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INFLUENCE OF ECONOMIC CHANGES ON THE LEVEL OF POLITICAL CONFIDENCE (COMPARATIVE ANALYSIS OF THE CZECH REPUBLIC AND GERMANY)

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Currently, more and more scholars focus on studying social consequences of economic growth. Moreover, the economic inequality is being studied as a sociological concept.

Purpose. The aim of this paper is to discover the relation between economic development and political confidence. For doing so, the author uses the income inequality as a link between mentioned concepts. The paper introduces the view that the influence of economic development on the political confidence as a result of fluctuations in the income inequality rate.

This paper is a comparative analysis of the Czech Republic and Germany, since they are countries with similar historical background and significantly diverse current position on the scale of economic and social development.

Methodology of this work is based on comparative and statistical methods of analysis (using SPSS).

Results. The study proves the working hypotheses that the economic growth leads to the increase of the inequality scope, and thereby influences the decrease of political trust. This study shows the difference between the perception of inequality in the Czech Republic and Germany that is expressed by the less loyal attitude to inequality by the Germans.

Keywords: *economic development; political confidence; income inequality; Czech Republic; Germany.*

ВЛИЯНИЕ ЭКОНОМИЧЕСКИХ ИЗМЕНЕНИЙ НА УРОВЕНЬ ПОЛИТИЧЕСКОГО ДОВЕРИЯ (СРАВНИТЕЛЬНЫЙ АНАЛИЗ ЧЕШСКОЙ РЕСПУБЛИКИ И ГЕРМАНИИ)

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В настоящее время все больше ученых фокусируются на изучении социальных последствий экономического роста. И кроме того, экономическое неравенство изучается как особый социологический концепт.

Цель. Целью данной работы является выявление взаимосвязи между экономическим развитием и уровнем политического доверия. Для этого автор использует неравенство в доходах в качестве связующего звена между упомянутыми понятиями. Статья фокусируется на выявлении влияния экономического развития на уровень политического доверия в результате колебаний уровня неравенства доходов.

Данная работа является сравнительным анализом Чехии и Германии, как стран со схожим историческим фоном и в то же время значительно разнящимися современными позициями по уровню экономического и социального развития.

Методология этой работы основана на сравнительных и статистических методах анализа (с использованием SPSS).

Результаты. Исследование доказывает рабочие гипотезы о том, что экономический рост приводит к увеличению объема неравенства, и таким образом влияет на снижение уровня политического доверия. Это исследование показывает разницу между восприятием неравенства в Чехии и Германии, которое выражается в менее лояльном отношении немецкого населения к неравенству.

Ключевые слова: *экономическое развитие; политическое доверие; неравенство доходов; Чехия; Германия.*

Introduction

Many sociologists try to discover the nature of social consequences of economic growth. Many of them are confident that inequality is one of them, and it is either normatively bad or affects society and its members overall negatively (Jencks, 2002; Ringen, 2006). A newly developed Spirit Level theory states that even if the economic development might reduce the income inequality, it is no longer associated with improvements of societal quality of life. Krzysztof Zagorski et al. (2014) concluded that national-level income inequality does not reduce individual's subjective financial quality of life.

There are sociologists, who are confident about a strong relation between economic development and inequality. Particularly, they see the economic development as a major factor in reducing inequality and affecting the well-being through reductions in corruption, enhancement of the rule of law, government effectiveness, political stability, and democracy etc. (Inglehart & Welzel, 2005; Rothstein & Holmberg, 2011; Welzel & Inglehart, 2010). In their opinion, successful economic development leads to decreasing the income inequality. That is the reason that this paper focusses on the level of income inequality as an indicator of economic changes. Another trend of studies explores further on the influence of inequality in sociological frame. Wilkinson and Pickett are sure that income inequality leads to the spreading of social ills, in particular, low social and political trust (2009; 2010).

When mentioning the political trust, political scientists repeatedly bring up the question about the emersion of a crisis of political confidence among western publics (Denters, Gabriel, & Torcal, 2007). Max Kaase, in his article (1999) states that political trust has a significant meaning for democracy. He analyzed political and interpersonal trust as notable parts of stable democratic development.

In this study, the author focusses on the Czech Republic and Germany as countries with similar historical background. Following indicators of economic development are examined: Gross National Income (GNI) per capita and Gross Domestic Product (GDP) per capita. For exploring the social impact of economic development, the author uses

income inequality (GINI index) and public opinion on political trust. Data for this study were taken from the World Bank and European Social Survey (ESS).

