HOW DOES CONFIDENCE IN THE STATE AUTHORITIES SHAPE PRO-MARKET ATTITUDES?

by

Oleksii Khodenko

A thesis submitted in partial fulfillment of
the requirements for the degree of

MA in Economic Analysis

Kyiv School of Economics

2013

Thesis Supervisor: _____ Professor Elena Besedina

Approved by _____
Head of the KSE Defense Committee, Professor Wolfram Schrettl

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Date _____

Kyiv School of Economics

Abstract

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The paper investigates the connection between support toward free markets and confidence in government. The second objective is to construct the single indicator of pro-capitalistic views. Previous studies analyzed attitudes to separate elements of the capitalistic system and showed mixed results. The economic motivation lies in constant fall in support toward free markets in Ukraine over 1991-2011. I use the Aggregated Value Survey with data for more than 400 000 people interviewed. The latent variable "Attitude Toward Free Markets" is built by using the factor analysis of attitudes toward income inequality, private ownership and competition. The regression analysis shows that people, who are not confident in their government, have strong preferences toward free markets. A separate analysis of three elements of the capitalistic system shows that confidence in the government has a negative impact on attitude toward private ownership, however, does not influence attitudes toward income inequalities and competition. The mentioned pattern holds only for developed countries, while coefficients on variables of interest are strongly positive for the data on developing countries.

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ACKNOWLEDGMENTS

The author wishes to express his sincere gratitude to his thesis advisor Professor Elena Besedina for her valuable guidance and constant support. The author would also like to thank all research workshop professors for their insightful comments.

The author expresses enormous gratitude to Kyiv School of Economics and its community for opening up the whole new world of possibilities.

Finally, the author is deeply thankful to his family, friends and all the people who bring balance into his life.

"When I say "capitalism," I mean a full, pure, uncontrolled, unregulated laissez-faire capitalism – with a separation of state and economics, in the same way and for the same reasons as the separation of state and church."

Ayn Rand

Chapter 1

INTRODUCTION

Adam Smith's "invisible hand" hypothesis says that competitive markets tend toward an efficient allocation of resources. This theory supports the case of non-intervention – let the market work and the outcome will be Pareto efficient. However, the resulted income or wealth distribution may not be the one society prefers; that is why, a lot of people do not want to rely on free markets solely. Per contra, the government brings equity and social stability (with the help of redistribution according to people's needs), but cannot allocate resources efficiently. The rational agents should understand that trade-off between free markets and full state regulation has to be found. The popularity of so called pro-capitalistic views exactly pictures this trade-off (Stiglitz, 1991).

According to different surveys, pro-market attitudes differ greatly across different countries. For instance, about 55% of French people, 67% of American people and 75% of Brazilians believe in the merits of competitive markets. The difference is considerable and cannot be explained by the level of economic and political development solely (Landier, 2008). The surveys in the CIS countries show that the proportion of those who approve transition to capitalism in Ukraine fell from 52% in 1991 to 34% in 2011. The same trend is observed in Russia (approval dropped by 12 percentage points) and in Lithuania (by 31 pp) during the same period. In general, the indicator of capitalism-aversion varies greatly across countries and over time (Kohut and Wike, 2011).

But questions may arise if we should care about people`s attitudes toward the market and if pro- or anti-capitalistic views affect real economy.

In general, these views can affect behavior of economic agents at both micro- and macro-levels. First of all, if an individual associates pure capitalism with the absence of redistribution programs, but at the same time he or she is the one who prefers state support, he will deny the free-market concept. On the contrary, today's poor, who expects to be rich tomorrow owing to his own talents and hard work, will prefer to have less state intervention (in the form of redistribution in particular) and more pure competitive environment. These two persons will have quite opposite incentives for working (Alesina and Fuchs-Schundeln, 2007).

Also, positive attitudes toward free market are important when the country encounter liberalization processes. In transition countries the success of economic reforms depends greatly on the continuing popularity of these reforms. Citizens' beliefs in the long-term gains from competitive markets are crucial for immediate unpopular decisions to be made (Mason, 1995). For instance, liberal reforms were conducted in Poland in the beginning of 1990s and were quite painful for a large part of its population. However, the belief in the free market was strong enough among the population and this allowed for greater support and acceptance of the so called 'shock therapy' (Marangos, 2002). It is the liberal reforms which are urgent in today's Ukraine, but it is unknown whether people will accept them, expecting long-term gains, or reject without any trust in free markets.

Defining the indicator of capitalism-liking is also the question of interest, as this definition is quite abstract and not fully clear to the majority of people. The more direct questions, which people can understand from the everyday life (while working, studying, buying goods, watching news etc), should be analyzed. I will pay attention to the individual attitudes toward the following issues: income inequality, private ownership and competition. These issues are much more specific than the general attitude toward free markets and the questions asked to analyze these views are well specified (the detailed structure of the interviews will be described in the following chapters).

I believe that a single aggregate indicator constructed with the help of factor analysis is a good proxy for opinion about free market.

The next issue is to find out why these capitalistic views differ across countries and across individuals within a country. There are two main theories of belief formation: the first theory contends that each individual supports the system that maximizes his own utility; the second argues that agents form their beliefs from the criteria of what is optimal for the society. "Some individuals might believe that "free markets" maximize total economic surplus while others believe that markets are erratic, prone to bubbles, and that a large level of government intervention is required to "rationalize" the economy" (Landier, Thesmar and Thoenig, 2008).

There is a body of evidence that corruption in the public sector influences this attitude significantly – those, who perceive widespread corruption, tend to demand more regulation. For instance, voters see businessmen bribing politicians and therefore favor policies to limit capitalism (Di Tella and MacCulloch, 2006). According to Di Tella`s conclusions and broader intuition, person, who believes that the government is inefficient (corruption could be one of the reasons), will dislike capitalism.

This study tests the alternative explanation: individuals approve capitalism because of lack of confidence in their governments. For example, people prefer owners and managers to run the business if they think that government is not efficient.

The causality direction of the confidence's impact is ambiguous: it could be negative (more confidence in the government leads to less support of free markets) or positive (more confidence leads to clear pro-capitalistic preferences since people are not afraid to be left out if they fail economically). Coming back to the Polish example, people did have confidence in their leaders, supported free markets and ultimately this

allowed to successfully transit to the market economy (Marangos, 2002). Ukrainians today can simply object any liberal reforms just because they do not have trust in their government (either because of corruption or because of inefficiency). Thus, the main purpose of this research is to investigate how confidence in the state authorities influences pro-market views all over the world.

