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*Competitive Pressure and its Social Consequences in the European Union Member States and in Associated Countries* (COMPPRESS, SERD-2002-00077)

## Workpackage No.4

# The effect of competitive pressure on income distribution and social policy; public perception, attitudes and norms

## Deliverable No.6

Literature review on poverty, income distribution, and subjective well-being

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# Introduction

Competition is a normal state of life of human beings. "Men do not desire to be rich, but to be richer than other men" (Pigou, 1920), women would not like to be beautiful, but nicer then other women, pupils want to be cleverer than their teachers, and children would like to be not only happy, but happier than their parents. In the economy and on households level, the size and direction of competitive pressure resulted from a certain competitive situation depend on the relative rather than absolute differences of household characteristics (income, expenditure, assets, education, activity, age) and the personal perception of these household positions. The large and consistent gap between objective (income, expenditure, assets, education, activity, age) trends and the subjective assessment of these variables of the upwardly mobile households may frustrate and also motivate the households.

Competitive pressure can be developed by different socio-economic situation, both in the bureaucratic economy, and the market one. In transition, when the households have to adjust to a new and market situation, competitive pressure contains, at least, two elements: transition pressure and market pressure.

At the beginning of transition, in a new and mostly transition pressure situation, the characteristics of the households mentioned above were changed dramatically. The decline in economic output was accompanied by decline of the real incomes and of employment. At that time, in Eastern Europe the growing inequality of income, expenditure and assets, the increasing mobility and the development of poverty and unemployment were crucial and permanent issues.

In our study we are collecting research results for analyzing the development of these processes (development of poverty and unemployment, changing inequalities, decreasing mobility), what may cause decrease of competitiveness, lowers adjusting ability and also causes several inside social tensions in the society. These processes, functioning as negative signs for household perception, are forming strongly the public opinion that poverty and unemployment are not only resulted from the pre-transition period, but they are side-effects of general adjustment and competition.

As far as the objectives of COMPPRESS are concerned it is expected that the project will contribute to a better understanding of the dynamics of competitive pressure both on the enterprise level and the household one. We do not have yet the exact definition of competitive pressure in household sector, but the above mentioned factors definitely affects employers and influences the general household perception of the market and the socio-economic situation of competitive pressure.

The investigation of relationship between these objective variables and their perception by the households is one of the most important and very up-to-date goal of our research, and that may yield different kind of results. The first general type of result is the better understanding of the main components of competitive pressure in household sector. The second result is the measuring and comparing objective and subjective variables of households, like actual income trends and personal perception of income inequalities. The third type of result is the collected information on accession countries' situation in terms of public opinions and attitudes towards competitive pressure, income polarisation, changing mobility and volatility. The comparison of factual/objective data and the subjective measure of the same variables will help us to understand the connection between competitive pressure and satisfaction variables of the household population. The comparison of objective data and attitudinal data/aversions give us information about the future expectation of households connected with the main components of competitive pressure. Analyzing the nature of the link between satisfaction and the competitive pressure factors we can collect such kind of information that might have policy relevance for Hungary in the accession process.

This report is focused on three topics: poverty, income distribution, and subjective well-being.

# 1 Review of literature on poverty and income inequality

## *1.1 Defining and measuring poverty*

The theoretical basis for the study of poverty has been set up since the second half of the last century. Since then, substantial progress has been achieved in the theory and practice of poverty analysis and measurement. Nevertheless, the studies produced all over the world are still being broadly disputed among the specialists in this field.

Poverty is a controversial subject in many respects, including the definition, the measurement of living standard (including the appropriate equivalence scale), the poverty line itself, and the choice of poverty indicator. All these are discussed below.

The ideal poverty definition besides the material (economic deprivation) would correspond to the way individuals experience their standard of living, including access to social services, social stigma, insecurity, vulnerability, and social exclusion. Instead, although there is no consensus in defining poverty, nearly all definitions used at the international level have a common feature, namely they associate poverty with *lack of resources*.

Individual standard of living are put in relation to a welfare indicator: In a certain society there is poverty if there are people who do not reach that level of economic welfare considered as a reasonable minimum according to that society standards (Ravallion, 1994). Studies under the auspices of EUROSTAT (EU Office for Statistics) define poor as „Those persons, families and groups whose resources (material, cultural and social) are so scarce as to exclude them from a minimum standard of living acceptable in the states they live in". „Poor is not the one who gets less than others", explains Serge Milano (1982) „but the one who does not participate, or participate in an imperfect way, in social life. His/her existence is marginal in relation to the global society". Despite the inclusive definitions, for practical reasons the poverty measurement has been also limited to the material resources. Economic resources are strongly linked to social status of individuals/families, nevertheless the analysis of poverty cannot be limited just to calculating income or consumption.

Since poverty is defined as lack of resources, a poverty line is used to determine it. Debates on measuring poverty got based upon three concepts as follows:

- absolute poverty – incomes/consumption below an absolute poverty line, which is a minimum set in an objective manner;
- relative poverty – incomes/consumption as compared to others
- subjective poverty – incomes/consumption lower than those considered as necessary for covering one's own needs. (discussed in subchapter 2.1)

The number and structure of population determined as poor differ considerably depending on the approach and measuring method. For instance, Hagenaars and De Vos (1987) for identifying poor persons used eight definitions of the minimum standard, out of which four definitions were based upon the absolute approach, three on the relative approach, and one on the subjective one. Data came from the Netherlands household survey from 1983. The poverty rates calculated under these circumstances ranged from 5.7 percent to 33.5 percent of the total population.

Absolute poverty is intended to establish a universal standard, the line below which, in any community, a person is considered poor. Thus, the concept of absolute poverty is essentially normative. As a rule, absolute poverty is defined based on the idea of *subsistence*, which is constructed taking as foundation the concept of *basic human needs*. The concept of *essential needs* goes beyond the "purely physical" needs, including also needs related to the social, moral, religious and economic standard of each community. First, the absolute standard of subsistence generates conceptual and methodological difficulties both in determining (selecting) the minimum necessities or the essential goods

and in their quantitative evaluation. Second, the definition of poverty is specific for each community, the concept of absolute poverty line including a certain degree of relativity because the basic necessities vary from a community to another according to climate, social, and cultural structures. Furthermore, the minimum needs for subsistence are dynamic and specific to the type of society, and consequently it varies for the same community depending on its level of development. Nevertheless, many countries (such as USA, Denmark, the Netherlands, Belgium, Ireland, UK, France) use the absolute approach for defining the official minimum income, i.e. for identifying the level below which families become eligible for income support programmes. Also, the recent UNDP and World Bank reports use the concept of absolute poverty.

Relative poverty focuses on the identification of the minimum level of resources that ensure a normal functioning of the person/family in a given social/cultural context. While the concept of absolute poverty is founded on the idea of certain universal necessities, the relative poverty is based on idea of certain variable necessities that depend on the country costumes, cultural, social, and natural background. Thus, the relative approach takes into account the fact that poverty line tends to increase as living conditions improve. From the relative poverty perspective, poor persons are identified by the means of comparison to entire population welfare. Thus, the relative concept represents a way to correlate poverty with inequality and inequity.

Altogether, the two concepts express deprivation conditions in a certain society: absolute poverty refers to "big poverty", those who do not meet the essential necessities, while relative poverty highlights the discrepancies between the most disadvantaged and the rest of the social pyramid. Different approaches lead to different estimates and different "poor". One cannot talk about the best approach as well as one cannot talk about the best measurement method. Consequently, most countries (as well as international organizations) use alternative methods for measuring and analyzing poverty.

Another aspect important in defining poverty is duration of the deprivation (Ruggles, 1990). Due to various life contingencies, any person may lack the income needed to ensure a minimum standard of living, for one or several months but previous accumulation may counterbalance the temporary need. Also, certain types of consumption (such as purchase of various durable goods) may be postponed or cutoff for one or several months. In all these cases, a person cannot be consider ("really") poor, poverty meaning lack of resources that extends for such a long period that cannot be compensated for by previous accumulations and/or postponements of certain types of consumption. In this respect, various methods have been developed for analyzing the nature of poverty (transitory versus persistent).

Conceptually, there are two situations that may trigger poverty: an income shock of sufficient strength to push a household into poverty and, the second, low endowment with assets insufficient to generate enough income to escape poverty. Income shocks may impoverish households temporarily. In the poverty literature, such households are called the *transient poor*. They would escape poverty even without outside help, after a period that is proportionate with the fall in income caused by the income shock and the return of the assets (including labor) they own. Other households would no be able to escape poverty even when economy recovers, because the assets they own do not generate sufficient income to pull them out of poverty. The scanty resources of such households have similar returns under boom period as under recession. Such households are called *permanent poor*. Typically, in this category are included the disabled, or poor elderly unable to work, and more generally the underclass. Persistent poverty is most likely the result of repeated transient shocks (not necessarily in consecutive years) or characteristics that make it hard for households to escape poverty.

The distinction among transient and permanent poor is not straightforward. Some authors (World Bank, 1997) consider as permanent poor those who, for some period, do not escape from the poverty pool. Other authors (Sen, 2000) consider as permanent poor individuals without the capacity to adjust and exit from the poverty pool, irrespective of the fact that such assumed capacity was exercised or not. The first classification is based

on the dynamics of poverty, and is relatively simple to measure. The second classification is conceptually better, but requires a number of subjective assumptions to allow quantification.

Studies on poverty also use the terms „vulnerability" and „deprivation". While poverty, as traditionally defined and measured, is a static concept, *vulnerability* is a dynamic one. Vulnerability reflects a household's resilience in the face of shocks and the likelihood that a shock will lead to a decline in well-being (thus, the risk to poverty). It is therefore primarily a function of a household's asset endowment and insurance mechanisms. Because poor people have fewer assets and less diversified sources of income than the better-off, fluctuations in income affect them more. *Deprivation* (Townsend, 1979) defines both a way of living that corresponds to poverty and social exclusion: people are considered to be in a deprivation status if they do not enjoy the type of nutrition, clothing, dwelling, environment, education, work and social conditions, activities and entertainment, that is considered as usual or largely encouraged and approved by the society they live in.

**Measurement of Living Standard**

Poverty is usually measured using a representative household survey that assesses the welfare of the population. Welfare indicators are constructed using either *consumption*—measured by household expenditures on food and non-food items—or *household income*. Consumption data are generally considered more reliable, particularly in transition economies; there are substantial problems with measuring income (such as underreporting, arrears, seasonality), including the difficulty of capturing in-kind income from farming. Individuals may also be reluctant to report income from informal activities for fear of having to pay taxes. The disincentives to reporting consumption are less problematic, but methodological questions also remain here, including what to include as consumption, difficulties in finding suitable prices and the difficulties that respondents have in recalling household expenditures. The decision, however, strongly depends on the data available and how reliable are these data. Hence, most studies use both the income and consumption aggregates to calculate measures of poverty and inequality.

The second step is to decide how to adjust the income or consumption measure for *economies of scale* at the household level, for both the size and composition (particularly age structure) of the household. There is no accepted way to estimate equivalence scales (Deaton and Paxon 1996, Deaton 1997). A number of methods are used, but each has major drawbacks. As a result, a wide variety of equivalence scales has been developed in various countries. This makes inter country comparisons of poverty and inequality difficult, because measures of poverty and inequality are sensitive to the equivalence scale used. Varying the economy of scale parameter may change the relative poverty risks of different demographic subgroups of the population, notably the elderly and children, as Lanjouw and others (1998) show.

The equivalence scale used by OECD and European Community is the following:

Equivalent size = 0.3 + 0.7 * *adults* + *0.5* * *children.*

The OECD currently uses a revised scale with stronger scale economies:

Equivalent size = 0.5 + 0.5 * *adults* + *0.3* * *children.*

In contrast, World Bank studies use a two-parameter type of equivalence scale described by the formula: Equivalent size = *(adults* + $\alpha$ * *childre*n)^θ, where *adults* stands for the number of adults in the household, *children* stands for the number of children ages 15 and below, and $\alpha$, and θ are parameters between 0 and 1. A higher θ implies fewer economies of scale. A lower value of $\alpha$ gives less weight to children's consumption. A simplified one-parameter version ($\alpha$ =1) is also used, which thus allows only the household size to vary. The values of the two parameters (or of theta) may vary, but the results based on these scales are considered "reasonable estimate for transition countries, in light of the fact that energy prices are subsidized and housing costs are not

included in expenditure estimates - two major sources of economies of scale in OECD economies". (World Bank, 2000: 370)

**Poverty lines**

Once the welfare measure is constructed, most often poverty rates are defined as that share of the population living below a designated poverty line. Corresponding to the definition of poverty, there are three main types of poverty lines: absolute lines, relative, and subjective (presented in subchapter 2.1).

Absolute lines set an absolute minimum standard of living and are typically based on a fixed basket of food products (deemed to represent minimum nutritional intake necessary for good health) plus an allowance for other expenditures (such as housing and clothing). The absolute line represents, ultimately, the monetary expression of a level considered as compulsory for meeting the fundamental needs of the society members.

Only concerning the nutritional needs some standards have been recommended (by FAO-OMS) for ensuring a good health condition. The food basket may be determined based on a normative or a statistical method. The normative method takes into consideration the recommendations on the level and structure of consumption by groups of food items according to age, gender and type of activity. The food basket based on statistical method represents the actual composition of the food consumption that is typical to the households in the lowest part of the income/expenditures distribution. This method is motivated by the need to take into account the poor population behavior, since those usually buy cheaper food.

Absolute poverty method might measure the cost of the food needed for day-to-day survival with no allowance for non-food costs, or it might also include the cost of non-food items. With respect to selection of the non-food items there is a large diversity: while some measures include only basic non-food items such as clothes or shelter, other measures take into consideration a much larger array of non-food items such as a radio or transportation, that allow greater participation in society. However, there are striking difficulties in selecting from a variety of goods and services on a growing market those that form the most adequate combination to ensure, for a minimum expenditure, the satisfaction of basic needs. Regarding the non-food basket there are three evaluation methods:

- the caloric method – defines the poverty line as the total consumption expenditure/ income (that includes non-food goods and services) expected for one person to feed him/herself according to a pre-set caloric threshold.
- the method of food expenditure weight – estimates in the first step the food basket ensuring the pre-set caloric threshold. The poverty line is calculated by dividing the food poverty line to the food weight in the total consumption expenditure for a group of households considered as poor. Usually a lower and an upper line are determined, one taking into account the households whose total expenditure per person equals the food poverty line, and the other considering those households whose food expenditure per person equals the food poverty line.
- the normative method – defines certain non-food items as indispensable for a "normal" life in the given society by various means.

In practice, hybrid methods are used. For instance, the World Bank reports use a combination between the caloric and food expenditure weight methods (Ravallion, 1994). In fact, a combined method that links the poverty line to a nutritional need (pre-set according to the country), and that incorporates non-food expenditure characteristic to the poor people, leads to a more consistent evaluation of poverty. Hence, absolute lines can vary across countries, depending on the composition of the consumption basket.

This absolute poverty threshold, whether it covers only food, or other items, too, does not change over the short term as average living standards rise or fall. Therefore, the relationship between an absolute poverty line and average living standards might change

greatly over time. Indeed, in more developed countries, very few of those whose living conditions are below the average national standards (relatively poor) are in absolute poverty. In contrast, in poorer countries, a person with average income or expenditure (relatively non-poor) may also be absolutely poor. Consequently, the "best" method of estimation poverty greatly depends on the country context.

However, international comparisons of poverty incidences across various countries (with different level of development) are based on absolute poverty line. For example, the one-dollar, two-dollar, or four-dollar per person per day used in the World Bank studies. The poverty line is fixed in U.S. dollars and then converted into national currency units using purchasing power parity (PPP) or exchange rates. PPP rates measure the relative purchasing power of different currencies over equivalent goods and services, and also take into account differences in the structure of consumption between countries. Market exchange rates are not appropriate for welfare comparisons because they do not account for the differences (sometimes substantial) in relative prices between economies.

Poverty as compared to others is measured against relative poverty lines, which define poverty relative to national living standards. Relative poverty lines are usually set as a proportion of median or mean material resources of the entire population (poor and non-poor). Definition of the material resources is made either in terms of income or expenditure, either per person or per adult equivalent.

Relative poverty line can be determined in various ways. More widely used are the relative poverty lines assessed as fraction (most often 40 percent, 50 percent, and 60 percent) of the median of the instrumental variable (income/consumption) distribution. Thus, the real state of a poor person, determined by this method, will be considerably different depending on the general trend of the economy. Usually, distribution of households/ people by income/ expenditure is asymmetric to the left. Accordingly, the mean value is higher than median and, as a consequence, the poverty rate calculated based on the average is higher. Median is a more stable measure of the central value (since mean is highly sensitive to changes in the upper part of the distribution) but when the asymmetry to the left increases, the use of the relative approach leads to under-estimation of poverty.

For example, the EU has adopted a poverty line that equals 60 per cent of the median income or expenditure in each country. The rationale for this definition of relative poverty is that people whose living standards (either income or expenditure) fall far below the average are at risk of being excluded from the advantages and benefits considered normal in society. Relative poverty measurement is sensitive to inequality: a rise in inequality will cause the number of people in relative poverty to increase, while a decline in inequality will cause the number of relatively poor people to drop. However, if the poverty line is defined as a percentage of the median income, then changes in the distribution of income among people above the median will affect measured income inequality, but leave the number of people in poverty unchanged.

Economic growth results in rise of household incomes, consequently a drop in the number of poor. On the other hand, rise in inequality results in increasing number of poor. The two factors work in opposite direction so that it is possible that even if in absolute terms many poor would be well off than they have been at the beginning of the economic growth period, in relative terms they would be not. In these sense, relative measure of poverty is weak in reflecting poverty developments over time, particularly during periods of drastic structural changes.

ILO, OECD as well as EUROSTAT studies have traditionally used relative methods for assessing poverty. Studies produced by ECE under the European Programme for fighting against poverty also use a variation of relative poverty. The consumption expenditure represented the instrumental variable and the three poverty lines were set up to 40 percent, 50 percent, and 60 percent of the mean consumption per adult equivalent (OECD equivalence scales). Studies run by the OECD Secretariat in several transitional countries used the same method. In contrast, the World Bank operates with three

relative lines determined as 33 percent, 50 percent, and 67 percent of median income/ consumption.

In international comparisons, relative poverty lines are mainly useful regarding the *characteristics* of the worst off individuals in each country. To make comparison possible, most studies determine for each analyzed social group its *relative poverty rate* by country. The relative poverty rate of a certain social group in a given country is calculated by dividing the group rate by the country average rate. A value smaller than one indicates that the given social group has a smaller proportion of the poor than the country average. Values larger than one indicate social groups with high risk to poverty in the given country.

**Poverty indicators**

Even if we are agreed on the appropriate poverty line (and on other matters such as the equivalence scale), there remains the question as to the choice of the poverty indicator. The almost universal practice is to count the proportion of the population below the poverty line: the *headcount index*. The headcount measure gives no indication of the severity of poverty: people may be close to the poverty line or far below. Consequently, additional indicators are used, Foster, Greer, and Thorbecke (1984) class of poverty measures most often. These are: 1. *poverty deficit* (or shortfall) that takes into account how far the poor, on average, are below the poverty line; 2. *severity of poverty* or *FGT(2*) that gives more weight to the consumption of the poorest, providing thus a more sensitive criterion for sorting the individual poverty gaps.

A poverty deficit of 5 percent means that if a country could mobilize resources equal to 5 percent of the poverty line for every individual and distribute these resources to the poor in the amount needed to bring each individual up to the poverty line, then, in theory, poverty could be eliminated. Sen criticized the poverty deficit for evaluating equally all transfers to people below the poverty line irrespective of the seriousness of their poverty: like the headcount, the poverty deficit is "blind to distribution among the poor" (1981: 186). As alternative Sen proposed a poverty severity index, widely used in academic studies, which weights each person's poverty gap by the person's rank in the ordering of the poor. The Sen index takes the form: $P = H\{I + (1-I)G\}$, where H is the headcount, I is the poverty deficit expressed as the mean percentage shortfall, and G is the Gini coefficient of the income distribution of the poor.

**Inequality indicators**

Most often analysis of poverty and welfare, address also the income/consumption inequality. Inequality is a broader concept than poverty in that it is defined over the whole distribution, not only the censored distribution of individuals or households below a certain poverty line. Inequality is also a much narrower concept than welfare. Although both of these capture the whole distribution of a given indicator, inequality is solely concerned with the dispersion of the distribution. However these three concepts are closely related and are sometimes combined in composite measures such as those proposed by A. Sen.

There are many ways to measure inequality because inequality is a multi dimensional concept (see www.worldbank.org/poverty/inequal/). However, most studies take into account at least two types of inequality measures, namely the quantile/decile ratios and the Gini coefficients.

The most common quantile ratio is the 90/10 ratio that indicates the fraction between the income/consumption of the poorest person of the richest 10 percent of the population and that of the richest person of the poorest 10 percent. In order to find out to what extent the 90/10 ratio is determined by inequality in the top of the distribution or by inequality in the bottom, two other measures are used, namely 90/50 ratio, 50/10 respectively. Quantile ratios are insensitive to outliers either in the very top or very bottom tail of the consumption distribution. For this reason, quantile ratios do not reflect what happens in other parts of the distribution.

The Gini coefficient ranges between 0 and 1, with 0 indicating absolute equality and 1 indicating absolute inequality. Hence, higher Gini values indicate more inequality. Gini values of 0.25-0.35 provide a benchmark: inequality in most advanced industrialized countries falls within this range. The Gini coefficient is especially sensitive to changes in inequality in the middle of the equivalent income/consumption distribution. Gini coefficient for income inequality is usually decomposed by the sources of income (wages, self-employment income, state transfers, and so on).

**Explaining poverty – Individual versus structural causes**

1. Poverty as an individual moral characteristic – in the nineteenth century the most popular explanation of poverty was formulated by Herbert Spencer: the source of poverty lays in the moral characteristics of the individuals, the poor were described as sluggish people, tramps and criminals embracing a self-destructive way of life. Accordingly, the state (the collectivity) should not intervene to support the poor: those who do not wish to work, had no right to eat.

2. (Sub-)culture of poverty – poverty is far more than lack of resources, but it represents a life style founded on specific (deviant) values and rules that shape individual behavior. The most important contribution to the elaboration of the theory of culture of poverty belongs to Oscar Lewis (1959). The (sub-)culture of poverty is both a cause and an effect of poverty. It is effect of poverty, as it represents "the local solutions for problems not met by existing institutions and agencies because the people are not eligible for them, cannot afford them, or are suspicious of them" (1961: xxvii). On the other hand, culture of poverty is a cause of poverty because individual internalizes it (through the process of socialization), and thus it is transmitted from a generation to another.

Culture of poverty develops "when a stratified social and economic system is breaking down or is being replaced by another". This does not mean, however, that it is transitional or temporary phases of drastic cultural change, since "culture of poverty is often a persisting condition even in stable social system". As Lewis showed, culture of poverty has some universal traits.

> "The economic traits which are most characteristic of the culture of poverty include the constant struggle for survival, unemployment and underemployment, low wages, a miscellany of unskilled occupations, child labour, the absence of savings, a chronic shortage of cash, the absence of reserves in the home, the pattern of buying small quantities of food many times a day as the need arises, the pawning of personal goods, borrowing from local money lenders at usurious rates of interest, spontaneous informal credit devices organized by neighborhoods, and the use of second hand clothing and furniture.
>
> Some of the social and psychological characteristics include living in crowded quarters, a lack of privacy, gregariousness, a high incidence of alcoholism, frequent resort to violence (…), free unions or consensual marriages, a relatively high incidence of the abandonment of mothers and children, a trend towards the mother-centered families (…). Other traits include a strong present-time orientation with relatively little ability to defer gratification and plan for future, a sense of resignation and fatalism based upon the realities of their difficult life situation, a belief of male superiority (…) and, finally, a high tolerance for psychological pathology of all sorts." (Lewis, 1961: xxvi, xxvii)

Some of the above traits are also found in the middle and upper class, however, "it is the peculiar patterning of these traits which defines the culture of poverty".

3. The situational approach to poverty – The poor people are not seen as isolated from the system of values of the society, but as people who lack the means to translate these values into reality. Thus, the specific way of life developed by the poor is a reaction to their low standard of living and relative isolation, and not an effect of certain specific cultural traits.

4. "New poverty", "underclass" and "social exclusion" – The "new poverty" is considered multidimensional, encompassing many deprivations, whereas the old poverty primarily referred to lack of income. The "new poverty" is an outcome of recent global economic restructuring, whereas the old poverty primarily reflected cyclical downturns of chronic

labour market vulnerability. Thus, the "new poverty" that appears in the '80s in the advanced capitalist democracies of the West is at once persistent, urban, and group based. Correspondingly, the post-war Western welfare state designed to address the old poverty do not adequately protect those at risk to the "new poverty" (Room, 1990).

In relation to the new poverty, poverty discourse tends to be nationally specific (Silver, 1996). While in France the new poverty discourse centers on the term "exclusion", the notion of "underclass" is prevalent in American discourse. Both terms are difficult to define, both are contested, and both have various meanings, since "necessarily entail the adoption of particular values and world-views" (Silver, 1994).

The term *social exclusion* refers in the same time to the rise in long-term unemployment and the growing instability of social relations: family breakup, single-person households, social isolation, decline of class solidarity based on unions, workplaces and working-class neighborhood and social networks. It encompasses not only material but also the rupture of the social and symbolic bonds that should attach individuals to the society. The term exclusion also encompasses the issues of *banlieues*, *cites* or disadvantaged neighborhoods, the immigrant integration, and the youth problems. "Exclusion" is addressed with "insertion" policies, such as the guaranteed minimum income in France (Silver, 1996: 113-116)

*"Underclass"*, according Gunnar Myrdal (1963: 10), is defined as "an unprivileged class of unemployed, unemployables and underemployed who are more and more hopelessly set apart from the nation at large and do not share its life, its ambitions and its achievements". The concept defined in Myrdalian fashion (see also Wilson 1987, 1991, 1996; Gans, 1990, 1996; Katz, 1989) indicates a structural approach, the underclass encompass "the economic victims". Other authors use a behavioural definition of underclass, which resonates with vagabonds, "pauper", "outcast", "dangerous classes" (19th Century images of poor), „culture of poverty", shortly said underclass equal "undeserving poor" (Katz, 1989). They lack values of law and order, religious morality, traditional family relations and nationalism, and deviant values lead to deviant behaviour.

Underclass is defined from a multi-dimensional perspective: those poor exhibiting cumulative deprivations. The most important dimensions of underclass are welfare dependency (as a correlate of long-term formal labour market detachment), social isolation, deviance, and racial subculture. Various authors stress various combinations of the four main dimensions. While the structural approach stress dependency and social isolation, behavioural approach emphasizes the combination of deviant values and behaviour, racial subculture and space.

The underclass literature is markedly micro sociological (Silver, 1996: 125). Studies on urban underclass focus on "ghettos", "inner-city", homeless, law and order, delinquency, school leavers and dropouts. The urban dimension of underclass discourse spatially fixes social disadvantage, racial difference and deviance. „Social isolation" of the underclass produces inner city „pathologies". Ghetto „culture is a response to social structural constraints and opportunities" (Wilson, 1987: 61), and thus simply living near poor people has „concentration effects". When economically marginal individuals interact with others like themselves, deviant behaviour itself becomes normative, enticing even „decent" and „mainstream" neighbors.

4. Structural socio-economic theories – poverty is primarily considered the result of the uneven distribution of income. Thus, poor are rather "victims" of the system. A series of structural explanations, that do not exclude one another, are discussed in the literature but the main two put poverty in relation with the labour market outcomes/ distortions and, for those who are not able to work, with the welfare system.

## *1.2 Comparative approach, regional analysis*

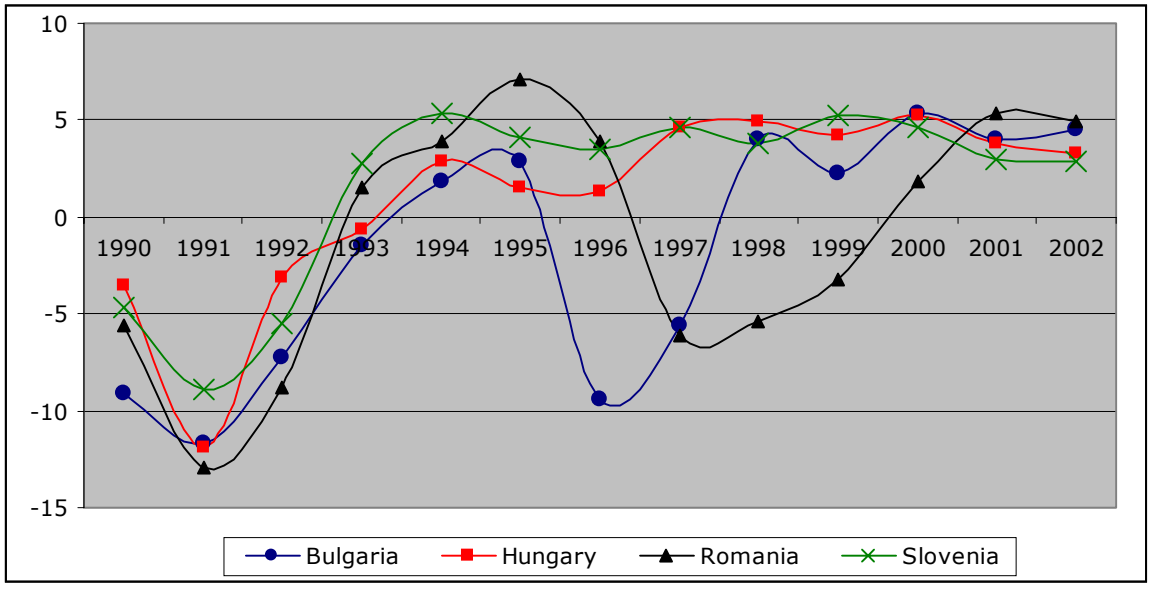
Before discussing the literature on poverty developed in Bulgaria, Hungary, Romania and Slovenia we have a look to five comparative studies: *Income, Inequality, and Poverty*

*during the Transition from Planned to Market Economy* (Milanovic, 1998), *Poverty in Transition? a*nd *Transition 1999:Human Development Report for Central and Eastern Europe and CIS* (UNDP, 1998 and 1999), *Making Transition Work for Everyone* (World Bank, 2000), and the *Innocenti Social Monitor* (UNICEF, 2003). All these reports[1] provide statistics and in-depth analysis on economic growth, the nature and evolution of poverty and inequality in all countries in transition, including the four accession countries which take part to COMPPRESS study. Accordingly, this literature review covers poverty and inequality issues as they appear in the international literature (comparative analysis at the regional level). The picture of the transition period appears as formed of three time-intervals: 1987-1994, 1995-1998, and 1998-2001.

The comprehensive work of Milanovic (1998) is about income, inequality and poverty in eighteen former socialist countries during the period of 1987-88 to approximately 1995. Branko Milanovic started his analysis by describing "the tectonic changes" that occurred after 1989, namely creation of the new states, civil wars, and massive decline in GDP: "after the Great Depression of 1929-33, this decline represents the largest peacetime contraction of world output" (page 7). These massive dislocations have had huge social costs in the entire region, out of which the author focuses only on those associated with the decline in output, that is lower incomes, higher inequality, and greater poverty.

By 1990, all Eastern European countries were already in a decline. After 1990, all countries in transition experienced a depression (at least two years of continuous GDP decline) for at least three consecutive years; for five years (as Romania, 1988-1992), or for six years (as Hungary, 1988-1993 and Slovenia, 1987-1992). Nevertheless, declines in Hungary and Slovenia were small compared to another transition countries, including Bulgaria and Romania. Moreover, as more recent data show, Hungary and Slovenia have posted positive economic growth since 1994, 1993 respectively. By contrast, Bulgaria and Romania faced subsequent transformation recessions (drop of the real GDP) during 1996-1997, and 1997-1999 respectively. Recovery started only in 1998 in Bulgaria and in 2000 in Romania. (Figure 1)

**Figure 1** Annual change in GDP (percent of previous year)




Source: UNICEF, TransMONEE Database, 2003: 89, Table 10.2. Data 1990-2001 (EBRD, 2002), 2002 (EBRD, 2003)

[1] Topics related to social protection are not included in the present literature review. These will be discussed within deliverable D13 - Literature review on income and social policies relevant to counteracting the negative social effects of the competitive pressure – identification, impact and efficiency.

The difference between the Great Depression of 1929-1933 and the "post-Communist depression" is the way in which wages and employment have adjusted. That is to say that unlike in the Western capitalist democracies (and also unlike in Russia and other countries of the former Soviet Union), in the Central and Eastern European transition countries, between 1987 and 1994, both real wages and employment decreased, while unemployment grew from zero percent to between 12 and 15 percent of the labour force (which is much lower than the Great Depression levels).

