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Some Characteristics of the New Middle Class in Central and Eastern Europe: a 10 Nation Study

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Abstract

This comparative paper is analysing the self-employed in nine post-Communist nations: Belarus, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Ukraine. The Data-Base consists of the New Democracies Barometer 4, which was conducted in 1996 and encompassed 9.000 face-to-face interviews. The highest number of self-employed was found in advanced transformation countries like Poland, Hungary, the Czech Republic, Romania and Slovakia. Amongst the self-employed we found a dominance of men, persons with higher levels of education and the younger generation. The youth of self-employed in Central and Eastern Europe is a good sign for the future growth of that emerging occupational stratum in the next years of economic transformations in post-Communist Europe.

Zusammenfassung

Diese vergleichende Studie analysiert die Berufsgruppe der Selbständigen in neun post-kommunistischen Staaten: Belarus, Bulgarien, Kroatien, Polen, Rumänien, Slowakei, Tschechien, Ungarn, sowie die Ukraine. Die Datenbasis der Untersuchung besteht aus dem "Neuen Demokratien Barometer 4", welches von den Autoren im Jahre 1996 durchgeführt wurde, wobei 9.000 Personen in persönlichen Interviews befragt wurden. Die größte Anzahl von Selbständigen wurde in fortgeschrittenen Transformationsländern wie Polen, Ungarn, Tschechien, Rumänien und in der Slowakei festgestellt. In der Berufsgruppe der Selbständigen fanden wir eine Dominanz von Männern, von Personen mit höherem Bildungsniveau und der jüngeren Generation. Die relative Jugend der Selbständigen in Zentraleuropa und Osteuropa stellt ein gutes Zeichen für das zukünftige Wachstumspotential dieser sich herausbildenden sozialen Schicht in den nächsten Jahren der wirtschaftlichen Transformationsprozesse im post-kommunistischen Europa dar.

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Introduction

The discussions at the Conference "The Middle Class as a Precondition for a Sustainable Society" which took place in Sofia in June 1998, yielded two views of the middle class in post-communist societies. On the one hand there was the *old middle class* and on the other hand there was the *new middle class*.

The *old middle class* consisted of those holding professional and managerial positions (doctors, teachers, factory managers, civil servants etc.) under the Communist system and whose positions were a product of the state administrative system which existed then. These are generally highly educated people who possess a valuable stock of cultural capital (Bourdieu & Passeron, 1977). Whilst well located in the former system, these positions were not particularly well paid and they did not therefore possess large stocks of financial capital. They may, however, have acquired social capital because of the need to make contacts and to manipulate connections in order to manage their every day lives and to maintain advantages (Sik, 1994), (Mozny, 1994), (Rose, Mishler, & Haerpfer, 1997; Wallace, Chmouliar, & Bedzir, 1997). The values and life-styles of such groups is known through a range of surveys of stratification which have taken place both now and in the past (Tilkidjiev, 1996). According to many of the contributors to the conference, this old middle class has been partially destroyed and is severely under threat. Their living standards have sunken, putting them amongst the worst paid of workers in the post-communist systems and their status is still not particularly high. Many have lost their jobs in the rationalisation which has taken place.

The *new middle class*, on the other hand has yet to be fully established. The new middle class are those people who have emerged from the private sector as entrepreneurs of various kinds and who have perhaps not yet consolidated into a class grouping with their own interests and representation in the political system, associations and so on. Much less is known about this group because they are relatively new and their numbers are still small. It is possible that the new middle class also consists of members of the old middle class who have changed their employment. The new middle class may have their roots in the informal economic activity which existed in the past and continues to exist now, so that their origins are rather murky and obscure (Sik, 1993). Furthermore, many people enter the new middle class by first starting a business in addition to continuing their salaried positions as a form of security. They are therefore difficult to isolate in questionnaires and other investigations and may prefer to conceal their positions.

In this paper we have selected people who described themselves as "self employed" as their main job in a survey carried out in 1996. We are assuming that these can be taken as examples of the "new middle class". We are not claiming that this is the whole of the new middle class and many of them maybe quite small-scale entrepreneurs, whilst others could

be "nouveaux riches". Furthermore, because we asked about their main job, we will have missed all those for whom having a business is a second job. Therefore, our sample underestimates the real numbers of the self-employed. Nevertheless, we can look at their characteristics and values as giving some indications about some of the characteristics of at least one part of the middle class.