The working hypotheses relates to partial correlation between economic development, income inequality and political confidence. The author assumes, that higher rate of economic growth might lead to increased political confidence, only if the income inequality is also reduced. Thus, independent variables of the study are indicators of economic development, and dependent variables are, firstly, income inequality and secondly, the political confidence.

Economic changes in the Czech Republic and Germany

The Czech Republic as a former communist country went through a lengthy transformation to a capitalist and a democratic country. From the very beginning, (in 1989) right after the collapse of communism, the economy of the Czech Republic was not developing according to the capitalist principles. The reason for it was in the distrust towards western “free-market” system. As a consequence of it, a utopian “third way” was being sought and promoted, which is characterized by realizing the 1960s idea of convergence of the economic systems of socialism and capitalism (Klaus, 2006).

This led to the fact that the Czech Republic was among those countries, which started to develop as capitalist countries later, not right after “decommunization”. As a result of this, the process of reforming was necessarily fast and led to the fast growth of GDP. Later, the effect was amplified by accession to the EU and large capital inflows as a result (Balcerowicz, Rzonca, Kalina, & Łaszek, 2013).

At present, the Czech Republic is one of the most industrialized countries in Eastern Europe (2nd place). GDP per capita is \$19,502 (according 2015 US\$), which in 2014 represents 53% of the EU average (fig. 1). For comparison, in the beginning of the independent Czech Republic, GDP amounted to be 3% of the EU. In 2016 the Czech Republic is one of the most economically developed countries in Eastern Europe (Czech Republic, 2016).

Germany, like the Czech Republic, also went through transformation in 1990, when two parts (Federal Republic of Germany and German Democratic Republic) were reunited into a one single state of Germany. Since that time, Germany has become a major economic force, to play a leading role in the region. In the 1990s the growth rate was not high, by 1995 it was 1.5% (Germany, 2016). This is slightly higher than the European average of that time. After a global slowdown in 2000, German government adopted and implemented a reforms package, which was later called “Agenda 2010”. The aim of this reforms package was to reconstruct the overly expensive social security system, to increase labor market flexibility and to consolidate public finances. Additionally, the government conducted tax changes to stimulate the economy and to increase investments. Currently, Germany is a good example of structural reforms that strengthen systemic forces and, as a result, the growth of the economy (Balcerowicz, Rzonca, Kalina, & Łaszek, 2013).

For more precise economic analysis of the Czech Republic and Germany, it is necessary to examine economic indicators.

GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources (GDP per capita (current US\$), 2016).

The 2014 value for GDP per capita (current US\$) in Czech Republic was \$19,502. Over the past 23 years, the value for this indicator has fluctuated between \$2,867 in 1991 and \$22,649 in 2008. Since early 1990s, the GDP has grown almost 8 times.

GNI per capita (Atlas method) is expressed in national currencies, converted into US dollars according to the World Bank methodology “Atlas”. The technique is based on the average exchange rate over the past three years in order to equalize the effect of temporary fluctuations in the exchange rate (The World Bank, GNI per capita, Atlas method (current US\$), 2016).

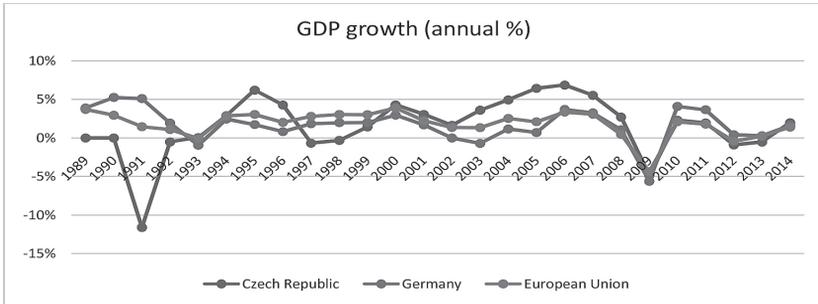


Figure 1. GDP Growth (annual %)

Figure 2 graphs the GNI per capita according to the World Bank for the Czech Republic and Germany. Even though this data leads to the idea of stable development of examined countries (Germany, 2016; Czech Republic, 2016), the third figure contradict this opinion by showing the growth of GNI per capita in percentages over years.

