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ABSTRACT

Why even after the dramatic increase in inequality in the 1990s and after the emergence and enrichment of “oligarchs”, the alternative (leftist, social democratic) economic policies that could have improved material and social wellbeing of the majority of the population is not supported by this majority? It is argued that in immature democracies (without efficient restrictions for the participation of private capital in politics) mass media and electoral campaigns are controlled by the rich, so there is vicious circle: market reforms and private property create the class of the wealthy “oligarchs” that are not only interested in these reforms, but also have power to maintain their political and economic might through mass media and democratic elections. The return of public opinion to the “norm” so that it reflects interests of the majority is possible only if mass media and political process are separated from private capital and private financing.

PUZZLES OF PUBLIC OPINION: WHY SOVIET POPULATION SUPPORTS THE TRANSITION TO CAPITALISM SINCE THE 1980S

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In the late 1980s, during the time of Gorbachev's *perestroika*, the majority of the population in the Soviet Union was displeased with the socialist system, and wanted it to be reformed. They hoped that the reforms would enhance living standards, ensure progress in the social sphere, strengthen law and order, promote democracy, improve the international situation and bolster the USSR's international standing. In reality the opposite happened: the economy sunk into a protracted recession, over 90 percent of people saw their living standards plummet, pensions and benefits shrank, free education and healthcare were mostly replaced with paid services, corruption, crime and a shadow economy proliferated and NATO expanded eastward, coming close to Russia's borders.

This paper traces how these changes were reflected in the public consciousness. It's commonly known that objective changes are not always adequately reflected in public opinion. People are more likely to overestimate rather than underestimate their abilities. They forecast situations on the basis of past experience (adaptive expectations) and are far from being rational in their decision-making. The transition from socialism to capitalism, like other turning-points in history, provides rich material for an analysis of the patterns in the evolution of public consciousness. A look at how public preferences in the USSR and Russia have shifted since the late 1980s can reveal at least several puzzles.

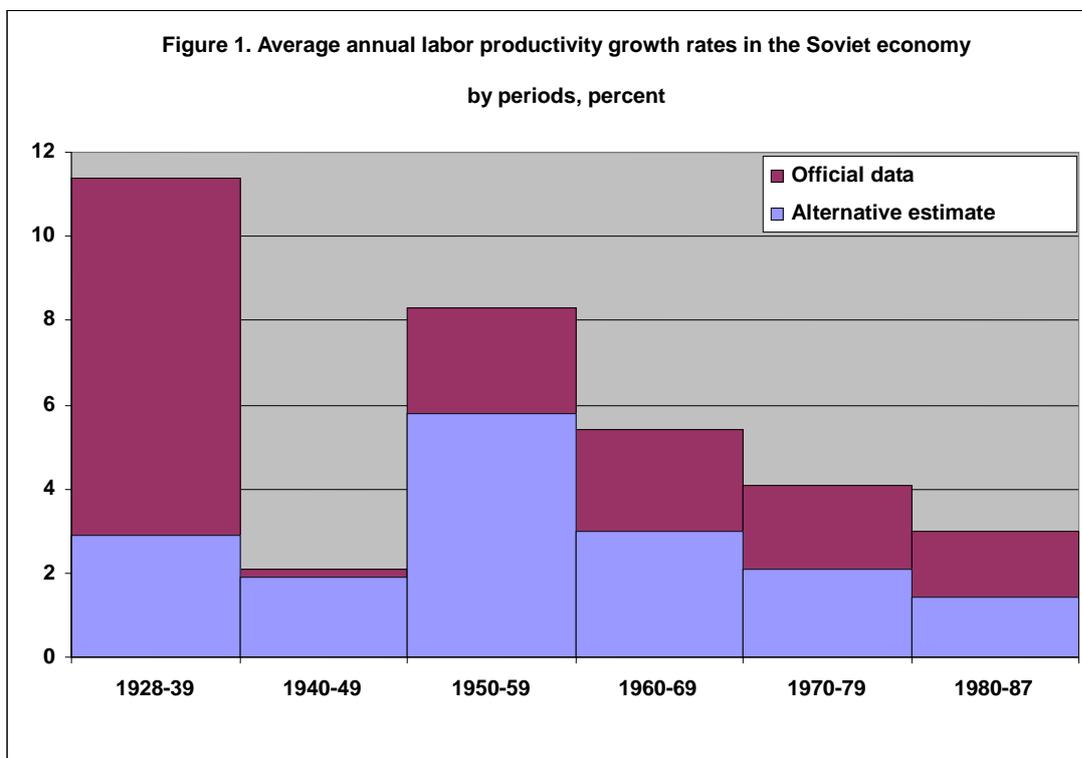
1. The political class and the intelligentsia mostly supported the market reforms in the late 1980s and the early 1990s and managed to convince large masses of the population of their relevance, even though earlier the majority of them had been committed to socialist ideals.
2. The majority, or at least a considerable minority, of the population supported the shock therapy of 1991, even though this version of reform led to a dramatic decline in their living standards and social status (in the 1990s, the reforms benefitted between five and 10 percent of the population).

3. Even today, despite the emergence and rapid enrichment of “oligarchs”, along with a surge in inequality, this majority doesn’t support an alternative economic policy (left-wing or social democratic) that could improve the living standards and social status of large masses of population.

This paper attempts to explain these “puzzles.”

