

Why So Gloomy?

Perceptions of Economic Mobility in Europe and Central Asia

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Abstract

Despite significant improvements in per capita expenditures and a marked decline in poverty over the 2000s, a large fraction of Eastern Europe and Central Asia's population reports their economic situation in the late 2000s to be worse than in 1989. This paper uses data from the Life in Transition Survey to document the gap between objective and subjective economic mobility and investigate what may drive this apparent disconnection. The paper aims at identifying some of the drivers behind subjective perceptions of economic mobility, focusing on the role of perceptions of fairness and trust in shaping people's perceptions of their upward or downward mobility. The results show that close to half of the households in the region perceive to have experienced downward economic mobility, that is, that their position in the income distribution has deteriorated. The results also

show that perceptions of higher inequality, unfairness, and distrust in public institutions are associated with downward subjective economic mobility. The findings from this study confirm that factors beyond objective well-being are associated with the perceptions of mobility observed in Europe and Central Asia and may explain why the region has had such a pessimistic view of economic mobility during the past two decades. Understanding what drives people's perceptions of their living standards and quality of life is important, because regardless of objective measures, perceptions could influence people's behavior, including support for reforms and labor market decisions. For Eastern Europe and Central Asia, a region that has undergone substantive transformations and which is still going through a reform process, accounting for these aspects is critical.

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Perceptions of Economic Mobility in Europe and Central Asia¹

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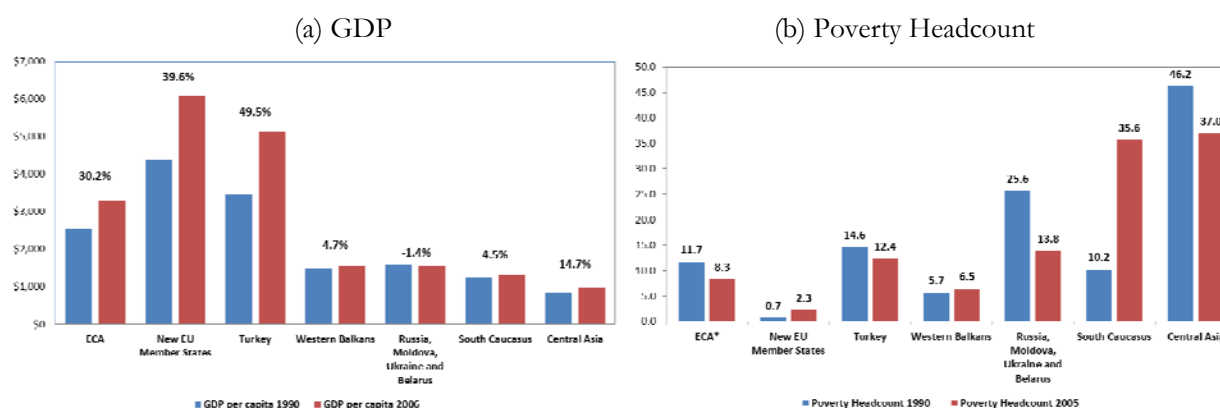
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1. Growing but Unhappy: Making Sense of the Puzzle

Eastern Europe and Central Asia (ECA) experienced considerable economic growth during the 2000s, recovering after a deep recession in the 1990s and in most cases surpassing the levels of income observed before transition. During the 1990s, countries in the region applied market-oriented reforms that changed the organization of their economies. Throughout all this transition period, economic performance was heterogeneous across countries, but most of them experienced a severe contraction in their economies, and consequently, falls in their standards of living. In the 2000s, in contrast, the landscape was dramatically different. Growing continuously since the early 2000s, by mid-2000s the vast majority of countries had already surpassed their levels before transition, with some of them even getting close to Western European standards (Figure 1). On average, GDP per capita was 30% higher in 2006 than in 1990 (World Bank 2013a), driven mostly by New EU Member States² and Turkey.

In line with the observed economic growth, social indicators indicated a reduction in the incidence and severity of poverty in the region from 1990 to the 2000s. Using the regional poverty line of \$2.5/day, the poverty headcount in Europe and Central Asia fell from around 12% in 1990 to around 8% in 2005 (Figure 1). Other indicators of poverty also decreased considerably in this same interval. The intensity of poverty, measured by the poverty gap (FGT1), also declined during the period. Figures for this indicator fell from 3.3 to 2.3. The severity of poverty (FGT2) indicator also showed a significant reduction, falling from 1.45 to 0.96, indicating that the average distance to the poverty line for poor households decreased (World Bank 2013b). Across sub-regions, South Caucasus is the only sub-region where poverty rates increased considerably. In the rest of them poverty rates either fell, in some cases significantly, or increased only slightly.

Figure 1. Changes in GDP per capita and Poverty Headcount in ECA



Source: World Bank (2013a) for panel (a) and World Bank (2013b) for panel (b). (*) ECA estimates are population-weighted.

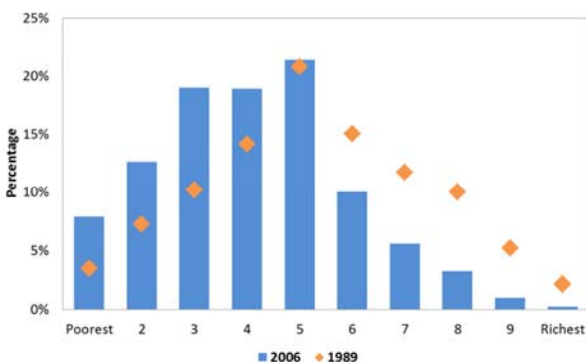
In spite of this positive economic performance, a large fraction of ECA's population – even among the best performers - reports their economic situation in the 2000s to be worse than in 1989. An analysis of data collected by the EBRD and the World Bank in 2006 (LiTS) on perceptions of economic well-being showed that the majority of households do not think they are better than before transition (EBRD 2006). When asked

² New EU Member States include Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

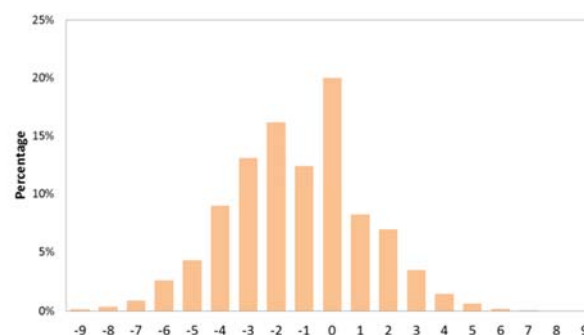
about their current position at the time in the income distribution, most households located themselves in the lower steps (Figure 2). However, when asked about what position they recall being located in 1989, most households indicated a higher step. The most common movements from 1989 to 2006 are negative, and only around 15% of the households perceive an improvement. When asked again in 2010 about their relative position in 2006 and 2010, most households reported to perceive themselves in the lower steps, showing a distribution much similar to the one reported for 2006 before than for 1989.

Figure 2. Ten-Step Distribution of Household Perceived Position in 1989 and 2006 (LiTS 2006) and 2006 and 2010 (LiTS 2010) for ECA

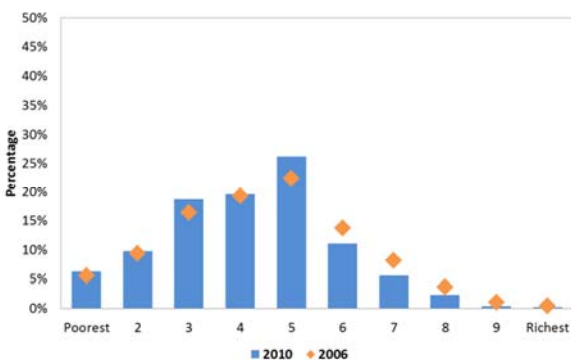
(a) Step Levels 1989 and 2006 (LiTS 2006)



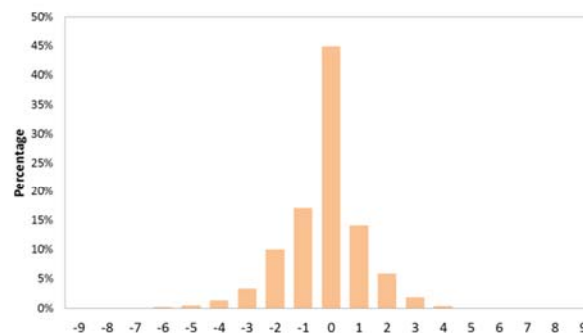
(b) Step Changes 1989-2006 (LiTS 2006)



(a) Step Levels 2006 and 2010 (LiTS 2010)



(b) Step Changes 2006-2010 (LiTS 2010)



Source: 2006 Life in Transition Survey (LiTS 2006) and 2010 Life in Transition Survey (LiTS 2010) (individual weights)³
Results are for the ECA region by pooling data across countries.

The observed disconnect is striking if we consider that 2006 was a year of solid economic expansion in the region, close to the peak of the expansion that covered most of the 2000s. With commodity prices at a high level, and the world economy growing more than 3% on average in the last five years, 2006 observed one of the highest growth rates in the region. The GDP per capita average annual growth between 2000 and 2006 was 5.5%, and in 2006 all the countries in the region observed a positive growth. The average growth in 2006 across countries was more than 8%, with even 5 countries growing more than 10% (World Bank 2013a).

³ The countries included are: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia (FYR), Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Tajikistan, Turkey, Ukraine, and Uzbekistan.

The reported low levels of perceived well-being are relevant in themselves, considering that subjective measures of well-being provide an important dimension to assessing individuals' quality of life. The Commission on the Measurement of Economic Performance and Social Progress (Stiglitz, Sen and Fitoussi, 2009), for instance, emphasized that objective and subjective measures of well-being are relevant to assessing quality of life. Increasing subjective well-being is an end in itself, but it could influence people's behavior, including support for reforms and labor market decisions. Therefore, understanding what drives people's perceptions is extremely relevant. The 2006 World Development Report highlighted, for example, that income inequality influenced people's happiness – regardless of absolute income levels- linked to perceptions of “unfair processes and unequal distribution of opportunities” in society (World Bank 2005, p.82).

This study aims at documenting the patterns of perception of economic mobility in the region and across groups of countries, and to identify factors that are correlated with the different types of perceptions of economic mobility observed in the region. The analysis tests for the correlation of mobility with specific variables capturing fairness and trust in public institutions, inequality, personal and household characteristics, and macroeconomic performance indicators.

Results confirm that factors beyond objective well-being are associated with the reported perceptions of mobility, as are the perception of trust and fairness in the country, the age and education of the respondent, and macro variables that capture the changes observed in the countries since the transition. Households in countries where income/consumption distribution has become more unequal have a more negative perception of their situation. Further, findings show that trust in public institutions, perceptions of fairness in the economy and preference for a market economy are associated with perceptions of improvement. Younger cohorts and more educated people are more likely to perceive improvements in their economic situation, likely linked to these groups' ability to access the opportunities introduced by the reforms and today's markets. An interesting but intuitive result is that a more severe reduction of the size of the State is also associated with more negative perceptions. This is likely capturing the intensity of the reforms applied in these countries and its consequences in terms of uncertainty and employment outcomes. Finally, macro variables also play some role. Countries with weak growth have on average more negative perceptions, and a more severe economic contraction during transition is associated with more negative perceptions.

The rest of the paper is organized as follows. Section 2 presents the conceptual framework and key findings from the literature on which the analysis is based. Section 3 describes the data used in the analysis. Section 4 presents the main findings, looking at correlates of perceived economic mobility. It covers profiling, multivariate analysis of correlates with subjective mobility and disaggregation across sub-regions and low/middle income countries. Section 5 presents the conclusions of the study.

2. Conceptual Framework for the Analysis of Perceptions of Mobility

Subjective measures of well-being, like “satisfaction with life” or Catril's Ladders, complement the information about quality of life that objective measures provide. Economists have for long preferred to study revealed preferences, expressed by purchase decisions, rather than declarations of preferences. Under the typical microeconomic theory assumptions, revealed preferences are enough to infer individual's well-being. However, a large amount of literature from behavioral economics and psychology find that people often make choices that do not necessarily increase their happiness. Their choices may hence not reflect their actual

preferences and focusing exclusively on actual choices may leave an incomplete picture to understand well-being. (Kahneman and Krueger 2006)

There is solid evidence in the economic literature that the most common measures of subjective well-being are consistent enough in time to be a reliable measure of well-being, and are not mainly driven by mood changes or personal distortions. Krueger and Schkade (2008) analyzed the test–retest reliability of two types of measures of subjective well-being (a standard life satisfaction question and a measure based on recording of the satisfaction experienced at different times of the day) and obtained a serial correlation of about .60 when assessed two weeks apart. This is lower than the reliability ratios typically found for education, income and many other common microeconomic variables. Nonetheless, the estimated degree of reliability of subjective well-being data is high enough to detect effects when they are present in most applications, especially if samples are large and the data are aggregated across people or activities. (Krueger and Schkade 2008)

Even though the focus of this paper is on perceptions of economic mobility, we borrow from the literature on perceptions of economic well-being to identify factors behind the mismatch between objective and subjective measures. For this, we followed the accounts of Selezneva (2011) and Dolan et al. (2008) about determinants of satisfaction with life (SWL). In her account, Selezneva (2011) reviews more than 70 studies that associate subjective well-being with income, work and family life, in the economic, psychological and political science literature, paying particular attention to transition countries. Dolan et al. (2008) reviews papers published in economics journals since 1990 as well as some key reviews in psychology that focus in finding individual-level, family-level and social-level determinants of subjective well-being. Both papers categorize the determinants roughly in income, personal characteristics, attitudes and beliefs, work conditions and macro environment.

There is agreement in the literature that the correlation between income and subjective well-being is at most weak, leaving room for other factors to explain the perceptions of well-being. For instance, Dolan et al. (2008) notice that results in the literature generally suggest positive but diminishing returns to income. Zaidi et al. (2009) using the 2006 LiTS obtain a positive correlation between income and satisfaction, though Cojocaru and Diagne (2013) find only a weak correlation between objective welfare and the household relative income position using the the 2010 LiTS. Clark and Oswald (1994) in the UK, and Frey and Stutzer (2000) in Switzerland find at most a low correlation between income and subjective-well-being.

Income inequality can affect negatively the perceptions of well-being when is associated with an unfair process and unequal distribution of opportunities. Using data for Europe and U.S. states, Alesina et al. (2004) obtains that even after controlling by income a higher national-level inequality is associated with more negative perceptions of well-being. However, it may also be the case that for countries with higher economic mobility inequality communicates opportunities, and hence higher inequality may signal a higher reward to effort, and have a positive effect on well-being (Dolan et al. 2008). The 2006 World Development Report highlights that income inequality influenced people’s happiness – regardless of absolute income levels- linked to perceptions of “unfair processes and unequal distribution of opportunities” in society (World Bank 2005, p.82). Finally, Abras (2012) obtain that circumstances determined by the lottery of birth (e.g. gender, parental status and politics), affect the perceptions of well-being when they play a role in determining income by means of facilitating positions or contracts.