We have set ourselves three main research questions in this paper :

1. What are the characteristics of the self-employed?

To answer this question we will consider from which population groups the self-employed are drawn: whether they are city or country dwellers, how old they are and whether they are male or female. We have also looked at religious confession to see if the "spirit of capitalism" of really linked with the "Protestant ethic" in post-communist societies. Finally we looked at their subjective perceptions of their own economic well-being. Were they prosperous people or poor ones? Were they better or worse off than before?

2. What are the values of the self-employed?

The second research question assumes that the new middle class in the form of the self-employed would be associated with a new set of individualistic, achievement oriented values and would be supporters of the new regime. These are the people who may have benefited the most from the changes and whose values may be assumed to be in the vanguard of changes towards a more democratic and market-oriented society.

3. In which countries are the self-employed to be found?

The post-communist transition has had very different impacts upon the countries of the region and the divergence between the fortunes of the different countries is increasing rather than decreasing. Some countries have benefited from a range of reforms which have assisted the position of entrepreneurs and the formation of a middle class through sympathetic tax regulations (or even tax breaks for new entrepreneurs) and have a higher per capita income which means there are more people to buy the services of the self-employed. These countries are mainly the Central European belt of countries: Poland, Czech Republic, Slovakia, Slovenia and Hungary (Wallace & Haerpfer, 1998). In these countries, people are more easily able to work or trade in the European Union as a way of raising capital for their enterprises. These countries have also benefited from extensive privatisation programmes. Other countries however, such as Bulgaria, Belarus and Ukraine have suffered from on-going economic crises and there is a lack of reform in those countries. In the former Soviet Union the tax system severely penalises the small entrepreneur, charging up to 100% tax on profits and thus encouraging tax evasion. The lack of reform in those countries and the

lack of protection for enterprises provided by the law, has encouraged the growth financial lobbies and entrepreneurship outside of the law. In Croatia and Bulgaria the war and international embargo of the early 1990s has impeded reforms that may have helped the self-employed.

Methods of Research

The results are based upon the 1996 survey of the New Democracies Barometer (NDB). The NDB has been carried out at five time points since 1991 in the following countries: Poland, Hungary, Czech Republic, Slovakia, Slovenia, Croatia, Romania, Bulgaria, Ukraine and Belarus. In addition to the normal demographic variables, it explores attitudes to political and economic change on a longitudinal, repeated basis. There are approximately 1000 respondents per country based upon a representative sample survey carried out by established survey organisations (GfK and Mitropa) in each country. The sample is drawn through clustered multi-stage random sampling procedures. It is therefore possible to compare across time and between different countries in the region. In this paper we are comparing only between countries at one time point: 1996.

The self employed were a very small number - only 3.6% of the whole sample, or 361 persons. Since their numbers were small, they were pooled across the entire data set, including all countries. We constructed a dummy variable consisting of self employed and others and then used this in carrying out a linear OLS regression analysis. We carried out a stepwise multiple regression analysis in order to gain some understanding of which were the most important variables describing the self-employed. The social and economic characteristics were recoded to approximate an interval scale, where they were not already an interval scale (in the case of age for example) and where this was not possible, they were coded as dummy variables. The dummy variable "self-employed/not self-employed" was used as the dependent variable. We are aware that in order to carry this out the data had to be substantially recoded and manipulated. We therefore also then looked at cross-tabulations to see how the self-employed were distributed according to different variables.

