

Policy Summary
Russian Attitudes Towards the Market
D. Andrew Austin, Tatyana Kosyaeva and Nathaniel Wilcox

What citizens believe about how markets work is important, as implementing reforms based on standard economic theory becomes difficult if citizens doubt that market outcomes are efficient and believe market processes are random rather than systematic. If people don't believe markets work, then public support for economic reforms is unlikely. Because what voters believe affects public policy, whether ordinary Russians believe markets work affects the path of economic reform.

Whether Russian attitudes about how markets work resemble Western attitudes is controversial. Marshall Goldman argues that Russians, because of a long history with authoritarian and communitarian institutions, are not "economic men," and treating them as such could only lead to poorly designed economic policy (Goldman 2000). Goldman traces the shaky performance of Russian privatization and economic reform in large part to a historic mistrust among Russians of market institutions. By contrast Shiller, Boycko and Korobov (1991, 1992) 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." Other surveys in the early transition period found attitudes towards markets were largely undeveloped.

This paper addresses one critical component of this debate: whether Russians believe markets work as economists say they work, or for reasons of culture, history or communist legacy, doubt that the market mechanism functions according to economic theory. We investigated attitudes of Russian students towards the market mechanism using a classroom market experiment and a set of surveys. Russian university students were asked about their views about a specific market institution, the double auction, rather than about hypothetical situations. The double-auction (DA) is a simplified version of trading rules used by "open-outcry" trading pits such as the Chicago Mercantile Exchange.

We asked these students about how likely experimental market outcomes would match economic theory's predictions before the double auction was run to get our 'ex ante' measure of beliefs. After the double auction ran, we asked a parallel question after the double auction which gave our 'ex post' measure of beliefs. According to our ex ante measure, women, graduates of general secondary schools, children of Orthodox parents and children of entrepreneurs are more skeptical that markets work as economists say they do. However, having observed the trading results women, children of Orthodox parents and children of entrepreneurs become *less* skeptical. Graduates of general secondary schools remain relatively skeptical ex post. Two measures of political orientation are only weakly associated with beliefs, and sociodemographic characteristics, such as occupation, income and parents' education, have no detectable effect on beliefs about the predictive value of economic theory.

Russian attitudes towards the market resemble those among Americans in several ways. Both Russians and Americans believe that predictions based on economic theory are likely to be fulfilled once they see the results of the classroom market experiment. Women in both countries start out more skeptical of economic theory, but this gender difference disappears after the market experiment results are seen. Religious upbringing correlates with differences in attitudes towards the market, but proxy measures of income do not. In other ways, the factors shaping Russian attitudes differ from the factors shaping American attitudes (Austin and Wilcox 2004). Political orientation correlates with differences in beliefs among Americans, but not among Russians. Attendance at a general public secondary school correlates with greater skepticism among Russians, but Americans who attended public high school reacted in the same way as those who didn't.

Overall, Russians react to our market experiment in reasonable ways. They are more willing to believe markets work as economists say they do when predictions based on economic theory are fulfilled, and they remain more skeptical when predictions are not fulfilled. On average Russians in our study became significantly less skeptical about economic theory once they see a market experiment. Our findings indicate Russians change their minds about how markets work when they see evidence that economic theory can predict outcomes correctly.

What citizens think and believe influences public policies in democratic countries, so what Russians believe about how the market mechanism works will inevitably have effects on Russian economic policy. What we found indicates that Russians can be persuaded that markets work as economists say they work. We find no evidence that Russian beliefs about how markets work are fixed due to some deep cultural resistance to economic theory. Instead, we suspect that citizens who see examples of well-functioning markets will be more willing to believe markets work according to economic theory. To the extent that other objections to economic reform proposals are addressed, then reformers have the potential to persuade ordinary Russians of the benefits of the market.

References

- Austin, D. Andrew and Nathaniel Wilcox. 2004. "Believing in Economic Theory: Sex, Lies, Evidence, Trust and Ideology." CERGE-EI Working Paper 238. Prague.
- Goldman, Marshall. 2000. "Reprivatizing Russia." *Challenge* (May).
- Shiller, Robert, Maxim Boycko and Vladimir Korobov. 1991. "Popular Attitudes Toward Free Markets: The Soviet Union and the U.S. Compared." *American Economic Review* 81(3).
- Shiller, Robert, M. Boycko and V. Korobov. 1992. "Hunting for Homo Sovieticus: Situational Versus Attitudinal Factors in Economic Behavior." *Brookings Papers on Economic Activity* 1.