



GROWING INEQUALITY AND ITS IMPACTS: Bulgaria and Romania

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INCOME INEQUALITY DEVELOPMENT

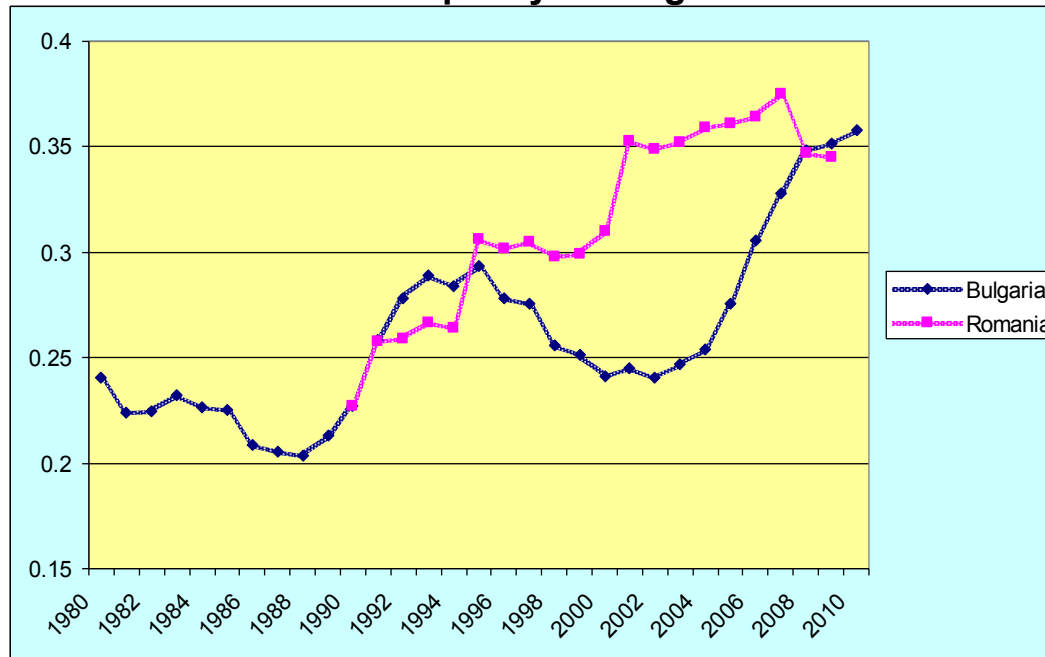
1. Similarities:

- Upward trend in both countries;
- Remarkable increase in the first half of 90s (8-9 Gini points for both countries);
- Periodically increase of inequality (two wages in Bulgaria and 3 waves in Romania).

2. Differences:

- Two periods of declining inequality in Bulgaria (80's – by 4 Gini points, 1995-2002 – by 5 Gini points);
- Periods of unchanged inequality in Romania (1991-1994, 1995-2000).

The evolution of inequality in Bulgaria and Romania



Source: Transmonee, based on NIS data;
S. Frederick, 2011, SWIID, Version 3.1.

INCOME INEQUALITY DEVELOPMENT

3. Key determinants of inequality:

- *Similar driving forces for Bulgaria and Romania:*

- The transition to a market economy (reforms, privatization, etc.);
- The pattern of economic growth;
- External migration;
- Ethnic differences.

- *Country specific features:*

Bulgaria:

- Incomes and pension policy;
- Taxation policy.

Romania:

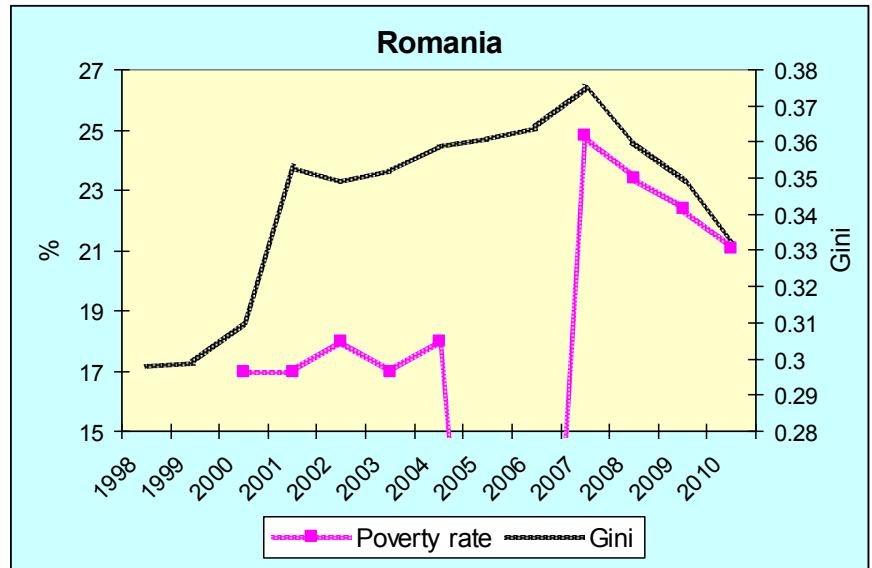
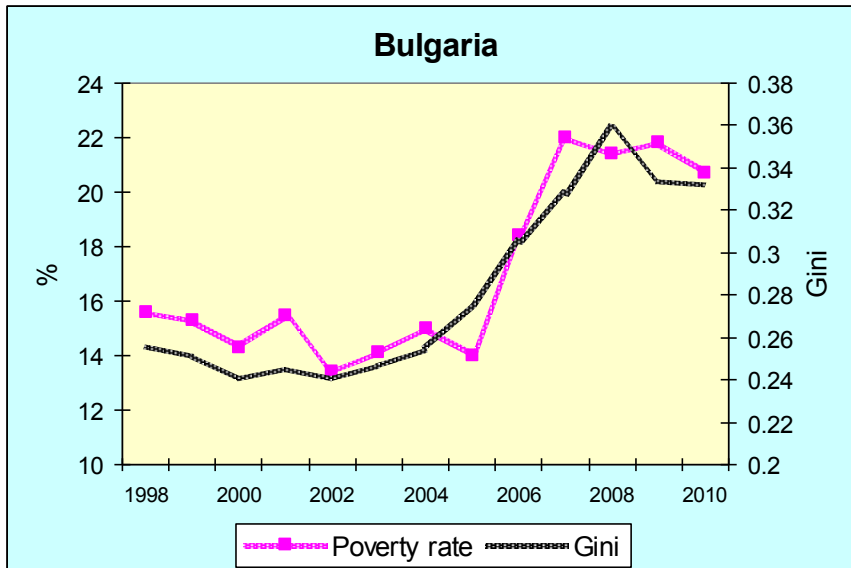
- Non-transparent privatization;
- Corruption and shadow economy;
- Inefficient social and income policy.

Social impacts of inequality

1. Inequality and poverty relationship

- Joint movement of Gini and poverty in Bulgaria;
- Joint movement of Gini and Poverty in Romania in the period 2007-2010.

Inequality and poverty trends in Bulgaria and Romania



Source: National Statistical Institute, Eurostat (EU-SILC).