Perceptions of fairness are also correlated with higher levels of reported self-satisfaction. For instance, using data on Italian workers, Tortia (2008) obtains that worker well-being is crucially influenced by fairness concerns. He obtains that self-satisfaction is positively affected by how fair workers perceive are the procedures

within the organization (e.g. flow of information, promotions), even above how fair they perceive their compensation is with respect of their qualifications.. The author also obtains that public organizations are found to be at a disadvantage with respect to the private sector regarding both the degree of satisfaction and perceived fairness. In a related study, Krueger and Mas (2004) identify that workers perception of fairness can affect the quality of their work and the effort executed in performing their tasks. Finally, as World Bank (2005) notices, the experimental and subjective well-being literature in economics and social psychology points that there is something deep and fundamental about our taste for fairness and equity. Equity, the report indicates, matters intrinsically and fundamentally for human beings.

Trust in other people and in national institutions plays an important role on the perceptions of individual well-being. Using individual-level data from different countries, Helliwell (2003) finds that trust in other people is associated with higher levels of well-being. Though it is possible that optimism produces higher assessments of both trust and well-being, he explains, if the answers relate to people with whom people interviewed interact, then the positive effect captures the benefits of living in a high-trust community. On another study using similar data, Bjørnskov (2007) found that generalized trust increases life satisfaction, and a social capital factor score (comprised from responses to generalized trust, civic participation and perceptions of corruption) are positively associated with life satisfaction. Finally, trust in key public institutions such as the police, the legal system and government is also found to be associated with higher life satisfaction (Helliwell & Putnam, 2004; Hudson, 2006).

Personal characteristics (like age, gender and ethnicity) and socially developed characteristics (like education, health or employment status) also have an impact and affect the perceptions of well-being. For the first group, studies suggest a U-shaped curve with higher levels of well-being at the younger and older age points and the lowest life satisfaction occurring in middle age. There is also evidence that women and certain ethnic groups report higher levels of happiness (Dolan et al. 2008). For the second group, some studies find a positive relationship between each additional level of education and subjective well-being (SWB), while others find that middle-level education is related to the highest life satisfaction. Even so, it is difficult to isolate the effect of education due to unobservable variables (e.g. motivation, intelligence, family background) and the different channels through which education can affect happiness (e.g. health, income) (Dolan et al. 2008). Studies show a more consistent positive effect of physical and psychological health on happiness, and, inversely, a negative effect of unemployment on happiness (Dolan et al. 2008).

Macroeconomic factors can also affect the perceptions of individual well-being when these factors have a direct impact on individuals' life, as inflation or unemployment. National unemployment rates reduce subjective well-being (Alesina et al. 2004, Di Tella et al., 2001, 2003; Wolfers, 2003), most likely through the induced fear of personal unemployment, which arises from a higher national unemployment rate. Inflation also has a negative effect on well-being, as studies in Europe, Latin America, and the United States have found (Alesina et al., 2004; Di Tella et al., 2001, 2003; Wolfers, 2003, Graham & Pettinato, 2001), although the results are not conclusive, as many other possible correlates, like income inequality or lack of trust, are not controlled for in the regressions (Dolan et al. 2011).

There is evidence that reforms implemented in former socialist countries have affected negatively the perceptions of well-being. Most authors agree in that populations of transition countries have paid for the socioeconomic transformation with their well-being. (Selezneva 2011) Reforms have introduced changes in all life dimensions, forcing the populations to face, among others, such new phenomena as unemployment and high fluctuation of incomes (Andren and Martinsson 2006). This affected the perceptions of well-being, which

in the initial years plummeted and saw the proportion of people in the least happy categories soar (Blanchflower and Freeman 1997; Lelkes, 2006a and 2006b ; Angelescu, 2008). By 2011, there is still a considerable gap in subjective well-being between transitional and no transitional countries, even though smaller than after the initial reforms (Lelkes, 2006b).

3. Individual and National Level Data

The individual-level data used for this study comes from the Life in Transition Survey collected in 2006. This survey was collected by the European Bank of Reconstruction and Development (EBRD) and the World Bank (WB). Although the LiT's was conducted in 2010 as well, the study focuses on the 2006 round to capture perceptions in a period of economic boom – to avoid results being driven by the impact of the global economic crisis – and given the more comprehensive information on labor histories collected in the 2006 round. Perceptions on economic mobility in 2010 are, however, presented in annexes as well to complement the analysis. It collected information about socio-demographics characteristics and attitudes and values of the population in Eastern Europe, Central Asia and Turkey. It covered 29 countries, with a sample of 1,000 households per country.⁴

The respondent of the survey is a random member of the household interviewed older than 18 years old. The survey is divided in two sections. The first one was answered by the household head and contains the household roster and the variables on perceptions of economic mobility. The second part is answered by a randomly selected household member older than 18 years old, and contains information on employment, employment history since 1989 and an extensive set of questions on attitudes and values. We merged the information coming from the two respondents in the household. This implies we assume the answer given by the household head is representative of the household opinion.

Personal and household characteristics used for the estimations are constructed based on the data available in the employment and household characteristics sections. We used this information to obtain the age, education, ethnicity, religion, and employment status of the respondent. Also, we used this section for the education of the father. We used the household characteristics to construct the location (urban/rural), household size, consumption and assets owned, and the shares of children and seniors. We also extracted information about the education of the father, as an indicator of condition that cannot be affected by the individual, to test whether they play a role in the perceptions of mobility.

Attitudes and beliefs are obtained from the module of opinions included in the survey, which covered perceptions about the dynamics of the society and valuation of institutions. For the variable on trust in public institutions, we constructed an index based on trust in five public institutions (Presidency, Cabinet of Ministers, Parliament, Judges and Police). For each institution, the original variables were coded in 5 categories, ranging from distrust to full trust. We collapse this information in three categories and construct an index that can take three values (-1, 0, or 1) corresponding to distrust, neutral or trust in each institution. The aggregate index is the arithmetic average. For fairness, we used a question on what the respondent beliefs is rewarded in society, either effort and intelligence, or contacts and corruption/criminal ties. For market economy support, we took a question asking to express a preference between a market economy or a centrally planned one. Finally,

⁴ It included Mongolia, EBRD country of operation since 2006, and part of the World Bank East Asia and Pacific Region. Turkey is not an EBRD country of operation. Turkmenistan was not included.

for a perception of performance related to a local comparison group, we took a variable asking for the perceived performance compared to colleagues in 1989.

Employment histories were constructed by taking advantage of the information collected on job market performance for each year between 1989 and 2006. The second section contains an extensive set of questions about life events and labor market history since 1989 to 2006, year by year. Unemployment may have been underreported, since working at least one part of the year is enough to consider the year as employed. If more than one position was held during one year, they are all reported in different cells. This information is used to construct the labor history of the interviewed person, including time worked in the public or private sector and number of different jobs held in this time. We restricted the information to the years when the interviewed person was between 18 and 65 years old.⁵

We also took advantage of the information on labor histories to construct a measure of public employment for every year between 1989 and 2006. Using the information on enterprise ownership, we were able to obtain the share of employment, excluding public administration, corresponding to the public sector. As can be expected, this share was considerably high in 1989 (with the exception of Turkey), and has fallen dramatically for most countries by 2006.

The data at the national level was obtained from the World Development Indicators database (World Bank 2013). We used GDP per capita in real terms, Gini coefficients, and the ratio of the share of income the top 20% and the bottom 20%. In many cases the data for the years 1989 and 2006 was not available, so we replaced for the closest year available, with up to three years of difference.

4. Perceptions of Economic Mobility and Their Correlates

a) What are the perceptions of economic mobility observed in ECA?

A substantial share of households in the region perceives that their standards of living have fallen compared to 1989. In 2006, around 50% of households in the region declared that they saw their countries in worse economic standing than in 1989. Moreover, when asked about the specific situation of the household in the same period of time, again, around 50% of the households declared a worsening in their economic situation (Figure 3).

The perceived fall in living standards is consistent across all sub-regions. Only households in Central Asian countries perceive in majority that their countries are doing better than in 1989 (Figure 3). This is indeed a region in which GDP per capita was almost 15 percent higher over the period. For all the other sub-regions – even the best performers in terms of GDP growth - the prevalent view is of a worsening of the national economic conditions, peaking at almost 70% in the Western Balkans. About the conditions of the household interviewed, the results are similar, and even more dramatic. On average, people across all regions consider that their household is doing worse than in 1989, ranging from 41% in New EU Member States (again, one of the best performing regions) to almost 60% in the Western Balkans.

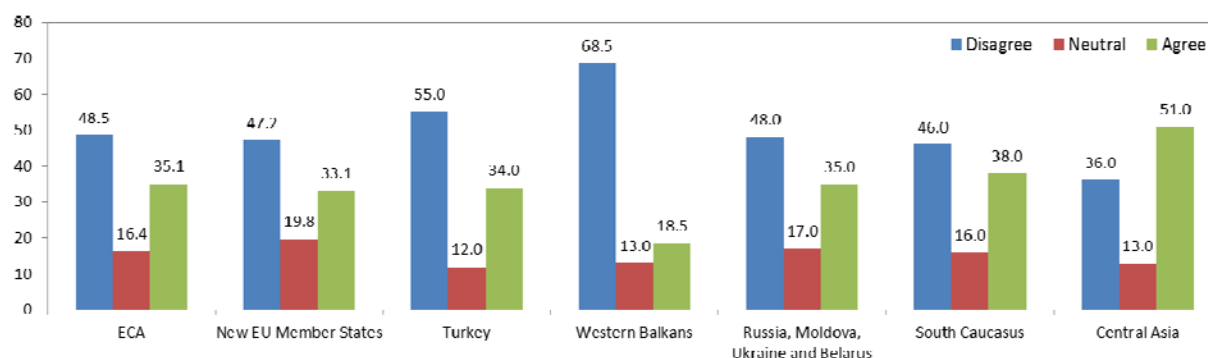
⁵ We considered Out of Labor Force the cases with no employment information between 1989 and 2006, or decided not to work, or declared are officially retired & not worked & were at least 55 for women and 60 for men, or declared left job because of retirement and never worked again or declared studying and not working. We considered employed if worked for wages or self-employed. Finally, we considered unemployed if received unemployment benefits and did not working, or if it was part of the Labor Force, and did not have a job.

The majority of households located themselves in the lower steps of the income distribution in 2006.

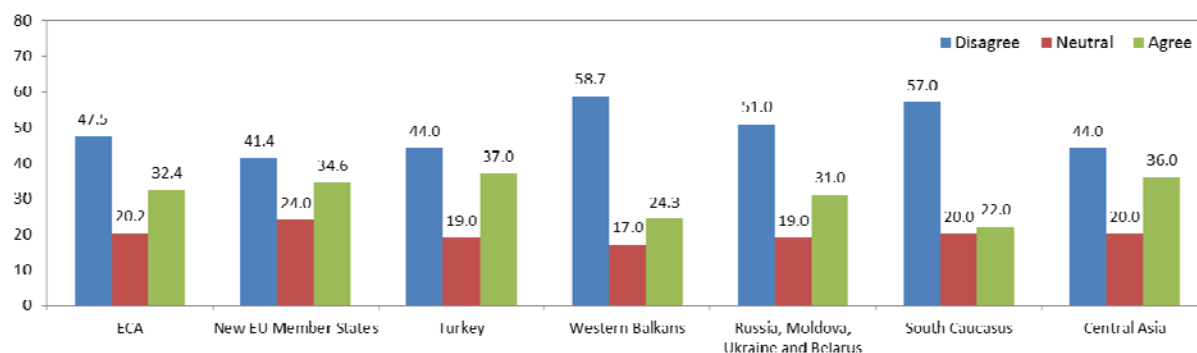
Household heads were asked where in a ten step ladder they would situate their household in 2006 (Cantril's Ladder).⁶ In a perfect-knowledge world, this should result in a uniform distribution, with households identifying their correct decile immediately. However, this is not the case. The distribution seems to be capturing the perceived distance to the highest income household, hence resulting in a distribution similar to a log-normal one. The majority of households in ECA report themselves to be in the steps 5 and below (Figure 4, panel a). This results persisted when a different sample of households were asked the same questions in 2010, as part of the second round of the LiTS. Most households then recalled being in the lower steps of the distribution in 2006, and still being around those steps in 2010. Accordingly, three quarters of the households reported no movements across steps or at most a change in one step between 2006 and 2010 (Figure A1.4).

Figure 3. Satisfaction with Economy and Household Living Standards (2006 vs. 1989)

(a) Economic situation in **country** better in 2006 than 1989



(b) My **household** lives better in 2006 than in 1989



Source: 2006 LiTS (individual weights)

However, most of the households also recall being in the middle steps of the income distribution in 1989. When households were asked about their position in a ten-step income ladder in 1989⁷, the answers this time concentrated around the center steps (Figure 4, panel b). Around 50% of the respondents locate

⁶ The literal question asked was: "Please imagine a ten-step ladder where on bottom, the first step, stand the poorest and on the highest step, the tenth, stand the richest. On which step is your household today?"

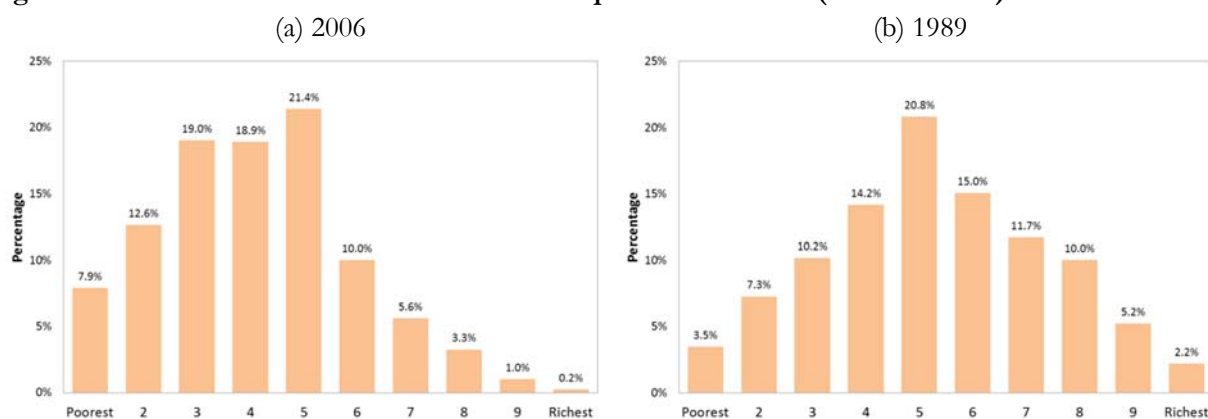
⁷ The question asked was: "Now imagine the same ten-step ladder around 1989, on which step was your household at that time?"

themselves in the steps 4, 5 and 6, and the distribution of the answers shows a symmetric shape, in sharp contrast with the right-skewed distribution from 2006.

These distributions reflect well what income distributions can be expected from a market and a central-planned economy. The right-skewed distribution obtained from the 2006 answers is consistent with income distributions observed in market economies. The symmetric distribution obtained for 1989 is consistent with centrally-planned economies where equality among its citizens is highly valued.