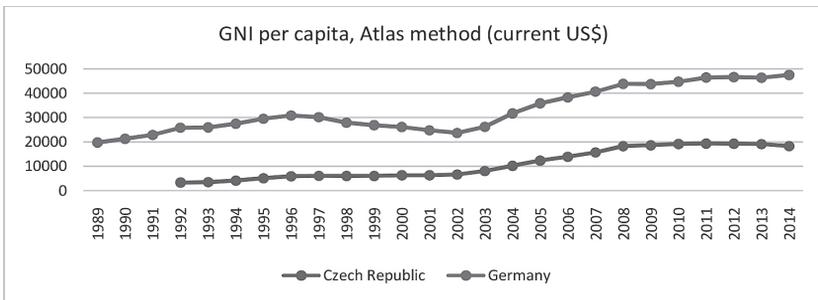


Figure 2. GNI per capita, Atlas method (annual)

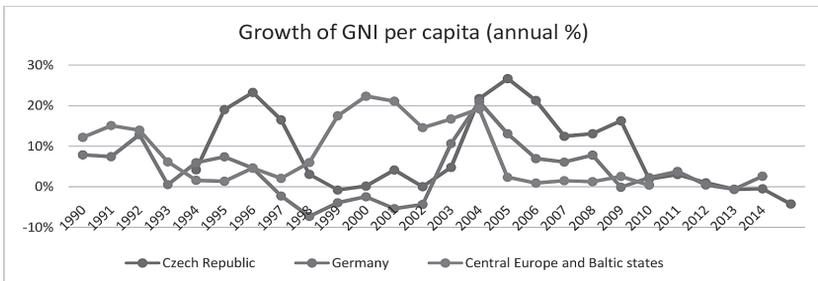


Figure 3. Growth of GNI per capita, Atlas method (annual %)

It can be observed in the above graph that the paths of development are quite synchronized. Strong economic connections within European countries explain it. As a supportive evidence for the Balcerowicz et al. analysis results (2013), in 2005, only the Czech Republic had a growth spurt, while the German and European indexes decreased. The year before Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, the Czech Republic and Estonia became EU members. This led to the rapid economic rise of the Czech Republic. The big decrease in economic growth in 2009 reflects to the world financial crisis in 2008 that influenced Europe a year later.

Income inequality in the Czech Republic and Germany

Gini index is the most common index for measuring the income inequality. It measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative distribution of income – the percentage of income going to a given percentage of the population, when the latter is ranked according to income levels. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality (The World Bank, 2016). The other measure of income inequality, commonly used in the EU as an indicator, is the ratio of the income share of the richest 80% of the population to the share of the poorest 20% (the S80/S20 ratio) (European Commission, 2012).

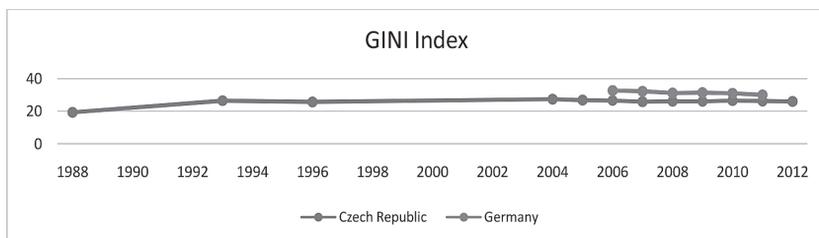


Figure 4. Gini index (1988–2012)

The Czech Republic is one of the most equal countries in the EU and has much higher position in the rank than Germany: the 4th place according to Gini index ranking, and the 1st according to S80/S20 ratio. Germany holds 12th and 14th places respectively (European Commission, 2012).

According to the European commission study (2012) the level of GDP per capita and income inequality are positively correlated. Thus, with the growth of GDP per capita, income inequality also rises.

In both countries the growth of income inequality leads to the lack of trust in domestic political institutions¹. In Germany, the level of satisfaction with economy and government is influenced by fluctuations of income inequality.

It is interesting to note that in the Czech Republic, the growth of income inequality affects the richest group of society, by reducing the amount of people who live comfortably on present income. In contrast, the growth of income inequality in Germany affects the lower class of society by reducing the amount of people whose lives are very difficult on present income (European Social Survey Round 1–7 Data).

Political trust and confidence in the Czech Republic and Germany

There are a lot of definitions of what political trust is. Kenneth Newton defines trust as “the belief that others will not deliberately or knowingly do us harm, if they can avoid it, and will look after our interests, if this is possible” (2007). Zmerli, Newton, Montéro (2006) suggest to apply the word “trust” for attitudes towards individuals, and “confidence” – to institutions. As Newton (1999, p. 179) writes: “while social trust belongs to the private sphere and is a feature of personal relations [...], confidence belongs to the public, political sphere and is built upon second-hand sources, particularly the mass media”.

