WINNERS AND LOSERS IN THE
POST-COMMUNIST TRANSITION:
NEW EVIDENCE FROM LATVIA

Mikk Titma
Stanford University, Tallinn Pedagogical University,
and the Center for Social Research in Eastern Europe

Nancy Brandon Tuma
Stanford University

Brian D. Silver
Michigan State University

The National Council for Eurasian and East European Research
910 17th Street, N.W.
Suite 300
Washington, D.C. 20006

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<td>Mikk Titma, Nancy Tuma, Brian D. Silver</td>
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EXECUTIVE SUMMARY

I. Overview

New evidence from Latvia in 1997 adds to the knowledge about winners and losers in the post-communist transition now occurring throughout Eastern Europe. Our results confirm macro-social evidence that marketization is at an earlier stage in Latvia than in Estonia. Income levels in 1997 are lower in Latvia than in Estonia. In the cohort of persons in their early 30s (one well positioned to take advantage of new opportunities arising in an expanding market economy), the losers in terms of income changes between 1992 and 1997 are women, rural residents, and a segment of the Russian-speaking population. In contrast, men, residents of Riga, some Russian-speakers, and a managerial elite are benefitting from the transition now underway in Latvia. This report discusses the new data from Latvia and examines the early winners and losers as indicated by income differentiation, occupational differentiation, and political attitudes.

This research is part of a larger longitudinal study, “Paths of a Generation” (PG) begun in 1982. PG encompasses nine areas of the former Soviet Union and three previous waves of interviews. Findings reported here are from PG. Wave 4 in Latvia conducted in October 1997 through March 1998 involving face-to-face interviews with 2,167 people, among them 1,358 native Latvians, 734 Russian-speakers (mainly Russians, but also some Belorussians and Ukrainians), and 75 others (mainly Poles and Lithuanians). Since many of the same individuals were interviewed five years ago, we can compare their economic statuses in 1992 and in 1997.
II. Principal Findings

A. Income Differentiation

*Has Marketization Continued to Increase Income Inequality in Latvia?*

- A substantial part of the cohort has experienced improved material circumstances.
- The mean annual income in the cohort in Latvia has risen from around $624 in 1992 to $2,622 in 1997, a substantial increase even after adjustment for inflation, which has caused prices to more than double during this five-year period.
- The income distribution within the cohort in Latvia is markedly less concentrated now than in 1992. In 1997, half of the income was earned by the top 20 percent of the cohort; in 1992, half of the income was earned by the top 5 percent of the cohort. Although the economic situation has improved for most people, the cohort’s bottom 25 percent were actually worse off financially in 1997 than in 1992 since inflation has exceeded the growth of this group’s average income.

*What Factors Are Linked to Income Inequality in 1997?*

- **Rural versus urban:** The benefits of marketization have been concentrated in cities, notably in Riga, Latvia’s capital. Farmers have been hurt by the land restitution policy and are unhappy with marketization, but compared with Estonia, they are better off than other manual workers. As typical for most countries, the capital, Riga, provides greater economic opportunities than the rest of the country.
- **Gender:** Women’s mean income is 54 percent of men’s in 1997, whereas it was 65 percent of men’s in 1992. Gender is the single factor that most differentiates individuals’ incomes.
- **Nationality:** Marketization has disadvantaged one part of Russian-speakers relative to the other part, who are, in fact, the top income-earners in Latvia. The income distribution is more homogenous for native Latvians than for Russian-speakers. Mean income is higher for Russian-speakers than for native Latvians. This is remarkably different from Estonia, where Russian-speakers earned less on average than Estonians.
- **Occupation:** There is some evidence of income differentiation on the basis of occupation, but it appears to bear little relationship to education and job skills. As in Estonia, the top income-earners in Latvia are managers. Professionals and
others in white-collar occupations paid by the state budget are underpaid relative to others, especially when educational levels are taken into consideration.

B. Occupational Differentiation

*How High is Labor Mobility and is the Previous Elite Still Dominant?*

- Labor mobility in Latvia is high compared with the past, slightly higher than in Estonia.
  - In the last 5 years, nearly 60 percent of the cohort changed their occupation.
  - Those who are managers, business professionals, and government employees in 1997 have experienced the greatest upward mobility since 1992.
  - Those who are unskilled workers, workers in fields related to agriculture, craft workers, and clerks in 1997 have experienced the greatest downward mobility since 1992.
- Broken Links to the Past: Fewer than 30 percent of managers, and very few business professionals and semiprofessionals, had the same occupation in 1992 as in 1997.
  - A substantial proportion of the 1997 managers and nearly two-thirds of the small managers do not have a university education. The diverse background of the new managers indicates a break in the link between Soviet-period education and economic advantage.
- Managers make substantially higher incomes than the overall average.

C. Political Attitudes

*How Does Economic Winning and Losing Affect Support for Political Institutions and for Marketization?*

- Overall the cohort has low confidence in state institutions, but this confidence varies by type of institution. The court system, president, and policy receive relatively higher marks; legislative bodies and government, lower marks.
  - This evaluation does not differ by sex, occupational level, or income.
  - The evaluation of state institutions does not vary by whether the person was upwardly or downwardly mobile between 1992 and 1997.
  - Confidence in state institutions is markedly lower in Latvia than in Estonia in the same cohort. This is true for every major state institution.
  - That confidence in the state is not related to individual economic circumstances suggests that people judge institutions by their overall performance and not in terms of individual material benefits and losses.
Nationality is the most important single factor that affects confidence in the state. Native Latvians were somewhat more positive about Latvia’s state institutions than Russian-speakers, regardless of economic status. Overall, 29 percent of native Latvians as contrasted with 20 percent of Russian-speakers expressed confidence in Latvia’s state institutions. There is much less evidence of polarization between native Latvians and Russian-speakers in Latvia in confidence in major institutions that was found between native Estonians and Russian-speakers in Estonia. However, since overall confidence in state institutions is substantially lower in Latvia than in Estonia, the actual magnitude of the ethnic differences may be muted in the data for Latvia.

Of the Russian-speakers in Latvia in 1997, 45 percent were citizens of Latvia and 52 percent were permanent residents.

Among Russian-speakers in Latvia, citizens and permanent residents gave about the same level of support to Latvia’s state institutions. However, those who claimed to be able to speak Latvian were somewhat more supportive of state institutions, suggesting a stronger commitment to Latvian culture and institutions more broadly.

