

Believe but Verify? Russian Views and the Market

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What are the attitudes of Russian students towards the market mechanism? To what extent do they believe markets work? Russians, like Americans, become more willing to believe that markets operate according to economic principles once they see evidence from a market experiment. Popular support for market reform is probably based on a complex set of views and judgments. Russian social attitudes play their own role.

Market-oriented policy is hard to sustain unless citizens believe market outcomes are efficient and market processes are more than random fluctuations. Citizens who doubt that the market follows the predictable patterns set out in economic theory are unlikely to welcome reforms based on this theory. For example, Marshall Goldman argues that Russians, because of their history, are not “economic men,” and treating them as such could only lead to poorly designed economic policy. He also attributes flaws in Russian privatization and economic reform in large part to a historic mistrust among Russians of market institutions. By contrast, Shiller, Boycko and Korobov claim, “Soviet and American respondents were basically similar in some very important dimensions” including, “their understanding of the working of markets.” For example, 90% of Russians and 86% of New Yorkers surveyed agreed that “people work better if their pay is directly tied to the quantity and quality of their work.”

To find out if Russians believe markets work as economists say they do we investigated the attitudes of Russian students towards the market using a classroom market experiment and a set of survey instruments. Young Russians in Novosibirsk and St. Petersburg were asked about their views on a specific market institution, the double auction, rather than about hypothetical situations. The double-auction is a simplified version of trading rules used by open-outcry trading pits such as the Chicago Mercantile Exchange and is widely used in experimental economics.

The experimental protocol was simple. After a brief introduction we handed out a sociodemographic survey. The rules of the double-auction were then explained to students and a “no-money” practice round was played. One student was handed a sealed envelope with predictions drawn from supply and demand theory. A second survey was distributed, asking students to say how likely it was that the predictions for average price, quantity traded, and total trading profits would match the results for the double-auction’s last round. For example, students were asked “How likely is it, in your opinion, that the theory of supply and demand will predict, within an interval of 30 rubles, the average trading price in the last trading round?” Possible responses were: “100%,” “Very Likely,” “Likely,” “Unlikely,” “Very Unlikely,” and “0%.” After the last round, predictions and trading results were compared.

Finally, we asked students how likely it was that supply and demand theory would predict double-auction results in a hypothetical future session using questions phrased in the same way as those asked before the double-auction.

Our approach measured the extent to which the subjects believed markets work and how attitudes changed after seeing a market-like experiment. Seeing the double-auction in action had

a strong effect on beliefs, leading to much less skepticism about economic theory's ability to predict outcomes. These changes were broadly similar to changes in attitudes among US subjects, who also become less skeptical about economic theory after seeing the double-auction work.

However, the patterns of changes for Russian and US subjects were different. While on average subjects became more willing to believe that economic predictions were likely to be correct, the change in beliefs were not uniform.

Russians from entrepreneurial or Orthodox households started out relatively more skeptical of economic theory, but became relatively more likely to think that economic predictions would be correct. Perhaps those who have seen the marketplace from the vantage point of their family's firm find it hard to believe that markets are governed by simple economic principles.

Russian women, like American women, began with greater skepticism than men about economic theory. After seeing the double-auction, the difference between Russian women and men disappear. By contrast, American women remained more skeptical than men.

Those who graduated from general secondary schools were relatively more skeptical of economic theory, relative to those who graduated from a more selective school such as a lyceum, gymnasium or special language school.

Other factors, which might have been expected to affect attitudes about how markets work, had little measurable effect. For example, measures of family income and political orientation had little or no effect, implying that differing views about markets do not simply fall along lines of rich vs. poor. Instead of asking about cash income, we used the market value of the best family car and the type and destination of family vacations, as many Russians still receive important in-kind benefits, such as subsidized housing. Subjects described their family's economic situation using five categories ranging from, "We barely make ends meet; there isn't enough money for daily necessities" to, "We can buy really expensive goods: apartments, dachas, SUVs, etc." However, none of these measures of income had a measurable effect on attitudes.

In the US, we found conservative students were significantly more willing to believe that economic theory could predict outcomes. However, what the terms "right" and "left" or "conservative" and "liberal" mean in Russian politics is usually far from clear. Therefore we developed two new scales of political orientation from a battery of questions drawn from political science research, which were constructed using surveys we collected from Tomsk, Ekaterinberg, Novosibirsk, Slaviansk-na-Kubani, and St. Petersburg. One scale measured probusiness attitudes. A typical question used in this scale was: "Most businessmen do important work and therefore, deserve high payment for it." The other scale captured views concerning fairness and workplace relationships. A typical question used in this scale was: "Workers and managers have conflicting interests and are essentially enemies." While both scales had reasonable psychometric properties, neither was strongly related to views about how markets work. Those who cared more about fairness and identified more with workers than with managers were slightly more skeptical of economic theory before seeing the double-auction, but this effect disappeared in the post-auction results. These results suggest that even though young Russians may orient themselves along political dimensions in orderly ways, differences in political orientation are just not strongly correlated with other views.

The results of this research suggest any differences in attitudes towards markets between Russians and Westerners probably stem from divergent issues associated with markets, not from divergent views about how the market works. Russians, like Americans, become more willing to believe that markets operate according to economic principles once they see evidence from an experimental market. However, not all Russians or all Americans change their views to the same extent, with some subgroups showing more willingness to change their views. Of course, while

this classroom experiment changed views about the market mechanism, whether or not it changed views of the real world or the probability that imperfections, distortions or manipulations prevent real markets from reaching competitive market outcomes is not easy to determine.

Popular support for market reform is probably based on a complex set of views and judgments. Russian social attitudes play their own role. The Soviet-era catchphrase “whoever doesn’t steal from his employer steals from his family” reflected a rational response to communism. However, that view of stealing is profoundly unhelpful in the development of well-functioning markets. Regardless of whether these attitudes stem from the Soviet experience or from the preindustrial past that Goldman stresses, mistrust or contempt of public institutions and the strong reliance on friends and family ties hinder the expansion of the role of markets.

Both the “Russians are different” and “Russians are just like Westerners” camps should agree that deep and irreversible public support for market reforms must include a clearer understanding of how markets work. If the costs of public misunderstandings of the market are high, then so are the policy benefits of better public understanding. If Russians can be persuaded that markets work according to well-understood principles and deliver efficient outcomes, as our results suggest, then the potential exists for creating greater public support for a wider role for the market.

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