

Transmission of Soviet privileges across time and generations: The case of Ukraine

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Abstract. *This paper examines the inequality and intergenerational mobility in Ukraine during the post-Soviet period. We test whether and to what extent Ukraine fits in the general pattern of the ex-communist countries that former communist elites carried their privileges throughout transition. We identify the group of individuals with high social position and, thus, likely communist party members using the retrospective survey evidence about employment in 1986 or earlier. We then trace their individual and household-level outcomes in the post-1991 period using the Ukrainian Longitudinal Monitoring Survey data. In addition, we examine the dynamics of labor market outcomes of adult children of individuals associated with the communist party relative to their peers which will provide insights about intergenerational transmission of privileges acquired in the Soviet era.*

Motivation. Intergenerational mobility in different settings and periods has been of interest to economists for a long time. Literature usually agrees that at least some degree of persistence in inequality across generations exists. Post-Soviet countries stand out in this respect. On the one hand, the communist state reduced the monetary inequality through collectivization and wage grids. On the other hand, it created a notorious class system closely associated with participation in the communist party and army. For example, collective farm workers were deprived of the freedom of geographic mobility until the passport reform of 1974. These measures deeply incorporated inequality into Soviet society.

The fall of communism and the following democratic transition was a shock to the social system. How inequality evolved and how many privileges were carried over throughout transition is an empirical question. We know that in East Germany and Russia communist elites maintained their privileged standing and remained consistently higher in income distribution throughout the transition (Bird et al., 1996; Geiskecker & Haisken-DeNew, 2004; Novokmet et al., 2018). However, little, but common heuristics, is known about Ukraine.

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Research question. In this paper we examine the inequality and intergenerational mobility in Ukraine during the transition period. We want to understand if 1) groups of population who had higher social position in the Soviet Union turned out to better navigate the transition and 2) if they were able to transfer their privileged position to their children. High social status in the communist countries was closely related to the communist party membership which provided social connections and unique opportunities and not only for oneself but also for their children. According to Becker et al. (2018) differential ability of parents to invest in children's human capital correlated with income distribution may explain the persistence of inequality.

We perform the analysis along two dimensions – individual and intergenerational. Along the individual dimension we study the outcomes of people between 2003 and 2012 with different socio-economic status on the onset of “perestroika”. Along the intergenerational dimension, we examine whether children of people who had high socioeconomic status during the Soviet era kept their privileged status in modern Ukrainian society (in terms of occupation, earnings, wealth, etc.).

Data. Most of the existing studies examine inequality and intergenerational mobility by studying the position of parents and children in income distribution. We are not aware of the availability of such data for Ukraine during the Soviet period. Therefore, we will rely on data about income after 1986 (the first wave of the ULMS) and occupation of parents reported retrospectively. Such data is available in the Ukrainian Longitudinal Monitoring Survey (2003, 2004, 2007, 2012). The survey contains retrospective data on the characteristics of the jobs held by each member of the household in 1986³, as well as individual and household characteristics in the years of the survey.

Indicator for the communist party membership before 1991 is one of the key variables for our analysis. The survey does not have a formal indicator of the communist party membership for either respondents or their parents. Instead, using the common knowledge that all managers, members of the army, etc. were the communist party members⁴ (Geishecker & Haisken-DeNew, 2004), we will identify this class by looking at the occupations of the respondent in 1986 and their parents when respondent was 14.

³ We will follow Gorodnichenko & Sabirianova Peter (2004) to re-weight the 1986 sub-sample using weight from the Statistical Yearbook of the USSR (1987).

⁴ We intend to cross-validate the method for classifying individuals and households by the communist party membership status using data where both predictors and outcomes are known. We consider using the Russian Socio-Economic Transition Panel or the Life in Transition Survey for this purpose.

We will consider a set of outcomes characterizing multiple individual job characteristics and household-level wealth characteristics from different waves of the ULMS. The job characteristics include occupation, industry, and wages. The wealth characteristics include possession of land, housing, expensive durables, and vacations and thus allow to overcome the concern about income underreporting. We will create a composite measure of a household's cumulative living standard by aggregating multiple wealth metrics into a wealth index following the USAID methodology. In addition, we will also construct a relative income position during the post-1986 period to study the dynamic change in the socio-economic status of the respondents.

Methodology. We will perform analysis on the household level and individual level. We assume that each household h consists of parents p_i and a child i . Both parents and child could be communist party members before 1991, $CP_j \in \{0,1\}, j = \{i, p_i\}$. First, we will examine the correlations between the respondent's communist party membership status CP_i (inferred from the occupation in 1986) and their individual outcomes (relative income position, occupation) in 2003, 2007, and 2012 using the eq. 1. Next, we will analyze adult children's outcomes as a function of parents' communist party membership status PCP_i (inferred from the answer to retrospective questions about parents' occupation when the respondent was 14) using eq. 2.

$$RespOutcome_{iht} = \alpha_1 + \beta_1 CP_{ih1986} + \gamma_1 X_{iht} + \kappa_1 Z_{ht} + error_{iht} \quad (1)$$

$$ChildOutcome_{iht} = \alpha_2 + \beta_2 PCP_{ih1986} + \gamma_2 X_{iht} + \kappa_2 Z_{ht} + error_{iht} \quad (2)$$

The dependent variable is the log of the individual's relative income position in the given year. We will also include socio-economic controls like age, education, current occupation, marriage status, gender, education, family size, and nationality. These regressions will allow us to detect the importance of the party membership in modern Ukraine if any, and the persistence of this effect. A similar analysis will be performed for the relative wealth index. We will also use panel regressions to measure the size of the average effect of party membership and its significance.

Next, we will examine whether association with the communist party affected wealth accumulation in Ukraine during the post-Soviet period. We will estimate eq. 3 for the household-level outcomes.

$$\Delta \log (w_{ht+1}) = \alpha_3 + \beta_3 CP_{h1986} + \kappa_3 Z_{ht} + error_{ht} \quad (3)$$

We expect to observe a significant difference based on the communist party membership: the households associated with the communist party should have had a higher initial level of wealth in 2003. Individuals whose parents were communist party members are expected to have better

paying or more prestigious occupations due to the party network effects. We do not have any priors about the dynamics of socio-economic outcomes between 2003-2012 because two major events – the Orange Revolution and the global financial crisis – could significantly undermine the advantage of soviet functionaries’ families. How the democratic Orange Revolution affected inequality and privileges of the people associated with the communist party is particularly interesting.

Contribution to literature. We provide what is to our knowledge the first attempt to analyze which income and wealth classes have benefited most from the post-Soviet transition in Ukraine. For this purpose, we use the Ukrainian Longitudinal Monitoring Survey. We pay particular attention to the households which are associated with the so-called “aparatchiky”, a group of work occupations closely linked to the communist party members which constituted the majority of socio-economic elites in Soviet Ukraine and, allegedly, early during the transition period. Since little direct information about communist party membership and privileges exist, to identify this group of population, we use the retrospective survey evidence about wages and occupations. Besides considering the endowment benefit of “aparatchiks” households we look at their ability to transfer it to the younger generations, by comparing the socio-economic outcomes of their adult children. Finally, we compare the adaptability of the two socio-economic groups by looking at the heterogeneity of outcomes surrounding two major events, the Orange Revolution (2004) and the Great Recession (2007-08) in Ukraine.

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