the countries share the same survey date.

GDR, where economic growth was slow, and Bulgaria. By early 2005, in every country except Bulgaria mean life satisfaction was above 6.0 and in two cases above 7.0, a marked contrast with the values for the 1990s which were often in the 4's and 5's. (compare Table 4, column 1, and Table A-1). Moreover, if life satisfaction around early 2005 is compared with that at or near the start of the 1990s, life satisfaction is higher in nine of the twelve countries for which a comparison is possible (Table 1, column 4). An ordinary least squares regression fitted to the observations for each country from the early 1990s to 2005 yields a positive coefficient of life satisfaction on time except for Slovakia and Bulgaria; the only significant coefficient, however, is that for Slovenia. Thus when the time span is lengthened from the decade of the 1990s to include early 2005, the typical picture is recovery of life satisfaction to its early 1990s level or better. However, as implied by Figure 3, this recovery in life satisfaction typically required a growth of GDP to well above its early transition level; the average increase in GDP from the base year life satisfaction observation in Table 1 to 2004 is 26 per cent.

Although comparison is made difficult by differences in survey questions and response options, the results for life satisfaction in Table 4 are reasonably consistent with those reported in a 2006 survey conducted by the European Bank for Reconstruction and Development (EBRD 2007). When presented with the statement “all things considered, I am satisfied with my life now,” respondents in the central European and Baltic states who agreed with the statement typically outnumbered those who disagreed by 2 to 1. In Russia those who agreed just slightly outnumbered those who disagreed. Belarus, for which 2005 data are not available in Table 4, was among those with the highest levels of satisfaction, but in Romania and Bulgaria, those dissatisfied outnumbered the satisfied.

The EBRD survey also elicited valuable comparisons of 2006 with 1989. Respondents were asked whether they agreed that “the economic situation in this country is better today than around 1989.” On this question, respondents in central Europe and the Baltic countries were about evenly divided pro and con; elsewhere they leaned toward the negative side, either slightly (Russia) or strongly (Bulgaria and Romania). A similar comparison with regard to the political situation typically found more negative views than for the economic situation. A striking exception with regard to both economic and political conditions was Belarus, where positive responses outnumbered negative by a very large margin, about 4 to 1.

On all three questions (satisfaction, economic, and political conditions) the age pattern of responses in the EBRD survey is much like that in Figure 4 above. In every country, those ages 18 to 34 were much more favorably inclined than other age groups. Persons age 18 to 34 in 2006 comprise a cohort that in 1989 was under 18 years old; hence few were embarked on their careers at that time. In contrast, the most negative views were expressed by persons 50 years of age and older. In this cohort, it was not uncommon for respondents to view conditions in 1989 as better than currently. Although responses by level of education are not given, there are distributions by income -- lower, middle, and upper. In keeping with the education pattern in Figure 4, those at the higher socio-economic level tend to be more satisfied, and view 2006 conditions more favorably than those at the lower level.

The dissolution of the police states and increase in political and civil rights in many of the transition countries might have been expected to increase life satisfaction. The sharp declines that initially occurred suggest that adverse economic and social

conditions trumped political in their impact on subjective well-being. A different view is offered in a new paper by Ronald Inglehart and his collaborators. They suggest that the WVS measures of life satisfaction and happiness reflect different determinants, the former, economic conditions, and the latter, political circumstances. In their interpretation “many ex-communist countries experienced democratization accompanied by economic collapse, resulting in rising happiness and falling life satisfaction” (Inglehart, Foa, Peterson, and Welzel 2008, p. 277). As explained in footnote 4 above, the upward movement in happiness between waves 2 and 3 of the WVS appears to result from a “primacy bias” due to a change in the instructions to interviewers. Moreover, the argument that democratization raised happiness seems at variance with the findings of the EBRD survey, that in most countries respondents viewed the political situation in 2006 as worse than that in 1989, and the change in the political situation since 1989 more negatively than that in economic conditions.

A more direct test is possible of the hypothesis that the increase in happiness in the transition countries is due to democratization there. In nine of the twelve WVS countries included here happiness increases between waves 2 and 3; in the other three, it declines. During this period, the following question was asked in the Eurobarometer surveys: “On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy works in (your country)?”¹⁷ The Eurobarometer question specifies four response options, and the WVS happiness question also contains four response options. For two of the three countries that have the highest increase in mean happiness between waves 2 and 3, the mean value of satisfaction with democracy

¹⁷ For five countries the period spanned by the question is the same as that for the WVS happiness question; for the other countries the period covered by the question differs by one year from that to which the happiness question refers.

declines (Bulgaria and Slovenia). For two of the three countries in which mean happiness declines between waves 2 and 3, mean satisfaction with democracy increases (Belarus and Romania). An OLS regression for all twelve countries of the change in happiness on the change in satisfaction with democracy yields a negative coefficient, though the coefficient is not statistically significant. These results do not support the hypothesis of a positive association between happiness and democracy.¹⁸

Does the recovery of life satisfaction to 2005 mean that life satisfaction under capitalism is now typically greater than it was under socialism? If the early 1990s observation is assumed to be a reasonable approximation to the peak value of life satisfaction under socialism, the answer is yes. But there is reason to believe that this may not be a good assumption. Although the evidence is limited, it is consistent in suggesting that life satisfaction in the 1980s was higher than at the beginning of the 1990s transition and higher also than in 2005.

There are 1980s life satisfaction data comparable to those used here for two countries, one in central Europe (Hungary) and one in Eastern Europe (Russia). Also, Veenhoven (2001, p. 115) gives a 1984 estimate for Belarus, though with some reservations. Here is the mean value of life satisfaction for Hungary in 1982, and, for comparison, the values for 1990 and 2005:

<u>1982</u>	<u>1990</u>	<u>2005</u>
6.93	6.03	6.30

¹⁸ Another piece of evidence that calls into question the Inglehart et al interpretation is from the survey of Hungary previously drawn on here in Table 3, panel B, above. From 1993 to 1997, the responses on satisfaction “with [the] civic right to have a say in political decisions” are markedly below those for the other domains; only satisfaction with income is lower, and then only slightly so.

These numbers indicate that there was a substantial decline in life satisfaction there during the 1980s and that even by 2005, life satisfaction was still considerably less than in 1982. Indirect support for a decline in life satisfaction in Hungary in the 1980s comes from surveys indicating a marked rise in anomie between 1978 and 1990 (Speder et al 1999; cf. also Andorka et al 1999). Surveys in the former GDR and Czechoslovakia also point to rising mental stress in those countries (Noelle-Neumann 1991; Glatzer and Bös 1998, p. 178; Boguszak, Gabal and Rak 1990, pp. 15-18).