Output decline resulted in a generalized income decline. Since "changes in income are the most decisive factor influencing poverty", Milanovic analyzed how the level and composition of population incomes changed. Regarding changes in level the author used estimates of real population income derived from both macroeconomic sources (national accounts) and household budget survey. Only in Hungary and Slovenia the date indicated some slight increase, while in Bulgaria and Romania the period 1989-1993/4 represented a sharp decline of real population income. Regarding changes in composition of population disposable income Milanovic used a three-way classification: 1. wages; 2. cash social transfers; 3. "non-wage private sector", which includes self-employment, home consumption, property income, private transfers, and other private sector income. In addition, he took into account in-kind social transfers (health and education). The changes between 1987/88 and 1993/94 of all these types of income are analyzed as percentages of (current) market-price GDPs. Four regularities came forward: the share of total population income (including health and education) in GDP increased in most countries; shares of both social cash transfers and of non-wage private sector income rose in all eighteen studied countries; the (unweighted) share of labor income in the GDP has remained constant in Central and Eastern Europe and has declined in the republics of the former Soviet Union. The author divided the studied transition countries into three groups depending on the type of change by type of income, namely:

- "the non-compensators" - characterized by a declining share of wages which is not compensated by an increased share of cash social transfers. Out of the four countries included in the present study only Romania belonged to this group.
- "the compensators" – including countries where compensation, in the form of social transfers for lost wages, has been more generous. Bulgaria was part of this group.
- "the populists" – including only Central European countries (Hungary, Poland, and Slovenia) that clearly attempted to cushion the population, as much as possible, from the effect of real GDP declines and, as a consequence, all sources of population income increased in terms of GDP.

The author paid special attention to the non-wage private income. Its share of GDP has risen in all transition economies. According Milanovic's estimations Poland, Hungary, Slovenia, and Bulgaria began their transition to a market economy with a more developed private sector compared to Romania as well as the Slavic republics of the former Soviet Union, where the control of the state over the economy was much more severe. During 1990 and 1994, however, the private sector grew as quickly in the later countries as it did in the former.

Changes in income distribution take a second place as a factor influencing poverty. Between 1987/88 and 1993/94, inequality rose in all eighteen countries in transition studied by Milanovic, but the exact shape of this change differed among countries. Depending of the change in income distribution, the author divided countries into three groups as follows:

- "little change" – consisted of Hungary, Slovakia, and Slovenia. In these countries no quintile gained or lost more than 1 percentage point of total income.
- "moderate regressive transfers" – included countries where maximum loss ranged between 1 and 2 percentage points of total income, and was sustained by the bottom three quintiles. The forth quintile either experienced a very small loss or

retained its pre-transition share. The top quintile was the "winner", but the gain was low to moderate (less than 2 points to about 6 points). Romania belonged to this group of countries.

- "large regressive transfers" - countries with inequality greater than the OECD average. Income loss by the bottom quintile varied between 4 and 5 percentage points of total income. Only a slightly smaller loss was sustained by the next two quintiles. The sharp losses by 80 percent of the population translated into large gains for the top quintile (between about 7 points and 20 points). Bulgaria was member of this group.

Milanovic's results showed that during the first years of transition in nearly all transition countries, redistribution was regressive. Except the Slovak Republic, in all other transition countries the real income decline of the poor was much more severe, since they experienced loss in share of an income that itself drastically decreased. However, the poorest suffered greater *absolute* losses than did the middle or top income classes particularly in the countries of the "large regressive transfers" group.

The dramatic declines in output with decreasing incomes resulted in increasing poverty. Milanovic used three sets of poverty estimates. Firstly, poverty was estimated based on national HBSs and, as indicators, the headcount index and the poverty deficit. Poverty increased universally in all eighteen countries in transition. The headcount increase, however, was very uneven. In the richer countries of Central Europe (the Czech Republic, Hungary, the Slovak Republic, Slovenia) the percentage of the poor rose, on average, very modestly. In contrast, in Bulgaria and particularly in Romania the poverty rose substantially. (Table 1)

**Table 1** Estimated poverty headcount and poverty deficit in the first years of transition

| Country | Poverty Headcount (year) | HBS data from year | Poverty Headcount | Shortfall as % of poverty line | Total poverty deficit as % of GDP | Average income per capita ($PPP) |
|---|---|---|---|---|---|---|
| Bulgaria | 2% (1989) | 1993 | 15% | 26% | 1.1 | 282 |
| Romania | 6% (1989) | 1994 | 59% | 32% | 5.4 | 123 |
| Hungary | 1% (1987-88) | 1993 | 4% | 25% | 0.2 | 266 |
| Slovenia | 0% (1987-88) | 1993 | <1% | 31% | 0.02 | 481 |

Source: Milanovic, 1993: 68.
Notes: Poverty is estimated against a poverty line of $PPP 4 per day per capita; PPP from 1993 ICP data; HBS annual data, except for Romanian data that refer only to March, 1994; In Hungary case income does not include consumption-in-kind.

Milanovic used also two alternative poverty measures. The second poverty estimates were based on macroeconomic ("adjusted") income data instead of HBSs. The poverty headcounts dropped, but only in few countries; out of the four countries selected in this study, only for Romania the poverty rate decreased to 39 percent. The third set of estimates was calculated using expenditures instead of income. In this case, only in seven of the eighteen countries the poverty headcount lowered, including again Romania (where reported expenditure were significantly higher than income) to 48 percent. Estimates for Romania are not so robust as those for Bulgaria, Hungary, and Slovenia, due to the high poverty rate and, more important, to the high elasticity to incomes.

In determining who are the poor, the author used data from a variety of sources that estimated poverty against different poverty lines. To make comparison possible, for each analyzed social group the author determined its relative poverty rate in each country. Since data were available only for some countries, only those have been included in the study (Slovenia is not included, Bulgaria and Romania are included only on certain characteristics). The characteristics taken into consideration were: 1. social group of the

household head; 2. sex of the household head; 3. education of the household head; 4. size of the household; 5. individuals' age; 6. location in the capital city.

At the regional level, in 1993-1994, lower poverty rates than average had households headed by an employed person or a pensioner, male-headed households, those headed by university graduates, one- and two-person households, and also people of retirement age and inhabitants of capital cities. At the other extreme, households with at least one unemployed member (particularly long-term unemployed) as well as households headed by an unemployed, farmer's households, those headed by a self-employed (only in some countries, like Romania, where self-employment refers to subsistence farmers), female-headed households, those headed by a person with elementary education, single-parent households, larger households, and children of 14 years or below were more likely to be poor than average.

The author emphasized that the poverty of the transition countries until 1994 was rather a "shallow" one (most poor were hovering around the poverty line). Correlated, "most of the poor in transition economies do not represent a distinct underclass as they do in Latin America", because their declines in income was recent and, thus, did not reflect in a marked deterioration of their education, access to social services, ownership of consumer goods or of the dwelling. In addition, based on the relatively high elasticity of poverty with respect to income, he concluded that once the transition economies will recover and growth will reach the bottom of the social ladder, large segments of the poor could be pulled out the poverty.

In conclusion, in the first years of transition, Bulgaria, Hungary, Romania and Slovenia followed different paths with different results. As the following chart shows, according Milanovic's analysis, Slovenia and Hungary did better than Bulgaria, and all three did better than Romania. As result, poverty increased greatly in Romania until 1994, considerably more compared to the other three countries (as to all other Central and Eastern European Countries).

**Table 2** The first years of transition, before 1993/1994

| | Slovenia | Hungary | Bulgaria | Romania |
|---|---|---|---|---|
| Non-state sector in 1989 | Sizeable | Sizeable | Sizeable | Very small |
| Speed of reforms 1992-96 | Slow | Medium | Slow | Slow |
| Output decline | Medium | Medium | High | High |
| Inflation | Low | Low | Very high | High |
| Population real income | Slight increase | Moderate Decline | Severe decline | Severe decline |
| Country effort to cushion population | Populist | Populist | Compensator | Non-compensator |
| Change in income inequality | Little change | Little change | Large regressive | Moderate regressive |
| Poverty Headcount | | | | |
| - beginning of the transition | 0% | 1% | 2% | 6% |
| - in 1993, 1994 | <1% (I, MI) | 2% (MI), 4% (I), 7% (E) | 15% (I, MI) | 39% (MI), 48% (E), 59% (I) |

Notes: Synthesis based on Milanovic, 1998.
I - estimates based on HBSs income; MI – estimates based on macroeconomic income data; E – estimates based on expenditures. Poverty rates refer to 1993 for all countries, except Romania.

A large number of UNDP reports focuses on the relation between poverty and human development in the transition countries (CEE and CIS countries). Out of these we refer to the most recent ones, from 1998 and 1999.

Taking into consideration the developments between 1989 and 1998, the UNDP 1999 regional report mentions the major "gains" but focuses on the troubled transitions, those

that threat the "human security" and involve high "human costs". During the period, as UNDP experts document, Slovenia, Poland, Czech Republic, Hungary and the Baltic states represent the "success stories" of the transition. The major gains in the region refer to: 1. elimination of a major contributor to growing poverty and social insecurity, namely hyperinflation (note however that the inflation rate fell below 30 percent only in 1998 in Bulgaria, and respectively 2002 in Romania); 2. low inequality in CEE countries, at least by the standards of the Western countries; 3. preserved or slight increase of public spending as share of GDP accompanied by a decline in military spending (note however that relative increase in public spending meant decline in absolute values); 4. important progress towards creating effective state institutions for a market economy, particularly in the successful transition countries; 5. preserved or increased value of the human development index (HDI) for most countries of the region.

The authors oppose the gains in human freedom with the severe loss in human security. Whereas human development refers to building up people's basic capabilities, human security "implies a condition in which people can exercise their choices safely and freely, without fear that the opportunities that they enjoy today will be lost or taken away tomorrow". In this respect, UNDP experts underline that after 1990, primarily due to the decline in income, 15 of the 27 countries in the region registered diminishes of their HDI index values. In addition, the entire region suffered a significant loss in human security.

The human costs of transition, unevenly distributed among countries, highlighted in the UNDP 1999 report are nearly all poverty related. The first human costs refers to decline in life expectancy, most strikingly among young and middle-aged men, which resulted in loss of lives. In this respect, during the period 1989–2001, none of the four countries included in this study has "paid" this human cost; in all four countries life expectancy at birth, although fluctuated, has maintained or increased, most notable in Slovenia, both for men and for women (UNICEF TransMONEE data).

The second human cost has been considered the rise and persistently high level of morbidity, characterized by higher incidence of common illnesses and by the spread of such diseases as tuberculosis. Based on the UNICEF (TransMONEE) data, one can observe that health related data indicate for the four countries three different patterns between 1989 and 2001:

- In Slovenia and Hungary health indicators (such as infant mortality, probability of dying before age five, incidence of tuberculosis) improved overall. Thus, during the entire period, these countries have been "health leaders" in the region, as they have been described in the UNDP 1998 report, based on 1989-1995 data.
- In Bulgaria, health indicators have highly fluctuated during the period. In the UNDP 1998 report, Bulgaria was described as one of the "health laggards" of the region. Even so, after significant degradation of the health status, particularly during the years of economic crisis, Bulgaria has caught up. Thus, overall, health situation in Bulgaria has improved between 1989 and 2001. With respect to morbidity, however, the incidence of tuberculosis as well as those of HIV/AIDS epidemic has increased but it has reached only medium values in the region.
- In Romania health indicators improved considerably during transition. Nevertheless, most indicators still have values among the poorest in the region (CEE and CIS). In addition, morbidity has significantly increased.

The third cost of transition concerns rise in both income and human poverty. Human poverty is defined as the lack of basic human capabilities, and is estimated based on infant mortality (discussed above) and malnutrition indicators. Malnutrition appears as a growing problem in the region, since income-poor families have drastically reduced their consumption of milk, meat and vegetables, relying more on cheaper lower-quality foods.

Regarding poverty, we turn to the 1998 UNDP report. These authors attributed the rise in poverty in the transition countries to the combined effects of "disruption impact" and "policy dislocation", where disruption impact refers to the scale of income reversals

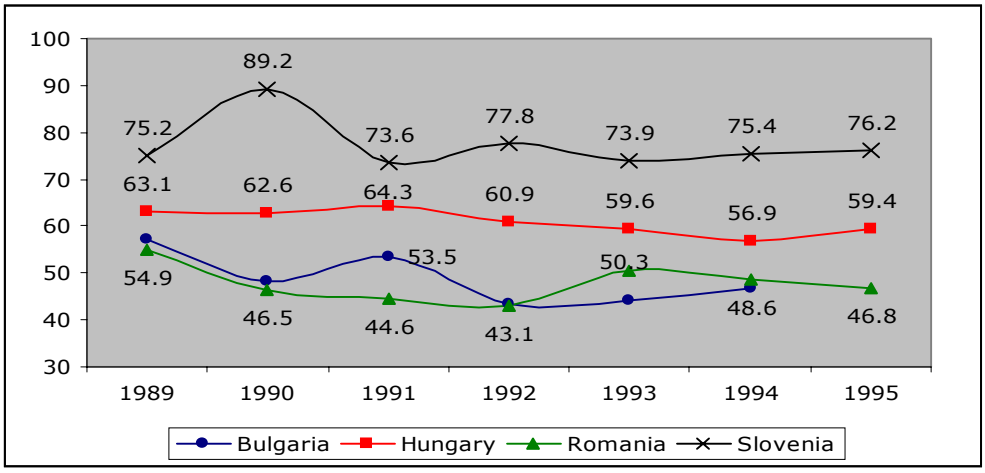
suffered after 1989 and policy dislocation refers to the adversities encountered in the move to a new economic structure. Alike Milanovic, UNDP experts consider the huge income decline (due mainly to recession and inflation) and the growth in income inequality as the two main causes of poverty in transition. Assessment of poverty is based on a mix of relative and absolute measures. Absolute poverty is measured against three lines, namely $50, $75, and $100 per month per capita. Monthly per capita household income is the instrumental variable, expressed both in PPP and in exchange rate dollars. A rough measure of poverty is used (Gregory, 1998), that is the number of deciles that have average per capita incomes below alternate poverty lines. The results show that poverty incidences in all 23 countries considered (CEE and CIS) are much lower if PPP rates are used. As for the incidence of poverty in the region, in 1995, Slovenia and Hungary fell in the category of countries "poverty free" (no deciles with earning below $PPP 100 per month per capita), whereas Bulgaria and Romania[2] recoded (as did the Baltics) 10 percent poverty rate (against the PPP superior line). Thus, the four countries had with respect to poverty incidence a much better situation than the Central Asian countries and the Slavic countries former members of the Soviet Union.

Relative poverty is estimated for twelve countries, including the four countries of the COMPPRESS project. The estimates were taken over UNICEF (1995). These cover the period 1989-1994, and are based on "adjusted" income distribution, where the net personal income per capita was weighted with the demographic composition of each income class by using an equivalence scale that attributes 0.8 to additional adults, 0.5 to children, and 0.7 to elderly persons. The relative poverty line equal 60 percent of low income line, where low income line represents 40 percent of the 1989 average wage by country.

Relative estimates are used in order to identify the composition of the poor. In this respect, 1998 UNDP report offers results similar to Milanovic's. The authors emphasize children's high risk to poverty as opposed to the low risk of pensioners. Besides, children's vulnerability has been increased during transition because of the increase in adult mortality, divorces, suicides and new epidemics such as HID/AIDS. Consequently, a rise in orphans and street children has been recorded in the region.

Among the pensioners, UNDP experts identified a group with high risk to poverty, namely those who depend upon extremely low minimum pensions (such as disabled, non-work related pensions, farmers' pensions) as their sole source of income. Furthermore, it is underlined the predominance of pensioners and "working poor" among poor, primarily put in relation with the decline in real values of wages and pensions (Figure 2).

**Figure 2** Change in average pension/average wage ratio during 1989-1995




[2] It is easy to observe the high discrepancy between Gregory's and Milanovic's estimates for the year 1994. This difference should be carefully considered because it does not reflect a steep decline in poverty between 1994 and 1995, but the difference in the methodologies used by the two authors.

Source: UNICEF, TransMONEE Database, 1997 cited in UNDP, 1998: 99, Table 5.3.

The relation between poverty and ethnicity is also brought into attention. On basis of studies developed in some countries in the region there is shown that "one well documented case of minority in poverty is Roma, or Gypsy, population" in Bulgaria, Hungary as well as in Romania.

The fourth and fifth[3] human cost of transition, as defined in the 1999 UNDP report on poverty, refers to the rise in inequality, namely income and wealth inequality and gender inequality. Subsequently, the sixth mentioned cost of transition concerns "human-capital poverty", that is educational decline, and, finally the seventh cost sends to the employment losses during transition, more precisely the rise in unemployment, underemployment and forced employment in the informal[4] sector. Out of all these, we insist here on the developments in education, because of the strong correlation between education and poverty.

Basically, the "considerable deterioration of education" that took place between 1989 and 1996 in the CEE and CIS countries cover three dimensions. On the one hand, it refers to the shrunk of public expenditures on education (Bulgaria was of the countries where educational spending shrunk most, by over 50 percent in real terms), to the diminishing in absolute and relative level of stipends for pupils and students, and to the increasing costs related to schooling due to the cut of most subsidies available previously (including transportation, accommodation, meals, books etc.). On the other hand, it points to the fall in school enrollment and attendance rates, particularly for pre-primary and primary levels, since these result in burden of household work on women and diminishes their opportunities for employment but also because it leads to rise in illiteracy. The third "deterioration" have occurred in schooling quality as an effect of poverty: 1. children from poor families, live in overcrowded homes that lack facilities and heating, some even electricity, suffer of some kind of malnutrition, are in a poor state of health and, as a consequence, have poor school performances; 2. inadequate school buildings, some lacking facilities and heating, teachers and staff underpaid, lack of medical staff in schools as well result also in poor quality of schooling. Of course that all these problems are present in all four countries under study, however, at different extent. Slovenia and Hungary have been since the first years of transition described as "advanced" (UNDP, 1998) because they have come closest to OECD levels in education spending and school enrollment (OECD, 1997). On the other hand, Romania and Bulgaria were classified as "high-intermediate" reformers within the region because they have made substantial changes in their educational systems, irrespective of differences in inheritance. Noteworthy, according latest available data (UNICEF), in all four countries, irrespective poverty incidence, school enrollment and attendance at all levels have displayed a positive evolution between 1989 and 2001. Nonetheless, there are studies that document a severe deterioration of education at the level of poor population.

*Making Transition Work for Everyone* is a World Bank report issued in 2000. Drawing on 1995-1999 household survey data and extensive qualitative studies, a large team of experts brings together the latest findings (at the moment) on the nature and evolution of poverty and inequality in the transition economies from Europe and Central Asia. The analysis includes, besides updated poverty estimates, the "voices of the poor" (Narayan et al, 2000a) given that: 1. poverty estimates are only "approximation" (mainly due to data deficiencies); and 2. impoverishment during transition has taken place in the context of drastic systemic changes, which resulted in a feeling of profound disorientation that accompanied poverty during the period. Thus, the "voices of the poor" show that poor people view well-being in a holistic manner, express strong feelings of insecurity (with respect to economic insecurity, lack of opportunities, and rise in violence both domestically and in society), illustrate gender inequity, speak of corruption and wish for

[3] This report does not include comprehensive analysis regarding these issues.
4 This subject will be covered within deliverable D14 - Literature review on informal market in relation to the competitive pressure, poverty and subjective well being.

governments and state institutions more accountable to them, and explain that as last survival resort they rely on informal networks and local institutions (such as holy men or local nurse). *Making Transition Work* re-examines the "unusual features of postsocialist poverty" and concludes:

> "In contrast to the majority of poor people in developing countries, most of the poor in transition countries are literate, many are well educated, and before the transition they had secure employment and anticipated regular pensions and allowances from the state after retirement. (…) Successive economic shocks—job loss or nonpayment of salaries, hyperinflation and loss of savings, and the increasing cost of education and health care—have made the poor in Europe and Central Asia unusually vulnerable and unable to plan for the future. (…) For the new poor, poverty has brought not only unaccustomed material hardship, such as hunger, but also the destruction of "normal" life and accustomed social patterns." (World Bank, 2000: 32)

Consumption-based poverty (defined as "material deprivation") is measured against two absolute lines[5], an inferior line set to $2.15 per person per day expressed in 1996 PPP (that cuts those in "absolute deprivation") and a superior line $4.30 per person per day expressed in 1996 PPP. Out of the 24 countries considered, Slovenia was in the best situation (highest GDP, lowest poverty), Hungary was among the better off, Bulgaria among the middle-up, while Romania was among the middle-low.

**Table 3** Absolute consumption-based poverty rates, 1995-1999

| Country | Slovenia | Hungary* | Bulgaria | Romania |
|---|---|---|---|---|
| HBS data from year | 1997/98 | 1997 | 1995 | 1998 |
| Poverty Headcount $2.15 per capita per day in 1996 PPP | 0% | 1.3% | 3.1% | 6.8% |
| Poverty Headcount $4.30 per capita per day in 1996 PPP | 0.7% | 15.4% | 18.2% | 44.5% |
| 1998 GNP in dollars per capita in 1996 PPP | 14,399 | 9,832 | 4,683 | 5,571 |

Source: World Bank, 2000: 35. Data: GNP from World Development Indicators Database.
* For Hungary the income-based measure was used.

Plotting the headcount indices based on the superior poverty line against 1998 GDP per capita in 1996 PPP, as expected, poverty rates decline as GDP increases. Nevertheless, the authors highlight some anomalies and sources of distortion. More precisely, poverty rates seem low for few countries and somewhat high for others, including Romania; in Hungary and Romania, among other countries, mean expenditure per capita based on the survey results is substantially lower than private consumption per capita calculated from national account data; measurement error may result in PPP rates biased downwards, poverty rates would thus be biased downwards too. More fundamentally, the absolute international poverty lines provide a comparative framework with respect to the extent of absolute deprivation. Understanding the level of resources individuals in a particular country need to live with dignity and respect in that country, however, requires country specific poverty lines. For these reasons, the authors underline that data presented above (Table 3) give just an "approximate picture" that should be used with caution.

Poverty in transition, although extended, does not reflect in poor living conditions. During transition, living conditions deteriorated for many people in the region, pattern of urban development is distorted, housing infrastructure deteriorated due to lack of investment,

[5] The absolute poverty line of $2.15 per person per day is roughly equal to the lowest absolute poverty lines that are used by transition countries in the Europe and Central Asia region and that are based on a nationally determined minimum food basket plus an allowance for non-food expenditures. Because most transition countries have national absolute poverty lines that exceed $2.15 per day per person, the report also provide poverty estimates based on an absolute poverty line of $4.30 per day per person. The absolute poverty lines are converted into national currency using 1996 PPP exchange rates (the most recent ones available, ICP). Next, the absolute poverty line, expressed in 1996 national currency, is adjusted for inflation using the national consumer price index to yield an absolute poverty line for the year in which the consumption or income data were collected. (World Bank, 2000: 371)

costs of utility services have considerable increased while the socialist subsidized have been diminished or cut off, service delivery have become increasingly erratic. Despite these, for the majority of the population in Europe and Central Asia, living conditions have remained favorable compared with the conditions in countries of similar income levels.

**Table 4** Households connected to utilities (percent)

| | Hungary 1997[a] | | Romania 1997 [b] | | Romania Rural 1997 [c] | | Romania Urban poor zones 2001 [d] | |
|---|---|---|---|---|---|---|---|---|
| | Nonpoor | Poor | Nonpoor | Poor | Nonpoor | Poor | Garbage pit | Disaffected industrial areas |
| Electricity | n.a | n.a. | 99.6 | 98.1 | 99.1 | 97.1 | 34.0 | 80.0 |
| Running Water | 93.4 | 73.4 | 62.1 | 42.9 | 9.3 | 6.8 | 15.8 | 10.9 |
| Sewerage | 92.8 | 71.0 | 49.3* | n.a. | 3.8 | 3.6 | 1.3 | 21.8 |
| Network gas | 82.0 | 56.4 | 45.6 | 29.8 | 7.3 | 4.4 | 0.0 | 0.0 |
| Hot water | n.a | n.a. | 54.6 | 33.7 | 1.0 | 1.2 | 0.0 | 1.8 |
| District heating | 26.6 | 14.8 | 44.3 | 27.0 | 0.9 | 1.1 | 0.0 | 16.3 |

Sources: a. World Bank, 2000: 40; b. UNDP, 1999a: 88; c. Chirca and Tesliuc, 1999: 111; Stanculescu and Berevoescu, 2003: 134.
Notes: a. The poverty line is set at two-thirds of median per capita consumption; b. and c. The poverty line is set at 60 percent of mean per adult equivalent consumption, 1995 prices. Romanian National Institute for Statistics version of the relative method and caloric scale of equivalence; d. National poverty lines per adult equivalent consumption-based according the most recent World Bank method for Romania, see Tesliuc, Pop and Panduru, 2003; * Refers to the entire population.

Even so, large disparities in living conditions exist between countries and within countries as well. Data presented in the above table show that in 1997, on average, poor people from Hungary had better living conditions than the non-poor Romanians (Table 4, columns a and b). But, the poor living conditions of Romanian citizens are a combination of the well-developed infrastructure in urban areas and the extremely poor endowment with utility services of the rural areas (Table 4, columns c and d). Running water/sewerage makes good example. Whereas proportion of urban households connected to running water/sewerage is 87 percent, only 13 rural households in one hundred benefit of the facility. More generally, poor urban residents have significant better living conditions even compared to non-poor rural residents. Nevertheless, distorted urban development and steep impoverishment of certain segments of population have resulted in the emergence of *urban poor zones* (see page 48). Out of these we select only two types, namely "garbage pits" with 92 percent consumption-poor people and "disaffected industrial areas" with 76 percent of their residents in consumption-poverty. Living conditions of the residents of urban poor zones are extremely poor, at least by the national urban standards. Furthermore, within poor zones the households in "extreme poverty" (poor consumption, no dwelling ownership, no durable goods) are miserable; 28 percent of them live in improvised shelters not connected to any utility (Stanculescu and Berevoescu, 2003).

Roma population makes a distinct case because in most countries in transition they have been socially and economically marginalized both during the socialist era and during the transition (Ringold, 2000). In the entire region, many Roma had marginal positions even within the socialist labour market. After 1990, they were "the first to be fired and the last to be hired". Most Roma were not land-owners prior to the socialist period, consequently when restitution-based land reform was instituted they were not included. Many Roma reside in ghettoized neighborhoods on the peripheries of rural or urban settlements, and they have little access to municipal services. Most Roma children do not go beyond basic education.

The levels of poverty among Roma are striking in Bulgaria, Hungary as well as Romania.

- Bulgaria: According to a 1997 household survey, more than 84 percent of Roma - compared with the national poverty rate of 36 percent - were living below the poverty line (World Bank 1999c). Comparisons with the 1995 data indicated that only 0.2 percent of Roma households had never been poor (in the bottom two quintiles) during both survey years (1995, 1997).
- Hungary: The data showed that one-third of the long-term poor (households that were poor four or more times between 1992 and 1997) were Roma, although they comprise about only 5 percent of the population (World Bank 2001: 14).
- Romania: The household surveys for the period 1995-2002 point to poverty rates of the Roma ranging between 72 percent (in 1996) and 80 percent (in 2002), while the national poverty rate of varied between 20 percent (in 1996) and 36 percent (in 2000). Moreover, in the eight-year period the majority of Roma fell below the inferior poverty line and their shortfall as percent in the poverty line is larger than 33 percent. Thus, in Romania most of the Roma poor are "permanent poor" and their poverty is more depth than of the others (Tesliuc and Pop, 1999 and Tesliuc, Pop and Panduru, 2003).

The profile of poverty was determined based on the poverty line in each county equal to 50 percent of median equivalent consumption (income, in Hungary). A one-parameter scale of equivalence was used: Equivalent size = (household size)^0.75. Thus, the profiles give a picture of the characteristics of those who are at the bottom of the expenditure distribution in each country, that is, those who are poor relative to others in their own country. On the one hand, based on the relative poverty risk index, have been determined those groups of population with higher risk to poverty (higher incidences than the national average). On the other hand, have been determined those groups of population that make up the largest share of the poor.

Across the region, "low pay, no pay, and unstable pay" is the overwhelming factor associated with poverty, followed by the decline in public transfers. Nevertheless, the factors associated with increased poverty risk differ considerable between the Central and South Eastern Europe and the Baltics (CSB) countries and the Commonwealth of Independent States (CIS). In CSB countries higher relative risk of poverty run: households whose head is unemployed and/or completed only primary education, households with fewer income earners.

In terms of geographical location, capital cities register lower relative risk of poverty compared with other areas, particularly with the rural areas which appear highly exposed to poverty. In addition, in most countries in transition there is at least one region with sharply higher poverty rates, such as North Hungary and North-Eastern Romania.

With regard to age the World Bank analysis show that elderly are at high risk to poverty only in few countries, including Bulgaria and Slovenia. Also this report underlines that evidences do not support a higher risk of elderly widows (observed by earlier reports, for instance UNDP, 1999a). Elderly widows have a high vulnerability but not a relative high risk to poverty. Furthermore, they account for a small share of the population, only four percent in CSB countries. In contrast to the elderly, children have an elevated risk of poverty, particularly in CSB countries. Children have a strikingly high relative risk of poverty in many Central and Southern European countries, including Hungary and Romania. In Hungary (as in Poland, and the Czech Republic), the risk was not elevated at the start of the transition, yet it has been growing ever since (Foster et al, 1999).

In virtually all countries, the relative risk of poverty increases with the number of children in the family (to a lower extent in Slovenia). More children may mean less female labor force participation and higher rates of poverty. A study using Hungary Labor Force Survey data (UNICEF, 1999) found that the presence of children considerably reduced the probability of employment among women. For women ages 26 to 29, female employment went from 82 percent in households with no children, to 52 percent in households with one child, 35 percent in households with two children, and 11 percent in households with three or more children. For women ages 36 to 39, female employment

dropped sharply, from 78 to 41 percent, as the number of children increased from two to three.

On the other hand, groups of population that make up the largest share of the poor are household leaded by employed (about 50 percent, except Bulgaria) or pensioners (more than 40 percent in Bulgaria and about 25 percent in Romania). Also, many of the poor have secondary education, are of working age, live in urban areas, in households with medium size, having one or two children.

The nature of poverty (permanent versus transient) is also addressed. Only three countries, where panel surveys were available, were included in the analysis. Hungary is one of these three countries. Four-year panel surveys showed that household incomes and expenditures have been quite variable, but the shocks were largely transitory in nature. Correspondingly, there are large fluctuations in measured expenditures that move households in and out of poverty in this region so that the number of individuals who are persistently poor according to their observed poverty status is quite small. Only 3.4 percent of Russians, 5.9 percent of Poles, and 8.8 percent of Hungarians were poor in all four observed years.

Despite according previous estimates poverty appears as predominantly transient the World Bank experts draw attention to the possible underestimation of the share of permanent poor (incipient underclass). Large short-term fluctuations that are not undone in subsequent periods suggest also people who are stuck in poverty. Taking into account that much of unemployment is long-term in nature (as in Bulgaria, Hungary or Romania) and its high correlation with poverty, the authors conclude that an underclass may be forming, especially in Central European countries. Studies such as the one done in Romania on destitute and poor zone (Stanculescu and Berevoescu, 2003) provide clear evidences in this respect.

Analysis on poverty is complemented by an analysis of income inequality, which, again, is considered the second critical contributor to the rise in poverty in the region. In doing this, authors used the Gini index and the decile ratio. On the one hand, for understanding how changes in distribution affect living standards and poverty, authors rely only on consumption-based measures of distribution. On the other hand, for understanding what is driving changes in the distribution, and what underlying market forces are at work as well as for comparisons authors resorted to income Ginis.

**Table 5** Distribution of consumption per equivalent adult, 1995-1999

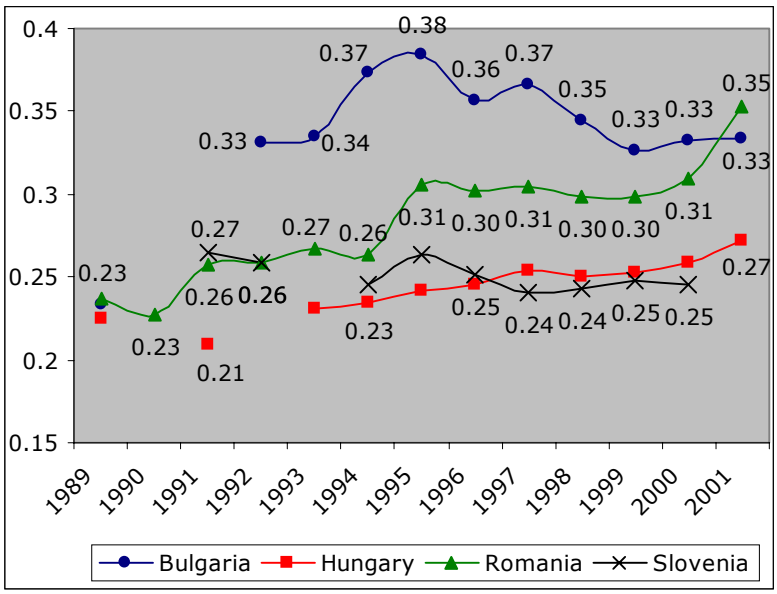
| Country | | Slovenia | Hungary | Bulgaria | Romania |
|---|---|---|---|---|---|
| HBS data from year | | 1997/98 | 1997 | 1995 | 1998 |
| Decile ratio of which: | (90/10) | 3.35 | 3.18 | 3.30 | 3.24 |
| | (50/10) | 1.73 | 1.76 | 1.83 | 1.80 |
| | (90/50) | 1.94 | 1.81 | 1.80 | 1.80 |

Source: World Bank, 2000: Appendix D.