Many Russian-speakers have resolved their juridical status in Latvia but not yet committed themselves psychologically to supporting Latvian institutions.

Does Economic Success Affect Evaluations of the State?

An identical one-third of both the Russian-speakers in Latvia and the native Latvians thought a market economy was the right course for Latvia.

There is no relationship between support for marketization and either an individual’s economic status or occupational mobility in the past five years.

Those who had been upwardly mobile between 1992 and 1997 were no more supportive of marketization than were those who had been downwardly mobile.

Women were substantially less supportive of marketization than men. This is consistent with our previous findings in Estonia.

Support for marketization was somewhat lower among rural residents and persons living outside of Riga, including both Russian-speakers and native Latvians.

The strongest backers of marketization were persons with higher education, even though the earnings differentials by educational level are still very
small. The highly educated may prove to be the biggest beneficiaries of the transition if continuing marketization starts to provide greater returns for skilled individuals than has so far been the case.

III. Implications

- Latvia, as a country of moderate economic and political success in the transition from communism, also illustrates the consequences for income and occupational differentiation and mobility.
  - The majority of the cohort is benefitting from the economic transition and is now able to support themselves: income is less concentrated now than five years ago. Managers and small managers, who have come from a broad spectrum of social and educational backgrounds, are clear winners in Latvia, as they were also in Estonia.
  - In Latvia, some groups have experienced downward mobility, especially women, the rural population, a segment of the Russian-speaking population, and professionals in the state-supported sectors of the economy.

- A comparison of our results in Latvia and Estonia lets us view them as interrelated. However, Latvia is somewhat behind Estonia in the development of a market society. There are two important differences. First, Latvia does not have income segregation of Russian-speakers, which is a strong advantage for the country in the long run. Second, confidence in state institutions is markedly lower in Latvia than in Estonia, though differentiated by nationality in both countries. However, confidence varies markedly with nationality in Estonia, but much less so in Latvia.
1. **Background**

The transition from communism to a society based on markets and democracy comes about through people's actions, especially their economic and political activities, and not only through the acts of political leaders and governments. For the transition to succeed, new economic and political institutions need to be accompanied by changes in the ways people think as well as act.

This report describes results of analyses of a survey of a cohort of 30–34 year-olds in Latvia. This survey is part of the larger “Paths of a Generation” (PG) project begun by Mikk Titma in 1982, which encompasses many regions of the former Soviet Union, covering all or part of nine of the Soviet successor states. The new survey of the PG:Wave 4 in Latvia began in October 1997 and ended in March 1998. It is the second country where the PG:Wave 4 survey has been completed, the first having been conducted in Estonia (Titma and Tuma 1997; Titma, Tuma, and Silver 1998). We use these new data to examine the impacts of the post-communist transition in Latvia on the economic and political activities and beliefs of members of this cohort. This report is necessarily selective. We focus on the characteristics of the winners and losers of this transition. Our findings should be considered preliminary. Still, we have already found important differences between men and women, Latvian- and Russian-speakers, urban and rural residents, and people in various occupations.

Latvia, a country of only 2.5 million people, was one of the front-runners of *perestroika*, with the Popular Front and the Citizens' Movement offering alternative paths to regaining independence. With the collapse of the Soviet Union shortly after August 1991, Latvia began a peaceful process of democratization. It has held two presidential elections and two parliamentary elections; six governments have been formed; and a multi-party system has developed. The political system has proved effective in providing stable government; over the last year, two new governments have been formed but each has had basically the same coalition partners. Latvia has also achieved considerable success in consolidating reforms and improving the general economic environment.

In terms of economic reforms, the last few years mark what appears to be the beginning of an impressive economic turnaround. From 1990 to 1993, Latvia's GDP fell sharply. According to the World Bank, Latvia first achieved positive growth in 1994; however, its GDP declined in 1995, and the banking sector has been troubled by serious management problems.\(^1\) According to

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the Central Statistical Bureau of Latvia, GDP rose by 3.3 percent in 1996 and by 6.5 percent in 1997. The inflation rate continues to decline and remains the lowest in the Baltic States. Inflation fell to 8.4 percent for calendar year 1997 according to the Central Statistical Bureau of Latvia (as documented by the IMF).

Although Latvia is catching up with other Central and Eastern European economies, per capita GDP in Latvia is still one of the lowest in Eastern Europe. Per capita GDP (expressed in Purchasing Power Parity dollars) was only $3,273 in 1995 (UNDP 1997). However, both inflation and unemployment are lower than in many other countries in transition. Officially, unemployment in Latvia was 7.0 percent of the economically active population in 1997 (Central Statistical Bureau of Latvia).

However, while Latvia’s transition from communism appears to be succeeding, its governments have not yet settled one vexsome issue: the citizenship status of its 687,486 “Russian-speakers,” who are poorly integrated into Latvian society. In 1997, according to the Population Register, 56.7 percent of total population were Latvians, 30.2 percent were Russians. Other groups forming over 1 percent of the population were Belarussians (4.2 percent), Ukrainians (2.8 percent), Poles (2.5 percent) and Lithuanians (1.4 percent). In all, 28 percent of the registered population in Latvia are noncitizens. Over 98 percent of all noncitizens are non Latvians, mainly Russians, Belarussians and Ukrainians. Approximately two-thirds of all noncitizens were born outside of Latvia. The current status and views of this substantial minority are topics of special interest in the findings reported below.

2. The Survey

Extensive information about the sample, questionnaire, and field procedures for Wave 4 of “Paths of a Generation” (PG) in Latvia is provided in a separate report (Koroleva, Titma, and Tuma 1998). Highlights of this information aid in understanding the findings presented below.

The sample is representative of the cohort that was enrolled in their last year of secondary school in Latvia in 1983, when they were first interviewed in PG: Wave 1. This cohort obtained their education under the Soviet system, had their first work and political experiences during perestroika, and, as young adults, were well-positioned to build a market-based democratic society when Latvia regained its independence. Latvia’s entire population is more diverse and.

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2 These figures come from the Central Statistical Bureau of Latvia’s website, www.csb.lv. The IMF reports that the annual increase in real GDP was 2.1 percent in 1994, 0.3 percent in 1995, 2.8 percent in 1996, and 6.0 percent in 1997.