1. What are the characteristics of the self-employed?

The variables we chose to look at these characteristics included age and sex. We would expect young people to be more ready to change their ways and to have been less influenced by the values of the former regime than were older people. We also looked at where they lived, since it is known that the strongest supporters of the changes were mostly the residents of large cities, especially capital cities (Wallace, 1997). We considered their level of education to see if the new middle class bore any resemblance to the old middle class. We considered in addition religion, since Weber's classical argument was that the formation of capitalism depended upon particular values which are more likely to be nurtured

by particular religious traditions (Weber, 1930). Furthermore, it has been argued that the Orthodox tradition was perhaps inimical to the development of individualistic, capitalistic values (Longworth, 1992). Finally we considered various indicators of wealth, including the ownership of consumer goods, the amount of savings held by the person and whether these had increased or decreased along with how they rated their economic situation today and in comparison with the past and the future. These indicators are perhaps more reliable than income alone, because people are less likely to declare their income and the well-being of an individual may depend less upon their own income than upon the situation of the household.

Table 1 Multiple linear regression, stepwise of the characteristics of the self-employed

Variable	Beta
Economic situation of family today (unsatisfactory-satisfactory)	.08
Age (young-old)	-.04
Sex (male-female)	-.05
Family situation in the past (worse-better)	-.04
Education	.04
Level of savings in the last year (increased-decreased)	-.03
Family will be poor in the future	-.03
Protestant confession	.02
Catholic confession	.02
Variance explained (r squared)	3%
Variables not in the equation Own education compared with parents, Ownership of telephone/car/shares, Number of consumer goods, one month's wages in savings, urban or rural residence, earning enough from main job, getting by sufficiently in the last year, religiosity, being an orthodox, being atheist.	All variables in the equation were significant at the 0.05% level and most were significant at the 0.000% level.

Although only 3% of the variance was explained by demographic characteristics, there is a clear pattern. Those who are self-employed are well off, better off than in the past, by their own estimation. The self employed are doing well from the transition and can presumably earn more than many of their compatriots, since the majority of the populations in most countries were worse off as a result of the changes in 1996. Self-employment is associated with material well-being. They are more likely to be young and male. They are highly

educated and were confident about the future of their family. The spirit of capitalism still seemed to be associated with being a Protestant in this sample, but it was only slightly less associated with being a Catholic. However, how religious a person was, nor with the Orthodox faith, nor with atheism. Therefore there does seem to be some effect of religious values and Protestants, a tiny minority in this region, were more likely to be self-employed than any others. We could hypothesise perhaps that the spirit of capitalism is linked with a "Protestant ethic" in post-communist societies, although why this should be so would require more thorough investigation.

A glance at the tables reveals some more subtle variations than were shown in the multiple regression (which tends to record responses towards one or the other end of the variable).

We can see from the following table, that two thirds of the self-employed were male, which corresponds with other studies. Whilst they were young, they were generally not very young. They predominate in the age groups between 20 and 49 rather than in among those below 20. Indeed, the biggest difference between the self-employed and the others appears in the age group between 30 and 39. We could hypothesise that this is because people need to acquire some social and financial capital in order to become self employed and they need some period of a life-time in order to be able to do this. People in these age groups would also be under pressure to provide for their young families, something which they are less able to do from state sector jobs. The numbers of self-employed trails off rapidly after age 50, so it seems to be more difficult for older people to go into this kind of activity.

The self-employed are well educated and are more likely to have a secondary academic or University education. The highly educated are among the salaried employees who were badly rewarded under the former system and are badly rewarded under the new system and may therefore have more incentive to become self-employed. It is also possible that the skills required to do well in education are those which also benefit private business, such as high standards of literacy, numeracy, communications and perhaps languages and computing. The education system is therefore to a great extent producing a new middle class, although we would need to observe if indeed it were in future to be also reproducing it.

The self employed were more likely to be owning a range of consumer goods, including a car, telephone and colour TV. These could all be assets or requirements in business. However, they were not very likely to be owning shares. They were highly likely to have savings, and to hold these savings in a foreign currency, perhaps reflecting the distrust in banking institutions and currencies in post-communist countries.

