Convergence and divergence in inequality developments in Central- and Eastern Europe, almost three decades after the transition

István György Toth

(Tárki Social Research Institute Budapest)

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Thirty years ago…

16 June

27 June

8 April

…orming the closed communist inheritance" as one of …
…e current mission omits this reference, the purpose of CEU …
changed as its environment evolved.[14] But to what extent has this …
open society mission?

The creation of CEU can be traced back to the Inter-University C…
in Dubrovnik, a set of workshops hosted from 1976 onwards that brou…
together scholars from the East and the West to prepare "the ground for …
better world, the world of human understanding and peace."[15] One regula…
participant of those meetings was Miklós Vásárhelyi, since 1984 the repre-
sentative of George Soros's foundation in Hungary. In April 1989, Soros and
Vásárhelyi organized a meeting of scholars to debate the future of Central and
Eastern Europe, where Vásárhelyi proposed the idea of founding a university,
around the model of the Inter-University Centre. In a concept-note circulated
in April 1990, he called for "an educational initiative for Eastern Europe," in
which Soros outlined his first ideas for what would later become CEU. He
argued that: "The mere fact that a closed system has collapsed does not lead
to the establishment of an open society. […] The creation of a free and open
system of social organization will require a tremendous effort, particularly
in education. The countries of the region […] must get to know better eac'
other's cultures and they must digest the experiences of the last half-centu
These tasks require greater cooperation among the existing universities o'
region as well as the establishment of a new institution."[16]

CEU was at first not conceived as a self-standing entity, but
a new kind of institution that would help create a greater web
…n among existing universities. Similar to Popper, Soros sc…
…her education in the transformation of the new…
…pean societies. Yet Soros also diff…

Source: Ignatieff, M. and S. Roch (2018) Rethinking open society CEU Press p. 52

The lecture is based on

Chapter 3 Income, Wealth, Employment and beyond: Central- and Eastern Europe (**Márton Medgyesi** and István György Tóth)

to appear in

Georg Fischer and Robert Strauss (editors) Income, wealth, consumption, wellbeing and inequality developments – The volume on Europe.

Research questions:

- What patterns of income convergence (with EU15) and inequality developments in CEE countries?
- What patterns of convergence in well-being?
- What similarities and dissimilarities between countries?
- What are the drivers behind societal changes in these countries?

The region covered:

- Three Baltic States (Estonia, Latvia, and Lithuania)
- Visegrad countries (Czech Republic, Hungary, Poland, Slovakia)
- Other countries: Slovenia, Romania, Bulgaria

Period covered in the paper: 1990- most recent available

Two perspectives in the presentation:

1990 – „now" (the big picture, focus on the long run)

2006 – „now" (recent developments, focus on the short run)

Methods/indicators

Looking beyond GDP:

- Macroeconomic indicators:
  - -GNDI,
  - -Consumption
- Distributional indicators:
  - -Gini index,
  - -Poverty rates
- Well-being indicators:
  - -Distributionally-adjusted income growth
  - -Life expectancy
  - -Subjective well-being

Sources:

- Lit review
- Correspondence with experts
- Own calculations

Focus on longer run

Common institutional experiences and adoptation processes

- transition from command to market economy (1989-various lengths)
- accession to the EU

  (2004: CZ, EE, HU, LT, LV, PL, SI, SK, 2007: BG, RO,
- Eurozone integration

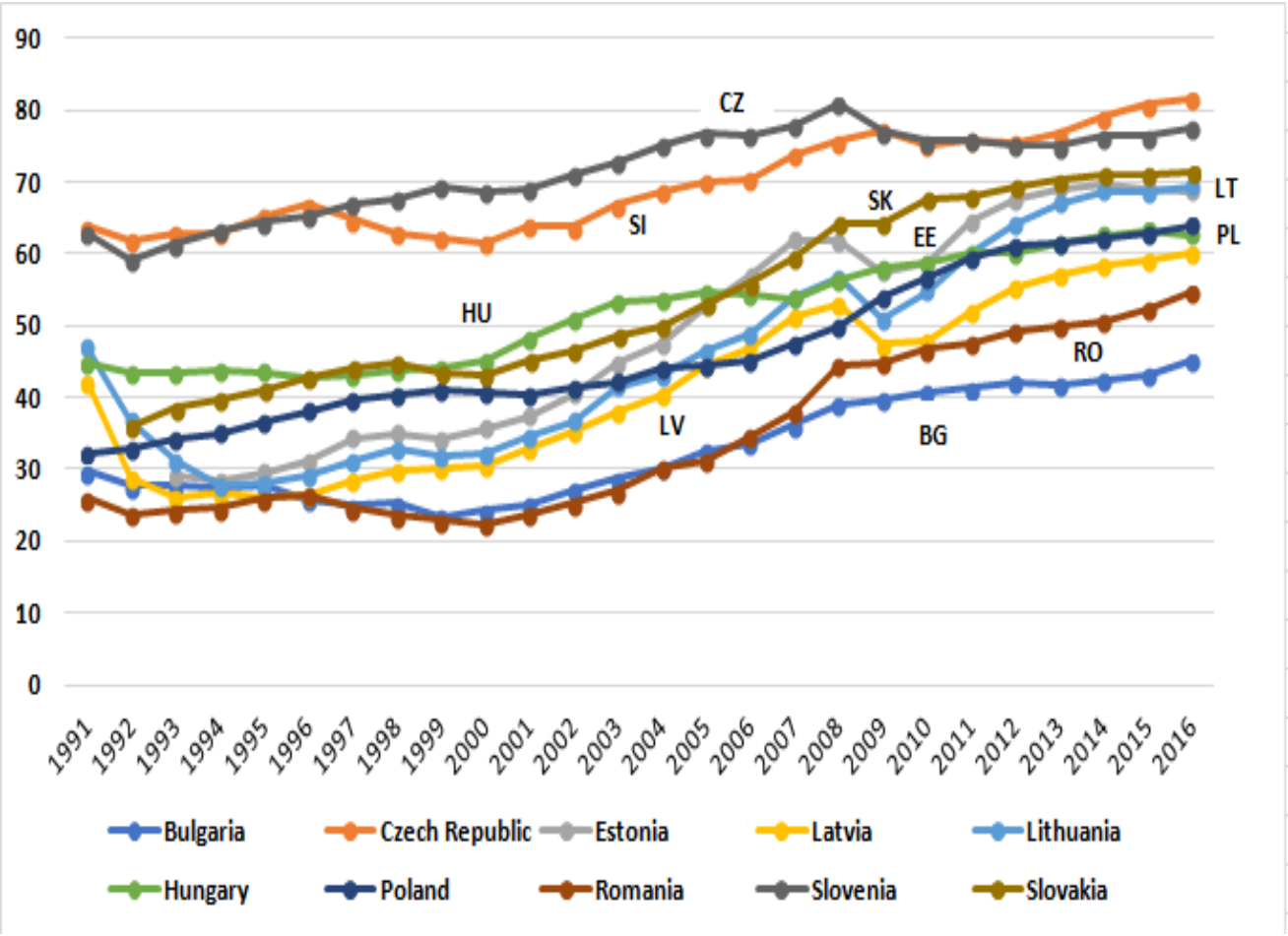
  (SI 2007, SK 2009, EE 2011, LT 2015, LV 2014)