In 1981 a WVS survey was conducted in the Russian oblast, Tambov, about 250 miles southeast of Moscow. Although small (the population is somewhat over a million), it is reported to be “a region that [the Russians conducting the survey] considered representative of Russia as a whole” (Inglehart and Klingemann 2000, p. 175). As a check on the representativeness of Tambov oblast, a WVS survey was conducted there again in 1995 at the same time that the survey of the Russian Federation was being carried out. Given below is mean life satisfaction for Tambov in 1981 and 1995 and, for comparison, that in Russia as a whole in 1990 and 1995 and Belarus in 1984, 1990 and 1995:

	<u>early 1980s</u>	<u>1990</u>	<u>1995</u>
Tambov	7.26	n.a.	4.23
Russia	n.a.	5.37	4.45
Belarus	7.20	5.51	4.35

The 1995 observations for all three areas are quite similar in magnitude, as are the early 1980s values for Tambov and Belarus. The overall pattern is consistent with the inference that there was a marked decline in life satisfaction during the 1980s in both Russia and Belarus.

Other evidence that suggests that life satisfaction declined in Russia between the 1980s and 1990s comes from a longitudinal survey initiated in 1993 (Saris and Andreenkova 2001; the data given here are from <http://www.vanderveld.nl/russet.html>). At that time, respondents were asked about their current life satisfaction on a 1 to 10 scale and also their life satisfaction five years earlier, in 1988. Similar questions were asked about financial satisfaction. Here are the results for 1988 and 1993 with the WVS responses for 1990 placed between them:

	<u>1988</u>	<u>1990</u>	<u>1993</u>
Life satisfaction	6.46	5.37	5.05
Financial satisfaction	5.81	4.98	3.04

Even though the retrospective estimate is close to the end of the 1980s, both life and financial satisfaction give a picture consistent with that based on Tambov and Belarus, one of a marked decline from the 1980s to the 1990s. Moreover, the life satisfaction values for the 1980s given here -- around 6.5 for Russia in 1988 and 7.2 for Tambov and Belarus earlier in the 1980s -- are all similar in magnitude to the 1982 value of 6.9 for Hungary, and above the 2005 values for Russia (6.09) and Hungary (6.30). If these data are reasonably representative, life satisfaction in 2005 in the transition countries may have been less than in the 1980s.

Although the evidence for the 1980s presents a consistent picture, it is nowhere near as complete as one would like, and more research is needed. But if it is reasonably correct, one might plausibly ask how it is possible that in the transition countries life satisfaction under socialism might at one time have been higher than it is currently under capitalism? A speculative answer to this question is suggested by the data on domain satisfaction presented earlier for the former GDR and Hungary (Table 3). Although the

socialist system was notably deficient in its ability to supply material goods, it provided substantial security for individuals in other domains important for personal happiness such as job security, provision of child care, health insurance, and support in old age for oneself and one's parents. One might suppose that the authoritarian communist state and limited civil and political rights, coupled with often-empty store shelves, might have kept life satisfaction lower than currently. But the limited evidence above suggests that greater security with regard to other personal concerns may have outweighed the negatives.

While this study was in preparation, Sanfey and Teksoz (2007) published a valuable analysis of life satisfaction trends in the transition countries (cf. also the unpublished cross-country analysis by Guriev and Zhuravskaya 2008). There is substantial agreement between some of their conclusions and those of the present study, most notably with regard to the V-shaped pattern of life satisfaction in the transition countries and the differential impact of the transition by demographic group. This consistency is reassuring because the data set on which their study is based is waves 2-4 of the WVS. In other respects, however, there are important differences. Perhaps most fundamental is the answer to the question posed in the title of their paper, "Does transition make you happy?" Their response is that by the end of the 1990s "life satisfaction levels have returned close to pre-transition levels in most cases" (p. 707). This conclusion is not borne out by the present analysis, which finds a considerable shortfall still prevailing at the end of the 1990s, and, based on data not available for their analysis, recovery to or above early transition levels not occurring until 2005. The difference between the two studies in the interpretation of the 1990s stems from their

including all wave 2 transition countries covered in the WVS in their analysis of the degree of recovery in life satisfaction, while the present study focuses on seven WVS countries plus the former GDR, countries that all have an initial life satisfaction reading falling at or close to the date of the pre-transition levels of GDP and unemployment (Table 1). Clearly the larger set of WVS countries studied by Sanfey and Teksoz start, on average, later in the transition and consequently with life satisfaction values already depressed below the pre-transition level by the collapse of GDP and rise in unemployment. Given the lower initial reference point, it is not surprising that they find a greater degree of recovery in life satisfaction by the end of the 1990s. Moreover, the present analysis also suggests that if the baseline for analyzing the trend in life satisfaction were moved back to the 1980s, it is possible that even by 2005 recovery to earlier levels had not yet been achieved.

The present study differs from that of Sanfey and Teksoz in other respects. For one thing, it addresses the asymmetry in the response of life satisfaction to decreases versus increases in income relative to an initial reference point. Also, it adds an analysis of inequality of life satisfaction and it includes data on domain satisfaction that reveal the differing directions of change in satisfaction with material living levels versus work, family, and health. The domain satisfaction results suggest that while the transition from socialism to capitalism in Eastern Europe has, on average, been raising satisfaction with material living levels, this has occurred at the expense of satisfaction with employment, health, and family security, with the net balance in well-being at best not yet clearly improved.

5. Conclusions and Implications

To sum up, the collapse of output and employment in the European transition countries precipitated a sharp drop in life satisfaction. Subsequently GDP improved, but throughout the 1990s stagnating labor market conditions and a deteriorating social safety net prevented a commensurate recovery of life satisfaction. Within the population differences in life satisfaction rose noticeably as wage and employment disparities increased, and family life was disrupted. Those hardest hit were the less educated and persons over age 30, with women and men suffering about equally. The observed movement of life satisfaction implies that economic circumstances trumped political in their impact on subjective well-being.

By 2005, life satisfaction had recovered to its early 1990s level of better, but this return required an increase in GDP per capita averaging about 25 per cent above the early 1990s value. Moreover, the available evidence, though quite limited, suggests that even in 2005 life satisfaction may have been below the levels prevailing before the 1990s. The explanation of the 2005 shortfall relative to pre-1990s levels may be that the positive contribution to life satisfaction of improved material living levels was outweighed by losses in employment security, health and child care, and provision for old age.

The positive correlation in the transition countries between the movement in life satisfaction and GDP per capita is at variance with the off-reported absence of association between time series trends in happiness and economic growth in higher income countries. The explanation of this asymmetric response of life satisfaction to decreases versus increases in GDP may be the psychological phenomenon of loss aversion -- that an

increase in income from an initial reference point means considerably less to people in terms of well-being than a loss of equivalent amount.