Definitely, the attitude towards free market is also affected by a set of individual characteristics such as ethnicity, educational background, occupational status, previous economic experience, etc. These characteristics are used as controls in the analysis.

The data for estimation is obtained from the World Value Survey and European Value Survey. These surveys were conducted in the form of interviews in different countries during the period of 1980-2010. Totally, more than 400 000 people were interviewed.

The results of estimation show that, in general, people, who are not confident in their government have strong preferences toward free markets. Separate analysis of the three elements of capitalistic system shows that confidence in government has negative impact on attitude toward private ownership, however does not influence attitudes toward income inequality and competition. This pattern holds only for developed countries, while for developing countries the results are opposite: confidence in government is positively associated with private ownership, income inequality and competition.

The work is divided into the following parts: Chapter 2 gives a comprehensive review of the literature on the topic and Chapter 3 describes the data used. Next, Chapter 4 outlines theoretical and empirical framework of the research and Chapter 5 provides final estimation results. Conclusions and economic implications are presented in Chapter 6.

Chapter 2

LITERATURE REVIEW

The first part of the literature review is focused on papers, which analyze people's preferences for different economic processes and phenomena. Then I examine the literature focused on determinants of these attitudes both at micro- and macro-levels. Greater attention will be paid to the confidence in state authorities as one of the important factors influencing attitudes toward market processes. A brief survey of studies that focus on the Former Soviet Union countries will be also presented in the last part.

People's attitudes toward different governmental actions have always been in the place of interest. Trying to find a trade-off between free market forces and state interventions, economists analyzed views on competition, income redistribution, private and public ownership, income and wealth inequality etc. Next, I describe some of these economic processes.

Preferences for **redistribution** used to be the most popular question for investigations. The basic claim is that an individual will support the redistributive program if the gains from redistribution are high enough. Also, there are alternative suggestions: people think about society as a whole and do not choose the program that maximizes private wealth but overall wellbeing instead (Corneo and Gruner, 2001). The analysis shows that individual benefits are only one of the factors that form individual preferences for redistribution; however, public values and desires for large social standing are also important.

Alesina and La Ferrara (2005) go further and show that not only past and present social status matters but also do prospects of the future job and income. The higher are the expected chances for a person to move up on

the income ladder – the less support for redistribution he will show (Alesina and La Ferrara, 2005). The authors emphasize that "ceteris paribus, those who believe that chances of getting ahead in life are not unduly influenced by factors other than hard work and merit are more averse to redistributive policies".

Some authors analyze attitudes toward **competition** as another component of pro-market opinions. It is found that public values are not that important in this case, whereas current financial wealth and employment status affect views on competition significantly (Landier, Thesmar and Thoenig, 2008). Apart from individual characteristics, there are aggregate factors that have influence on attitudes toward competition. For example, East Germans are much less pro-competitive than West Germans. This difference in preferences could be explained by communistic legacy, which is unlikely to disappear in the current generation (Alesina and Fuchs-Schundeln, 2007). Chong and Gradstein show that positive attitudes toward competition in Baltic countries depend on the success of their market reforms (Chong and Gradstein, 2006).

Also, there are other indicators that were analyzed: the views on **private profits** depend on the level of education and wealth: at higher levels of education and wealth it gets more likely that an individual "will be convinced by the results of modern economics" (Landier, Thesmar and Thoenig, 2008). The analysis of the **level of protectionism** shows that pro-trade preferences are correlated with the individual level of human capital and depend on non-economic determinants in the form of values, identities and attachments (Mayda and Rodrick, 2002).

As previously mentioned, none of these indicators can be a reasonable proxy for pro-capitalistic views. All of variables analyzed have their own peculiarities, advantages and disadvantages and thus, the single variable measuring attitude to free markets should be analyzed.

The most profound work in this direction was done by Di Tella, who introduces theoretical framework and looks into **ideological self-placement** – Left Wing (support more state regulation) or Right Wing (support less state regulation) (Di Tella and MacCulloch, 2006). The general pro-capitalistic views are much better described by this variable; however, it is a question whether people understand Left/Right wings combination correctly. Also, this single indicator does not show if people have similar views on redistribution, private ownership, private profits etc. Thus, the aggregate indicator should be determined, which accounts for different elements of the capitalistic system.

While possible dependent variables could be quite different, the set of independent variables is much more similar in all of the articles. Individual controls for age, gender, education and employment are important and widely used. The macro-level variables are also employed for cross-country analysis to control for country fixed effects (Chong and Gradstein, 2006).

The use of other affecting factors varies greatly depending on the aim of the research. For example, religion is one of the most influential institutional factors and, of course, it was included in the analysis of economic attitudes. Results show that religious beliefs are associated with attitudes, which are "conducive to higher per capita income and growth" (Guiso, Sapienza and Zingales, 2003).

Also, corruption and trust/confidence in the government are sometimes included in the model. For example, the analysis of Baltic countries shows that perception of government effectiveness may lead to more confidence in market institutions (Chong and Gradstein, 2006). One of the most interesting results in this area was obtained by Di Tella and MacCulloch – they found that in countries with the higher level of corruption people tended to demand more governmental regulation. Also, if people believed in

the high level of corruption, they also tended to think that the government was doing too little to fight poverty (Di Tella and MacCulloch, 2006).

The attitudes toward free markets are not really studied in the CIS countries, primarily because of the lack of data; however, these countries are quite interesting because of their transitional systems. One of the earliest studies from 1990 shows that both American and Soviet respondents have similar views on fairness, income inequality and incentive (Schiller, Boycko and Korobov, 1991). More recent research shows that in both Russia and Ukraine, the young, urban and educated people have less support for communist regime. It is also mentioned that people usually show support for free market if they support democracy; however, there are a lot of contradictions between democracy and capitalism (Shulman, 2005).

Summarizing, people's attitudes toward free markets or toward separate features of capitalistic system are not thoroughly analyzed in the literature. Single studies investigate preferences for redistribution, views on competition and private ownership or even probabilities of becoming an entrepreneur, but none of the authors says anything about the general indicator of pro-capitalistic views. Although, in some studies both trust in government and the level of corruption are also included in the empirical model, the impact of confidence in government is still poorly studied. The proposed thesis will fill the existed gaps by analyzing the dependence of attitudes toward free markets on the confidence in government.