Consequently, close to half of the households in the region perceived a fall in their relative position in the Cantril's ladder. Pairing the answers on the ladder steps in 1989 and 2006 can provide information on perceptions of mobility in this period. Using as a definition of movement of a change in at least two steps in any direction, 47% of the households in the region declared to have moved down in the income distribution, regardless of their starting step (Figure 5). Around 40% of households perceive they have stayed in the same step, or moved at most one step in any direction.

Figure 4. Household Perceived Position in 10-Step Income Ladder (2006 and 1989)



Source: 2006 LiTS (individual weights)

Less than 13% of households in the region perceive an improvement in their relative position. Close to 90% of the households who perceived an improvement are households who were located in the 5 lower steps of the income distribution in 1989, and moved up to steps 4 to 8. Only 7% of the households who perceived an improvement moved all the way up to the steps 9 or 10 in 2006.

This pattern of perceived downwards mobility is common across all sub-regions (Figure 5). With the exception of New EU Member States and Turkey – the ones with higher economic growth during the period - in all sub-regions the most prevalent perception is of downwards mobility. And even in these countries, almost 40% of the households declared to have moved down, behind around 50% of the households that consider doing only as well as in 1989. Western Balkans and South Caucasus are the regions with the most negative perceptions, where households that feel they have moved down reach 60% and 65% respectively. In the Russian Federation, Moldova, Ukraine and Belarus, and Central Asia countries, this share of households is close to 50% as well.

Figure 5. Perception of Economic Mobility 1989 – 2006



Source: 2006 LiTS (individual weights)

b) What is the socio-demographic profile of those with perceptions of downward mobility?

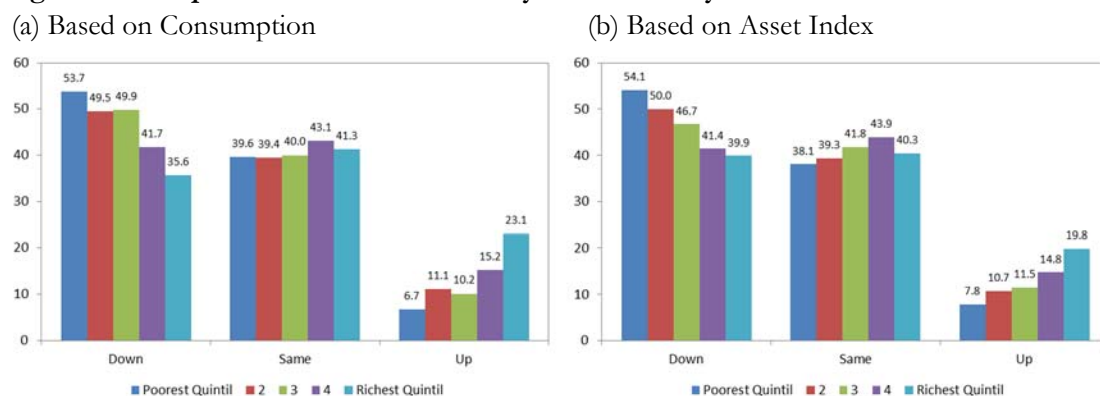
Perceptions of mobility vary by socio-demographic characteristics of the households, though with very few exceptions the prevalent perception is to have moved down in the income distribution after the transition. We performed a descriptive analysis of the perceptions by income, age, location, education, and employment status. This analysis is aimed at shedding light into the postures of different socio-demographic groups, rather than to find causality or to isolate the effect of particular characteristics. The results show differences in the intensity of the perception, although in almost all cases the predominant view is to have moved down. Also, we would ideally use the characteristics before and after transition for this profiling, but the only information available about characteristics is from 2006. We prefer to report a profile based in 2006 information since this is still informative.

Not surprisingly, poorer households in 2006 have more negative perceptions of mobility. Using two different measures of welfare at the household level, we consistently obtain that poorest households in 2006 are more likely to report having moved down in the income distribution (Figure 6). The measures used are monthly household consumption and an index based on asset ownership. Results are roughly similar for both measures. The share of households that perceive movements down are around 55% for the lowest quintile and

less than 40% for the richest quintile. In contrast, the share of households perceiving movements up is around 7% for the poorest quintile and around 20% for the richest. There is not much variation across quintiles in the shares of households reporting staying in the same step.

Older people report the worst perception of economic mobility. Figure 7 (panel a) shows that the share of young respondents (18-34) reporting movements down is only 35%, while this rate reaches 60% for the oldest group (66+). For the movement up category we observe the opposite pattern, while more than 17% of the young respondents perceive movements up, only 6% of the oldest respondents think the same. There is also considerable variation for “staying in the same step” category: almost 50% of the youngest against 35% of the oldest group. In many cases, the respondent to the employment section, from where the age information is collected, is different than the respondent to the perceptions section. However, results when restricting the sample to cases where the same person responded are very close to the one here reported, and even the differences are slightly more accentuated. These results are available in the Appendix A4.

Figure 6. Perception of Economic Mobility 1989 – 2006 by Welfare Level



Source: 2006 LiTS (individual weights)

Perceptions do not vary considerably across areas of residence. Dividing the sample in three groups according to the degree of urbanization (metropolitan, urban and rural) does not result in marked differences in the responses to perception (Figure 7, panel b). The share of households perceiving a movement down vary from 43% for the metropolitan areas to 48% for the rural, and for the movement up goes from 16% for the metropolitan to 10% in the rural.⁸

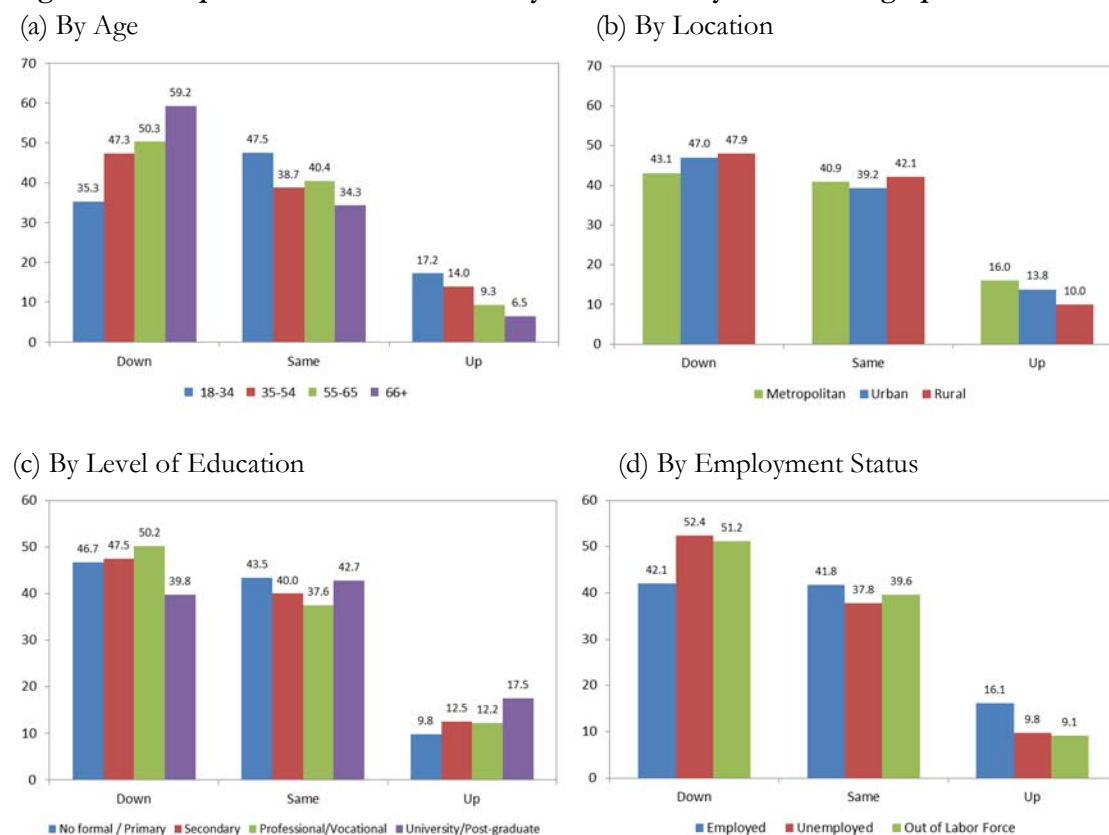
Low-educated people report the most negative outlook regarding upward mobility, while tertiary education are the less likely to report downward mobility. Figure 7 (panel c) shows that for people with no education or only primary education, the share of households reporting movements down reaches 47%, and for the secondary, or professional education this share is 48% and 50%. However, for college-educated this share goes down to 40%. For the movements up, the differences in shares is slightly more pronounced among levels of education: 10% for no or primary education, and 13%, 12% and 18% for the people with secondary,

⁸ The labeling of the category can be misleading, since the three categories were defined for all countries and even countries with small populations and no big cities have considerable shares of population in the metropolitan category. However, we decided to keep this categorization to respect the original categorization of the survey, and because regardless of the definition of each category by country, there are no considerable variations in the answers.

professional or university education, respectively. Restricting the sample to cases where the respondent to education and perceptions are the same show similar results (Appendix A4).

People employed at the moment of the survey have the less negative perception of mobility compared to the jobless, though the predominant perception is still negative. The share of respondents that perceive movements down in the income distribution is 42% among the employed, while this share is more than 50% for the unemployed and inactive (Figure 7, panel d). This difference is also clear in the movements up across the income distribution. While for the employed this share is 16%, for the unemployed and inactive this share is less than 10%. Again in this case, when restricting the sample to the cases where the same person responded employment and perceptions, results are qualitatively equivalent. (See Appendix A4.)

Figure 7. Perception of Economic Mobility 1989 – 2006 by Socio-demographic Characteristics



Source: 2006 LiTS (individual weights)

c) What variables are correlated with perceptions? A multivariate analysis

In this study we carried out a multivariate analysis to identify the joint effect of individual variables on perceptions of economic mobility, with a particular focus on variables on fairness and trust. The ideal setting for empirically testing causality in the social sciences is when there is strict exogenous variation in one variable that can be associated to the dependent variable. Unfortunately, we cannot make such a strong claim in our data. What we do, in contrast, is testing the statistical association of a set of variables with the perceptions of economic mobility. The results are presented below.

Regression results are presented in the Appendix and are centered on identifying correlates of downward mobility between 1989 and 2006. The dependent variable takes a value of one if the individual reported moving up or staying in the same position, and zero if it reported downward mobility. We estimated probit regressions to facilitate the interpretation of the results; however, results were qualitatively equivalent under a multivariate regression on three types of movements. A movement is defined (as in section 3) as a movement in any direction of at least two steps, regardless of the initial point. Movements of only one step are considered as staying in the same step. We excluded households in the two lowest and uppermost steps in 2006 from the sample to avoid biases introduced by the mechanical effect of being unable to move in all possible directions (move down for the upper steps in 2006, and move up for lowest steps in 2006). All regressions and a thorough discussion of the methodology used are presented in the Appendices.

Perceptions of inequality, fairness and trust matter

Increases in country income inequality are associated with more negative perceptions of economic mobility. Table A2.2 shows that household in countries in which inequality increased between 1989 and 2006 – measured by the ratio of the 80th/20th percentiles– had a higher probability of reporting downward movements in the income distribution (Column (3)). Using an alternative measure of Gini, obtained from the World Income Inequality Database shows also a negative effect of the increases in inequality with respect to the perception of movements up⁹ (Column (4)). This alternative measure, though, is less consistent than the obtained from the World Development Indicators and is incomplete for most former Yugoslavia countries, so we preferred to use the original from the WDI for the rest of the report. As reported earlier when citing the 2006 WDR, “One reason that inequality might make people less happy, even when controlling for absolute income levels, is that it violates their sense of fairness” (p. 82). The Gini, a less sensitive measure to changes in the tails of the distribution, can potentially not capture this correlation.

Perceptions of fairness in moving ahead in life are associated with more positive perceptions about economic mobility. The perception that effort, hard work and intelligence are the most important factors to succeeding in life, rather than criminal or corrupt ties, or political connections, reduces the probability of reporting movements down. Specifically, those who believe in fairness have 9 percentage points less probabilities of perceiving a worsening in their relative position. This is particularly the case in higher income countries in ECA (Table A2.3).

Trust in public institutions is associated with more positive perceptions about economic mobility. For any individual, moving from a neutral approach to trust to becoming trusting in public institutions reduces the likelihood of perceiving movements down by 7 percentage points. This effect is stronger (10 percentage points) in low and lower-middle income ECA countries.¹⁰

The perception of having done better than colleagues in 1989 is associated with less probabilities of perceiving downward economic mobility. Individuals who reported a relative improvement compared to their peers pre-transition have a 4 percentage point lower probability of reporting downward mobility. This

⁹ http://www.wider.unu.edu/research/Database/en_GB/database/

¹⁰ We also performed a robustness check, by replacing this indicator for trust in religious institutions. The rationale behind is that if people who are more likely to be trustful are most likely to perceive improvements in their situation, then trust in religious institutions should be significant too. The results show that this variable is not significant. This suggests that the connection between trust in public institutions and perceptions is not driven by individual biases, but by actual beliefs about these institutions.

effect is stronger and significant for low and lower-middle income ECA countries (10 percentage points), but not significant for countries with higher incomes in the region. Robustness checks, however, raise concerns about this finding.¹¹

Support to market economy is also positively correlated with more positive perceptions of economic mobility. Declaring support to a market economy, as opposed to a centrally-planned one, is associated with 7 percentage points fewer chances of perceiving a worsening in the position in the income ladder. This effect may be partially driven by being precisely the ones who have benefited from the new conditions introduced in a market economy (for instance, rewards to entrepreneurship, risk-taking behavior, or high tolerance to uncertainty), the ones who perceive improvements in their relative well-being. Robustness checks suggest that actual belief in the market system, rather than a general attitude or bias towards changes introduced after transition, is what is driving the association.¹²

The young and more educated fare better

Young populations are more likely to declare improvements in their economic position. Consistently with the results in the profiling section, age is strongly associated with the probabilities of perceiving improvements in well-being. Belonging to the 18-35 years old category, as opposed to any of the other age groups decreases the probabilities of perceiving a worsening in the economic situation of 7 percentage points. These results contradict the common finding in the literature of a more optimistic perception of life for older people (Dolan et al. 2008). Given that the youngest cohort (18-35 in 2006) was under 18 years old in 1989, the result for this group may be capturing also intergenerational perceived mobility. We performed some robustness checks by restricting the sample to cases with the same respondent in the employment and perception sections, and to the cases with only workers older than 35 years old (18 in 1989). Results are presented in the Appendix (Table A3.2) and show results largely consistent with the original full sample, although the age now has a positive effect on perceptions of economic mobility.¹³

More educated people are more likely to declare improvements. College-educated respondents are less likely to perceive their position falling in the income distribution, as opposed to the other levels of education.