During the period covered by the World Bank study (1990-1995/8) the increase in inequality was quite modest in Slovenia and Hungary, medium in Romania, and quite steep in Bulgaria. Moreover, the disparities between the very top decile and the very bottom remained relatively small compared with the OECD standards (Table 5): consumption per adult equivalent of the top decile was only about three times higher than the one of the bottom decile.

If latest UNICEF data (up to 2001) are considered the picture shows somewhat different. Beginning with 1997 the income inequality in Bulgaria has declined, as result of reforms implemented after the crisis of 1996 (that resulted in a change of government in April 1997). In contrast, in Romania and Hungary it has had a climbing trend since 1999. At the end of the 1990s, inequality stabilized in Slovenia at a modest level.

**Figure 3** Distribution of income, Gini coefficient, 1989-2001




Notes: The distribution is that of individuals ranked by household per capita income. Estimates are based on interpolated distributions from grouped data from HBSs reported to the MONEE project. The procedure is described in Atkinson and Micklewright (1992, *Sources and Methods*).
Bulgaria: Milanovíc (1998, Table A4.1), based on HBS data. World Bank (2000, p. 424) estimates 0.410 for 1995 based on Integrated HS data.
Hungary: Milanovíc (1998, Table A4.3) estimates 0.210 for 1987 based on HBS data. Atkinson and Micklewright (1992, Table HI1) provide an alternative estimate of 0.244 for 1987 based on HIS data.
Slovenia: Milanovíc (1998, Table A4.5) estimates 0.210 for 1987 based on HBS data. World Bank (2000, p. 431) estimates 0.250 for 1998 based on HBS data.

Source: UNICEF, TransMONEE Database, 2003: 94, Table 10.11.

What is driving the increase in inequality? The most important factors refer to increased inequality of labor earnings, which derives from an increase in the dispersion of wages and from the growth of non-wage incomes associated with self-employment and entrepreneurial activities. Most of the observable income inequality across households in transition economies is explained by inequality in labor earnings. Jointly, in 1997, wage earnings and earnings from self-employment account for more than 80 percent in Hungary but only some 30 percent in Bulgaria of all observed inequality of incomes (World Bank, 2000).

Overall, in CBS countries the shares of total inequality determined by differences between education groups are very similar to those in the OECD. World Bank (2000) calculations suggest that differences between education groups account for between 11 and 15 percent in Hungary (1997); nearly 20 percent in Slovenia (1993). In contrast, differences between education groups explain only 2 to 3 percent of all observed inequality in Bulgaria.

Since self-employment and entrepreneurial income are more unequally distributed than wage incomes, this shift in income composition has contributed to increasing inequality. But its impact has been very different across countries: small in CSB countries and large in the FSU. For example, in Bulgaria, this shift in composition contributed only 2 to 3 percentage points to the change in the Gini; in Slovenia, about 1 to 2 percentage points.

Not only has the impact of self-employment differed in CSB and CIS countries, but the nature of this self-employment has also been very different. Self-employment in the CSB countries is associated mainly with the emergence of small, private entrepreneurs in industry and services. The scale on which this self-employment has appeared has been more or less in line with what exists in developed OECD economies. In contrast, self-employment income in the CIS has been largely concentrated in subsistence agricultural activities. The increase reflects the collapse of formal sector jobs and wages more than the emergence of new private opportunities. Thus, it seems that the emergence of self-employment on a large-scale in the CIS has been more a survival strategy in the face of collapsing formal incomes than a choice to take advantage of the entrepreneurial opportunities offered by liberalization. This is the pattern followed also by Romania.

The second series of factors refer to policy related issues such as privatization, housing privatization, land restitution, and system of social transfers and taxes. All these topics

will be developed in a subsequent report of COMPPRESS project. For the moment, it is enough to mention that, according to the World Bank analysis, very large increases in inequality were facilitated more by a lack of economic reforms and by "state capture", the ability of powerful groups to incfluence policy for their own enrichment. Regarding role played by governments' tax and transfer policies, in Hungary and Romania it has been important in reducing inequality (Förster, Szivos, and Toth, 1998; Tesliuc and Pop, 1999, Tesliuc, Pop and Tesliuc, 2001), while in Bulgaria and Slovenia the effect of transfers has been neutral (Milanovic, 1999).

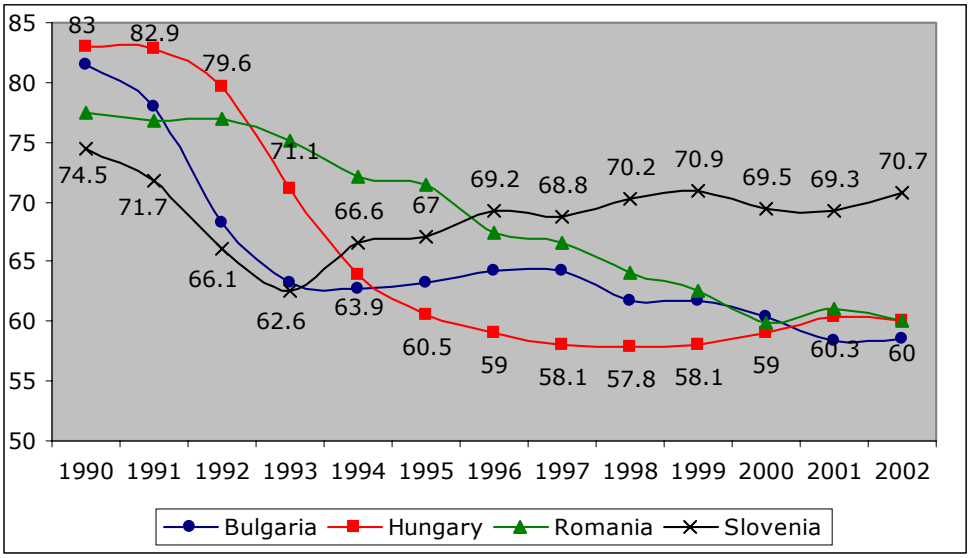
The *Innocenti Social Monitor* is an annual publication (the first published in 2002) of the UNICEF Innocenti Research Centre's MONEE project. *Social Monitor 2003* is the most recent international report analyzing in comparative manner developments in Central and Eastern Europe and the Commonwealth of Independent States. Social Monitor 2003 benefits of longer series data that cover the period 1989-2001/2, consequently updates the picture on many issues raised in the previous reports some already mentioned. *Social Monitor 2003* examines the impact of the economic growth, such as fell in absolute poverty, that countries in transition have experienced since 1998, public expenditure on services such as education, health and welfare, child at risk (children who are left without parental care, intercountry adoption, infant mortality), refugees and displaced persons, plus HIV/AIDS updates. Out of these issues we address in this review only those closely linked both with poverty and with competitive pressure and live aside those related to policy.

In most of the 27 countries of Central and Eastern Europe and the Commonwealth of Independent States, there have now been three or more consecutive years of positive economic growth. Living standards are rising, and poverty is falling. Yet, the experience of the transition has varied greatly across the region. In 2003, the divergence in the paths taken by the five countries in Central Europe and the three Baltic States (that are due to join the EU in 2004) and by the poorest CIS countries is striking. An alarming aspect is that in most countries in the region the public expenditure on services such as health care and education, that facilitate economic growth, foster people's long-term well-being and support children's development, remains inadequate.

In Slovenia and Hungary (as in all other CE countries) slight changes in GDP between 1989 and 1998 (by +5 percent in Slovenia, -3 percent in Hungary) was followed by an elevated increase by 16, respectively 19 percent between 1998 and 2002. In contrast, the early transition shocks resulted in larger declines in national income between 1989 and 1998 in Bulgaria and Romania (by 27, respectively 20 percent relative to 1989) were not fully compensated by the increase by 23, respectively 9 percent in GDP between 1998 and 2002. Consequently, during the entire period, Slovenia and Hungary have had a gross national income per capita (PPP) consistently higher than all other countries in the region, while Bulgaria and Romania are some way behind, holding an intermediate position within the region.

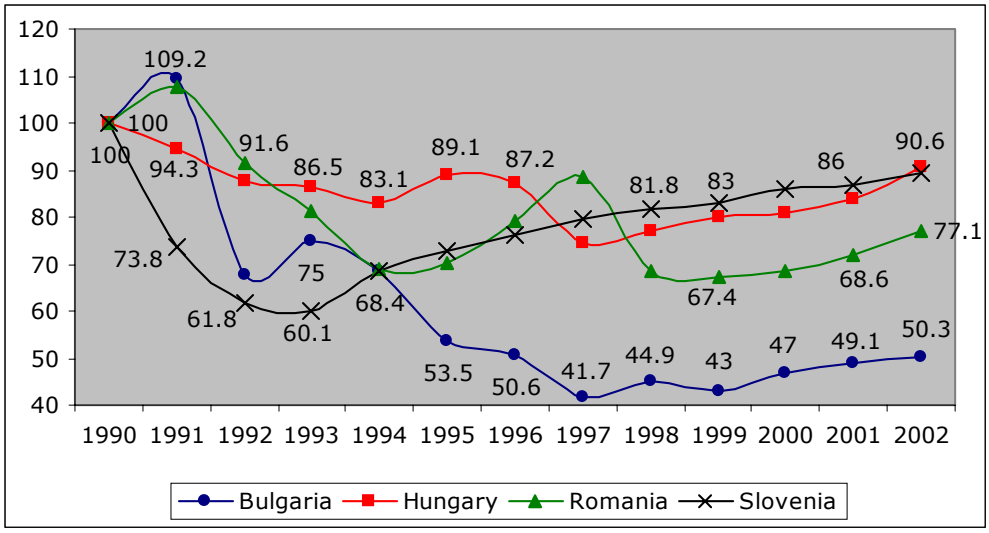
The economic growth return has translated into rise in employment only in few countries of the region. In Slovenia after the initial shock of the early 1990s the proportion of working-age people in employment grew, reaching a stable level at about 70 percent after 1998. In Hungary, the rise in employment occurred only after 1998, 3.3 percent in the proportion employed. In Bulgaria and Romania after the drop in early 1990s the share of employed in the working-age population remained constant. On the other hand, the increase of national income has reflected in increasing real wages after 1998 in all four countries. (see Figure 4 and Figure 5)

**Figure 4** Employment ratio (number of employed as percent of 15-59 population)




Source: UNICEF, TransMONEE Database, 2003: 91, Table 10.6.
Note: IRC estimate based on total employed. Differs from employment rate, which considers only the labour force.

**Figure 5** Change in real wages index (as percent of the 1989 value) during 1990-2002




Source: UNICEF, TransMONEE Database, 2003: 93, Table 10.9. Data EBRD, 2002. Expressed in PPP, IRC estimate.

Let us now turn to the country review of literature to gain more detailed information about each of the four countries and about how the national experts have addressed the "hot" topic of rise in poverty and income inequality.

## *1.3 Literature on poverty and income inequality in the four countries*

This section presents the reviews of literature on poverty and income inequality by country. We start with few general remarks. Bulgaria, Hungary, Romania and Slovenia had to build their expertise in the field after 1989. In Hungary and Slovenia both collection of survey data and research on poverty and inequality has been performed regularly since the late 1980s. In contrast, in Romania only small (although nationally representative) surveys were carried out, resources for research in the field being scarce. In fact, in Romania before 1994, poverty and inequality were "taboo" political issues (only in 1994, mainly under the pressure of international organizations, poverty was officially acknowledged).

During transition, a large literature on these issues has been developed in all four countries. Nevertheless, the focus of research has been rather country-specific: if in Hungary and Slovenia research has been primarily focused on inequality and income/expenditure distribution, in Bulgaria and particularly in Romania (countries with consistently higher poverty incidences) the focus has fallen on poverty.

We organize this chapter in two major sections. The first section regards poverty, and inequality represents the focus of the second section. The four countries reviews of literature reflect quite large discrepancies in research topics and approaches as well. Therefore, both sections of this chapter are organized on two dimensions: country and area under discussion (as presented in the scheme below) so that to favor a comprehensive reading. The main findings are presented in the next subchapter.

| **Section1. Poverty** | **BG** | **HU** | **RO** | **SI** | **Section2. Income inequality** | **BG** | **HU** | **RO** | **SI** |
|---|---|---|---|---|---|---|---|---|---|
| Poverty measures and profile | X | X | X | X | Income inequality and structure | X | X | X | X |
| Poverty and gender | X | | | | Wage inequality and gender | X | | | |
| Child well-being | X | X | X | | Earnings mobility | | X | | |
| Rural poverty | X | | X | | Inequality and redistribution | X | X | X | X |
| Rural community poverty | | | X | | | | | | |
| Poverty and ethnicity | | | X | | | | | | |
| Long-term poverty | | X | X | | | | | | |
| Underclass and social exclusion | X | | X | X | | | | | |

### *How has research on poverty in transition developed: Bulgaria and Romania*

Much of the expertise in the field has been developed in relation to programmes of the international agencies. In Bulgaria after the crisis of 1996, the new administration (elected in 1997) in cooperation with international organizations carried out essential reforms and leads the country out of the crisis. The government has also made a commitment to fight poverty. The first problem has derived from the lack of knowledge about poverty. The second was related to the determination of a poverty threshold that will be accepted politically for use in determining eligibility for targeted social assistance. In this respect, various teams of researchers have been involved in poverty measurement and analysis.

For example, with the support of UNDP a large team of national experts from science academia, government agencies and the trade union movement elaborated the Bulgarian report *Poverty in Transition* (1998). This report presents detailed analysis of the advantages and disadvantages of various poverty lines and estimates the percentage of households in poverty using ten different poverty thresholds, nine of which have an upper and lower variant. The lowest line corresponds to the basic minimum income used to define eligibility to social welfare assistance. Based on this estimate, only 3.9 percent of Bulgarian households were poor in 1997. This line, however, is administrative rather than analytical in character, and clearly underestimates the scale of poverty in the country. The analysis indicates that the incidence of poverty is significantly higher,

ranging from 53 percent to 68 percent of households, when other methods are considered. These figures, in turn, differ considerably from those obtained when variants of a relative poverty line are used. In the latter case, the incidence ranges from 4.2 percent to 49.2 percent of households. Upon considering all the different alternatives, the authors of the report, settle for a poverty line derived from calculating the share of expenditure on food per capita for each household unit. Almost two thirds (65.5 percent) of the Bulgarian households found themselves below this line (Leva 95 500) in 1996.

Within a subsequent study, undertaken as part of UNDP Poverty Strategies Initiative programme, Górniak (1999) demonstrates in his survey *Poverty in Transition: Lessons from Eastern Europe and Central Asia* that relative poverty lines have various advantages. By setting a threshold at, for example, 50 percent of the median income or expenditure per capita, one can at least compare the poverty profiles thus obtained in several countries at a time. For the countries covered in this analysis - Bulgaria, Estonia, Latvia, Lithuania and Poland - Górniak gives estimates of poverty using a relative line. The first four countries report the poverty line at 50 percent of median income or expenditure per capita. This approach results in relatively low headcount figures, ranging from 6 percent to 7 percent in Bulgaria (1997). The reason for such low estimates stems from the characteristics of the income distribution. A large percentage of the population earns low incomes, and significant differences appear only in the upper half of the scale, especially between the top 5 percent to 10 percent of society and the rest. If the relative poverty line is set at 50 percent of the arithmetic mean value of expenditure per equivalent adult in a domestic household in Bulgaria, the estimates of poverty will increase from 6 percent to 12 percent in the former.

In Romania, between 1991 and 1994, out of the national actors only the Research Institute of Life (RIQL) developed a programme focusing poverty and anti-poverty policies and carried out surveys on annual basis. In 1992, RIQL issued first calculation of an absolute poverty line using the normative method. The first comprehensive analysis of poverty and inequality was released in 1995 (Zamfir, coord.), providing an overview of the work of the RIQL team. Only beginning with 1995 has become functional the Integrated Household Survey (IHS), designed with international expertise, and implemented by the Romanian National Institute for Statistics (NIS). World Bank experts developed a new poverty line, empirically determined based on the consumption of the poorest 20 percent of the population (HIS data) in 1996. In the same year UNDP initiated an ample research project – *Poverty Alleviation Project* - in support of establishing an official poverty line. This project operated for three years and involved a series of studies (UNDP, 1998a and 1999a).

In 1997, within the UNDP *Poverty Alleviation Project*, different research teams of the National Institute for Statistics, and the Romanian Academy of Science applied and analyzed the outcomes of five methods (with two or three corresponding lines) – two normative, World Bank absolute, relative, and the total fuzzy and relative (TFR) - for poverty measurement on the same HIS (1995 and 1996) data. In addition, five scales of equivalence have been used: RIQL normative scale, NIS caloric scale, OECD standard and revised versions, World Bank scale. Each method (line and equivalence scale) proved to have its advantages and its limits.

Despite the use of different methods, the subsistence poverty rates ranged between 23 percent and 33 percent. Nevertheless, estimations ranged between 28 percent and 52 percent of the population when total poverty is considered. Significant changes were also induced by the scale of equivalence which was used. Out of all applied methods the *NIS version of the relative method* (including NIS caloric scale of equivalence) was considered the most adequate for poverty assessment in Romania and it has been applied in subsequent poverty analysis (1999-2001).

In parallel the World Bank initiated a series of studies on rural poverty (Chirca and Tesliuc, 1999) and on rural community poverty (1998, 1999 and 2000). In 1999 a comprehensive World Bank analysis of poverty dynamics and system of social protection was also issued (Tesliuc and Pop, 1999) followed by a another one for the period 1995-

1998 (Tesliuc, Pop and Tesliuc, 2001). In 2001, with the World Bank support a study on post-socialist underclass and urban poor zones was also undertaken (Stanculescu and Berevoescu, 2003). The most recent World Bank report on poverty (Tesliuc, Pop and Panduru, 2003) is a complex analysis of the nature and profile of poverty in Romania. Also it brings few new methodological elements, and it does no longer comply the relative method previously considered as the 'national expert consensus'.

## *1.4 Review of literature on poverty by country:*

### *1.4.a. Bulgaria*

**Silvyia Nikolova**

*Poverty Measurement and Poverty Profile*

An interesting study of the poverty in Bulgaria was made by Noncheva in 1997. She defines relative poverty line at two levels: upper line, which equals to 2/3 of the average households expenditures and indicates the proportion of the poor individuals and lower line which is equal to 50 percent of the expenditures and defines the most poor. Both categories have increased during the transition, compared with the initial level in 1991. However, the typical features of the income distribution in Bulgaria, raises certain constrains for the relative indicators implementation. They became evident in 1996, when the absolute poverty has reached its maximum, but the relative poverty declined to the level of 1992. This fact could be explained by the lowering average income of the households, due to the serious economic difficulties Bulgaria has met during this period.

The share of the population living below the Basic Minimum Income kept very low level - up to 10 percent of the population in 1992-1996 period. The poverty assessment, based on the official level of the Basic Minimum Income, is found by Noncheva not to be correct because its amount has not been completely adjusted to the inflation by the discounted indexation rate, described above. That is why for the purposes of the analysis the Basic Minimum Income is adjusted to the inflation by re-estimation of the consumption bundle, used for the initial definition of this indicator in 1992, when it was approximately equal to 40 percent of the Social Minimum. The re-estimated Basic Minimum Income indicates clear tendency towards impoverishment. It seems more informative indicator, than the rest of the poverty lines used, because of the following reasons:

- As the definition of the line includes basic food products and minimum energy for heating only, the households identified as poor are in the extreme need and deprived in higher degree than the average income groups.
- It reveals the dynamic of the extreme poverty and marginalization, which remains hidden for the previous indicators.
- The poverty gap index is likely to be more useful for the policy decision making in terms of social transfers targeting.

The poverty gap index, measured as a difference between the re-estimated Basic Minimum Income and the average income of the poor, shows that poverty depth has increased in the second stage of the transition and indicates two stages of the impoverishment during the transition. In the first stage the poverty depth index is at about one quarter of the poverty line and reached 0,27 in 1993. The second stage could be demarcated in 1994-1996 period, when the distance of the poor below the poverty line has increased and the poverty gap index has reached 0,44 (Noncheva, 1997).

The characteristics of vulnerable Bulgarian households found by Noncheva (HBS, 1995) are consistent with those described in the World Bank (2000) presented above, except location of poverty. According Noncheva poverty in Bulgaria is more urban than rural.

Households whose head is unemployed make up a half of the 1995 poor (entrepreneurs are in the best position). Education and training are the factors with strongest influence on the intensity of unemployment, and thus on poverty. The school dropout is not only a consequence of the poverty, but it creates risks for the further generation to fall into poverty trap. The most serious problems in this respect occur within the minority groups, particularly Gypsy population. The share of persons over 18 years without completed secondary education differs significantly by ethnic groups. They are 19 percent among Bulgarians, 47 percent among Turks and 80 percent among Gypsies. Even when the free education formally ensures equal access, the indirect factors, such as cultural traditions and specific opportunity costs are an obstacle for desired degree of social equity. Correlated, among Turks unemployment is 25 percent of the economically active population, and among Gypsies it is 39 percent. In some regions with compact minority population, unemployment rate of the relevant groups is over 50 percent.

Noncheva combined quantitative survey data with additional statistical data indicating relevant social risk with interviews conducted with the clients of the social assistance centres. Based on this mix of data she identified the low amount of social transfers and benefits in Bulgaria as an important determinant of poverty, since they keep beneficiaries in the "poverty trap". The average replacement rate of compensation benefits is low, compared to the average wage. The non-insured persons (youth, long-term unemployed etc.) are not entitled to social benefits. The pensions are strongly affected by the inflation erosion and the decrease in real terms. The replacement rate, measured as a proportion between the average pension and the average wage, decreased from 45 percent in 1991 to 37 percent in 1996. In some periods, even lower values were registered. In 1994, for example, 98 percent of the pensioners were found to receive pensions below the minimum wage. The differentiation between the pensions is very low. The proportion between the minimum and maximum pensions is kept at about 1:2.5 during the last years by the implementation of maximum pension ceilings. At the same time, the pensioners have limited opportunity for additional income earnings. Due to the above numbered reasons, the pensioners are considered as a homogeneous group, strongly affected by the risk to become poor.

Another group with significantly elevated risk of poverty are single-parent families. They represent 8 percent of the clients in the Social Assistance Centers, receiving regular social assistance, of which 7 percent are single mothers and 1 percent are widows or divorced. The incomplete families are a specific risk category.

Large families (with three or more children) are also found to be affected by the low income level. The number of children per family is the most important factor for poverty, according Noncheva. More than two thirds of the families with three and more children live below the poverty line, which is the highest poverty rate measured by sub-groups. On the other hand, they represent 21 percent of the households in extreme poverty, receiving regular benefits, but they account only 4.5 percent of all families. The families with three or more children are of Gypsy or Turkish origin mostly. In these cases, the poverty related risks consists not only of the low income level, but also of the lack of family planning and family counseling programs, as well as the low quality of the child cares provided.

Noncheva documents that the poverty related risks have often originated from the health status. A total of 16 percent of the chronically poor families point the health problems of their members as the main reason for the lowering income that they use to satisfy the rest of their basic needs. As compensation, the households with the lowest income are entitled to free drugs provided by the social assistance centers, but their number is very limited and includes mostly chronically poor people.

Ackrill, Dobrinsky, Markov and Pudney (2002) have examined dynamic of poverty in Bulgaria between 1992 and 1996, based on HBS data. According their analysis, poverty rose roughly six-fold over the period, relative to an absolute poverty line fixed in 1992 prices at 50 percent of the median of expenditure per equivalent adult (OECD scale). They investigate also the composition of the poverty, which has been changed over the

period. Depending to some extent on measurement conventions, and using a year-specific relative concept of poverty, they found that households containing pensioners accounted for around 60 percent – 70 percent of total poverty in 1992, have declined to around 50 percent by 1996.

Changes in the composition of measured poverty have also been striking. The main change in poverty profile during 1992 and 1996 is the shift of risk to relative poverty from elderly to children. As we have already showed in the previous chapter. High risk to poverty of elderly is a distinctive feature of Bulgaria, within the region. What Ackrill et all demonstrate is if in 1992 pensioners accounted for 60–70 percent of total poverty, the share has declined to around 50 percent by 1996. In contrast, households with children have been increasingly associated with poverty, with roughly 45 percent of them classified as relatively poor in 1996, compared with 30 percent in 1992.

The second main feature of poverty profile in Bulgaria is the rise of the high risk of unemployed during the period. In 1992 only around 30 percent of poor households contained an unemployed member; by 1996, some 50 percent of poor households were in this position. The authors underline that since the number of registered unemployed people was falling for most of the 1992–96 period, this finding cannot be due simply to the existence of unemployment itself. Instead, the very low rate of indexation of unemployment benefits and the exhaustion of unemployment benefit entitlement are the main contributory factors.

Changes in composition of the poor were determined based on year-specific relative poverty lines. Ackrill and the others (2000) focused on three vulnerable groups of households, containing pensioners, children and unemployed. Important feature of the households is that the majority of households containing an unemployed person also contain children. Because of this fact two versions of the headcount index were constructed. The first one shows the proportion of the of the target group (pensioners, unemployed or children) classified as poor and the second one gives information about what proportion of the poor belong to the target group. The two forms of the index are as follows:

$$\hat{I}_1(L) = \frac{\sum_{i=1}^{n} t_i T(\frac{y_i}{s_i}\langle L)}{\sum_{i=1}^{n} t_i} \qquad \hat{I}_2(L) = \frac{\sum_{i=1}^{n} t_i T(\frac{y_i}{s_i}\langle L)}{\sum_{i=1}^{n} T(\frac{y_i}{s_i}\langle L)}$$

$t_i$ is equal to 1 if household $i$ contains at least one member of the target group, and 0 if not.

The distinction between these different forms of the poverty index is important because the proportion of the poverty-affected households which are poor may be very high but the frequency of unemployment may be low enough that unemployment contributes only a small proportion of poverty. The use of alternative indexes showed that:

- For almost every reasonable relative poverty line, there is a higher rate of measured poverty within the group of households containing an unemployed member than there is within pensioner households, or those with children.
- Using the OECD equivalence scale, in 1992 the poverty rates for pensioners and children are similar, but the poverty rate of the children rises over the time. The ordering of children above pensioners is more emphatic if it is used per capita equivalence scale.
- In 1992, pensioner households make a larger contribution to total poverty than households containing unemployed, which in turn make a comparable or slightly larger contribution than households with children. This ordering is largely unaffected by the use of income or expenditure, but is sensitive to the choice of poverty line. Higher poverty line puts greater emphasis on the pensioners as

contributors to poverty. Conversely, households in very deep poverty tend to be those with the unemployed and/or children. After 1992, this last tendency increases significantly, with children and unemployed becoming increasingly important within the group of households in deep poverty.

Using per capita scale rather than OECD scale, the form of poverty profiles changes, but the broad conclusion is unaffected. For 1992, the measured poverty contributions of the three groups are sensitive to the use of income or expenditure as the household resources measure but all three groups make similar contributions to total poverty. After 1992, pensioners are increasingly dominated by the unemployed and children as major groups within the set of poor households, with little difference between the poverty contributions of the latter two groups.

In 1997, over 36 percent of the population in Bulgaria or some 3 million people were living in poverty, according World Bank (1999a) estimates. To measure poverty, the report uses a poverty line equal to two-thirds of average consumption in Bulgaria in 1997. The main conclusions are: Firstly, poverty rates in rural areas are estimated to be higher than in urban - over 41 percent of rural residents are found to be poor compared to 33 percent in urban areas. Secondly, poverty varies by region as well. The regions with the highest poverty rates in 1997 were Sofia and Plovdiv, followed by Russe and Sofia city. Thirdly, despite the ethnic minorities and large households, another vulnerable group are elderly, single women especially in urban areas outside Sofia city and in rural areas. Fourthly, the level of education and therefore earning opportunities appear remarkably lower for poor people than for the population at large.

As the World Bank (1999a) report proves the labor force participation rates are lower and unemployment rates higher among the poor. With greater employment opportunities and higher earnings, non-poor people rely more on wages as their main source of income, while poor people depend more on social transfers including pensions, or on mix of incomes. This leads to the deduction that poor have lower access to public services compared to the rich, especially in rural areas. Poor people have lower access to proper sanitation, and telephone services. They rely more heavily on coal (for both heating and cooking), wood, and kerosene as sources of fuel. In rural areas, 76 percent of all poor use coal or kerosene stoves for cooking compared to 62 percent of the non-poor. In urban areas, where access to district heating is greater, 55 percent of the poor still rely on wood or coal, compared to 35 percent of the non-poor. Within the city of Sofia itself, 20 percent of the poor use wood or coal for heating, compared to 14 percent of the non-poor. Poor people allocate a larger amount of their budget to food (72,3 percent compared to 68,5 percent for the non-poor) and consume larger amounts of cheaper staple grain commodities. They spend nearly 29 percent of their budget on cereals compared to 14 percent for the non-poor. In result of the estimation it is found that the enrollment rates in primary and secondary education among children from poor households is below average.

### *Poverty and Gender*

Studies such as Górniak's (1999) focuses of the relation between gender and vulnerability to poverty. He assumes that four groups of women are particularly vulnerable to poverty: divorced women with children, single mothers, elderly single women, and women from minority groups (Muslims and Romas). The author concludes that women are not inherently poorer than men, but the uneven distribution of the burden of crisis has formed groups of women who constitute the poorest population strata. They are being marginalized: temporary poverty grows into a way of life, not only for women, but for their children as well. Taking the official minimum wage as the poverty threshold, the headcount ratios for male and female-headed households are almost equal (39.9 percent and 40.9 percent, respectively). Whether the household has children or not makes a difference. With an increasing number of children, poverty rates are higher in female-headed households, although they are equal in case of number of children. Regarding household size, four or more household members is found to be at

bad risk in both cases, although female-headed households have a significantly higher poverty rate (60.1 percent to 51.5 percent) in this context. The opposite is the case in one-person households. Female households do better than their male counterparts. Only 15.4 percent of single living females are poor, compared to 23.6 percent of single males.

### *Child Well-Being*

The social and economic changes in Bulgaria since the beginning of transition naturally raise concern about their impact on child well-being. Gantcheva and Kolev (2001) made a study which main goal was to investigate the changing welfare situation experienced by Bulgarian children during the last decade. The analysis of the child welfare in Bulgaria relies primarily on statistical data that are gathered annually by the National Statistical Institute and that cover three dimensions of child welfare: economic well-being, health and education. Of course, these dimensions are not independent. Children from high-income families are more likely to have better access to health and education, especially when the access to these services is being monetised. And those with good health are more likely to remain in education. But the way these dimensions are being affected by the social and economic changes may diverge quite substantially. Only the capacity of families to finance the needs of their children and not how the resources are reallocated to these children is an object of the observation. The age concept of a child varies according to the statistical indicator that is used.

Gantcheva and Kolev (2001) showed that the sharp fall in living standards observed during transition in Bulgaria tends to have disproportionately affected families with children. The share of children in the bottom three deciles tends to have increased slightly during the period: from 33 percent in 1992 to 37 percent in 1998, with a peak at 40 percent in 1994. Therefore the overall rise in income inequality observed during transition has been accompanied by an overall deterioration of the relative welfare position of children despite a slight reverse trend after 1996. In the context of high inflation, child benefits, which used to constitute an important source of income for families with children, have declined dramatically. In 1998 they constituted only 2 percent to 7 percent. The importance of family benefits for large families fell especially sharply. And whereas households with dependent children represented a third of all households in late 1998 – of which 54 percent had one child, and 42 percent had two children – a substantial share of the population that have been affected by the fall in child benefits.

On the other hand, Gantcheva and Kolev (2001) examine the way in which the fall in real family income has translated into changes in terms of the structure of expenditures. Food represents the most important expenditure for families throughout the period, and its share has increased quite substantially during the transition among families with children. For instance, among households with one or two children, the share of expenditures on food rose from 38 percent in 1987 to more than 45 percent in 1998. The overall growing relative expenditure on food concentrated among families with children is clearly another indication of the rise in poverty, as these families were obliged to reorient their expenditures towards the most basic needs and to reduce other important expenditures. Even so the average calorie intake of households with three or more children (HBS data) has declined substantially. The lowest levels of calorie intake were registered in 1997. The average daily per capita intake for households with one child slightly exceeded 2,000 calories in that year, for those with two children it was 1,900 calories and for those with three and more children the average intake dropped to 1,676 calories. Moreover, the structure of food consumption changed. A huge fall is observed for the consumption of meat products, fresh fruits and dairy products – all foods essential to child development. This trend points to a growing problem of poor nutrition among families with children.

The most disadvantaged children in Bulgaria are those from single-parent families (almost exclusively headed by single women), to some extent, children born out-of-wedlock, and children with very young mothers. They have higher relative risk to poverty and tend to suffer disproportionately from under nutrition and ineffective food balance,

with long-term negative effects on their health, and have a higher risk of being placed in institutions.

Another alarming trend highlighted by the two authors is the large fall in gross enrolment rates in basic education, although it is compulsory. This changing attitude is strongly influenced by the lack of means to maintain a pupil at home and explains the rise in dropout rates after the first 3-4 grades of schooling, observed during recent years. In Bulgaria, an important factor that affected child attendance and school participation during the transition has been the decline in family income. About 9 percent of all expenditures on education were spent on behalf of the poorest fifth of children compared to 46 percent for those children in the richest fifth in 1992. In 1998, the poorest fifth benefited from only 4.6 percent of all education expenditures, compared to more than 51 percent for the best-off. In 1998, expenditures per child in the top decile of children were 19 times higher than those in the first decile, having been only 8 times higher in 1992.