Chapter 3

DATA DESCRIPTION

The data from the World Values Survey and European Values Survey are used. These surveys were conducted in 102 countries/regions during the period of 1980-2010 and include the data for 423,084 individuals. The general purpose of these surveys is to study people's values and their impact on social and political life and "show pervasive changes in what people want out of life and what they believe"[1]. The surveys were conducted as face-to-face interviews using standardized questionnaire that measured changing values concerning religion, gender roles, work motivations, democracy, governance, social capital, political participation, subjective well-being, etc. There are selected questions in most waves of the Value Surveys and in the majority of countries of study (see Table 1 at the end for details).

The key variable in my analysis is attitude toward free markets, so questions concerning pro-capitalistic views are used. The set of questions for the investigation is presented in Table 2 and the summarized information on answers to these particular questions is provided in Table 3.

The summary statistics shows that majority of people fully support competition as stimulus to development (almost 55%), while less than 10% of respondents believe that competition is harmful. The attitudes toward income inequality and private ownership are more evenly distributed, still about third of respondents believe that income differences are strong incentive for working (36%) and that share of private ownership of business should be increased (32%). The opponents to these views constitute about

[1] From the World Values Survey website, http://www.worldvaluessurvey.org/

25% of respondents, thus there is a lot of variation in the views for investigation.

The set of independent variables includes the variable of interest – confidence in government, and different control variables described further. The summary statistics is presented in Tables 4 and 5.

Confidence in government is a dummy variable, which shows whether a person has confidence in the government of his country or not. It does not distinguish between forms of state governance since it is not the question of this research. What it shows is whether a person is confident in the public administration or not. Among almost 50 thousands respondents only 44% are confident in their governments. The detailed statistics on confidence in the government can be found in Figure 1.

The set of control variables includes respondent's characteristics such as age, gender, marital status, income, religion, educational level and employment status. Other variables, which can also influence pro-capitalistic view, and hence are included in the analysis, are the respondent's level of satisfaction with his financial situation and life in general. The results of the survey shows, that 78% of people feel happy in their lives. The average life satisfaction is 6.5, financial satisfaction – 5.6 out of 10. If a respondent is unsatisfied with everything he has, he can have some negative bias toward free markets. The other important variable is a general interest in politics: the one who pays attention to the political situation (49% of all the respondents) is more likely to estimate the importance of different elements of capitalistic system more precisely.

The average respondent in the sample is 42 years old married male with higher education and 2 kids. At the same time, 69% of respondents are believers (any religion). Among all working respondents, there are 9% of

entrepreneurs, who are expected to have strong preferences toward free markets and thus can also be separately analyzed.

It should also be noted that the main drawback of this dataset is lack of independent variables which provide more information about individuals` background. Data for education major, sphere of work, actual financial well-being, etc. are not available, thus omitted variables can bias the results if they are correlated with the regressors. This potential problem deserves special attention and is further discussed in the following chapters.

Chapter 4

METHODOLOGY

Testing the hypotheses that confidence in the state authorities has a strong impact on the attitude toward free markets requires two main steps. First, the indicator of pro-capitalistic attitudes is constructed. Second, the set of independent variables is used in regression to determine the impact of each on the attitude toward free markets.

4.1 Constructing the indicator of pro-capitalistic views

The first step in the construction of the single indicator is to choose the appropriate statistical technique. Exploratory Factor Analysis (EFA) and Principal Component Analysis (PCA) are the two most popular methods which allow to reduce the dimensionality of data. The purpose of PCA is to reduce a set of observed variables by keeping as much variance as possible without regard to underlying structure. The aim of EFA is to find latent variables which cause the observe variables to correlate by looking only at the shared variance (Sun Park et al., 2006).

I use the factor analysis as the purpose of this research is to construct meaningful variable "Attitude toward free markets". Thus, I analyze interrelationships among the number of variables Y_1, Y_2, …, Y_k and try to explain how they are related to a smaller number of unobservable factors F_1, F_2, …, F_l (latent variables). In my case it is reasonable to assume that there are two latent variables, F1 and F2, tentatively described as capitalistic views and paternalistic views that influence the attitudes toward all elements of the

market system, denoted by Y_1, Y_2 and Y_3 such as private ownership, competition and inequality.

Each Y variable is linearly related to the two unobserved factors as follows:

$$\begin{aligned} Y_1 &= \beta_{10} + \beta_{11}F_1 + \beta_{12}F_2 + e_1 \\ Y_2 &= \beta_{20} + \beta_{21}F_1 + \beta_{22}F_2 + e_2 \\ Y_3 &= \beta_{30} + \beta_{31}F_1 + \beta_{32}F_2 + e_3 \end{aligned} \tag{1}$$

The error terms e_i (i=1,2,3) serve to indicate that the hypothesized relationships are not exact and some additional variables might exist.

These three chosen elements of the capitalistic system have different loadings on factors because of questions' design. The higher values on the self-evaluation scale are associated with higher preferences for income inequality, private ownership and competition, and thus are expected to be more related to capitalistic orientation. The expected signs of coefficients (factor loadings) for all variables are presented in Table 6.

The model (1) is estimated by using principal-component factors and maximum likelihood methods. Both of these methods split the variance of measured variables into the common variance and unique variance and then construct latent variables (factors), which accounts for the maximum common variance of the measured variables (Costello and Osborne, 2005). Also, the rotation procedure is used to simplify the interpretation.

In the second stage of my analysis I use only one factor describing pro-capitalistic orientation and thus playing the role of latent variable "attitude toward free markets".

I also follow Tabellini's approach, who suggests, that since this single factor only captures common variation, these views could have more than one relevant dimension of variation (Tabellini, 2010). Thus, the alternative

summary measure defined as the average of all three elements of capitalistic system will also be used and will be called average indicator.