¹¹ We restricted the sample only to the respondents who think their household is doing worse than in 1989, in absolute terms. Among these respondents, perceiving that they are doing better than the 1989 colleagues would be most likely driven by actual perceptions, rather than by overall optimistic views about life. The same happens when the sample is restricted to the cases that think they are doing better or at least the same than in 1989, in absolute terms. In neither of both cases the perception of doing better than the comparison group is significant, raising concerns about the driver behind the initially reported correlation. Most likely, the original result is driven by common idiosyncrasies contained in the perceptions of mobility and relative performance, rather than actual perceptions of improvements.

¹² We also checked the robustness of this result using the opinion about democratic against an authoritarian regime. If the support to a market economy is driven by support in general to the changes introduced with the reforms, most likely the support to a democratic regime would be also correlated with the perceptions of mobility. However, support to democracy is not significantly correlated

¹³ The only noticeable difference is in the significance of belonging to the 55-64 age group. The reported negative effect over the probabilities of perceiving downward mobility turns statistically significant, though only weakly. Also, the share of time spent working in the public sector becomes significant, showing now that more time in the public sector between 1989 and 2006 is associated with more probabilities of perceiving a movement down. All the other parameters sign and significance remain unaltered.

Moving to college-level education from any other category lowers the probabilities of perceiving falls by 6 percentage points.

In today's market economy and process of ongoing reforms, the young and more educated have a better perceived outlook. The perceived improvement in economic situation of these groups is likely linked to their relatively higher readiness – in terms of skills, for example – to benefit from the opportunities introduced by the reforms. This finding is consistent with the discussion in Arias et al. (2014) in which is pointed that across the region, an increasing share of employers cited skills as a major constraint to firms' growth. In a context where most education and training systems have failed to keep up with the fast-changing labor market, being flexible and ready to acquire and develop non-routine higher-order skills, including socioemotional (“soft”) skills, translates into more job opportunities and higher earnings.

Family background plays a role in perceptions

The education of the father plays a role in determining the perception of mobility, hinting that opportunities in the country are associated with factors beyond the individual's control. Including the education of the father in the regression shows that secondary and professional education lead to better perceptions of economic mobility than basic or no education. Surprisingly, a father with higher education does not lead to better perceptions than a father with primary education. These results signal that factors beyond the control of the worker may be driving the access to opportunities or the satisfaction in life. In case perceptions were to depend only factors that the interviewee can decide, father characteristics should not have any effect. Other variables, like father belonging to the communist party, did not show statistically significant results.

Individual labor market experiences have a role, but less than expected

Working for a public company and being self-employed are associated with lower perceived downward mobility. Public workers are more likely to report improvements in the economic situation, though this effect is statistically weak. This result certainly contradicts previous findings in the literature (e.g. Tortia (2008)), although previous results have focused in developed countries and did not analyzed periods with dramatic changes comparable to the transition lived in the ECA region. Considering the generalized reduction in the size of the state across countries in the region and the strong preference for public jobs¹⁴ (EBRD 2010), being currently employed for the public sector may indicate that these workers were able to retain these positions and associated benefits. Hence, it is intuitive for them to perceive an improvement in their situation since, for many of their peers, reforms involved considerable undesired changes. In the case of self-employment, this can be signaling entrepreneurial ability and willingness to take risks, values highly regarded in a market economy.

Surprisingly, labor history does not play any significant role on the perceptions of economic mobility. The share of time in the labor force spent working for the public sector is negatively correlated with upward mobility, although the degree of statistical significance is weak. The share of time working for the private sector does not have a significant effect over the perceptions. When the sample is restricted to household heads and older than 35 years old workers the share of time employed in the public sector shows a positive effect over the probabilities of perceiving downward mobility (Table A3.2). The variable is defined as shares of time spent

¹⁴ According to data collected in the LiTS 2010 (EBRD 2010), 45% of workers 18+ in the region would prefer to work for a state-owned enterprise (30%) or the public administration (15%). Being self-employed comes behind with 25% of the sample, 20% would prefer in a private firm, and 10% does not know. While these results hide some regional disparities, it is clear also that it highlights a preference for the types of positions offered in the public sector.

either on public sector, private sector or unemployed/out of labor force (base category), hence the effect is with respect to being unemployed/inactive. This is a somehow puzzling result, since there is weak evidence that being employed by the public sector at the time of the survey has the opposite effect (less chances of perceiving downwards movements). A possible explanation is that this variable is picking up the effect of belonging to the 55-65 years old (in 2006) group. (See Figure A1.2) It is in this group where the shares of time in public sector reaches its highest, as opposed to the younger workers (private) and older workers (unemployed/inactive). For the number of jobs held between 1989 and 2006, which can work as a metric of the turmoil introduced by the reforms in economies where the labor market used to guarantee a position for all workers for life, the effects are also non statistically significant. This result hints that the current personal employment situation is more important than the memory for the perceptions of mobility.

The role of income and macroeconomic indicators

Current income explains only a minor fraction of the observed variation in perceptions. Estimating OLS regressions on the raw changes in step between 1989 and 2006 against two welfare measures (consumption and asset index), we obtain that welfare explains only a minor fraction of the variation in perceptions, though the parameters are statistically significant. Consumption can only explain 5% of the variations in perceptions, while the asset index explains only 8%, as measured by using the R-squared of the regressions (Table A2.1). Moreover, when consumption deciles are included in the regression containing all the other variables, they do not show any significant effect over perceived economic mobility.

Countries with weak growth have on average more negative perceptions, particularly for those countries faring better pre-transition. A 10-percent increase in GDP per capita between 1990 and 2006 translates into 3 percentage points higher probabilities of perceiving a movement up. However, the starting point matters for perceptions of mobility: for countries with similar growth, a higher GDP per capita in 1990 (by US\$1,000) translates into a 3 percentage point lower probability of reporting improvements.

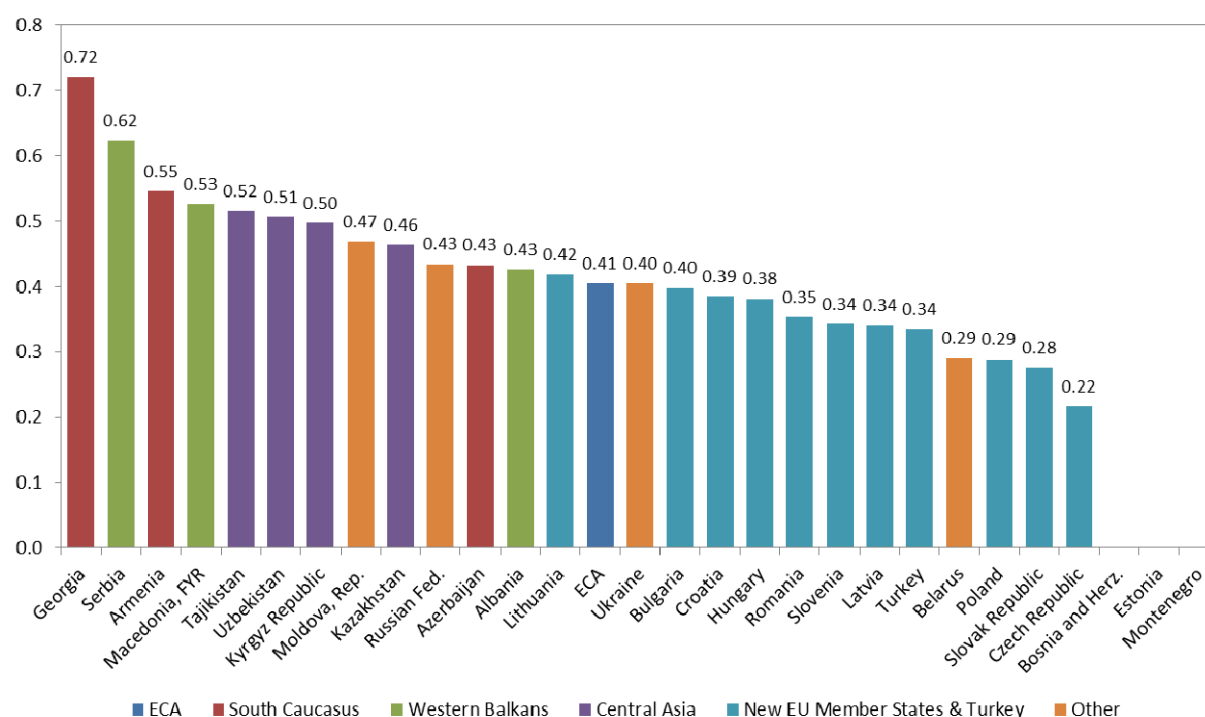
A stronger economic contraction during the transition period is associated with more positive perceptions. After controlling for the effect of initial GDP per capita level and the change between 1990 and 2006, a more severe contraction of the GDP per capita during the nineties is associated with more probabilities of self-reported upward economic mobility. This result suggests that those in countries that experienced tough economic times in the nineties place more value in the country's or own relatively improved economic situation by 2006. The lowest point during the transition period is likely to be a reference point for countries that had severe economic contractions.

Bigger public sectors in 1989 are associated with more negative perceptions. With the exception of Turkey, in all the countries of the region the State controlled considerable productive resources in the economy. This translated in massive public employment which ranged from 57% for Czech Republic to 91% in Belarus (own estimation based on EBRD 2006). The regression analysis shows that an increment of 10 percentage points in the share of public employment in 1989 translates in 9 percentage points less probabilities of perceiving upward mobility. This result hints that populations in countries that use to have more certainty about future employment may have been hit worse by the changes introduced with the liberalization of the economy.

Accordingly, countries that reduced more intensely their share of public employment have more negative perceptions. Between 1989 and 2006 all countries in the region reduced the participation of the State in the economy. This ranged between 13 percentage points in Belarus to 50 percentage points in Bulgaria (own estimation based on EBRD 2006). A reduction of 10 percentage points in this share lowers the

probabilities of perceive a movement up in 3 percentage points. If we consider the reduction in public employment as a proxy of the intensity of the reforms applied in the economy, this result signals that, keeping all the rest constant, more intense reforms had a negative effect on the perception of well-being. This is an intuitive result given the uncertainty introduced in the lives of citizens during the transition. This effect, though, could be counterbalanced as reforms pay off in terms of growth and employment.

Figure 8. Aggregated Effect of Country-level Variables on Perceptions of Economic Mobility 1989 – 2006: Probabilities of Downward Movements



Source: Own calculations. Variables considered: GDP, Gini coefficient and share of public employment, 1990 and 2006 for all of them, plus the lowest GDP per capita between 1990 and 2006 as a percentage of the 1990 GDP per capita. All other variables considered as sample means.

The combined effect of country-level variables on perceptions of downward economic mobility is below the regional average for the New EU Member States and Turkey, while for South Caucasus, Western Balkans and Central Asia is above the average (Figure 8). For this estimation we predicted the probabilities at the country level, using the aggregate variables in levels, and all the other variables at the regional sample mean. This way we tried to isolate the effect of the aggregate variables, while still obtaining economically significant results. The variables considered were GDP, Gini and public employment in 1990 and changes to 2006. The average probabilities of perceiving a movement down under this setting is 0.41 for the region. However, this result hides considerable heterogeneity. New EU Member States benefited clearly from their performance, as their predicted probabilities are in almost all cases below the regional average. Georgia and Armenia in the South Caucasus show a strong negative effect, while Serbia and Macedonia (FYR) in the Western Balkans have also considerable negative effects. All the Central Asia countries included in the analysis have also a negative effect, being all of them located above the regional average.

d) Are perceptions similar across sub-regions?

The magnitude and significance of the results vary across sub-regions. This section explores the regression analysis in five country groupings in ECA: New EU Member States and Turkey; Western Balkans; Belarus, Moldova and Ukraine; South Caucasus Countries, Central Asia and Russia. Table A2.4 presents the results. Overall, the sub-regional results are consistent with those of ECA, though some of the most striking exceptions arise in the Western Balkans.

Across most sub-regions, households who believe in fairness and that trust in public institutions have a less grim perception of their economic mobility. The exception is Central Asia, where the results are not significant. The effect of believing in effort, hard work and intelligence for succeeding in life is particularly strong in Russia, leading to a decrease in the likelihood of reporting downward mobility by around 16 percent. Trust in the presidency, cabinet of ministers, parliament, judges and the police decreases perceptions of downward movement across sub-regions. The result is not significant for Russia but it is strong and significant for all others, particularly for New EU Member States and Turkey.

For the majority of advanced reforms and late reformers in the region, in contrast to intermediate reforms, support to market economy is positively correlated with higher subjective economic mobility. These are countries in which the reform effort started earlier and had already started to pay off (advanced), or in which the reform efforts are lagging behind and significant and necessary policy changes remain to be done (this reflection borrows from the typology in Arias et al, 2013). In intermediate reformers, the majority of which are from the Western Balkans and South Caucasus, support to market economy has no impact on mobility perceptions.

In Central Asia and the South Caucasus, the perceived position relative to pre-transition colleagues matters. In these two sub-regions, the perceptions of being better off than colleagues in 1989 has a very strong association (around 13 percentage points) with moving up or at least staying in the same position.

The Western Balkans show unique results in demographics and education. First, even if the older populations across sub-regions more often perceive downward movements, the Western Balkans have the strongest association between old age and negative perceptions of economic mobility: the probabilities of perceiving movements down are 10 percentage points higher for those ages 54-65 years and 14 percentage points higher for those over age 66 years. Second, in this same sub-region, advanced education, in contrast with the aggregate results, is associated with more negative perceptions on economic mobility. In other words, the more educated have a more pessimistic outlook on quality of life than those with little or no formal education. This education effect is also observed in the South Caucasus countries. This is not surprising if we consider the high unemployment rates for these regions for workers with higher education. For instance, in Macedonia, FYR, the unemployment rate for higher education graduates in 2006 was close to 20%, a similar rate than the one observed in Armenia and Georgia around those years¹⁵ (ILO 2013).

Labor market status' association with perceived mobility shows mixed results across sub-regions. The Western Balkans again stands out: the unemployed in this sub-region – one with particularly high unemployment rates- have more negative perceptions of economic mobility (at 8 percentage points); this effect

¹⁵ Unemployment rate for Armenia in 2007 for persons with tertiary education was 20.4, while in Georgia it was 19.3 for the same year. (ILO 2013)

is, surprisingly and uniquely, also observed among those employed in the public sector in these countries¹⁶. Conversely, in New EU Member States and Turkey, in particular, public workers have a less negative perception of their economic mobility. Central Asia is the only sub-region in which private employment is associated with a more positive perception on mobility, and in which the opposite happens for working in the agricultural sector¹⁷.

5. Conclusions

A substantial share of households in the region perceives that their standards of living in 2006 have fallen compared to 1989. Using as a definition of movement a change in at least two steps in any direction, 47% of the households in the region declared to have moved down in the income distribution, regardless of their starting step. Around 40% of households perceive they have stayed in the same step, or moved at most one step in any direction. Less than 13% of households in the region perceive an improvement in their relative position.