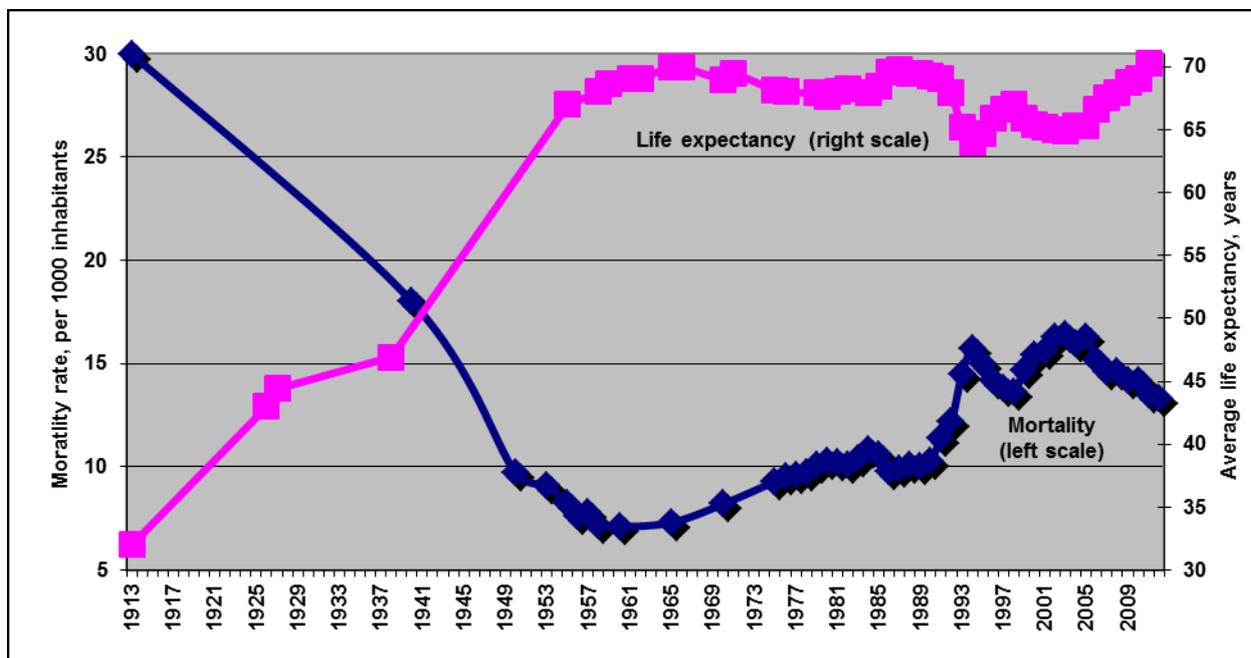
1. How the elite became disappointed with the planned system: The loss of social dynamism (1970s-1980s)

The Soviet planned system reached its peak in the early 1960s. Though the economy continued to grow even after that zenith, its pace was consistently slowing down (Figure 1). Life expectancy hit 70 years in 1965 and stopped growing, vacillating between 68 and 70 years until 1991 (Figure 2). Crime, homicide, suicide and alcohol abuse began mounting starting in the 1960s (Figure 3). Khrushchev’s “thaw” in public and cultural life came to an end in the mid-1960s, and all hopes for “socialism with a human face” were thwarted by the invasion of Czechoslovakia in 1968.



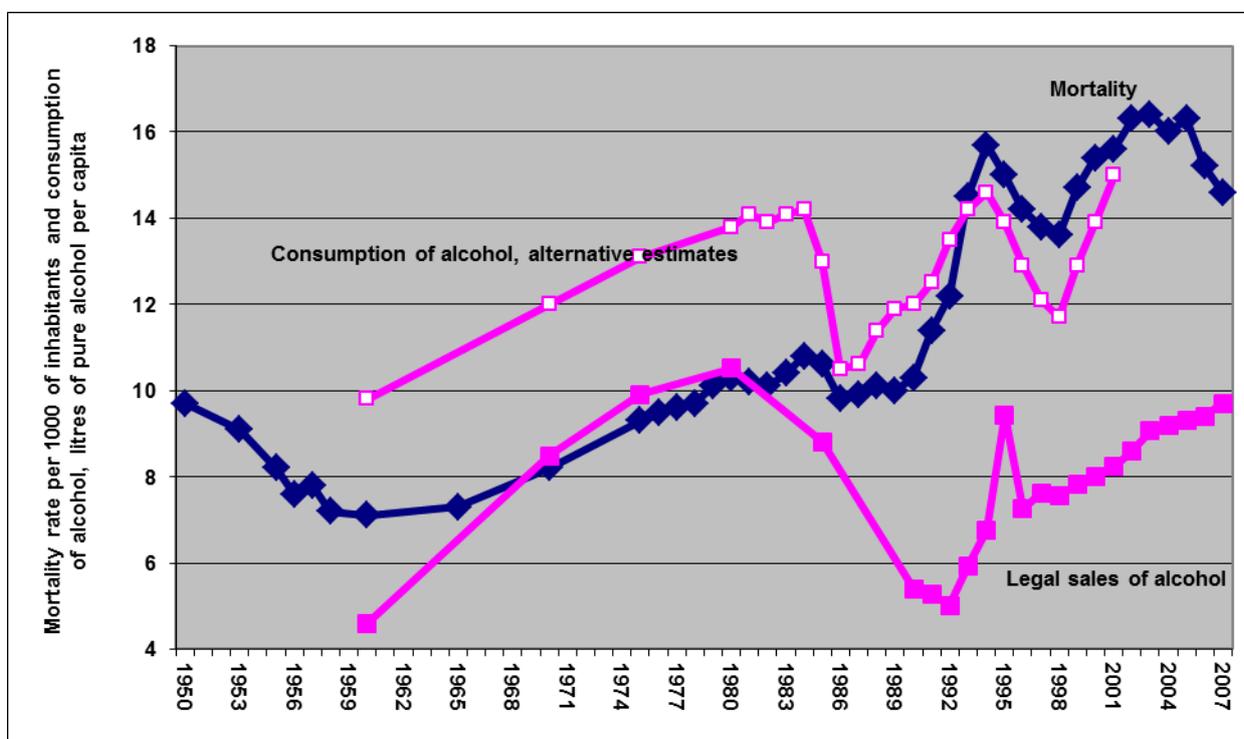
Source: Easterly, W., Fisher, S. (1995) ‘The Soviet Economic Decline’. *The World Bank Economic Review*, Vol. 9, No.3, pp. 341-71.