Dissimilarities

- Historical heritage (more developed CZ, SI)
- Transition policy (privatization, social policies etc.) mix and speed
- Differences in economic structures, educational distribution, and ethnical composition of the population, welfare states
- Recent political regime changes (HU, PL)

Macroeconomic indicators (1): GDP per capita

Evolution of relative per capita GDP, PPS, EU15=100%



Source: Ameco database, European Commission

Convergence to EU avg
and to each other

Different speed:

- CZ, SI – on top
- BG left
- HU loosing momentum

Fast runners at least
in periods: SK, EE, LT, LV

Serious dips: Baltics in GR

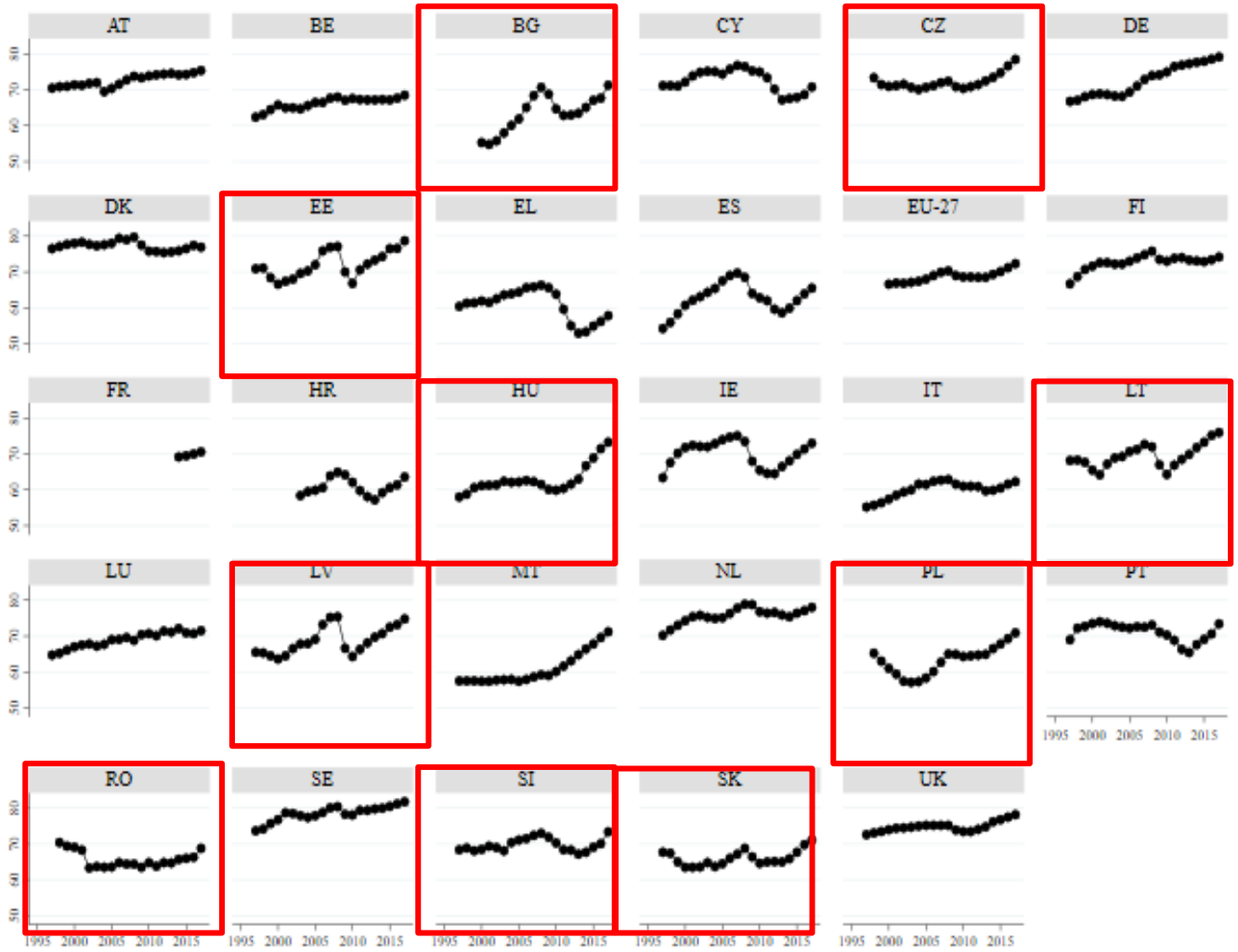
EU Membership:
positive for most members
and most periods

Macroeconomic indicators (2): GNDI and consumption

	GDP per head of population, (PPS: EU-15 = 100)		Change in per capita GDP	Gross National Disposable Income per head of population (PPS: EU-15 = 100)		Change in per capita GNDI	Actual individual consumption (PPS: EU-15 = 100)		Change consum -ption
	1993	2016		1993	2016		1995	2016	
Bulgaria	28	45	**61%**	28	46	**64%**	28	50	**79%**
Czech R.	63	82	**30%**	64	76	**19%**	58	72	**24%**
Estonia	29	69	**138%**	30	68	**127%**	31	67	**116%**
Latvia	26	60	**131%**	27	61	**126%**	30	62	**107%**
Lithuania	31	69	**123%**	33	69	**109%**	33	79	**139%**
Hungary	44	63	**43%**	45	61	**36%**	46	58	**26%**
Poland	34	64	**88%**	34	63	**85%**	38	69	**82%**
Romania	24	55	**129%**	25	55	**120%**	28	56	**100%**
Slovenia	61	78	**28%**	62	76	**23%**	66	70	**6%**
Slovakia	39	71	**82%**	39	70	**79%**	37	70	**89%**

Source: AMECO database accessed 2018.04.03. GNDI: Bulgaria (1995)

Employment rate in the EU as a percentage of the population aged 20–64



After, (occasionally serious) collapse of employment, most CEE labour markets recover and catch up to the core of EU.