This pattern is consistent across sub-regions. With the exception of New EU Member States and Turkey – the ones with higher economic growth during the period - in all sub-regions the most prevalent perception is of downward mobility. And even in these countries, almost 40% of the households declared to have moved down, behind around 50% of the households that consider doing only as well as in 1989. Western Balkans and South Caucasus are the regions with the most negative perceptions, where households that feel they have moved down reach 60% and 65% respectively. In Russia, Moldova, Ukraine and Belarus, and Central Asia countries, this share of households is close to 50% as well.

Less affluent, older, rural and unemployed people show a more negative perception of economic mobility. Taking advantage of the information available in the survey for 2006, we obtained that these characteristics were associated with perceptions of downward economic mobility.

Current income can only explain only a small fraction of the observed variation in perceptions. Welfare explains only a minor fraction of the variation in perceptions. Consumption can only explain 5% of the variations in perceptions, while the asset index explains only 8%, as measured by using the R-squared of the regressions

Factors beyond objective well-being, including those related to trust and fairness are associated with perceptions of mobility. Households in countries where income distribution has become more unequal have a more negative perception of their situation. Further, findings show that trust in public institutions, perceptions of fairness in the economy and preference for a market economy are associated with perceptions of improvement.

¹⁶ In the Western Balkans, the public sector employs 48% of the workforce, close to the 47% regional average.

¹⁷ In Central Asia, private employment accounts for 46% of the employment, below the regional average of 53%. The agricultural sector employs a share considerably higher than the regional average: 31% of employed workers vs. a regional average of 10%.

Younger cohorts and more educated people are more likely to perceive improvements in their economic situation. This result is likely linked to these groups' ability to access the opportunities introduced by the reforms and today's markets.

A more severe reduction of the size of the State is also associated with more negative perceptions. This is likely capturing the intensity of the reforms applied in these countries and its consequences in terms of uncertainty and employment outcomes.

National level variables are significantly associated with the perceptions of economic mobility. The combined effect of macroeconomic variables on perceptions of downward economic mobility is below the regional average for the New EU Member States and Turkey, while for South Caucasus, Western Balkans and Central Asia it is above the average.

The magnitude and significance of the results vary across sub-regions. Across most sub-regions, households who believe in fairness and that trust in public institutions have a less grim perception of their economic mobility. For the majority of advanced reforms and late reformers in the region, in contrast to intermediate reforms, support to market economy is positively correlated with higher subjective economic mobility. In Central Asia and the South Caucasus, the perceived position relative to pre-transition colleagues matters. The Western Balkans show unique results in demographics and education. First, even if the older populations across sub-regions more often perceive downward movements, the Western Balkans has the strongest association between old age and negative perceptions of economic mobility. Second, in this same sub-region, advanced education, in contrast with the aggregate results, is associated with more negative perceptions on economic mobility. Labor market status' association with perceived mobility shows mixed results across sub-regions. The Western Balkans again stands out: the unemployed in this sub-region – one with particularly high unemployment rates- have more negative perceptions of economic mobility. Conversely, in New EU Member States and Turkey, in particular, public workers have a less negative perception of their economic mobility. Central Asia is the only sub-region in which private employment is associated with a more positive perception on mobility, and in which the opposite happens for working in the agricultural sector.

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Appendices

A1. Sample Characteristics

Table A1.1: Countries included

Region	Countries			
Low/Lower-Middle Income Countries (7)	Armenia	Georgia	Kyrgyzstan	Moldova
	Tajikistan	Ukraine	Uzbekistan	
Upper-Middle Income & Other Countries (21)	Albania	Azerbaijan	Belarus	Bosnia and Herz.
	Bulgaria	Croatia	Czech Rep.	Estonia
	Hungary	Kazakhstan	Latvia	Lithuania
	Macedonia, FYR	Montenegro	Poland	Romania
	Russian Fed.	Serbia	Slovakia	Slovenia
	Turkey			
New EU Member States & Turkey (12)	Bulgaria	Croatia	Czech Rep.	Estonia
	Hungary	Latvia	Lithuania	Poland
	Romania	Slovakia	Slovenia	Turkey
Western Balkans (5)	Albania	Bosnia and Herz.	Macedonia, FYR	Montenegro
	Serbia			
South Caucasus (3)	Armenia	Azerbaijan	Georgia	
Central Asia (4)	Kazakhstan	Kyrgyzstan	Tajikistan	Uzbekistan
Other (4)	Moldova	Ukraine	Belarus	Russian Fed.

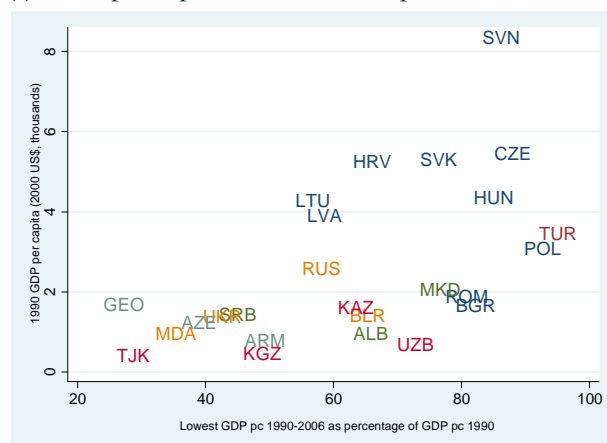
Table A1.2: Perceived Movements in the Income Distribution 1989-2006

Countries	Move Down	Same	Move Up
New EU Member States			
Bulgaria	58.6	28.4	13.0
Croatia	56.0	35.4	8.6
Estonia	42.2	45.3	12.6
Czech Republic	28.1	52.4	19.4
Hungary	43.8	49.6	6.6
Latvia	49.0	38.4	12.6
Lithuania	43.4	43.7	12.9
Poland	40.0	45.5	14.5
Romania	39.9	49.4	10.8
Slovakia	37.7	51.5	10.9
Slovenia	24.4	62.1	13.5
Turkey	34.0	50.3	15.7
Western Balkans			
Albania	18.6	50.8	30.6
Bosnia and Herzegovina	68.1	24.3	7.6
Macedonia, FYR	60.0	34.0	6.0
Montenegro	65.8	27.9	6.3
Serbia	69.5	23.1	7.4
South Caucasus			
Armenia	53.2	31.0	15.9
Azerbaijan	64.0	29.1	6.9
Georgia	74.0	19.2	6.8
Central Asia			
Kazakhstan	40.7	42.2	17.1
Kyrgyzstan	46.6	40.0	13.4
Tajikistan	56.1	32.5	11.5
Uzbekistan	50.1	43.0	6.9
Russian Federation	52.1	34.7	13.2
Other			
Belarus	22.1	59.6	18.3
Moldova	42.0	46.6	11.4
Ukraine	51.3	37.9	10.9
Total	46.5	40.6	12.8

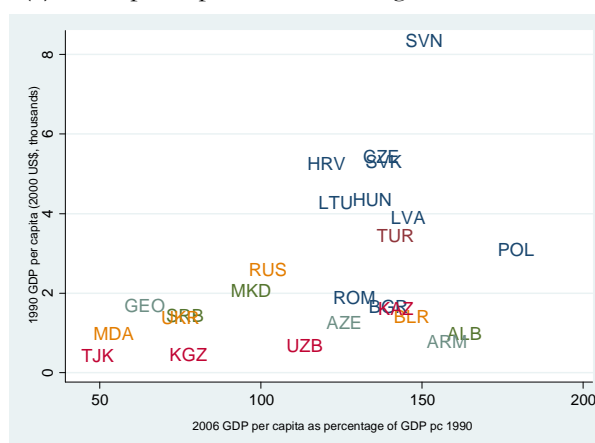
Source: Life in Transition Survey (2006)

Figure A1.1: GDP per capita, Gini and Public Employment Share Evolution 1989 - 2006

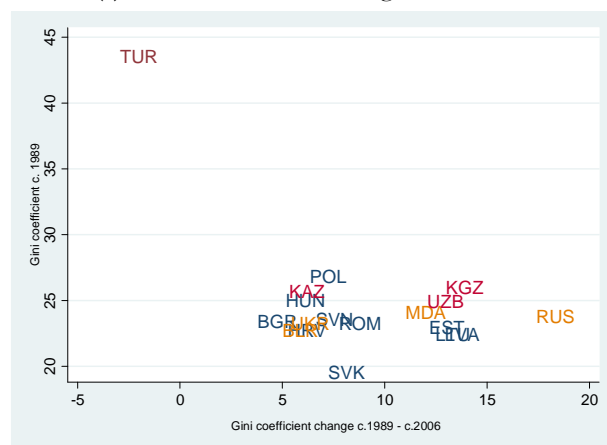
(a) GDP per cap. 1990 and lowest point 1990-2006



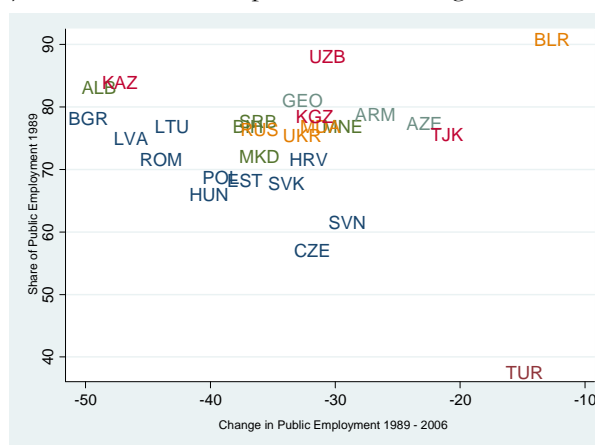
(b) GDP per cap. 1990 and change to 1990-2006



(c) Gini c. 1990 and change c.1990-c.2006



(d) Share of Public Empl. 1989 and change 1989-2006



Source: Panels (a), (b) and (c), WDI. Panel (d), 2006 LiTS.

Figure A1.2: Share of time spend in Public/Private/Unemployed-Out of Labor Force by age in 2006

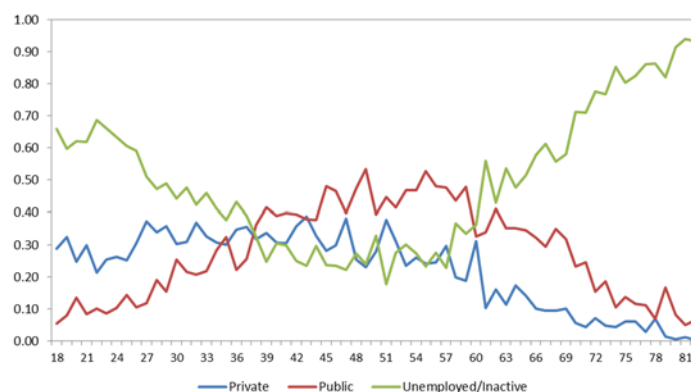


Figure A1.3. Household Perceived Position in 10-Step Income Ladder 2006 and 2010 (LiTS 2010)

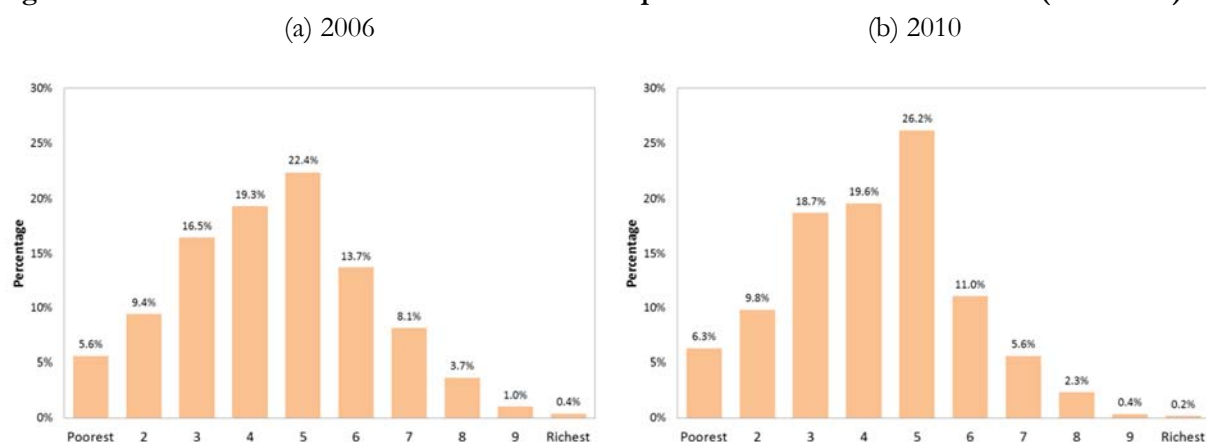


Figure A1.4. Perception of Economic Mobility 2006 – 2010



Source: 2010 LiTS (individual weights)

Table A1.3: Sample estimation: Summary Statistics

	Share / Mean	Standard Deviation	Minimum	Maximum
Type of Perceived Economic Mobility				
Down	0.405		0	1
Same	0.438		0	1
Up	0.156		0	1
National Level Variables				
GDP per capita 1990 (2000 US\$, thousands)	2.506	1.206	0.426	8.362
Change GDP per capita 1990-2006 (perc.)	0.182	0.322	-0.577	0.791
(Lowest GDPpc 1990-2006)/GDPpc 1990	0.678	0.194	0.272	0.990
Gini circa 1989	26.899	6.720	19.400	44.420
Change in Gini circa 1989-2006	9.470	7.408	-11.580	18.330
Share of Public Employment 1989	0.712	0.134	0.376	0.909
Change on Public Employment 1989	-0.339	0.086	-0.508	-0.127
Household Characteristics				
Household Consumption Decile (within country)				
Poorest	0.080		0	1
2	0.085		0	1
3	0.087		0	1
4	0.097		0	1
5	0.102		0	1
6	0.105		0	1
7	0.113		0	1
8	0.110		0	1
9	0.107		0	1
Richest	0.116		0	1
Location				
Rural	0.349		0	1
Urban	0.435		0	1
Metropolitan	0.216		0	1
Household Size	2.667	1.521	1	12
Share Children <15	11.786	19.327	0	85.71
Share Seniors 66+	12.821	30.193	0	100
Household Receives Pension	0.459		0	1

Note: Countries not included: Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available)

(continued)

(continued)

	Share / Mean	Standard Deviation	Minimum	Maximum
Respondent Characteristics				
Age in 2006				
18-34	0.298		0	1
35-54	0.411		0	1
55-65	0.169		0	1
66+	0.122		0	1
Gender	0.484		0	1
Education				
No formal education/Primary	0.186		0	1
Secondary	0.253		0	1
Professional/Vocational	0.318		0	1
University/Post-graduate	0.243		0	1
Father's Education				
No formal education/Primary	0.496		0	1
Secondary	0.195		0	1
Professional/Vocational	0.202		0	1
University/Post-graduate	0.107		0	1
Ethnic Minority	0.078		0	1
Household head	0.691		0	1
Non-religious	0.108		0	1
Labor Status				
Out of Labor Force	0.395		0	1
Unemployment	0.053		0	1
Public Sector	0.212		0	1
Private Sector	0.256		0	1
Self Employed	0.087		0	1
Works in Agricultural Sector	0.056		0	1
Employment History 1989-2006				
Share of time in Public Sector (wrt 18-65)	0.315	0.379	0	1
Share of time in Private Sector (wrt 18-65)	0.282	0.368	0	1
Number of Different Jobs	1.360	1.155	0	16
Subjective Variables				
Mean Trust Indicator in Public Inst. (5 Institutions)	-0.072	0.705	-1	1
Factor Most Important to Succeed				
Criminal / Corrupts Ties / Political Connections	0.305			
Effort and Hard Work / Intelligence and Skills	0.695		0	1
Support Market Economy (not Planned/Indiff.)	0.402		0	1
Agree: Better than 1989 colleagues	0.219		0	1
Observations	17,325			
Countries	25			

Note: Countries not included: Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available)

A2. Regression methodology

The empirical specification we use for testing the relevance of the listed variables is as follows

$$PM_{ij} = C_j\gamma + X_{ij}\beta + S_{ij}\varphi + u_{ij} \quad (1)$$

where PM refers to perceived mobility, C to country-level variables, X to individual and household objective variables, S to individual subjective variables, and u to the error term. The sub-index i refers to individual and the sub-index j is added to make explicit that country variables are common for all individuals in a country.