The relation between the confidence in parliament and democracy was also on the spotlight for many years. It was defined that democracies are more likely to last, if citizens have positive opinions about government,

¹ R = -0,78, Sig=0,00 for Gini index vs “Complete trust in the parliament” in the Czech Republic.

R = 0,76, Sig=0,00 for Gini index and “No trust at all in the parliament” in Germany.

because they are less likely to push for radical changes in the system. Political trust is often put on the same stage with political confidence, which refers to citizens' attitude towards the core institutions and key actors of the political regime (Lipset and Schneider; Gamson; Hart).

For longitudinal empirical study of political trust, Fuchs et al. (1995) have scrutinized the indicator that satisfies both the requirements of comparability across nations and longitudinality. This indicator was measured by asking respondents a question about their degree of satisfaction with political institutions and democracy.

European Social Survey (ESS) includes 7 rounds (data were collected each two years from 2002). For this study the author focusses on the following questions from ESS surveys:

- Trust in: (a) country's parliament, (b) politicians, (c) political parties, (d) European Parliament;
- How satisfied with: (a) present state of economy in country, (b) the way democracy works in country, (c) the national government and (d) life as a whole;
- Feeling about household's income nowadays.

The author assumes that the level of trust and the satisfaction level should be separately studied. The level of political trust refers to the willingness to delegate authority to the parliament for leading the country. And the level of satisfaction in turn relates to the evaluation of results of the parliament's work.

According to the ESS surveys, the Czech Republic is a country with critically low level of political trust (fig. 5-8). Reduction of the "total distrust" level is observed after 2012 (hereinafter: European Social Survey Round 1–7 Data, 2002; 2004; 2006; 2008; 2010; 2012; 2014). As Klaus (2006) writes, the Czechs still distrust in western path of development, because of the historical background. But a stable positive trend is seen within 2002 and 2014. Thus, the author assumes, that with a gradual incorporation to the global trade market and increasing strength of domestic economy, the level of political distrust within Czech population is reducing.

Politicians and political parties do not have as high level of public trust as the national government does. It is a good sign of how de-

mocracy works, because only a limited group of politicians is elected to the Parliament. Thus, the difference between levels of trust in government and politicians reflect that the worthiest politicians are elected. Another reason for this is a high level of satisfaction with the governmental work (fig. 11). The level of satisfaction with the state of economy and democracy (fig. 9–10) supports this assumption and grows since 2010.

The European Parliament has the highest level of trust (18,9% in 2014), even though it has a high distrust level (41,7%). Trust in the European Parliament is connected with the level of satisfaction with democracy², and political trust – with the level of satisfaction with the government and economy.

Results of analysis of the ESS data (fig.12) show that the majority of Czech respondents perceive a high level of satisfaction with the life as a whole – 57,6% in 2014. Fluctuations of the political trust level do not influence directly the level of satisfaction with life, thus, the satisfaction with life relates to social factors, but not to economic or political. For more precise answer about the nature of factors that increase the level of satisfaction with life, further research is needed.

But what certainly influences the level of political trust is unemployment rate (fig. 13). The strong correlation proves that changes in the unemployment rate reduce the level of satisfaction with life and the feeling about the household's income (fig. 14). The connection is very clear: the higher the unemployment rate – the worse the subjective perception of household's income³ and lower the level of satisfaction with life⁴.

² R = 0.89, Sig=0.00 for “How satisfied with present state of economy in country” vs “Trust in country's parliament”.

R = 0.94, Sig=0.00 for “How satisfied with the national government” vs “Trust in country's parliament”.

R = 0.77, Sig=0.00 for “How satisfied with the way democracy works in country” vs “Trust in European Parliament”.

³ R=0.85, Sig=0.00 for Unemployment rate vs feeling “Difficult on present income”, R=-0.81, Sig=0.00 for Unemployment rate vs feeling “Living comfortably on present income”.

⁴ R=-0.82, Sig=0.00 for Unemployment rate vs “Extremely satisfied with life”.