Patterns differ:

Baltics and BG: very high volatility

HU: long standstill, followed by take-off

Continuous imrpovement in PL and CZ, etc.

Determinants of economic growth in CEE countries

Insights from the literature:

- Labour accumulation has had a relatively small role in economic growth
- Capital accumulation was important: FDI, EU funds
- Increasing total factor productivity had an important role on the economic growth in the CEE countries
- The initial country‘s level of national income is also found to be negatively associated with the growth speed (convergence)

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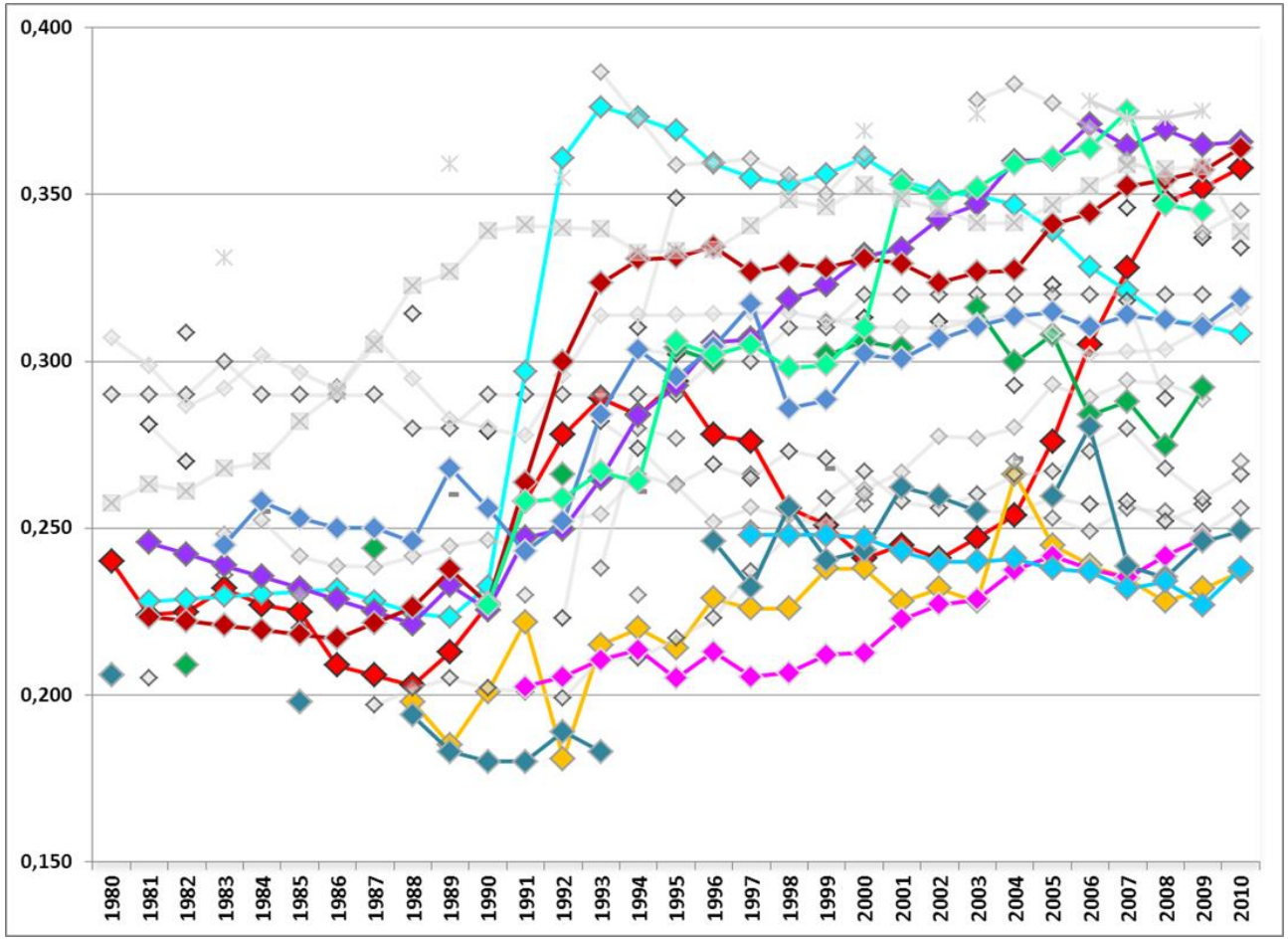
The evolution of inequality (measured by Gini) in post socialist European transition countries 1980-2010



Bulgaria
Czech Republic
Estonia
East-Germany
Hungary
Latvia
Lithuania
Poland
Romania
Slovakia
Slovenia

Lessons: from a seemingly uniform group (Gini : 20-25) to a very heterogenous one (Gini 23-37)
The relevance of the original political categorization of the „behind the curtain" countries is part of the past now