The use of subjective variables on both sides of the equation is not out of controversy. Hamermesh (2004) points to the fact that if the subjective variables share a common error term, because of idiosyncrasies of the respondent, then any correlation obtained may be driven by this shared error term, rather by the actual experienced perception. More formally, if equation (1) were only composed by subjective variables, then we may have a problem if what is behind the observed variables is as follows:

$$(PM_{ij}^* + \varepsilon_{ij}) = (S_{ij}^* + \varepsilon_{ij})\varphi + u_{ij} \quad (2)$$

It is worth it to notice that the variables behind the observed subjective variables (PM^* and S^*) are not objective variables like actual income or age, but objective variables in the sense that can be measured unequivocally if we could measure the brain waves that occur as a reaction to an impulse. (Frey and Stutzer, 2002) Those are still perceptions, but not affected by the filter that memory, optimism, or other personal biases may impose in the declaration.

The strategy we follow to avoid this problem is to extract information from PM that will most likely be driven by the actual perceived experience, rather than by the error term (ε_{ij}). For this, the variables we use for PM is the difference between two reported answers (step in 2006 and 1989). If they both share a common error term, then they both cancel out, and we have a clean measure of changes in perception. However, it can be argued that the error term in the declared current step may be different than the error term in the declared past step. If they both point in the same direction, taking first differences will diminish the magnitude of the distortion. However, if they point in opposite directions, the distortion may increase. Given this uncertainty, we decided to consider only changes that were of at least 2 steps. This way, we count as changes only the ones most likely driven not only by the error term, but by the actual perception. Certainly, we may be considering as not changes cases where there was an authentic change in the perception from 1989 to 2006, but we prefer to err in this direction than to consider as changes cases where is very likely are not driven by the actual perception. Hence, expressing explicitly the error term in the subjective variables, we claim that (1) can be expressed as:

$$PM_{ij}^* = C_j\gamma + X_{ij}\beta + (S_{ij}^* + \varepsilon_{ij})\varphi + u_{ij} \quad (1')$$

This specification is more familiar in economics. Besides the common problem of possible endogeneity of C, X or S^* , and attenuation of the parameter φ , another potential problem is that the error term in the subjective variable of the error term can be correlated with the error term of the equation. We have not a direct way to control for this problem in the estimation, but we performed robustness checks by estimating the same specification in different subsamples and we changed the subjective variables for similar ones that refer to different topics, but may arguably contain similar error terms.

We estimated equation (1) using a probit model, where the category Moving Down is zero and, Same Step and Moving Up were considered as one. We decided to use this model to facilitate the interpretation of the

parameters. Also, the grouping in these two categories was decided because of the size of the groups, and because in a context where the average household declared having moved down, keeping the same relative position can be considered a success. Regarding other models we could have used, a multinomial logit using the same variables is presented in Table A2.5. This model shows results entirely consistent with the ones presented below. An ordered probit/logit was not considered either because of the difficulty to interpret the value of the parameters or marginal effects. The results are presented in the Tables A2.1 and following. We report the marginal effects to facilitate the interpretation of the effects. Also, we report only the significant variables obtained.

Table A2.1: OLS Regression Results of Income and Perceived Mobility

Dependent Variable: Change in Steps 1989-2006	ECA (Expenditure)	ECA (Asset Index)
OLS	(1)	(2)
Ln(Monthly per capita expenditure)	0.380*** (0.062)	
Asset Index		0.003*** (0.000)
Constant	-1.316*** (0.345)	0.443** (0.206)
N	25270	25270
R²	0.0539	0.0773

* p<0.10, ** p<0.05, *** p<0.01.

Dummy variables by country omitted.

Table A2.2: Probit Regression Results at Country Level (Marginal Effects)

Dependent Variable: 1=Same or moved up, 0=Moved down	ECA (Country variables)	ECA (Income & Country variables)		
Reporting Marginal Effects over Probability	(1)	(2)	(3)	(4)
National Level Variables				
Change GDP per capita 1990-2006 (perc.)	0.199*** (0.046)	0.197*** (0.046)	0.038 (0.109)	0.06 (0.044)
GDP per capita 1990 (2000 US\$, thousands)	-0.026*** (0.009)	-0.026*** (0.009)	0.008 (0.012)	0 (0.015)
Lowest GDPpc 1990-2006)/GDPpc 1990	0.017 (0.098)	0.025 (0.099)	0.172 (0.229)	0.14 (0.094)
Change in Gini circa 1989-2006	-0.001 (0.003)	-0.001 (0.003)		-0.005* (0.003)
Gini circa 1989	-0.013*** (0.003)	-0.014*** (0.003)		-0.080* (0.043)
Changes c.1989-c.2006 ratio 80th /20th percentile			-0.015* (0.009)	
Ratio 80th /20th percentile (c.1989)			0.024 (0.024)	
Change on Public Employment 1989	0.546*** (0.085)	0.555*** (0.085)	0.470*** (0.107)	0.369*** (0.084)
Share of Public Employment 1989	-0.574*** (0.166)	-0.557*** (0.166)	0.514 (0.376)	-0.085 (0.168)
HH Consumption decile		X	X	X

* p<0.10, ** p<0.05, *** p<0.01.

Countries not included: Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available) in (1) & (2); Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Czech Republic, Estonia, Macedonia (FYR), Georgia, Montenegro, Serbia, Tajikistan, Uzbekistan, in (3); Bosnia and Herzegovina, Croatia, Estonia, FYROM, Montenegro, Serbia and Slovenia, in (4)

Table A2.3: Probit Regression Results (Marginal Effects)

Dependent Variable: 1=Same or moved up, 0=Moved down	ECA (Objective & Country variables)	ECA (All Variables)	Low/Lower-Middle Income Countries	Upper-Middle Income & Other Countries
Reporting Marginal Effects over Probability	(1)	(2)	(3)	(4)
National Level Variables				
GDP per capita 1990 (2000 US\$, thousands)	-0.025*** (0.009)	-0.030*** (0.009)		
Change GDP per capita 1990-2006 (perc.)	0.213*** (0.044)	0.279*** (0.043)		
(Lowest GDPpc 1990-2006)/GDPpc 1990	0.011 (0.092)	-0.191** (0.093)		
Gini circa 1989	-0.014*** (0.003)	-0.017*** (0.003)		
Change in Gini circa 1989-2006	-0.006 (0.031)	-0.008 (0.030)		
Share of Public Employment 1989	-0.645*** (0.167)	-0.911*** (0.161)		
Change on Public Employment 1989	0.418*** (0.085)	0.292*** (0.088)		
Respondent Age				
Age 18 - 34	0.072*** (0.021)	0.073*** (0.022)	0.153*** (0.038)	0.050** (0.025)
Age 35 - 54 (Base)				
Age 54 - 65	0.031 (0.029)	0.042 (0.029)	0.046 (0.041)	0.04 (0.031)
Age 66+	0.026 (0.050)	0.053 (0.048)	-0.016 (0.067)	0.075 (0.054)
Respondent Education				
Primary or less (Base)				
Secondary	0.002 (0.025)	0.01 (0.025)	0.043 (0.045)	0.006 (0.028)
Professional/Vocational	-0.025 (0.026)	-0.016 (0.026)	-0.009 (0.045)	-0.001 (0.028)
University/Post-graduate	0.054* (0.030)	0.059* (0.031)	0.023 (0.051)	0.077** (0.034)
Respondent's Father Education				
Primary or less (Base)				
Secondary	0.068*** (0.024)	0.060** (0.024)	-0.027 (0.032)	0.095*** (0.030)
Professional/Vocational	0.075*** (0.028)	0.075*** (0.029)	0.014 (0.045)	0.094*** (0.033)
University/Post-graduate	0.036 (0.035)	0.029 (0.036)	0.083* (0.047)	0.01 (0.043)
Respondent Labor Status				
Out of Labor Force (base)				
Unemployed	-0.051 (0.035)	-0.037 (0.033)	-0.064 (0.048)	-0.033 (0.039)
Employed PUBLIC	0.041 (0.029)	0.053* (0.030)	0.03 (0.046)	0.056 (0.036)
Employed PRIVATE	0.029 (0.030)	0.034 (0.030)	0.008 (0.054)	0.038 (0.032)
Employed SELF-EMPLOYED	0.072** (0.031)	0.066** (0.032)	0.085* (0.050)	0.054 (0.040)
Employed Agricultural Sector	-0.045 (0.035)	-0.057 (0.035)	-0.032 (0.052)	-0.059 (0.046)
Share of time employed PUBLIC (wrt 18-65)	-0.060* (0.033)	-0.056* (0.034)	-0.064 (0.062)	-0.055 (0.037)
Share of time employed PRIVATE (wrt 18-65)	-0.004 (0.034)	0.003 (0.036)	-0.056 (0.051)	0.012 (0.040)
Number of Jobs	-0.003 (0.011)	-0.005 (0.011)	-0.015 (0.017)	-0.005 (0.012)
Mean Trust Public Institutions (5)		0.068*** (0.018)	0.101*** (0.024)	0.060*** (0.021)
Factor Most Important to Succeed				
Criminal / Corrupts Ties / Political Connections (Base)				
Effort and Hard Work / Intelligence and Skills		0.086*** (0.018)	0.05 (0.038)	0.086*** (0.019)
Support Market Economy (aot Planned/Indiff.)		0.073*** (0.018)	0.069** (0.033)	0.067*** (0.020)
Better than 1989 Colleagues (aot Worse/Indiff.)		0.037* (0.022)	0.101*** (0.033)	0.019 (0.025)
HH Consumption decile	X	X	X	X
Country dummies			X	X

* p<0.10, ** p<0.05, *** p<0.01.

Variables included but not reported: (Household) Urban/Rural/Metropolitan, size, share children <15, share senior 66+, household received pensions, (Respondent) gender, ethnic minority, household head, non-religious.

Countries not included in (1) and (2): Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available)

Table A2.4: Probit Regression Results by Sub-Regions (Marginal Effects)

	New EU Member States and Turkey ¹	Western Balkans	Ukraine, Moldova and Belarus	South Caucasus	Central Asia	Russia
Dependent Variable: 1=Same or moved up, 0=Moved down						
Reporting Marginal Effects over Probability	(1)	(2)	(3)	(4)	(5)	(6)
Respondent Age						
Age 18 - 34	0.029 (0.023)	0.062* (0.034)	0.140** (0.057)	0.058* (0.033)	0.074** (0.034)	0.094 (0.070)
Age 35 - 54 (Base)						
Age 54 - 65	0.003 (0.025)	-0.104*** (0.036)	0.111** (0.044)	0.05 (0.047)	-0.074 (0.047)	0.116 (0.078)
Age 66+	0.057 (0.047)	-0.139*** (0.049)	-0.014 (0.101)	0.05 (0.054)	0.086 (0.070)	0.152 (0.139)
Respondent Education						
Primary or less (Base)						
Secondary	0.062*** (0.023)	-0.128*** (0.033)	0.054 (0.055)	-0.087** (0.043)	0.094* (0.052)	-0.116 (0.085)
Professional/Vocational	-0.003 (0.026)	-0.151*** (0.033)	-0.016 (0.052)	-0.067 (0.050)	0.061 (0.053)	-0.034 (0.082)
University/Post-graduate	0.062* (0.036)	-0.087** (0.038)	0.031 (0.062)	-0.097* (0.053)	0.109* (0.057)	0.049 (0.085)
Respondent Father's Education						
Primary or less (Base)						
Secondary	0.056** (0.027)	-0.027 (0.042)	-0.014 (0.055)	-0.005 (0.037)	0.004 (0.030)	0.158** (0.059)
Professional/Vocational	0.038 (0.024)	-0.005 (0.038)	0.058 (0.055)	0.06 (0.054)	0 (0.044)	0.156** (0.071)
University/Post-graduate	0.016 (0.038)	-0.003 (0.058)	0.131** (0.059)	-0.021 (0.048)	-0.058 (0.055)	0.035 (0.075)
Respondent Labor Status						
Out of Labor Force (base)						
Unemployed	-0.033 (0.040)	-0.075* (0.039)	-0.066 (0.072)	-0.03 (0.043)	-0.027 (0.061)	-0.081 (0.104)
Employed PUBLIC	0.078** (0.033)	-0.070* (0.042)	0.023 (0.060)	0.112** (0.057)	0.033 (0.043)	0.03 (0.079)
Employed PRIVATE	0.01 (0.028)	-0.005 (0.042)	-0.033 (0.064)	0.032 (0.063)	0.128*** (0.049)	0.028 (0.077)
Employed SELF-EMPLOYED	-0.014 (0.040)	0.057 (0.050)	0.159** (0.076)	-0.032 (0.069)	0.083* (0.046)	0.324* (0.170)
Employed Agricultural Sector	-0.013 (0.056)	-0.052 (0.071)	-0.04 (0.085)	0.034 (0.083)	-0.077* (0.045)	-0.126 (0.152)
Share of time employed PUBLIC (wrt 18-65)	-0.059* (0.036)	0.039 (0.055)	-0.125 (0.085)	-0.092 (0.066)	0.101* (0.055)	-0.005 (0.095)
Share of time employed PRIVATE (wrt 18-65)	-0.013 (0.034)	-0.029 (0.050)	-0.086 (0.067)	-0.094 (0.071)	0.066 (0.061)	0.137 (0.110)
Number of Jobs	-0.011 (0.008)	-0.015 (0.016)	-0.024 (0.023)	-0.001 (0.024)	-0.038*** (0.014)	0.003 (0.025)
Mean Trust Public Institutions (5)	0.084*** (0.017)	0.092*** (0.017)	0.090*** (0.028)	0.063*** (0.023)	0.088*** (0.023)	0.027 (0.038)
Factor Most Important to Succeed						
Criminal / Corrupts Ties / Political Connections (Base)						
Effort and Hard Work / Intelligence and Skills	0.037** (0.018)	0.068*** (0.025)	0.027 (0.041)	0.077** (0.031)	0.059 (0.036)	0.156*** (0.038)
Support Market Economy (aot Planned/Indiff.)	0.069*** (0.020)	-0.023 (0.025)	0.071* (0.042)	0.043 (0.029)	0.081*** (0.031)	0.051 (0.050)
Better than 1989 Colleagues (aot Worse/Indiff.)	0.011 (0.021)	0.034 (0.026)	0.046 (0.043)	0.138*** (0.044)	0.132*** (0.034)	0.012 (0.059)
Country dummies	X	X	X	X	X	X
HH Consumption decile	X	X	X	X	X	X

* p<0.10, ** p<0.05, *** p<0.01.