4.2 Impact of confidence on the attitude toward free markets

Theoretical framework:

Empirical analysis is based on the theoretical framework developed by Di Tella, who builds a model to analyze voting behavior of the workers. There are three groups of players in the model: bureaucrats, firms and workers. The basic idea is that firms do not benefit from taxes and hence dislike taxes, while bureaucrats and workers benefit from taxes. The latter get wages (depend on firms output) and tax receipts (depend on bureaucrats' decisions). To reduce the tax burden or get other benefits firms may give bribe to public officials. In this case capitalist increases his individual profit and bureaucrat gets his "unofficial" profit. Thus both agents are to some degree "unfair" toward worker as his wage remains the same while tax receipts decline. This means that person that sees entrepreneurs giving bribes to bureaucrats will dislike capitalism (Di Tella and MacCulloch, 2006). The broader approach in this analysis looks at the confidence in the state authorities (instead of perception of corruption), which means that workers do not only balance between free-market wages and tax benefits but also look at the efficiency of the public policy toward firms and tax recipients. According to Di Tella's results and broader intuition, person, who believes that the government is inefficient (corruption could be one of the reasons), will dislike capitalism.

There is also alternative hypothesis: person who believes that the government is inefficient will tend to like capitalism. They would prefer state authorities stay behind and do minimum of intervention, in particular

by owning and managing assets. Instead, they would like private owners and managers run their businesses and compete in the liberal markets.

Empirical framework:

The basic regression for estimation is taking the following form:

$$Cap.\ Views_i = a_0 + a_1 \cdot Confidence_i + \beta \cdot Controls_i + \varepsilon_i \qquad (2)$$

where *Cap.Views* is the attitude toward free markets of individual *i* and *Confidence* is the binary indicator of whether a person *i* is confident in his government or not. As mentioned above, I also include a large set of personal controls, which includes age, gender, marital status, number of children, education, religion, employment, financial satisfaction, country of residence and year of the interview (See Tables 4 and 5 for full description).

The aggregate index of pro-market attitudes is constructed as a continuous variable, so the standard OLS is applied in the analysis.

Some econometric issues:

Unobserved personal traits. Some unobservable individual characteristics may affect both pro-capitalistic views and confidence in the government. For example, the background in economics will affect both the attitude toward free markets and confidence in the government as people will evaluate all the costs and benefits of governments' decisions more precisely. In such a case the impact of confidence in state authorities will be upward biased (overestimated).

Other unobserved variables that are not correlated with confidence in state authorities but have an impact on the pro-market views. For example, people with higher incomes might be indifferent to government decisions, but support competition and income inequality as an incentive to work. This may also lead to the biased estimate of the coefficient on confidence. This

may be partially resolved with inclusion of level of satisfaction with financial conditions: if richer people have higher satisfaction with their financial conditions then it can serve as a proxy for income level.

Besides, the estimate of confidence may suffer from **measurement error**. A priori people cannot estimate their true level of pro-market views, they just decide on how some capitalistic elements are preferred comparing to the other ones. The further aggregation by factor analysis builds a continuous variable and thus mitigates the presence of systematic errors, however analysis of average indicator or separate elements of capitalism may still be exposed to measurement errors.

These problems might be overcome with the help of IV approach, however, it is rather difficult to find an appropriate instrumental variable both because of the limitation of data and possible correlation with the dependent variable. I use aggregate instrument that is exogenous with respect to individual specific characteristics. Hence, the average confidence by countries, by age groups, by education level and by employment position are used to instrument individual confidence in the state authorities.

Chapter 5

EMPIRICAL RESULTS

This section provides empirical results of estimation of the relationship between pro-capitalistic attitude and confidence in government.

First, the factor analysis of attitudes toward three elements of capitalistic system (income inequality, private ownership and competition) is made. Results of the principal factor method are presented in Table 7.

According to the results, there are, in fact, three possible factors that explain variations in the variables. Factor 1 explains more than 41% of all the variation, Factor 2 – more than 33%. Factor 3 explains the remaining 25% and, likely, is loaded by all the errors and stochastic terms, thus it is unlikely to be included. In practice, there are certain rules to determine how many factors should actually be extracted. The so-called Kaiser criterion suggests choosing all the factors, whose eigenvalue is higher than unity. Given that eigenvalue of Factor 1 is higher than 1 and eigenvalue of Factor 2 is almost equal to 1, I would include these factors into further analysis, which is quite in line with the theoretical model.

Next, factor loadings are presented in Table 8. Five out of six estimated factor loadings have expected signs, and thus allow to interpret Factor 1 as "Preferences for Capitalism", Factor 2 – as "Preferences for Paternalism". Factor loadings show correlation between the common factor and input variables. Thus, for example correlation between both preferences for private ownership and competition with preference for free markets is high (> 0.7).

A single indicator is, basically, constructed as a weighted average of three variables using factor loadings as weights. The rotation procedure is also performed to maximize the variance explained by Factor 1, however, the loadings remain the same. Thus, I use observed variables and loadings on Factor 1 to construct the latent variable "Pro-market attitudes". The description statistics of this factor of interest and of the average indicator as proxy are presented in the Table 9 at the end of the thesis. As the Factor 1 is standardly normalized, its mean is equal to zero, standard deviation to one. The mean value of the average indicator is equal to 6.38 and is quite close to the average values of single preferences.

The correlation between estimated factor and average values is high, thus, as Tabellini suggested, both of them has a minimal random component and are good proxies for our variable of interest – "Pro-market attitudes". The correlations between independent variables are presented in Table 10.

Table 11 contains the estimation results for the benchmark model with the main variables, which affect attitudes toward free markets. Confidence in government is found to be significantly and negatively correlated both with the preferences for capitalism (constructed at factor analysis stage) and average indicator. The coefficient on confidence in government in column (1) is interpreted as follows: people who are more confident in their government tend to put 0.037 less points at evaluation of their support toward capitalism. Calculations confirm the intuition behind the model: people who are confident in their state authorities believe that governmental decisions are more effective than work of free markets. Also, people who are not confident in their government prefer let the market do its job without government intervention. However, results are likely to be economically insignificant, as becoming confident in government decreases preferences toward markets just by 3.7% of the standard deviation in these preferences. This fact explains why only a small share of people who disagree with government decisions truly express their dissatisfaction.

The coefficients on the rest of the variables mostly follow the common logic. Older people, on average, express less support toward free markets, relying more on government to be cared of. The quadratic age term is marginally insignificant and shows that the rate of decline in pro-capitalistic views do not change over time. Also, marital status and having kids do not seem to be important for pro-capitalistic views formation – the coefficients on these variables are insignificant. The coefficient on gender is highly significant and shows that women declare 0.133 less points in evaluating capitalistic attitudes, i.e. almost 13% of the standard deviation of the attitudes. Surprisingly, religious people state a strong support toward free markets, perhaps, associating free markets with greater freedom in society and religious freedom, in particular.