The present analysis is based on intermittent observations of life satisfaction for a limited number of countries. Indeed, when one tries to identify countries with life satisfaction observations close to the start of the transition, the number is reduced to only eight. Moreover, the new republics of Central Asia are wholly omitted because none were included in wave 2 of the WVS. The generalizations here refer to the “transition countries” as a whole, but even with the limited data available more might still be done to differentiate among the experiences of different countries. It is possible too that there are unpublished surveys conducted in some countries under communism that might throw light on subjective attitudes under socialism prior to the transition (cf. Kuran 1991).

The study by economists of life satisfaction and happiness is new, and we are only beginning to understand what these measures tell us about well-being. It seems reasonable to suggest, however, that they add a dimension to the evaluation of well-being that is a useful complement to the standard armory.¹⁹ The human cost of the economic transition was enormous, with the lives of millions of people turned upside down. In a statement specifically about Russia, but representative of the transition countries generally, Brainerd and Cutler (2005, p. 125) point out that “[b]efore 1989, Russians lived in a country that provided economic security: unemployment was virtually unknown, persons were guaranteed and provided a standard of living perceived to be adequate, and microeconomic stability did not much affect the average citizen.” All or most of this went by the board with the transition to free markets. So too did provision

¹⁹ Some psychologists are, in fact, advocating the adoption by government policy makers of a variety of measures of subjective well-being (Diener and Seligman 2004), and there is some evidence of a movement in this direction in Europe (cf. Donovan and Halpern 2002).

of health and child care. Family life was torn apart as divorce rates soared. Alcoholism, smoking and drug use grew markedly. Suicide rates increased, and domestic violence against women rose. Families were uprooted, some moving back to villages where subsistence agriculture might provide some economic support.

The impact of these changes on people's personal lives and their well-being is almost totally missed by GDP per capita. Even a measure of income inequality -- an increasingly popular supplement to GDP -- barely hints at what happened. In contrast, the life satisfaction measure, which reflects not only material well-being, but the everyday concerns and worries of women and men about work, health, and family, is more indicative of the far-reaching changes that were taking place. Life satisfaction is not an exhaustive measure of well-being. But if, in formulating transition policy, some consideration had been given to this measure, perhaps there would have been fewer "lost in transition."

Acknowledgements

All of those who have used the WVS data must be grateful for this impressive undertaking led by Ronald Inglehart that has placed in the public domain information on subjective attitudes and well-being for so many countries throughout the world over the past two to three decades.

The present analysis has benefited from excellent research work and comments by Laura Angelescu and Onnicha Sawangfa, as well as valuable help from Jacqueline Smith. Anke Plagnol, co-author with me of a paper on Germany, has very generously responded to numerous requests relating to additional tabulations for East Germany, and provided useful comments. Helpful suggestions were also provided by Timothy Biblarz, Nauro F. Campos, Carol Graham, John Ham, Timur Kuran, Jeffrey Nugent, Dimiter Philipov, Olga Shemyakina, John Strauss, Tomáš` Sobotka, and participants in a University of Southern California seminar. I want also to acknowledge the extremely valuable studies and data compilations of transition analysts cited here, without which this study would not have been possible. Financial support was provided by the University of Southern California.

Table 1

**GDP Index and Unemployment Rate at Date of Earliest Life Satisfaction
Observation, 13 Transition Countries**

	(1)	(2)	(3)
	<i>Date of earliest LS observation</i>	<i>GDP index (1989=100)</i>	<i>Registered Unemployment Rate, per cent</i>
<u>GDP Index > 90</u>			
Former GDR	1989.5	92	0
Poland	1989	100	1.3
Hungary	1990	96	1.7
Estonia	1989.5	96	1.6
Latvia	1989.5	101	2.3
Lithuania	1989.5	98	3.5
Belarus	1990	98	0.5
Russian Federation	1990	97	0.8
<u>GDP Index < 90</u>			
Slovenia	1991	84	10.1
Czech Republic	1991	87	4.1
Slovakia	1991	83	11.8
Bulgaria	1991	83	11.1
Romania	1993	82	10.4

Source: Column 2, Economic Commission for Europe 2003, Table B-1. Column 3, *ibid*, Table B-7, except Poland, from WVS, and former GDR, from GSOEP. For the Baltic states, Belarus, and the Russian Federation, the date for the unemployment rate is the earliest available, 1992.

Table 2
Change in Employment Status of Persons Age 20-59, by Gender, c. 1990 to 1999

Country	(1)	(2)	(3)	(4)
	<i>Per cent employed first date</i>	<i>Percentage point change, first to last date</i>		
		<i>Employed</i>	<i>Unemployed</i>	<i>Not in labor force</i>

A. Eight countries, initial GDP index > 90

Females

Mean	80.2	-14.9	8.4	6.5
(s.d.)	(9.0)	(6.3)	(4.4)	(6.5)

Males

Mean	90.6	-15.6	13.0	2.6
(s.d.)	(4.9)	(6.1)	(6.6)	(3.4)

B. Five countries, initial GDP index < 90

Females

Mean	74.1	-11.4	5.8	5.6
(s.d.)	(6.4)	(9.6)	(6.4)	(10.1)

Males

Mean	86.6	-9.3	7.7	1.6
(s.d.)	(7.2)	(7.3)	(6.8)	(4.2)

Source: WVS except former GDR, from GSOEP. The countries are grouped as in Table 1.

Table 3
Satisfaction with Specified Domains of Life

A. Former GDR, 1990 and 1999

	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
	<i>1990</i>	<i>1999</i>	<i>Change</i> <i>1990 to 1999</i>
Satisfaction with:			
Childcare	7.54	6.48	-1.06
Work	7.23	6.48	-0.75
Health	6.62	6.20	-0.42
Household income	5.54	5.55	+0.01
Standard of living	6.36	6.56	+0.20
Dwelling	6.93	7.32	+0.39
Goods availability	3.18	6.17	+2.99
Environment	3.13	6.50	+3.37

B. Hungary, 1992 and 1997

	<i>1992</i>	<i>1997</i>	<i>Change</i> <i>1992 to 1997</i>
Satisfaction with:			
Work	7.4	6.7	-0.7
Home	7.1	6.5	-0.6
Neighborhood	7.3	6.5	-0.8
Health	6.4	5.8	-0.6
Household income	3.6	3.4	-0.2
Standard of living	4.6	4.5	-0.1

Source: Former GDR, GSOEP. Hungary, Spéder et al, 1999. In both countries the scale is 0-10.

