Inequality in the Western Balkans and former Yugoslavia

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Together with Gorana Krstic, Jelena Zarkovic Rakis and Nermin Oruc – research questions:

1. What is the extent of income inequality in four Yugoslav successor states, and how much has it changed over the last three decades?

2. What factors determine the level of labour income inequality?

3. What has been the role of different welfare policies in determining the pattern of earnings inequalities?
Welfare system before breakup

- Yugoslav market socialism aimed to reconcile efficiency and equity through “self-management” (workplace democracy) and social ownership
- Adopted an inclusive welfare system based upon mixed principles of contribution and solidarity
  - combining Bismarckian and Universal systems
  - major benefits provided on contributory basis (pensions, health care, unemployment and maternity benefits)
  - Non-contributory cash benefits (social assistance, child allowance, war veterans’ benefits)
- All this led to low levels of inequality
  - In 1968, standardised household income Gini = 0.24
Varieties of capitalism (VoC) in Yugoslav successor states

- Successor states emerged from common institutional background
  - Path dependency, but:
- Different effects of wars and conflicts
- Differences in pace and pattern of privatisation
  - Speed of reforms
    - Early reformers: Croatia and Macedonia
    - Late reformers: Slovenia and Serbia
- Impact of neo-liberal agenda on welfare reform varied between countries
  - Primary influence of World Bank and IMF (Bosnia, Serbia), EU (Slovenia, Macedonia), mixed influences (Croatia)
- Quite different outcomes in terms of inequality
- Can VoC paradigm explain this outcome?
  - Coordinated market economies versus Liberal market economies
European Values Survey: % of respondents with much confidence in trade unions

- Serbia: 12%
- Croatia: 18%
- Macedonia: 34%
- Slovenia: 53%
Gini coefficient of equivalised disposable income before pensions and social transfers
Quantity of employment

• In Serbia, Krstić (2014) using SILC survey data concluded that inequality of incomes of employees is related to:
  – Quantity and quality of employment

• In Serbia, 18.2% of persons live in households with very low work intensity (10.5% in EU)
  – Almost 50% of persons in lowest income quintile live in households with very low work intensity
  – Related to low participation rate of working age population due to unemployment and retirement and other reasons
People living in households with very low work intensity (aged 0 to 59 years)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>21.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>19.2</td>
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<tr>
<td>Macedonia</td>
<td>17.4</td>
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<tr>
<td>Greece</td>
<td>16.8</td>
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<tr>
<td>Spain</td>
<td>15.4</td>
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<td>Belgium</td>
<td>14.9</td>
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<tr>
<td>Croatia</td>
<td>14.4</td>
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<tr>
<td>UK</td>
<td>11.9</td>
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<tr>
<td>Italy</td>
<td>11.7</td>
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<td>Bulgaria</td>
<td>11.6</td>
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<td>Denmark</td>
<td>11.6</td>
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<td>Cyprus</td>
<td>10.9</td>
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<tr>
<td>Portugal</td>
<td>10.9</td>
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<tr>
<td>Finland</td>
<td>10.8</td>
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<tr>
<td>EU-28</td>
<td>10.7</td>
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<tr>
<td>Netherlands</td>
<td>10.2</td>
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<tr>
<td>Germany</td>
<td>9.8</td>
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<tr>
<td>Hungary</td>
<td>9.4</td>
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<tr>
<td>Lithuania</td>
<td>9.4</td>
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<tr>
<td>Malta</td>
<td>9.2</td>
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<tr>
<td>Sweden</td>
<td>9.2</td>
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<td>France</td>
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<tr>
<td>Austria</td>
<td>8.6</td>
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<tr>
<td>Romania</td>
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<td>Latvia</td>
<td>7.9</td>
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<td>Latvia</td>
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<tr>
<td>Slovenia</td>
<td>7.4</td>
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<tr>
<td>Slovakia</td>
<td>7.1</td>
</tr>
<tr>
<td>Poland</td>
<td>6.9</td>
</tr>
<tr>
<td>Czech</td>
<td>6.8</td>
</tr>
<tr>
<td>Estonia</td>
<td>5.7</td>
</tr>
</tbody>
</table>
Low work intensity and Gini inequality

\[ y = 0.3663x + 26.773 \]

\[ R^2 = 0.1128 \]
Quality of employment

- In Serbia, three quarters of employed poor do not live in households with low work intensity (Krstić, 2014)
  - So, low quality of employment contributes to poverty and inequality
- In 2014, 12.9% of employed were part-time workers, 24.1% were self-employed, and 18.2% were temporary workers
  - Self employed and part-time workers are most exposed to poverty risk
- Many of the self-employed are informal workers who are outside the social protection system
  - 22% of employees are informal workers, earning 22% less than formal workers (Krstić & Sanfey 2011)
- One third of part-time workers are poor, compared to 13% of full time workers
  - Many part-time workers are in the informal sector, as working part-time in the formal sector faces very high marginal tax rates due to low progressivity of the Serbian tax system
  - In contrast, Slovenia has a progressive system of personal income tax
Own account workers % of total employment