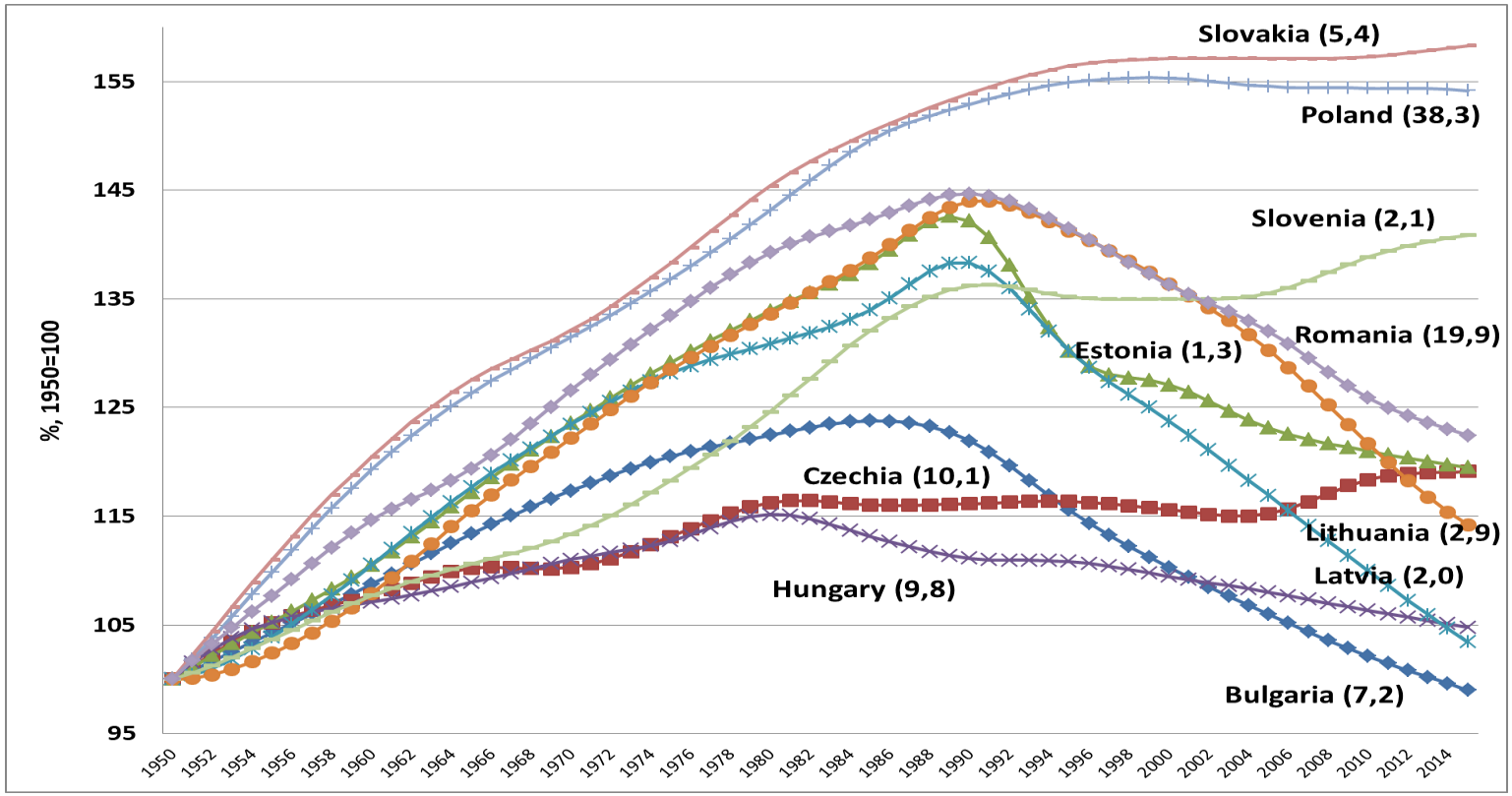
Change in inequality levels (Gini coefficient values) during three periods in 30 countries

Gini coefficients	1980-1984	1996-2000	2006-2010	2010-2017
above 0.351		EE, PT, RO, US,	LT, LV, PT, RO, US	**BG, LT**
0.301 to 0.350	GR, ES, US,	AUS, BG, CAN, GR, HU, IE, IT, LV, LT, RO, ES, UK, KO	AUS, BG, CAN, EE, GR, IE, IT, PL, ES, UK, KO,	**LV, RO, EE, PL**
0.251 to 0.300	AUS, CAN, DK, FR, IT, JP, UK, DE(w)	AT, BE, DK, FR, DE(w), JP, LU, PL, SE, NL, DE	AT, BE, DK, FI, FR, DE(w), HU, LU, SE, NL, DE, KO,	**HU**
below 0.25	AT, BG, CZ,EE,FI, HU, LV, LT, SK, SE, NL,	CZ, FI, DE(e), SK, SL,	CZ, DE(e), SK, SL,	**CZ, SK, SI**
no data	BE, DE(.E), IE, LU, PT, RO, SL, KO		JP	

Potential drivers of the increase in household income inequality in inequality growth periods

- Falling full-time employment rate
- Increasing wage inequality, partially driven by the increased demand for highly-educated workers
- Increasing inequalities between ethnic groups in some cases.
- Increasing role of capital income
- Declining inequality-reducing effect of government taxes and transfers

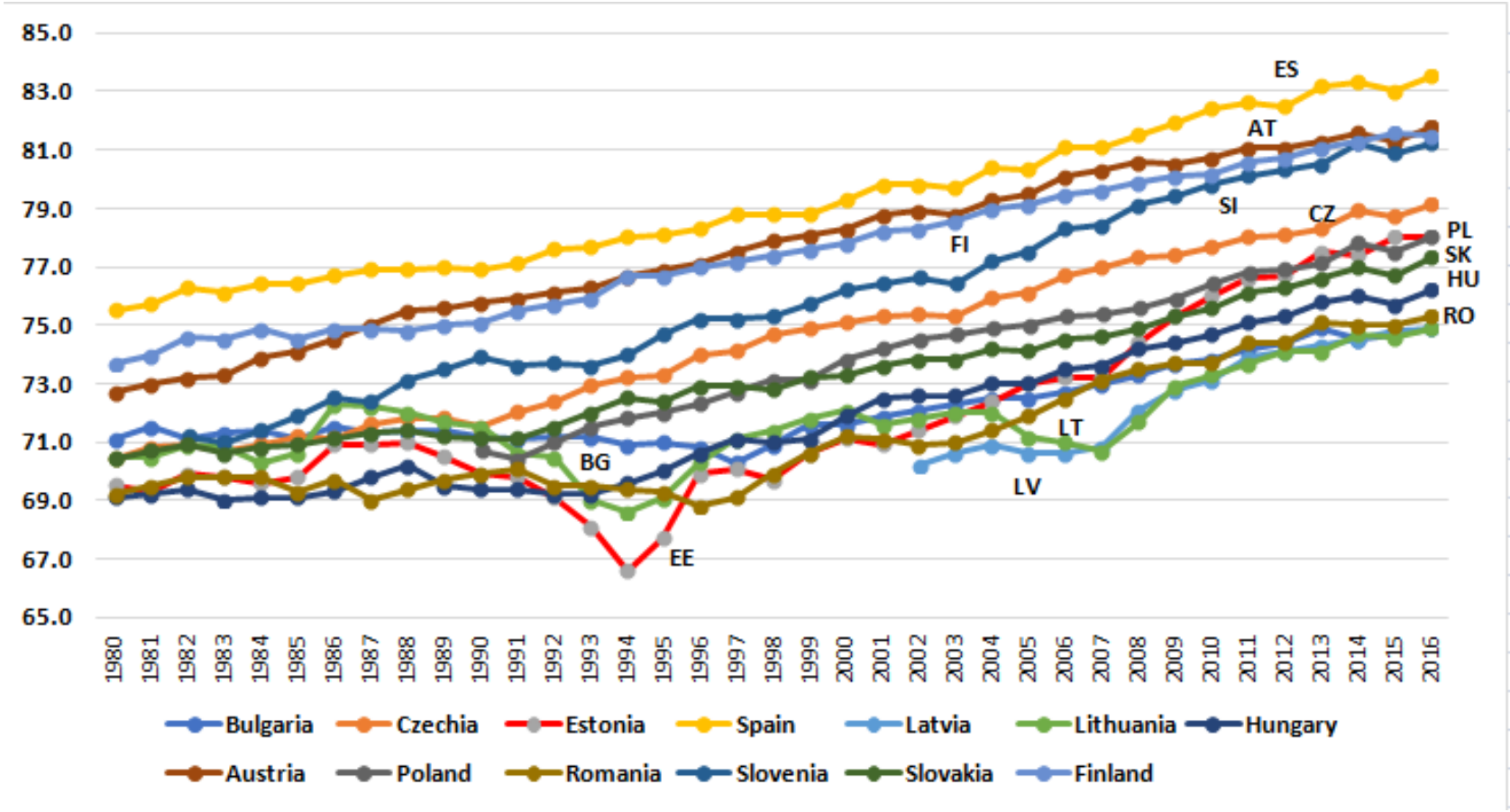
Trends of total population in CEE countries, 1950=100 (population size in 2015, millions, in brackets)



