



NATIONAL RESEARCH
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Social Capital and Economic Well-being of Households in Transition Economies (*progress report*)

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RESEARCH PROBLEM

Institutional effectiveness is essential for increasing economic well-being and overcoming economic hardship. Which resources do households use to maintain and increase their well-being in those transition economy countries where institutions demonstrate low effectiveness?

The Life in Transition survey data reveal divergent tendencies in social capital during the economic crisis. For example, over the period from 2006 to 2010 the level of generalized trust – one of the most frequently used indicators of social capital – has **decreased** considerably in Armenia (by 12 percentage points), Georgia (by 15 percentage points), Latvia (by 9 percentage points). Some transition economy countries experienced a sharp **increase** in generalized trust (in particular, Russia (by 16 percentage points), Tajikistan (by 14 percentage points), Montenegro (by 13 percentage points)).

RESEARCH QUESTIONS

Why, in some countries, do they rely more on social capital under economic hardship, while in other countries economic difficulties deplete the resources of social capital?

Which country-level characteristics can explain these different types of the relationship (or different strength of this relationship) between social capital and economic well-being in transition countries?

SOCIAL CAPITAL AND ECONOMIC WELL-BEING

Social capital within a broad context: the essential factor of long-term economic development and effective institutional performance (*Boosrih, 2007; Knack, Keefer, 1997*)

Social capital tends to make households less vulnerable to the negative consequences of economic shocks (*Helliwell et al., 2014; Tobin, Livermore, 2006*).

Formal institutions matter. They define the relationship between social capital and economic well-being (*Ahlerup, Olsson, Yanagizawa, 2009; Guiso et al., 2004; Reeskins, Oorschot, 2014*).

THEORETICAL FRAMEWORK

Theory of social embeddedness

M. Granovetter: “*institutional arrangements ... do not produce trust but instead are a functional **substitute** for it*”.

R. Putnam: “*social capital as features of social life such as networks, norms, and trust that enable participants to act together more effectively to pursue shared objectives*”

Social capital as an ability of an individual to mobilize resources of a network based on mutual commitments and both material and symbolic reciprocal exchanges. This definition is more applicable to transition economies and countries with a political regime under transformation (Mateju, Vitaskova, 2006).

HYPOTHESES

- H1. Higher social capital tends to increase the economic well-being of households.
- H2. Higher quality of government reduces the positive effect of social capital on the economic well-being of households.
- H3. More generous welfare policy and the provision of more equal access of different social groups to public goods reduces the positive effect of social capital on the economic well-being of households.

DATA (1)

INDIVIDUAL LEVEL VARIABLES

DEPENDENT VARIABLE	INDICATOR	DATA SOURCE
Economic well-being (objective measure)	<i>“In the past two years, have you or anyone else in your household had to take any of the following measures as the result of a decline in income or other economic difficulty?”</i> (dummy-variable: “0” if the household members had to take at least one of the following measures to cope with an economic difficulty in the past 2 years: reduce consumption of staple food, postpone or withdraw from university, stop buying regular medicaments, delay payments on utilities (gas, water, electric), have utilities out because of delayed payment, cut TV/phone/internet service, delay or default on a loan instalment, sell an asset, forced to move; 1 – otherwise)	Life in Transition Survey (2 nd round)
Subjective material prosperity	<i>“Imagine a 10-step ladder where on the bottom, the first step, stand the poorest 10 per cent of people in [their country] and on the highest step, the 10th, stand the richest 10 per cent of people in [the country]. On which step is your household?”</i>	



DATA (2)

INDIVIDUAL LEVEL VARIABLES

INDEPENDENT VARIABLE	INDICATOR	DATA SOURCE
Trust in friends and acquaintances	“To what extent you trust your friends and acquaintances?” (5 categories)	Life in Transition Survey (2 nd round)
Trust in family	“To what extent do you trust your family?” – categorical scale (5 categories)	
Trust in unknown	“To what extent do you trust people you meet for the first time?” (5 categories)	
Sources of support	“Some people, because of their job, position in the community or contacts, are asked by others to help influence decisions in their favour. Do you know anyone whom you could ask for such help?”	
Rural settlement; Metropolitan settlement	Dummy-variables (urban as a reference category)	
Number of children		
Gender	Dummy variable (1 – male)	
Age		



DATA (3)