Social impacts of inequality

2. Patterns and trend in family formation:

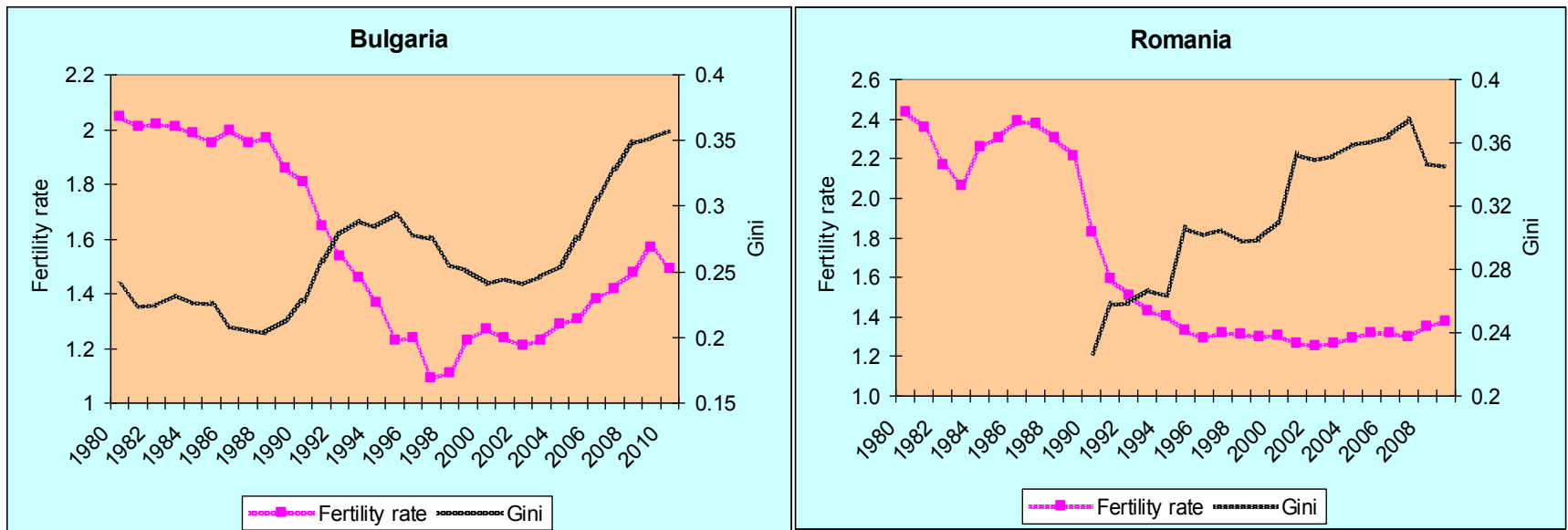
Similarities:

- downward trend in fertility rate passing by periods of decrease and increase in both countries;
- stronger dependency from the economic development than from the inequality;
- changes in the family model (from families, formed on the marital basis, into families based on extramarital co-habitation);
- strong decline of number of marriages while the number of divorces remains stable.

Differences:

- stronger impact of economic development on fertility rate in Bulgaria;
- stronger decline of marriages in Bulgaria.

Fertility rate and Gini



Social impacts of inequality

3. Health inequality:

More similarities than differences:

- life expectancy in both countries follow upward trend during the last 30 years passing by periods of increase and decrease;
- growing gender difference in life expectancy;
- life expectancy closely follows the trend of economic development;
- majority of Bulgarian and Romanian population self-evaluated their health status as good/very good.

Differences appeared in details.

Social impacts of inequality

4. Housing tenure patterns

- the housing pattern in Bulgaria and Romania is very similar and not differ to the other CEEC:
 - high share of private houses without mortgage and loans;
 - minor portion of tenants;
 - majority of tenants have municipal or institutional accommodation with regulated rent below market prices
 - income inequality does not significantly affect the tenure status of poor and not poor;
 - high percentage of poor people live in own houses with no mortgage or loans;
 - bigger percentage of poor people paying rent below market prices.
- Differences:**
- higher share of private house in Romania (95-96% vrs. 90-91% in Bulgaria);
 - lower level of the housing cost overburden rate in Bulgaria (Bulgaria - 5.9% in 2009; Romania – 15% in 2009).

Social impacts of inequality

5. Live satisfaction and happiness:

- very low level of life satisfaction and happiness in both countries (different data sources depict the same picture);
- more people are extremely dissatisfied than extremely satisfied;
- a trail tendency to improvement.