Figure 2. Mortality rate per 1,000 individuals (left-hand scale) and life expectancy, in years, right-hand scale)



Source: State Committee for Statistics.

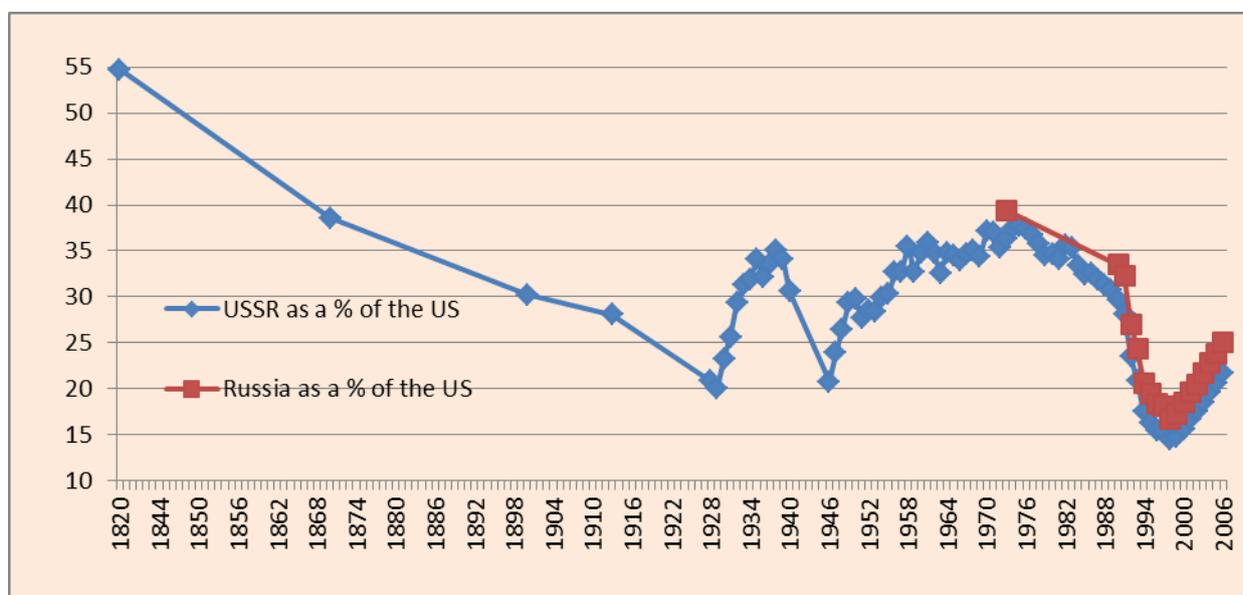
Figure 3. Alcohol consumption and mortality rates



Source: State Committee for Statistics, *Demoscope*, No. 263-264, October 30-November 12, 2006.

To understand the extent to which the 1970s and 1980s were a “period of stagnation,” we should measure the system’s dynamism in the preceding period. Previously, the Soviet economic growth rates were indeed very high: Between the 1930s and 1950s, there were just two countries in the world – Japan and the USSR – that were closing the gap between them and the USA. While Russia under the Tsars, like all of Europe, was falling farther behind the United States throughout the 19th century, the Soviet Union began catching up rapidly, with its per capita GDP rising from less than 30 percent in 1913 (and 20 percent in 1928) to almost 40 percent of the US level by the late 1960s, despite a wartime fall-off (Figure 4).