Table 4
Mean Life Satisfaction in 2005 and Change from Early and Late 1990s

	(1)	(2)	(3)	(4)
	<i>Mean Life Satisfaction</i>	<i>Change in L.S., late '90s to 2005</i>	<i>Date of early 1990s Observation</i>	<i>Change in L.S., early '90s to 2005</i>

Countries with early transition observations:

Former GDR	6.32	-0.19	1989.5	-0.27
Poland	6.98	0.58	1989	0.40
Hungary	6.30	0.52	1990	0.27
Estonia	6.32	0.42	1989.5	0.32
Latvia	6.31	1.04	1989.5	0.61
Lithuania	6.29	1.20	1989.5	0.28
Belarus	n.a.	n.a.	1990	n.a.
Russian Federation	6.09	1.35	1990	0.72

Countries starting with later transition observations:

Slovenia	7.48	0.25	1991	1.19
Czech Republic	7.04	0.32	1991	0.35
Slovakia	6.47	0.42	1991	-0.15
Bulgaria	4.85	-0.15	1991	-0.18
Romania	6.30	1.26	1993	0.42

Sources:

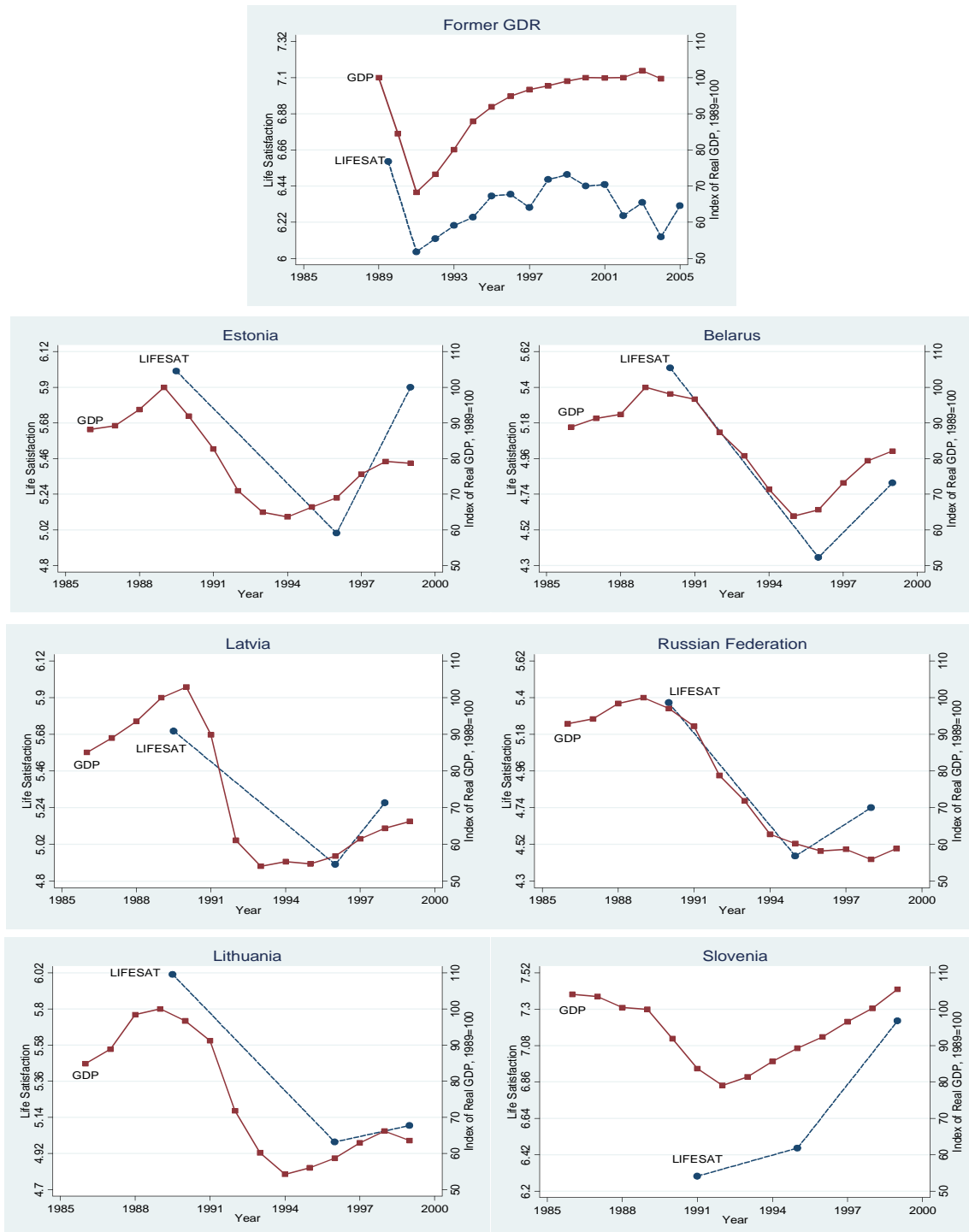
Col. 1: Directorate of General Research, European Commission 2005, except Russia, (Inglehart et al 2008, p. 283), and the former GDR, Table A-2. The European Commission survey is for January to February, 2005.

Col 2: Col. (1) minus col.(8) of Appendix Table A.1.

Col 3: Table 1.

Col 4: Col. (1) minus col.(2) of Table A.1.

Figure 1
Life Satisfaction c. 1990, 1995, and 1999, and Index of Real GDP, Annually 1986-1999^a



Source: Real GDP, Economic Commission for Europe, 2003, Appendix Table B-1. For Former GDR, GDP 2003 on is extrapolated from 2002 via real household income from GSOEP. Life satisfaction, Appendix Tables A-1, A-2.

^a Former GDR, 1989-2005

Figure 2

Subjective Well-being (u) as a Function of Income (y) and Aspiration Level (A)