Political impacts of inequality

1. Political and civil participation:

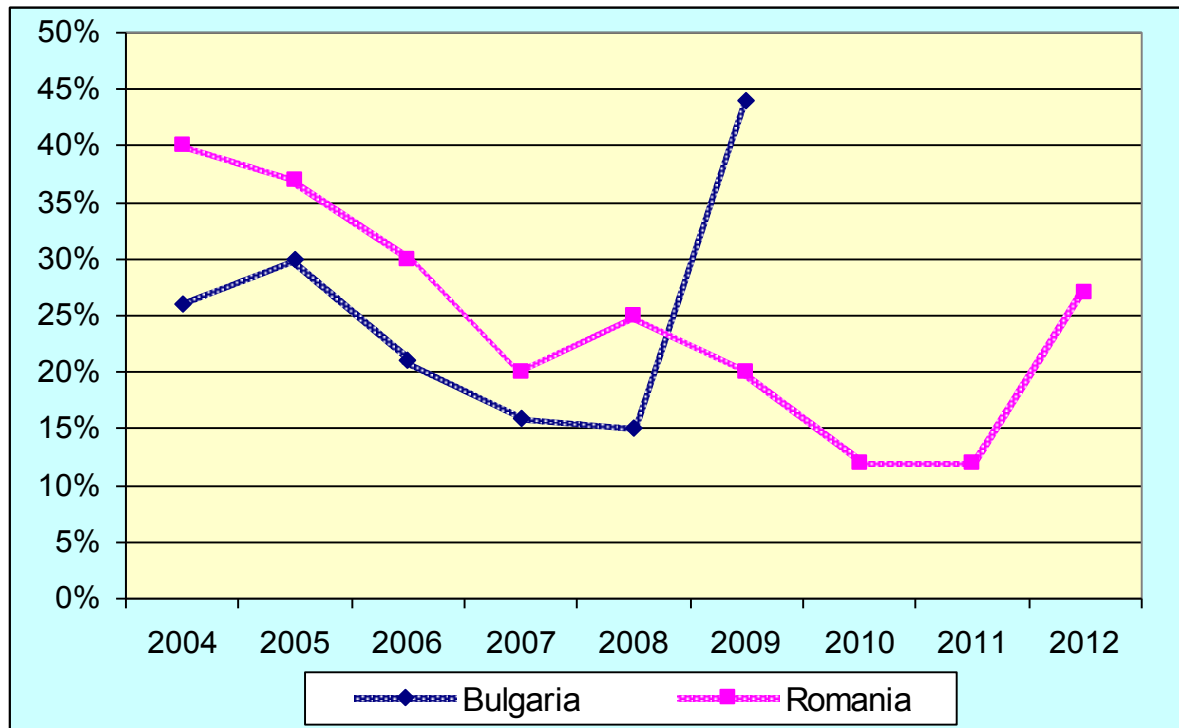
- downward trends in voter turnout at parliamentary, presidential and local elections;
- low participation in civil organizations;
- unclear link between inequality and voter turnout (while the Gini coefficient fluctuated, voter turnout constantly declined).

2. Trust in public institutions:

- relatively low trust in the Parliament, Government and judicial system;
- confidence in public institutions has declined during the last decade;
- confidence in Government is strongly affected by electoral cycle;
- no clear link between confidence in public institution and income inequality.

Political impacts of inequality

Trust in Government



Source: Eurobarometers

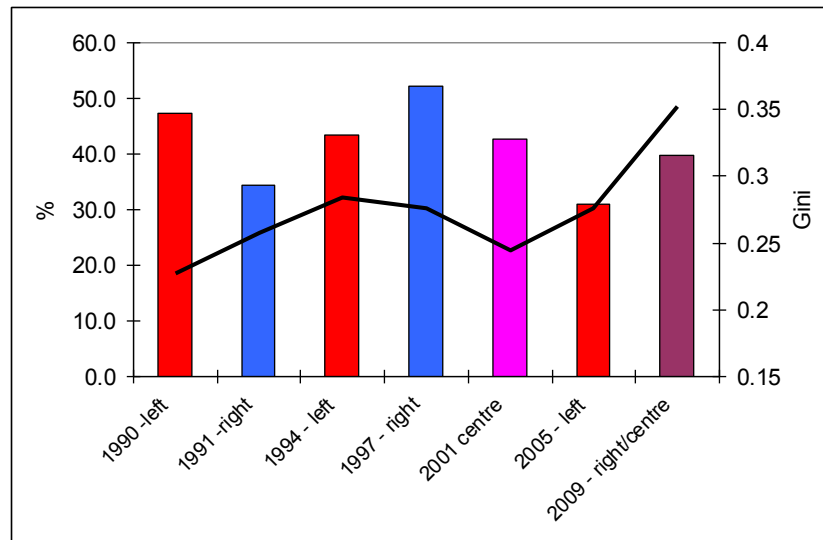
Political impacts of inequality

3. Political values and legitimacy

- Left-right wing position:

- Unclear identification in Romania;
- Collapse of the bipolar political model in Bulgaria after 2000 (outflow from the right to the centre, while the left remained stable);
- Probably there is relationship between inequality and Left-Right-Centre winners at the elections.