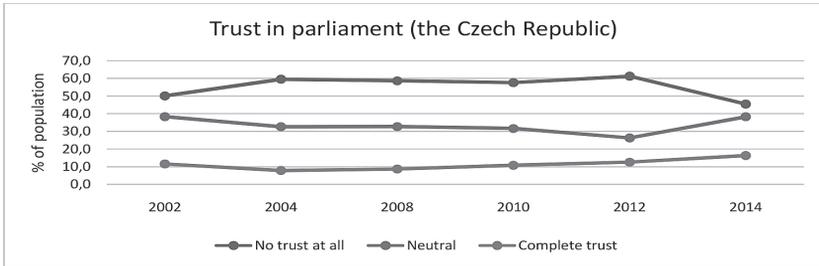


Figure 5. Trust in Parliament 2002–2014 (the Czech Republic)

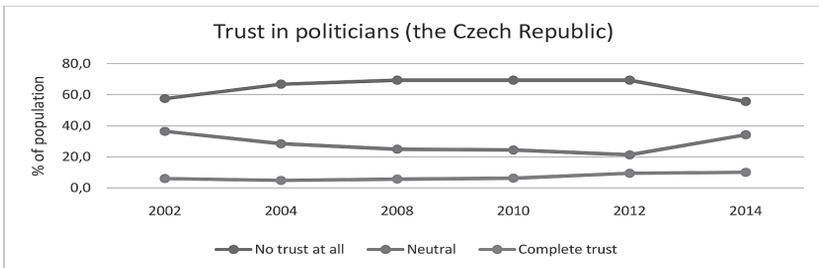


Figure 6. Trust in politicians 2002–2014 (the Czech Republic)



Figure 7. Trust in political parties 2002–2014 (the Czech Republic)

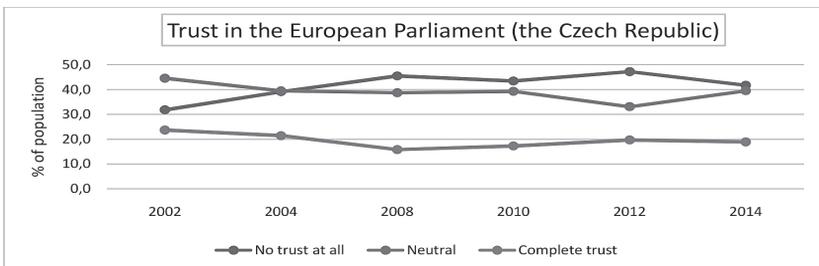


Figure 8. Trust in the European Parliament 2002–2014 (the Czech Republic)

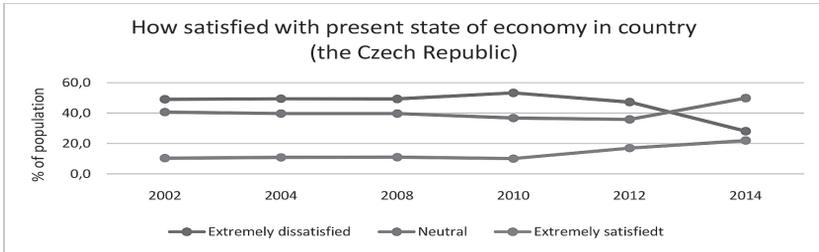


Figure 9. Level of satisfaction with present state of economy in country 2002–2014 (the Czech Republic)

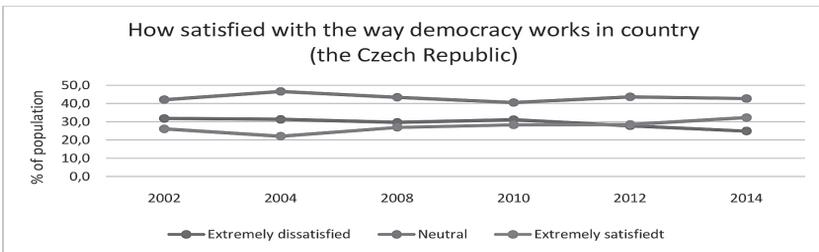


Figure 10. Level of satisfaction with the way democracy works in country 2002–2014 (the Czech Republic)

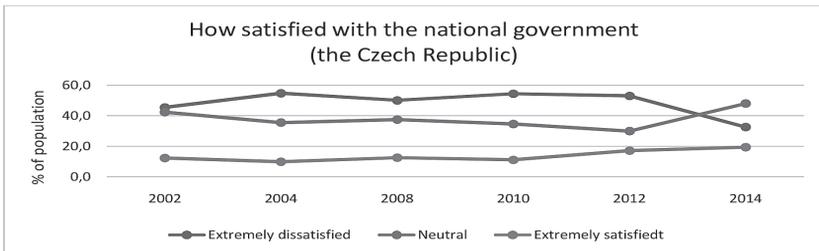


Figure 11. Level of satisfaction with the national government 2002–2014 (the Czech Republic)



Figure 12. Level of satisfaction with life as a whole 2002–2014 (the Czech Republic)

