

COMPRESS Project

Minutes of the Conference on "The effect of competitive pressure, on income distribution and social policy; public perception, attitudes and norms"

WP4 - Bucharest, 3-4 June 2005

The Conference was organised as the final milestone of the WP4 package, on the 3rd and 4th of June, see attached Agenda, with the WP4 representatives of all country teams represented in the COMPRESS project and invited experts and policy makers.

Laszlo Halpern opened the Conference thanking to all invitees for accepting the invitation to participate and to all partners for the efforts made during the realisation period of workpackage WP4. Constantin Ciupagea chaired the afternoon session. The floor was given to Razvan Orasanu, State Counsellor of the Prime Minister on economic issues, who expressed the interest policy makers may have on the topic addressed by this project, especially at the level of the Cabinet of the Romanian Prime Minister.

During the Conference three invited papers were presented by Prof. Philippe Adair (Universite de Paris XII), Prof. Rainer Neef (University of Gottingen, Germany) and Dr. Virginia Campeanu (Institute of World Economy, Romania). All papers are related to the main topics of the WP4 package or are addressing topics that may be interesting cases to study in the countries participating in COMPRESS, for further research. The invited papers/presentations are attached to this Minute.

The comments centred on the invited presentations were as follows:

1. P. Adair paper focused on the credits given to micro-enterprises in Algeria, Morocco and Tunisia and their social impact and perception. It states that these countries have all a very strong culture of informal family relations and informal activities. One question referred to the existence of possible experience in Maghrebian countries to de-concentrate geographically the distribution of micro-credits, phenomenon that is perceived as a problem in Romania by the authorities. No clear answer, as social ties are higher in rural areas, but also the absorption capacity and the monitoring capability is lower. Another question referred to the scope for direct policy intervention (subsidy, family loan, social aid). Again, no clear recipe: when people falling into misery, perhaps family aid programmes might help; otherwise, institutional regulations. Another issue was the efficiency of granting credits to the very poor, who will have to refund the credits with no clear result, driving them deeper into poverty.
2. Virginia Campeanu extracted the findings related to perception of increased competition and import penetration from a number of 95 subjects interviewed. Some important conclusions: there is growing distrust towards Western firms (the East Germany disease), the research of perception of import penetration per se could be an interesting topic for

further study, growing trust in national currency and quality of banking system important.

Hereunder, the main discussions on the deliverables of the WP4 are presented:

Deliverable 13 and 14

Manuela Stanculescu made a global presentation of both deliverables (see attached separately). She pointed out at the difficulties to homogenise the various and diverse country studies referring to the social impact of competitive pressure and to the general social stance in the countries under investigation. Each country study presented the 'story of change' after 1989 with respect to the income structure and earnings inequality + the income policy and the social policy.

The external experts made each comment to the output of the work-package, prefaced by detailed comments on the use of indicators within the cross-country report (use of official employment rate, age group 15-59 for labour force, other statistical inconsistencies in the case of Bulgaria):

Ph. Adair showed that the research carried on a quite complex issue. The overall quality and accuracy of such a synthesis should be emphasized. According to the provided data and the methods that were used, comparison seems well grounded. The following comments point out few controversial issues, which deserve more detailed explanations:

Slide 5 National Income Dynamics

Are the trends measured according to Gross or Net Income?

Slide 14 Patterns of labour adjustment

The figures of the unemployment rate according to the distribution of industries are missing. These should be added in order to compare the countries surveyed as well as to highlight the relationship between low unemployment and disguised unemployment.

Slide 18 Public expenditures on health and education as share of GDP

Such indicators are difficult to interpret for they deal with the supply of public goods the impact of which is delayed. Other indicators regarding demand, such as the rate of access to higher education are more relevant in this connection.

Slide 20 Effort to protect population

Regarding the distribution of income (see above previous comment on slide 5), there is a remaining part that is missing (total income is below 100%). What does it account for?

Milanovic's typology encapsulates heterogeneous criteria and therefore should be explained.

Slide 26 The poorest 10%

Criteria such as age groups, household size and human capital, if available, should be added to income distribution in order to document the comparison between countries.

What are the components of such an important category as social transfers (pensions excluded)?

Slide 28 Risk of poverty

What is the relevant poverty threshold?

Slide 29 Income inequality

Regarding the distribution of income (see above previous comment on slide 5), how can the quintile ratio and the Gini index differ for Romania, the former being lower than the latter? The trends of such indicators should of course be the same as it is the case for the other countries.

Regarding households living standard surveys, expenditures (consumption) is usually more relevant than income as a measurement criterion of poverty (and inequality) for the former captures self-consumption. There is a discrepancy between expenditures and income according to various surveys. Moreover, such a discrepancy may lead to both underestimation and overestimation according to quintiles: Income exceeds expenditures for lower quintiles and it is the other way round for higher quintiles (e.g. for Romania, see AIG 1996 in Adair and Neef, 2004, chapter 2)

Slide 30 Decomposition of inequality

Do absolute and relative income equalizers refer to a given threshold (median or average income within the percentile or between percentiles)? What do these account for as regards the dynamics of inequality?

What is the relevance of the less unequally distributed income sources?

G. Duchene insisted on the fact that employment levels seem higher than in the rest of Europe (contradiction with the recent figures, maybe is a registration error in the beginning of transition). C. Ciupagea said that the rural employment has a very high share (particularly in Romania), but it is not obvious that all this labour force is also agricultural labour force (services non-declared). The tables made according to Milanovic methodology, which points out at 4 income sources, doesn't clearly specify how these figures were calculated. There seem to be an inconsistent figure for Hungary in 2001 (64% of sources not explained). The general remark was that these countries may not be that poor as the tables may indicate. As a suggestion it was mentioned the need for investigating the groups of transition's losers, such as disabled people or other disfavoured classes.