Figure 4. Per capita GDP in the USSR and Russia in % of the US level

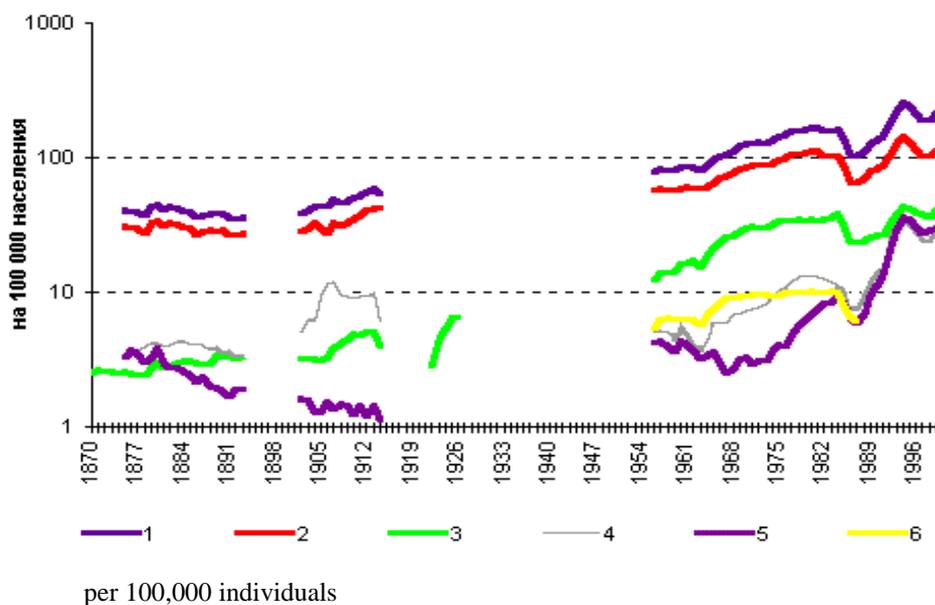


Source: Maddison, A. [Statistics on World Population, GDP and Per Capita GDP, 1-2006 AD](http://www.ggdc.net/maddison/) (Last update: October 2008, *horizontal file*, copyright Angus Maddison) - <http://www.ggdc.net/maddison/>

In the mid-1960s, the average life expectancy in the USSR was 70 years, or just a year or two less than in the USA. This was an unprecedented social achievement for a country, the per capita GDP of which was under 40 percent of America’s and the per capita consumption of which was even less, hovering at around 30 percent of the US figure (because of a higher share of investment and defense spending). The USSR’s homicide rate in the late 1950s and the early 1960s was much lower than in the early 20th century, and was approximately the same as in the late 19th century (Figure 5).

Generally, no matter how you slice it, the Soviet catch-up development model, for all its shortcomings, was certainly highly competitive in the 1950s and 1960s, both in the economy and the social sphere. Actually it was no less attractive than the East Asian (Chinese) model today. It is for this reason that developing countries attempted – with different degrees of success – to imitate this model even when the USSR did not offer any economic aid in exchange. It’s another matter where this competitiveness went in the 1970s and 1980s, and what led to the stagnation. Everyone answers this question in his own way [Попов, 2007, 2008; Попов, 2007]. But the loss of competitiveness proved fatal for socialism. The 1970s and 1980s was a time when the Soviet elite, which earlier accepted its restricted consumption as “temporary teething problems,” began turning away from the socialist idea.

Figure 5. Mortality from external causes – various reasons: Russian Empire - RSFSR - Russian Federation, 1870-2000 (logarithmic scale)



1. all external causes; 2. unintentional (including production-related); 3. suicide; 4. homicide; 5. unspecified (intentional or unintentional); 6. only production-related.

Source: Demoscope, No. 29-30, August 13-26, 2001.

As the story goes, in 1964, Honduran Minister of Communications Rodriguez received Minister Ivanov, his Soviet counterpart, in Tegucigalpa. After formal talks, Rodriguez invited Ivanov to his *hacienda*. He showed Ivanov his seven bedroom mansion, swimming pool, garages, hectares of orchards, and domestic servants. He took him for a fishing trip on his personal yacht and offered him a luxurious dinner with exotic foods. He gave him a ride in his limousine and told of how his children were studying at Ivy League universities in the United States. Ivanov was not discouraged and not impressed. He knew that the people of Honduras were poor and many were starving. In the Soviet Union, he knew that while living standards were lower than in the West, there was no starvation. He knew that life expectancy in the Soviet Union was twenty years higher than in Honduras. Soviet scientists were receiving Nobel prizes, Yuri Gagarin was the first man in space, the Soviet ballet was the best in the world, and Soviet nuclear submarines could roam the far seas. He was proud that his state was building the most advanced and socially equal civilization in human history.

Twenty years later in 1984, Minister Petrov, Ivanov's successor, visited Honduras to talk with his counterpart Minister Gonzales, the successor of Rodriguez. He was unpleasantly surprised and even a little irritated by what he discovered. Over the past two decades, Honduran life had unexpectedly risen from 50 to 65, whereas Soviet life expectancy had signs of decline. He realized that even though the USSR was more technologically advanced and economically more developed than Honduras, he would never have the same living standards as Gonzales. Why? Didn't he deserve what Gonzalez had more than Gonzalez? After all, Russian submarines were roaming the oceans and the USSR was leading the world in space exploration, arts, sciences, and even ballet. Why should we endure increasing deprivation for the sake of great and noble goals? It dawned on him that even though the Soviet Union was "growing faster than the West," so were its many struggles, causing him to think, "Why bother with socialism? If the USSR had capitalism, I would be far better off than Gonzales!"

Though this story is total fiction, it captures the change in mood of the Soviet elite when the Soviet system had lost its dynamism. The Soviet Union's political, technical, and intellectual elite were loyal to the USSR *despite* its lower welfare standards compared to Western countries because they were inspired by the constantly reducing gap with the West in per capita income and life expectancy. These elites believed that socialism as a social system was superior and that it

could beat out capitalism once it was “fully developed”. But when the USSR stopped growing faster than the West in the 1970s-80s, this belief system was shaken.