1 The Latvia Human Development Report 1997, prepared by the United Nations Development Program (UNDP 1997) is the source of the figures in this paragraph. This report is available on-line at: www.undp.riga.lv/hdrs/hdrlist.htm.
almost surely would offer a less optimistic picture than our survey does: Both younger and much older cohorts are likely to have fewer opportunities in Latvia’s emerging market economy.

Follow-up interviews of the respondents to PG: Wave 1 were conducted in Latvia in 1988 (PG: Wave 2), 1992–1993 (PG: Wave 3), and October 1997–March 1998 (PG: Wave 4). Roughly half of the respondents to PG: Wave 4 had been interviewed at least twice before, with the rest having been interviewed at least once in the past. One major advantage of the PG data base is that we can examine respondents’ behavior at (and between) ages 17, 22, 27, and 32. Moreover, the former and new PG surveys in other regions of the former Soviet Union permit us to compare the Latvian cohort with their peers in eight other Soviet successor states where PG surveys have been conducted. Such comparative studies will enable us to better understand people in societies taking different paths from the communist system.

PG: Wave 4 involved face-to-face interviews with 2,167 persons in Latvia. The survey covered both factual items about people’s lives (e.g., their education, work history, family history, political participation) and their opinions about education, work, life values, and political issues. The PG: Wave 4 survey had nearly 900 items; altogether the four PG surveys have measured about 3,000 items. The response rate was 79.9 percent among those respondents who were still residing in Latvia and whose current address was located.

3. **Income Differentiation**

Income differentiation is an important issue in post-communist societies because marketization tends to increase material differentiation within populations accustomed to being relatively equal (though poor) under the former communist system. In the past, structural inequalities between regions, types of localities, and branches of the economy created the biggest social differences. Our earlier results from PG: Wave 3 in 1992–1993 found the beginning of a sharp differentiation in people’s incomes as the command economy collapsed and a market economy began to emerge (Titma 1997). Income differentiation in Latvia was larger than in the other post-Soviet states we studied, with the exception of Lithuania, which resembled Latvia in this respect. In 1992, the top 5 percent of income-earners in our surveys in Latvia and Lithuania earned half of the combined income of all respondents. These figures suggest a rather high degree of income inequality in Latvia in 1992.

The first question to be asked of the new 1997 data from Latvia is whether marketization has continued to increase income inequality. Table 1 shows that this is not the case, as we also found
in Estonia (Titma, Tuma, and Silver 1998). After the misery of the first years of independence, a substantial proportion of Latvia's population is starting to experience improvement in their personal material situation. The mean annual income for our cohort (which is likely to be better off than most other age groups, as we already mentioned) was $2,622 in 1997, whereas it was $624 in 1992 (Titma 1997). Although consumer prices rose by a factor of 2.3 from January 1993 to January 1997 according to the Latvian Bank, the real mean income of our cohort has clearly risen since 1992, by more than 75 percent according to this inflation factor.

Moreover, income differences have begun to narrow. In 1997, the top 20 percent of our cohort earned half of the income of the entire cohort, signifying a markedly less concentrated income distribution than in 1992, when the top 5 percent earned half the income. Thus, the level of income inequality in Latvia in 1997 is about the same as what we found in Estonia in 1997; however, mean annual income is still substantially lower in Latvia than in Estonia. Both the increases in real income and the narrowing of income differences are important for social policy and for the stabilization of democracy.

There is also a perception of economic improvement. When asked how their financial situation had changed compared to a year ago, 31 percent of our respondents reported that it had improved, 46 percent that it was about the same, and 23 percent that it had worsened.

But even in this well-positioned cohort, the mean annual income of the bottom 25 percent was only $630 in 1997 (Table 1), which leaves people worse off than in 1992 because consumer prices have risen more than this group's mean income. This pattern resembles the one we found in Estonia, except the bottom 25 percent in Estonia earned $727 in 1997. This means that many people in the prime of their working life in both countries do not have normal earnings. They are a potential base for political discontent and opposition to current state policies.

The mean 1997 annual income of the middle 50 percent of our cohort in Latvia was $1,998, whereas it was $2,551 in Estonia. For this income group, life is still hard but not as wretched as it was in 1992. This trend toward a better life can be expected to make these people less mobilized politically, relative to their level of mobilization in the first years of the transition. This is a

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4 Our findings in Estonia are from Titma, Tuma, and Silver (1998), unless otherwise noted.

5 The large majority of our respondents reported their income in lats, with a few percentage giving other currencies in circulation in Latvia. We have converted their reported incomes to U.S. dollars using currency conversion rates given in the website of Central Statistical Bureau of Latvia: www.csb.lv.

6 The inflation factor is calculated from information provided in the website of the Central Statistical Bureau of Latvia, www.csb.lv.
noteworthy change with considerable significance for the political support for a market-based society, which may, however, be commensurately more modest in Latvia than in Estonia.

Our survey found that the mean 1997 annual income of the top 25 percent of the cohort was $5,998, whereas it was $7,689 in Estonia. Not too surprisingly, our survey also found that these better-off individuals are the strongest advocates of marketization in both countries. The portion of the cohort able to support itself by its own income has increased substantially in the last five years. Moreover, it is no longer true, as it was five years ago, that only a tiny group has profited from privatization. Still, it is noteworthy that the average 1997 income of the 10 percent of our cohort with the highest incomes was $9,137, about a third higher than the average for the top 25 percent as a whole.

Further research now underway will examine the relationship between income differentials and personal qualifications, especially as exhibited by educational background, prior work experience, and other abilities, such as command of languages. This further study is important in order to understand whether the existing income differentials incorporate merit.

Urban-rural differences in income have been a major basis for polarization of many post-communist societies. Members of the cohort living in the countryside had a mean 1997 annual income of $2,263 in Latvia, whereas it was $2,679 in Estonia. These low levels, as compared to the means for the entire cohorts in the two countries, are the result of structural differences between urban and rural areas. Small townships and villages do not gain a substantial return from agricultural activity, which was the basis for their relative prosperity in Soviet times. In theory, decollectivization should have improved productivity; however, agriculture in both Latvia and Estonia was shaken by land reforms that returned farms to their pre-World War II owners. Many farmers who were actually working the land in 1991 have been left landless and miserable by these land reforms.