Gantcheva and Kolev (2001) document the fact that poverty affects adversely the access to education that children from some ethnic minority groups such as the ethnic Turks and the Gypsies. Children from these ethnic minorities, especially those living in small towns and villages, have a higher risk of dropping-out of school before completing compulsory education. A survey, conducted by the International Centre of Minorities' Problems and Cultural Interactions among Gypsies in 1994, found that only 12 percent of children aged 3-6 were enrolled in kindergartens and only 48 percent of children of compulsory school age were enrolled in any level of education. Other evidence comes from the 1995 World Bank survey, which shows that the share of children not attending school was 5 percent among ethnic Bulgarians, 10 percent among Turks and 51 percent among Gypsies. Roma children constituted half of all children not attending school while the share of this ethnic group in the total relevant population was somewhat below 10 percent. However, faced with the worsening of teaching in public schools, there is some evidence that the necessity to take private lessons in order to succeed is gaining importance. This has an adverse impact on poor children who do not have the means to finance the access to this informal education system. It is a matter of concern that access to education is becoming more difficult for the poorest members of the society. This is due to the rising private costs of education.

A paper concerning child and family well-being in Bulgaria was made also by Jaklina Tzvetkova - Anguelova in 2001. According this paper one of the most significant contradictions in the assessment of family well-being in Bulgaria is the relatively high property status on the one hand, and the low incomes on the other hand. The accumulated property is due above all to the savings from the past and to the fact that the housing fund in this country has been distributed as property of the people using it. The results of the 1992 population census show that more than 85 percent of the population live in their own homes. Female households have less property, in terms of both quantity and quality. In respect of most home acquisitions female households lag behind male households by some 50 percent. The largest variance occurs in respect of the most expensive items. Motor vehicles are owned by 61,8 percent of the male households and only 24,5 percent of the female households; automatic washing machines – 58,2 percent of the male households and 28,7 percent of the female households, respectively. At the same time, the proportion of owners of real estate is almost equal for men and women. Households headed by women are, in general, much poorer than households headed by men.

### *Rural Poverty*

In 2002, Sahn, Younger and Meyerhoefer made a survey considering the rural poverty in Bulgaria. This study has as main purpose to explore the characteristics and determinants of the rural poverty in Bulgaria. In addition to the standard observation that rural residents are poorer than urban residents (Carletto and Fuji, 2002), something which is true in virtually every developing or transition economy, there is a sense in which rural residents are falling further behind in Bulgaria. A key finding is that even though

everyone suffered greatly from the 1996 crisis, urban residents have recovered, while rural residents are worse off.

Poverty is not only worse in rural than urban areas, but that rural households have fallen further behind their urban counterparts in the past decade. This reflects the falling level of overall rural incomes, as well as the fact that the distribution has worsened in rural areas since the beginning of the crisis. Most households that report being engaged in agriculture can be best portrayed as tending their gardens for their own consumption, perhaps selling a modest surplus to earn small sums of money that is complementary to other more important income sources. The work on the household plots is rarely the primary source of earnings for the household, or workers therein. In terms of the determinants of who has second and third jobs, access to land is only one important factor. A wide number of contributing factors are identified, ranging from ethnicity to the fact that wage employment in agriculture pays less than other sectors of the economy. Poverty reduction in rural Bulgaria is going to be driven primarily by a reversal of the declining wage employment opportunities and falling productivity that presumably underlies the falling real wage payments to those working. Agriculture will play a crucial role in this process.

According to Sahn, Younger and Meyerhoefer between 1995 and 1997, the average expenditures per capita fell in urban areas from 164 to 88 Lev per person per month and from 146 to 86 Lev per person per month in rural areas. This negative growth had a substantial effect on poverty in this period. At the same time, the Gini coefficient for per capita expenditures increased from 0.28 to 0.30 in urban areas and from 0.28 to 0.32 in rural areas. This increased inequality also contributed to higher poverty, by spreading out the expenditure distribution to the left. But overall, the enormous growth (or contraction) effect was more important, accounting for 87 percent and 85 percent of the overall increase in poverty between 1995 and 1997 in urban and rural areas, respectively.

Between 1997 and 2001, the average per capita expenditures are found to have risen from 88 to 152 Lev per person per month in urban areas, and from 86 to 114 Lev per person per month in rural areas, contributing to an overall decline in poverty. In urban areas, the inequality of expenditures for households below the poverty line also declined, so that the improved equality of income also contributed to a reduction in urban poverty. In rural areas, however, inequality below the poverty line continued to worsen, even as per capita expenditures recovered. Indeed, the growth component in rural areas accounted for 100 percent of the decline in poverty over the latter period, while worsening inequality between 1997 and 2001 detracted from that improvement by 25 percent (Sahn et al, 2002).

Another interesting conclusion is about the role of home production in household incomes. The research's results indicate that there is marked increase in the value of home consumption across the expenditure quintiles; and the lowest share of home consumption income is in the bottom expenditure quintile. In fact, the rate of increase in home consumption income across the quintiles is more rapid than other major sources of income, such as pensions and wages. By implication, it seems that one of the important characteristics that distinguish the poorest household in rural Bulgaria is their inability to engage in own-account agriculture for their own consumption.

However, in both urban and rural areas, the unemployment rate has nearly doubled between 1995 and 2001. Furthermore, rural unemployment is consistently double than in urban areas. Declines in the share of people working, and increases in the dependency ratio, are somewhat less severe, softened by increasing labor market participation. The analysis indicates that in rural areas, only 24 percent of people older than 15 years were working in 2001. More than one-third of unemployed adult Bulgarians were poor, a far higher percentage than any other labor force status category, including the inactive. In rural areas, 52 percent of unemployed adults were poor. In urban areas, poverty is found to be much lower for workers with one job than it is for the unemployed, but workers that hold a second job (which can include self-employment or agricultural activity) have a poverty rate similar to those with one job. In rural areas, however, while poverty is lower

for those with one job, the difference is not as great as in urban areas and the poverty rate continues to decline considerably for workers with two jobs. The results show that poverty is significantly lower for individual adults holding two jobs than it is for those holding only one, especially in rural areas.

It is interesting that many sectors have higher wages than agriculture. Manufacturing, construction, communications, other production activities, and arts all have wages that are more than 20 percent higher than agriculture, on average and holding all else constant. Only the trade sector has (slightly) lower wages than agriculture, a difference that is not statistically significant, according Sahn and others (2002). Obviously, a much higher share of rural workers are found in agriculture. It is observed that as education increases, so does per capita expenditures. For example, a household whose head has secondary education can expect to have a level of per capita expenditure more than 36 percent greater than a household whose head has not completed primary school. Households that report that the head is female do not have any difference in expenditures than when the head is male.

In the research are given also the coping strategies of the Bulgarian. A common response to a localized shock such as a plant closure is for one or more household members to migrate to a place with higher employment probability, and then to remit money to support his/her family. Urban residents are somewhat more likely to migrate abroad to work, while rural residents are more likely to move to another location within the country. Only 4.3 percent of all people in the 2001 BIHS sample have moved since 1995, and 5.4 percent since 1990, suggesting that migration of entire households is also not a major coping strategy in Bulgaria. Further, it is interesting to note that there is no clear dominance of rural-to-urban flows – significant shares of both urban and rural residents move to rural areas. Thus, unlike other developing countries, rural-to-urban migration does not seem to be an important phenomenon in Bulgaria, particularly when considering the size of the income declines observed in rural areas as Sahn and others proved.

Another way for surviving are the remitters but their monetary values are small, a few Lev per person per month, which amounts to only two or three per cent of expenditures per capita. Note also that rural households are net remitters (senders) rather than net recipients of remittances on average, although this is not true for rural households in the poorest two quintiles. Given the small amounts involved, it is not surprising that remittances have a minor impact on poverty in both urban and rural areas.

The public sector also provides assistance to cope with adverse income shocks. Bulgarians enjoy a host of social insurance benefits, including child allowances, disability pensions, maternity benefits, and transport allowances. The total value of these many benefits, however, is modest, and their poverty impact is consequently limited. For all households, the headcount would be only 0.018 higher in the absence of such social insurance, and even for recipient households, the impact is only 0.044, being twice as high in urban (0.053) as compared to rural (0.023) areas. Pensions are by far the largest transfer payment scheme in Bulgaria, and poverty reducing would be much higher in their absence. Unemployment compensation is designed to soften the blow of job loss, and thus reduces (temporary) poverty. The unemployed are extremely poor even after accounting for their benefits: 41 percent of recipient households nationwide are poor, and 55 percent of recipient households in rural areas are poor (Sahn et al, 2002). That demonstrates that unemployment compensation has a moderate impact on poverty reduction. Nationally, the headcount would be 0.074 higher with unemployment benefits for recipient households, with a stronger effect in urban areas (0.090) than rural (0.053). More striking is the fact that the impact of unemployment benefits on poverty for all households is very small, only 0.002. This is because so few households actually receive unemployment benefits, despite Bulgaria's high unemployment rate.

*Social exclusion*

The National Synthesis Report 1999 *Consultations With the Poor* is a study based on interviews three villages, three small towns and three cities, which are situated in different parts of the country and which are with different ethnic profile. This study revealed the three groups socially excluded in Bulgaria. We refer to the Roma, the disabled and the Pomaks (Muslim Bulgarians), but the situation is worst in the case of the first two groups – Roma and disabled. Roma are segregated, walled off - they live in particular places, in specific neighborhoods, ghettoes, which are literally walled off into something like inner cities with their own infrastructure and local residents say that "we're excluded as if we were lepers, we've been left here to die". As a result of lack of access to jobs, Roma have turned to different types of informal activities - from selling on consignment, trader tourism - suitcase trade, prostitution, drug dealing to crime. Stealing has come to be regarded as a main livelihood, as a job. Thus, at present there is a vicious circle - the Roma no longer deny that they are stealing, but for them stealing is a solution to discrimination in employment. This, in turn, upsets the Bulgarians, who regard Roma as synonymous with "troublemaker," "criminal", "thief," someone who is jobless and does not have a job because s/he has opted for the least-effort strategy. The impacts are increasing discrimination, further isolation, school dropouts, mounting tensions.

The second somehow excluded group is that of Pomaks. The term "Pomak" is perhaps not very appropriate since it is considered pejorative by some; there is a kind of disparaging attitude to the Pomaks on the part of both Bulgarians and ethnic Turks, because they are neither "own" nor "alien" for both groups - they are "in-between." That is why the Pomaks voluntarily exclude themselves from the other two groups and live separately in small communities.

The third group, which is socially excluded, is that of the disabled. If the main problem for the Roma comes from the community - at that, when they are identified as Gypsies, the main problem for the disabled comes from the environment precisely because the community is oblivious to their existence. They are invisible, confined to their homes, hidden from public view, left to cope alone with their problems; excluded from society because it demonstrates its alienation virtually everywhere - the high steps in public places, the absence of elevators, inconvenient transport, rutted roads, even polyclinics that have no conveniences for wheelchairs. Most children have to study at home and everything depends on the parents. If the parents are poor, the solution to the problem is self-evident - the child stays at home without any schooling. At the same time, the disabled are one of the few groups that say that some progress has been made in solving their problems - they claim that the Disabled Persons Act is very good, but the environment remains a problem - this time "environment" in terms of community, no one complies with this law: "this law is too fancy for our community." The second ray of hope comes from NGOs, which are putting their problems on the public agenda, lobbying for them and arranging meetings of disabled people.

## *1.4.b. Hungary*

**Zsuzsa Kapitany**

*Poverty Measurement and Poverty Profile*

At the beginning of 1990s in Hungary not only cross-sectional data were available but also longitudinal databases. Andorka and Spéder presented the earliest results of poverty of the first two waves of the Hungarian Household Panel of Tárki.[6] This longitudinal survey is the only longitudinal survey, which covers the very beginning of the transition process as well as the ongoing transition process in Hungary. Evaluated by the 50

[6] See this pioneer work of Andorka and Spéder (1997) in Ott and Wagner(1997), but you can also find it in several other publications.

percent threshold of mean equivalent income, around 20 percent of the population was poor in 1992 and 1993. As in Western Europe, the elderly are not a population with an extraordinary high risk of poverty, but families with children are a group on high risk. Between 1992 and 1993, around 50 percent of the poor population in the previous year were able to escape out of poverty. This indicates a considerable dynamics in income positions for Hungary, surprisingly comparable with the dynamics of income positions in Western European countries.

In Hungary the self-employed, often thought to be among the "winners" of the transition, had lower poverty rates than the average. The unemployed and farmers were, as in all Central and Eastern countries, more likely to be poor than the average person. Pensioners' likelihood to be poor is about average and workers' households were slightly less likely. The higher the rates of unemployment and, particularly, the higher the share of the long-term unemployed, the greater the poverty. In Hungary, 60 percent of poverty could be attributed to unemployment. In 1993, households with a long-term unemployed member had poverty incidences that were 2.6 and 3.3 times higher than the average. Households with two or more unemployed members were 3.2 and 4.9 times more likely, respectively, to be poor than the average. Households headed by an unemployed person were about 4 times more likely to be poor than the average (Milanovic, 1998).

In later period of transformation of Hungary, poverty still remained one of the most discussed public questions. The paper of Spéder (1998) focuses mainly on the longitudinal aspect of poverty. It describes the development of the poverty figures with the aid of different poverty concepts. The dual (permanent and transitory) nature of poverty was shown with the help of the Hungarian Household Panel of Tárki.

### *Child Well-Being*

Analysing micro-data from household budget surveys in UK and in Hungary, Jarvis and Redmond (1997) compared the characteristics of child poverty in the two countries. Results show that families with children in Hungary are less likely to fall into poverty than their counterparts in the UK. Collins and Redmond (1998), using the same data-sets, calculated poverty headcount assuming seven different poverty lines, and they found that while in UK household size and composition are important determinants of poverty among households with children, in Hungary, poverty among families with children and with pensioners were more associated with education of head of household.

So far no research had focused directly on child poverty in Hungary during the early period of transition, but there was some evidence that children had been at greater risk. Analysis of income inequality based on the Hungarian household panel survey of Tárki (See Andorka and Spéder, 1997) and the investigation by The World Bank (1996) of poverty in Hungary using the official budget survey of CSO show the incidence of poverty rising with the number of children in a household. These studies also draw attention to the situation of children in lone parent families. Results of Galasi (1998) confirm that the position of children has worsened during the transition due to income losses resulting from joblessness, low pay, or less generous child-related and other benefits.

Analysing the movements by children into and out of poverty, with particular focus on seven industrialized countries, the book of Bradbury, Jenkins and Micklewright (eds.) (2001) investigated the same problem whether children are still being left behind in the transition in Hungary.

### *Long-term poverty*

As the study of World Bank (2000) and (2001) argued Hungary was suffering of long term poverty problems even at the end of 1990s. Ferge, Tausz and Darvas (2002) were examining together the properties of long-term poverty, deprivation and social exclusion. Trends of two advanced EU-applicant countries (Hungary and Slovenia) were investigated focusing centrally on the role of social security benefits in assisting poor households. The

authors identified the low level of social income transfers in poor households, including social insurance payments, social assistance and universal benefits. Thus, despite a well-developed social security system with many benefits and high participation rates, the average income of those in this special survey of poor households, in all the different family groups, remains well below the national subsistence minimum. According to a widely shared definition of unemployed (lacking job, actively searching for a new one) 42 percent of these families have at least one unemployed member. The benefits reach only half of the households with unemployed people.

## *1.4.c. Romania*

**Manuela Sofia Stănculescu**

*Poverty Measurement and Poverty Profile*

Among the Romanian scientists involved in poverty assessments there is a consensus that the transition to the market economy determined a process of impoverishment - a general deterioration of living standards, and more and more people exposed to the risk of poverty. The process of impoverishment is not a 'new' one - it started in the 1980s - and during economical reform it has developed, both in its extent and intensity.

In Romania, a large number of books and article are focused on poverty. Since 1995, when the first book on poverty was issued (Zamfir, 1995) a large literature has been developed. As we have already mentioned the World Bank and the UNDP financed various poverty alleviation programs that included few series of researches both at the household and community level. Various methods of poverty assessment have been applied (normative method, relative and relative-country-adjusted method, 'fuzzy' method, the World Bank structural method) and a number of studies were published: UNDP, 1998a; Sandu, 1999; UNDP, 1999a; Chircă and Teşliuc, 1999; Teşliuc and Pop, 1999; Sandu, 2000; Teşliuc, Pop and Teşliuc, 2001; Stănculescu and Berevoescu , 2003; Teşliuc, Pop and Panduru, 2003.

Since 1991, the Research Institute for the Quality of Life (RIQL) has developed two complementary research programs, one aiming to estimate poverty in Romania and the other to design social policies appropriate for fighting poverty in Romania. In 1991, 1993 and 1994, RIQL realized surveys on national representative samples. Complementary studies (rather explorative) have also been carried out at the level of population segments with high risk to poverty (e.g. unemployed, households with large number of children, youth, and Roma). RIQL developed and used the normative absolute method for assessing poverty in early 1990s. According to RIQL estimations the share of households living under the minimum subsistence level decreased from 27.3 percent in 1989 to 18.5 percent in 1990 due to the political measures taken shortly after 1989 - a rise in earnings, the artificial creation of nearly 500,000 jobs, a cut in certain prices. After 1991, absolute poverty "exploded" reaching 51.2 percent of households in 1992, decreasing afterwards to 49.0 percent (March 1993), and 34.9 percent (June 1994). These figures are very close to those estimated, using different methodologies, by UNICEF (1993), Cornia (1994), and Kornai (1996).

In 1997, within the UNDP *Poverty Alleviation Project*, a large team of national and international experts applied and analysed the outcomes of different methods for poverty measurement on the same data provided by the Romanian Integrated Household Survey (IHS) 1995 and 1996 carried out by the National Institute for Statistics (NIS). Large debates and polemics have been carried out in the Romanian academic community related to the most appropriate methodology for measuring poverty and the 'true' incidence of poverty. However, studies after 1997 (UNDP, 1999a based on IHS 1997 data; Tesliuc and Pop, 1999 based on IHS 1995-1997; Chircă and Teşliuc, World Bank, 1999 study on rural poverty based on IHS 1998; Teşliuc, Pop and Teşliuc, 2001 based on

IHS 1995-1998) used similar methodologies - the *NIS version of the relative method* (and the NIS caloric equivalence scale) - and build a 'national expert consensus'.

The *NIS version of the relative method* is in line with the relative poverty concept but introduces also an absolute element in the calculation of the poverty lines. Using the expenditure distribution from 1995 there were determined a superior poverty line that represents 60 percent of the average consumption expenditures per person[7], and an inferior poverty line corresponding to 40 percent. The corresponding thresholds for 1996–1998 were obtained correcting the 1995 values with the price index. Thus, the relative poverty line was practically "frozen" to the value of 1995[8], procedure that made visible the evolution of poverty not only regarding income distribution or inequality, but also concerning its incidence.

According to NIS relative estimates, in the first ten years of transition, poverty turned from a marginal phenomenon into a social problem – from less than 900 thousands poor persons in 1989 to over 7.5 million poor persons (33.8 percent of the overall population, according country-adjusted-relative method) in 1998, of which 2.6 million living in severe poverty and 420 thousands being malnourished (below the threshold of US$ 1 PPP). (Chircă and Teşliuc, 1999)

Here we present in more details only the most recent World Bank study that brings few new methodological elements, "paying particular attention to the comparability of the welfare indicator across time, space and households of different sizes and compositions. Households are ranked from the poorest to the richest based on their real consumption per adult equivalent, an indicator that: (a) includes only commodities not affected by seasonality; (b) uses an empirical equivalence scale that takes into account economies of scale and the relative cost of children over adults; and (c) deflated current expenditures with a robust price index that detects the variation in the living standards across time and areas of residence" (Teşliuc, Pop and Panduru, 2003: 3).

This study is based on two comparable, nationally representative surveys: (i) the Romanian Household Budget Survey (RHBS) for the period 2001-2002; and (ii) the Integrated Household Survey (IHS) for the period 1995-2000 (see Annex). Other dimensions of deprivations have been captured for the year 2002 by using a third survey, namely the Living Conditions Survey (ACOVI).

The most recent World Bank is based on consumption, because "in the NIS household surveys consumption data is collected more reliably than income data. The latter tends to suffer from incomplete measurement (informal income, from farming or small business, are poorly captured in the surveys), underreporting, and seasonality" (Teşliuc et al, 2003: 3). Nevertheless, the consumption aggregate used to rank households is rather "incomplete". Due to data quality and availability constraints (household consumption poorly captured in the household survey and difficulties in finding suitable prices) the welfare indicator includes "only consumption of food, purchases of nonfood and services, and the use value for a small number of durables (…) The ratio of our mean household consumption per capita to the corresponding System of National Accounts estimate is only 42 percent in 2001." (Teşliuc et al, 2003: 6).

Poverty is assessed per adult equivalent consumption basis. The scale of equivalence represents an improvement over other scales used in poverty analysis in Romania, particularly the NIS caloric scale (based solely on the nutritional requirements of individuals, by age and gender). That is to say that the new scale eliminates the bias against women, elderly and rural inhabitants.

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[7] Other two estimations were provided per adult equivalent, using the NIS caloric scale and both standard and revised OECD one.

[8] The selection of year 1995 as calculation base of the poverty line was criticized, being considered as arbitrary, years like 1990 (the transition starting point), 1992 (the beginning of the reforms), and 1996 ("the best" year in terms of macroeconomic performances) being considered better choices. In fact, the option was a pragmatic one taking into account that the IHS data starts only from 1995.

The formula used to determine the number of adult equivalents is: AE = (A+0.5C)^0.9, where A- number of adults in the household, C- number of children in the household.

Three poverty lines are used. The *food line* is determined as the cost of the food consumption of the individuals from the second and third quintile, priced at the unit values faced by this group, with quantities scaled up proportionally to give a caloric intake of 2550 calories[9] per adult per day. The value of the food line is about US$ 27 per adult equivalent per month. The *extreme poverty line* represents the sum between the food line and the amount of non-food and services typically consumed by those whose total consumption equals the food requirement. The value of the extreme poverty line is about US$ 33 per adult equivalent per month. *The total poverty line* is determined by adding to the food line the amount spent on non-food and services by those households whose food consumption equals the food line. Its value is approximately US$ 47 per adult equivalent per month.

Based on this methodology, in the year 2002, the number of poor in Romania was of 1.25 million persons below the food line, 2.44 million persons below the extreme poverty line (cover the food necessities at the level of relatively poor but barely cover the non-food necessities), and 6.47 million persons were below the total poverty line.

In dynamic perspective, poverty steeply increased between 1995 and 2000, since when it has declined. However, this is true only for the total poverty more elastic to economic growth. Indeed, decrease in food poverty and extreme poverty has been much lower.

**Table 6** Poverty dynamics in Romania, 1995-2002

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Persons below food line | 5% | 3% | 6% | 6% | 7% | 7% | 6% | 6% |
| Persons below extreme poverty line | 9% | 6% | 11% | 11% | 13% | 14% | 11% | 11% |
| Persons below total poverty line | 25% | 20% | 30% | 31% | 33% | 36% | 31% | 29% |

Source: Teşliuc, Pop and Panduru, 2003: 18. Data: IHS 1995-2000 and RHBS 2001-2002.

During the entire transition period profile of poverty has remained constant and it has been consistent with the findings presented already in section 1.2. Highest risk of poverty have Roma people, farmers, unemployed persons, and non-farm self-employed, less educated people, households with five members or more, those with three children or more, rural residents, and children. Noteworthy, regarding the employment status the same results are obtained if individuals and not households are considered.

**Table 7** Poverty profile in Romania, 2002

| **Nationality of the household head** | | **Number of children** | | **Area of residence** | |
|---|---|---|---|---|---|
| Romanian | 28 | No children | 24 | Urban | 18 |
| Hungarian | 23 | 1 child | 27 | Rural | 42 |
| Roma | 80 | 2 children | 33 | | |
| Others | 24 | 3 children or more | 64 | | |
| **Status of the household head** | | **Age of individuals** | | **Region** | |
| Employee | 13 | Under 7 years | 42 | North-East | 43 |
| Self-employed (non-farm) | 38 | 7 – 15 years | 41 | South-East | 32 |
| Farmer | 60 | 16- 25 years | 45 | South | 33 |
| Unemployed | 50 | 26 – 35 years | 31 | South-West | 33 |
| Pensioner | 30 | 36 – 45 years | 31 | West | 22 |
| Others | 56 | 46 – 55 years | 30 | North-West | 23 |
| | | 56 – 65 years | 29 | Centre | 23 |
| | | Over 65 years | 32 | Bucharest | 11 |

Source: Teşliuc, Pop and Panduru, 2003. Data: RHBS 2002 data. Per adult equivalent consumption, total poverty.

[9] It conforms to the recommendations of the FAO, OMS, UN Expert Group of Nutrition (1985), as well as to the national requirements (Romanian Ministry of Health, 2002).

On the other hand, members of households headed by employees and pensioners represent altogether 76 percent of the poor from Romania, although employees and pensioners have considerably lower risk to poverty.

Tesliuc, Pop and Panduru verify also the relative role of various household characteristics and endowments in determining poverty status (the logarithm of consumption per capita) using a multivariate regression model. They underline that although variables such as occupation, education, physical assets, geographic location, and household size "do indeed contribute to poverty, the statistical relationships should be interpreted as correlates and not as determinants, since in some instances, causality can run both ways" (Teşliuc et al, 2003: 34). The main findings of the regression model:

- The factors with the largest negative effects are education, followed by ethnicity and unemployment.
- Per adult equivalent consumption is 18 percent higher for a household headed by a person with high-school education, and respectively 60 percent higher for higher-school education (university or equivalent) than a similar household headed by somebody with vocational occupation.
- Between two otherwise similar households, one headed by a Roma ethnic would have a 22 percent lower expected consumption per adult equivalent than one headed by a Romanian during 1997-2000, down to 17 percent lower since 2001.
- When controlling for primary income earners, the discrepancies rural/urban disappear.
- Ceteris paribus (controlling for occupation and household size; such as the number of children), younger families are worst off.

Related to gender-and-poverty relation results of various measures diverge. Relative estimates of poverty indicate female and female-headed households face lower risk of poverty than men. To a large extend, these findings were driven by the assumptions embodies in the particular methodology used to measure poverty: NIS caloric scale of equivalence attribute to women (particularly older women) a smaller coefficient. Consequently, the most recent estimates based on the World Bank absolute method (described above) indicate that at individual level, there are no differences in the incidence of poverty by gender, throughout the period (1995-2002). Female-headed household, however, face higher risk of poverty compared to males, due to the higher share of mono-parental households and old widows living on low survivorship pensions that are found in this category. Overall, the share of female headed-household in total or extreme poverty is 21 percent. The relative risk of poverty between female and male-headed households dropped continuously during 1995-2002, with the steepest reduction occurring in 2002.

### *Long-term Poverty*

Three correlated characteristics of poverty in Romania has been verified by subsequent studies based on different methods (NIS relative, WB absolute):

1. In Romania, poverty has high elasticity to GDP variations.
2. In Romania, poverty is rather "shalow", most of the poor are clustered not far below the poverty line.
3. In Romania, much of poverty is transient and not permanent.

The poverty in Romania is mostly temporary. Analysis of poverty dynamics has been performed IHS rotating panel sub-sample 3,000 households during 1995–1997 (Teşliuc and Pop, 1999; Teşliuc, Pop and Teşliuc, 2001; Teşliuc, Pop and Panduru, 2003). Bothe relative and absolute methods of measuring poverty were used. These studies revealed the much of poverty in Romania is temporary. Authors categorized the entire population in four groups:

a. "never poor" between 1995 and 1997;

b. "permanent poor" during the period;

c. "transient poor" represent people who exited from poverty in good year, 1996, but re-entered in bad year, 1997;

d. "atypical poor" include people who either fell in poverty in good years or exited poverty in recession year.

Thus, poverty categories combine exit/entry from poverty with the national economic performance (1996 – rise in GDP, and 1997 – decline in GDP). Regardless the method used to asses poverty about 60 percent of all poor are transient. Nevertheless, almost one in every five poor people is in permanent poverty. The balance, of about a fifth of the poor people is "atypical", either economic growth does not "save" them from poverty or they succeed exit poverty even in years when GDP declines.

**Table 8** Entry into and exit from poverty (percent of population), Romania 1995-1997

| | Non-poor | Permanent poor | Transient poor | Atypical poor |
|---|---|---|---|---|
| a) NIS relative method | 63.6 | 6.5 | 22.1 | 7.8 |
| b) WB absolute method | 56.1 | 9.6 | 25.6 | 8.6 |

Sources: a) Teşliuc and Pop, 1999: 191 and b) Teşliuc, Pop and Panduru, 2003: 19.

Estimations done in 2003 show that extremely low levels of permanent poverty are noted for the employee-headed households (3.3 percent of relevant population). Such households seem to be able to restore their consumption above the poverty level in one or two years after the income shock. In contrast, a large proportion of the self-employed (22.7 percent) or farmer-headed (28.4 percent of relevant population) households bear their poverty stigma year after year. The incidence of permanent poverty of unemployed- and pensioner-headed households is medium, of 13.6 percent, and 10.1 percent respectively. Thus, poor households headed by employees, pensioners and even unemployed are more able to exit from poverty than the others, notably the farmer- or self-employed-headed households. Worthwhile, estimations based on the relative approach provided much higher risk to permanent poverty for unemployed and much lower for pensioners (comparable with that of employees'). Thus, at least regarding these two social groups results are highly sensitive to the method used for poverty measurement.

### *Poor Nutrition and Starvation*

The share of food expenditure in the Romanian household budget continued to increase during 1995-2000, to slightly decrease thereafter still remaining to some 60 percent. All of studies of poverty in Romania showed that on average, the poor spend a larger fraction of their income on food, consistent with the Engel's Law.

Despite the larger proportion of food expenditure in total household expenditure, the food consumption (quantity per person per month) of poor households is considerably lower compared to the one of the non-poor, particularly for expensive items such as meat, meat products, milk products, eggs, sugar and sugar products, vegetable and fruits. Overall, poor households caloric in-take is 75 percent lower than the one of non-poor households. Poor households average caloric in-take represents 86 percent of OMS standard for Romania (2425 calories) (NIS, HIS 1995-1997 data in UNDP, 1999a).

**Table 9** Ratio between food consumption (mean quantity per person per month by food item) of poor and non-poor households, Romania 1997

| | Non-poor/poor ratio | Richest 10 percent/ poorest 10 percent ratio $\frac{D_{10}}{D_1}$ | Poorest 10 percent/ Total ratio $\frac{D_1}{Total}$ |
|---|---|---|---|
| Bread and similar products | 1.161 | 1.261 | 0.862 |
| Fresh meat | 1.743 | 2.867 | 0.558 |
| Meat products | 1.699 | 2.622 | 0.602 |
| Fish and fish products | 1.384 | 1.936 | 0.737 |
| Milk | 1.539 | 2.201 | 0.618 |
| Cheese and cream | 1.743 | 2.855 | 0.538 |
| Eggs | 1.498 | 2.046 | 0.644 |
| Sugar | 1.426 | 1.934 | 0.684 |
| Potatoes | 1.195 | 1.430 | 0.847 |
| Vegetables and vegetable products | 1.522 | 2.153 | 0.647 |
| Fruits | 1.984 | 3.622 | 0.481 |
| Alcohol beverages | 2.484 | 5.871 | 0.382 |

Source: UNDP, 1999a. NIS estimates based on IHS data 1997.

Moreover, destitute from poor zones analyzed by Stanculescu and Berevoescu (2003) have even more distorted food consumption (which makes up more than 85 percent of the household total expenditure). Regardless they are from urban or rural areas, regardless region (in Romania regional disparities in food consumption patterns are considerable), daily menu of people in extreme poverty (consumption-poor, no dwelling owner-ship, assets-poor) consists invariable in "potatoes, onion, and *ciorba*[10]". Children eat first ("otherwise they whip and make a lot of noise") and adults (especially the mother) eat leftovers. As for their wishes, all declared the same food products - meat and fish, fruits and sweets – that they afford at most once at two months. Consequently, most of them report hunger.

**Table 10** Poor-zones-poor that report hunger (percent of households), Romania 2001

| | Poor zones from rural areas | | | Poor zones from urban areas | | |
|---|---|---|---|---|---|---|
| | Extreme poverty | Generalized crisis | Total | Extreme poverty | Generalized crisis | Total |
| Hunger on a regular basis | 53,6% | 45,5% | 29,3% | 63,8% | 59,0% | 40,1% |
| Hunger, occasionally | 21,4% | 40,9% | 31,6% | 21,2% | 16,8% | 19,2% |
| Never hunger | 25,0% | 13,6% | 39,1% | 15,0% | 24,3% | 40,7% |

Source: Stanculescu and Berevoescu, 2003. Report that in the last year (2001) "have no food and at least one household member has been hungry".

### *Rural Poverty*

Consumption of the rural households is determined by the household stocks of capital. The result was confirmed both for the total household expenditures (Sandu, 1999b) and for the total household consumption per adult equivalent (Chircă and Teşliuc, 1999). Both cited studies used IHS data for 1996 and applied multilevel models combining household with community characteristics. Among the household characteristics, only the following factors resulted to be highly influential: adult members' education, number of employees, number of pensioners, cattle stock, and the surface of owned land (hectares). Factors at the community level proved also to be significant in determining the rural household

[10] Sour vegetable soup.