COUNTRY LEVEL VARIABLES

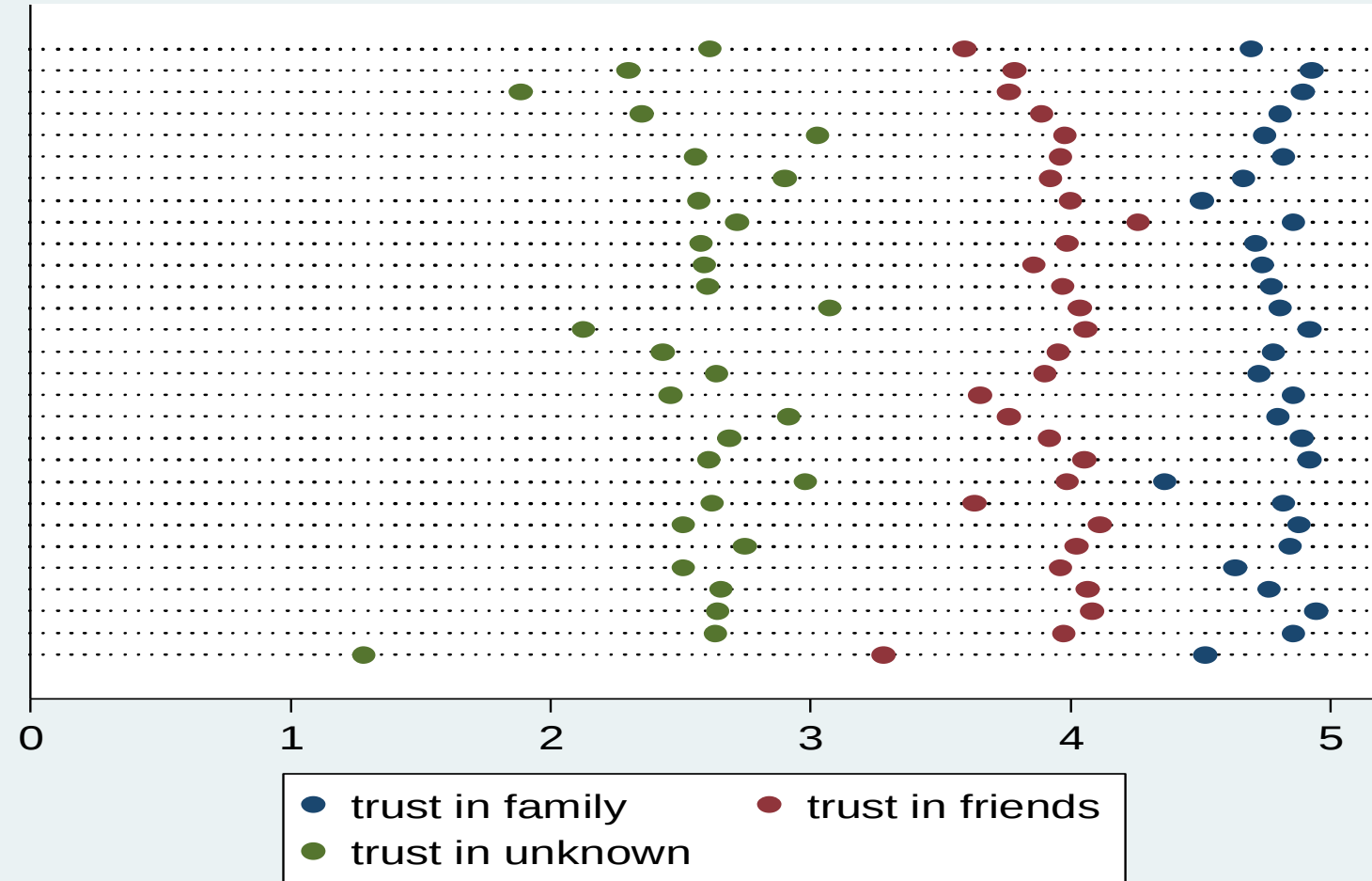
VARIABLE	INDICATOR	DATA SOURCE
Social safety nets (Equality of outcomes)	ranges from 1 (the absence of social safety nets) to 10 (comprehensive social safety nets encompass the society)	The Bertelsmann Stiftung's Transformation Index
Equality of opportunities	ranges from 1 to 10 (The highest score is intended for those countries where different social groups have equal access to public services and employment)	
Political regime	From 0 to 10 (the average of Freedom House and Polity IV indices)	QoG database
Economic growth	GDP per capita growth (annual %)	The World Bank
Government effectiveness	The higher the value is the higher quality of government is (random variable with a standard normal distribution).	The Worldwide Governance Indicators Project

As a main method in our research we apply multilevel modeling (logit models with a “had to take measures to overcome economic difficulties” as a dependent variable) with random effects for social capital.