It is worth noting that the average 1997 income is about 30 percent less in the countryside than the capital of Riga, whereas it was 37 percent less in the countryside than in Estonia's capital. The smaller urban rural differences in income in Latvia means that the material basis for rural political discontent is smaller in Latvia than in Estonia. Poor and displaced farmers are one of the strongest constituencies opposing marketization and form the core of rural-based political parties in both Latvia and Estonia. Marketization is concentrated in the capitals and the few other large- to medium-sized cities. Few of those in the economically displaced rural population have been able to find jobs in cities.

Gender differentials in income have noticeably increased during the market transition. In Latvia in 1997, the mean income for women was 54 percent of men's. In contrast, an earlier
study (Titma 1997) found that in Latvia in 1992, women’s mean income was 65 percent of men’s. Both the pattern of change and the ratio of women’s to men’s incomes are similar to those in Estonia in 1997, where we found that women’s average annual income was 56 percent of men’s. Gender differentials are especially strong among the bottom 25 percent. Here, 1997 income for the year averages $978 for men and $445 for women in Latvia, more than a twofold difference. This ratio is again similar to the one that we found in Estonia in 1997.

Gender differences in voting patterns and in concerns about social policy and the role of the state are one likely result. Our survey finds, for example, that more women than men say that the government should guarantee jobs for everyone, and fewer women than men support market reforms. While 39 percent of women think the government should guarantee jobs for everyone, 35 percent of men hold this view. And while 37 percent of men say that creating a market economy was the right choice for Latvia, only 28 percent of women hold this view. We also found similar gender differences in these attitudes in Estonia.

Nationality was not the basis for any noteworthy differences in income in our 1992–1993 surveys in Latvia and Estonia, but it was for incomes in both countries by 1997. However, the pattern of income differences in the two countries are not the same. In Latvia, the mean 1997 annual incomes of Russian speakers was about 5 percent higher than for native Latvians; in Estonia, the mean 1997 annual incomes of Russian-speakers was more than 15 percent lower.

There are also interesting differences between the two countries in income differentials associated with nationality for various income groups. For each income group that we examined, from the poorest to the richest, native Estonians had higher income than Russian-speakers in Estonia. The situation is more complicated in Latvia. Among the poorest individuals, average 1997 incomes were more than 40 percent lower for Russian-speakers in Latvia than for native Latvians, indicating a marked disadvantage for the Russian-speakers. However, among the richest individuals, average 1997 incomes are roughly 20 percent higher for Russian-speakers in Latvia than for native Latvians. That is, income inequality is greater within Latvia’s Russian speaking community than among native Latvians.

An implication of our findings is that the material basis for Russian-speakers to form a united front of political opposition against the titular nationality is much weaker in Latvia than in Estonia. In Latvia, the top-earning Russian-speakers are economically better off than the top earning native Latvians, but the poorest Russian-speakers are doing much worse than the poorest Latvians. There is little basis for Russian-speakers in Latvia to agree that their nationality disadvantages them. In Estonia, however, Russian-speakers in each income groups are consistently faring somewhat worse than native Estonians in the same income group. The
consistency of the nationality differences in income in Estonia furnishes a clear basis for political cleavages on the basis of nationality.

One clear indication that a market economy is starting to function normally is the increasing extent of differentiation on the basis of occupation. We discuss this topic in detail in the next section.

4. **Occupational Differentiation**

People in industrialized societies are differentiated by their positions in the economy, not only by their current income and wealth. Economic position can usefully be categorized in various ways (e.g., economically active or not: working or not). We focus on one of these, occupation, including, for the sake of thoroughness "none reported". Occupations provide a major route to monetary gain and also receive varying levels of social respect. They define areas of life in which people can be creative, have a sense of accomplishment, and regard life as meaningful. Such qualities can be important factors shaping people's political views and behavior.

The transition from a command to market economy leads almost inevitably to changes in people's economic positions in general and, more specifically, their occupations. The distribution of occupations under the command economy was determined by allocative processes rather than by market forces. The introduction of a market alters the demand for different goods and services, and thereby restructures the economic division of labor. Economic branches (industries) variously expand and contract; some occupations grow, and others contract.

Table 2 summarizes key information about occupational groups in 1997 and about their mobility since 1992. The occupations are listed in rank order, from top to bottom, except that the last group ("no occupation reported") should be regarded as unranked because of its diverse composition and residual character. The table gives the number and percentage of our cohort in each occupational group in 1997 and the change in its size since 1992 (in percentage points). It also gives each occupational group's mean monthly income in 1997. Finally, it tells the educational composition of each group.

Most analysts of former socialist countries distinguish sectors based on the market economy from sectors involving state-owned factories and public institutions. Latvia is not yet past this stage of its transition. A sizable fraction of the population still works in the state bureaucracy or in public institutions (e.g., in education, medicine, publicly-financed cultural organizations). But the Latvian private labor market has developed rapidly in the last couple of years, as the economy has again begun to grow overall. The percentages of small managers (most of whom are in the
private sector) and of business professionals and semiprofessionals have grown substantially. In
contrast, the percentages of professionals and semiprofessionals in the nonbusiness sectors have
shrunk considerably, as has the percentage of factory workers. Not surprisingly, then, the degree
of occupational mobility between 1992 and 1997 is large, even for our cohort in its early 30s.
Fewer than half (43 percent) of our cohort was in the same occupational group in 1992 as in
1997. Since one can change jobs without changing occupation, the percentage who changed jobs
between 1992 and 1997 must surely have been huge, though we have not yet analyzed it.

At the top are managers, and just below them small managers – mainly heads of small
businesses. Both groups include owners and proprietors, as well as managers working for others.
The number of managers has shrunk in size since 1992 but nevertheless there are many
newcomers nevertheless. Small managers have greatly expanded in size since 1992, so they are
inevitably comprised of many newcomers. Of managers and small managers in 1997, 72 percent
have experienced upward mobility since 1992. A little more than a quarter of the 1997 managers
and small managers were also managers in 1992.

As happens everywhere, the market rewards those who are running the economy: Average
monthly incomes in Latvia in 1997 were $533 for managers and $493 for small managers. These
figures are similar to those for the same groups in Estonia. In each country, these two groups of
managers earned about roughly twice the overall average.