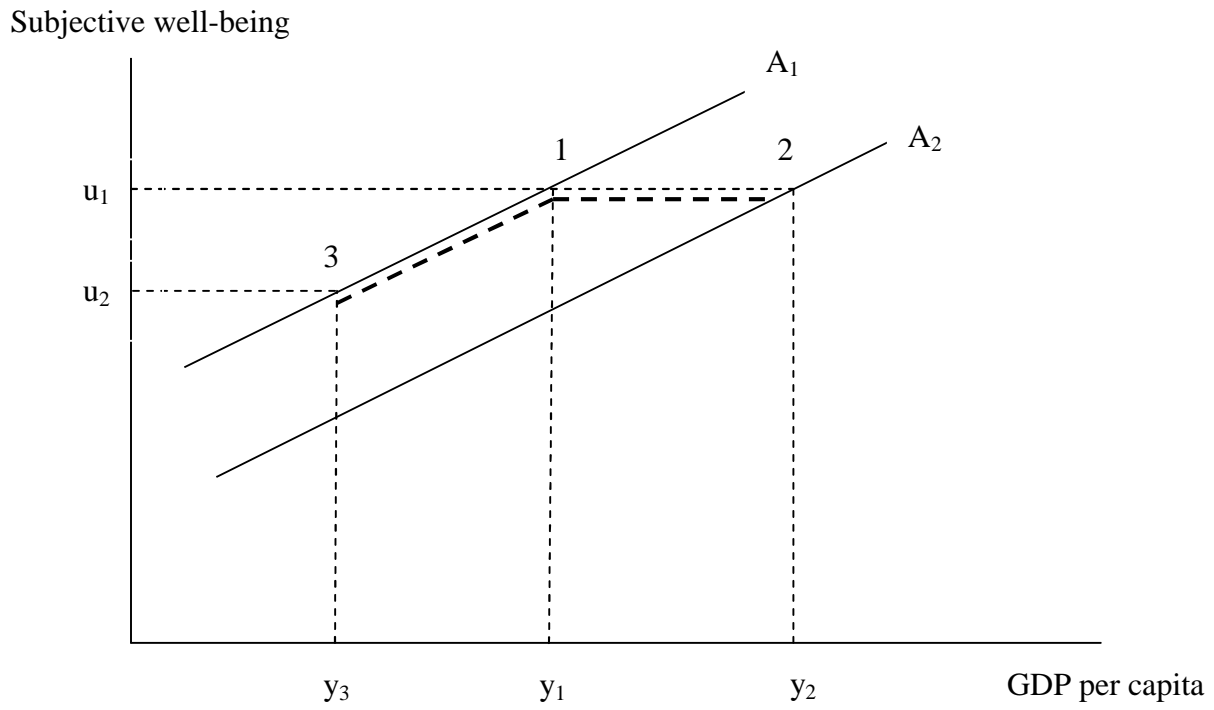
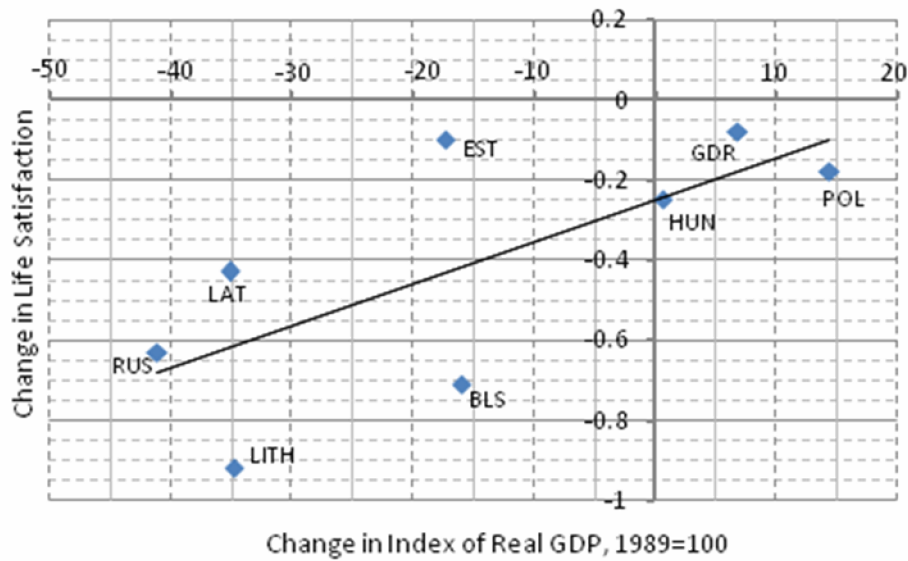


Figure 3

Change in Life Satisfaction and Index of Real of Real GDP (1989=100), c. 1990 to 1999, Eight Countries with Early Transition Observations of Life Satisfaction

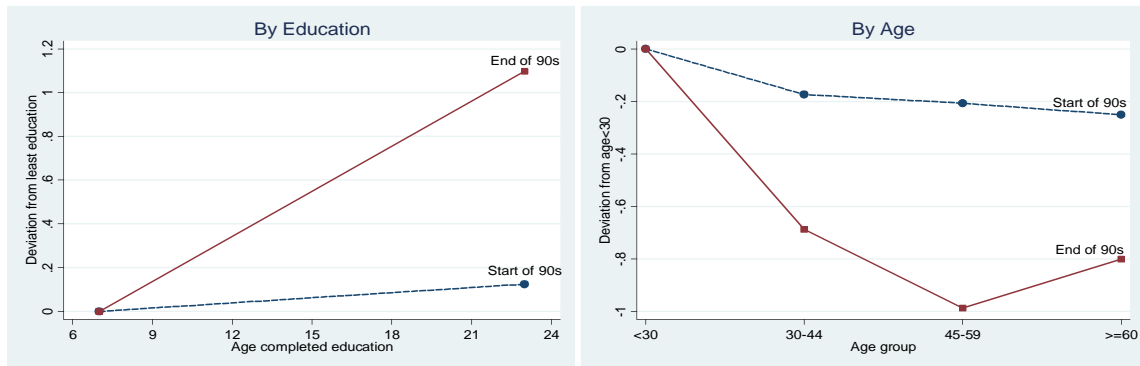


Note: The equation for the OLS regression is: $y = 0.010x - 0.251$ (the t-stats are respectively 2.44 and -2.34; the adjusted $R^2 = 0.414$). The countries are those in the upper panel of Table 1.

Source: Same as Figure 1.

Figure 4

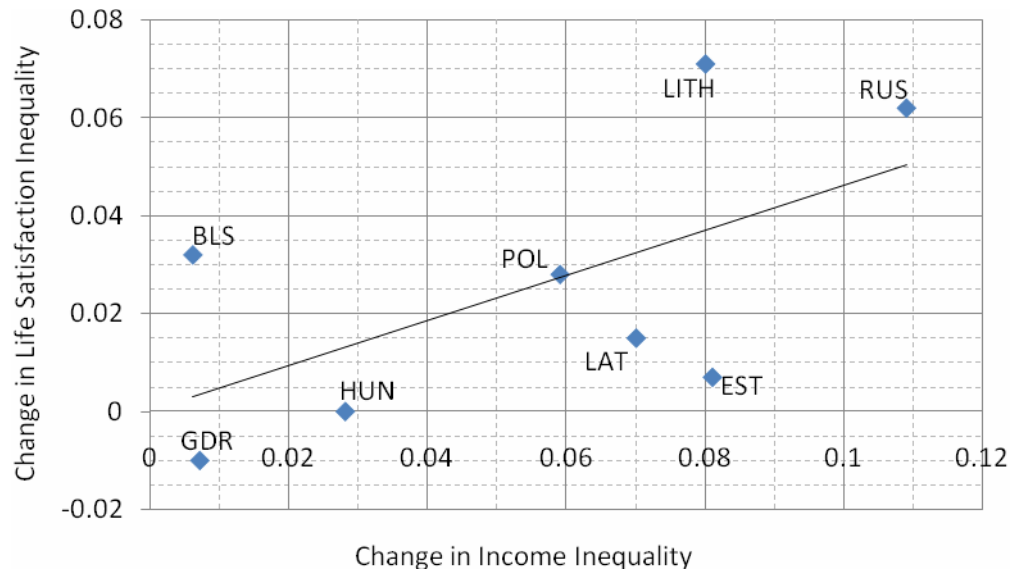
Life Satisfaction by Education and Age at Start and End of 1990s, Seven Countries with Early Transition Observations



Note: In left panel, controlling for gender and age; in right panel, gender and education. Country dummies are also used. The countries are those in the upper panel of Table 1, except the former GDR. The GDR's education categories differ somewhat from the WVS; a separate analysis for the GDR, however, revealed the same patterns. Source: WVS, waves 2 and 4.