People, who feel happier, believe in their free choice and are satisfied with their lives, declare strong support toward capitalistic system. Possible explanation lies in the fact that these people build successful careers and families just by their own choices and their own decisions without any external interventions. The coefficient on financial satisfaction is statistically insignificant in the first regression but is statistically significant and has expected positive sign in the second regression (with average indicator as dependent variable) implying that people who feel happy with what they have prefer free markets.

The set of the rest of control variables (primarily in the form of dummy variables) is not included in the table because of the large number of categories, however deserves a separate description. Education in general has almost the strongest impact in shaping pro-market attitudes. Given eight ordered levels of education, the level of support constantly increases from 0.06 for primary education to 0.28 for higher education. Thus, while studying at any major, people understand the importance of competition and personal achievements.

Different categories of employment show somewhat different impact on capitalistic views. People working under someone`s command in general are more negative toward free markets, however the coefficients are rarely significant. Meanwhile, self-employed people show a strong significant support toward free markets – all other things equal, they are expected to show 0.11 points more in evaluating their views. It is also worth mentioning that people, who do lower-skilled work show more opposition toward capitalistic system. While free market preferences of the professional workers are 0.11 points less than those of managers, preferences of manual workers and unskilled workers are, 0.22 and 0.29 less points, respectively. Likely, these people are not satisfied with their jobs and want state authorities to provide them with better opportunities. Also, people who are living in large cities express higher preferences toward free markets comparing with people who live in small towns; however, the difference is of a small economic significance.

As was mentioned before, the coefficient on confidence in government could be biased because of different econometric issues like reversal causality, omitted variables and measurement error. Thus, the instrumental variable approach can be used to deal with these issues. The results of the first stage regression with average levels of confidence in government as instruments to the individual confidence are presented in the Table 15. Likely, that chosen instruments are quite weak – two of them are insignificant and other two are significant under the 10% level. The test for joint significance gives p-value equal to 0.36, thus instruments are jointly insignificant. Also, Wu-Hausman test checks the hypothesis of whether the variables are exogenous and gives p-value equal to 0.175 confirming shortness of used instruments. The second stage estimation with mentioned instruments gives insignificant coefficients on confidence in government. Moreover, these coefficients have opposite signs in regressions on average indicator and indicator built using factor analysis.

Given the weakness of instruments, the OLS results produce less biased results than IV (Wooldridge, 2002). In addition, in my view the endogeneity may not be pronounced here since confidence in the state authority depends mostly on the policies implemented by the government, government's image and personal loyalty. It is possible that people see new legislations adopted, think through all its benefits and decide on whether these acts are useful or do not make any sense. The personal benefits from these legislations, no matter how liberal they are (e.g. the police gets larger control to fight criminals) may be the primary factor determining confidence in government.

Robustness check:

To check if the estimated results are robust I run ordered logit models on three separate elements of capitalistic system. The intuition behind is that the impact of the variable of interest on the single element should be at least in the same direction with the impact on the aggregate preferences. Also, I run both OLS and ordered logit model using data for specific countries.

First, the results of ordered logit model for different elements, which mostly confirm previous findings, are presented in Table 12. The impact of confidence in government on attitudes toward income inequality appears to be positive and insignificant. The similar coefficient in "Competition" is small, negative and of marginal insignificance, while in "Private ownership" model it is negative, large and strongly significant. Thus, people, who believe that government is competent, want to increase public ownership of production facilities or any other assets for common good. Even though the impact of confidence on preferences toward income inequality and competition remains insignificant, the question remains: why do people who are confident in their government want to increase state ownership? The

answer to this question might lie in deeper personal interests and habits and needs further analysis.

The coefficients on the rest of the variables lie in line with general logic and previous results – higher level of education results in higher support of all three mentioned elements of capitalistic economy. The same conclusions are true for different levels of job. Self-employed people as well show strong and significant support for income inequality (+0.146), for competition (+0.105) and for private ownership (+0.187). Thus, judging by ordered logit model, the estimations are quite robust.

Next, a separate analysis of capitalistic views of Ukrainian citizens is made and the results are presented in the Table 13. Estimated coefficients of many variables differ greatly from the coefficients in regression on 36 countries. The coefficient on confidence in government is equal to 0.135 in regression on preferences for capitalism and 0.228 in regression on average indicator. Coefficients in both models are significant, thus results for Ukraine contradict conclusions for the all-world estimates. However, further analysis of separate countries shows that estimated coefficients differ by level of development – they are strongly negative for developed countries and positive for developing countries moving to more liberal markets. The impact of confidence is equal to 0.205 for the Russian Federation, 0.23 for India, 0.29 for Slovakia; on the contrary it is equal to -0.826 for the USA and -0.366 for Australia. Likely, that analysis shows at least two patterns, which explain the influence of confidence in state authorities on pro-market attitudes. The presence of such differences can also be observed in the very first aggregate regression – country fixed effects varied greatly and are responsible for these patterns.

Also, results of ordered logit model estimation for Ukraine are presented in Table 14. These results also partly explain the difference in the coefficients for aggregated regressions. While influence of confidence on income

inequality and competition is insignificant, the corresponding coefficient is equal to (+0.355) and is highly significant in regression on private ownership. People in Ukraine who are confident in their government show strong support for the private ownership. Perhaps it can be explained by the fact that people who lived under socialist system and got used to the paternalistic role of the state do not fully realize the 'consequences' of free markets. These results lie in line with estimation of capitalistic views in Ukraine in OLS regressions with aggregated indicators. .

Chapter 6

CONCLUSIONS

The purpose of this paper was to build the aggregate indicator of pro-capitalistic attitudes and to examine how confidence in the state authorities influences these attitudes. The factor analysis technique is used to construct the latent variable "Preferences for capitalism", which includes attitudes toward income inequality, competition and private ownership.

According to the results, in general, pro-market attitudes are negatively influenced by confidence in government. In other words, people who think that government is competent enough, want it to take more public decisions and make more state interventions. Similarly, if there is not much confidence in the government, people prefer free markets to operate. Even though results follow common logic, they partly contradict conclusion of Di Tella and MacCulloch, who argue that in countries with higher level of corruption (thus, low level of confidence) people tend to demand more governmental regulation. Still, their conclusions are fully in line if taking just developing countries like Ukraine.