In both Latvia and Estonia, a substantial fraction of managers (about three-fifths) have a
university education. In a sense, it is surprising that two-fifths of the managers achieved their
high occupational rank despite having fairly modest educational credentials. Moreover, two-
thirds of small managers in both countries lack a university education (which is typically required
for professionals). These figures point to the existence of many routes into these high-income
groups. It also suggests that Soviet education did not prepare any group particularly well for
entrepreneurial and managerial success.

Turning next to nonbusiness professionals (i.e., professionals in medicine, technical fields,
and cultural organizations), we note first that comparatively speaking they are not very well off
materially, despite the high percentage with a university education. Their average monthly
income in Latvia in 1997 was $236, the same as construction workers – the nonprofessional and
nonmanagerial group with the highest average income. The relatively low pay for nonbusiness
professionals may be because the market economy does not need as many professionals as the old
command economy produced and employed. In this regard, note that the percentage of
nonbusiness professionals has shrunk since 1992. In particular, nonbusiness professionals, who
typically work in the state-financed sector, earned less than otherwise comparable professionals
in the private sector. Latvia, like other post-Soviet states, is not yet able to offer high pay to professionals working in the state sector.

Not surprisingly, the percentage of business professionals and semiprofessionals has grown substantially, from 4 percent to 12 percent of our cohort, a threefold increase. The average monthly income of this group in 1997 was $271—half that of managers. Still, this group had the third highest average monthly income in Latvia in 1997. Only 13 percent of business-related professionals in 1997 were in the same occupation five years ago. Hence, the 1997 group is mainly comprised of newcomers. Fewer than half of them have a university education. This group is clearly very different in Latvia than in Estonia, where it was a smaller fraction, better paid, and somewhat more likely to have had a university education.

The percentage of government workers in Latvia has also grown, as it did in Estonia, too. Only thirty percent of those in this category in Latvia in 1997 were in the same occupation in 1992, meaning that this occupational group also has many newcomers; 60 percent have been upwardly mobile. The group’s mean monthly income in 1997 was $226, only slightly below that of nonbusiness professionals and construction workers. The average 1997 monthly income of government workers clearly differs in Latvia and Estonia. The Latvian figure of $226 is less than half that of small managers. In contrast, in Estonia, government workers’ average monthly income was roughly three-fourths that of small managers. This suggests that the Latvian state could not yet afford to raise the salaries of this important group of employees financed by the state budget but that the Estonian state could. Moreover, the educational background of government workers in the two countries are rather different, with almost 10 percentage points more having a university or a specialized secondary education in Latvia than in Estonia.

In Latvia, semiprofessionals in industry, education, and medicine experienced substantial reduction in size, but those remaining in 1997 have been rather stably employed. Almost 80 percent in this occupation in 1997 were in the same occupation in 1992. Newcomers to this group were slightly more likely to have been upwardly than downwardly mobile. Their average monthly income in Latvia in 1997 was only $137 (slightly less than clerks), despite the fact that 80 percent have had the advantage of a specialized secondary education.

Clerks are another occupational group in Latvia that has greatly contracted in size between 1992 and 1997, declining from 7 percent to 4 percent of the cohort. However, only about 30 percent of clerks in 1997 were in the same occupation as in 1992, whereas for the most part nonbusiness semiprofessionals remained in the same occupation. As mentioned above, these two occupational groups had very similar and low average monthly incomes in 1997. Clerks averaged $142, whereas nonbusiness semiprofessionals averaged $137. Educational backgrounds
of clerks in our cohort in Latvia were diverse. Nearly two-thirds had a university or specialized secondary education.

Among the sales and service workers in our cohort in Latvia in 1997, about 40 percent held the same occupation in 1992. Newcomers were roughly twice as likely to be downwardly as upwardly mobile. Their average monthly income in 1997 was low, $167, even though almost half of those in this group had had a specialized secondary or university education.

Drivers had one of the most stable occupations: 70 percent of the drivers in 1997 had the same occupation in 1992. Overall, this occupational group contracted considerably since 1992, declining from 9 percent of the cohort to 6 percent. Although drivers were not very well educated (more than half had only a vocational education), at $207, their monthly income in 1997 was relatively high. Newcomers to this occupation were upwardly mobile more often than not. This fact points to the attractiveness of this occupation for those lower in the occupational hierarchy.

Factory workers in Latvia resembled drivers in their average 1997 monthly income, $201, but were somewhat better educated. Like drivers, the percentage in this occupation shrank between 1992 and 1997. Slightly more than half of the 1997 factory workers had the same occupation in 1992. Roughly twice as many were downwardly mobile as were upwardly mobile.

Construction workers in Latvia had relatively high monthly incomes in 1997, $236, paralleling our findings in Estonia. It is noteworthy that half of the 1997 construction workers in Latvia had been upwardly mobile since 1992. The educational level of construction workers was lower in Latvia than in Estonia. Vocational school was the highest education for 60 percent of construction workers in Latvia but for fewer than half of those in Estonia.

Other occupational groups who fared poorly in 1997 are craft workers and unskilled workers. Both groups are similar in their low levels of 1997 monthly income ($158 for craft workers, $114 for unskilled workers) and education (roughly half of them have had only a vocational education). Two-fifths of the 1997 craft workers held the same occupation in 1992, and about a half had experienced downward mobility. Nearly 90 percent of the unskilled workers in 1997 had been downwardly mobile. It would not be too surprising if these groups of workers were relatively discontented with marketization, in view of their relatively poor material position as compared to others. Their relative deprivation may prove to be politically important, even if in absolute terms they are better off than in Soviet times.

A final and important group for Latvia is farmers, who have done better in Latvia than in Estonia, relative to other occupational groups. Their average monthly income was $201, which is the same as for factory workers. Their number increased since 1992, whereas it decreased in Estonia. Roughly half of the agricultural workers in Latvia 1997 were in a different occupation in
1992, and most of the newcomers had been downwardly mobile.

Most of those who did not report an occupation in 1997 were out of the labor force at the time of the interview. Many of these were unemployed; others were ill, disabled, or caring for their families.

The high degree of occupational mobility in the first five years of marketization in Latvia is evidence that the market economy has changed the structure of opportunities for people. Moreover, the loss of previously elite positions by people in their early thirties, especially in the case of managers, and the formation of a new managerial elite, suggest that the old social networks have been eroded and that new ones are being built.