Percentage of votes for the winners in elections and inequality, 1990-2009



Source: Central Election Committee. Results from the elections in Bulgaria.

Political impacts of inequality

- attitudes towards inequality and poverty:

- High sensitivity to inequality, poverty and social policy:
 - Over 70 per cent of Bulgarians agreed that inequality in the country is high;
 - Over 91 per cent of Romanians agreed that inequality in the country is high;
 - Over 80 per cent of Bulgarians and Romanians think that the Government should take measures to reduce income inequality.

Effectiveness of the policies in combating inequality

1. Minimum wage policy:

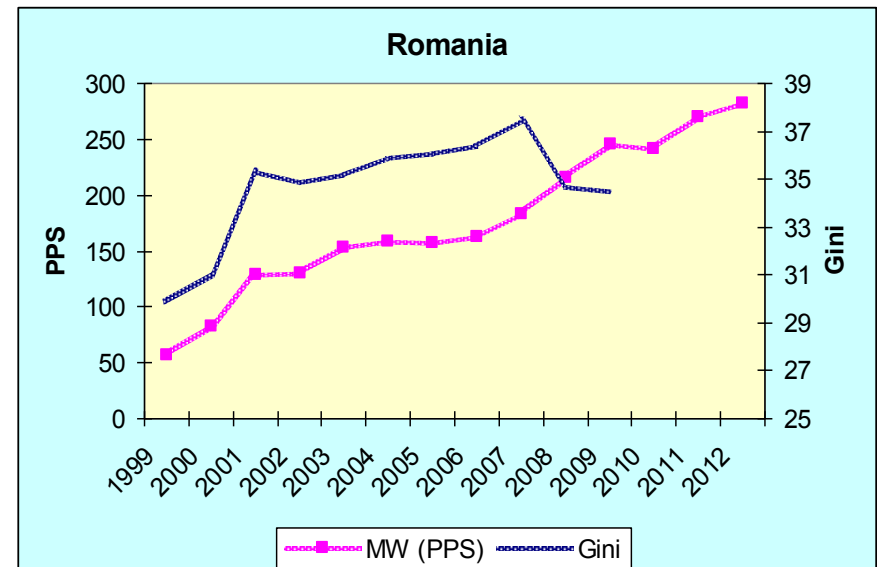
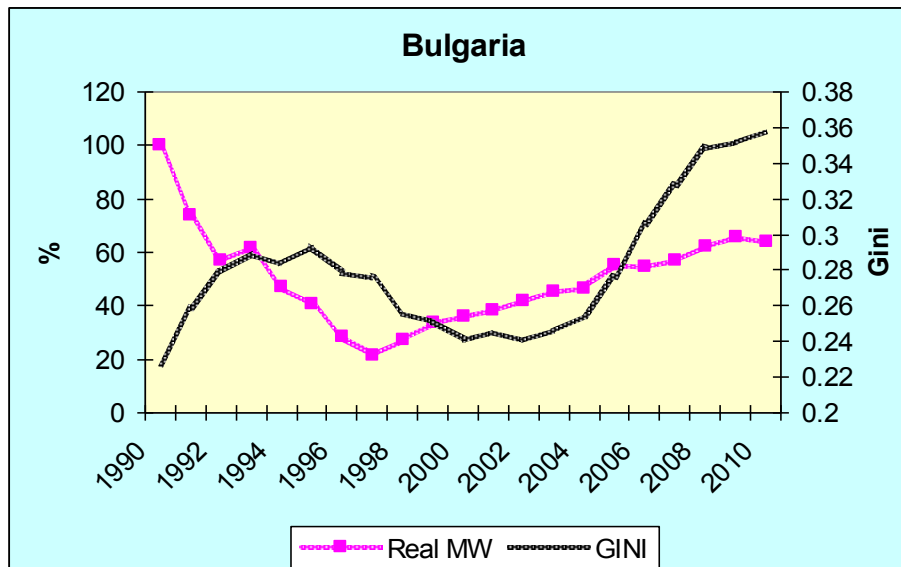
Similarities:

- an increase of the MW;
- relatively low proportion to the AW (Bulgaria – around 36-37%; Romania – around 30-32%).

Differences:

- Romania – no effects on the income inequality;
- Bulgaria – remarkable interaction with income inequality.

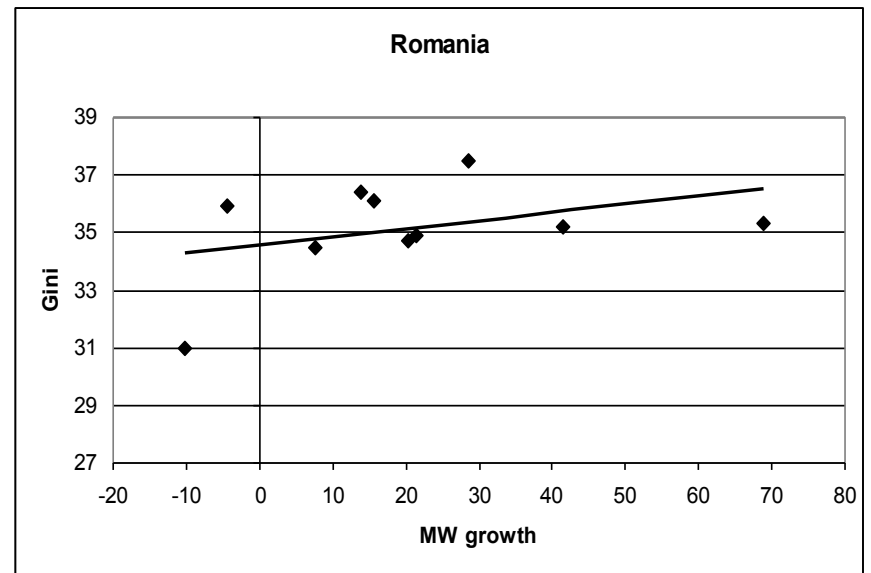
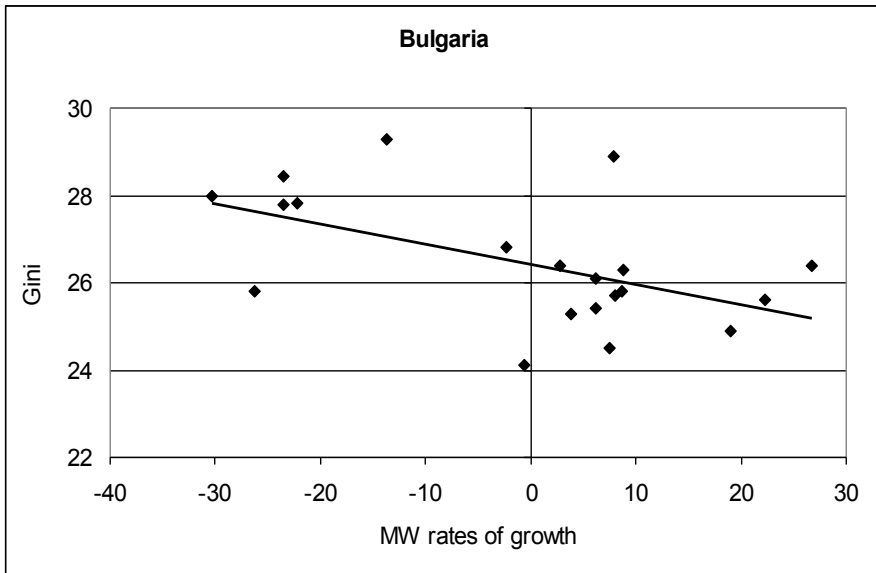
Dynamics of the real minimum wage and Gini in Bulgaria and Romania



Source: National Statistical Institute.