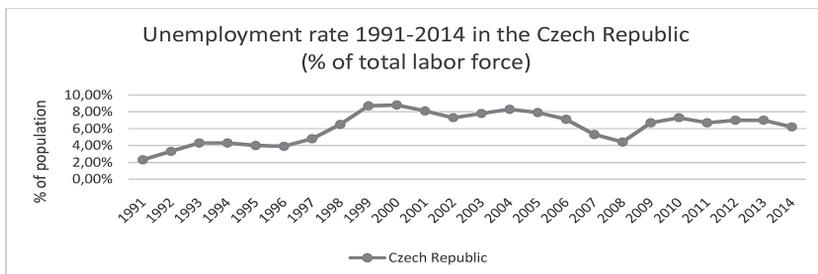


Figure 13. Unemployment rate in the Czech Republic (1991–2014)

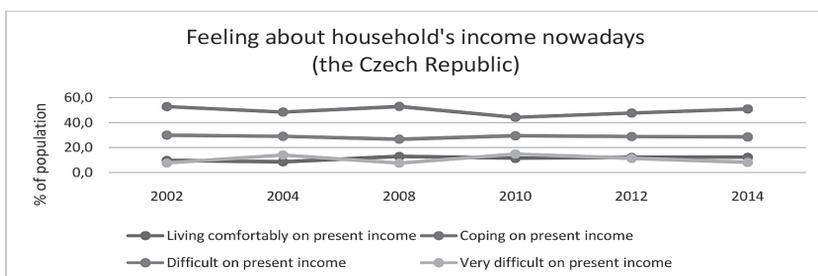


Figure 14. Feeling about household's income 2002–2014 (the Czech Republic)

Despite having a historical background similar to the Czech Republic, the German population presents much higher overall political trust (fig. 15–18). For instance, the highest level of trust is placed upon the Parliament (30,1% in 2014). This is a consequence of a rapid recovery and a subsequent development of domestic economy. At the same time, crises in economically weaker member-countries of the EU lead to economic consequences for Germany, because of its leading position in the European Union. This reflects the repetitive changes of the level of public trust in the European Parliament among the Germans (fig. 18).

The level of satisfaction with the present state of economy (fig. 19) differs from corresponding results of the Czech Republic. Here the majority shares the positive opinion. The amount of satisfied respondents steadily grows from 2008 (17,2% in 2008 and 52,5% in 2014) on account of decreasing “dissatisfied” part of population (from 41,8% in 2008 to 12,7% in 2014). The highest level of dissatisfaction by the economy, as well as by the government (fig. 20) was in 2002. It relates

to the economic crisis in Germany in early 2000s, and the package of reforms applied to reverse the economic downfall (“Agenda 2010”), indirectly influenced the fast growth of the level of political confidence after 2005.

The absolute majority (76,4% in 2014) of the Germans are satisfied with the life as a whole (fig. 22), which is 20% higher than in the Czech Republic. As in the case with the Czech Republic, fluctuations of the level of the overall political trust do not influence the level of satisfaction with life directly.

The unemployment rate (fig. 23) plays one of the key roles in influencing the public opinion. According to results of correlation, the raise of the unemployment rate leads to the growth of (1) the political distrust in domestic institutions⁵; (2) the level of dissatisfaction with economy⁶. The growth of the unemployment rate also directly influences the feeling about the household’s income (fig. 24)⁷.

As in the Czech Republic, the level of satisfaction is influenced more by social factors, rather than political factors. Even the unemployment rate sometimes is presented as a social consequence of economic system.

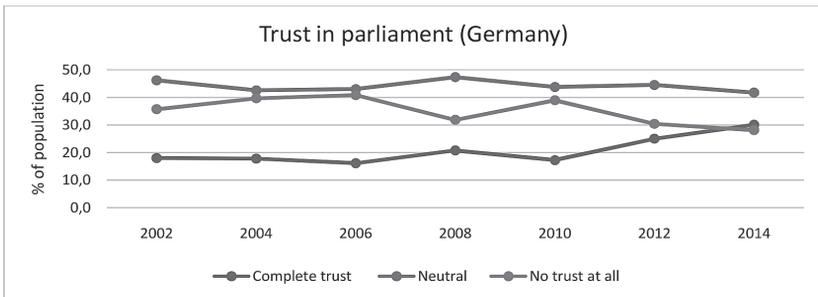


Figure 15. Trust in Parliament 2002–2014 (Germany)

⁵ $R=-0.85$, $Sig=0.00$ for Unemployment rate vs Complete trust in the (1) German parliament and (2) politicians.

$R=-0.81$, $Sig=0.00$ for Unemployment rate vs feeling “Living comfortably on present income”.