Figure 5

Change in Inequality of Life Satisfaction and of Income, c. 1990 to 1999, Countries with Early Transition Observations of Life Satisfaction



Note: The equation for the OLS regression is: $0.4603x+0.0003$ (the t-stats are respectively 1.84 and 0.02; the adjusted $R^2 = 0.254$). The countries are those in the upper panel of Table 1.

Source: Income inequality: UNICEF 2001, Appendix Table 10.11, except GDR from GSOEP, with 1992 observation extrapolated to 1990 via Schwarze 1996, Table 2; life satisfaction inequality: WVS, except GDR from GSOEP.

Appendix A. Basic Data

Table A-1

Mean and Inequality of Life Satisfaction, 12 Countries, c. 1990 to c. 1999

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	<i>Initial</i>	<i>Life satisfaction</i>		<i>Mid-</i>	<i>Life satisfaction</i>		<i>Terminal</i>	<i>Life satisfaction</i>	
	<i>date</i>	<i>Mean</i>	<i>Gini</i>	<i>period</i>	<i>Mean</i>	<i>Gini</i>	<i>date</i>	<i>Mean</i>	<i>Gini</i>
			<i>coef.</i>	<i>date</i>		<i>coef.</i>			<i>coef.</i>
Poland	1989	6.58	.193	n.a.	n.a.	n.a.	1997.5	6.40	.221
Hungary	1990	6.03	.230	n.a.	n.a.	n.a.	1998.5	5.78	.230
Estonia	1989.5	6.00	.200	1996	5.00	.256	1999	5.90	.207
Latvia	1989.5	5.70	.242	1996	4.90	.256	1998	5.27	.257
Lithuania	1989.5	6.01	.221	1996	4.99	.299	1999	5.09	.292
Belarus	1990	5.52	.228	1996	4.35	.282	1999	4.81	.260
Russian Federation	1990	5.37	.252	1995	4.45	.318	1998	4.74	.314
Slovenia	1991	6.29	.197	1995	6.46	.184	1999	7.23	.165
Czech Republic	1991	6.69	.180	n.a.	n.a.	n.a.	1998	6.72	.165
Slovakia	1991	6.62	.205	n.a.	n.a.	n.a.	1998	6.05	.208
Bulgaria	1991	5.03	.258	n.a.	n.a.	n.a.	1998	5.00	.288
Romania	1993	5.88	.225	n.a.	n.a.	n.a.	1998	5.04	.298

Source: WVS. Cols. 1 - 3 from wave 2, and cols. 4 - 6 from wave 3. Col. 7 - 9 are from wave 4, except the following countries for which waves 3 and 4, both in the late 1990s, are merged: Poland, Hungary, Czech Republic, Slovakia, Bulgaria, and Romania.

Table A-2

Mean and Inequality of Life Satisfaction, Former GDR, 1990 to 2005

<i>Date</i>	<i>Mean</i>	<i>Gini coef.</i>	<i>Date</i>	<i>Mean</i>	<i>Gini coef.</i>
1990	6.59	.164	1998	6.48	.152
1991	6.04	.183	1999	6.51	.154
1992	6.12	.164	2000	6.44	.149
1993	6.20	.174	2001	6.45	.151
1994	6.25	.165	2002	6.26	.160
1995	6.38	.160	2003	6.34	.156
1996	6.39	.157	2004	6.13	.173
1997	6.31	.156	2005	6.32	.173

Source: GSOEP (Haisken-DeNew and Frick 2005)

References

- Alber, J., Kohler, U., 2008. Informal Food Production in the Enlarged European Union. *Social Indicators Research* 89, 113-127.
- Alesina, A., Fuchs-Schündeln, N., 2007. Good Bye Lenin (or Not)? The Effect of Communism on People's Preferences. *American Economic Review* 97(4), 1507-1528.
- Andorka, R., Kolosi, T., Rose, R., Vukovich, G., 1999. Eds. *A Society Transformed: Hungary in Time - Space Perspective*. Budapest: Central European University Press.
- Barr, N., 2005. *Labor Markets and Social Policy in Central and Eastern Europe: The Accession and Beyond*. Washington, D.C: The World Bank.
- Belson, W.A., 1966. The Effects of Reversing the Presentation Order of Verbal rating scales. *Journal of Advertising Research* 6: 30-37.
- Blanchflower, D.G., Oswald, A., 2004. Well-being over Time in Britain and the USA. *Journal of Public Economics* 88(7-8), 1359-1386.
- Boguszak, M., Gabal, I., Rak, V., 1990. *Czechoslovakia -- January 1990 (Survey Report)*. Prague: Association for Independent Social Analysis.
- Brainerd, E., 1998 . Winners and Losers in Russia's Economic Transition. *American Economic Review* 88(5), 1094-1116.
- Brainerd, E., Cutler, D.M., 2005. Autopsy on an Empire: Understanding Mortality in Russia and the Former Soviet Union. *Journal of Economic Perspectives* 19(1), 107-130.
- Brown, D. L., Kulcsár, L.J., Kulcsár, L., Obádovics, C., 2005. Post-Socialist Restructuring and Population Redistribution in Hungary. *Rural Sociology* 70(3), 336-359.
- Busch, U., 1999. Sozialtransfers für Ostdeutschland – Eine kritische Bilanz . *Utopie*

- kreativ 105, 12-26.
- Campos, N.F., Coricelli, F., 2002. Growth in Transition: What We Know, What We Don't, and What We Should. *Journal of Economic Literature* 40(3), 793-836.
- Chan, J.C., 1991. Response-Order Effects in Likert-Type Scales. *Educational and Psychological Measurement* 51, 531-540.
- Clark, A., Frijters, P., Shields, M.A. 2008. Relative Income, Happiness and Utility: An Explanation for the Easterlin Paradox and other Puzzles. *Journal of Economic Literature*, 46(1), 95-144.
- Diener, E., Lucas, R.E., Scollon, C.N., 2006. Beyond the Hedonic Treadmill: Revising the Adaptation Theory of Well-Being. *American Psychologist* 61(4), 305-314.
- Diener, E., Seligman, M.E.P., 2004. Beyond Money: Toward an Economy of Well-Being. *Psychological Science in the Public Interest* 5(1), 1-31.
- Directorate of General Research, European Commission, 2005. Eurobarometer 63.1: Social values, science and technology. Downloaded from <http://www.gesis.org/en/data service/eurobarometer/>.
- DiTella, R., MacCulloch, R., 2006. Some Uses of Happiness Data in Economics. *Journal of Economic Perspectives* 20(1), 25-46.
- Donovan, N., Halpern, D., 2002. Life Satisfaction: The State of Knowledge and Implications for Government. UK Long Term Strategy Unit.
- Dorn, D., Fischer, J.A.V., Kirchgassner, G., and Sousa-Poza, A., 2007. Is It Culture or Democracy? The Impact of Democracy and Culture on Happiness. *Social Indicators Research* 82(3), 505-26.
- Easterlin, R.A., 1974. Does Economic Growth Improve the Human Lot? In *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz*, ed. P.A. David and M.W. Reder, 89-125. New York: Academic Press.