- Croatia: 8.5
- Slovenia: 8.9
- Macedonia: 13.9
- Serbia: 22.2
Redistributive impact of pensions and social assistance on Gini inequality

- **Slovakia**: 24.5
- **Slovenia**: 30.4
- **Czech**: 31.0
- **Finland**: 33.7
- **Belgium**: 38.2
- **Netherlands**: 44.3
- **Sweden**: 45.2
- **Austria**: 46.1
- **Denmark**: 46.6
- **Malta**: 47.2
- **Hungary**: 47.6
- **Luxembourg**: 48.7
- **France**: 49.1
- **Ireland**: 49.4
- **Germany**: 49.7
- **Croatia**: 50.0
- **Poland**: 50.3
- **EU-28**: 50.6
- **Italy**: 51.0
- **UK**: 51.4
- **Cyprus**: 51.8
- **Macedonia**: 52.1
- **Portugal**: 52.5
- **Greece**: 52.8
- **Spain**: 53.2
- **Estonia**: 53.5
- **Latvia**: 53.7
- **Bulgaria**: 54.0
- **Romania**: 54.3
- **Lithuania**: 54.6
- **Serbia**: 55.0

**Legend**:
- **Gini before SA + P**: Linear (Gini EDI)
- **Gini before SA**: Linear (Gini before SA)
- **Gini EDI**: Linear (Gini before SA + P)
Gini coefficients in ex-Yugoslavia & EU (%)
Redistributive impact of pensions and social transfers

<table>
<thead>
<tr>
<th>Country</th>
<th>Effect of social transfers and pensions</th>
<th>Effect of pensions</th>
<th>Effect of social transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>20.8</td>
<td>15.3</td>
<td>5.5</td>
</tr>
<tr>
<td>Slovenia</td>
<td>19.4</td>
<td>13.6</td>
<td>5.8</td>
</tr>
<tr>
<td>Croatia</td>
<td>18.9</td>
<td>12.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Macedonia</td>
<td>15.0</td>
<td>12.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Serbia</td>
<td>24.2</td>
<td>16.6</td>
<td>7.6</td>
</tr>
</tbody>
</table>

Legend:
- Orange: Effect of social transfers and pensions
- Blue: Effect of pensions
- Yellow: Effect of social transfers
Rank order of redistributive effort from pensions and social assistance

- Slovenia: 2, 3, 2
- Macedonia: 12, 15, 22
- Estonia: 13, 24, 26
- Croatia: 15, 19, 16
- Sweden: 28, 14, 7
- Serbia: 30, 31, 31

Legend:
- Orange: Before pensions or social transfers
- Blue: After pensions before social transfers
- Yellow: After pensions and social transfers
S80/S20 equivalised disposable income share ratio, 2015

Serbia: 9.0
Romania: 8.3
Lithuania: 7.5
Bulgaria: 7.1
Spain: 6.9
Macedonia: 6.6
Latvia: 6.5
Greece: 6.5
Estonia: 6.2
Portugal: 6.0
Italy: 5.8
UK: 5.2
Cyprus: 5.2
Croatia: 5.2
EU-28: 5.2
Poland: 4.9
Germany: 4.8
Ireland: 4.8
Hungary: 4.5
Luxembourg: 4.5
France: 4.3
Malta: 4.3
Sweden: 4.1
Denmark: 4.1
Austria: 4.0
Netherlands: 3.8
Belgium: 3.8
Finland: 3.6
Slovenia: 3.6
Slovakia: 3.5
Czech: 3.5
Share of equivalised disposable income by each decile income group, 2015

- Slovenia
- Croatia
- Macedonia
- Serbia
Income shares of upper, middle and lower class after pensions and social transfers (% of national equivalised disposable income)

- Lower class (bottom 50%)
- Middle class (40%)
- Upper class (top 10%)