Several patterns of dependence are presented – in developed countries people prefer free market to work only if they are not confident in their government. In developing countries, which are liberally directed, people prefer capitalistic system if they are confident in their government. The possible explanation lies in the fact that people get used to major public interventions and want their government to introduce improved institutions of private ownership and competition. Ukrainians show exactly this kind of preferences – they would like capitalistic system to operate, but only under strict governmental monitoring.

The analysis of the essential characteristic features of capitalistic system – "Income inequality", "Competition" and "Private ownership" shows that the first two elements are not really influenced by the confidence in the state authorities. However, it has a strong negative impact on the attitude toward private ownership: people, who think that state authorities are efficient enough, tend to demand more public ownership. The results for Ukraine are the opposite – people, who are confident in their government, tend to demand more private ownership.

In developed countries people are likely to prefer private ownership (and thus start their own companies), if they are not sure in efficiency of their state authorities and thus, want to insure themselves against possibly harmful governmental decisions. In Ukraine, people prefer private ownership (and thus start their own companies), only if they believe that state authorities are efficient enough to rule the country. Likely, that such overestimation of government`s possibilities is socialist legacy, where most of the decisions were taken by state authorities and people did not take much risks. Probably, the fall in support of market economy in Ukraine is caused exactly by the fall in confidence in state authorities, and sooner or later people`s views will converge to the world`s average. The dynamics of the last changes in capitalistic preferences is a question for further investigation with more recent data.

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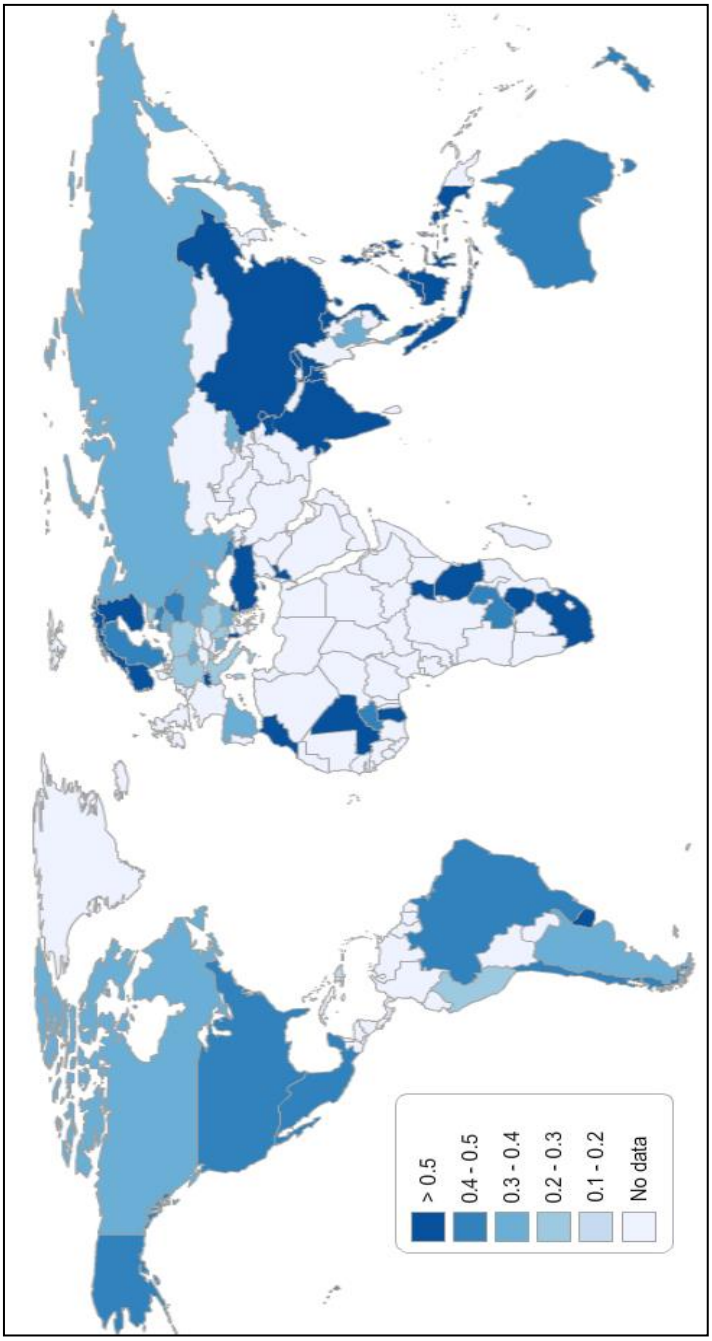

Figure 1. Average confidences in government across countries

Table 1. Sample description

Country	Year									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2006
Australia	+									+
Bangladesh		+						+		
Bosnia and Herzegovina				+			+			
Bulgaria			+							+
Belarus		+								
Canada						+				+
Chile		+				+				+
Taiwan										+
Dominica		+								
Germany			+							+
Hungary				+						
India	+						+			+
Kyrgyzstan									+	
Latvia		+								
Lithuania			+							
Mexico		+				+				
Moldova		+						+		+
Nigeria	+									
Norway		+								
Philippines		+					+			
Puerto Rico	+						+			
Romania				+						
Russian	+									
Slovakia				+						
Vietnam							+			+
Slovenia	+									
South Africa		+					+			
Spain	+					+				
Switzerland		+								
Ukraine		+								+
Macedonia				+			+			
United States	+				+					+
Uruguay		+								+
Venezuela		+				+				

Table 2. Questions selected for the construction of pro-capitalistic views

How would you place your views on this scale? 1 means you agree completely with the statement on the left, 10 means you agree completely with the statement on the right or you can choose any number in between.	
1 2 3 4 5	6 7 8 9 10
Incomes should be made more equal	We need larger income differences as incentives for individual effort
Government ownership of business and industry should be increased	Private ownership of business and industry should be increased
Competition is harmful. It brings out the worst in people.	Competition is good. It stimulates people to work hard and develop ideas

Table 3. Shares of attitudes toward the elements of capitalistic system

	Rates 1-3	Rates 4-7	Rates 8-10
Income inequality	25,49%	38,67%	35,84%
Private ownership	22,36%	45,26%	32,28%
Competition	9,47%	36,02%	54,52%
Observations	300 996		