Variables included but not reported: (Household) Urban/Rural/Metropolitan, size, share children <15, share senior 66+, household received pensions, (Respondent) gender, ethnic minority, household head, non-religious.

New EU Member States include Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Table A2.5: Multinomial Logit Regression (Marginal Effects)

Dependent Variable: Type of movement	ECA - Down	ECA - Same	ECA - Up
Reporting Marginal Effects over Probability	(1)	(2)	(3)
National Level Variables			
GDP per capita 1990 (2000 US\$, thousands)	0.030*** (0.009)	-0.016* (0.009)	-0.013 (0.008)
Change GDP per capita 1990-2006 (perc.)	-0.271*** (0.042)	0.036 (0.048)	0.235*** (0.038)
(Lowest GDPpc 1990-2006)/GDPpc 1990	0.193** (0.091)	0.254*** (0.093)	-0.447*** (0.095)
Gini circa 1989	0.016*** (0.003)	-0.012*** (0.003)	-0.004 (0.003)
Change in Gini circa 1989-2006	0.006 (0.030)	-0.049 (0.035)	0.043 (0.034)
Share of Public Employment 1989	0.909*** (0.155)	-0.300* (0.172)	-0.609*** (0.168)
Change on Public Employment 1989	-0.267*** (0.086)	0.325*** (0.094)	-0.059 (0.087)
Respondent Age			
Age 18 - 34	-0.073*** (0.022)	0.054** (0.022)	0.019 (0.023)
Age 35 - 54 (Base)			
Age 54 - 65	-0.04 (0.027)	0.073** (0.033)	-0.033 (0.022)
Age 66+	-0.052 (0.046)	0.053 (0.058)	-0.001 (0.053)
Respondent Education			
Primary or less (Base)			
Secondary	-0.009 (0.024)	0.019 (0.028)	-0.01 (0.024)
Professional/Vocational	0.016 (0.025)	0.003 (0.031)	-0.019 (0.025)
University/Post-graduate	-0.055* (0.029)	0.044 (0.035)	0.011 (0.027)
Respondent Father's Education			
Primary or less (Base)			
Secondary	-0.057** (0.024)	0.086*** (0.026)	-0.029 (0.019)
Professional/Vocational	-0.074** (0.029)	0.075** (0.030)	-0.001 (0.023)
University/Post-graduate	-0.028 (0.036)	0.069 (0.045)	-0.041 (0.027)
Respondent Labor Status			
Out of Labor Force (base)			
Unemployed	0.036 (0.033)	-0.036 (0.034)	0 (0.027)
Employed PUBLIC	-0.053* (0.028)	0.006 (0.031)	0.047* (0.027)
Employed PRIVATE	-0.035 (0.029)	0.01 (0.028)	0.025 (0.024)
Employed SELF-EMPLOYED	-0.065** (0.031)	0.019 (0.038)	0.046 (0.037)
Employed Agricultural Sector	0.057 (0.035)	-0.021 (0.039)	-0.035 (0.032)
Share of time employed PUBLIC (wrt 18-65)	0.055 (0.034)	-0.022 (0.037)	-0.034 (0.033)
Share of time employed PRIVATE (wrt 18-65)	-0.003 (0.036)	-0.009 (0.034)	0.012 (0.030)
Number of Jobs	0.005 (0.011)	-0.003 (0.011)	-0.002 (0.007)
Mean Trust Public Institutions (5)	-0.065*** (0.018)	0.038** (0.016)	0.027** (0.013)
Factor Most Important to Succeed			
Criminal / Corrupts Ties / Political Connections (Base)			
Effort and Hard Work / Intelligence and Skills	-0.084*** (0.017)	0.031 (0.021)	0.053*** (0.017)
Support Market Economy (aot Planned/Indiff.)	-0.070*** (0.018)	0.047** (0.019)	0.023 (0.019)
Better than 1989 Colleagues (aot Worse/Indiff.)	-0.036* (0.022)	-0.022 (0.020)	0.058** (0.024)
HH Consumption decile	X	X	X

* p<0.10, ** p<0.05, *** p<0.01.

Variables included but not reported: (Household) Urban/Rural/Metropolitan, size, share children <15, share senior 66+, household received pensions, (Respondent) gender, ethnic minority, household head, non-religious.

Countries not included: Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available)

A3. Robustness checks

To check the consistency of the parameters, we performed some robustness checks. We first check how sensitive our parameters are to our definition of the dependent variables (Columns (1) and (2)). National and subjective variables show to be very consistent. The individual level variables show some more significant results when the changes in one step are counted, and some lose significance when moving to a three-step definition, but neither age, nor education nor employment status show sign changes or dramatic magnitude changes.

Next, we wanted to control for the fact that upper steps are more likely to move down, and the opposite for the lower steps, if we assume that they have equal chances to move to any different step. If this is the case, then the parameters may be just capturing the characteristics of households in top upper or lower steps to identify the effects. This exercise is besides excluding the upper and lower 2006 step to consider only households that can move in any direction. We estimate the regression using different samples, that included the central steps (Columns (4) and (5)), and the extreme steps (Columns (6) and (7)), where this bias is more likely to be present. National level and subjective variables show to be consistent across different samples, with the exception of comparison with local groups, which is not significant except for the initial specification. At the individual level, young age shows to be very consistent across samples. Higher education loses significance, but it always has a positive sign. Self-employment is only significant in the whole sample, and shows some sign changes.

We explored also how likely is the significance of the subjective variables being driven by the error term contained being correlated with the dependent or the error term of (1), and we obtain that most likely is not the case for trust in public institutions, perceptions of fairness and support to market economy. However, for comparison with local groups, results suggest the result may be driven by individual idiosyncrasies. Our strategy consisted in including other subjective variables that can arguably contain a similar error term, but depend on different perceptions. We included complete trust in religious institutions (for trust in public institutions), support to democracy (for support to market economy), and perceptions of the country being doing better than in 1989 (for comparison with local groups). Results in column (2) of Table A3.2 show that the first two ones are not significant, which suggest that the correlation observed in the original variables may not be driven by the error term of the subjective variable. The last variable, the country doing better than in 1989, was significant. A second exercise we performed was to restrict the sample only to the cases where the respondent considered their household doing worse than in 1989, in absolute terms. Within this sample, the error of the specification (1) will very likely not be associated to unobserved factors like optimistic or pessimistic biases influencing the dependent variable, but we can assume more confidently it has a more random distribution. The results in (3) show that the subjective variables are still significant, with the exception the comparison to local groups. This result suggests that the observed correlation in the whole sample may be driven by correlation of the error term in this subjective variable with the error term of (1). Column (4) show the results with the other part of the sample, households doing same or equal than in 1989. National level variables are less significant, but still show the same sign and similar magnitudes. Subjective variables are less significant, and again comparison to local groups is not significant. In this case, also support to market economy is not significant.

Finally, given that in our estimation sample we included young workers who were under 18 years old in 1989, we wanted to confirm whether results hold if we consider only workers older than 18 in 1989. For this, we first restricted the sample to the cases when the respondent is the same to the perception and employment section.

Then, we restricted even further, by considering only workers 35 or older in 2006, and that responded both sections of the survey. Results are presented in columns (5) and (6) of Table A3.2, and show results entirely consistent with the whole estimation sample. The only noticeable difference is in the significance of belonging to the 55-64 age group. The reported negative effect over the probabilities of perceiving downward mobility turns statistically significant, though only weakly. Also, the share of time spent working in the public sector becomes significant, showing now that more time in the public sector between 1989 and 2006 is associated with more probabilities of perceiving a movement down. All the other parameters sign and significance remain unaltered.

Table A3.1

	Changes 1 step	Change 2 steps	Change 3 steps	Steps 5 & 6	Steps 7 & 8	Steps 3 & 4
Dependent Variable: 1=Same or moved up, 0=Moved down						
Reporting Marginal Effects over Probability	(1)	(2)	(3)	(4)	(6)	(7)
National Level Variables						
GDP per capita 1990 (2000 US\$, thousands)	-0.024*** (0.008)	-0.030*** (0.009)	-0.010* (0.006)	-0.031*** (0.010)	-0.013* (0.008)	-0.033** (0.013)
Change GDP per capita 1990-2006 (perc.)	0.308*** (0.037)	0.279*** (0.043)	0.099*** (0.024)	0.256*** (0.049)	0.013 (0.035)	0.335*** (0.064)
(Lowest GDPpc 1990-2006)/GDPpc 1990	-0.467*** (0.086)	-0.191** (0.093)	-0.157*** (0.059)	-0.261** (0.109)	0.032 (0.075)	-0.303** (0.126)
Gini circa 1989	-0.009*** (0.003)	-0.017*** (0.003)	-0.002 (0.002)	-0.018*** (0.004)	-0.004* (0.002)	-0.014*** (0.004)
Change in Gini circa 1989-2006	0.035 (0.029)	-0.008 (0.030)	0.009 (0.018)	-0.022 (0.042)	-0.016 (0.018)	0.043 (0.041)
Share of Public Employment 1989	-0.721*** (0.159)	-0.911*** (0.161)	-0.311*** (0.114)	-0.830*** (0.168)	-0.221* (0.128)	-1.089*** (0.231)
Change on Public Employment 1989	0.05 (0.085)	0.292*** (0.088)	-0.099** (0.048)	0.321*** (0.110)	0.139* (0.078)	0.279** (0.132)
Respondent Age						
Age 18 - 34	0.055** (0.024)	0.073*** (0.022)	0.016 (0.013)	0.042 (0.030)	0.061* (0.035)	0.052 (0.034)
Age 35 - 54 (Base)						
Age 54 - 65	-0.026 (0.021)	0.042 (0.029)	-0.015 (0.011)	-0.007 (0.032)	-0.009 (0.023)	0.102** (0.042)
Age 66+	0.003 (0.047)	0.053 (0.048)	-0.004 (0.021)	0.029 (0.062)	0.017 (0.024)	0.083 (0.068)
Respondent Education						
Primary or less (Base)						
Secondary	0.016 (0.023)	0.01 (0.025)	0.005 (0.011)	-0.002 (0.031)	0.003 (0.019)	0.002 (0.040)
Professional/Vocational	0.007 (0.022)	-0.016 (0.026)	0.028** (0.014)	-0.056* (0.033)	0.007 (0.020)	-0.031 (0.039)
University/Post-graduate	0.054* (0.029)	0.059* (0.031)	0.024 (0.015)	0.057 (0.039)	0.016 (0.014)	-0.004 (0.050)
Respondent Father's Education						
Primary or less (Base)						
Secondary	0.004 (0.019)	0.060** (0.024)	-0.009 (0.012)	0.016 (0.026)	0.003 (0.012)	0.075* (0.042)
Professional/Vocational	0.027 (0.023)	0.075*** (0.029)	-0.004 (0.014)	0.008 (0.033)	0.011 (0.015)	0.123*** (0.044)
University/Post-graduate	0.007 (0.031)	0.029 (0.036)	-0.019 (0.014)	-0.042 (0.044)	-0.049 (0.037)	0.110* (0.060)
Respondent Labor Status						
Out of Labor Force (base)						
Unemployed	-0.032 (0.023)	-0.037 (0.033)	-0.021 (0.013)	-0.013 (0.046)	-0.029 (0.041)	-0.016 (0.046)
Employed PUBLIC	0.066** (0.028)	0.053* (0.030)	0.007 (0.017)	0.016 (0.036)	-0.028 (0.032)	0.104** (0.047)
Employed PRIVATE	0.045* (0.024)	0.034 (0.030)	-0.013 (0.012)	0.017 (0.034)	0 (0.018)	0.053 (0.043)
Employed SELF-EMPLOYED	0.087*** (0.029)	0.066** (0.032)	0.008 (0.019)	0.063* (0.035)	-0.011 (0.024)	0.034 (0.062)
Employed Agricultural Sector	-0.067*** (0.024)	-0.057 (0.035)	-0.016 (0.021)	-0.065 (0.049)	0.021 (0.013)	-0.029 (0.054)
Share of time employed PUBLIC (wrt 18-65)	-0.045 (0.030)	-0.056* (0.034)	-0.005 (0.019)	-0.002 (0.045)	0 (0.018)	-0.069 (0.055)
Share of time employed PRIVATE (wrt 18-65)	-0.012 (0.031)	0.003 (0.036)	0.019 (0.015)	0.007 (0.046)	-0.021 (0.021)	0.044 (0.051)
Number of Jobs	0 (0.008)	-0.005 (0.011)	0.001 (0.005)	0.007 (0.014)	0.01 (0.008)	-0.014 (0.012)
Mean Trust Public Institutions (5)	0.038*** (0.012)	0.068*** (0.018)	0.011* (0.006)	0.035 (0.022)	0.017* (0.010)	0.081*** (0.023)
Factor Most Important to Succeed						
Criminal / Corrupts Ties / Political Connections (Base)						
Effort and Hard Work / Intelligence and Skills	0.048*** (0.015)	0.086*** (0.018)	0.017 (0.010)	0.055** (0.026)	0.017 (0.015)	0.069** (0.029)
Support Market Economy (aot Planned/Indiff.)	0.042*** (0.016)	0.073*** (0.018)	0.022** (0.011)	0.074*** (0.025)	0.035** (0.017)	0.040* (0.024)
Better than 1989 Colleagues (aot Worse/Indiff.)	0.082*** (0.024)	0.037* (0.022)	0.046*** (0.014)	-0.019 (0.025)	0.003 (0.009)	0.008 (0.030)
HH Consumption decile	X	X	X	X	X	X

* p<0.10, ** p<0.05, *** p<0.01.

Variables included but not reported: (Household) Urban/Rural/Metropolitan, size, share children <15, share senior 66+, household received pensions, (Respondent) gender, ethnic minority, household head, non-religious.