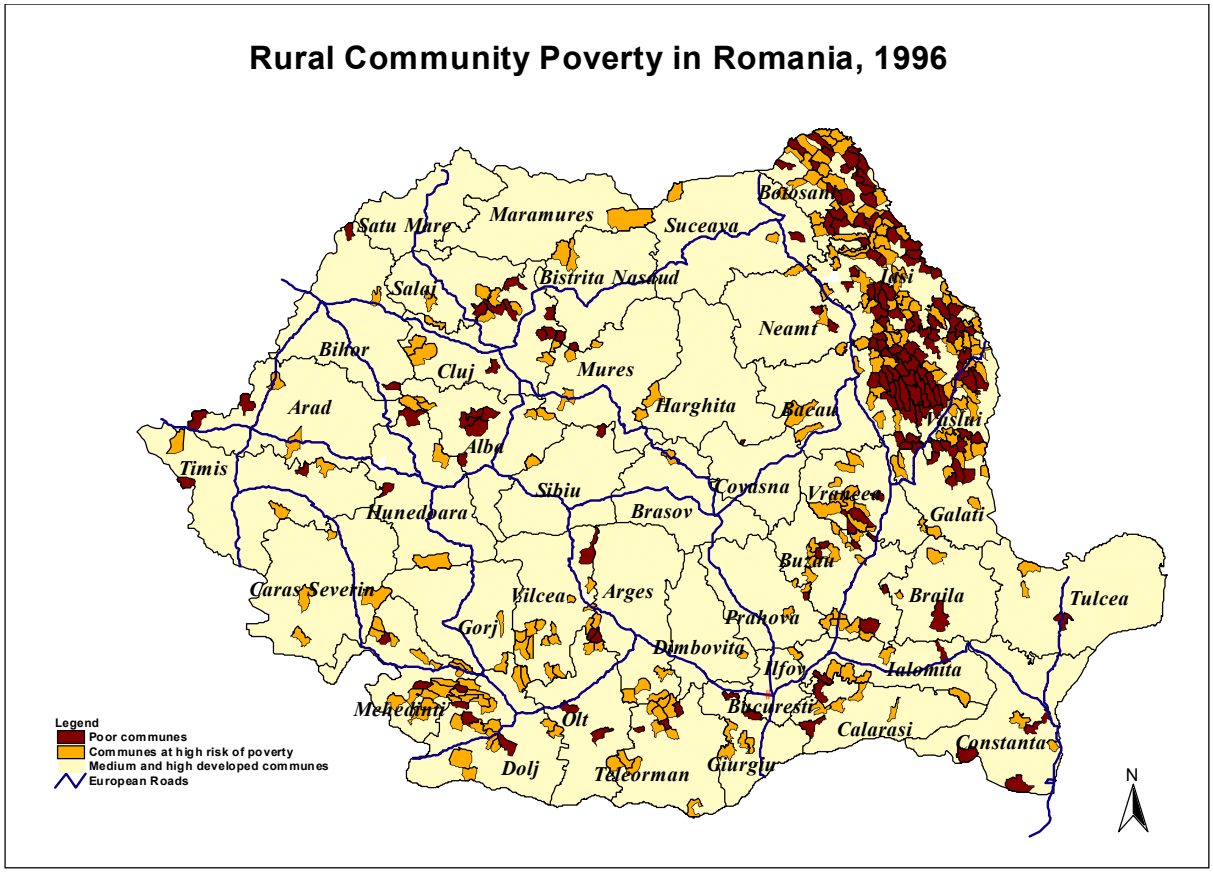
consumption. Thus, for two households otherwise similar one located in a commune nearby to a large city, from a developed county, and with a low infant mortality, and the other located in a remote commune, from an underdeveloped county, and with high infant mortality, the consumption of the first household would be significantly higher compared to the consumption of the second. The explanation stays in higher access of the first to the urban peasant markets, thus larger opportunities to sell their agricultural products. (Chircă and Teşliuc, 1999: 53-66)

According Sandu (1999b: 57), "rural consumption poverty is maximum in households made up only of farmers, with a low level of education, widowed or divorced women-headed, orientated in particular towards cereal cultivation, and with small plots of land." The author tested also the importance of the community characteristics. Besides the three indicators above mentioned - county development level, location of the commune nearby/far away from city, and infant mortality – the author used three more indicators related to the type of commune (dummy, 1-plain based commune), and to the social infrastructure, namely number of physicians and of teaching staff to thousand inhabitants. All these variables were found significant factors regarding the level of the rural household consumption. The author underlines that all these community indicators reflect in fact the "community poverty", therefore in the rural area the highest probability is to found "poor people in poor communities", and not "poor people in rich communities". This is evidence in favor of concentration of rural poverty in certain areas.

### *Rural Community Poverty*

In 1997-98 within a World Bank study were drawn for the first time in Romania a set of rural poverty maps. The community poverty has been defined as "high probability of low consumption at the level of a community" (Sandu, 1998: 4). All of the communes in the country were classified according to a *community development index* determined based on a set of eleven criteria grouped in the following six dimensions: the population composition; poverty and socio-demographic phenomena; housing conditions; the presence of modern equipment in the household; livestock development; and urban accessibility. Using these six previous indices, the community development index was determined as factor score. The data sources were 1992 Census and the territorial-administrative data from the Locality File (NIS database) for 1994, thus data aggregated at the commune or county level. The poor communes were considered the 20 percent of the communes with the lowest values of the community development index in the country. The younger the population, the lower the percentage of agricultural self-employed in the commune employment, the higher the proportion of people who graduated highschool, and the higher the share of arable land in the total surface of the commune, the higher the development level of the commune. Furthermore, poor communes are characterized by high rate of infant mortality, out-migration, and birth rate.

The rural community poverty has been also assessed from a different perspective within UNDP study from 1999. Two indexes of community poverty, one cause-type and the other effect-type, have been constructed using proxy variables at the level of the commune for the factors proved to be explanatory for the household poverty. The poor commune was defined as the commune where both causes and effects of poverty are manifest (in the lowest 10 percent of the both indexes). Thus, by definition, a poor commune has a high demographic dependence rate, a low endowment with infrastructure, a low education capital, a high share of population working in agriculture, high birth rate, and high out-migration rate. 137 Romanian communes have been identified to be in the community poverty situation.




Source: Stănculescu and Berevoescu, in UNDP, 1999a. Dark spots represent poor communes. Brown spots represent communes with "high risk to community poverty", namely those that obtained scores in the lowest quintile of both indexes. Data from Locality File 1996, NIS.

Using 1997 data a team of NIS and the Institute for National Economy elaborated a regional synthetic poverty index based on a set of 23 indicators. According to this index, also 137 communes were identified as poor, of which two thirds were located in the North-East region (*National Human Development Report*, Ionete et al, 1999: 44). The results of the above-presented UNDP map were also largely confirmed by a subsequent World Bank study (Sandu, 2000) that used 1998 data, disaggregated at the village level.

Community poverty assessment has embedded some artificiality. Every commune is a cluster of villages among which some are richer and some are poorer, thus to speak about commune poverty implies some artificiality. Further, every village is a cluster of households among which some are richer and some are poorer, thus village poverty is also to some degree a statistical artefact. Furthermore, every household is sometimes a cluster of families and always a cluster of persons about which we do not know the power structure, the habits, the interaction patterns, their life projects or their strategy.

Therefore, all these poverty maps may easily be challenged and strongly criticized, but beyond their limits, some common results are worthwhile to be mention.

According to all these poverty maps there are regions dominated by generalized rural community poverty. Overall the map shows a "poverty arc", which parallels the Carpathian Mountains. In the North-East part of the country, rural community poverty seems to cover the whole territory, while in the Central regions there are only isolated islands of poor communes.

Moldavia (North-East) region accumulates the most extensive and deepest poverty, and the lowest human capital. This region has an extremely poor infrastructure and housing

conditions, and a low degree of urbanization (45.5 percent in 2000). (Sandu, 1999a) Also, in this region live the largest share of the Romanian "losers" from employment point of view (people who lost job and retreat in agriculture or people who never entered the official labour market but make a living in subsistence agriculture) (Dăianu, 2001a). At the other extreme are Bucharest and the Transylvania region.

Most poor communes are at large distances from larger cities. Since the private non-agricultural sector is virtually nonexistent, agriculture is the main means of livelihood in these communes. Community poverty also has a peripheral character. That is to say, poor communes are mostly grouped along country and county borders; poor villages have also a peripheral nature within the commune to which they belong (Sandu, 2000). Thus, the unbalanced policy and the distorted distribution of administrative and budgetary resources are also causes of the rural poverty.

The most recent community poverty assessment was issued in 2003 based on data from the Living Conditions Survey (ACOVI, NIS, 2002). Teşliuc, Pop and Panduru (2003) define community poverty as "availability of publicly provided services within a community", where "a public service is not available if at least 80 percent of the households in a primary sampling unit reported so". The public services refer to post-office, health center, pharmacy, cultural hall or playground. In addition, it is taken into consideration the perceived security of the neighborhood and the quality of roads in the area. Each dimension is assessed separately. From this perspective, community poverty is lower than that of consumption poverty (rate of total poverty), except for pharmacy and playground in the rural areas. Rural areas are affected mostly by lack of access to services and infrastructure, while urban areas are affected mostly by perceived insecurity.

### *Child Well-Being*

Child at risk in the new context of transition was the focus of various international reports, mostly developed with the support of UNICEF (such as Zamfir, Pop and Zamfir, 1994, Zamfir et al, 1997, UNICEF and NIS, 2001). All these reports present in-depths analysis of child situation in Romania. In all reports, besides the reiteration of children's high risk of poverty is stressed the dramatic risk of children from large families, particularly because "that cannot be explained by the simple accumulation of needs associated with each additional child, but through a complex of poverty factors – low education level, lack of qualification, one-wage family" (Zamfir et al, 1997: 27). In addition, in-depth analysis of the main phenomenon that have developed after 1990 and put children at risk – child abandonment, intercountry adoption, child abuse domestically and at school, juvenile delinquency, children in institution, disabled children, children HIV/AIDS infected (in Romania they make up the majority of registered cases), street children, but also the polarization trend of education opportunities – are presented.

### *Poverty and Ethnicity*

Ethnicity is a strong correlate of poverty in Romania during transition, the Roma[11] poverty growing and deepening faster and at a larger scope than for the whole population, or for other ethnic groups. Both the incidence and the depth of poverty of the Roma population is significantly higher than for the other ethic groups: the Roma poverty headcount is about 80 percent and the Roma consumption expenditures represent only about 60 percent of the poverty line.

[11] There are more than 17 ethnic groups living in Romanian, among which the biggest three are: Romanians (89.5 percent), Hungarians (6.6 percent) and Roma (2.5 percent). (*Population and Dwellings Census 2002*, NIS)

In order to understand the specificity of Roma poverty various researches were carried out: two national surveys[12] (Zamfir and Zamfir, 1993, and Zamfir and Preda, 2002), a survey at the level of a county with large number of Roma population (RIQL, *Roma from Buzău County*, Simu, coord., 1997), and a series of community studies (Preda, 1993, Cace, 1998; Şerban, 1998; Homm et al, 1999; Sandu and Stănculescu, 1999).

The Roma situation has worsened immediately after 1990. By the year 1992, 63 percent of the Roma families were in absolute poverty and another 18 percent had a total income bigger than the subsistence minimum but not enough for a decent life. The families mostly affected by poverty are those with many children, hence it is Roma children who are most affected by poverty. (Zamfir and Zamfir, 1993).

Typical for Roma is the extended family with a large dependency rate. The average number of people in the Roma families was 6.7 persons in 1992, and respectively 5.6 persons in 1998, which is approximately double as the national average (Berevoescu, 2002).

The level of illiteracy is extremely high, 18 percent of adult Roma men and 28 percent of adult women do not know to read. Only some five percent of Roma adults have attended high school or college. Only about a half of 7-18 year-old children are enrolled in school. Correlated, the level of professional qualification is extremely low.

In the last 50 years the traditional trades were greatly discouraged by the former socialist regime and thus have disappeared among most of the Roma population. The largest proportion of the adult (over 16 years) Roma population in the 1992 sample declared that they had no trade, either traditional or modern: 58 percent of men and 85 percent of women. Only 7 percent of Roma adult men, and 14 percent of the older generation, practiced traditional trades, and only 35 percent of adult men practiced modern trades. Other minor opportunities traditionally exploited by the Roma such as buying empty bottles, paper or scrap metal and returning them for refunding or selling clothes are time-consuming, poorly rewarded, extremely unstable, and are not covered by the social security system. These activities reinforce marginality and poverty of the Roma population, as well as negative ethnic stereotypes, fuelling the hostility of the rest of the population (Zamfir and Preda, 2002).

Lack of qualification combined with discriminatory stereotypes - Roma are "the last to be hired and the first to be fired" - caused a very precarious employment situation. Thus, in 1992, 23 percent of Roma persons over 16 years were employees (mainly unskilled workers), 1 percent employers, 22 percent self-employed, only 5 percent pensioners, and 47 percent were jobless, but only 3 percent received unemployment benefits. In 1998, the share of employees was even smaller, namely 13 percent of total Roma population over 16 years. Consequently, the unemployment in the Roma population is considerably higher and it is mostly chronic. (Cace, 2002)

The land was reinstated in accordance with the ownership structure that existed before the formation of the socialist agricultural cooperatives. As a result, the present poverty that is land related reproduces the old poverty, particularly for Roma population (Sandu and Stănculescu, 1999). Not only that most of them own surfaces of arable land smaller than half of hectare, but they claim that due to the discriminatory restitution procedure applied by the local authorities the land received is in bad positions and it is lower quality and consequently worthless to be worked. On the other hand, according to the local authorities some of the Roma people, particularly the poor, sold part of the land and most of them do not use to work it.

The Roma families' income is reduced mainly by three factors. Firstly, the very small share of active age persons who are employed combined with the fact that most women do not work, or earn only insignificant amounts from occasional jobs, mostly in

[12] In 1992, the RIQL and the Bucharest University – Department of Social Work (Zamfir, coord.), UNICEF financed. In 1998, the RIQL did a second national survey (Zamfir and Preda, coord.), financed by The Open Society Foundation.

agriculture. Secondly, the large number of children per family and lastly the small number of old people who get pensions. However, most retired Roma people benefit of low-level pensions due to their former occupation either in agriculture or as unskilled workers. Therefore, most Roma households end up relying on child allowance and irregular, low-level informal incomes. Consequently, their life style becomes distorted and the children are socialized in it. Thus the pattern of informal, unskilled and occasional activities seems to be in the Roma case a mechanism that favours the self-reproduction of the human capital deficit and entraps in poverty the family for generations.

### *Post-Socialist Underclass Concentrated in Ghetto-like Areas*

Based on the 1998 RIQL Roma national survey, Preda (2002) analysed the specific characteristics of Roma's social exclusion in Romania. In the theoretical frame developed by Berghman (1996) and Room (1996), the author distinguishes the "cause-forms" of social exclusion (that determine other forms of exclusion) by "effect-forms" (that result from other forms of exclusion). Accordingly, he identifies as specific to the Roma population (from Romania) four cause-forms of exclusion, namely:

- lack of identity documents: lack of any identity documents (3.1 percent of the total Roma population), and lack of identity card although they have the eligibility age (14 years) and have birth certificate (5.7 percent of Roma population);
- lack of education: 24 percent (of Roma 10 years or over who no longer attend school) never went to school;
- lack of official marriage: 39 percent of married Roma are consensual unions.
- lack of job: did not work at all during 1997-1998 (52 percent of Roma 14 years or over who no longer attend school).

Each of these forms of social exclusion is analysed, and effect-forms of social exclusion are identified such as exclusion from housing, children exclusion from education (mainly due to lack of birth certificates but also to cultural traits), exclusion from the welfare system, location in poor communities that have little to offer as support in critical situation. The article conclusion is that the situation of Roma population from Romania is so critical that the concept of social exclusion would need revisiting; while in Western Europe unemployment represents the most serious form of social exclusion, for Roma population in Romania lack of identity papers is the most critical one, because it determines all other forms of exclusion (Preda, 2002: 301).

In 2001, within a World Bank study (Stănculescu and Berevoescu, 2003b), RIQL carried out a research based on a different approach to poverty, namely the western literature on territorial concentration of the "new urban poverty" (Mingione, 1996) and on "underclass", "ghetto-poor" (in Myrdal's, Wilson's, and Gans', sense) or "social exclusion" (Room, 1996). The study covered 19 localities (eleven cities, small, medium and large, and eight villages, either developed or poor) and the capital city (Bucharest). The research included few stages: 1. identification of the intra-locality areas that concentrate poor people; 2. survey in the identified areas; 3. interviews with poor people and also with institutional local representatives. Thus, the sample of 1,164 households (including 4,427 persons) is biased, being representatives only at the level of studied areas and not at the locality, residential or national level.

The study operates with the concepts of *extreme poverty* and *poor zones*. The authors show that in Romania has been already formed four types of *poor zones* that cumulate: 1. more than a half of the residents in households below the national poverty line (in fact, more than 40 percent of the residents live below the national food line); 2. miserable housing condition; 3. high unemployment and underemployment (in fact, about a half of the residents, mainly men, work in insecure, low-paid, manual jobs in the informal sector of the economy); 4. welfare dependency (mainly high incidence of child benefits and low-level not-work-related pensions); 5. large share of single-parent families; 6. over-representation of the Roma ethnic minority (about 30 percent of the residents); 7. high

delinquency; 8. negative prestige. The four types of poor zones developed in the Romanian cities are:

- *garbage pit* (communities of improvised shelters next to the city garbage pit, most residents living from refunded scrap metal) pretty similar to the French *bidonville*,
- *historical center* (neighborhoods of state-owned houses, nationalized in the socialist regime, transformed after 1990 in social housing),
- *ghetto* (former workers' hostels that used to belong to the socialist enterprises), and the *disaffected industrial neighborhoods* (blocks of flats built at the city periphery used to be inhabited by the families of workers to a socialist enterprise that was closed down). The last two types of poor zones are quite similar to the French *cite* or the American *ghetto*.

In Romania, poor zones are specific to urban areas and their inhabitants are in proportion of 60 percent children (0-14 years) and young (15-29 years). According rough estimations of these authors about 3 percent of the urban population represent poor-zones-poor.

Stănculescu and Berevoescu (2003b) define as extremely poor those households that cumulate three characteristics: 1. total consumption per adult equivalent below the national total poverty line (World Bank methodology, Teşliuc et al, 2003); 2. do not own the dwelling; 3. endowment with durable goods at the level of the poorest quintile in the residence area. All computations were breakdown by residential area. The analysis of the determinants of the extreme poverty takes into consideration the demographic factors (age, ethnic affiliation, household characteristics), employment, incomes and consumption, housing, household assets, education, and social networks. The logistic regression model identifies education of the adult members of the household and the occupational composition of the household as the most significant factors in determining the state of extreme poverty.

## *1.4.d. Slovenia*

**Tine Stanovnik**

### *Poverty Measurement and Poverty Profile*

Erika Žnidaršič (2000) analysed poverty incidence based on the HES, taking as a poverty threshold 50% of the average median household expenditures, Her analysis has shown a decrease in poverty incidence: in 1993 some 13.6 percent of all households had equivalent expenditures less than the poverty threshold, whereas in 1997/98 11.2 percent of all households had equivalent expenditures less than the poverty threshold. Single elderly households and couple elderly households with at least one member older than 65 years had a high poverty incidence in 1997/98 (23.1 percent and 20.2 percent, respectively). High poverty incidence was also recorded among households without economically active persons (the poverty rate was 21.4 percent), households in which pensions and households in which social transfers were the main income source (18.5 percent and 30.2 percent, respectively). With regard to housing tenure status, high poverty incidence was recorded among households - tenants in non-profit or social housing (23.6 percent). Households where the head of household is a person with primary education or less also have a high poverty incidence (22.8 percent).

Poverty incidence was also explored by Stropnik and Stanovnik (2002). Though they used the same data source - the Household Expenditure Surveys, they used household current monetary income as a measure of "command over resources" and the ordinary OECD equivalence scale. While the use of different equivalence scales does definitely influence the composition of households whose equivalent income (or equivalent

expenditure) is below the poverty threshold, the results of their study are in broad agreement with the study performed by Žnidaršič.

**Table 11** Poverty incidence in Slovenia: 1993 and 1997-1999 (persons, %)

| Poverty threshold as percentage of median | All persons | | Pensioners | | Unemployed | | Children aged 18 and under | | Persons aged 60 and over | |
|---|---|---|---|---|---|---|---|---|---|---|
| household equivalent income | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 | 1993 | 1997-99 |
| 40 | 3.7 | 4.2 | 3.8 | 3.3 | 13.6 | 23.6 | 4.2 | 4.8 | 7.3 | 5.3 |
| 50 | 7.1 | 8.0 | 8.7 | 5.7 | 22.5 | 35.5 | 7.4 | 9.4 | 14.1 | 10.0 |
| 60 | 12.9 | 13.9 | 16.3 | 11.5 | 33.5 | 48.3 | 13.2 | 16.7 | 25.0 | 17.6 |
| 70 | 20.6 | 21.1 | 23.2 | 19.4 | 45.5 | 63.1 | 21.5 | 24.6 | 33.6 | 28.4 |

Sources: Stropnik and Stanovnik, 2002. Data: HES 1993 and 1997-1999.

As seen from Table 11, the unemployed have an extremely high poverty incidence. Thus, in 1997-1999, 23.6 percent of all unemployed lived in households whose equivalent income was less than 40 percent of the median equivalent household income. An above average poverty incidence is also characteristic for the elderly. Though their income position has improved during the transition period: in 1997-1999, 17.6 percent of all persons aged 60 and over lived in households whose equivalent income was less than 60 percent of the median household equivalent income.

### *Social Exclusion*

Most analyses of poverty in Slovenia were confined to the narrower concept of income poverty. In other words, the broader concepts of social exclusion and deprivation are rarely the subject of thorough empirical research. The two more recent published empirical research on social exclusion are by Trbanc (1996a and 1996b). Her first study *Social exclusion: the concept and data indicating social exclusion in Slovenia* distinguishes several spheres of disadvantages and exclusion (housing disadvantage, low access to services in resident environment, educational disadvantage, consumption disadvantage, employment/work exclusion and interpersonal isolation). She analyses whether disadvantages are correlated with certain socioeconomic characteristics of the respondent. Respondents with cumulative disadvantages and exclusions in four or more spheres were highly represented among the elderly, persons with primary school (or less), farmers and unemployed, persons living alone or in extended families and persons living in small localities (with less than 500 people).

## *1.5 Review of literature on inequality by country:*

## *1.5.a. Bulgaria*

**Silvyia Nikolova**

### *Income Inequality and Income Structure*

Hassan, Kyle and Peters (1995) analyzed the structure of income in Bulgaria using data from the 1992 Bulgarian HBS. They identified who the poor are and how they are reached by the social safety net. Their findings do not contrast very much with the displayed above results of Noncheva (1997). Because of the lack of comprehensive consumption data for 1992, the analysis is made on income only. Nevertheless, the authors stressed that total consumption would be the best indicator of the income distribution and poverty

in Bulgaria because it reflects not only current total household income but also past savings, windfalls and expectations of future income.

In 1992, 40 percent of average household income in Bulgaria was derived from wages and salaries, excluding the wage component in self-employment income and royalties. Self-employment, including incomes from sales of farm produce and in-kind income, accounted for more than 30 percent of household income. Social insurance accounted for 24 percent of household income. Out of this, children's allowances accounted for 2 percent. Property income and social benefits each account for only negligible proportions of household income. Pensions alone account for about 21 percent. Bulgaria's aging population, the sure sign retirements during the transition and the recent generous provisions for early retirement have pushed the number of pensioners up to nearly 2,5 million or 29 percent of the population in 1992. This led to a rapid increase in expenditure on pensions, reaching 8.4 percent of GDP in 1992. The rapid increase in the number of pensioners, coupled with Bulgaria's fiscal situation, has led to serious erosion in the real value of a pension. The erosion in the real pension has hurt those who are forced to depend almost entirely on pensions for their livelihood. This has particularly adversely affected women.

To facilitate comparisons with other countries Hassan, Kyle and Peters (1995) consolidate the sources of income into four major types of income: 1. wages and salaries, 2. social transfers, 3. self-employment income, and 4. other income. The analysis showed that the wage income were less important in Bulgaria than in other Eastern European countries, and only about one half of the level of OECD countries. Bulgarians' self-employment income made up a very large share of total income, far larger than both other East European countries and the OECD. The social transfers were roughly on par with other Eastern European countries. On the other hand, lower income groups depend for more than half of their income on social insurance benefits, particularly pensions. As household income increases, the proportion of wages and salaries rises, as do self-employment earnings. In-kind income also rise with household income, constituting about 30 percent of income for the average household, but only 16 percent for low-income households. This fact was interpreted by the authors as the primary factor behind the higher incomes in rural areas compared to urban areas.

The bottom 20 percent of households in 1992 were older-head of households average 58 years compared to 55 for the entire sample; nearly two-thirds were economically inactive, mostly retired; and, they were poorly educated, as half of them have no more than a primary education. They were also more likely to be headed by a female 31 percent compared to 20 percent of all households; nearly one-third was female-headed households compared to a sample average of 20 percent. The head of the household was more likely to be unemployed – 7 percent of heads of poor households were unemployed compared to a sample average of only 2.7 percent. Poor households were found to have average 3 members, exactly the same size as all sample households. In fact, middle income households (4th to 8th decile) actually had larger household size with more children than low-income households. The conclusion has challenged Noncheva (1997) on the same data. The analysis indicates hat the share of female-headed households is significantly higher among low-income households compared to the national average — they constitute 31 percent of the lowest quintile compared.

Hassan and others' (1995) analysis indicates important differences in the characteristics of low-income households between female-headed households and male-headed households. In 1992, female-headed households were smaller, older and more economically inactive, primarily they are pensioners. In contrast, male-headed households were larger than female-headed households. Unemployment and low wage employment seem to be more important determining factors in the income status of male-headed households.

*Wage/earnings inequality and gender*

Given the emphasis on wage leveling in pre-transition Bulgaria, the rise in wage inequality may be due, on other the hand, to managers' rewarding more productive workers; or it may be the result of rewarding non-economic characteristics such as gender. Using HBS data from the 1995, Jolliffe (2001) examines in his study whether gender discrimination is an important factor determining the gap in wages between men and women and the extent to which gender discrimination affects wage inequality.

The ability of firm managers to reward those workers who are more productive is an essential aspect of the market economy. If it is the case that the transition to a market economy results in more productive workers receiving greater pay, then one should expect to see an increase in wage inequality. Along with the ability to reward more productive workers, though, also comes the freedom to penalize or reward workers for reasons not related to economic performance. If firm managers used their increased freedom to set wages in a way that penalized workers for non-economic characteristics (for example, gender), then this could explain the increase in wage inequality observed in Bulgaria as well. The purpose of this paper is to estimate a model of wage determination in Bulgaria or that men and women with the same levels of education, experience, and other economically relevant factors receive different pay. To focus on working age adults, Jolliffe drops 2,491 persons from the sample who are less than 17 years of age or greater than 65 years of age.

Education levels in Bulgaria have historically been quite high with enrollment rates for primary and middle schools on par with (or better than) West European countries. In addition to successful enrollment rates, the Bulgarian schooling system was also characterized as providing girls access to the same opportunities as boys. The data support the claim of similar access to schooling opportunities with education outcomes that are quite similar across gender.

A rejection of the null hypothesis that the pay structure for men and women is the same is evidence of gender discrimination, or that men and women with the same levels of education, experience, and other economically relevant factors receive different pay. After testing for discrimination, the observed male-female wage gap is decomposed into two components: that which results from male-female differences in economic characteristics, such as education and that which results from different pay structures, or discrimination.

Jolliffe's model of semiparametric regression results show that male wages are about 25 percent greater than female wages. An Oaxaca decomposition of this differential displays that differences in economic characteristics, such as education, experience, or sector of employment, explain very little of this wage differential. Largely this is because there is a history of equal access to education and employment opportunities in Bulgaria. The large majority of this wage differential is explained by what is typically referred to as discriminatory practices. This difference is explained by the difference in the wage structures for men and women, or how men and women are rewarded differently for the same economic characteristic. Similarly, if women were paid according to the male wage schedule, the level of wage inequality would decline significantly. In considering the log of predicted wages, the Gini coefficient declines by 18 percent when female wages are predicted using the male wage structure.

The author estimates the wage and selection models for men and women separately as well as for the combined sample. For all three models, the non-wage income variables and/or the family composition variables are significant. In the case of the combined sample of men and women, the number of children in the family up to four years of age is negative and significant suggesting that increased number of children decreases an adult's ability to engage in the wage sector. The results for men differ in that the family composition variables have no effect on their decision to participate in the wage sector, but increased levels on non-wage income for the family reduces the men's hours in wage labor. In particular, remittance and social benefit income both have negative effects (of

similar magnitude) and both are significant (Dean Jolliffe, 2001). In the case of women, young children (zero to four years of age) have a large and significant negative effect on participation while mid-aged children (five to 14 years of age) have a positive effect. This finding suggests that women reduce their wage participation hours to tend to young children, and mid-aged children free up some of the time demands placed on women allowing them to work more in the wage sector. Women's participation in the wage sector is also affected by non-wage income. Rents from real estate have a negative and significant effect, while increased levels of social benefits has a counter intuitive positive effect. The point estimate on the female dummy suggests that women's wages are 18 percent lower than men's wages even after controlling for schooling, type of secondary school, experience, sector of employment, and region of residence. In terms of experience and education, though, women receive greater returns (as a percent of their wages) from experience and secondary schooling. The rate of return to an additional year of secondary schooling for women is 8,1 percent in contrast to 4.9 percent for men. The observed difference in the log of the means is equal to 0.22, or the average male salary is 25 percent greater than the average female salary.

Giddings (2001) also worked on this topic and made a survey about the changes in gender earnings differentials in Bulgaria's transition. This study relies on 1986 and 1993 Bulgarian cross-sectional household surveys and examines evidence of a decrease in gender earnings differentials in the country's transition to a market economy. Women's gains in the early transition are due to both changes in the relative returns to skill and changes in the composition of demand for goods and services. With as many years of education as men, women are more likely to have obtained more general secondary and university degrees than men — degrees experiencing increased remuneration in the transition.

In particular, the Giddings' analysis distinguishes between the portion of the decreased gender earnings gap caused by factors that are "group-specific" from the component caused by changes in the structure of wages. Where "group-specific" factors represent the degree to which differences in skills between men and women or group differences in industry participation contribute to the decline in the earnings gap. "Wage-structure" factors describe the institutional context in which wages are determined, and consist of the portion of the gap explained by changes in skill prices (such as returns to education or returns to working in a particular industry), and changes in the overall level of inequality in an economy.

The analysis indicates that men and women obtained nearly the same number of years of schooling in 1986 with women obtaining slightly more on average by 1993 (11,24 years versus 10,96 years). Women also began to close the gap in labor market experience in the early transition (from a difference of 12 percent in 1986 to 4 percent in 1993). This evidence points to a decline in the gender earnings gap, indicating that group-specific effects play a strong role in the decline in the gender earnings differential (Giddings, 2001). In both years men are much more likely than women to receive primary, technical and vocational degrees. Women, in contrast, are more likely in both years to obtain a general secondary or university level education. The mean values for "University" indicate that nearly 14 percent of women versus nearly 12 percent of men obtained an university degree in 1986.

In addition to education and experience, systematic differences between men and women in industry participation may explain some of the falls in the gender earnings gap. The commerce and service industries experienced the most growth in employment in the early transition. In contrast, manufacturing, construction, agriculture, public administration, and communications saw a decline in overall employment in the early transition. In absolute terms women continued to be more likely than men to be employed in the growth industries in both 1986 and 1993. In terms of employment trends, men entered the growth industries at a faster rate than women indicating that men may overtake women in the growth industries.

Women were also over-represented in growing industries like commerce and services, although men are moving into these industries at a faster rate. Changing returns to education, and industry also served to improve the relative economic position of women in the early transition. In contrast to these positive trends, increased inequality between the rich and the poor penalized those in the low-end of the wage distribution, which were more likely to be women than men (Giddings, 2001).

A negative "observed characteristics effect" indicates that changes in the differences between men and women in observable characteristics such as the number of years of schooling or the industry in which men or women tend to participate served to diminish the gender earnings gap. In other words, additional years of schooling, for example, benefited women and improved their relative earnings. Similarly, a negative "observed prices effect" indicates that changes in returns to these characteristics benefited women over men, diminishing the gender earnings gap. A negative "gap" effect signifies women's movement up the distribution of male earnings — an indication of their improvement in terms of relative earnings.

The last components, "unobserved prices effect" served to increase the gender earnings gap. This factor is closely tied with changes in inequality in the wage structure. Changes in the overall level of inequality in the economy penalized those at the low-end of the earnings distribution, and women tend to be at the low end of the earnings distribution. Changes in "group-specific factors" helped women whereas changes in "wage-structure factors" hurt women. On net, however, the group-specific factors outweighed the negative wage-structure effect, resulting in an improvement in women's relative earnings as Giddings (2001) proved. Further, none of the remaining difference between male and female earnings are explained by what is sometimes referred to as "discrimination" (the gap effect plus the unobserved prices effect).