Rainer Neef presented the example of East Germany, which shows now a joint employment and unemployment rate of 50%. He also noticed that in Slovenia the protection schemes didn't come in opposite direction to economic growth (T. Stanovnik added that Slovenia is characterised by a Bismarck-ian well functioning protection system. The tax system was extremely centralised in the beginning and was

only slowly reformed and de-centralised once growth on its path). On Romanian data, RN asked why is the employment in services so low as a rate? On employment policies, he mentioned that more and more active policies are used in these countries, but on a very selective basis. He suggested a differentiation should be made between wage earners, those who cannot work and those who do not want to work (MS and Lucian Pop pointed out that for Romania data is not available).

Claudia Senik proposed an attempt of levelling the income data (standardise). G. Molnar said that usually the data from household budget surveys are better than the income data, but seldom available.

Deliverable 15

C. Ciupagea presented the key findings coming out from the report on formal-informal perspective in relation to competitive pressure and labour markets as referred to in deliverable 15 and summarised in the Executive Summary. He also mentioned that many findings might be used as inputs to WP5 of the project.

P. Adair comments refer firstly to definitions. Some are clear, but other could be improved (informal labour includes the formal enterprises that do not provide social rights, while the global informal sector includes enterprises not recorded). It would be useful to differentiate between poor and rich areas/regions, as there are specific determinants and different reasoning in the case of self-subsistence farming and modern type SMEs. Is data available on these categories? (Not so much, CC) What kind of barriers to entry is facing these modern SMEs?

R. Neef insisted on the following: a) Emphasis should be put on the influences of taxation system and social contribution system on informal sector, on the balance between tax on profit vs. tax on consumption; b) Different treatment may be applied to Romania and Bulgaria on one side, and Hungary and Slovenia on the other side, when relating to social contribution; c) There may be an andalucian disease explaining the behaviour of people in the process of job search/facing unemployment (Hungarian government consideration doesn't hold); d) Difference has to be made between push and pull into self-employment.

G. Duchene made some observations:

- In Romania, there is a high share of the labour force in agriculture, which deserves a separate treatment;
- In the group of drivers into informality the wage index doesn't have a clear role and should be eliminated;
- The bureaucracy factor is more economic than institutional;
- The rich/poor gap increase explanation in the deliverable is not self-evident and should be explained in more detail.

Deliverable 18

There were 4 different presentations addressing this deliverable, which will have to be wrapped together at a later stage.

A) G. Molnar presented the findings based on Hungarian HBS. He mentioned that rich people generally deny participation, which obviously introduces some bias in the results. One important finding is that the hypothesis that labour mobility increases satisfaction proved to be false. The fear of inflation seems to be higher than the fear of unemployment in Hungary (although the economic reality doesn't support such finding). Another paradox is that although the inequality slightly decreased during the 90s, people's perception is that inequality has heavily increased. He presented 3 models discussing subjective vs. objective mobility, including definitions, methodology, terms and scales used for ranking income and population. The models give some paradoxical results.

G. Duchene said that HBS offers useful information for assessing inequality, but is not correct for assessing the living standard (it should be related to National Accounts). Referring to the idea of equalising incomes, it is not clear how to define the income mobility. There may be a problem in searching for intra-decile movements as it excludes the micro-evolution of average income. The changes inside deciles represent the concept of mobility and not the changes in income levels.

R. Neef made the following comments:

- When one compares between countries, she finds different cultures of "satisfaction". Hungarian case is one of dis-satisfaction (the interview effect?);
- The survey proves a high degree of dis-satisfaction of population with government performance. What can government do about inequality?
- What is the point of reference for people responding in the survey?
- In the lower rank of population there are two groups that deserve special attention: the dissatisfied young population and the passive group.

Ph. Adair raised two questions. How is pessimism or optimism measured? Would it be useful to ask people how they rank other people (point of reference)? In addition he pointed out to the fact that always there is high discrepancy between perceptions and observed data.

GM answers: the HBS cannot catch more than 60% of the GDP figures. He will correct the study for better definitions of terms – mobility - and explained methodology. The disability pension is not a proxy, is a main variable for the labour market position.

B) T. Stanovnik made a very short presentation of the Slovenian case study (see attached paper).

C) C. Senik presented her published article on perception, based on research in several countries. The following remarks have been made:

- RN and MS: As Romanian interviews prove that population asked for income redistribution in a proportion of 85% during 1995-1998, it is hard to believe that the coefficient (as reported by the study) is lower in Eastern countries.
- GD: concerns on the selection of variables that describe the “professional evaluation” status. There might be a big difference between income mobility and labour mobility, especially in transition countries. This could be an idea for research for further projects, as the labour mobility (real mobility) means change of jobs but also change of regions (where work is performed).

D) M. Stanculescu presented the recent work on perception based on the Romanian Eurobarometer special questions introduced by CERME (RCEM) into the questionnaire. The following comments and answers were made and given:

- PA: Is the sample based on official census? No, it is based on election lists, which induces some bias and makes differences.
- RN: The satisfaction cycle theory (finding) may be an interesting research topic, but only if changes produced by these cycles are significant. A special attention should be given to underclass groups formation (people giving up their hopes). MS answered that the main three factors people perceive as making them happy are: good health condition, religion encounter and peaceful living (tranquility).
- TS: Is it really necessary to use so complicated composite index mechanisms? No, but they offer better variability.
- GM: Satisfaction is not a proxy for happiness but for material (economic) contention. The linear regressions should be better replaced by ordered logit models or probit models.

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done by C.Ciupagea