### Countries
- Serbia: Lower 24.0, Middle 48.8, Upper 27.2
- Lithuania: Lower 24.6, Middle 46.7, Upper 28.8
- Poland: Lower 24.7, Middle 48.2, Upper 27.1
- Romania: Lower 25.5, Middle 46.3, Upper 28.4
- Bulgaria: Lower 25.7, Middle 48.0, Upper 26.3
- Latvia: Lower 26.1, Middle 48.4, Upper 25.6
- Estonia: Lower 26.3, Middle 48.9, Upper 24.8
- Spain: Lower 26.5, Middle 49.6, Upper 23.9
- Portugal: Lower 26.8, Middle 47.9, Upper 25.3
- Greece: Lower 27.2, Middle 46.7, Upper 26.1
- Cyprus: Lower 27.6, Middle 45.2, Upper 27.2
- Malta: Lower 28.0, Middle 48.0, Upper 24.1
- Italy: Lower 28.2, Middle 46.6, Upper 25.2
- UK: Lower 28.9, Middle 48.5, Upper 22.6
- EU: Lower 29.1, Middle 46.9, Upper 24.1
- Croatia: Lower 29.3, Middle 46.9, Upper 23.9
- Ireland: Lower 29.6, Middle 47.1, Upper 23.3
- Germany: Lower 29.7, Middle 46.8, Upper 23.6
- France: Lower 30.6, Middle 44.8, Upper 24.6
- Sweden: Lower 30.6, Middle 46.8, Upper 22.5
- Denmark: Lower 30.7, Middle 46.7, Upper 22.7
- Luxembourg: Lower 30.8, Middle 46.8, Upper 22.4
- Hungary: Lower 31.7, Middle 45.6, Upper 22.6
- Austria: Lower 31.7, Middle 46.0, Upper 22.3
- Netherlands: Lower 31.9, Middle 47.4, Upper 20.8
- Finland: Lower 32.1, Middle 45.5, Upper 22.3
- Czech Republic: Lower 32.7, Middle 47.3, Upper 20.1
- Slovakia: Lower 32.8, Middle 46.2, Upper 21.0
- Slovenia: Lower 33.2, Middle 45.0, Upper 21.7
- Malta: Lower 33.1, Middle 46.6, Upper 20.2
- Belgium: Lower 33.8, Middle 47.0, Upper 19.3

- Lower class (bottom 50%): Slovakia, Slovenia, Belgium, Italy, France, Germany, UK, Malta, Ireland, Portugal, Greece, Bulgaria, Romania, Serbia
- Middle class (40%): Luxembourg, Netherlands, Denmark, Austria, Sweden, Finland, Czech Republic, Slovakia, Slovenia, Malta, Italy, France, Germany, UK, Malta, Ireland, Portugal, Greece, Bulgaria, Romania, Serbia
- Upper class (top 10%): Malta, Italy, France, Germany, UK, Malta, Ireland, Portugal, Greece, Bulgaria, Romania, Serbia, Slovakia, Slovenia, Belgium, Luxembourg, Netherlands, Denmark, Austria, Sweden, Finland, Czech Republic, Slovakia, Slovenia, Malta, Italy, France, Germany, UK, Malta, Ireland, Portugal, Greece, Bulgaria, Romania, Serbia

Variation of income shares

- Income shares of the middle class are much less variable than of the lower or upper classes.
- Middle classes are protected by their “sharp elbows” or “voice”.
- Upper classes in predatory societies extract surplus from the lower classes.
- Easier to do where political power is concentrated in economic-political elite.

<table>
<thead>
<tr>
<th>Class</th>
<th>S.D</th>
<th>Mean</th>
<th>C.V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower class</td>
<td>2.836</td>
<td>29.145</td>
<td>0.097</td>
</tr>
<tr>
<td>Middle class</td>
<td>1.157</td>
<td>47.006</td>
<td>0.025</td>
</tr>
<tr>
<td>Upper class</td>
<td>2.420</td>
<td>23.871</td>
<td>0.101</td>
</tr>
</tbody>
</table>

S.D. = Standard deviation
CV = Coefficient of variation
Shares of disposable income gained by top 1% (% of national equivalised income), 2015

- Romania: 8.3%
- Cyprus: 7.5%
- Lithuania: 7.1%
- Serbia: 6.5%
- Bulgaria: 6.4%
- UK: 6.0%
- Denmark: 5.8%
- Greece: 5.6%
- France: 5.5%
- Portugal: 5.2%
- Germany: 5.2%
- EU-28: 5.2%
- Luxembourg: 4.9%
- Netherlands: 4.8%
- Latvia: 4.8%
- Austria: 4.7%
- Italy: 4.7%
- Spain: 4.7%
- Ireland: 4.5%
- Poland: 4.5%
- Hungary: 4.4%
- Estonia: 4.3%
- Sweden: 4.3%
- Czechia: 4.2%
- Finland: 4.1%
- Malta: 4.0%
- Belgium: 4.0%
- Bulgaria: 3.9%
- Croatia: 3.8%
- Slovenia: 3.4%
- Slovakia: 3.3%
Why does inequality differ between countries of former Yugoslavia?

• **Explanation 1: Varieties of capitalism and paths of transition**
  – The gradual corporatist Slovenian transition was egalitarian, while the delayed shock therapy neoliberal Serbian transition was more extractive of the surplus from lower class workers generating relatively high levels of poverty.

• **Explanation 3: Labour market institutions**
  – Differences in the quantity and quality of jobs may contribute to an explanation of the differences in inequality between these countries.
  – Linked to degree of resistance to labour market reforms.
  – And to progressivity or regressivity of tax system and consequent extent of informality.

• **Explanation 2: Elite composition and forms of political capitalism**
  – The Slovenian elite was formed of ex-nomenkklatura elements who resisted reforms, while the Croatian elite was reconstituted by members of the HDZ party and the diaspora who supported rapid but incomplete privatisation.
Thank you for your attention !!!