$R=-0.82$, $Sig=0.00$ for Unemployment rate vs “Extremely satisfied with life”.

⁶ $R=-0.87$, $Sig=0.00$ for Unemployment rate vs “Extremely satisfied with economy”.

⁷ $R=-0.91$, $Sig=0.00$ for Unemployment rate vs feeling “Living comfortably on present income”.

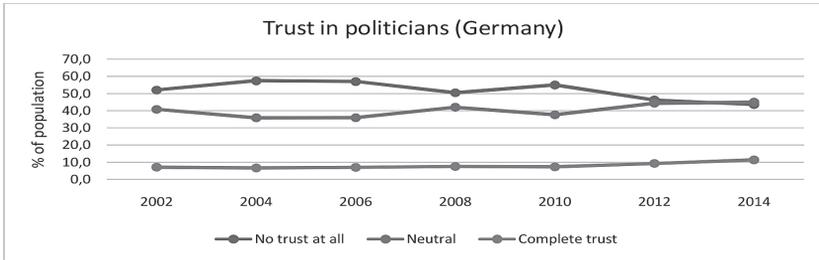


Figure 16. Trust in politicians 2002–2014 (Germany)

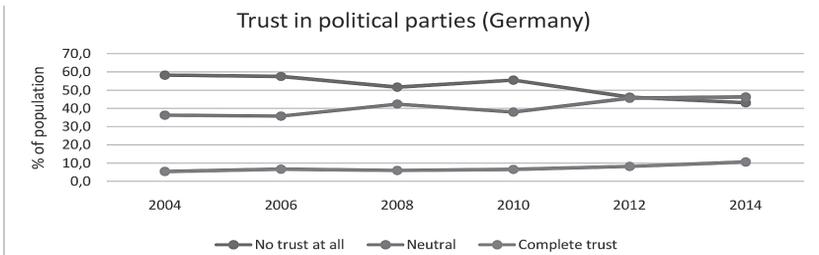


Figure 17. Trust in political parties 2002–2014 (Germany)

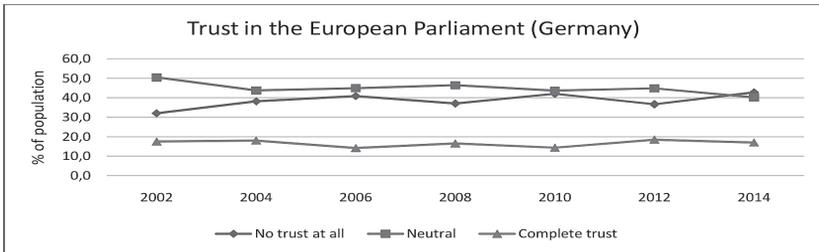


Figure 18. Trust in European Parliament 2002–2014 (Germany)

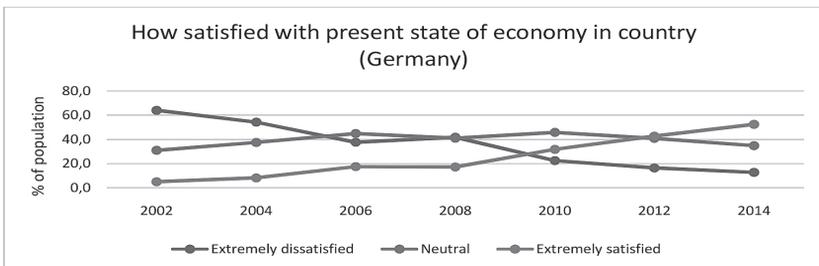


Figure 19. Satisfaction level with present state of economy in country 2002–2014 (Germany)

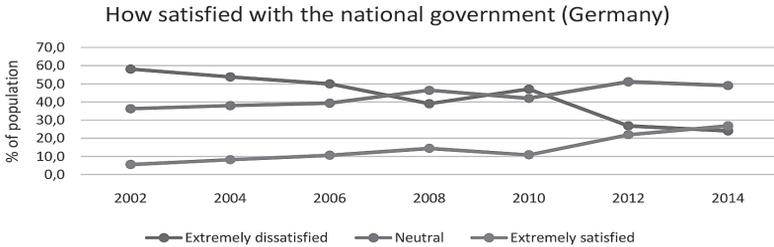


Figure 20. Satisfaction level with the national government 2002–2014 (Germany)