Effectiveness of the policies in combating inequality

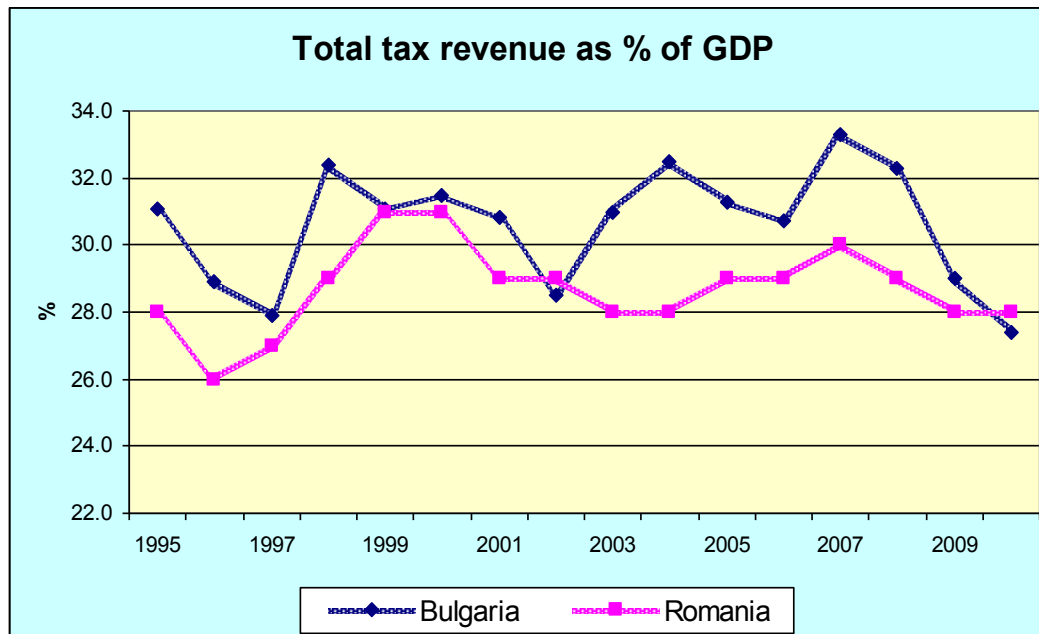
- Effects on income inequality



Effectiveness of policy in combating inequality

2. Taxation policy

- cyclical development depending from taxation policy and economic development;
- relatively low total tax revenue (fluctuate in a range of 28-33% from GDP with a strong decline after 2008);
- taxation policy is orientated to increase the indirect taxes at a expense of direct taxation;
- introduction of a flat-rate income tax (Bulgaria -10%, Romania – 16%).