Hierarchical structure with individuals as sample units of the first level nested within 29 countries (*Albania, Azerbaijan, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Mongolia, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Tajikistan, Ukraine, and Uzbekistan*)

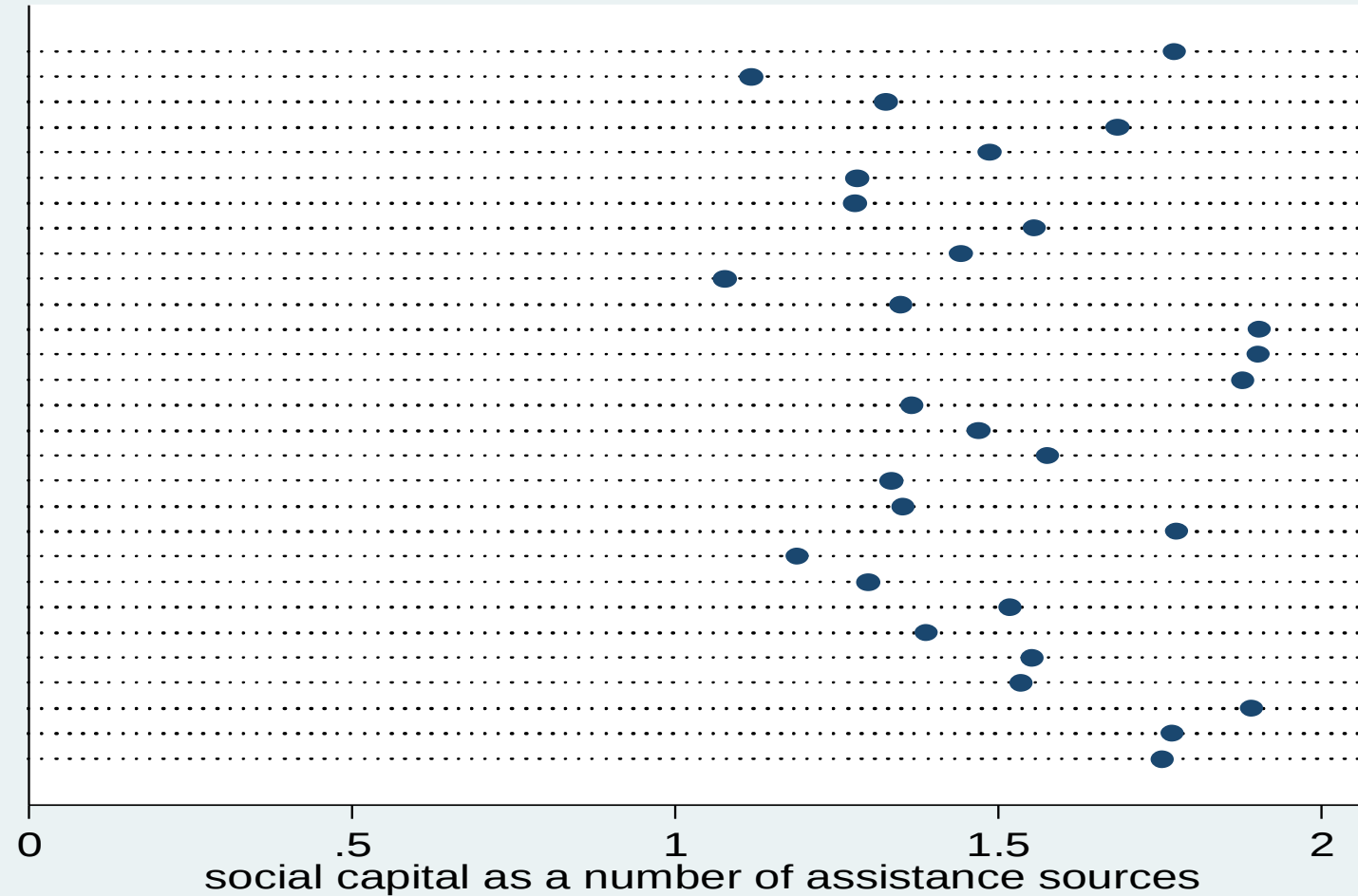
DESCRIPTIVE STATISTICS (1)