Disaggregating the "observed characteristics" effect into its component parts in the "full model" shows that the educational degree obtained and industry of employment contributed to the decline in the earnings gap, particularly differences between men and women in vocational and general secondary education. These two factors constitute approximately 22 percent of the observed characteristics effect.

The increase in overall inequality in the Bulgarian earnings distribution in the early transition hurt women and limited their gains made from improved characteristics and returns to those characteristics. Assuming price changes in the transition affect men and women similarly, rising inequality in the transition reclaimed some of the gains women made but the gains in terms of improved characteristics and prices in the transition are large enough to cause the gender earnings gap to fall. In the face of increased earnings inequality in the transition, women were able to "swim upstream" by improving their education and employment situation in terms of both observed characteristics and observed prices. On net, however, the gains they had made outweighed the losses from increased inequality.

### *Inequality and Redistribution*

Hassan, Kyle and Peters (1995) studied also to what extent poor people are reached by the social safety net. According these authors, in 1992 in Bulgaria, one-third of the social assistance reached the poorest households, while the other two-thirds went to better-off households. These results was valid both for urban and rural areas. Overall, the conclusion of this paper is that in 1992 the social safety net was not-well targeted in Bulgaria. While most social benefits were pro-poor, in the sense that they improved income distribution, a significant amount of these benefits accrued to the well-off.

Unemployment compensation and pensions are strongly pro-poor for low-income households. While social benefits are largely pro-poor, the analysis indicates that these benefits are not well targeted. For all of the major social benefits, middle-income households receive more than half of all benefits. For child allowances, nearly 70 percent of the benefits accrue to middle-income households reflecting the demographics of

Bulgarian households discussed earlier. High-income households (the upper quintile of households) receive a significant proportion of all social benefits.

Bulgaria's aging population, the sure sign retirements during the transition and the recent generous provisions for early retirement have pushed the number of pensioners up to nearly 2,5 million or 29 percent of the population in 1992. This led to a rapid increase in expenditure on pensions, reaching 8.4 percent of GDP in 1992. The rapid increase in the number of pensioners, coupled with Bulgaria's fiscal situation, has led to serious erosion in the real value of a pension. The erosion in the real pension has hurt those who are forced to depend almost entirely on pensions for their livelihood. This has particularly adversely affected women. In terms of distribution, pensions are evenly distributed across all income deciles. Low-income households receive a slightly higher share (22 percent) than their population share; high-income households also receive 20 percent of total pensions. This leads to the conclusion that the rich as well as the poor benefit equally from the current pension scheme. The dilemma for the poor is that they are almost totally dependent on pensions for their livelihood.

The analyses made by Hassan, Kyle and Perets shows also that less than 20 percent of child benefits accrue to low-income households. This, again, reflects the older age of low-income households and the lack of correlation between household size and income status. As middle to higher income households actually have more children than lower income households, public spending on child allowances favors the well-off. The poor (the bottom 20 percent of households) receive nearly 30 percent of total unemployment benefits. As with the other social benefits, a substantial portion of unemployment benefits accrue to middle- and high-income households.

Bulgaria's system of cash transfers (both social insurance and social assistance) was re-examined within the report of the World Bank (1999a). The conclusion was the same, "the system of cash transfers as currently structured, is unable to satisfactorily fulfill either an income replacement or a poverty relief function". In practical terms, while the incidence of cash transfers is higher among the poor, and the average benefit received (with the exception of pensions) is higher for poor than non-poor households, cash transfers are relatively a small share of total household expenditure. They have relatively small impact on poverty: only about a third of (ex-ante) poor households are moved out of poverty as a result of social benefits. This can be explained by a combination of factors: low incidence; low benefit levels; and, to an extent, poor targeting (over a third of households receiving various forms of social assistance, and 58 percent of those receiving child allowances are not poor before the receipt of the benefit). Turning to in-kind transfers can be seen that on the one hand education spending are more or less equally distributed across the population, with the poor benefiting mostly from spending on kindergartens and basic education and on the other hand that health spending favor the rich. This is because the bulk of public health spending occurs on hospitals, which tend to be used less frequently by the poor.

In 1996, Bogetic and Hassan made an investigation of the distribution of income and of the income tax burden by income and expenditure class and by rural-urban sector in Bulgaria. The study is also based on the 1992 HBS. To account for variation in the household size, the authors use for their analysis the annual household income per capita.

In Bulgaria only the cash incomes are subject to taxation, although in-kind income accounts for about 24 percent of household income and is counted as a part of income. To assess the effect that such an inclusion might have on income levels and income distribution, the authors made adjustments to income as defined by the survey. First, sales of property are excluded, as they do not belong to income. Second, contrary to the NSI definition of income, personal borrowing, savings withdrawal etc., are also excluded. Theoretically, one should include income that would be received if the assets were rented - rather than sold - in the market place instead of being used by the owner. Altering the definition of income leads only to a change in the level of household income per capita. None of the adjustments mentioned above significantly affects the deciles shares or

income inequality as both adjustments result in a very small change in the shares of all income groups. These results indicate that asset sales were, in general, evenly distributed across the population, and not highly concentrated in any income group. Income distribution is measured by groups (decile, quintiles etc.) ranking households by their income/consumption expenditure. Using the 1992 household survey, average household income per capita is estimated at about US$ 709. The average household income per capita in the rural sector is about US$ 808, which is 26 percent higher than the urban average (about US$ 637). For each income decile, rural household income is higher than urban one. The difference in income levels between the two sectors is statistically significant (Bogetic and Hassan, 1995).

Bogetic and Hassan found that the Gini coefficient in Bulgaria in 1992 was 25.8 percent. The rich (top decile) receive nearly 22 percent of total income, a share that exceeds their population share by more than 50 percent. In contrast, the poor (the bottom 20 percent) receive less than 10 percent of total income, i.e., a share that falls short of their population share by about 50 percent. Bogetic and Hassan used and another way of viewing the concentration of income in the upper income groups - the decile distribution ratio calculated as the share of the bottom 40 percent in relation to the share of the top 20 percent. The decile distribution ratio is 0.66, indicating that the poorest 40 percent of households earn only two thirds of the earnings of the top quintile. While income levels vary significantly between urban and rural areas, both the analysis of income shares by decile and Gini coefficients indicate that there is no significant difference between them in terms of income distribution. The income inequality is not significantly different between urban and rural areas, fact that is unusual for countries at Bulgaria's level of income. Low-income households display markedly lower income tax than higher-income households. For the bottom income decile this ratio is 1.4 percent. Also the poor (lowest two deciles) pay a similar ratio. For instance, the rich (top income decile) pay more than four times higher effective income tax rate than the poor. The rich (highest expenditure decile) devotes 7.2 percent of outlays to income tax, or more than four times the amount paid by the poor. These results suggest that the present income tax system with marginal rates ranging from 20 percent to 52 percent is very progressive. The exclusion of in-kind income/expenditure eliminates much of the share income (expenditure) of the poor from taxation, increasing the progressivity. Urban households pay 5.3 percent of their per capita income in income tax, whereas the rural sector pays less than half that amount.

On the other hand, Hassan and Bogetic assess the distributional impact of income tax at the national, urban and rural level, by posing the question whether the poor and other lower income classes pay a smaller share of total income tax than their share of national income. In such a case the income tax systems is judged to be pro-poor, as it reduces income inequality. Poor as well as the lower middle income groups (up to the 6th income decile) pay a smaller share of income tax than their share of national income. While the poor (bottom two decile) pay about 3.2 percent of total income tax (or less than one third of their income share), the top income class share of tax is 31.3 percent (or more than 50 percent of their income share). This leads to the outcome that the current income tax system contributes significantly to reducing income inequality. Urban households are found to pay smaller share of their total taxes paid than rural households. This applies to the rural poor (the lowest two deciles) and urban poor as well. This conclusion confirms the insignificant difference in the income distribution between urban and rural sector. In sum the current income tax system seems to be progressive and urban bias and to contribute significantly to reduce overall and sectoral (urban-rural) income inequality.

The distributional pattern of the tax burden remains unchanged when household per capita expenditure rather than per capita income is used as a base for calculating the effective tax rates. For example, urban households pay 5.3 percent of their per capita income in income tax, whereas the rural sector pays 2.4 percent (or less than half the urban amount). This urban rural disparity in income tax burden cuts across income as well as expenditure classes. It should be noted that the exclusion of in-kind

income/expenditure from taxation reduces tax burden estimates, particularly in rural areas where in-kind income/expenditure is more common. The progressivity and urban bias in Bulgaria, however, must be viewed cautiously since it is obvious that as in-kind income becomes monetized, and the economy more market oriented, both progressivity and urban/rural difference will be substantially reduced over time.

## *1.5.b. Hungary*

**Zsuzsa Kapitany**

### *Income Inequality*

Many investigations focused on earning inequalities in Hungary over the last years, or, in a wider context, on income inequalities of Hungarian households.[13]

Kattuman and Redmond (2001) investigated the non-panel HBS data to examine income inequality in Hungary between 1987 and 1996. Their analysis showed a sharp increase in income inequalities between 1991 and 1993, followed by a little growth between 1993 and 1996.

Medgyesi, Szívós and Tóth (2000) publishes a time series of Gini coefficients embracing the whole of the period from 1991/2 till 1998/99. Their data are computed with reference to the period 1991/2 and 1996/7 on the basis of the surveys of the HHP, then on the basis of two TÁRKI Hungarian Household Monitor surveys separate from each other and from the panel. The inequality computations of Kapitány and Molnár (2002) with the Rotation Panel for 1993-6 give results very similar to Kattuman and Redmond (2001) and Rutkowski (2001), however – mainly for 1997/8 – yield results that differ from that of Medgyesi, Szivós and Tóth (2000) in many respects. According to Kapitány and Molnár (2002), the process showed by Kattuman and Redmond (2001) and Rutkowski (2001) was continued after 1996, during the 1996-98 period the inequality was more or less stabilized and equalized by different kinds of social transfers.

### *Earnings Mobility*

Rutkowski (2001), using the Hungarian household panel survey (1991/2-1996/7) of Tárki, finds that five-year earnings mobility in Hungary in the early years of the transition was significantly higher than in OECD countries. However, there are signs that the mobility rate has begun to decline. At the beginning of the transition process the pattern of earnings mobility had a significant equalising effect: low earners were raised up while high earners were level down. However, mobility was taking place against a backdrop of the fall in real wages and therefore in most cases it implied the worsening of the absolute earnings status. In contrast to most OECD countries, in Hungary the low paid workers have little chances to move up the earnings ladder.

Galasi (1998) using the same data set of Tárki also demonstrated the income mobility increase and introduced that it was significant but declined in intensity.

Numerous studies conducted during the past twenty years show that in many countries of the Western world the inequality of earnings as well as of household incomes has increased. The studies analysing the income and expenditure pattern of Eastern and Central European households in the early 1990s revealed that the inequalities had increased while the mobility of income and expenditure had also grown.[14] Virtually every country experienced a sharp economic contraction and increased unemployment and

13 E.g. Galasi (1998), Heinrich (1998, 1999), Milanovic (1999), Pudney (1994), Spéder (1998), Fábián, Róbert and Szivós (1999), Redmond and Kattuman (2001).
14 See the comprehensive works of Atkinson and Micklewright (1992), Atkinson, Rainwater and Smeeding (1995), Flemming and Micklewright (1999), Milanovic (1998, 1999), Andorka, Ferge and Tóth (1997) and Förster and Tóth (1997).

poverty, but the detailed analysis can show huge differences. The very informative and instructive book of Braithwaite, Grootaert and Milanovic(1999) using household surveys for six countries (Bulgaria, Hungary, Poland, Estonia, Kyrgyz Republic, Russia) has all of the problems of researches interested in international comparability. For example, the different length of the recall periods for income and expenditure variables can significantly affect the measured inequality: longer recall periods show less inequality and less poverty. The percentage of the population with per capita expenditure below two thirds of the mean (this definition was used by the book) may reflect inequality more than poverty. Low rates of this kind of poverty may mean lower inequality and relatively equal distribution of expenditures in the three EE countries than in the three FSU countries, and reveals almost nothing about the impact of the growth on poverty and the valuation of the different poverty programs of these countries. While it could make sense to use each government's poverty line when we analysing poverty measures and poverty programs, but it would also make the international comparison very problematical.

The studies analysing the income and the expenditure of households in Hungary during the 1990s relied on two large, comprehensive databases: the household statistics of the Central Statistical Office (CSO), and the Hungarian Household Panel (HHP) survey of TÁRKI. Many studies and articles used TÁRKI's HHP database.[15] Probably due to its not being a panel, the database of CSO's Household Budget Survey (HBS) was less frequently used for measuring income inequalities and for tracking their changes in time.[16]

TÁRKI's HHP study focusing primarily on gathering income data was closed in 1997. Since that time no panel data of the Hungarian households have been collected. Hence the primary aim of Kapitány and Molnár (2002) was to establish a panel database for the period between 1993-5 and 1996-8 on the bases of CSO HBS[17]. This database is named Hungarian Rotation Household Panel (shortly: Rotation Panel) referring to the method of its creation. The results of the analyses carried out prior to this research unanimously showed that the income inequalities had increased during the first period of the transition in the early 1990s. According to TÁRKI studies[18], after a stagnation and slight increase in the middle of the decade, income inequalities grew significantly again from 1996. However, the calculations using the Rotation Panel did not support these findings.

As the 1995 stabilisation program took place in the middle of the period under review, Kapitány and Molnár intended to create a set of tools to enable them to accurately describe the impacts of such short term but drastic and complex phenomena as a stabilisation program. That is why, focusing on Hungary, the study examined the inequalities and mobility together, analysing the development of the mobility in a way that is somewhat different from the usual approach by modifying the method of transition matrices. The stabilisation package in early 1995 went hand in hand with the reduction of the real value of various social transfers, primarily through inflation. That is why rising wage inequalities between 1994 and 1996 appears in the inequality of households' incomes without the counter-effect of other factors. With the successful conclusion of the stability measures, 1997 saw the economy back on track, and pensions rose again in real value, while the real value of wages in the broad sense still dropped by nearly 5 percent. Also the temporary reduction of inequality resulted from the increase of personal social incomes other than pension. In 1996-98 the income inequalities of Hungarian households stabilised rather than further rising. The gentle rise and the subsequent stabilisation of inequality took place besides a major and universal shrinking of real incomes and real expenditures.

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15 Förster, Szivós and Tóth (1999), Galasi (1998), Habich and Spéder (1999), Heinrich (1999), Medgyesi, Szivós and Tóth (2000), Rutkowski (2001), Lokshin and Ravallion (2000), Sik and Tóth (1997), Spéder (1998), Tóth, Andorka, Förster and Spéder (1994).

16 Collins and Redmond (1997), Kattuman and Redmond (1997, 2001), Pudney (1994), Redmond and Kattuman (2001).

17 On the panels between 1993-5, see Kapitány, Keszthelyiné Rédei and Molnár (1999).

18 See Medgyesi, Szivós and Tóth (2000).

The investigation of the trends of inequalities of both incomes and expenditures reflects that the 1995 stabilisation shock was over by 1997 concerning the households' incomes and expenditures. The behaviour of inequalities makes the fact likely that there are persistent differences in income and expenditure positions. The question is whether the stagnation of income inequality in 1996-8 results from the fact that positions more or less frozen, and chances of the individual households to move higher on the income/expenditure social ladder shrank to a minimum.

A characteristic deficiency of the traditional 'transition matrices' method from the point of view of income/expenditure mobility is that it treats changes of very different dimensions in the same way. Therefore, Kapitány and Molnár (2002) adopt a different approach when examining mobility and immobility, and look at the extent of relative changes of position. They name the value thus received the *relative position* of the person in question. Summing up the results they concluded that relative mobility decreased on aggregate. However, the beginning of the growth together with the stagnation of inequalities resulted in sinking mobility, especially in the case of the most affluent. But these processes took place beside decreasing real incomes and expenditures, so in relative terms the poor in 1997 were much poorer than those in 1993.

For the sake of comparability of relative and absolute changes they selected the upper limit of the first quintile in 1993 as the poverty line, and the upper limit of the first decile as the extra poverty line. To 1993 standards, in 1997 nearly half of the population could be said to be poor. Considering the threshold for the 1993 extra poverty line then, the situation was even worse because in 1996 three times as many persons failed to reach that income level as in 1993. A similar situation prevails in the case of expenditure, even though there the rise is somewhat more modest.

A particularly important issue is the share of the poor all through the investigated period. Between 1993 and 1995 over half (11%) of those belonging to the first income quintile in 1993 could not move above the line in any of those years. Between 1996 and 1998 they obtain much higher shares: 26% are permanently below the poverty line. So between 1996 and 1998 there is a much higher share of those who have always been below the relevant poverty line than those whose income remained below this line in 1993.

They also established that the mobility of stock of durables definitely decreased during the periods under review. The relationship between inequalities and mobility, however, fastens asset positions which renders some households unable to improve their positions on the short term.

Further analysis is required to determine whether or not a longer term growth can increase the upward mobility of the poor. With relatively low and decreasing mobility measures we cannot expect a significant decrease in inequalities in the future. Kapitány and Molnár (2002) results suggest that while there was a general and accelerating restructuring of income and expenditure positions of households in the early phase of the transition, this process slowed down and was coming to a halt at the end of the 1990s.

### *Inequality and Redistribution*

The World Bank (1996), examining trends in poverty in Hungary during the early transition period and assessing the distribution of poverty in 1993 among households with different socio-economic and demographic characteristics, introduced the effectiveness of Hungary's system of cash transfer programs in lifting people out of poverty and providing a safety net for those who remain poor.

At the beginning of the 1990s a widely held view was, in all of the transition economies, that the inequality increased in almost all transition countries, just the exact shape of this change differed among countries. But the components of income and the income shares in some countries (Hungary, Slovakia, Slovenia) barely changed at all. In these countries the effects of different welfare supports on poverty was fairly large. In some very detailed analyses (See Andorka, Ferge and Tóth, 1997; Förster and Tóth, 1997; Förster,

Szivós and Tóth, 1999) the connections between welfare expenditures, poverty and income inequality were shown. Four provisions of the welfare support system were covered by the latest study: pensions, family allowances, unemployment benefits and social assistance. In the period 1992-6 the amount devoted to these four provisions taken together rose by 70 percent. With regard to real value, e.g. family allowances and unemployment benefits suffered significant losses, falling to less than half. As disposable incomes increased more rapidly in nominal terms, and fell less in real terms, than the share of the financial provisions in the total disposable income decreased. While in 1992 the four provisions made up 23 percent of disposable income, by 1996 this proportion had fallen to 19 percent. These structural changes were signs for changing the measure of poverty at that time. The share of persons below the poverty threshold of 1992 increased substantially in the next six years. The poverty gap-ratio, which indicator gives the 'depth' of poverty, was approximately 30 percent in these years using different threshold values based on the data of the Hungarian Household Panel of Tárki. This value was higher than the one indicated by the World Bank report in 1996, which used the HBS of CSO. Not surprisingly, as we know that this panel (despite of all its limitation) is still capable of catching a wider brand of income distribution than is the HBS of CSO. As conclusions, in Hungary the relative level of total social expenditures increased in the first years of the transition. Then, in 1995, the austerity package of the government further contributed to the decrease of relative social expenditure shares.

The paper of Hancock and Pudney (1997) examined the welfare of pensioners over the early transition period 1987-93. Using the Hungarian HBS to analyse the growth of poverty among the pensioner population, they compared their growing poverty with strongly growing poverty of two other groups: households with children and households affected by unemployment. They described the Hungarian pension system in detail, and demonstrated the tendency towards compression of the pensioner income distribution towards low income.

Also the poverty and income inequality among pensioners was the main interest of Heinrich (1998), just before the introduction of pension reform in Hungary. He found that the old system was expensive but that it provided effective - but not efficient - poverty relief. Gál and at all (1999) were dealing with the Hungarian old-age security prior to the 1998 reform, and compared the advantages and disadvantages of the different pension system in Central-Eastern Europe. Sipos and Tóth (1998) provided a very useful overview of the changes in family policies and social assistance and their impact on poverty allocation in Hungary. This study attempted to evaluate the effects of the new 1995 austerity measures on family policies. The 1995 reform of family policies was based upon a cost-and-fairness argument, however, the new measures produced new types of problems and unfair features.

The paper of Ferge and Tausz (2002) first reviews the social policy orientation of the governments elected since the transition. The paper next shows what reform meant in the case of the different instruments and various fields of social policy, namely unemployment, health, pensions, family benefits and social assistance. It concludes that while both the inherited and the newly created social systems had contributed to alleviate the shocks of the transition in Hungary, yet there never was enough political will to give sufficient or adequate help to those who are really needed that. The welfare gap between East and West has thereby grown. The consequence is that the country has become gravely divided, and that poverty is greater and deeper than it might have been under a different set of policies.

## *1.5.c. Romania*

**Manuela Sofia Stănculescu**

*Income Inequality and Income Structure*

In the first six years of transition, the (per adult equivalent) consumption based Gini index rose from 21 in 1989 to 31 in 1995, since when it has stabilized in the range 28-30, alike in the other transitional countries of Central and Eastern Europe.

**Table 12** Consumption based (per adult equivalent) Gini index, Romania 1989-2002

| Year | 1989 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 2000 | 2002* |
|---|---|---|---|---|---|---|---|---|---|
| Romania | 21 | 23 | 30 | 31 | 30 | 28 | 30 | 28 | 29 |

Source: Teşliuc, Pop, Teşliuc, 2001, and *Teşliuc, Pop, Panduru, 2003. Estimations based on IHS 1995-2000 and RHBS 2002.

The situation is nevertheless fragile as long as does not result from income stabilisation but it is a result of re-agrarization; the monetary incomes have been substituted with non-monetary ones (home grown products), which has gained increasingly share in the total household consumption (from 13.5 percent in 1989 to 32 percent in 1997 and in 2000, with 14 percent for urban households and 49 percent for rural ones, IHS data, NIS). In the absence of non-monetary incomes inequality would have been approximately 38 (Teşliuc, Pop, Teşliuc, 2001).

Income based Gini index has also sharply increased between 1989 and 2001, in Romania considerably more than in Hungary or Slovenia.

The distance between the richest and the poor tend to increase: the income of the households in the highest decile is 12 times larger than the income of those in the lowest decile; the income of the richest five percent of the households is 16 times larger then the income of the poorest ten percent (Zamfir, 2001: 23).

Stănculescu and Ilie (2001[19]) showed that irrespective of the economic standard, in 1998, 68 percent of the households in Romania earned cash incomes in the informal sector (23 percent) and/or products from agriculture (61 percent). Those in severe poverty rely more on cash informal income, since they own land in significantly lower proportion and, consequently, have lower access to the subsistence farming niche, and also most of them are unskilled and thus have limited access to the official job market. At the other extreme, the richest households own property and include highly qualified people and consequently they develop improving informal activities or informal businesses with high informal returns. The households with medium economic standard represent the largest share of those involved in informal activities. Most of these households develop informal additional activities (such as farming but also qualified trades, professional services or temporary work abroad) in order to complete their formal incomes and to improve their standard of living. This study revealed that combining subsistence farming with informal cash activities has represented the most effective economic strategy in saving households from poverty since, within the group of households pursuing this strategy, these additional incomes diminishes six times the share of severely poor households. Nevertheless, as expected the adding of informal and formal incomes results in a remarkable deepening of income inequality, the Gini index

19 The analysis includes only incomes obtained from "grey" activities and not the "black" ones. Social Problems, Living Standard and Informal Economy, 1998, RIQL database, N=1,150. The methodology used to assess poverty is the NIS version of the relative method adapted for Romania.

increasing 1.5 times. Thus, informal income (particularly cash ones) contributes to the gap between the poorest and the richest: the rich become richer, while the poor manage to meet only basic necessities.

In a subsequent study, Ilie (2002) based on the same survey data examined to what extent various types of income (formal and informal) contributes the total incomes of the households ordered by decile/quintile. Her results are presented in the table below.

**Table 13** Income structure by level of income (percent of total households income in the group), Romania 1998

| Type of income | Decile 1<br>Poorest 10 percent | Decile 2 | Quintile 2 | Quintile 3 | Quintile 4 | Decile 9 | Decile 10<br>Richest 10 percent | Total |
|---|---|---|---|---|---|---|---|---|
| Formal work | 19.3 | 33.2 | 34.5 | 44.8 | 43.9 | 52.6 | 55.2 | 40.7 |
| Formal transfers, of which: | 43.2 | 30.8 | 29.5 | 27.2 | 22.8 | 16.2 | 8.3 | 25.9 |
| - Pension rights | 19.2 | 21.8 | 23.8 | 23.1 | 20.4 | 14.2 | 6.6 | 20.0 |
| - Child allowances | 15.1 | 4.9 | 3.2 | 1.9 | 1.3 | 0.7 | 0.6 | 3.4 |
| - Unemployment benefits | 6.4 | 3.2 | 1.7 | 1.4 | 0.7 | 0.9 | 0.6 | 1.9 |
| Cash informal work | 11.8 | 7.6 | 7.3 | 3.3 | 6.2 | 5.5 | 19.9 | 7.9 |
| Informal transfers | 2.7 | 0.9 | 0.8 | 0.5 | 1.7 | 1.7 | 2.4 | 1.4 |
| Self-production in-kind | 20.7 | 24.8 | 26.6 | 22.6 | 24.8 | 23.2 | 14.1 | 23.1 |
| Total | 97.7 | 97.3 | 98.7 | 98.5 | 99.4 | 99.2 | 99.9 | 99.0 |
| Not declared by source | 2.3 | 2.6 | 1.3 | 1.5 | 0.5 | 0.8 | 0.1 | 1.0 |

Source: Ilie, 2002: 180. Data: *Social Problems, Living Standard and Informal Economy*, 1998, RIQL database, N=1,150.
Notes: Formal work includes wages (from main or second job), profit from business. Formal transfers equal cash social transfers. Cash informal work refers to self-employed, occasional income, income from selling agricultural products, income from rented spaces and shares. Informal transfers equal intra-households help. Self-production is home production consumed in the household.

As expected, income from formal work and those from social transfers work in opposite direction: share of formal work incomes increases with the increase of total income, while cash social transfers decreases with the increase of total income. On the other hand, cash informal incomes reach the minimum on the middle of the income distribution, and have a significant contribution to the total income of the poorest and the richest. Ilie (2002) concludes that the distribution of formal and informal incomes points to the polarizing effects on incomes of the informal incomes.

Teşliuc et al (2003) throughout the period 1995-2002 (IHS data) without using the informal/formal income distinction confirm Ilie's findings. First to observe is the stability of the income structure by income groups. The most important difference in the income structure of the rich and poor households (classified by quintile or by poverty status) is due to the size and share of the wage income in total household income: for the richest quintile wages has accounted 60 percent of their income, compared to only 20 percent for the poorest quintile. The poorest tend to depend more on subsistence agriculture, self-employment and other social protection programs than pensions. The people in the third and fourth quintile obtain the largest share of pension income. Additional, they present also results broken down by residential areas. In this respect, rural residents earn on average substantially less wage income, and more agricultural income (especially from subsistence agriculture). They also depend more on other social protection programs than pensions. On the other hand, rural households spend less on services and bear lower tax burden.

Inequality between rich and poor has been also addressed with respect to discrepancies in access to public services. Access to public facilities, such as schooling, transport,

health, communication, are also inequitable, favouring high-income groups and leaving the low-income groups with little or without. The expenditures per person related to human capital (health care, culture and education) are three times smaller in the poor households (Q1) than in the non-poor ones (Q2-Q5). The richest 10 percent households spend per person six times more on health care services and medicines, and 12 times more on culture and education than the poorest 10 percent households. The expenditures of poor households for housing, durable goods, transportation or communications are about four time smaller than those of non-poor households. The richest 10 percent households spend 14 times more on housing and 18 times more on transportation and communications than the poorest 10 percent. (NIS, IHS 1997 data, in UNDP, 1999a) All these are evidences of the inequality in life chances between poor and the others, pointing to a developing social polarization process.

### *Inequality and Redistribution*

Two comprehensive studies of system of cash transfers and taxes in Romania have been undertaken within World Bank projects (Dhanji et al, 1999, Tesliuc and Pop, 1999 and Tesliuc, Pop and Tesliuc, 2001). The first study covers the period 1995-1997 and the second 1995-1998 (IHS data). Each type of cash transfer is analyzed on three dimensions: coverage, targeting and effectiveness. Most cash transfers programs in Romania do not seek high coverage of poor, but are rather "specialized" in some poverty risks. The results of both studies show that the system of cash social transfers reduces considerably poverty. The pre-transfer (but pension) poverty headcount of 30.4 percent decreases post-transfer to 25.3 percent of population in 1995; corresponding values for 1998 were 40.3 (pre-transfer) to 33.8 percent (post-transfer). When pensions are included the pre-transfer headcount index was of 45.3 percent in 1995, respectively 52.3 percent in 1998.

Out of all cash programs, excluding pension, child allowance and the unemployment benefit have the largest impact on poverty alleviation. Between 1995 and 1996, unemployment benefits reduced the pre-transfer (but pension) headcount by 5-6 percent, and child allowance by 6-7 percent. In 1997, the upward adjustment in the child allowance resulted in an increased contribution of this instrument in poverty alleviation. Overall, the Romanian safety net has a good pro-poor targeting (except scholarships and some merit based benefits), but the coverage of the poor is, except for child allowance, modest.

With respect to the redistribution impact, the abovementioned authors examined the impact of the fiscal and budgetary system on households, by estimating the net flows between the household and governmental sectors, by consumption decile (before all transfers except pension per adult equivalent), poverty status and area of residence. The benefits that flow from Government to households include cash benefits, entitlements and social assistance, and in-kind benefits like health-care (as share of patients that used public dispensaries and polyclinics – primary health, and hospital days – secondary health) and education services. Flows from households to Government consist in taxes and contribution.

Like in many other countries in Romania lower-level education goes primarily to low-income households, while university education does not. Use of public secondary health care facilities is rather uniformly distributed across deciles, while the rich use public primary health care disproportionately. From households, the Government collects in taxes 189 percent of the net tax, redistributing 89 percentage points of it from the four richest deciles to the three poorest decile. Most of this redistribution occurs to the first (58 percentage points out of 89) and second (21 percentage points out of 89). In aggregate, the Government levies from households the equivalent of 52 percent of their consumption, and transfers back 46 percent of the same consumption figure.

Based on the net flows to Government (taxes minus transfers) plus concentration coefficients for social transfers, all authors concluded: "the Romanian welfare system is highly redistributive".

## *1.5.d. Slovenia*

**Tine Stanovnik**

*Income Inequality and Income Structure*

Somewhat surprisingly, in spite of the fact that the Household Expenditure Survey is the most expensive survey performed by the Statistical Office of Slovenia, it is in many respects underutilized. Thus, more recent research results based on these surveys have been published by Stanovnik, Stropnik and Prinz (2000), Stropnik and Stanovnik (2002), Kump and Stanovnik (2003) and Stanovnik and Verbic (2003); research which concludes with 1993 is presented in Stanovnik and Stropnik (1998) and Stanovnik and Stropnik (2000).

These analyses strictly adhered to the concept of current monetary disposable income, which includes earnings, income from self-employment, pensions, other social transfers, income from capital and property rights and intra-family monetary gifts and transfers. This income concept obviously does not include some income sources such as income in-kind, savings withdrawal, loans received etc, which constitute an important share of total (comprehensive) income in some countries of Central and Eastern Europe. Equivalent scales that have been used in this research have evolved through time. Most of research studies used the "ordinary" OECD equivalence scale (first adult=1, other adults=0.7, child=0.5), whereas the more recent research paper – by Kump and Stanovnik (2003) - uses the modified OECD equivalence scale (first adult=1, other adults=0.5, child=0.3). This equivalence scale assumes larger economies of scale in consumption. The question of economies of scale is of course not trivial. Szulc (1995) has shown that smaller economies of scale – and thus the use of the ordinary OECD scale – is sensible for less developed countries of Central and Eastern Europe. It is well known that Eurostat uses the modified OECD equivalence scale; it if for this reason that the Statistical office of Slovenia started using the modified OECD equivalence scale. The results presented in this brief review are based on the ordinary OECD equivalence scale.

Bearing in mind what we have said regarding the definition of income and the use of equivalence scales, Table 14 presents the structure of income sources by income deciles in 1993 and 1997-1999.