A second conclusion from our study of occupational groups is even more important. We do not find evidence of polarization of Latvian society along class lines. For instance, although blue-collar workers are not faring as well as some other occupational groups (in particular, managers, small managers, and business professionals), their material situation is still not drastically different from many white-collar groups, such as nonbusiness professionals and semiprofessionals, government workers, clerks, sales workers, and service workers. Moreover, there appear to have been extensive mobility, with few of the standard barriers based on education or the white/blue collar divide. At the same time, the Latvian economy is still moving toward the market and has not yet stabilized on one basic criterion of a labor market – the evaluation of human capital. The income distribution is not highly correlated with the distribution of human capital.

5. Impacts of Winning and Losing on Regime Support

We have found clear winners and losers in Latvia’s transition from the Soviet system. Now we investigate some of the political implications of such differentials. Our analysis focuses on a particular question: Are winners more likely than losers to be supportive of political institutions and the policies of the government? We found in our analysis of PG:Wave 4 results in Estonia (Titma, Tuma, and Silver 1998; Silver and Titma 1998) that being an economic winner or loser had no distinct effect, positive or negative, on the level of confidence in state institutions. This flies in the face of the conventional wisdom in political science that popular support for political institutions is related to the "outputs" of a country’s system. But we did find sharp differences by nationality in the evaluation of state institutions.

At the outset, we expected attitudinal patterns in Latvia to resemble those in Estonia. Both countries have a large proportion of “Russian-speakers,” and both have adopted policies that granted automatic citizenship to direct descendants of persons who were citizens prior to 1940,
but that established length-of-residence and language-knowledge criteria for other persons to become naturalized citizens. Such relatively exclusive naturalization policies have left many noncitizens in civic limbo. Although the citizenship policies of Estonia and Latvia differ in details, their effects on popular confidence in the state are likely to be similar: People are likely to evaluate the performance of the state through an ethnic prism and to be more favorable toward a state that seems to favor their own ethnic group or nationality.

Confidence in State Institutions. When asked how much confidence they have in leaders and representatives of state institutions, our cohort from Latvia manifests the types of ethnic differences that we found in Estonia. Latvians evaluate every state institution more favorably than Russian-speakers (see Figure 1). Similarly, in Latvia as well as in Estonia, the president and the courts receive the strongest votes of confidence among the titular nationality, and the parliament and the government receive the lowest votes of confidence.

But Latvia and Estonia manifest one very great difference seen in Figures 1 and 2: Confidence in state institutions is far lower among residents of Latvia than among residents of Estonia. This is true both for respondents as a whole and for the two major ethnic groups. In Latvia, no institution garners the confidence of even half of the titular nationality; the president and courts receive votes of confidence from only 40 percent of the Latvians in our cohort. In Estonia, on the other hand, the president and courts receive votes of confidence from over two-thirds of the Estonians, and the police are endorsed by 54 percent.

Thus, by the criterion of generating public confidence from members of the titular nationalities, the Latvian state is performing poorly, and the Estonian state is performing moderately well. However, neither state’s institutions wins a strong endorsement from the Russian-speakers. Latvia and Estonia differ in the mean percentage expressing confidence in state institutions. In Latvia, 29 percent of the Latvians and 20 percent of the Russian-speakers are confident in state institutions; in Estonia, 48 percent of Estonians and 27 percent of Russian-speakers are confident in state institutions.8

We also explored differences in confidence in the state among various social categories. We found no remarkable differences by occupation, education, or sex. Furthermore, and more significantly for our central concern in this report, we found that the level of confidence in state

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7 The response categories offered were (1) a great deal of confidence, (2) some confidence, (3) hardly any confidence, and (3) no confidence at all. In this analysis, we treat the first two categories as "confident" and the last two categories as "not confident."

8 These percentages in both countries exclude the Presidency from the calculation because confidence in the Presidency was inadvertently omitted from about 200 of the Estonian-language questionnaires.
institutions virtually does not differ for individuals who had experienced upward and downward occupational mobility between 1992 and 1997. Among persons whose occupational status had risen, 29 percent expressed confidence in Latvia's state institutions; while among persons whose occupational status had declined, 27 percent expressed confidence in Latvia's state institutions. Similarly, confidence in state institutions is not correlated with people's economic well being, as measured by their incomes in 1997.

These findings are no longer surprising to us: We obtained virtually the same results in PG Wave 4 in Estonia (Titma, Tuma, and Silver 1998; Silver and Titma 1998). But they bear emphasis because they run against the common assumption that economic performance is an important source of legitimacy for the state. In both Latvia and Estonia, variation in people's individual economic success is not associated with how they evaluate the state.

Moreover, differences in confidence by nationality in the state are much more modest in Latvia than in Estonia. This result comes about largely because the native Latvians themselves have such low regard for their state institutions. This was not always so. In 1990, shortly after the new parliament (the last “Soviet” parliament) was elected, a survey of Latvia’s adult population found that 91 percent [sic] of Latvians expressed confidence in parliament, compared to 31 percent of the Russian-speakers.1 This first democratic election of a parliament in the Soviet era was a dramatic symbol of the realization of Latvia’s national aspirations and an important step toward national autonomy. By 1993, however, in another representative cross-sectional survey, the parliament had lost most of its luster: only 30 percent of Latvian respondents expressed confidence in parliament, and only 16 percent of non-Latvians.10 In 1997, among our PG cohort of persons in their early 30s, the parliament continues to rank very low, near the bottom of major state institutions (though none receives especially high marks).

Of course, national legislatures, including the U.S. Congress, are held in low public esteem in many countries. We found a very similar pattern of change over time in Estonia (Silver and Titma 1998). But the sharp downward assessment of Latvia’s national legislature is striking. The initial near-universal euphoria of national liberation has evaporated in the face of conflict among policies and personalities over the building of a new political and social system.

The lack of association between individual economic well-being and evaluations of state

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9 This analysis was performed by Silver and Dowley (1997) and is based on the World Values Survey (Inglehart 1997).