2. Why the public did not vote against market reforms after they led to a collapse of living standards (1990s)

In Eastern Europe in the early 1990s, reformers feared that losses accompanying the market transition could alienate voters from capitalism and bring anti-capitalist parties back to power. It is for this reason that the theorists behind shock therapy spoke about a “window of opportunities.” They believed that the reform plans should be drawn up almost in secrecy and implemented as soon as possible before the public came to its senses, in order to make the costs of turning back prohibitively high. “Concentration of political power, limited political competition and rapid implementation enhance the prospects for the successful adoption of economic reforms,” was how the EBRD Annual Report 1999 summed up the conventional wisdom of the time (EBRD, 1999, p. 102).

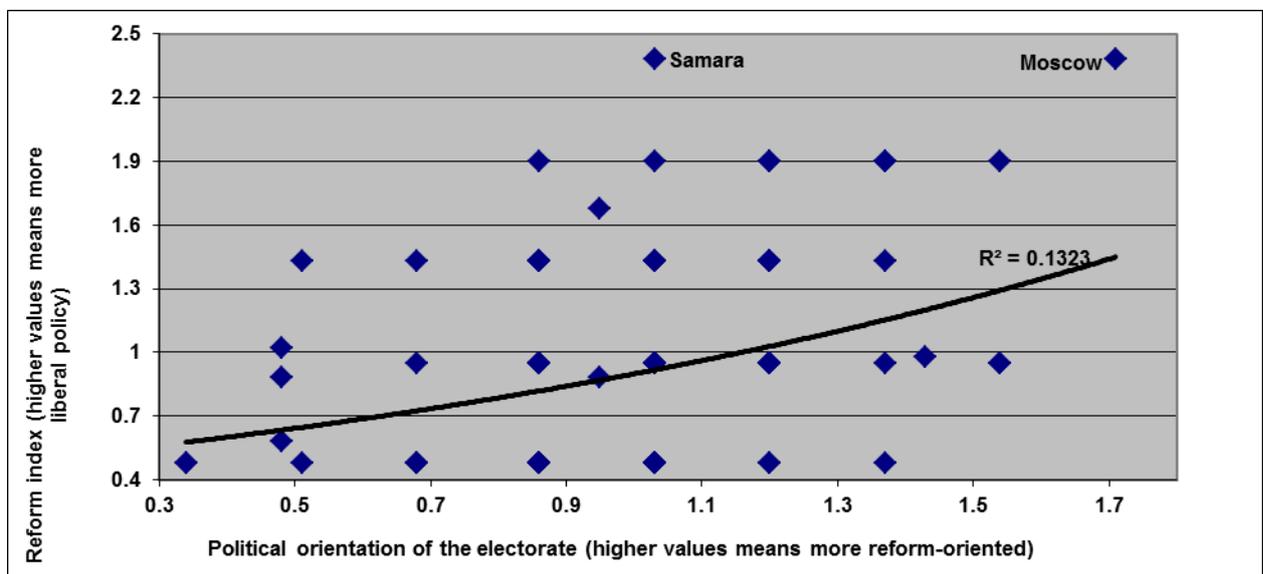
But the fear that the reforms could be delayed proved groundless (Castanheira, Popov, 2001). In the first half of the 1990s, Eastern European radical reform parties won three elections out of five, while parties favoring a slower pace of reform lost four elections out of four, and former communist parties lost two elections out of four [Aslund, Boone, Johnson, 1996]. Moreover, reforms were not halted in those Eastern European countries where the radical reformist parties (supporters of shock therapy) faced defeat. The aforementioned EBRD 1999 report dedicated to the political economy of reforms [EBRD, 1999, Chapter 5] shows that the economic reform index correlates with the dispersion of political power: Countries with restricted executive powers (presidential and/or prime ministerial), with governments based on coalitions rather than parliamentary majority, with frequently replaced governments or with a higher democracy index were generally ahead of others in the area of economic (pro-market, pro-capitalist) reforms. A study of cases in which reforms were stopped [(Hellman, 1998)] demonstrated that rather than serving as a brake, the frequency of elections helped to promote reforms.

Another study based on panel data for 25 post-communist countries [Dethier, Ghanem and Zoli, 1999] came to the conclusion that political democratization facilitated economic liberalization. Even the heaviest-hit groups (pensioners and the unemployed) voted in Eastern Europe for left-wing (formerly communist) parties, not only while they were in opposition but also when they came to power and continued the reforms [(Fidrmuc, 2000)]. It was the left-wing parties that implemented privatization

and austerity programs, including pension reforms, in Hungary and Poland. In fact, more or less gradual reforms (gradualism) could only be carried out by authoritarian regimes (China, Vietnam before 1989, the USSR under Gorbachev, Belarus, Turkmenistan and Uzbekistan), while states with competitive elections seemed to have no such option at all, because their electorate wanted everything, and right away, regardless of whether it was good for the economy. At any rate, no democratic country was actually able to implement gradual economic reforms.

In Russia's regions electoral preferences also correlated with the economic reform index (Figure 6) and remained sufficiently stable (Figure 7). The regions that voted more for pro-reform parties and candidates in 1993-96, and less for the Communists, were as a rule ahead of others in terms of price deregulation, small privatization and abolition of subsidies [Попов, 2000; Попов, 2001, 2004]. The reform efforts of regional governments were supported by the electorate even after controlling for objective factors, such as urbanization and education levels, previous drops in income levels, wage arrears and alcohol consumption [Warner, 2001].