Albania
 Armenia
 Azerbaijan
 Belarus
 Bosnia
 Bulgaria
 Croatia
 Czech Republic
 Estonia
 Georgia
 Hungary
 Kazakhstan
 Kosovo
 Kyrgyzstan
 Latvia
 Lithuania
 Macedonia
 Moldova
 Mongolia
 Montenegro
 Poland
 Romania
 Russia
 Serbia
 Slovakia
 Slovenia
 Tajikistan
 Ukraine
 Uzbekistan



DESCRIPTIVE STATISTICS (2)

Albania
Armenia
Azerbaijan
Belarus
Bosnia
Bulgaria
Croatia
Czech Republic
Estonia
Georgia
Hungary
Kazakhstan
Kosovo
Kyrgyzstan
Latvia
Lithuania
Macedonia
Moldova
Mongolia
Montenegro
Poland
Romania
Russia
Serbia
Slovakia
Slovenia
Tajikistan
Ukraine
Uzbekistan



Fixed effects	Subjective well-being as a dependent variable	Objective economic indicator (measures)
Trust in family	0.114*** (4.26)	0.188*** (8.04)
Trust in friends and acquaintances	0.0897*** (5.12)	0.187*** (12.15)
Trust in unknown	0.0401** (2.97)	0.0246* (2.01)
Sources of assistance	0.192*** (9.79)	0.0178 (0.98)
Rural settlement	− 0.114*** (− 3.78)	0.113*** (4.16)
Metropolitan	0.0685 (1.29)	0.201*** (4.46)
Number of children	− 0.0457*** (− 3.29)	− 0.148*** (− 10.77)
Gender (male = 1)	0,0757* (2.47)	0.166*** (6.46)
Age	− 0.129*** (−12.39)	− 0.0930*** (− 10.52)

The random effects for such indicators of social capital as trust in friends and trust in unknown, sources of assistance (in the models with objective well-being as a dependent variable), turn out to be significant.

Moderator effect?
Country-level predictors?

Models with cross-level interactions	Subjective well-being			Objective economic indicator
Trust in family	0.125*** (4.44)	0.125*** (4.44)	0.132*** (4.69)	0.227*** (9.24)
Trust in friends and acquaintances	0.0126 (0.58)	0.0258 (0.7)	0.0860** (2.63)	0.269*** (9.95)
Trust in unknown	− 0.0460 (− 1.63)	− 0.0293 (− 1.04)	− 0.0362 (− 1.43)	0.0254* (1.99)
Sources of assistance	0.172*** (8.17)	0.171*** (8.09)	0.170*** (8.08)	0.0903* (2.51)
Government effectiveness	0.323 (1.79)			
Generous welfare policy		0.124** (2.61)		
Equality of opportunities			0.134** (2.18)	0.385*** (4.21)
Government effectiveness × trust in friends	0.0676*(2.35)			
Government effectiveness × trust in unknown	0.0656** (2.95)			
Generous welfare policy ×trust in friends		0.0191* (2.03)		
Generous welfare policy × trust in unknown		0.0159* (2.26)		
Equality of opportunities × trust in friends			0.00215 (0.19)	− 0.0392*** (−4.24)
Equality of opportunities × trust in unknown			0.0247** (2.93)	
Equality of opportunities × sources of support				− 0.0328** (− 2.85)
Control variables	+	+	+	+

PRELIMINARY CONCLUSIONS FURTHER STEPS

The twofold effect of formal institutions. On the one hand, they tend to strengthen the effect of social capital on the household well-being. This effect turns out to be significant for subjective well-being. On the other hand, formal institutions substitute the effect of social capital. Higher equality of opportunities reduces the positive effect of social capital on the objective indicator of well-being.

The further steps:

- 1) Check if the results are robust on the data of the first wave of “Life in Transition” (2006). The reason is that the 1st wave data includes such variable as the distribution by income decile (EBRD methodology).
- 2) ICRG measure of quality of government
- 3) Fixed-effects models

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<https://lcsr.hse.ru/en/seminar2016>

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