10 This survey was sponsored by Hans-Dieter Klingemann and Mikk Titma, and conducted by Titma. It is part of a series of Baltic election surveys carried out in the 1990s. At the time of this election, Latvia had not yet implemented its new citizenship law. So, as Plakans (1995: 194) notes, “a substantial number of adult citizens (most of them Russians) would not be able to vote in the parliamentary election and would have to depend on other citizens to represent their interests.”
institutions implies that popular support depends not so much on the state's economic performance as on its performance in other areas. We can only begin to explore for possible sources. One of these could be the state's democratic performance. In our PG cohort in Latvia, confidence in state institutions is more highly correlated with people's satisfaction with democratization and the protection of human rights \( (r = .31) \) than with their level of support for market institutions \( (r = .07) \). Thus, confidence in the state is more closely intertwined with its democratic performance than with its economic performance. The patterns of responses found in the analysis of the PG: Wave 4 survey in Estonia were similar (Silver and Titma 1998).

Perhaps a broader implication of these findings is that people tend to evaluate the state less in terms of individual benefits than in sociotropic terms: what the state does for society and people in general (cf. Kinder and Kiewiet 1979). Of course, such evaluations are highly related to ethnicity in Estonia and Latvia. Furthermore, ethnic differences in confidence in the state can be regarded as resulting from an individual's calculus of personal gains and losses. However, Russian-speakers in Latvia have fared better than native Latvians economically, yet they hold the state in lower regard. Furthermore, the socio-economic characteristics (income, occupational mobility) that one might expect to differentiate the degree of confidence in state institutions among persons within each nationality do not work as expected. Thus, evaluations of the state may well be sociotropic, but not linked mainly to the material well-being of the population.

**Citizenship Status and Confidence in State Institutions.** In this connection, it is instructive to examine the relationship between citizenship status and the level of confidence in state institutions. As noted earlier, obtaining citizenship has been difficult for Russian-speakers in both Latvia and Estonia. Nonetheless, many Russian-speakers have established citizenship or permanent residency in one of these countries. Among our PG cohort in Latvia in 1997, 45 percent of the Russian-speakers were citizens of Latvia, and 52 percent were permanent residents. One might expect Russian-speakers who had become citizens held a more positive view of the Latvian state than those who were permanent residents. Presumably the citizens had made a deeper commitment to Latvia by forsaking citizenship in any other country, while the permanent residents probably still regarded another country as their homeland.

The empirical evidence contradicts this expectation. Among the Russian-speakers, confidence in Latvia's state institutions was expressed by 20.4 percent of the citizens and by 19.8

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11 The sizes and differences in the correlations are similar if we calculate them separately for Latvians and Russian-speakers.

12 We find this in many other ethnically-divided societies. See Silver and Dowley (1997).
percent of the permanent residents. *In short, support for state institutions among Russian-speakers does not differ for citizens and permanent residents of Latvia.* This result replicates our findings in Estonia almost exactly (Silver and Titma 1998). However, as we also found in Estonia, Russian-speakers who claim to be fluent in Latvian are somewhat more positively disposed toward the state: 25.6 percent express confidence in state institutions, suggesting that these individuals have a stronger emotional commitment to the culture and are likely to be more sympathetic toward Latvian institutions generally. Although there is only a small difference in the level of confidence in state institutions between those who are fluent in Latvian and those who are not, one should keep in mind that only 29 percent of Latvians in our cohort expressed confidence in their state institutions in 1997.

**Does Economic Success Affect Support for Marketization?** Despite Latvia's relative success so far in the post-communist transition, many people have suffered greatly during this process, and some have experienced clear downward mobility and loss of relative material well-being. Yet we found no relationship between confidence in political institutions and whether the individual was upwardly or downwardly mobile between 1992 and 1997.

The relationship between material status and support for marketization reveals a similar picture: *Those who are upwardly mobile are not more favorably disposed toward marketization than those who are downwardly mobile* (see Figure 3). On the whole, moreover, Latvians and Russian-speakers are equally supportive of marketization – about a third think marketization is the right course for Latvia. However, as we noted earlier, this support is higher among men than among women, perhaps because the gap between men's and women's earnings has grown during the economic transition. This support is also higher among urban residents (especially residents of Riga, the capital city) than among other people. Furthermore, it is higher among the highly educated, even if earnings differentials by educational level are very small.

6. **Conclusion**

Our survey found that the cohort in its early thirties in Latvia has become greatly diversified since 1992. Yet marketization has already had some equalizing effect on income distribution. Currently, half of all income in the cohort is earned by the top fifth of earners, which is rather typical for market economies. This is a huge advance from 1992, when 5 percent of the cohort earned half of the total income. We also found that the market has created new opportunities and that there has been a breakdown in the rather rigid streaming of people from particular educational paths into particular occupations that was typical of Soviet times. Nearly three-fifths have changed their occupations since 1992, and the new occupation cannot be predicted well by
the type of education that people received in Soviet times or by their occupation in Soviet times.

Income differentiation has had negative consequences for some groups in the age cohort, however. The poorest quarter of the cohort are worse off in real terms than in 1992. Quite a few people in this cohort, which is in its prime in terms of career development, are struggling to subsist. We interpret the rise in the number of respondents hired in agriculture as evidence of a survival strategy for certain people, not as evidence of real development of this economic sector. More importantly, income differentiation is deeply divided by gender, and women are seriously disadvantaged even among persons in the bottom quarter of incomes. On average, women’s earning are only half of men’s at this end of the income spectrum. However, a similar gender gap in incomes is found across the income spectrum.

Since Latvia has gained international attention because of its alleged restrictive policies in citizenship and its harsh treatment of Russian-speakers, we were surprised to find that the average income of Russian-speakers is higher than that of Latvians. But the Russian-speaking population is heterogeneous. If we examine income differentiation, then we find that Russian-speakers are in the majority at both the top and the bottom ends of the income spectrum. These results need to be analyzed to find out how this process works. However, at this time we can say that there is no apparent discrimination against Russian-speakers in the income distribution, in contrast to what we found in Estonia. In future research, it will be interesting to examine the impact of this fact on the development of ethnic relations in both countries.