Figure 6. Political orientation of voters in 1993-96*/ and economic reform index in Russian regions/**

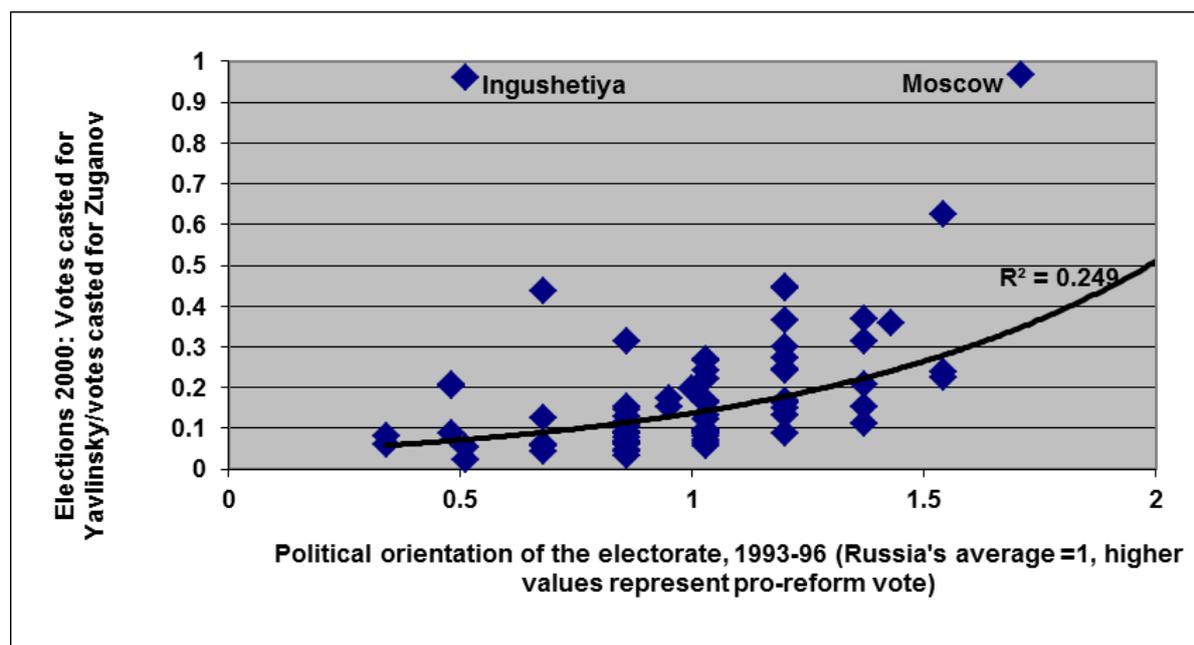


*/ Index of the political orientation of the electorate calculated by the Russian Union of Industrialists and Entrepreneurs.

**/ Economic reform index calculated as the average of indices of price liberalization, small privatization and share of subsidies in regional budgets and subsidies for agricultural products (for more detail, see: Попов, 2001).

Source: Попов, 2001; Попов, 2004.

Figure 7. The electorate's political orientations in Russian regions in 1993-96 and in 2000



*/ Index of the political orientation of the electorate calculated by the Russian Union of Industrialists and Entrepreneurs.

Source: Popov, 2001; Popov, 2004.

Over the course of the reforms, the political orientations shifted dramatically to the right regardless of the fact that the reforms led to the deterioration of the economic and social status of the absolute majority of people. Opinion polls conducted in the USSR in 1989-90 reflected a generally negative attitude toward capitalism: the majority of respondents were clearly against land trade, although supporting family farms, and scorned the cooperatives that sold their products at market prices and served as a cover and euphemism for private businesses. Forty-seven percent supported the idea of private businesses, but over 50 percent believed that these should be small, family affairs deprived of the right to hire employees. Two-thirds of those polled said that state companies should prevail in the future Soviet economy [*Izvestia*, Feb. 26, 1990; *Argumenty i Fakty*, No. 21, 1990; *Ekonomika i Zhizn*, Nov. 2, 1990].

A year later (1991), by voting for Yeltsin at the presidential elections, the population effectively approved his radical reform program that included shock therapy, rapid price deregulation and privatization. Why did the mood change so dramatically?

It's possible to indicate several specific causes that many people seem to have in mind, that are not the main ones. For example, neither the experts, nor the general public were capable of forecasting the future, and the prediction error was simply glaring. Table 1 shows that in 1990 the discussion of market transition options was based on predictions that production would grow by 25 to 50 percent before 1995, whereas in reality production declined by about one-third between 1990 and 1995.¹

Table 1. Two development scenarios submitted by the USSR Government to the Supreme Soviet in May 1990

Year	Indicator	Shock therapy, change in the indicator from 1990, %	Gradual transition, change in the indicator from 1990, %
1991	GDP	-10...-15	-5... -9
	Employment	-5... -7	-3... -5
	Investment	-47... -52	-14... -19
	Real incomes	-4... -7	-1... -
1995	GDP	+44... +50	+25... +35
	Employment	0... +2	0... +1
	Investment	+47... +57	+5... +10
	Real incomes	+25... +30	+5... +10

Source: *Ekonomika i Zhizn*, 1990, No. 28.