Source: own calculations based on United Nations (2017). Population estimates from UN Population Division, Department of Economic and Social Affairs, last revision June, 2017.

Indicators of well-being: life expectancy

Evolution of life expectancy at birth in CEE and selected EU15 countries, 1980-2016



Source: European Commission, Eurostat database

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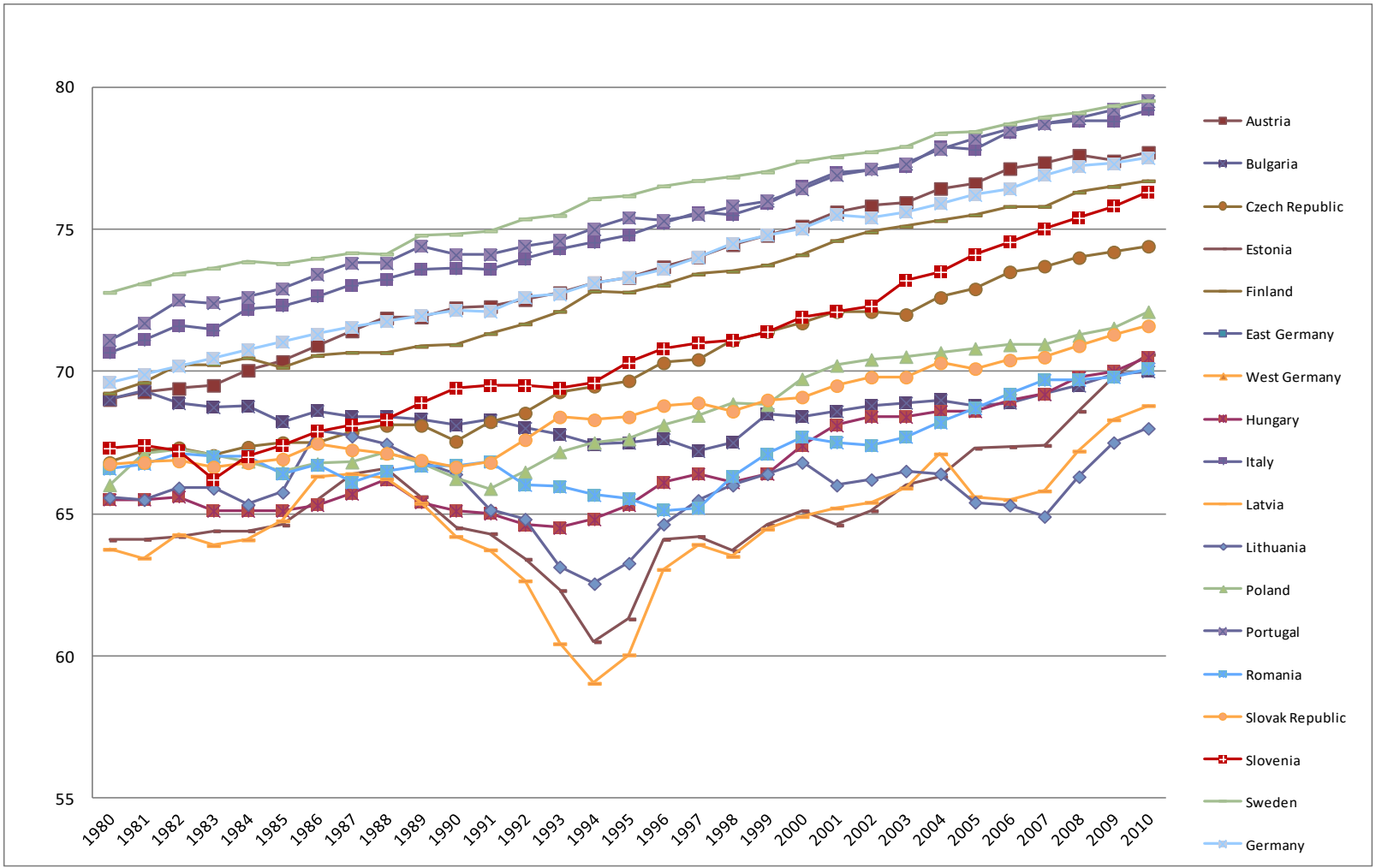
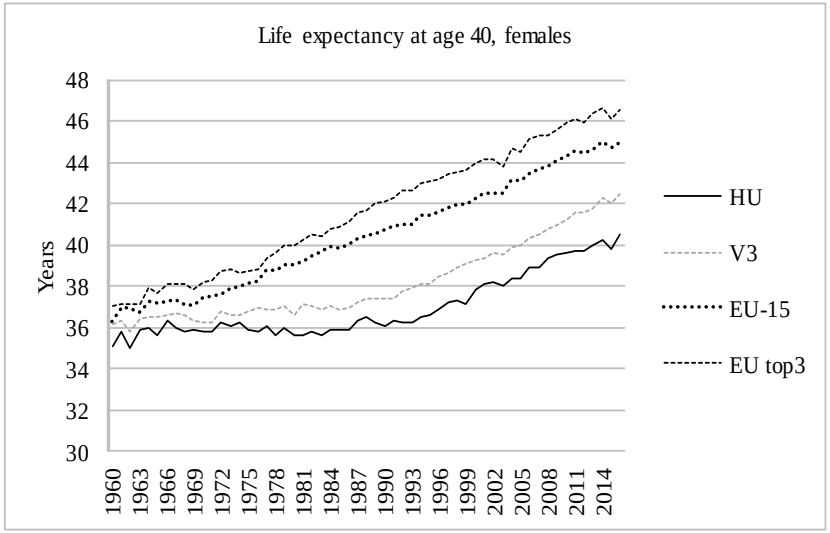
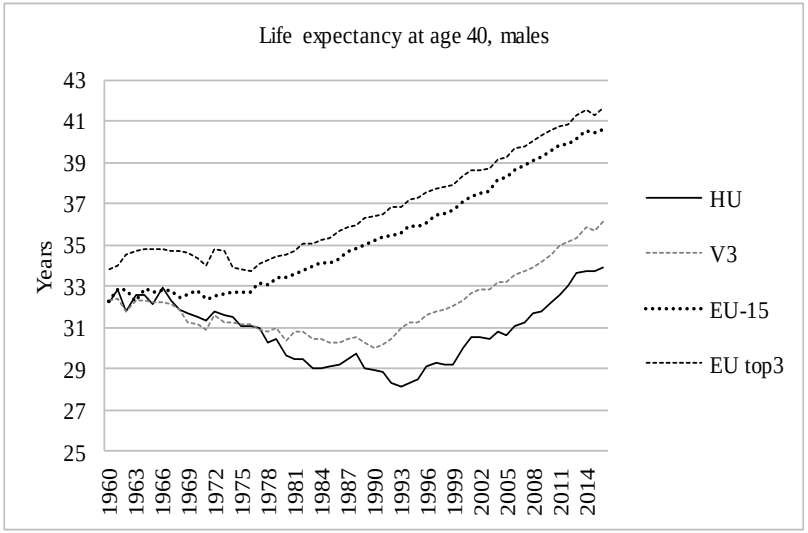
Evolution of male life expectancy at birth in CEE and selected EU15 countries, 1980-2010.