- Easterlin, R.A., 1995. Will Raising the Incomes of All Increase the Happiness of All?
Journal of Economic Behavior and Organization 27(1), 35-47.
- Easterlin, R.A., 2000. The Worldwide Standard of Living since 1800. Journal of
Economic Perspectives 14 (1), 7-26.
- Easterlin, R.A., 2001. Income and Happiness: Towards a Unified Theory. The Economic
Journal 111(473), 465-484.
- Easterlin, R.A., 2005. Feeding the Illusion of Growth and Happiness: A Reply to Hagerty
and Veenhoven. Social Indicators Research 74(3), 429 – 443
- Easterlin, R.A., Plagnol, A.C., 2008. Life Satisfaction and Economic Conditions in East
and West Germany Pre- and Post-unification. Journal of Economic Behavior and
Organization.
- Economic Commission for Europe., 2003. Economic Survey of Europe, No. 1. New York
and Geneva: United Nations.
- European Bank for Reconstruction and Development 2007. “People in Transition,”
Transition Report 2007. London’s European Bank for Re
- European and World Values Surveys Four-Wave Integrated Data File, 1981-2004,
v.20060423., 2006. The European Values Study Foundation and World Values
Survey Association. Aggregate File Producers: ASEP/JDS, Madrid, Spain/Tilburg
University, Tilburg, the Netherlands. Aggregate File Distributors: ASEP/JDS and ZA,
Cologne, Germany.
- Fox, L., 2003. Safety Nets in Transition Economies: A Primer. Social Safety Net Primer
Series. Washington, D.C.: The World Bank. Washington, D.C: World Bank.
- Frey, B.S., Stutzer, A., 2000. Happiness, Economy, and Institutions. Economic Journal
110(466), 918-938.

- Frey, B.S., Stutzer, A., 2002a. Happiness and Economics. Princeton: Princeton University Press.
- Frey, B.S., Stutzer, A., 2002b. What Can Economists Learn from Happiness Research? *Journal of Economic Literature* 40(2), 402-435.
- Frijters P., Haisken-DeNew, J.P., Shields, M.A., 2004a. Money Does Matter! Evidence from Increasing Real Income and Life Satisfaction in East Germany Following Reunification. *American Economic Review* 94(3), 730-740.
- Frijters, P., Shields, M.A., Haisken-DeNew, J.P., 2004b. Investigating the Patterns and Determinants of Life Satisfaction in Germany Following Reunification. *Journal of Human Resources* 39(3), 649-74.
- Frijters, P., Geishecker, I., Haisken-DeNew, J.P., Shields, M A., 2006. Can the Large Swings in Russian Life Satisfaction be Explained by Ups and Downs in Real Incomes? *Scandinavian Journal of Economics* 108(3), 433-58.
- Gassmann, F., de Neubourg, C., 2000. Coping with Little Means in Latvia. Quantitative Analysis of Qualitative Statements. Social Policy Research Series, Riga: Ministry of Welfare of the Republic of Latvia.
- Gassmann, F., de Neubourg, C., 2002. Not only for the Poor: The Relevance of Coping Strategies to Make Ends Meet. Maastricht.
- Glatzer, W., Bös, M., 1998. Subjective Attendants of Unification and Transformation in Germany. *Social Indicators Research* 43, 171-196.
- Górniak, J., 2001. Poverty in Transition: Lessons from Eastern Europe and Central Asia. In *Choices for the Poor: Lessons from National Poverty Strategies*, ed. Alejandro Grinspun, 145-72. New York: United Nations.

- Graham, C., 2008. Happiness, Economics of. In S.N. Durlauf and L.E. Blume, eds., *The New Palgrave Dictionary of Economics*. 2nd Edition. New York: Palgrave-MacMillan 3, pp 824-829.
- Guriev, S. and Zhuravskaya, E., 2008. “(Un)happiness in transition,” Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1077709.
- Haisken-DeNew, J. P., Frick, J.R., eds. 2005. Desktop companion to the German Socio-Economic Panel (GSOEP). Version 8.0. Berlin, DIW German Institute for Economic Research.
- Hayo, B., Seifert, W., 2003. Subjective Economic Well-being in Eastern Europe. *Journal of Economic Psychology* 24(3), 329-48.
- Havrylyshyn, O., 2006. *Divergent Paths in Post-Communist Transformation*. Great Britain: Palgrave Macmillan.
- Headey, B., Andorka, R., Krause, P., 1995. Political Legitimacy versus Economic Imperatives in System Transformation: Hungary and East Germany 1990-93. *Social Indicators Research* 36(3), 247-273.
- Helliwell, J.F., Putnam, R.D., 2004. The Social Context of Well-being. *Philosophical Transactions of the Royal Society B: Biological Sciences* 359(1449), 1435-1446.
- Inglehart, R., Foa, R., Peterson, C., Wetzels, C., 2008. Development, Freedom, and Rising Happiness: A Global Perspective (1981-2007). *Perspectives on Psychological Science* 3(4), 264-285.
- Inglehart, R., Klingemann, H.-D., 2000. Genes, Culture, Democracy, and Happiness. In E. Diener, E.M. Suh, eds., *Culture and Subjective Well-being*. Cambridge, MA: MIT Press, 165-184.
- Kahneman, D., 2003. A Psychological Perspective on Economics. *American Economic Association Papers and Proceedings* 93(2), 162-168.

- Kahneman, D., Knetsch, J.L., Thaler, R.H., 1991. Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias. *Journal of Economic Perspectives* 5(1), 193-206.
- Kahneman, D., Krueger, A.B., 2006. Developments in the Measurement of Subjective Well-Being. *Journal of Economic Perspectives* 20(1), 3-24.
- Kusago, T., 2007. Rethinking of Economic Growth and Life satisfaction in Post-WWII Japan - A Fresh Approach. *Social Indicators Research* 81(1), 79-102.
- Kuran, T., 1991. "Now out of never: The element of surprise in the East European Revolution of 1989." *World Politics* 44, 1, 7-48.
- Kuznets, S., 1948. National Income: A New Version. *The Review of Economics and Statistics* 30(3), 151-179.
- Layard, R., 2005. *Happiness, Lessons from a New Science*. New York: The Penguin Press.
- Lelkes, O., 2006. Tasting Freedom: Happiness, Religion and Economic Transition. *Journal of Economic Behavior and Organization* 59(2), 173-194.
- Maddison, A., 2003. *The World Economy: Historical Statistics (CD-ROM)*. Paris: Organization for Economic Co-operation and Development.
- Mickiewicz, T., 2005. *Economic Transition in Central Europe and the Commonwealth of Independent States*. Great Britain: Palgrave Macmillan.
- Milanovic, B., 1999. Explaining the Increase in Inequality during the Transition. *Economics of Transition* 7(2), 299-341.
- Milanovic, B., 1997. *Income, Inequality, and Poverty during the Transition from Planned to Market Economy*. Washington, DC: The World Bank.