Another reason was the inability to forecast the growth in income inequality. Ordinary people seemed to be guided by past experience and the Soviet perceptions on low income inequality and living wage guarantees. In reality, income inequality grew dramatically: In the 1990s, 90 percent of people saw their real incomes reduced by more than half. The problem was eased somewhat by a significant cut in investment (meaning a greater share of consumption in the GDP) and the increase in export revenues

¹ In the late 1980s, practically all experts expected that market reforms would accelerate production growth. In 1989, I wrote an essay entitled, "Tighten Your Belts, Hard Times Are Ahead," which predicted a 25-30 percent production decline in the next three to five years. Several Soviet newspapers refused to publish it on the grounds that it was excessively alarmist (it was published in English in *Geonomics Newsletter*, May-June 1991). But even in 1990, when a cutback in production began both in Russia and in Eastern Europe, a market transition program, 500 Days, predicted the following: A temporary production decline (not defined in quantitative terms) during the first 400 days of the market reform, unemployment growth from four percent in 1990 to eight percent in 1991, and a stabilization of the living standards throughout the transitional period (Shatalin, 1990). In fact, the production decline continued for almost 10 years, not 400 days, and amounted to 45 percent, unemployment increased to 13 percent by 1999, and real incomes dropped by 40 percent from 1991 to 1998 (Figure 8).

with higher oil, gas and metal prices that fetched an additional \$400 billion a year², or almost \$3,000 per capita a year. But even after accounting for these factors, it was not until 20 years later (or by the 2008-2009 crisis) that the majority of people could bring their real incomes to the level of the late 1980s. Thus, the majority was badly affected by the market transition, which they had themselves supported.

But these are not the main factors, and they cannot fully explain why the majority backed the reforms. After all, even the production decline and growing inequality failed to make the electorate swing to the left and demand nationalization of natural resources and introduction of a progressive income tax, let alone more radical leftist measures unsupported by the majority in the 21st century. Many countries did not enjoy windfall gains (“money for old rope”), such as oil revenues, but even these countries witnessed a shift towards big business interests in public preferences. The main thing, therefore, seem to be the irrational stereotypes persisting in the mass consciousness despite facts and logic: high taxes and a big state are harmful for economic growth, while the likelihood of getting rich quick is higher than the chance of benefiting from progressive taxes. These stereotypes, in turn, are perpetuated by the media and the political system, which are largely controlled by big business.

3. Do we all want to be richer than others? (The 21st century)

It was observed long ago that social groups often support measures that are at odds with their interests. Even advanced democracies approve decisions that run counter to the interests of the majority. A recent book on inequality by Joseph Stiglitz [Stiglitz, 2012] investigates precisely this paradox: in democratic societies, even modest measures to restrict major fortunes (such as a progressive income tax) are not supported by the majority of the public, even though they are in their own interests. Unless there are special limitations on the involvement of private capital in the media, advertising and elections, the holders of major fortunes would easily impose on the mass consciousness the ideas that promote their interests and run counter to the interests of the public. Formally, elections are based on the principle of one man-one vote, but their results are actually the same as in a joint-stock company, where one vote equals one dollar.

US congressional election studies [Jacobson, 1978] show that campaign financing is the most significant factor explaining the victories by candidates (particularly new figures, who previously

²Russian exports grew from \$46 billion in 1992 to \$523 billion in 2013, which was mostly due to higher oil, gas and metal prices.

never held elected office). This direct campaign financing, however, is not the whole story, financing of the media, non-profit organizations, political parties and associations, researchers, advertisers and many other shapers of public opinion matters a great deal. Each voter seeks to increase his or her prosperity, but how to do this and what candidates to support is something that is largely, if not decisively, determined by the prevailing stereotypes formed as a result of financing efforts.

The Russian population, like any other, wants better living standards and a better social climate. Growing incomes and longer life expectancies, lower unemployment and crime rates in Russia, like in other countries, all other things being equal, lead to greater satisfaction with life and higher evaluation of one's prosperity/happiness (Table 2 and Figure 8). But the policy that is needed to promote personal incomes and life expectancy is an area where mass consciousness is irrational and reflects the interests of big business and the most well-to-do groups, rather than the middle class, let alone the poor.

Table 2. Answers to the question “Are you happy?” (% of total respondents) and Happiness Index in Russia, according to VTSIOM polls

