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Minds for the Market: Non-Cognitive Skills in Post-Soviet Countries

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We analyze the effect of socio-political and economic institutions on the development of non-cognitive skills of individuals. We exploit the breakdown of the Soviet Union as a quasi-natural experiment, and apply a difference-in-difference strategy. We focus on three post-Soviet countries, Armenia, Georgia and Ukraine, and compare personality traits of individuals that were born at least a decade before the collapse of the Soviet Union with those that were born shortly before or later, relative to individuals from the other developing countries that had never gone through the same institutional changes. We find significantly higher scores of extraversion; openness and

agreeableness for younger generations of people that lived fewer years or never lived under the communist regime. Our findings suggest that institutions shape the noncognitive skills of individuals, and thus highlight a channel, through which institutions impact economic development.

To examine the relationship between institutions and non-cognitive skills, we make use of drastic institutional differences between the communist era and the transition period after the breakdown of the Soviet Union. The soviet was known for its strong educational system and high levels of human capital; however, education is only one aspect of human capital. The non-cognitive skills are established as the other important aspect of human capital portfolio of an individual. However, the inputs into non-cognitive skills are not as clear and while they can be formed in a classroom (Dahmann and Anger, 2014 and Kautz and Zanoni, 2014), the inputs from the environment the individual lives in (Almund et al., 2011) and therefore the institutions are likely to impact these skills. The Communist Party regime of the USSR controlled the entire economy and society of fifteen republics for about seventy years. Its collapse was sudden, unpredictable and shocking. Everything, from livelihoods and day-to-day life to social, market and political organization, changed in a very short period of time (Milanovic, 1998). While loyalty to the bureaucracy of the Communist Party and conformism was the key to achieving life success in the command economy (Cook et al. 1998; Langenecker, 2001), other skills became needed to

succeed in the new, though imperfect, market-driven economies. As ideology propaganda in schools, youth organizations (Little Octobrists, Young Pioneers, and Komsomol), at work and media was abolished, and people could act freely and express opinions, economic success became less dependent on state and more on individual initiative, which presumably impacted personality skills of individuals. Post-Soviet countries, therefore, provide a unique arena to study the consequences of institutional changes on non-cognitive skills formation.

We use data from Skills Toward Employment and Productivity (STEP) survey for Armenia and Georgia, and Ukraine, three former Soviet Republics, and a few developing countries that had never undergone through the similar institutional changes. Applying a difference-in-difference strategy, we compare personality trait scores of individuals that were born at least fifteen years before the collapse of the USSR with those of younger people that lived in the new environments. After controlling for various individual characteristics and a full set of year of birth fixed effects, we find that the scores of extraversion, openness and agreeableness of the younger generation are significantly higher. The analysis using birth cohorts also shows that the longer individuals lived in the previous regime the lower their non-cognitive skills scores. These results are robust to a range of specification checks and sample restrictions.

These results are particularly important given the extensive existing literature on the importance of non-cognitive skills on labor market outcomes. (Chamorro-Premuzic & Furnham, 2003; Fletcher, 2013; Gensowski 2018; Heineck & Anger, 2010; Mueller & Plug, 2006; Nyhus & Pons, 2005). For instance openness to experience has been positively related to labor market outcomes; Zhao et al., 2010 associate this trait to creativity and entrepreneurship. Furthermore, conscientiousness has received a lot of attention in the literature being associated to better health behaviors, academic performance (Chamorro-Premuzic & Furnham, 2003; Kappe & van der Flier, 2012; Trapmann, Hell, Hirn, & Schuler, 2007) and higher wages at the beginning for young workers (Fletcher, 2013; Nyhus & Pons, 2005). Agreeableness is argued to be associated with economic preferences such as reciprocity and altruism (Becker et al., 2012), or pro-sociality (Hilbig et al., 2014), which are fundamental to socioeconomic development (e.g. Bigoni et al., 2016) and population well-being (Post, 2005).

Our findings suggest that two generations of individuals from former Soviet Union have different levels of some personality traits scores. The post-Soviet generation seems to acquire better non-cognitive skills in order to adapt to new political and economic institutional arrangements. These results are also in line with the literature on management (Cook et al., 1998; and Linz and Chu, 2013) arguing that managers from the former Soviet Union lacked social and interpersonal skills needed to succeed in the market economy. It implies that certain personality traits of individuals are inherently depended on institutions and are shaped according to their returns in the economy.

In addition, we add to the studies on non-cognitive skills formation. The existing studies argue that a part of individuals' personality is inherited with genes (nature), while another part is

formed through environments (nurture). Sociological and psychological literature generally agrees that culture (Triandis and Suh, 2002), living environments (Hopwood et al. 2011), peers (Reitz et al., 2014), investment in social institution such as work, marriage, and family (Roberts et al., 2005) develop personality together with genetics. In this paper we show that broadly defined economic and political institutions can form non-cognitive skills of individuals.

This study also contributes to further understanding of post-Soviet societies by shedding light on the personality differences between the soviet and post-soviet generations. Existing studies suggest that there is a happiness gap between the transition and advanced economies, especially for the older generations (Guriev and Zhuravskaya, 2009; Easterlin, 2009). Given that some personality traits correlate with subjective well-being (e.g., Boyce and Wood, 2011) this paper helps explain this gap. Finally, understanding the personality differences of people living in different institutional environments help improve the policies designed to develop labor markets and economies of states going through transition.