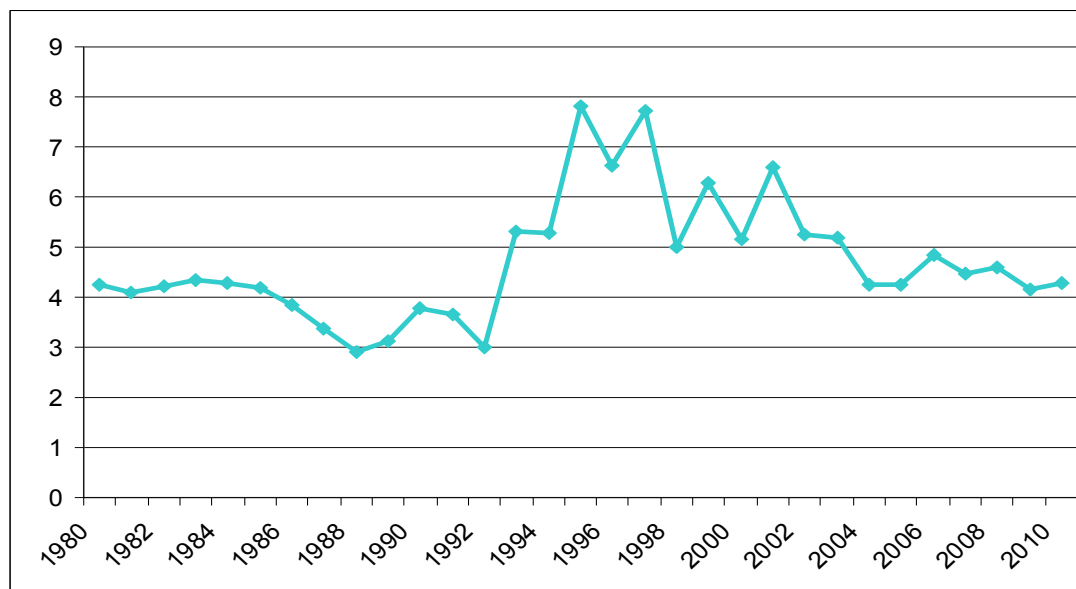


Source: Eurostat

Effectiveness of policy in combating inequality

- The impact of taxation policy on income inequality in Bulgaria
 - strong decline during the last decade.

Difference between Gini gross and Gini net coefficient, 1980-2010



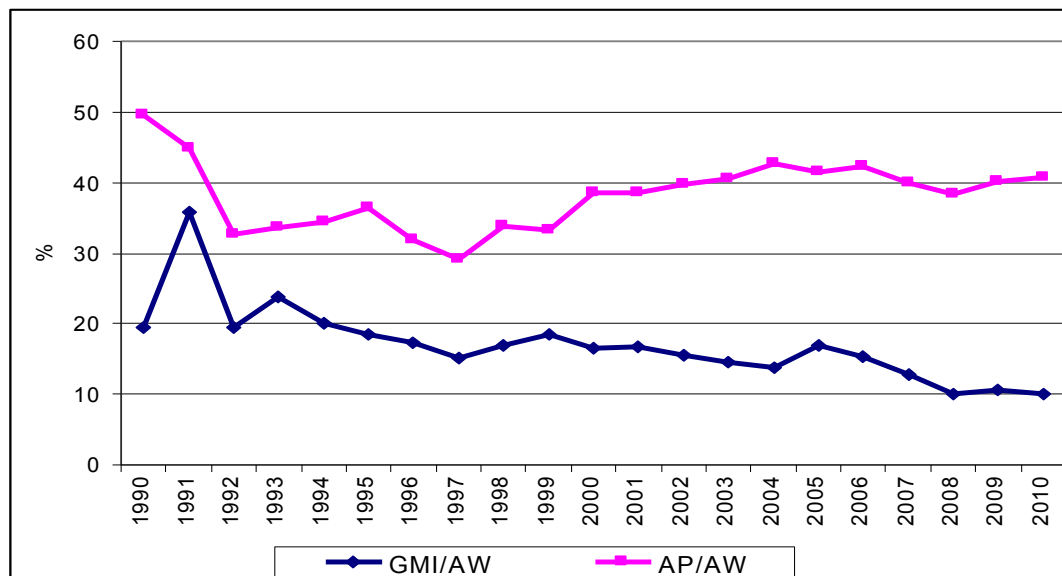
Source: Own calculations.

Effectiveness of policy in combating inequality

3. Effects of pension and social assistance policy on inequality in Bulgaria

- pension policy has a positive effect on reducing inequality;
- social assistance policy has negative impact on inequality.

Evolution of ratios “AP/AW” and “GMI/AW”, 1990-2010



Source: National Statistical Institute.

Conclusions

1. Income inequality in Bulgaria and Romania grows during the last three decades passing through the periods of increase and decrease.
2. Similar determinants of inequality with specific features in income policy and privatization processes.
3. The development of poverty risk is more closely related to the evolution of economic inequality.
4. The evolution of family formation, housing patterns, health status, and satisfaction in both countries are more correlated with economic development than income inequality.
5. Similar trends and impacts of inequality on political development.
6. Different impacts of social policy on combating inequality.



Thank you for your attention