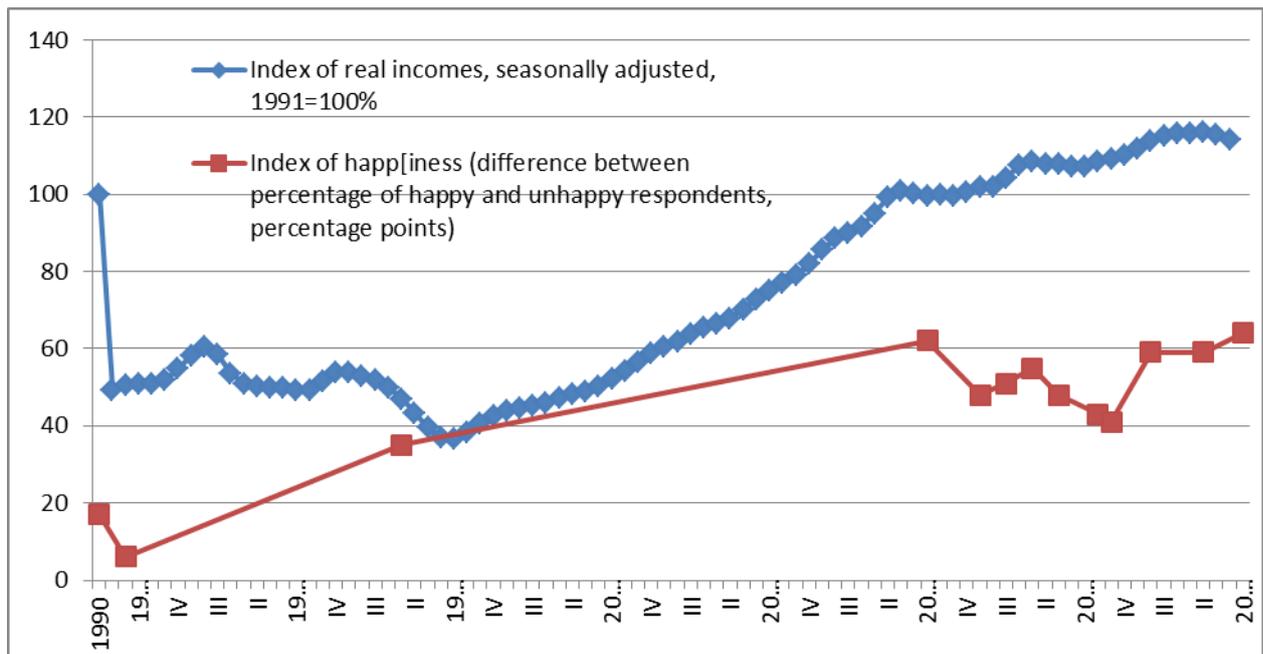
Month, year	6/ 1990	5/ 1991	2/ 1992	2/ 1998	3/ 2008	3/ 2010	9/ 2009	3/ 2010	9/ 2010	4/ 2011	9/ 2011	4/ 2012	4/ 2013	4/ 2014
Definitely yes	5	8	2	16	22	19	19	20	14	19	15	21	23	25
Basically yes	39	52	40	44	55	50	53	52	56	48	51	56	54	53
Basically no	22	24	31	19	12	16	17	14	19	20	21	16	15	22
Definitely no	5	5	5	6	3	5	4	3	3	5	4	2	3	2
Hard to say	29	12	23	15	8	11	7	11	9	8	9	5	6	8
Index	17	31	6	35	62	48	51	55	48	43	41	59	59	64

Note: Happiness Index is the difference between the percentage of respondents who said that they were happy and those who stated that they were unhappy.

Source: Russian Public Opinion Research Center (VTSIOM)

(<http://wciom.ru/index.php?id=459&uid=114812>)

Figure 8. Real Income Index and Happiness Index



Source: State Committee for Statistics (Goskomstat) (www.gks.ru), Russian economic statistics base, HSE website (http://sophist.hse.ru/exes/tables/HHI_Q_I.htm), VTSIOM (<http://wciom.ru/index.php?id=459&uid=114812>)

It is quite clear, for example, that the majority of the population will benefit from the introduction of a progressive income tax, and that the likelihood of becoming so rich as to be in the highest income tax bracket is slimmer than the chance of benefitting from a high income tax through greater access to public goods (education, healthcare, etc.) and better social insurance. Nevertheless, the majority of people are against a steep tax rate progression.

It is also patently clear that free education and healthcare is in the interests of the majority of people, but this system is uncommon in developing countries. To maximally increase the average life expectancy, if we consider an oligarch's life to be as valuable as that of a poor person, the limited resources that society is prepared to allocate to the healthcare system should certainly be distributed evenly, or more precisely, in conformity with medical indications. But in all democracies, even if they offer a minimum of medical services for free, the rich are able to receive better medical assistance. Strictly speaking, free healthcare and education was only introduced in poor countries by authoritarian socialist governments (the USSR, China, Cuba), while in democracies at the same development level these were largely paid services, which accounted for their lower life expectancy and education levels.

It is extremely difficult to alter stereotypes in the public consciousness. One study [Gentzkow, Shapiro, 2010] argues that the press bias is explained by electoral preferences rather than the political orientation of a newspaper owner. In the traditionally Republican constituencies, for example, newspapers hold a Republican orientation, because readers prefer to find confirmation (rather than refutation) of their views, while press earnings (advertising revenues) depend on circulation. So, this creates a vicious circle: conservative voters like information that confirms their views => media concerned with larger circulation are eager to provide this information => voters are even more confirmed in their conservative views...

It would seem this vicious circle can be broken either by reforms from above banning big business involvement in the media and the political process (certain European countries – specifically the Scandinavian countries, with their public funding of political parties and the media – have come closer to this system than others), or by revolutions occurring when the gap between the stereotypes in the public consciousness (opportunities for enrichment) and the reality (impoverishment) reaches a critical level.

To conclude, the public consciousness in the USSR reflected real economic changes, specifically disappointment with socialism that was felt, albeit with a considerable time lag, by both the Soviet elite and the public following the loss of social dynamism in the 1970s and the 1980s. Views of the future are mostly formed on the basis of an extrapolation of past tendencies (adaptive expectations), while one's own opportunities and abilities are as a rule strongly overestimated (consider the contradictory mass confidence of the 1990s in the preservation of low inequality and personal economic success). However, in undeveloped democracies (that lack effective barriers to big business involvement in politics), the media and election campaigns are controlled by owners of major fortunes and upper-income groups which results in a vicious circle. Market reforms and privatization bring forth a class of rich proprietors (“oligarchs”), who both have a stake in maintaining their economic and political influence through the media and democratic elections, and possess the necessary leverage to achieve this end. Public preferences can only return to “normal” – to stereotypes reflecting the interests of the majority – if the media and the political process as a whole are separated from big business and private funding.

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