Life expectancy at age 40 in Hungary in European comparison, 1960–2016 (years)





Note: EU top 3: the average of the three best-performing EU Member States.
Source: Orosz and Kollányi, 2019, Fig 1

Socialist legacy
Increased gap to top EU
Transition drops
Recovery but no real catch up
Males affected more

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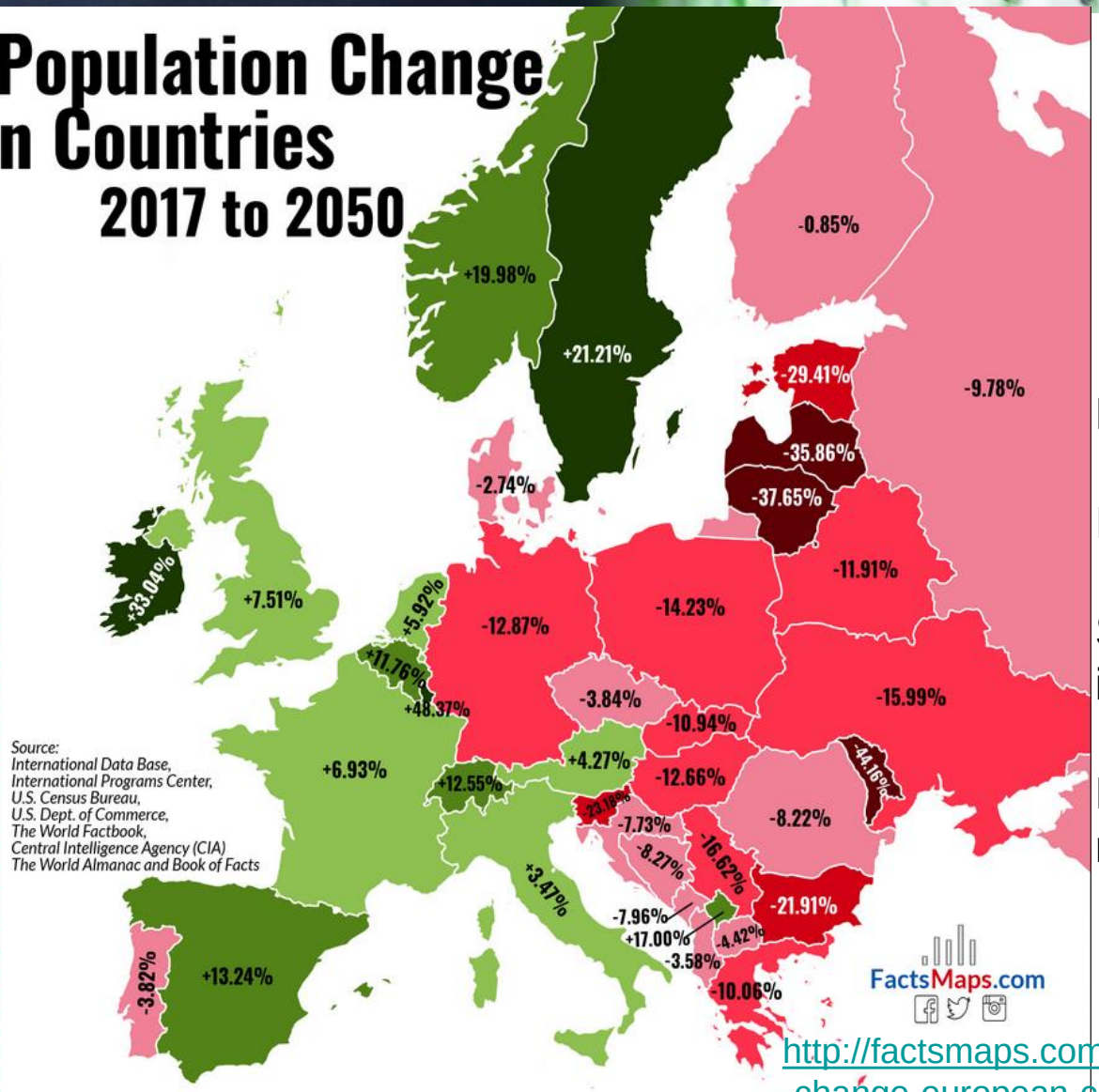
Projected Population Change in European Countries 2017 to 2050