Table 4. Summary statistics of continuous/binary independent variables

Variable	Mean	St. Dev.
Confidence in government	0.39	
Feeling of happiness	0.79	
Life satisfaction	6.53	2.42
Freedom of choice	6.89	2.36
Finance satisfaction	5.61	2.58
Interest in politics	0.49	
Religious person	0.69	
Gender (Female = 1)	0.49	
Age	41.61	15.33
Married	0.79	
Number of kids	1.86	1.64
N = 69 068		

Table 5. Summary statistics of categorical independent variables

Variable	Percent
Education (highest level attained)	
Inadequately completed elementary education	9.18
Completed elementary education	12.95
Incomplete secondary school: technical/vocational type	7.95
Complete secondary school: technical/vocational type	21.86
Incomplete secondary: university-preparatory type	7.44
Complete secondary: university-preparatory type	14.66
University without degree	8.55
University with degree	17.42
Employment status	
Full time	41.37
Part time	8.09
Self employed	9.05
Retired	13.50
Housewife	10.68
Students	5.73
Unemployed	9.15
Other	2.43
Social class (subjective)	
Upper class	1.57
Upper middle class	20.06
Lower middle class	37.35
Working class	31.01
Lower class	10.01
How often discusses political matters with friends	
Frequently	17.00
Occasionally	56.52
Never	26.47

Table 5. Summary statistics of categorical independent variables – Continued

Variable	Percent
Profession/Job	
Employer/Manager of establishment with 100+ employed	2.68
Employer/Manager of establishment with 10+ employed	4.80
Professional worker	13.55
Supervisory non-manual office worker	7.35
Non-manual office worker	10.08
Foreman and supervisor	2.59
Skilled manual worker	15.06
Semi-skilled manual worker	10.43
Unskilled manual worker	10.07
Farmer: has own farm	3.10
Agricultural worker	4.02
Member of armed force	1.51
Never had a job	14.76
Size of town	
2,000 and less	13.75
2,000-5,000	10.66
5,000-10,000	7.25
10,000-20,000	7.86
20,000-50,000	11.41
50,000-100,000	9.44
100,000-500,000	18.79
500,000 and more	20.83
N = 69 068	

Table 6. Directions of loadings on the factors

Variable	Loadings on the first factor (capitalism)	Loadings on the second factor (paternalism)
Y1 (Income inequality)	+	–
Y2 (Private ownership)	+	–
Y3 (Competition)	+	–

Table 7. Factors' Eigenvalues using PCF Method

	Eigenvalue	Proportion	Cumulative
Factor 1	1.235	41.15%	41.15%
Factor 2	0.996	33.21%	74.37%
Factor 3	0.769	25.63%	100.00%

Table 8. Factor Loadings on 2 Factors for Original 3 Variables

	Factor 1	Factor 2
Income inequality	0.268	0.945
Private ownership	0.742	-0.320
Competition	0.783	-0.020

Table 9. Summary statistics of dependent variables

Variable	Mean	St. Dev.
Income inequality	5.86	2.96
Private ownership	5.94	2.79
Competition	7.36	2.48
Preferences for capitalism (Average indicator)	6.38	1.73
Preferences for capitalism (FA)	0	1
N = 300 996		

Table 10. Correlations between independent variables

	Income inequality	Private ownership	Competition	Preferences for capitalism (Average)	Preferences for capitalism (FA)
Income inequality	1				
Private ownership	-0.005	1			
Competition	0.087	0.219	1		
Preferences for capitalism (Average indicator)	0.602	0.647	0.647	1	
Preferences for capitalism (FA)	0.265	0.742	0.783	0.928	1
N = 300 996					

Table 11. Results of OLS estimations

VARIABLES	(1) Preferences for capitalism (FA)	(2) Preferences for capitalism (Average indicator)
Confidence in government	-0.0370***	-0.0511**
	(0.0123)	(0.0204)
Interest in politics	0.0179*	0.0372**
	(0.00926)	(0.0162)
Feeling of happiness	0.0784***	0.123***
	(0.0136)	(0.0223)
Life satisfaction	0.0140***	0.0267***
	(0.00314)	(0.00498)
Freedom of choice	0.0226***	0.0473***
	(0.00235)	(0.00392)
Finance satisfaction	-0.000730	0.00913*
	(0.00299)	(0.00467)
Confidence in parliament	0.0144	0.0133
	(0.0131)	(0.0214)
Religious person	0.0266***	0.0550***
	(0.00938)	(0.0162)
Gender (Female = 1)	-0.133***	-0.208***
	(0.00969)	(0.0165)
Age	0.00273	-2.54e-05
	(0.00198)	(0.00333)
Age squared	-2.57e-05	-5.14e-06
	(2.07e-05)	(3.48e-05)
Married	-0.0326**	-0.0333
	(0.0147)	(0.0245)
Number of kids	-0.00745**	-0.00717
	(0.00356)	(0.00614)
Constant	0.321***	6.628***
	(0.0892)	(0.152)
Observations	69,068	69,068
R-squared	0.116	0.121

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Notes: Model also includes controls for education, employment status, social class, profession, size of a town, year and country effects

The weights for the number of people interviewed in country are applied

Table 12. Results of ordered logit model estimations

VARIABLES	(1) Income inequality	(2) Competition	(3) Private ownership
Confidence in government	0.0127	-0.0134	-0.105***
	(0.0194)	(0.0217)	(0.0219)
Interest in politics	0.0351**	0.0548***	-0.0203
	(0.0175)	(0.0178)	(0.0181)
Feeling of happiness	0.0275	0.102***	0.0931***
	(0.0223)	(0.0259)	(0.0244)
Life satisfaction	0.0239***	0.0313***	0.0152**
	(0.00541)	(0.00614)	(0.00602)
Freedom of choice	0.0531***	0.0538***	0.0143***
	(0.00477)	(0.00501)	(0.00494)
Finance satisfaction	0.0254***	-0.0291***	0.0140***
	(0.00481)	(0.00564)	(0.00536)
Confidence in parliament	-0.0139	0.0242	0.00208
	(0.0205)	(0.0238)	(0.0229)
Religious person	0.0465***	0.0447***	0.0334**
	(0.0166)	(0.0169)	(0.0166)
Gender (Female = 1)	-0.0436**	-0.163***	-0.233***
	(0.0173)	(0.0187)	(0.0180)
Age	-0.00873**	0.0105**	0.00162
	(0.00380)	(0.00414)	(0.00383)
Age squared	7.50e-05*	-9.08e-05**	-1.22e-05
	(4.17e-05)	(4.55e-05)	(4.02e-05)
Married	0.0383	-0.0574**	-0.0433
	(0.0251)	(0.0275)	(0.0266)
Number of kids	0.0105	-0.00700	-0.0189**
	(0.00790)	(0.00814)	(0.00781)
Observations	69,068	69,068	69,068
Pseudo R-squared	0.031	0.022	0.026