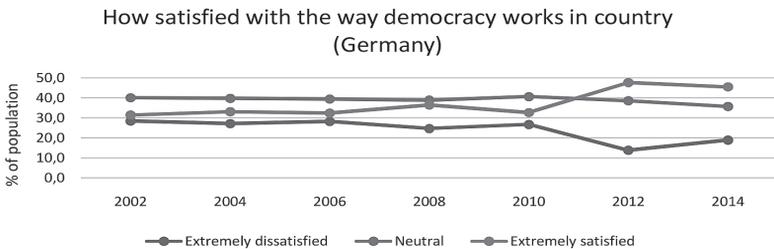


Figure 21. Satisfaction level with democracy 2002–2014 (Germany)

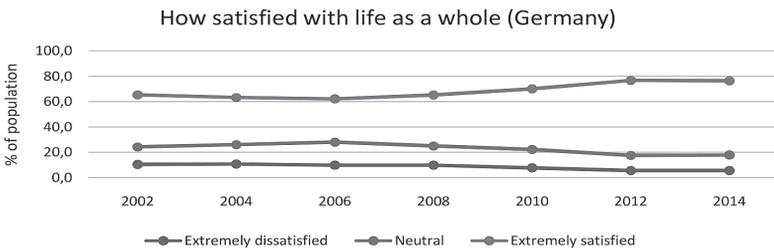


Figure 22. Satisfaction level with life as a whole 2002–2014 (Germany)

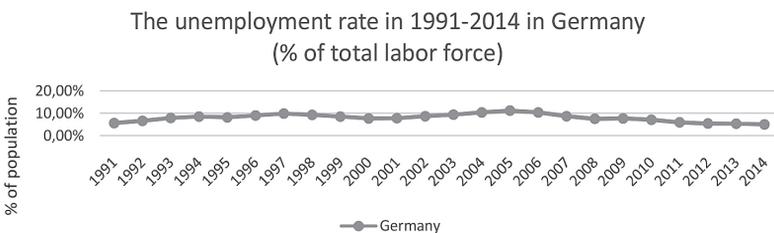


Figure 23. The unemployment rate in Germany (1991–2014)

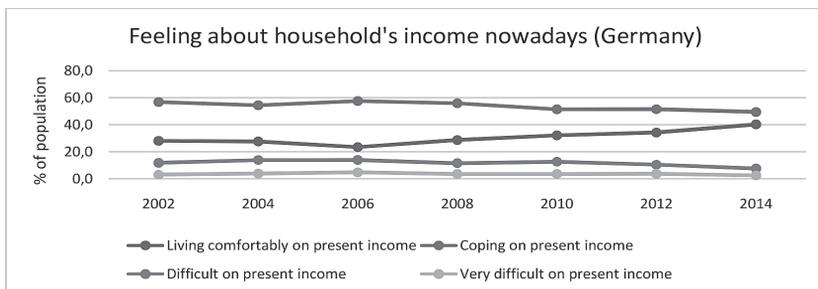


Figure 24. Feeling about household's income 2002–2014 (Germany)

Conclusions

By this research the author explored consequences of economic changes in the Czech Republic and Germany. Fluctuations of GDP and GNI growth lead to respective changes in the income inequality. The more the country develops – the higher the Gini index gets.

With the cutback of the economic activity in the country raises the unemployment rate. On the grounds of the strong influence of the unemployment rate (UR) on the public opinion, the author considers it (UR) as a social consequence of economic changes.

For a stable development of any country, a high political confidence is needed. The level of complete trust in the parliament in observed countries is on a low level (16,3% in Czech Republic and 30,1% in Germany). The majority in both countries shares neutral position on that question. The level of satisfaction with the government in the Czech Republic (19,4%) is higher than the level of trust in the Czech Parliament. But in Germany the same satisfaction level (26,9%) is slightly lower than the level of trust in the national Parliament.

The income inequality is higher in Germany (the Czech Republic holds the 4th or the 1st place, depending on the methodology of calculating the index, thus this is the one of the fairest countries in the EU). The rise of Gini index leads to decrease the level of the political trust and levels of satisfaction with government and economy. In Germany the connection is stronger and the public distrust spreads rapidly with the rise of inequality. It explains that in Germany, people are more concerned about the inequality

(72,9% agreed that the government should reduce the income inequality). Furthermore, the inequality in Germany affects the lowest class of society, and cumulative dissatisfaction might lead to the growth of protest activity.

This study proves the working hypotheses that economic growth leads to increased political confidence, in case of reduced income inequality. The economic growth has a positive correlation with the income inequality. The rise of the inequality is negatively correlated with the political trust. The unemployment rate rises with the economic downturn and thus, affects the level of satisfaction with life through changes in feeling about household's income. Thereby, for stable development, government should reduce the income inequality, which is a consequence of the economic growth.

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