- Modigliani, F., 1949. Fluctuations in the Saving-Income Ratio: A Problem in Economic Forecasting. In Conference on Research in Income and Wealth, Studies in Income and Wealth, XI, National Bureau of Economic Research, New York: 371–443.
- Murrell, P., 1996. How Far Has the Transition Progressed? *Journal of Economic Perspectives* 10(2), 25-44.
- Noelle-Neumann, E., 1991. The German Revolution: The Historic Experiment of the Division and Unification of Germany as Reflected in Survey Research Findings. *International Journal of Public Opinion Research* 3(3), 238-259.
- Orenstein, M.A., Haas, M.R. 2005. 'Globalization and the Development of Welfare States in Central and Eastern Europe', in M. Glatzer and D. Rueschemeyer (eds) *Globalization and the Future of the Welfare State*. Pittsburgh, PA: University of Pittsburgh Press, 130-152.
- Oswald, A.J., 1997. Happiness and Economic Performance. *Economic Journal* 107(445), 1815-31.
- Pascall, G., Manning, N., 2000. Gender and Social Policy: Comparing Welfare States in Central and Eastern Europe and the Former Soviet Union. *Journal of European Social Policy* 10, 240-266.
- Philipov, D., 2002. Fertility in Times of Discontinuous Societal Change: the Case of Central and Eastern Europe. MPIDR Working Paper 2002-024, June. Max Planck Institute for Demographic Research.
- Philipov, D., Dorbritz, J., 2003. Demographic Consequences of Economic Transition in Countries of Central and Eastern Europe. *Population Studies* No. 39. Council of Europe.
- Rabin, M., 1998. Psychology and Economics. *Journal of Economic Literature* 36(1), 11-46.

- Sanfey, P., Teksoz, U., 2007. Does Transition Make You Happy? *Economic of Transition* 15(4), 707-731.
- Saris, W.E., 2001. What Influences Subjective Well-being in Russia? *Journal of Happiness Studies* 2(2), 137-146.
- Saris, W.E., Andreenkova, A., 2001. Following Changes in Living Conditions and Happiness in Post Communist Russia: the Russet Panel. *Journal of Happiness Studies* 2(2), 95-109.
- Schuman, H., and Presser, S., 1981. Questions and Answers in Attitude Surveys: Experiments on Question Form, Wording and Context. New York: Academic Press, 56-77.
- Schwarze, J., 1996. How Income Inequality Changed in Germany Following Reunification: An Empirical Analysis Using Decomposable Inequality Measures. *Review of Income and Wealth* 42(1), 1-11.
- Simai, M., 2006. Poverty and Inequality in Eastern Europe and the CIS Transition Countries. United Nations. Department of Economic and Social Affairs. Working Paper No. 17. New York: United Nations.
- Sobotka, T., 2002. Ten Years of Rapid fertility Changes in the European Post-Communist Countries: Evidence and Interpretation. Population Research Centre, University of Groningen, Working Paper Series 02-1, 1-86.
- Sobotka, T., 2003. Re-emerging Diversity: Rapid Fertility Changes in Central and Eastern Europe after the Collapse of the Communist Regimes. *Population (English Edition)* 58(4/5), 451-485.
- Spéder, Z., Paksi B., Elekes, Z., 1999. Anomie and Satisfaction at the Beginning of the Nineties. In T. Kolosi, I. György Tóth, G. Vukovich, *Social Reporter 1998*. Budapest: Social Research Informatics Center, 483-505.

- Svejnar, J., 2002. Transition economies: Performance and Challenges. *Journal of Economic Perspectives* 16(1), 3-28.
- Szivós, P., Giudici, C., 2004. Demographic Implications of Social Exclusion in Central and Eastern Europe. *Population Studies* No.46, Council of Europe.
- Tammaru, T., Kulu, H., Kask, I., 2004. Urbanization, Suburbanization, and Counterurbanization in Estonia. *Eurasian Geography and Economics* 45(3), 212-229.
- TransMONEE Database, 2008. UNICEF Innocenti Research Centre, Florence
- Tversky, A., Kahneman, D., 1991. Loss Aversion in Riskless Choice: A Reference-Dependent Model. *Quarterly Journal of Economics* 106(4), 1039-61.
- UNICEF, 1999. Women in Transition. The MONEE Project: CEE/ CIS/ Baltics. Regional Monitoring Report No. 6. Florence, Italy: UNICEF.
- UNICEF, 2001. A Decade of Transition. The MONEE Project: CEE/ CIS/ Baltics. Regional Monitoring Report No. 8. Florence, Italy: UNICEF.
- Van Praag, B.M.S., Ferrer-i-Carbonell, A., 2004. Happiness Quantified: A Satisfaction Calculus Approach (chapter 3). Oxford: Oxford University Press.
- Van Praag, B.M.S., Frijters P., 1999. The Measurement of Welfare and Well-being: The Leyden Approach. In D. Kahneman, E. Diener, N. Schwarz, eds., *Well-Being: The Foundations of Hedonic Psychology*, 413-33. New York: Russell Sage.
- Veenhoven, R., 1993. Happiness in Nations: Subjective Appreciation of Life in 56 Nations 1946-1992. RISBO, *Studies in Sociale en Culturele Verandering*, Nr. 2, Erasmus University Rotterdam.
- Veenhoven, R., 2001. Are the Russians as Unhappy as They Say They Are? *Journal of Happiness Studies* 2(2), 111-136.
- Winkelmann, L., Winkelmann, R., 1998. Why Are the Unemployed So Unhappy? Evidence from Panel Data. *Economica* 65(257), 1-15.

- World Bank, 2000a. *Balancing Protection and Opportunity: A Strategy for Social Protection in Transition Economies*. Washington, D.C.: World Bank.
- World Bank, 2000b. *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*. Washington, D.C.: World Bank.
- World Bank, 2002. *Transition: The First Ten Years. Analysis and Lessons for Eastern Europe and the Former Soviet Union*. Washington, D.C.: World Bank.
- Zimmerman, A.C., Easterlin, R.A., 2006. Happily Ever After? Cohabitation, Marriage, Divorce and Happiness in Germany. *Population Development Review* 32(3), 511-528.