Our most worrisome finding is the very low confidence in state institutions among these young adults in Latvia. To be sure, it is a good sign that the level of confidence in the state is not highly polarized along ethnic lines: The Russian-speakers have only somewhat less confidence in state institutions than native Latvians. This situation is in striking contrast to the very strong differences in confidence in state institutions between Estonian and Russian-speakers in Estonia. Further research into why confidence in institutions is so different in the two countries is also needed. The differences in levels of confidence in the government or the parliament may well reflect real differences in their performance. But images of the state are often driven by symbolism and by perceptions of whose interests are being served. People judge the state not only by whether it has delivered individual rewards in the form of economic opportunities and improvements in the standard of living. We need to investigate further what other factors may be at work in producing different levels of public confidence in state institutions.

By comparing our results from Latvia with those from Estonia, we can conclude that most processes are similar and are following a common path: incomes are rising; income is distributed more equally than five years ago; economic disadvantages for women are increasing; new job
opportunities are being created: competition in the labor market is rising; opinions about marketization are positive, but there is a sharpening of differences in public opinion between the capital and other parts of the country; a new managerial elite is being formed from a broad spectrum of backgrounds. By these indicators, Latvia is a little behind Estonia in the marketization process. This conclusion is supported not only by macro-economic data but by empirical findings about how this age cohort in the prime of life is winning its struggle to become a market society. The Latvian state is not yet able to reward its state employees and professionals paid from the state budget as much as the Estonian state. This also partly explains why we did not find evidence that income is distributed in correspondence with human capital (education level). In general, Latvia lags behind Estonia in this key indicator of development for a free labor market: the returns for education are much more muted in Latvia than in Estonia.

Based on the fourth wave of the "Paths of a Generation" survey, we have now analyzed two relatively successful transitions to a market economy. It can be useful to examine what happens when a country has not performed well in the marketization process, such as in Ukraine, Belarus, or Russia. Further comparisons in the future would provide an opportunity to learn how similar or different are the life chances and choices of the very same post-Soviet cohort in very different societal, cultural, and institutional settings.
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Table 1. Mean 1997 Income in US Dollars for Different Groups of PG Respondents in Latvia

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Nationality</th>
<th>Gender</th>
<th>Settlement Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>Latvians</td>
<td>Russian Speakers</td>
</tr>
<tr>
<td>Bottom 25%</td>
<td>All</td>
<td>Latvians</td>
<td>Russian Speakers</td>
</tr>
<tr>
<td></td>
<td>630</td>
<td>734</td>
<td>422</td>
</tr>
<tr>
<td>Middle 50%</td>
<td>1,998</td>
<td>2,018</td>
<td>1,907</td>
</tr>
<tr>
<td>Top 25%</td>
<td>5,998</td>
<td>5,592</td>
<td>6,595</td>
</tr>
<tr>
<td>Top 10%</td>
<td>9,137</td>
<td>8,316</td>
<td>10,404</td>
</tr>
<tr>
<td>All</td>
<td>2,622</td>
<td>2,565</td>
<td>2,705</td>
</tr>
<tr>
<td>Median for All</td>
<td>2,008</td>
<td>2,064</td>
<td>1,857</td>
</tr>
<tr>
<td>% of respondents having half of total income</td>
<td>19.7</td>
<td>22.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Number in Group</td>
<td>1,896</td>
<td>1,122</td>
<td>774</td>
</tr>
</tbody>
</table>

*Total number does not add to 1,896 because gender is missing for two individuals.

*Total number does not add to 1,896 because this breakdown excluded those living in towns or in cities other than Riga.
Table 2. Characteristics of Occupational Groups of PG Cohort in Latvia in 1997

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>74</td>
<td>3</td>
<td>-3</td>
<td>72</td>
<td>28</td>
</tr>
<tr>
<td>Small managers</td>
<td>126</td>
<td>6</td>
<td>6</td>
<td>73</td>
<td>3</td>
</tr>
<tr>
<td>Professionals in medicine, cultural, and tech. areas</td>
<td>259</td>
<td>12</td>
<td>-3</td>
<td>25</td>
<td>70</td>
</tr>
<tr>
<td>Business professionals and semiprofessionals</td>
<td>261</td>
<td>12</td>
<td>8</td>
<td>57</td>
<td>13</td>
</tr>
<tr>
<td>Government workers</td>
<td>109</td>
<td>5</td>
<td>2</td>
<td>59</td>
<td>30</td>
</tr>
<tr>
<td>Semiprofessionals in industry, education, and medicine</td>
<td>216</td>
<td>10</td>
<td>-6</td>
<td>12</td>
<td>79</td>
</tr>
<tr>
<td>Clerks</td>
<td>79</td>
<td>4</td>
<td>-3</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>Sales and service workers</td>
<td>257</td>
<td>12</td>
<td>2</td>
<td>21</td>
<td>39</td>
</tr>
<tr>
<td>Drivers</td>
<td>139</td>
<td>6</td>
<td>-3</td>
<td>21</td>
<td>70</td>
</tr>
<tr>
<td>Construction workers</td>
<td>61</td>
<td>3</td>
<td>1</td>
<td>53</td>
<td>36</td>
</tr>
<tr>
<td>Factory workers</td>
<td>158</td>
<td>7</td>
<td>-4</td>
<td>14</td>
<td>54</td>
</tr>
<tr>
<td>Craft workers</td>
<td>91</td>
<td>4</td>
<td>-2</td>
<td>10</td>
<td>42</td>
</tr>
<tr>
<td>Workers related to agriculture</td>
<td>156</td>
<td>7</td>
<td>2</td>
<td>6</td>
<td>45</td>
</tr>
<tr>
<td>Unskilled workers</td>
<td>66</td>
<td>3</td>
<td>-3</td>
<td>13</td>
<td>88</td>
</tr>
<tr>
<td>None reported</td>
<td>115</td>
<td>5</td>
<td>2</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>All groups combined</td>
<td>2,167</td>
<td>32</td>
<td>43</td>
<td>26</td>
<td>225</td>
</tr>
<tr>
<td>Number in group</td>
<td>2,167</td>
<td>344</td>
<td>465</td>
<td>282</td>
<td>2,030</td>
</tr>
</tbody>
</table>
Figure 1. Percent of Latvians and Russian-Speakers Who Are Confident in Various State Institutions in Latvia
Figure 2. Percent of Estonians and Russian-Speakers Who Are Confident in Various State Institutions in Estonia
Figure 3. Percent Who Say a Market Economy is Right for Latvia, by Nationality and Other Respondent Characteristics