	Population (thousands) in 2017	in 2050	
Luxembourg	583	865	+48.37%
Ireland	4,761	6,334	+33.04%
Iceland	335	407	+21.49%
Sweden	9,910	12,012	+21.21%
Norway	5,305	6,365	+19.98%
Cyprus	1,179	1,393	+18.15%
Kosovo	1,900	2,223	+17.00%
Spain	46,354	52,491	+13.24%
Switzerland	8,476	9,540	+12.55%
Belgium	11,429	12,773	+11.76%
UK	66,181	71,154	+7.51%
France	64,979	69,485	+6.93%
Netherlands	17,035	17,907	+5.12%
Austria	8,735	9,108	+4.27%
Italy	59,359	61,416	+3.47%
Finland	5,523	5,476	-0.85%
Denmark	5,733	5,576	-2.74%
Albania	2,930	2,825	-3.58%
Portugal	10,329	9,934	-3.82%
Czech Rep.	10,618	10,210	-3.84%
Macedonia	2,083	1,991	-4.42%
Croatia	4,189	3,865	-7.73%
Malta	430	396	-7.91%
Montenegro	628	578	-7.96%
Romania	19,679	18,061	-8.22%
Bosnia Herz.	3,507	3,217	-8.27%
Russia	143,989	129,909	-9.78%
Greece	11,159	10,036	-10.06%
Slovakia	5,447	4,851	-10.94%
Belarus	9,468	8,340	-11.91%
Hungary	9,721	8,490	-12.66%
Germany	82,114	71,542	-12.87%
Poland	38,170	32,739	-14.23%
Ukraine	44,222	37,149	-15.99%
Serbia	7,040	5,870	-16.62%
Bulgaria	7,084	5,532	-21.91%
Slovenia	2,079	1,597	-23.18%
Estonia	1,309	924	-29.41%
Latvia	1,949	1,250	-35.86%
Lithuania	2,890	1,802	-37.65%
Moldova	4,051	2,262	-44.16%



Factors behind:

Insufficient TFR

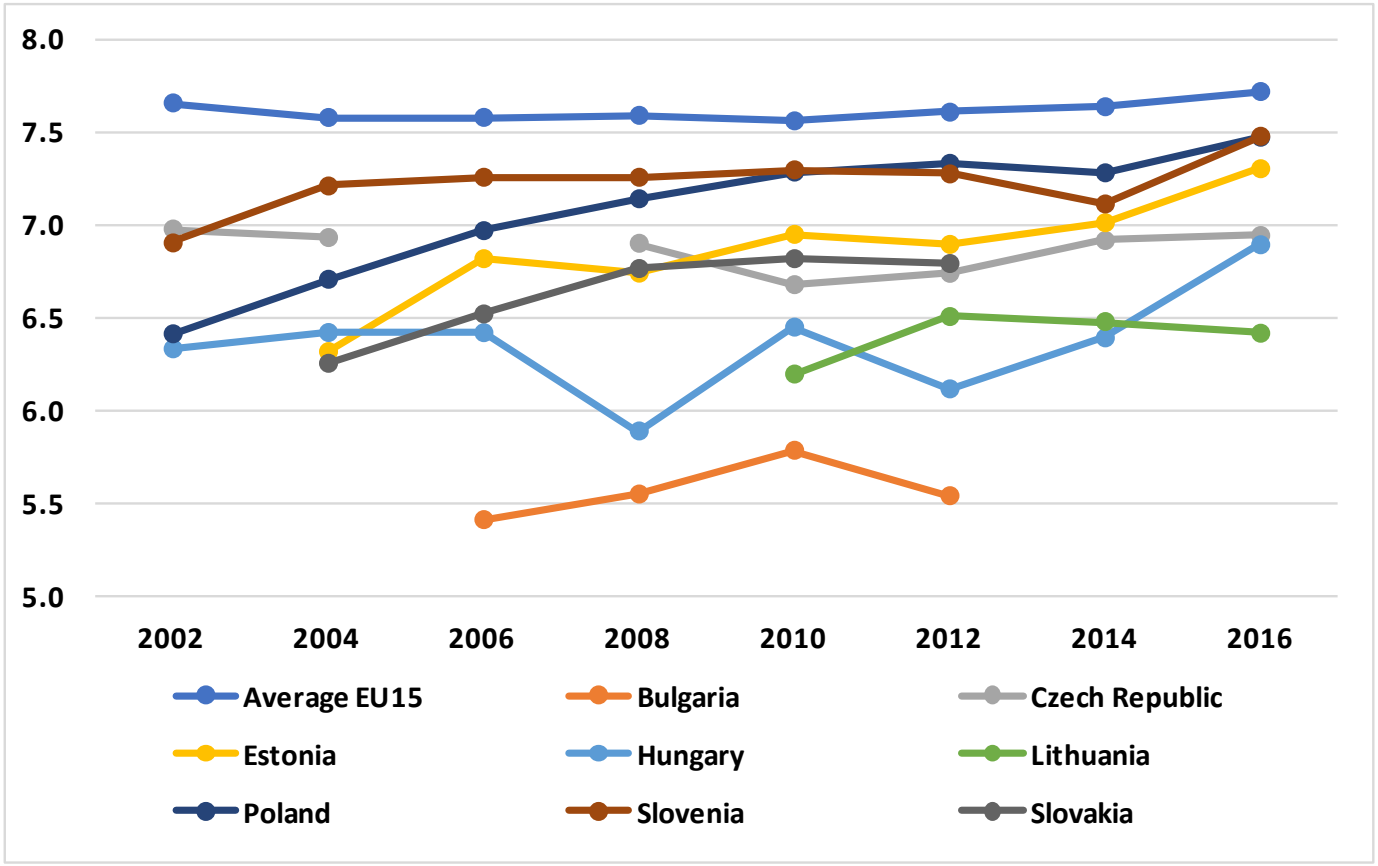
Slow improvement in life expectancy

Large outward migration

http://factsmaps.com/projected-population-change-european-countries-2017-2050/

Subjective indicators of well-being: subjective happiness

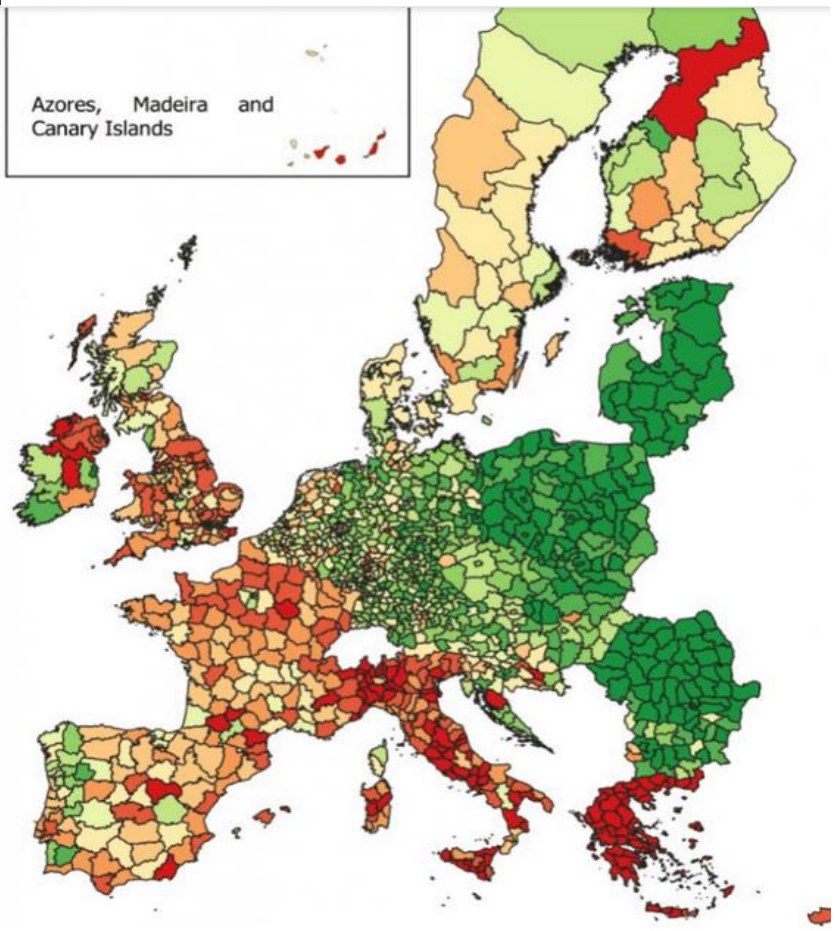
Evolution of subjective happiness (average on 0-10 scale)



Source: European Social Survey

Zoom into more recent past

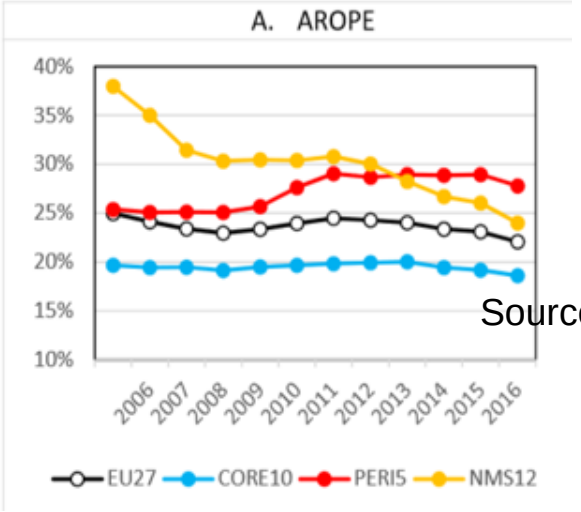
GDP per capita growth in EU regions, 2003-2015



Source: Darvas, Mazza and Midoes, 2019

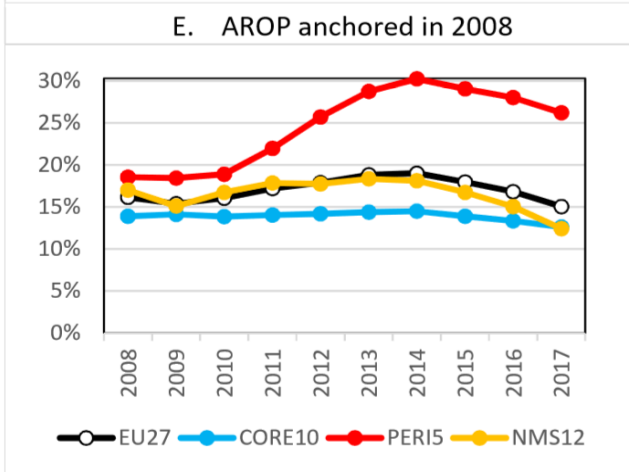
Note: colours refer to different deciles in terms of GDP growth per capita measured at purchasing power standards (PPS).

Rate persons at risk of poverty and social exclusion 2006- 2017



Source: Salverda 2019

At-risk-of-poverty (AROP, after transfers and pensions) levels anchored in 2008



Poverty threshold: 60% median of Pers. Equiv. inc.

Source: Salverda, 2019

Conclusions

- The period has been a period of intense social change in the CEE countries
  - With substantial differences in the transition experiences of CEE countries driven by country-specific factors.
- All CEE countries have managed to decrease their gap in GDP per capita relative to the EU15 average.
  - But not all periods: transition period, economic crisis
  - And not in the same pace: faster for those starting lower
  - TFP and reforms played an important role (also causing heterogeneity)
- Convergence is not necessarily for everyone:
  - periods with increasing inequality, poverty
  - Differences according to indicators: less convergence of well-being (eg. Sen-index, life expectancy) than GDP.

Conclusions (continued)

- Major driving forces of inequality change
  - Employment decline (and recovery)
  - Wage inequality increase (mostly wage premia increase)
  - Rise of property income
  - Policies and institutions (mostly education and training, but
  - redistribution also) matter a lot
- Focus on last ten years show improvements (much of what is relative, parallel to widening North-South divides)

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