Table 2 Characteristics of the self-employed: percentages

	Self employed per cent	Others per cent
Male	63	45
18-19	3	5
20-29	21	18
30-39	31	18
40-49	32	20
50-59	12	15
60-69	2	15
70+	0.3	9
Elementary school	11	30
Secondary vocational education	31	27
Secondary academic	34	29
University	24	14
Having colour TV	88	74
Having telephone	67	57
Having car	65	42
Having shares	14	14
Having savings in national currency	21	21
Having savings in foreign currency	30	14
Savings in the last year increased	51	17
	44	56
Population >20 000		
Population above 21 000	45	33
Capital	12	11
N=1069, NDB IV, 1996		

The self-employed are not very likely to live in the countryside but rather in medium sized cities. Many of them lived in the suburbs of cities, perhaps reflecting the fact that they are likely to build houses outside of town. Although those most supporting the changes to the market are found in large cities and in the capital, this was not the case for the self-employed. This tendency to be distributed around medium sized towns and suburbs is perhaps a positive feature - one which indicates that self-employment is spread around the country rather than concentrated only in main urban centres.

2. What are the values of the self-employed?

One set of values which we considered were support for the past, present and future economic system and support for the past, present and future political system (measured on

a scale from minus 100 to plus 100, collapsed for the purposes of performing the regression analysis). These variables have been used as indicators for a variety of changes in the NDB study in the past. However, we can see from the multiple regression analysis, that they are of no importance to the self-employed. They were expelled from the equation. The only one of these variables to prove significant was their rating of the former communist economic system - the self employed were very negative about it.

A second set of values which we considered were how people fell on a pole between "individualism" and "collectivism". Respondents were asked to choose on a battery of questions between values that were associated with the communist regime and ones associated with individualistic, achievement-oriented market capitalism. Some of these questions related to the "work ethic" - if people were oriented towards achievement and rewards rather than safety and equality. Other questions were concerned with consumerism - if it was better to have more goods, and other questions tried to find out if people supported the state in its control of welfare and business or whether they thought that individual responsibility and private enterprise were better. Finally, some questions asked more generally about economic and political alternatives. These variables were all retained in the equation as being significant and important for the self-employed. Most important for the self employed was that they would prefer a job with high pay, but perhaps higher risk. The self-employed were also oriented towards market consumerism, wanting to have more goods in the shops, even at higher prices. They rejected the state as being responsible for industry and individual welfare - they thought that private solutions were better on both counts. The self-employed were therefore found at the individualistic pole of these sets of economic values and were oriented towards individual endeavour rather than variables associated with the macro-economy. In this case, the percentages also tell the same story.

In other words, they didn't care so much about how the economy in general was doing, although they didn't like the communist regime. They were individualists and supported individual endeavour and self-improvement.

Table 3 Multiple linear stepwise regression of the values of the self-employed

Variable	Beta
Safe job with low pay or risky job with high pay	.07
Low prices and few goods in the shops or high prices and many goods in the shops	.04
Rating of the old economic system	-.03
Individuals should be responsible for their own welfare or the state should be responsible welfare	-.04
State enterprise is better or private enterprise is better	.03
Biggest threat is inflation or biggest threat is unemployment	-.02
Incomes should be paid according to equality or incomes should be paid according to effort	.02
It will take a long time to deal with the legacy of communism or if the government does not solve problems quickly, try another	-.02
Variance explained (r squared)	2%
Variables not in the equation: Rating of current and future economic system, rating of past, present and future political system. N=1069 NDB IV 1996	All variables in the equation were significant at a 0.05% level and most of them at a 0.000% level.

Table 4: Values of the Self-Employed. Percentages

	Self employed	Others
It will take a long time to sort out the legacy of communism	75	62
If the government cannot solve the problems, try another system of government	26	38
Inflation is main problem	78	72
Unemployment is the main problem	22	28
People should be paid equal incomes	23	40
People should be paid according to their efforts	77	60
Individuals should be responsible for their own welfare	59	40
The state should be responsible for welfare	41	60
State enterprise is better	26	48
Private enterprise is better	74	52
It is better to have safe job with low pay	38	64
It is better to have a job with high pay even if it is more risky	62	36
It is better to have less goods in the shops and lower prices	21	45
It is better to have more goods in the shops and higher prices	79	55