**Table 14** Structure of income sources, by income deciles, Slovenia 1993 and 1997-1999

| 1993 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income deciles | Income from employment | Income from contractual work | Self-employment income | Pensions | Social benefits | Income from capital and property rights | Intrafamily financial gifts and transfers | Total |
| 1 | 33.1 | 2.3 | 8.3 | 37.8 | 16.3 | 0.2 | 2.0 | 100.0 |
| 2 | 45.4 | 1.6 | 9.1 | 31.5 | 11.2 | 0.0 | 1.1 | 100.0 |
| 3 | 53.5 | 1.5 | 5.4 | 31.2 | 6.6 | 0.0 | 1.8 | 100.0 |
| 4 | 59.0 | 2.3 | 7.5 | 23.3 | 6.2 | 0.0 | 1.5 | 100.0 |
| 5 | 64.3 | 1.7 | 5.9 | 21.4 | 4.9 | 0.0 | 1.7 | 100.0 |
| 6 | 58.4 | 3.1 | 5.6 | 25.4 | 5.1 | 0.2 | 2.2 | 100.0 |
| 7 | 60.7 | 2.6 | 6.6 | 23.8 | 4.0 | 0.2 | 2.3 | 100.0 |
| 8 | 65.3 | 2.2 | 6.3 | 20.7 | 1.9 | 0.3 | 3.2 | 100.0 |
| 9 | 62.2 | 3.7 | 11.0 | 17.3 | 2.1 | 0.7 | 3.0 | 100.0 |
| 10 | 57.9 | 3.5 | 16.6 | 11.4 | 0.8 | 1.9 | 7.6 | 100.0 |
| Total | 58.6 | 2.7 | 9.4 | 21.1 | 4.1 | 0.6 | 3.4 | 100.0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 1997-1999 | | | | |
| 1 | 31.0 | 2.7 | 11.0 | 32.8 | 21.1 | 0.0 | 1.5 | 100.0 |
| 2 | 39.8 | 2.6 | 10.5 | 32.7 | 13.7 | 0.1 | 0.6 | 100.0 |
| 3 | 49.1 | 1.4 | 6.2 | 34.0 | 8.7 | 0.2 | 0.4 | 100.0 |
| 4 | 58.9 | 1.6 | 5.4 | 24.7 | 8.4 | 0.4 | 0.6 | 100.0 |
| 5 | 59.2 | 1.7 | 6.7 | 25.0 | 6.5 | 0.3 | 0.6 | 100.0 |
| 6 | 59.1 | 1.5 | 6.2 | 27.3 | 5.4 | 0.2 | 0.4 | 100.0 |
| 7 | 62.9 | 1.2 | 4.4 | 25.3 | 5.2 | 0.6 | 0.2 | 100.0 |
| 8 | 68.1 | 1.5 | 5.4 | 21.4 | 3.0 | 0.5 | 0.2 | 100.0 |
| 9 | 66.7 | 1.5 | 4.1 | 23.8 | 2.6 | 0.8 | 0.6 | 100.0 |
| 10 | 66.8 | 1.1 | 7.5 | 19.7 | 1.7 | 2.9 | 0.1 | 100.0 |
| Total | 60.4 | 1.5 | 6.3 | 24.9 | 5.6 | 0.9 | 0.4 | 100.0 |

Sources: Stropnik and Stanovnik, 2002. Data: HES 1993 and 1997-1999.
Note: Rows may not sum to 100 due to rounding. Social benefits include: child benefits, sickness benefits, social assistance, unemployment benefits, invalidity benefits and educational grants.

Though we will refrain from a broad analysis, one cannot help to notice the low share of income from employment, as percentage of total income of households in the lower income deciles. The share of pensions (as percentage of household income) has considerably increased in the early 1990s. It has still continued to increase and in the period 1997-1999 the share reached 24.9 percent of total current household disposable monetary income. Income from self-employment has (somewhat surprisingly) decreased from 1993 to 1997-1999; this is quite probably due to increased underreporting of this income source among the high income households. Social benefits have – predictably – increased their share in total household income. Also, one cannot fail to notice the large concentration of income from capital and property rights in the higher income deciles.

Table 15 shows the shares of three – potentially vulnerable – household types, as percentage of all households in given income decile. These household types are: households with unemployed member, households with children aged 18 and under, households with person aged 60 and over. These types are not mutually exclusive: households can have an unemployed member, a child and a person aged 60 and over, all at the same time.

**Table 15** Shares of household types as percentages of all households in an income decile, Slovenia 1993 and 1997-1999

| Income deciles | Households with unemployed member | | Households with children aged 18 and under | | Households with persons aged 60 and over | |
|---|---|---|---|---|---|---|
| | 1993 | 1997-1999 | 1993 | 1997-1999 | 1993 | 1997-1999 |
| 1 | 24.3 | 46.1 | 35.2 | 38.5 | 60.0 | 50.3 |
| 2 | 24.7 | 34.4 | 45.0 | 42.1 | 55.6 | 52.1 |
| 3 | 15.2 | 20.2 | 47.0 | 40.8 | 48.6 | 52.2 |
| 4 | 14.5 | 19.2 | 54.3 | 49.6 | 38.7 | 37.8 |
| 5 | 16.7 | 19.6 | 53.5 | 52.0 | 34.3 | 38.3 |
| 6 | 14.0 | 10.9 | 49.1 | 46.0 | 40.6 | 42.2 |
| 7 | 10.5 | 11.7 | 47.2 | 44.5 | 33.7 | 39.4 |
| 8 | 6.9 | 8.3 | 47.7 | 42.1 | 31.6 | 31.6 |
| 9 | 9.0 | 5.3 | 48.5 | 37.2 | 28.8 | 33.8 |
| 10 | 4.9 | 3.4 | 42.0 | 27.8 | 20.7 | 31.0 |
| Total | 14.1 | 17.9 | 46.9 | 42.1 | 39.2 | 40.9 |

Sources: Stropnik and Stanovnik, 2002. Data: HES 1993 and 1997-1999.

As seen from table 15, households with unemployed member are strongly over-represented in the lower income deciles. Though some 17.9 percent of all Slovenian households had a household member who was unemployed in 1997-99, a full 46.1

percent of all households in the first income decile were households with an unemployed member. Households with persons aged 60 and over were also somewhat over-represented in the lower income deciles, though not as glaringly as households with an unemployed member. In 1997-1999 some 40.9% of all households had a household member who was aged 60 and over; these households constituted 50.3 percent of all households in the first income decile. As seen from table 2, households with children are not over-represented in the lower income deciles.

### *Inequality and Redistribution*

Income inequality measures are deemed an important indicator of social development. Unfortunately, there is rarely complete agreement on this indicator – not only with regard to the question on which inequality measure is the most appropriate, but also on how to measure income inequality. Probably the most meaningful group on which income inequality should be measured are households, as households are units in which income is shared and expended. This means that one ought to rely on Household Expenditure (and Income) Surveys as the appropriate statistical data for measuring income inequality. However, these surveys might be of low quality or plagued with problems such as high non-response or underreporting of income.

In this sense, exclusive reliance on Household Expenditure (and/or Income) Surveys might not be satisfactory, and one might wish other »corroborating evidence«. We therefore briefly present some findings based on the Household Expenditure Survey and some findings from other statistical sources.

Table 16 shows some measures of income inequality, measured on two cross-sections, i.e. on the 1993 HES and 1997-99 HES. We observe that income inequality has decreased in 1997-1999, as compared to 1993. This conclusion is valid for all three inequality measures: the Gini coefficient, the 75/25 ratio and the 90/10 ratio.

**Table 16**Table 3: Income inequality measures, Slovenia 1993 and 1997-1999

| Income inequality measures | 1993 | 1997-1999 |
|---|---|---|
| Gini coefficient | 0.2696 | 0.2356 |
| Gini coefficient (without social benefits) | 0.2915 | 0.2568 |
| 90/10 ratio | 3.38 | 3.22 |
| 90/10 ratio (without social benefits) | 3.92 | 3.83 |
| 75/25 ratio | 1.83 | 1.77 |
| 75/25 ratio (without social benefits) | 1.94 | 1.89 |

Sources: Stropnik and Stanovnik, 2002. Data: HES 1993 and 1997-1999.
Note: Social benefits excluded from household income are: child benefits, sickness benefits, social assistance, unemployment benefits, invalidity benefits and educational grants.

Table 16 also provides the values of the inequality measures when social benefits are excluded from household income. Here »social benefits« includes all social transfers except pensions, as pensions in Slovenia can be regarded as a form of deferred wages. Put another way, pensions in Slovenia represent disbursements from the social insurance system. We observe from table 3 that income inequality would have been much higher without social benefits. Though the primary aim of social benefits is not to decrease income inequality, these benefits are obviously targeted to the low-income groups. How well are these benefits targeted? Before answering this question, one must state that social benefits represent a fairly heterogeneous group of income sources, with quite varied functions. The targeting of these benefits varies through time, depending on changes in legislation and definitions. Table 17 provides some relevant data.

**Table 17** Concentration coefficients for income sources, Slovenia 1993 and 1997-1999

| | Concentration coefficient | |
|---|---|---|
| | 1993 | 1997-1999 |
| Income from employment | 0.30501 | 0.30960 |
| Income from contractual work | 0.40096 | 0.13287 |
| Self-employment income | 0.43987 | 0.16883 |
| Pensions | 0.09985 | 0.15602 |
| Health insurance related cash benefits | 0.19555 | 0.05623 |
| Unemployment benefits | -0.20568 | -0.18613 |
| War related invalidity benefits | 0.07359 | -0.05449 |
| Social assistance benefits | -0.44134 | -0.70331 |
| Child benefits | -0.37404 | -0.20977 |
| Educational grants | -0.00272 | -0.08290 |
| Income from capital and property rights | 0.76940 | 0.67017 |
| Intrafamily financial gifts and transfers | 0.56250 | -0.01952 |
| Total current monetary household income (Gini coefficient) | 0.26960 | 0.23557 |

Sources: Stropnik and Stanovnik, 2002. Data: HES 1993 and 1997-1999.

The concentration coefficients for most social benefits are negative, meaning that the poor receive – in absolute terms - more of the income source than the rich. Some changes in concentration coefficients which have occurred between 1993 and 1997-1999 can also be explained by legislative changes or even organisational changes. Thus, the large decrease in the value of the concentration coefficient for income from contractual work was the result of legislative changes: until 1994 this income source was taxed at a low rate and served as a convenient form of tax arbitrage, mostly for the wealthy. Higher taxation closed this loop-hole for the rich, and this income source is now – relatively speaking – concentrated more among the poor, for most of these recipients it is the only income source. A decrease in the value of the concentration coefficient for income from self-employment is – in our view – at least partly caused by the underreporting of such income by the rich self-employed. Changes in the concentration coefficient for health insurance related cash benefits are caused by changes in the definitional scope, as maternity/parental leave was allocated among income from employment till 1994[20]. Legislation on child benefits has changed considerably during the period, with a very clear tendency from targeting to universalism: this is visible in the increasing value of the coefficient of concentration. The very high values for the concentration coefficient for income from capital and property rights are self-explanatory.

Is there any strong evidence supporting our findings on income inequality? We refer to studies which use individuals (and their income) as a statistical unit for measurement. Borak and Pfajfar (2002) analysed income inequality using the personal income tax (PIT) returns. The values of the computed Gini coefficients for gross income and net income (i.e. gross income minus social security contributions minus personal income tax) are presented in table 18.

20 This benefit was disbursed by the employer, who then requested a refund from the National Health Insurance Institute. Since 1994 this benefit is being disbursed by centers for social work and are completely separated from the employers payroll.

**Table 18** The Gini coefficients for gross income and net income, Slovenia 1991-2000

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gini (gross income) | 0.3247 | 0.3327 | 0.3595 | 0.3449 | 0.3459 | 0.3495 | 0.3524 | 0.3519 | 0.3514 | 0.3529 |
| Gini (net income) | 0.3048 | 0.3120 | 0.3433 | 0.3126 | 0.3125 | 0.3152 | 0.3178 | 0.3178 | 0.3150 | 0.3165 |

Source: Borak and Pfajfar, 2002.

The Gini coefficient for gross income peaked in 1993, experienced a strong drop in 1994 and since then has been within a quite narrow band. As for the Gini coefficient for net income, it similarly experience a sharp increase in 1993, followed by almost equal decrease in 1994; since then, changes have been quite small, and the Gini coefficient was in the vicinity of 0.315. Is there anything »special« about the year 1993? The answer is: yes! In 1993 new legislation on the personal income tax was introduced, effective from 1994. The new legislation introduced stronger tax progressivity; therefore, not surprisingly, the Gini coefficient for net incomes experienced a large drop in 1994. Of course, it would be quite interesting to explore whether the large increase in inequality and consequently the large increase in the Gini coefficient (for both gross and net income) in 1993 was in any way related to the anticipated higher tax progressivity introduced by the new legislation.

The computations of the Gini coefficients presented by Borak and Pfajfar are not without flaws. Namely, the new legislation on PIT reduced the number of taxpayers: a large number of pensioners who were receiving pensions as their only source of income were not subject to PIT anymore. In other words, only pensioners with very high pensions and pensioners with other income sources besides pensions were still subject to PIT. Also, students earning income from contractual work (quite popular among Slovenian students) became subject to PIT, if their income was sufficiently high (51% of the average annual wage). Because of these changes in the population of taxable persons, a more meaningful comparison is achieved if pensioners are altogether excluded from the analysis of the personal income tax data. This was the approach taken by Natasa Kump (2002) who analysed income inequality, based on the PIT data for the years 1991 and 2000. The results are shown in table 19.

**Table 19** The Gini coefficients for gross income and concentration coefficients for personal income tax, social security contributions and net income: Slovenia 1991 and 2000

| | 1991 | 2000 |
|---|---|---|
| Gini coefficient (gross income) | 0.3578 | 0.3886 |
| Concentration coefficient (PIT) | 0.4345 | 0.6078 |
| Concentration coefficient (soc. sec. contributions) | 0.3730 | 0.4215 |
| Concentration coefficient (net income) | 0.3443 | 0.3466 |

Source: Kump, 2002.

As seen from table 19, the concentration coefficient for net income[21] in 2000 is virtually the same as in 1991, very much due to the increase in progressivity of the personal income tax. All in all, we are very much inclined to believe that income inequality peaked in 1993, decreased sharply in 1994 and has since then been rather stable. All three analyses - Stropnik and Stanovnik (2002), Borak and Pfajfar (2002), Kump (2002) do seem to support this.

[21] Provided there is no re-ranking, the concentration coefficient for net income is equal to the Gini coefficient for net income.

## *1.6 Poverty and income inequality: conclusions*

1. Robust comparative data on poverty are rather inexistent. There is no methodology considered "the best" in the area. There is consensus neither referring to income or consumption, nor to scale of equivalence or poverty lines.
2. Poverty in transition countries is correlated with economic output. Poverty is primarily "shallow" and transient. Thus, as economy recovers, poverty is expected to diminish considerably. Most poor suffer of income/consumption poverty. Nevertheless, as country reviews show long-term poverty has become a growing problem in the four countries, and socially excluded groups or post-socialist underclass (concentrated in poor zones) have emerged in the area. Those with high risk to become underclass are only partially "new poor"; since the socialist period most of them have held marginal positions on the labour market (workers in former agricultural cooperatives, unskilled workers) and have had significantly less assets (poor education, unskilled, lack of ownership over their dwellings, large number of children so on).
3. The second critical contributor to poverty is the rise in income inequality. In Bulgaria and Romania both inequality and poverty are more extended than in Hungary and Slovenia.
4. Poverty is strongly correlated with lack of education and lack of work in the formal sector of the economy. Education and unemployment appears to be the most influent determinants of poverty in all four countries. Consequently, the way in which these two factors would be influenced by the increasing competition on the global market will reflect in the extent and nature of future poverty.
5. The risk of poverty is also linked to other household characteristics: number of income earners, size, number of children, which influence a household's ability to earn its income. For children and the elderly, poverty is linked to a decline in public transfers and other forms of income support, and to being one of many dependents living on few and low incomes.
6. Rural poverty appears an issue only in Bulgaria and Romania, where rural residents have higher risk of poverty compared with their urban counterparts and also significantly lower living conditions.
7. Bulgaria and Romania literature reviews show that in both countries ethnicity is a strong correlate of poverty, especially in the case of Roma population. This ethnic minority cumulates a series of risk factors which makes them highly vulnerable: lack of education, lack of skills, unemployment (registered or not), large households with many children.
8. Children have high risk of poverty in Romania, Bulgaria, and Hungary. Risk of poverty of elderly is relatively high only in Bulgaria and Slovenia. Nevertheless, while situation of elderly has improved (their risk of poverty diminishing during the period), the risk of children has increased also in these two countries.
9. System of cash transfers and taxes was designed differently from a country to another. Bulgaria review shows that the newly created social system has succeeded to fulfill neither an income replacement nor poverty relief. In Romania, the social safety net functions in reducing inequality, but covers the poor modestly. In Hungary and Slovenia, despite uncertainties and changes, the social system has contributed to alleviate the shocks of the transition to a much greater extent.

In the literature, the increase in poverty during transition is foremost attributed to two distinct factors: the drop in economic output and changes in its distribution. Nevertheless, beyond these two factors lies a complex interaction of economic, social, and political processes. A large number of studies point to the initial conditions (such ad location, initial economic distortions, unfamiliarity with the market process, and the

resource endowment), the state of institutions at the start of the transition, the extent and quality of the economic reforms that countries chose to implement and the political system. All policy-related factors with independent impact on the distribution of income and income/consumption, and hence on the level of poverty, will be the subject of the next COMPRESS deliverable of Work Package 4.

# 2 Literature review on subjective well-being

Subjective well-being is a vague concept that has taken various meanings function of the author, the focus of the study, and the indicators used to measure it. Psychologists and sociologists usually adopt broader and multi-dimensional definitions that take into account individual perceptions and subjective definitions concerning both physical and social environments, living conditions, and also various aspects of life at the individual/household, social group, community and/or society levels. Here, in concordance with COMPPRESS project objectives, we limit the discussion on subjective well-being in relation to income/economic standard, and pay little attention to the other dimensions treated in literature. Thus, we start this chapter by presenting subjective well-being defined in two ways: 1. as subjective poverty; and 2. as satisfaction with income or economic standard.

## *2.1 Subjective Poverty*

Subjective poverty is the third concept developed for measuring poverty. Unlike the "objective" definitions (absolute and relative), subjective poverty indicates that a person's incomes/consumption is lower than those considered as necessary for covering his/her own needs. Unlike the "objective" methods, subjective approaches do not use poverty lines determined by "experts" (either according to the consumption patterns or to normatives) but based on people's perceptions and self-assessments of their own situations. People's judgments are aggregated at the community level using various methods so that to identify a "consensual" minim standard against which to measure poverty.

Subjective poverty concept became popular in the 1970s being drawn from critiques of the "traditional" methods, which are highly dependent on a judgment by experts as to what constitute the necessities against which income/expenditure is measured.

Townsend (1979) championed the idea that need, rather deprivation, is relative. Consequently, he defined poverty in relative deprivation terms as exclusion from everyday living patterns. Townsend's definition involves the existence of two standards of living, one *widely spread* in the community and the other *socially accepted and institutionalized*. Poverty estimated against these standards would be thus acknowledged as poverty at the community level. He, consequently, designed a method to capture this socially acknowledged poverty using as reference group the entire population. According Townsend, relative need is not a matter of mere arbitrary judgment but can be objectively determined and measured by drawing a list of key indicators of living standard, that lack of which would be evidence of deprivation. In his survey, Townsend used a list of sixty indicators (of material and social deprivation) out of which about forty proved highly correlated with the household income. Based on some indicators selected out of these Townsend constructed a "deprivation index", which was plotted against the household income and the point where the lines met constituted a "threshold of deprivation … that is, a point of descending the income scale below which deprivation increased disproportionately to the fall in income" (Townsend, 1979: 271).

He also distinguished "*subjective deprivation*", people might fall neither below the widely spread standard nor below the socially accepted, but below a standard that could become widely spread as institutions in the community change. Subjective deprivation indicates that the individual "feels deprived", thus it depends on the individuals' life style and expectations.

The relative deprivation concept marked the turning point since when the stream of literature on subjective poverty has been developed. Townsend's method was refined (Mack and Lansley, 1985) but also highly criticized (Piachaud, 1981, Desai, 1986). Various authors (e.g. Piachaud, Viet-Wilson) pointed out that relative deprivation method is rather "majoritarian" and not "consensual". In their opinion, *consensual* approach would be a much better way for estimating subjective poverty since would not ignore the

important cultural differences in living styles and living standards co-existing within a culturally diverse society.

Piachaud (1987) distinguishes three types of subjective poverty approaches: *consensual*, *budget standard* method, and *behaviourist*. Behaviourist approach like Townsend's method estimates poverty against a threshold constructed from evidence of behaviour patterns revealed in household surveys, which is still dependent on a judgment by experts as to what constitute the minimal necessities. *Consensual* approach focuses on "what people think about poverty". Instead of surveying people behaviour, people are asked to make judgements regarding the definition of needs and incomes needed to meet them and thus avoid poverty. This was accomplished, according Piachaud, either *using income proxy methods* or *deprivation indicator approach* (e.g. Mack and Lansley, 1985).

With respect to the *income proxy methods,* on most significance is the work of Van Praag and his colleagues at the University of Leyden in the Netherlands (Van Praag et al, 1982). Income proxy is utilized to define a consensual poverty line, based on the notion of an adequate budget. The Leyden poverty line is based on the *income evaluation question*: "While keeping prices constant, what after-tax total monthly income would you consider for you family as:

- very good superior to ……... $
- good comprised between … and …….. $
- largely sufficient comprised between … and … $
- sufficient comprised between … and ……. $
- barely sufficient comprised between … and …. $
- insufficient comprised between … and ……. $
- very in sufficient comprised between … and … $
- bad comprised between … and …….. $
- very bad inferior to …….. $"

Using the set of couples (income threshold, evaluation) formed by the answers, the authors estimate, for each individual, a w*elfare function of incom*e. This choice rests on the explicit assumption according to which an individual appreciates his income depending on his position in the distribution of national income that he/she imagines (Van Praag, 1991).

Subjective poverty line introduced by Goedhart is based upon the answers to the question: "what level of income do you consider as absolutely minimum. In other words, what is the level below which you would not be able to meet your needs any more" (Kapteyn et al, 1988 cited in Ravallion, 1994). The line is set up to the point in which the total reported income of the household equals the "subjective minimum". Studies based on this method showed that while people whose income is higher than the subjective line tend to over-evaluate the minimum, people with income below the subjective line tend to under-evaluate the necessary minimum. According to country reports (see next sub-chapter) only in Romania has been applied this method.

A different category of methods, distinct from the consensual one, estimate subjective poverty based on "people's feelings" (self-assessments) and not on conditions of deprivation/poverty. It should not be understood that these methods classify a person as poor solely on his/her own estimation, but through comparison with the average subjective thresholds estimated by the relevant population. Consequently, as Karel Van der Bosch (1993) highlighted, these methods operate with "inter-subjective standards". A good example is the method developed by Deleeck and colleagues at the Social Policy Center from the University of Antwerp (Deleeck et al, 1989, cited by Van Praag, 1992). The method uses the evaluative question: "considering your household income, can you cover your needs?" Possible answers range between 1 - "very hard" and 6 – "very easy". The subjective poverty line is assessed just on the basis of the income declared by people who consider themselves as facing some material and financial difficulties. Thus, unlike other methods, Deeleck assumes that the poverty line should be set only in relation to

the answers of people living in poverty vicinity, and not of entire population (poor and non-poor). Other methods included in this category estimate subjective poverty based on indicators of income satisfaction or self-definition as poor. An illustration is the method (indicators and *subjective poverty index*) developed by the Research Institute for Quality of Life from Bucharest, which is presented in the Romanian review.

Criticism and debates related to the precise methodology – whether a method is "pure" subjective or is mixed, whether subjective line measure "real" poverty or not, whether the line should be calculated only for poor or for the entire population, whether an equivalence scale should be used and if it should then which would be the "best" one, so on – abound in the literature. Methodological caveats in handling subjective data form a well-developed body of literature. For the purpose of COMPPRESS project, however, we do not need to go further. In the end, nevertheless, we find worthwhile mentioning that the major advantage attributed to the subjective measures refers to the poverty line that does not depend on arbitrary judgments of experts or politicians. In fact, subjective poverty approaches represent a step further towards a "democratic definition of poverty", more appropriated now for the developed Western countries, as some authors argued. Subjective methods have mainly been applied in the Western countries and very few in transitional societies. Regardless the national context in which they were applied, the subjective poverty lines have been above those determined through "objective" (absolute or relative) methods. (e.g. Deeleck and Van der Bosch, 1989 in Europe, De Vos/Garner, 1989 in the USA, or Ştefanescu[22], 1998 in Romania)

## *2.2 About subjective well-being and income*

This subchapter heavily draws on Senik's (2003) and Kapitany's (2003) extensive surveys of literature and presents an overview of the major issues in the field.

Senik's (2003) review illustrate the potential contribution of subjective variables to the understanding of the relation between income and utility, the latter being at the core of economic action and of the adhesion of citizens to the distribution of national wealth, which conditions the demand for public measures of redistribution. The set of articles she surveyed reveals an important and multi-faceted link between well-being and income. Personal income exerts a first-order influence on individual satisfaction, sometimes mitigated by comparison and adaptation effects. Other people's income, and more generally the distribution of national income also affect individual well-being. It can also act in an indirect way, *via* the perceived mobility. Perceived mobility indeed determines individuals' prospects and risks; the channel from inequality to satisfaction is then informational and involves the formation of expectations. Lastly, agents can also be affected by the nature of the mobility process itself, with a possible pure preference for the equality in opportunities.

Subjective data can certainly help to elucidate decisions and preferences. Subjective data have a predictive power over actions (Manski, 2000a and 2000b). Subjective data also correctly predict consuming, saving, investing and voting behaviour (Frey and Stutzer, 2002b). On the basis of subjective data included in household surveys, an important stream of economic literature has developed in the 1970's in the Leyden school; it has known an important revival since the end of the 1990's. Eventually, theoretical and practical considerations lead to the same justification of subjective data: scholars and decision-makers can acquire an information that would not be available otherwise by studying people's perceptions and not uniquely their actions. As a matter of fact, the use of subjective data is now developing at fast pace since the late 1990's with a large corpus of studies dedicated to agents' attitude towards inequality, public policies, unemployment and labor relations.

[22] Ştefănescu's results show that, at least in Romania, subjective poverty line is indeed above the relative one, but fairly close to the (RIQL) decent minimum threshold determined using the normative methodology.

Since the end of the 1990's, a new wave of papers explicitly or implicitly refers to the methodology of "natural experiences". For example, subjective data are used to calculate the welfare cost of agents' preferences in terms of the unemployment-inflation trade-off (Di Tella et al., 2001b), the optimal generosity of the social safety net (Di Tella and al., 2001a, 2001b), the non pecuniary effect of unemployment on welfare (Clark and Oswald, 1994, Winkelmann and Winkelmann, 1998), the welfare effect of democratic institutions (Frey and Stutzer, 2000), of income inequality (Alesina et al., 2001b, Clark and Oswald, 1996, Senik, 2002), of the German unification (Frijters and al., 2001), or the link between satisfaction and labor mobility (Akerlof et al., 1988), the composition of an index of life quality (Frey and Stutzer, 2002b). As we have already shown, the measure of poverty, a very controversial notion (Hagenaars and de Vos, 1987), also constitutes an important implementation field for subjective data (Ravallion and Lokshin, 2001, Ferrer-i-Carbonnell and van Praag, 2001).

If subjective data are likely to be useful in certain situations, the question is whether they are reliable. In order to measure the various notions of satisfaction and well-being, psychologists, economists and sociologists use nationally representative household surveys. These surveys contain questions related to general well-being such as:

- "As a whole, how satisfied are you with your life in general?" (*GSOEP, RLMS, World Values Survey, Eurobarometer Surveys*) or
- "All in all, would you say that you are rather very happy, happy or rather unhappy?" (*GSS*), or
- "Here is a scale that represents the scale of life. On the top of the scale is the best life for you, and on the bottom the worst life. Where do you personally put yourself on this ladder?" (Cantril, 1965).

Individuals must tick one answer out of the many rungs of these satisfaction scales. Other, more precise questions are sometimes asked about satisfaction with income (welfare), with health, with housing, with family life or with leisure, which are considered as components of the general concept of well-being (Ferrer-i-Carbonnell, 2002, Plug and Van Praag, 1995, Van Praag and al., 2001 and see also the Romanian review on quality of life).

A series of scholars emphasize the methodological caveats to the use of subjective satisfaction data. Individual judgments are suspected of many flaws deriving from attempts at controlling one's self-image ('presentation of self'), cultural biases, interactions with the surveyor, memory and lucidity failures, question formulation and order effects, answers to irrelevant questions, mood-effects and difficulty of interpreting the answers (Bertrand and Sendhil, 2001).

In spite of these methodological caveats, subjective data have proved to be stable and useful. Diener et al. (1999) have shown that the stable component of satisfaction dominates mood effects. Identification of the "correlates of happiness" meets one of the early interests of psychologists (Wilson, 1967). The most stable relations are, *ceteris paribus*, the age effect (a U shaped relationship with a minimum around 40 years, where age captures cohort effects in the same time), the positive influence of marriage (as compared to divorce or widowhood), of health, of religious beliefs (Ellison, 1991, Lelkes, 2002a), of income and of not being unemployed (Clark and Oswald, 1994, Oswald, 1997, Winkelmann and Winkelmann, 1998, Frey and Stutzer, 2000). Education generally exerts a slightly positive impact on well-being, but this relation could be mediated by income and status effects. Of course, for most of these relations, the direction of causality is uncertain. Moreover, only 8% to 20% of the variation in individual welfare is explained by observable characteristics (this is the typical order of magnitude of the R square of these regressions).

The potential use that can be made of subjective data is significant, in the particular case of the relation between income and satisfaction. This relation has been studied on few

dimensions. Firstly, are the studies focused on the relation between own income and well-being.

Does the GDP growth raise the average satisfaction of development countries? The studies such as those of Easterlin,(1995), Blanchflower and Oswald (2003), Veenhoven (1993), or Diener and Suh (1997) do not lead to this conclusion. This set of results seems to demonstrate that "raising the incomes of all does not increase the happiness of all", but it calls for some methodological considerations. As noted by Van Praag et al. (1991) because reported satisfaction is located on a bounded scale, satisfaction judgments are necessarily expressed in relation to a context which defines the limits of the set of possibilities. This becomes problematic when one tries to study the evolution of aggregate satisfaction in the long run. As the context changes, norms and aspirations of agents change too (Diener and Lucas, 2000). Taking into account the effect of context adaptation, Oswald (1997) using the same database as Easterlin, but restricting it to a shorter homogenous series, from 1946 to 1957, found opposite results. Using average satisfaction scores is a delicate exercise, as the composition of the population and the distribution of income can change. Aggregate measures also have the disadvantage to sum up individual answers with no regard for individual heterogeneity.

Turning to microeconomic data helps to overcome the obstacles previously mentioned. Studies based on micro data systematically reveal a positive and significant influence of income on individual well-being (e.g. Blanchflower and Oswald, 2003). Longitudinal data lead to the same result (see Ravallion and Lokshin, 2001, using the 1994 and 1996 waves of the *RLMS*, Senik, 2002, using the 1994 to 2000 waves of the same survey, Frijters et al., 2001, using nine waves of the German *GSOEP* , Di Tella et al., 2001a, with European data and Frey and Stutzer, 2000, with Swiss data).

In terms of relative importance, income always represents one of the most significant variables in multivariate regressions. For instance, financial satisfaction attracts the highest coefficient when well-being is decomposed into various satisfaction domains (Van Praag et al, 2001): in level (fixed-effects *between* regression), the most important domains are financial situation, health and work, followed by leisure and to a lesser extend housing and environment. In variation (fixed-effects *within* regressions) health comes first, closely followed by financial situation and work. Income is thus one of the most important observable factors of happiness.

More generally, the large body of literature dedicated to the link between income and welfare leads to the following suggestions: inside a given country, rich people are happier than poor ones; inhabitants of rich countries are happier, everything equal, than those of poor countries (Diener et al., 1995, Haring et al., 1984, Veenhoven, 1994), but in the long run, growth only weakly raises the average declared satisfaction level because of adaptation effects. It would thus be misleading to state that, as worded by Easterlin (1995), "raising the incomes of all does not increase the happiness of all". Absolute well-being does tend to raise with economic growth, even if the aspirations of people increase apace. *A contrari*o, Frey and Stutzer (2000) show that a loss of income has a very important negative impact on well-being.

Another set of studies focused on income comparison. The notion of comparison income, relative income, or relative deprivation, constitutes a specific case of the psychological discrepancy theory (Michalos, 1985) which postulates that satisfaction judgments depend on the gap between a person's situation and her comparison benchmarks (which in turn can be constituted by other persons, past situations, aspirations, needs and objectives). A series of empirical studies based on subjective data tries to verify the "comparison income" conjecture. The reference income conjecture has often been verified by empirical studies, even if the interpretation of this notion is not univocal. The theory of comparison income suggests that other people's income directly affect individual utility, whereas the cognitive interpretation of the reference income implies that the nature of the relation between reference income and utility is informational and indirect. Both types of results underline the importance of social interactions (social comparisons or social learning) that involve income and individual satisfaction.

Many empirical studies reach the conclusion that income satisfaction is indeed relative. Following the Leyden school methodology, Van de Stadt et al. (1985), using Netherlands panel data (1980 and 1981 waves) put in evidence the influence of the reference group (defined by education, age and employment status). Reaching the same conclusion, McBride (2001), using the *GSS* (1994), studies how a person's satisfaction depends on the income of her cohort (persons born five years before and after her) as well as on her parents' living conditions at the same age. An ordered probit shows that, everything equal, and controlling for the agent's own income, her satisfaction decreases with these variables. The relative income effect is stronger the higher the income of the individual, whereas the influence of the agent's income is higher for low-income groups.