Countries not included: Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available)

Table A3.2

	All Variables	Alternative subjective variables	Only HHs doing worse than in 1989	Only HHs doing same/better than in 1989	ECA (All, only HH Heads)	ECA (All, only HH Heads, 35+)
Dependent Variable: 1=Same or moved up, 0=Moved down						
Reporting Marginal Effects over Probability	(1)	(2)	(3)	(4)	(5)	(6)
National Level Variables						
GDP per capita 1990 (2000 US\$, thousands)	-0.030*** (0.009)	-0.026** (0.010)	-0.035*** (0.012)	-0.007 (0.009)	-0.031*** (0.010)	-0.028** (0.011)
Change GDP per capita 1990-2006 (perc.)	0.279*** (0.043)	0.142*** (0.047)	0.164*** (0.058)	0.143*** (0.054)	0.309*** (0.053)	0.309*** (0.058)
(Lowest GDPpc 1990-2006)/GDPpc 1990	-0.191** (0.093)	0.061 (0.096)	0.075 (0.119)	-0.216** (0.103)	-0.274** (0.114)	-0.213* (0.128)
Gini circa 1989	-0.017*** (0.003)	-0.016*** (0.003)	-0.018*** (0.004)	-0.007** (0.003)	-0.017*** (0.003)	-0.015*** (0.004)
Change in Gini circa 1989-2006	-0.008 (0.030)	-0.041 (0.034)	-0.043 (0.035)	0.006 (0.033)	0.003 (0.037)	-0.006 (0.036)
Share of Public Employment 1989	-0.911*** (0.161)	-0.770*** (0.175)	-0.892*** (0.218)	-0.356** (0.172)	-0.903*** (0.185)	-0.829*** (0.213)
Change on Public Employment 1989	0.292*** (0.088)	0.267*** (0.086)	0.337*** (0.118)	0.253*** (0.098)	0.272*** (0.103)	0.273** (0.115)
Respondent Age						
Age 18 - 34	0.073*** (0.022)	0.067*** (0.022)	0.068** (0.030)	0.065** (0.027)	0.095*** (0.031)	
Age 35 - 54 (Base)						
Age 54 - 65	0.042 (0.029)	0.044 (0.030)	0.078** (0.036)	0.034 (0.025)	0.060* (0.032)	0.076** (0.037)
Age 66+	0.053 (0.048)	0.048 (0.052)	0.068 (0.060)	0.061 (0.044)	0.092* (0.055)	0.108* (0.063)
Respondent Education						
Primary or less (Base)						
Secondary	0.01 (0.025)	0.014 (0.028)	0.019 (0.033)	-0.004 (0.034)	0.018 (0.032)	0.021 (0.035)
Professional/Vocational	-0.016 (0.026)	-0.017 (0.027)	-0.002 (0.034)	-0.004 (0.037)	-0.005 (0.031)	0.005 (0.036)
University/Post-graduate	0.059* (0.031)	0.048 (0.034)	0.061 (0.041)	0.014 (0.037)	0.068* (0.038)	0.084** (0.042)
Respondent Father's Education						
Primary or less (Base)						
Secondary	0.060** (0.024)	0.070*** (0.025)	0.060* (0.031)	0.073*** (0.028)	0.051* (0.029)	0.062* (0.033)
Professional/Vocational	0.075*** (0.029)	0.066** (0.031)	0.064* (0.037)	0.066* (0.034)	0.063* (0.034)	0.086** (0.043)
University/Post-graduate	0.029 (0.036)	0.026 (0.037)	-0.007 (0.048)	0.072* (0.041)	0.015 (0.044)	-0.064 (0.059)
Respondent Labor Status						
Out of Labor Force (base)						
Unemployed	-0.037 (0.033)	-0.043 (0.038)	-0.003 (0.045)	-0.024 (0.048)	-0.077 (0.050)	-0.099 (0.062)
Employed PUBLIC	0.053* (0.030)	0.053* (0.030)	0.056 (0.041)	0.057** (0.023)	0.058* (0.033)	0.079** (0.040)
Employed PRIVATE	0.034 (0.030)	0.027 (0.033)	0.029 (0.041)	0.01 (0.034)	0.03 (0.037)	0.035 (0.046)
Employed SELF-EMPLOYED	0.066** (0.032)	0.051 (0.036)	0.002 (0.048)	0.063** (0.030)	0.059 (0.039)	0.08 (0.050)
Employed Agricultural Sector	-0.057 (0.035)	-0.033 (0.035)	-0.066 (0.046)	0.023 (0.035)	-0.083* (0.047)	-0.114** (0.052)
Share of time employed PUBLIC (wrt 18-65)	-0.056* (0.034)	-0.066* (0.037)	-0.052 (0.044)	-0.029 (0.038)	-0.111*** (0.041)	-0.094** (0.044)
Share of time employed PRIVATE (wrt 18-65)	0.003 (0.036)	-0.015 (0.034)	0.023 (0.045)	0.033 (0.042)	-0.024 (0.046)	0.014 (0.048)
Number of Jobs	-0.005 (0.011)	-0.006 (0.011)	-0.005 (0.014)	-0.001 (0.009)	0.003 (0.014)	0.009 (0.015)
Mean Trust Public Institutions (5)	0.068*** (0.018)		0.056*** (0.019)	0.038** (0.016)	0.060*** (0.023)	0.066*** (0.023)
Factor Most Important to Succeed						
Criminal / Corrupts Ties / Political Connections (Base)						
Effort and Hard Work / Intelligence and Skills	0.086*** (0.018)		0.084*** (0.025)	0.033 (0.025)	0.095*** (0.022)	0.128*** (0.026)
Support Market Economy (aot Planned/Indiff.)	0.073*** (0.018)		0.053** (0.024)	0.026 (0.019)	0.076*** (0.021)	0.076*** (0.024)
Better than 1989 Colleagues (aot Worse/Indiff.)	0.037* (0.022)		-0.028 (0.029)	-0.017 (0.023)	0.043 (0.027)	0.043 (0.030)
Trust in Religious Institutions						
		0.031 (0.024)				
Support Democracy (aot Authoritarian/Indiff.)						
		0.028 (0.020)				
Economy country better than 1989 (aot Worse/Indiff.)						
		0.244*** (0.021)				
HH Consumption decile	X	X	X	X	X	X

* p<0.10, ** p<0.05, *** p<0.01.

Variables included but not reported: (Household) Urban/Rural/Metropolitan, size, share children <15, share senior 66+, household received pensions, (Respondent) gender, ethnic minority, household head, non-religious. Countries not included: Bosnia and Herzegovina, Estonia and Montenegro (1990 GDP not available)

A4. Perceived Movements by Individual Characteristics: Heads and Other Member

Table A4.1 Perceived Movements by Age: Household Heads and Other Members

	18-34			35-54			55-65			66+		
	All	HH Head	Other	All	HH Head	Other	All	HH Head	Other	All	HH Head	Other
Down	35.3	32.5	37.9	47.3	48.1	45.2	50.3	50.9	47.3	59.2	60.0	52.9
Same	47.5	47.6	47.5	38.7	38.1	40.3	40.4	40.0	42.5	34.3	34.2	35.2
Up	17.2	19.9	14.6	14.0	13.8	14.6	9.3	9.1	10.1	6.5	5.8	12.0

Figure A4.1 Perceived Movements by Age: Household Heads and Other Members

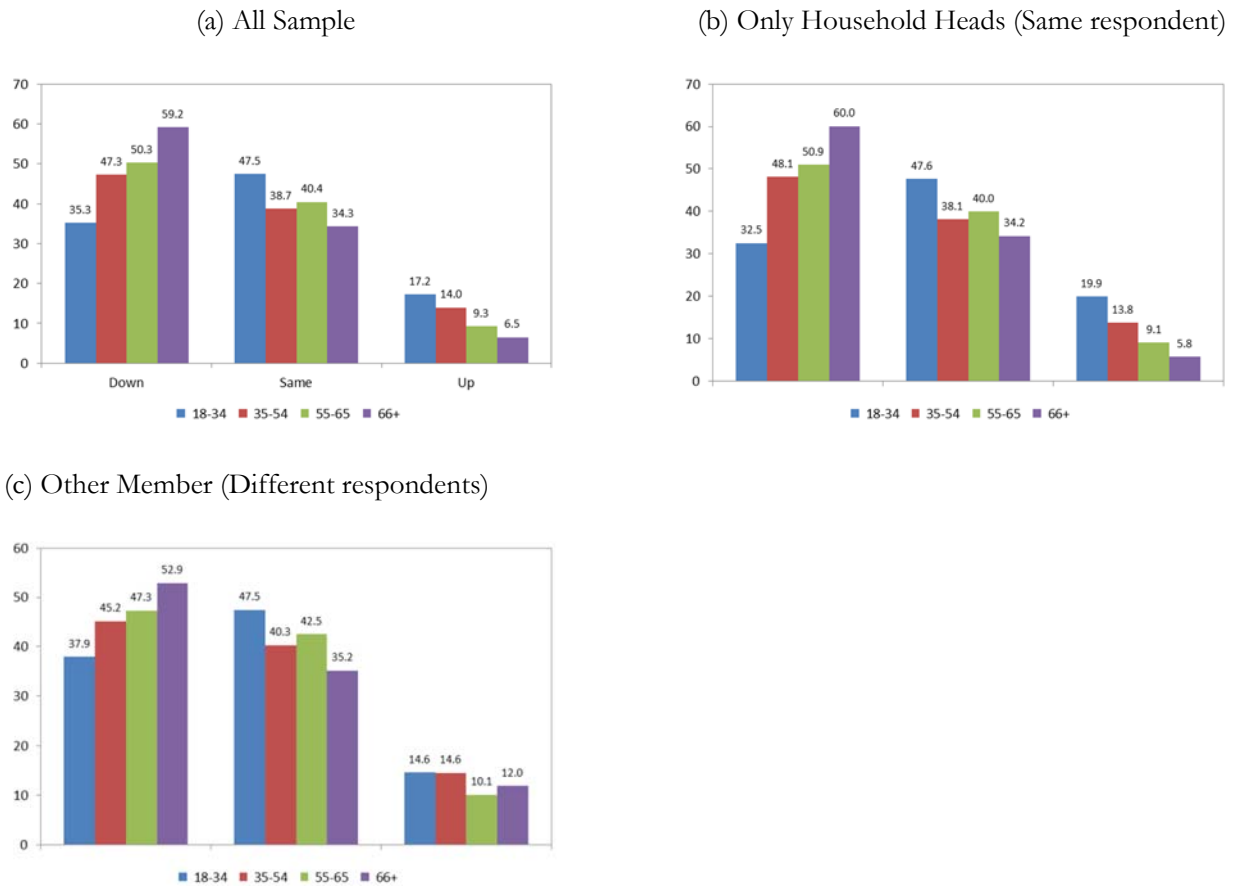
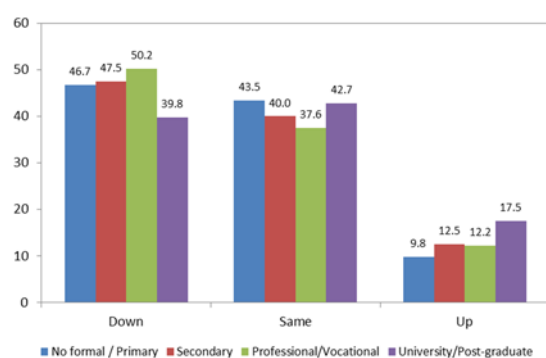


Table A4.2 Perceived Movements by Level of Education: Household Heads and Other Members

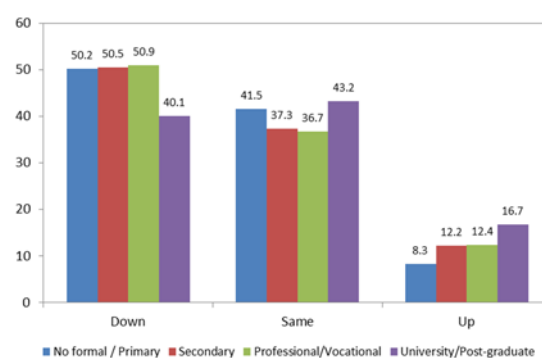
	No formal / Primary			Secondary			Professional/Vocational			University/Post-graduate		
	All	HH Head	Other	All	HH Head	Other	All	HH Head	Other	All	HH Head	Other
Down	46.7	50.2	38.8	47.5	50.5	42.4	50.2	50.9	48.3	39.8	40.1	38.7
Same	43.5	41.5	47.8	40.0	37.3	44.5	37.6	36.7	40.0	42.7	43.2	40.9
Up	9.8	8.3	13.4	12.5	12.2	13.2	12.2	12.4	11.8	17.5	16.7	20.3

Figure A4.2 Perceived Movements by Level of Education: Household Heads and Other Members

(a) All Sample



(b) Only Household Heads (Same respondent)



(c) Other Member (Different respondents)

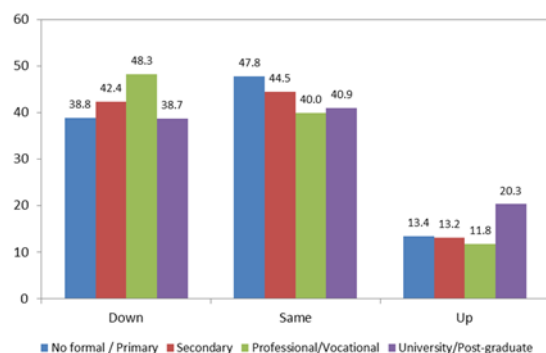
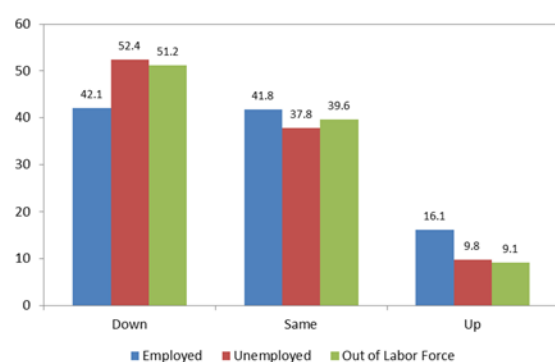


Table A4.3 Perceived Movements by Employment Status: Household Heads and Other Members

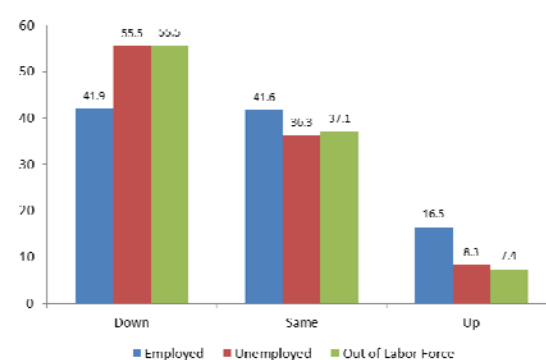
	Employed			Unemployed			Out of Labor Force		
	All	HH Head	Other	All	HH Head	Other	All	HH Head	Other
Down	42.1	41.9	42.5	52.4	55.5	47.7	51.2	55.5	55.5
Same	41.8	41.6	42.2	37.8	36.3	40.1	39.6	37.1	37.1
Up	16.1	16.5	15.3	9.8	8.3	12.2	9.1	7.4	7.4

Figure A4.3 Perceived Movements by Employment Status: Household Heads and Other Members

(a) All Sample



(b) Only Household Heads (Same respondent)



(c) Other Member (Different respondents)