N= 1069, NDB 1V 1996

3. In which countries are the self-employed to be found?

We can see that in 1996, Poland had the largest number of self employed, followed by Hungary and the Czech Republic. This may, however, be because of the large number of small peasant farmers in Poland, something which has been a feature of the Polish economy even under the former regime. These were then followed by Romania and Slovakia. Ukraine, Belarus and Bulgaria had the smallest number of entrepreneurs, perhaps reflecting the lack of progress in reforms in those countries in 1996. This may have changed by 1998 when Bulgaria had benefited from a change of regime along with a stabilisation of the currency and the economic system. The Central European countries with the most successful progress in reform had the most entrepreneurs and we could assume perhaps that this is where a more stable middle class based in the private sector would be most likely to be established in the

shorter term. We could see this as the product of progressive economic policies and taxation which does not discourage self-employment. Also, these are some of the countries where the population generally have the highest incomes, providing customers for the self-employed.

It is surprising perhaps that Romania is so high up the list, but a dynamic privatisation programme seems to have benefited the self-employed in that country. It is perhaps also surprising that Bulgaria is so low on the list, especially since there is some awareness of the problems of the middle class. However, we might hypothesise that in Bulgaria, Ukraine and Belarus, the lack of progressive reforms (such as taxation policies to assist the self-employed) is accompanied by the criminalisation of parts of the private sector through organised crime, Mafia etc. which would also threaten the small entrepreneurs if they have to pay these people from their profits, or are afraid to set up in business at all (Nowotny, 1998). Laws which penalise self-employed activity can be just as damaging as the lack of laws to protect them. The establishment of an open civil society with official associations to protect the smaller entrepreneur, develop ethical standards and pass legislation to protect trade and commerce is also an important prerequisite for the establishment of a stable, official and non-criminal middle class.

In general however, the numbers of self-employed are tiny in all countries, so we could say that there is still a long way to go before a numerically significant number of the new middle class are established.

Table 5: Numbers of Self employed in different countries, per cent of population

Poland	7
Hungary	6
Czech Republic	5
Romania	5
Slovakia	4
Croatia	3
Belarus	3
Ukraine	3
Bulgaria	2

Slovenia is missing from this table

N=9069, NDB IV 1996

Conclusions

This, along with other studies, has found that the self employed are predominantly male, young and highly educated. This means that there are good prospects for the establishment of a more stable, privately based new middle class in the future, because they are the new generation. The older generation, very few of whom are self-employed, will eventually disappear. However, the new middle class, as seen in the form of self-employed, are mainly people who are in the first half of their life, rather than being very young, reflecting the fact perhaps that it takes time to establish social and financial capital sufficient to start a business. It also takes time for them to finish their education, since most of them are in extended education. The high educational level of the population generally in the post-communist countries bodes well for the new middle class, because it is from the highly educated that they are drawn (Wallace & Kovatcheva, 1998). Many of the new middle class could therefore have been drawn from the ranks of the old middle class (as they are defined in this paper), so there is some connection between them, since the old middle class were among the highest educated. Perhaps this reflects a tendency for some of the middle class to seek careers in the private rather than in the public sector.

The self-employed are better off, have more consumer possessions and are more confident about their own future than other population groups: they see themselves as successful. Whilst they care little about the economy in general, they reject the former Communist economic system and they are strongly individualistic and achievement-oriented in their values. However, the fact that the variance explained was not very high indicates that whilst this was a general tendency, there were also many self-employed who were still collectivistic in their orientation - they were not as distinctive in their values as we might expect. An interesting finding however, is that they were highly likely to be Protestants and to a lesser extent, Catholics which perhaps reflects the continuing existence of a Protestant ethic in the spirit of capitalism.

The numbers of self-employed generally were very small, but they are more likely to be found in the more prosperous and successful reform countries and in those countries where there has been a substantial privatisation programme. If the general situation of the economy is prosperous, then there are more self-employed. In those countries where there are more self-employed, they are also perhaps more likely to have developed their own lobbies and organisations as part of the process of the formation of a "civil society" - something which is also a pre-condition for a stable middle class. Whilst we can identify some of the new middle class as young, male, confident and relatively wealthy, holding individualistic and achievement-oriented values, they are still only a small, emerging group. It would take further measures both in the form of support from the state (in terms of favourable taxation policies, protection from Mafia etc.) and development of their own associations and lobbies for these to consolidate into a new middle class.

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