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Notes: Model also includes controls for education, employment status, social class, profession, size of a town, year and country effects

The weights for the number of people interviewed in country are applied

Table 13. Results of OLS estimations for Ukraine

VARIABLES	(1) Preferences for capitalism (FA)	(2) Preferences for capitalism (Average indicator)
Confidence in government	0.135**	0.228*
	(0.0678)	(0.118)
Interest in politics	0.0368	0.159*
	(0.0550)	(0.0946)
Feeling of happiness	0.0979*	0.132
	(0.0585)	(0.101)
Life satisfaction	0.00232	-0.00280
	(0.0168)	(0.0287)
Freedom of choice	0.0251*	0.0522**
	(0.0129)	(0.0222)
Finance satisfaction	0.0378**	0.0663**
	(0.0163)	(0.0281)
Confidence in parliament	-0.111	-0.224*
	(0.0686)	(0.119)
Religious person	0.203***	0.369***
	(0.0564)	(0.0971)
Gender (Female = 1)	-0.302***	-0.440***
	(0.0607)	(0.105)
Age	0.00472	0.00372
	(0.0121)	(0.0208)
Age squared	-0.000192	-0.000305
	(0.000127)	(0.000218)
Married	-0.135	-0.172
	(0.108)	(0.191)
Number of kids	0.00857	0.0428
	(0.0329)	(0.0548)
Constant	0.416	7.522***
	(0.772)	(1.232)
Observations	1,525	1,525
R-squared	0.171	0.176

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Notes: Model also includes controls for education, employment status, social class, profession, size of a town, year and country effects

The weights for the number of people interviewed in country are applied

Table 14. Results of ordered logit model estimations for Ukraine

VARIABLES	(1) Income inequality	(2) Competition	(3) Private ownership
Confidence in government	0.114	0.0855	0.355***
	(0.123)	(0.125)	(0.127)
Interest in politics	0.383***	0.188*	-0.172*
	(0.0998)	(0.102)	(0.101)
Feeling of happiness	0.0139	0.246**	-0.0225
	(0.103)	(0.105)	(0.104)
Life satisfaction	-0.0428	0.00449	0.00472
	(0.0297)	(0.0316)	(0.0310)
Freedom of choice	0.0526**	0.00299	0.0652***
	(0.0244)	(0.0245)	(0.0250)
Finance satisfaction	0.0362	-0.00381	0.109***
	(0.0284)	(0.0297)	(0.0299)
Confidence in parliament	-0.206*	-0.140	-0.224*
	(0.121)	(0.124)	(0.128)
Religious person	0.242**	0.220**	0.319***
	(0.102)	(0.103)	(0.0992)
Gender (Female = 1)	0.0321	-0.234**	-0.631***
	(0.108)	(0.109)	(0.109)
Age	0.00312	0.0315	-0.0247
	(0.0205)	(0.0215)	(0.0213)
Age squared	-0.000201	-0.000427*	-2.89e-05
	(0.000220)	(0.000227)	(0.000222)
Married	0.0117	-0.196	-0.188
	(0.210)	(0.188)	(0.203)
Number of kids	0.0883	-0.0202	0.0258
	(0.0553)	(0.0568)	(0.0578)
Observations	1,525	1,525	1,525
Pseudo R-squared	0.023	0.024	0.043

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Notes: Model also includes controls for education, employment status, social class, profession, size of a town, year and country effects

The weights for the number of people interviewed in country are applied

Table 15. Results of the first stage of IV estimations

VARIABLES	(1) Confidence in government
Average confidence within country	0.616*
	(0.331)
Average confidence within education level	0.237
	(0.638)
Average confidence within age group	0.406*
	(0.224)
Average confidence within job group	0.635
	(0.384)
Interest in politics	0.0272***
	(0.00410)
Feeling of happiness	0.0170***
	(0.00506)
Life satisfaction	0.00387***
	(0.00105)
Freedom of choice	0.00392***
	(0.000861)
Finance satisfaction	0.00203**
	(0.000941)
Confidence in parliament	0.555***
	(0.00425)
Religious person	0.00447
	(0.00422)
Gender (Female = 1)	0.00406
	(0.00407)
Age	0.000201
	(0.000819)
Age squared	1.76e-06
	(8.67e-06)
Married	0.00807
	(0.00594)
Number of kids	-0.00250*
	(0.00142)
Constant	-0.722***
	(0.146)
Observations	69,068
R-squared	0.397

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 16. Results of the second stage of IV estimations

VARIABLES	(1) Preferences for capitalism (FA)	(2) Preferences for capitalism (Average indicator)
Confidence in government	-0.161	0.130
	(0.105)	(0.178)
Interest in politics	0.0152	0.0284
	(0.0101)	(0.0173)
Feeling of happiness	0.0972***	0.143***
	(0.0127)	(0.0219)
Life satisfaction	0.0122***	0.0263***
	(0.00278)	(0.00474)
Freedom of choice	0.0224***	0.0459***
	(0.00230)	(0.00395)
Finance satisfaction	-0.000816	0.00832**
	(0.00248)	(0.00423)
Confidence in parliament	-0.0365***	-0.0778***
	(0.00972)	(0.0168)
Religious person	0.0413***	0.0720***
	(0.0103)	(0.0179)
Gender (Female = 1)	-0.145***	-0.231***
	(0.0101)	(0.0175)
Age	-0.000174	-0.00516
	(0.00202)	(0.00343)
Age squared	-1.97e-06	3.79e-05
	(2.19e-05)	(3.71e-05)
Married	-0.0123	-0.0102
	(0.0148)	(0.0254)
Number of kids	-0.00536	-0.00628
	(0.00364)	(0.00615)
Constant	0.250**	6.517***
	(0.103)	(0.176)
Observations	69,068	69,068
R-squared	0.123	0.127

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Notes: Model also includes controls for education, employment status, social class, profession, size of a town, year and country effects

The weights for the number of people interviewed in country are applied