Ferrer-i-Carbonnell (2002) shows that a person's satisfaction with life decreases with the income of her reference group (defined by age, education and region). In West-Germany, the effect is asymmetric: the reference income is only significant for individuals whose own income is smaller than their reference group's income, conformingly to Duesenberry's (1949) intuition that only upward comparisons matter.

Following the same methodology as Clark and Oswald (1996), Senik (2002) estimates, in a first stage regression, a person's reference income as the typical income of people with the same productive characteristics (experience, diploma, profession, branch, region). In a second stage, she then regresses individual life satisfaction on socio-demographic characteristics, including the reference income estimated in the first stage. Using the 1994-2000 waves of the RLMS, she shows that the reference income exerts a positive impact on individual satisfaction. The positive influence of the reference income is stronger the more uncertain agents are about their professional and material future. It is stronger for younger individuals (under 40 years old), whose professional future is longer. The positive influence of reference income does not depend on whether agents' personal income has increased or decreased. This unusual result is certainly linked to the context of uncertainty of the Russian transition, which confers a particular importance to the informational content carried in the income of one's professional peers. In the Russian context of economic transformation, other people's income can be interpreted in a cognitive manner, as a source of information rather than a norm. Income comparisons indeed have little value in a situation where relative positions change fast. Conversely, any information that can nourish agents' expectations becomes highly valuable. The cognitive effect of other people's income thus dominates the comparison effect which has more importance in more stable contexts.

The empirical relation between income inequality and well-being is still little explored, even though it is often supposed *a priori* that income inequality reduces individual well-being, an argument in favour of redistribution policies.

One of the first attempts at verifying the existence of an hypothetical "preference for income equality" was made by Morawetz et al. (1977). The authors compare the reported satisfaction of the members of two small communities (Moshavims) composed of 40 to 50 households, located near each other in Israel, and differing only by their degree of income inequality. Regressions show that belonging to the most equalitarian community (dummy variable) has a positive and significant influence on satisfaction. However, the very fact of living in such communities certainly constitutes a selection bias that influences the result.

Following a similar approach, Alesina et al. (2001b) reach a more balanced result. They analyze the declared satisfaction of the *Eurobarometer* survey (1975-1991) and *GSS* (1972-1994) with an ordered logit, and find that inequality measures (Gini indices) calculated at the State level (USA) or country level (Europe) do not affect the well-being of Americans, no matter whether they are right or left-wing, poorer or richer than the median. By contrast, Europeans' satisfaction decreases with inequality, in particular for poor and left-wing people. Europeans thus seem to have a pure preference for income equality, independently of their personal situation.

In the same order of ideas, Suhrcke (2001), using the *Social Inequality* module of the 1999 *ISSP* survey, reports that 63 percent of the individuals of formerly socialist countries declare to "totally agree" that income differences are too large in their country, whereas this figure is only 35 percent in OCDE countries. This specificity of socialist countries, that the author attributes to history, is confirmed by an ordered logit regression, even if the effect is reduced by half when Gini indices are introduced.

Should we conclude that inequality aversion differs along national cultures? Alesina et al. (2001b) interpret their result differently. They attribute it to the effect of perceived mobility: " … in the U.S., the poor see inequality as a ladder that, although steep, may be climbed, while in Europe the poor see that ladder as more difficult to ascend". In this view, individuals appreciate income inequality depending on their personal perspectives. As income mobility is perceived to be higher in the USA than in Europe (rightly or not), static income distribution affects Europeans more than Americans, because it conveys more prediction power about their future incomes.

This view is close to Hirschman's (1973) intuition: when society is transforming, it can tolerate, and even appreciate important inequalities conditionally on the prospect for rapid progress for all categories. It is clear that this "tunnel effect" crucially depends on the perception of social mobility. Indeed, for other people's income to carry an informational value, it is necessary that the circulation of individuals into the various social positions be as fluid as possible. In this view, Americans tolerate, or even appreciate income inequality as a measure of the scope of opportunities offered to each of them.

In the same vein, using Russian *RLMS* data (1994-2000, 11,000 individuals), Senik (2002) introduces inequality indices in the estimation of an individual satisfaction equation. In spite of the rapid and impressing widening of income inequality in Russia, she finds that Gini inequality indices calculated at the level of the country, the regions or the Primary Sample Units (which contain about 42 households) do not significantly influence individual well-being, even though agents do seem to have a correct perception of their place in the distribution of income. This is again in line with Hirschman's conjecture that other people's income affects one's utility through the information that it conveys: the informational value of the static distribution of income is weak when the latter is perceived to be rapidly changing, which is the case in Russia.

This cognitive relationship between inequality and satisfaction thus depends in a crucial way on agents' expectations about the future positions that are opened to them. The central role of perceived mobility is uniquely explained by individuals' purely selfish calculation about their chances of mobility and success.

In the same line of reasoning, other studies analyze the opinions about inequality and redistribution instead of individual satisfaction. Ravallion and Lokshin (2000) report that in 1996's Russia (6th round of the RLMS survey), 63 percent of the individuals who belonged to the richest consumption decile were in favour of "restricting the income of the rich": those were essentially individuals who expected their personal material situation to deteriorate in the coming year (84.5 percent of the latter category were favourable to income redistribution). Estimating a probit model with random effect, they show that the demand for income redistribution decreases with individual wealth only for people who expect their standard of living to improve in the future. Variables reflecting uncertainty and worry about the future also attract a positive coefficient in the estimation of the demand for redistribution. In summary, people who are favourable to income redistribution are those whose material future perspectives are bleak. The demand for redistribution is a demand for insurance protection. In the same order of ideas, if more inequality goes together with increased poverty and violence, individuals can express an aversion for inequality which reflects their purely self-minded worry about criminality (see for example Alesina et al., 2001a).

In conclusion, mobility plays an important role in the perception of income inequality because it determines agents' expectations about their own income perspectives.

Individuals' attitude towards income inequality does not stem from a pure aversion for inequality, but uniquely from a self-interested concern.

Fong (2001) analyzes the 1998 Poll Social Audit Survey*, Haves and have-not: perceptions of fairness and opportunities*, a sample of 5,000 Americans. An ordered probit shows that purely selfish motives do exert an important influence on individuals' opinion concerning income redistribution. Agents' standard of living does explain their attitude towards redistribution. However, these motives are not exclusive. In particular, the existence of job and progression opportunities for everybody, the respective importance of individual responsibility *versus* social determinants, of effort *versus* chance, and the idea that the American society is a society of "haves and have-not" exert a significant influence on reported opinions. The author concludes that the demand for redistribution cannot be exclusively attributed to selfish motives. It does depend on preferences concerning other people's income and opportunities. Dynamic income distribution, and in particular, the equality of opportunities, thus seems to enter directly in the individual utility function.

In the same line of reasoning, Alesina and La Ferrara (2001), using the *GSS* and the *Panel Study of Income Dynamics* (1978-1991), show, with an ordered logit, that the answers of individuals to the question whether "the government should reduce the income gap between poor and rich people" depends on their actual mobility. The more important the person's mobility, the lesser his/her demand for redistribution. Moreover, his/her attitude towards redistribution depends on his/her opinion concerning the determinants of income: luck, social acquaintances and family history *versus* effort, education and competence.

These articles suggest that the attitude towards inequality and income redistribution partly depend on the process that generates income distribution and income mobility. Inequality seems more acceptable when it is perceived to result from individual effort, "merit", than from family transmission. This sheds additional light on the difference between Europe and the United States: the Americans believe not only in a potentially higher mobility but also in a more equitable mobility, which makes them less favourable to income redistribution than Europeans. According to the *World Values Surve*y, 71 percent of Americans believe that poors have a chance of going out of poverty, whereas this proportion is only 40 percent in Europe 21; 70 percent of West-Germans believe that poverty is due to society and not idleness, whereas the ratio is inversed in the United-States: 60 percent of Americans think that poor people are lazy (Alesina et al., 2001a).

Kapitany's (2003) surveyed the publications[23] of the international literature of happiness, out of which she substantially used four studies: Frey (2002) for getting suggestions on the classical literature of happiness studies, Graham (2002) and Graham and Pettinato (2002) for collecting the freshest international literature in this topic, and Senik (2002) for working out the join research practice for COMPPRESS empirical work.

Richard Easterlin is one of the leader personalities of the economics of 'happiness'. (See Easterlin, 1995, 2001a,b, 2002) Easterlin posited that absolute income levels matter up only to a certain level, after which relative income differences are the most effected. The importance of relative differences depends in part on social norms, which vary among societies. Psychologist Ed Diener and his colleagues find that it is perceptions of differences rather than objective differences in situations that have negative effects on happiness.

During her literature survey Kapitany focused on comparative reference with data from different East-European and West-European countries. Thus, she supposes "correlates of happiness" in East are similar or almost the same to those in the advanced industrial

[23] A summary of the state of research on happiness in the last century is provided in Lane(2000). The psychological point of view is discussed in Kahneman, Diener and Schwarz (1999), Scitovsky (1976), Hirschman(1970) and (1973). Happiness between nations is analyzed in Veenhoven (1995), (1996). Economists who are really getting involved in happiness studies are Easterlin (1995), (2002), Oswald (1997), Frey (1997), Frey and Stutzer (2000) and (2002).

countries (the Romanian review of literature show some evidences in this respect). Inspired by the results of Graham and Pettinato (2001 and 2002) she hypothesized that in East-European countries we will find a negatively skewed perceptions between individuals objective situations and their subjective evaluations, and this difference has negative effect on happiness and general satisfaction.

Blanchflower and Freeman (1997) find that people's attitudes have changed during economic transition. Over the course of the early years of transition, the degree of inequality which people regarded as 'fair' increased. Easterlin (2001a) suggests that determinants of happiness are not stable during economic change. If material norms increase in proportion to actual income, more income does not bring more happiness. At a point in time subjective well-being is positively related to income. Over the life course subjective well-being is constant despite substantial growth in income. At a point in time aspirations vary fairly little by income level, over the life cycle, aspirations increase about in proportion to income. From the two influences shaping consumption aspirations - comparisons with others and with one's past experience – the former appears more salient early in the life cycle and the latter, later on. (See Easterlin, 2001b)

Diener and Biswas-Diener (2000) find that while there are large correlation between the mean wealth in countries and the mean reports of subjective well-being in them, increases in individual income do not lead to more happiness. According to Diener and Biswas-Diener (2002), four replicable findings can be used in international comparison regarding the relation between income and subjective well-being (SWB):

1. There are large correlation between the wealth of nations and the mean reports of SWB in them.
2. There are small correlation between income and SWB within nations, although these correlation appear to be larger in poor nations, and the risk of unhappiness is much higher for poor people.
3. Economic growth in the last decade in most developed countries has been accompanied by little rise in SWB.
4. People who prize material goals tend to be substantially less happy, unless they are rich. More money may enhance SWB when it means avoiding poverty and living in a developed country, but income appears to increase SWB little over the long term.

The explanation of these findings is relatively non-researched, that social norms for consumption and production are essential to understanding the link between SWB and income. It appears that high SWB might increase people's chances for high income.

Inflation, poverty and unemployment have negative effects on happiness in both contexts (West and East), lowering objective/factual positions of households and decreasing subjective evaluations of the real situations. (See basic books of Frey and Stutzer, 2002 versus Easterlin, 2002) But most of the individuals who feel that they are poor are not classified as such in poverty statistics, and most of those who are classified as poor do not feel that way. (See Ravallion and Lokshin, 2002 about subjective welfare in Russia.)

Comparing the determinants of happiness in the literature and the main factors of competitive pressure discussed in the introduction, Kapitany finds some deep similarities. Unemployed people report a statistically highly significant lower level of subjective well-being than those who are employed. This result refers first to the state of being unemployed and not the resulting lower income level. Unemployment and poverty considerable lower happiness, and unemployment is better correlated with substantial unhappiness. Individuals also have a strong aversion to inflation, reflected in lower level satisfaction in times of high inflation. Higher income raises subjective well-being, and per capita income levels and happiness are more strongly positively related across nations, but the relevance of these statements are constrained and depend on nations. Increasing inequalities may also lower happiness, but can be also a positive sign of future growth. Relatively high and increasing mobility may be a positive sign of positive changing, but

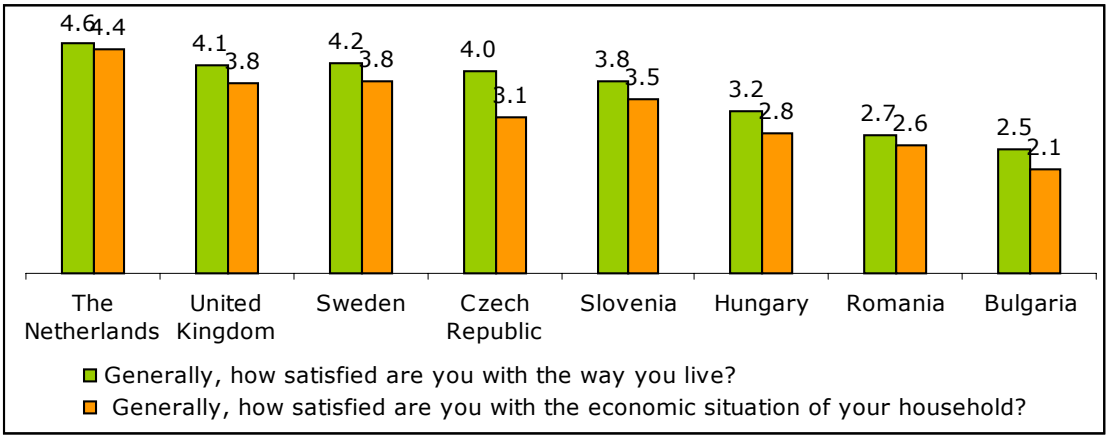
can be also a sign of non-harmonic growth and instability of the economy. In most nations, individuals belonging to the upper income groups report somewhat higher subjective well-being then persons with low income, but the general satisfaction of individuals in the upper income groups is sometimes lower than that of persons with lower income.

## *2.3 Comparative perspective: just an example*

Although survey data on subjective well-being are provided by multi-country surveys such as *European Value Survey*, *World Value Survey* or *Eurobarometer* the comparative literature on the relation between income and subjective well-being comparing the four countries is rather scarce. In fact, comparative analysis is planned as empirical study within the COMPPRESS project.

In this section we just illustrate the happiness gap between the four countries using the data and findings drawn from the empirical study *Household, Work and Flexibility* (HWF[24]). Within the HWF project, a survey was conducted in the spring of 2001 using face-to-face interviews or telephone interviews (nationally representative samples). Eight countries (Western EU countries and a range of Eastern European candidate countries) were chosen so that to be illustrative of different policy approaches to work flexibilisation and the work-family balance. For more information on the HWF questionnaire and survey and for detailed descriptions of the HWF survey in respective countries see Wallace (2003). In this review we make use only of questions related to the subjective well-being.

**Figure 6** Satisfaction with life and satisfaction with economic situation of the household, eight European countries, 2001 (mean values by country)




Data: HWF Dataset (see also Wallace, 2003).
Notes: Data for the Netherlands and Hungary are weighted. Both questions have a five-point scale, between 1 – "very dissatisfied" and 5 – "very satisfied". Differences between mean values are statistically significant, according to an analysis of variance (p=.000) using Tukey's-b post-hoc test. Total valid N = 10,092 cases, respectively 10,074 cases.

The Netherlands people are the happiest, significantly happier than the other two Western well-developed democracies, the United Kingdom and Sweden. These last two in turn are significantly happier than the Czechs who are the happiest of the studied Central and Eastern Europeans. Closely follows Slovenia and then, as the GDP decreases the happiness becomes more and more scarce resource. HWF research team has not developed an analysis related to the relation between aggregate income and aggregate

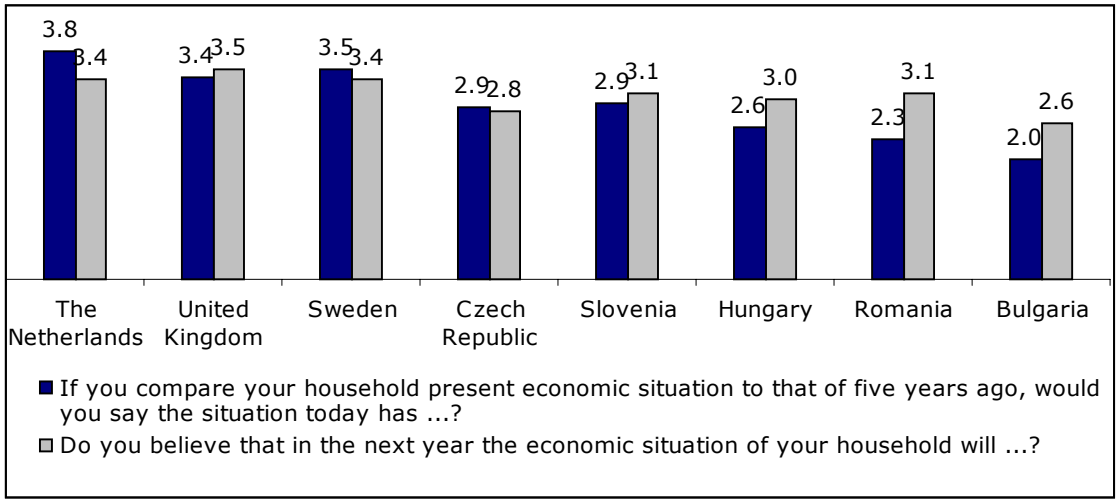
[24] The research project *Households, Work and Flexibility* (HWF) was coordinated by Claire Wallace (Institute for Advanced Studies, Vienna) and was funded by the European Commission under the Fifth Framework Programme contract no. HPSE-1999-00030.

satisfaction, however, the above chart seems to sustain the regularity: the richer the country, the happier the inhabitants (Diener et al., 1995, Haring et al., 1984, Veenhoven, 1994).

In all eight countries (that participated in the HWF project), either Western or Eastern, to a smaller or larger extent the satisfaction towards the economic situation is below the global life satisfaction, which encompasses more than just economics.

Out of the research teams of the four countries included in the COMPPRESS project, only the Romanian team (Stănculescu and Berevoescu, 2003a) examined correlates of the economic subjective well-being in their country. Subjective assessment of the household economic standard does not differ significantly on gender but varies significantly according age, education, and household income/expenditure quintile. The younger have more positive assessments and more optimistic expectations, particularly when succeeded to become economically independent and set up their own households. The higher the achieved education level, the more positive the assessment, the more optimistic the expectations, and the higher the satisfaction towards the way they live. The better the household economic situation objectively determined, the better the subjective assessment and the higher the respondent's satisfaction. Thus, within a country (in this case Romania) richer people are happier than the poor ones. Nevertheless, the two authors did not go far enough, that is they restrict to a bivariate analysis so that further investigation is required.

**Figure 7** Past/future evaluations of the household economic situation, eight European countries, 2001




Data: HWF Dataset (see also Wallace, 2003).
Notes: Data for the Netherlands and Hungary are weighted. Both questions have a five-point scale, between 1 – "clearly deteriorate/d" and 5 – "clearly improve/d". Differences between mean values are statistically significant, according to an analysis of variance (p=.000) using Tukey's-b post-hoc test. Total valid N = 10,092 cases, respectively 10,074 cases.

On average, Western people define as "improving" their economic situation in the last five years, while within Eastern people the poorer the country the larger the share of those saying that their household economic situation "deteriorated" or "clearly deteriorated". Furthermore, whereas Western citizens expect the situation to improve in the Eastern countries less people have positive expectation, many only hoping that their situation will remain the same.

Poor people are unhappier and also define their present situation in more negative terms and they are more pessimistic towards their future, as Kovacheva and Pancheva (2003) showed in the HWF Bulgarian country report. Based on a bivariate analysis they found the share of those who consider that in the last five years their situation "clearly worse"

decreases from 28 percent in the lowest quintile to 7 percent in the highest quintile. In contrast, less than 5 percent of the lowest quintile sees an improvement of their situation, while the share increases to nearly 60 percent of the highest quintile. Similar regularities are found regarding expectations for the future. A third of all pessimists belong to the lowest income quintile and only 6 percent in the highest one. Thus, optimism is rather a resource of the richer, being scarce among poor.

Stănculescu and Berevoescu, (2003a) analyzed also the past/future questions for Romania but from a different perspective. Perceived dynamics of the household economic situation in the time span defined by the past five years – present – future five years distinguished three statistically clearly cut groups. Best represented (40 percent) group comprises people who share the belief that their households' economic standard has continuously deteriorated and this trend will persist in the next five years. They are mostly women, of 40 years or over (particularly living alone), people with primary education without chances to enter the official labour market, pensioners (50 percent), non-employed (48.5 percent, especially those who used to be employed before 1989 and lost job), unemployed (49 percent), elementary occupations and day labourers. A half of this group belonged to households in the lowest two quintiles (Q1 and Q2). Thus, many of the poor lost the hope that in the near future their household situation will improve.

In contrast, people satisfied and with expectations that in the near future their households' economic situations will improve form a second group, which accounts for 14 percent of the sample. These mainly are men, young, pupils/students, employed in formal work, middle or highly educated based in large cities and Bucharest. A half of them belong to households in the highest quintile.

Mostly farmers are those who perceive their households' economic situations have stayed the same in the last five years; they used to be poor, they are poor and in the near future their situation will continue to stay this way. This pattern is specific for 10 percent of the sample, which chose "stay the same" both for the past and for the next five years.

We end here this section since it was meant just to illustrate the richness of the existent survey data, which regarding the four countries participating in the COMPRESS study are clearly insufficiently explored.

The four country literature reviews on subjective well-being are presented below organized by country. Unlike literature on poverty and income inequality, the topic of subjective well-being is more scattered and rather scarce.

## *2.4 Review of literature on subjective well-being:*

### *2.4.a. Bulgaria*

**Nikolay Markov**

**"Voices of the poor"**

The National Synthesis Report 1999 *Consultations With the Poor* is a part of a global research effort and is based on interviews including different people's subjective opinions about the poverty and well-being. The survey is provided in three villages, three small towns and three cities, which are situated in different parts of the country and which are with different ethnic profile. Accordingly to the answers received, the groups in society are generally classified by the interviewed as follows:

- "rich" 1 percent to 5 percent
- "normally living" people embodying a "normal life," who tend to be a normative rather than real group – the main indicator is employment and salaries for the main members of the family, being able to afford holidays and not to worry about one's future;
- the "poor" – the overwhelming majority, about 80 percent;
    - An intermediate group of people who are poorer than the poor but are not "really" destitute and social outcasts: the Roma who, to judge from all interviewed, are 80 percent unemployed and live in abominable conditions.
- the "destitute", people "living in extreme poverty", who are excluded from the community - people who have no food and have to rummage in garbage cans, no shelter, and cannot cope by themselves - sick elderly people, large families. This group is relatively small.

As main feature of poverty in Bulgaria is indicated the crisis caused by the loss of previous status associated with job and income security. With few exceptions - notably the Roma groups, some unemployed and homeless people - poverty in Bulgaria is not associated with hunger but, rather, with cutbacks in consumption and particularly with a crisis of prospects and a sense of going back in time, "going wild", illness. The main problem cited by all groups in all sites is unemployment again, followed by lack of money.

At this stage the effective coping-with-crisis strategies are return to subsistence economy in the countryside, involvement in the shadow economy in towns and cities and cutbacks on consumption. Emigration is also seen as a solution – an individual solution - by younger people. The people who take part in this study explain that the subsistence economy cannot evolve into market economy because there is a shortage of farm machines, which are too expensive to buy or rent, labour is ineffective, production costs are high, and there are no market mediators. Thus people who were involved in some sort of industrial activity in the past have now been thrown back on primitive agriculture, at the mercy of the whims of nature, cattle thieves and mediators speculating with the prices of their produce. This is predictably seen as a reversal, as "going wild". People have food, but no money and hope (World Bank, 1999).

In the towns and cities, survival is associated with involvement in some form of the shadow economy with a varying degree of legality. And this is only natural, considering the crisis of state-owned enterprises and the obstacles to medium-scale and small business: impossible terms of taking credits, lack of clear and distinct rules and laws, exorbitant taxes. Hence, an underdeveloped market environment again is the reason for the domination of this shadow economy.

In the same survey people were asked well-being related questions. The respondents offer a variety of definitions of well-being. Here are the most often used criteria for defining well-being:

*1. Money:* The definition of money is a case in point. Money is analyzed mainly as a means of obtaining things one needs in order to be well off. During the discussions on what money is needed for, the respondents usually quote items which they consider essential for a normal life and which cost "almost nothing" or "plainly nothing" some ten years ago - food, health services, education, heating, medicines. Money is also needed for the family **-** to support the family, to win its respect, to feel useful. Most of the respondents (except the youths) believe that it is their duty to support their children until their death and are ready to make any sacrifice for that. To be well, people also need security and money is often seen as important because it brings "security". One of the most important dimensions of security (or the lack of it) is the ability to make plans for the future. To be able to make plans - or to have hope - you need money again. The poor have no control over their future. "*To be poor means to live from day to day*" (homeless).

*2. Social Contacts:* Another major item needed in order to be well is found to be the opportunity to meet other people. Money is needed for social contacts. Being among the other members of the community, feeling their love and respect, is a must for well-being. Family bonds are the most important. Nevertheless, most Bulgarian parents prefer their children to live in a bigger city or abroad, and are ready to take the risk of remaining alone because they believe that this is the better option for their children.

*3. Work:* Most of the groups list employment among the things essential to well-being; even the pensioners insist on including this criterion "because of the children". The respondents stress that they mean a "real job," which means a "regular job"; "to know that you will have the same job and the same wages for at least three years, or even more, if you don't make a serious mistake".

*4. Food:* Some focus groups list food and eating one's fill among the things needed to feel well. This criterion is identified specifically by some Roma groups and, to a lesser extent, by some elderly people in the big cities.

*5. Social cohesion:* Some groups also discuss social cohesion ("to trust each other"; "to have more common understanding"). The issue of social cohesion is brought up either by some excluded groups (e.g. Roma) who blame discrimination as a major cause of their ill-being; or by groups which felt responsible for the whole community.

*Ill-being* is analyzed as the absence of any of the criteria listed above. Any single one of those criteria is not definitive of well-being, but the absence of any *is* enough to bring on ill-being.

*Causes of poverty:* The respondents of the World Bank's study quote a variety of causes for their poverty. All of them blamed the present economic crisis, so most of the discussions were oriented towards the causes of the crisis. Some respondents tend to blame the legacy of communism - first, as mismanagement of the economy and second, as having cultivated certain type of attitudes of dependence on the State and reluctance to take the initiative and assume responsibility. Other respondents blame "democracy" for the crisis. The ruling elite and especially the politicians are seen as another cause for the crisis and respectively for the poverty. There is some debate on the precise pros and cons of "communism" and "democracy," but all respondents agree that the only way of overcoming the crisis is by industrial recovery. Young people think that Bulgaria itself bears the brunt of the blame for the bungled transition, because people were not prepared for transition and that's why they are reluctant to work hard and uphold their interests. The closure of enterprises is associated with the other cause for poverty - unemployment.

*Impacts of poverty:* The impacts of poverty can be seen at the level of the whole society. Most respondents from small towns and villages speak of "podivyavane" (going wild). This means that you are obliged to work in a manner which is considered to be both

humiliating, uncivilized and inefficient - e.g. to till your land by hand, or to use home-made soap and home-cooked bread; and that you cannot afford to think about your personal development. "*Podivyavane*" is contrasted with self-esteem. One of the dimensions of this "*podivyavane*" is the absence of rules - and even laws - that apply to all of society. Most people have a limited choice: either to accept this humiliating situation, or to opt for migration. Usually, older people and parents prefer to stay, while younger ones would rather move. Both decisions are part of the same family strategy in ethnic Bulgarian families. In Roma and Muslim Bulgarian families the attitude is more nuanced; while young people often want to leave the village/town/country, the elderly parents were rather reluctant.

All groups agree that there are hardly any prospects for young people today, in many cases explicitly declaring "there is no hope any more." Several respondents claim that this is the most serious impact of poverty. At a more personal level, individuals are not able to make any plans for the future.

Another dimension of the same problem is what is perceived by the respondents as the impossibility of taking decisions. The line of action which the poor are forced to take is not seen as the result of their own decision or choice.

Other major personal impact of poverty is disease - both physical and mental ("anxieties," "depressions"). This issue is discussed mostly by city groups. The respondents analyze different causal links relating poverty to disease: health care is less efficient nowadays; medicines are no longer free of charge, that's why "it's harder to be ill now" (this problem is discussed at length by elderly respondents).

For middle-aged men, poverty causes "depression" and, consequently, alcoholism and domestic violence. "Humiliation" is also found as an impact of poverty. One major example of humiliation cutting across the groups is the alleged *sexual abuse and harassment*. Another "humiliation" is the fact that the poor are *"losing their standing*" among their friends and relatives. This is associated with the major problem of alienation, discussed by the respondents as an impact of poverty. People cannot afford to socialize and get together. Some less expensive forms of socializing seem to be emerging.

*People's perceptions of security and risk:* There are four perceptions of security. The most commonplace perception associates security with social security. Yet, now there is insecurity and deficiency. The latter is countered by extra work, help from the children (if they can afford it). Ultimately, security is measured in terms of money: "It all boils down to money". Roma groups associate security mainly with social security: "we have security when we have jobs, and, besides, when we have support from somewhere". Some older Roma men think of security in terms of predictability rather than social security - to know what to expect; insecurity is unpredictability. The third perception identifies security with law and order and, respectively, insecurity with crime. Youths likewise think that in this respect there is no sense of security. "Even if you have an armoured door you can never feel safe." The fourth perception of security may be qualified as existential: The anxieties are associated with perceptions of security: the worst thing is to remain jobless (all groups); to remain without shelter (older and young women); to fall ill (older people); to lose your family, to have no support from your family (mixed group).

The attitude to risk is ambivalent and depends on the opportunities that the groups and, respectively, individuals have. The more vulnerable they are, the poorer they feel, the less their resources and education are; the older they are, the more reluctant they are to take risks. Young Roma men and women claim that they would not take risks because they "don't have anything to risk. The attitude of older men and women and pensioners are similar. Some of the young people are optimistic: "You must always take some risk - there's no way you can win otherwise." Those who approve of risk-taking associate the latter with professional realization because they have a good education and a clear idea of their purpose in life. They are willing to take risks because they know why they are doing it and they have something to risk. Arguably, the attitude to risk might prove a

criterion of a particular group's vulnerability or, on the contrary, of the availability of resources for coping.

*Opportunities, social and economic mobility:* There are three perceptions of opportunities and social mobility. The first one is that nothing has changed - those who were well off before are well off now too, and those who were poor still are. The means by which mobility is achieved have remained the same: politics - party commitment, shady dealing, corruption, and connections. This is what pensioners think, as well as nearly all the people from all the sites who say they have always been poor.

The second perception is as a whole an exception, it is expressed by the disabled and some of the young people in Sofia, and by some of the prosperous persons from the case studies - there are more opportunities for social mobility - both horizontal and vertical - now than during communism, because of the greater freedom. Concerning horizontal mobility: For instance, you can live in one population centre and work in another. Before university graduates were subject to compulsory assignment, whereas now you have a choice. Vertical mobility - in principle, if you work hard and are able to take risks you have more opportunities to become not only rich but to feel you have had self-realization in life.

The third **-** prevailing in all the sites and groups - perception assumes that there were greater opportunities before, insofar as they were more evenly distributed. As a rule, in all sites, most residents identify as having lost their previous status, i.e. there is a distinct downward mobility which, however, is not perceived as a personal failure or as the result of personal action, but as typical of the group the respondents belong to and as a consequence of the downsizing of the whole economy. In other words, the cause of this downward mobility is external and has nothing to do with anything particular which people have or haven't done - it is associated with the deterioration of the general situation: *"Since the advent of democracy we've lost our jobs..."* and so on and so forth. That is why the change tends to be regarded as a natural disaster which they are powerless to cope with or change. And this change is perceived as absolutely unfair, especially in regard to the fact that before "democracy" all the people, with the exception of the communist party *nomenklatura*, had the same status, and a "normal living standard" due to permanent state jobs. Now the same people are found to be downwardly mobile.

The feeling of poverty to a large extent is due to the feeling of declassation, loss of previous status - both as a stable job, and as a living standard and a feeling of security. Moreover, it proves that those who became rich did so thanks to cheating and stealing, to breaking the law. Hence the perception of the ongoing unfair social stratification reinforces the feeling of narrowing opportunities. At the same time, the perceptions of equality as something normal and fair, cultivated by the communist regime, in their turn prompt people to perceive anybody who is upwardly mobile as someone who is circumventing the law in some way, i.e. as a lawbreaker, thus intensifying the negative attitudes to those who have prospered. Nonetheless, in small population centres, where people know each other, the interviewees are not so hostile to the affluent since they realized that making a fortune is a matter of personal qualities and, in particular, the ability to take risks and to be "quick on the uptake."

Thus, interviewed people make a definite distinction between the mechanisms of becoming rich, going to the top - these mechanisms are linked with illegal activities; and being successful and prosperous - for this you need different kinds of capital - economic, intellectual but, most of all, social - or, as Bulgarians out it - "to have connections". Being well-connected seems to be the universal mechanism of upward vertical mobility. Hence the prevalent opinion is that it is hard to make a career by honest means, that you need connections, money and political support. But a closer look at the case studies of some of the prosperous men and women shows that another key to success is hard work, involvement in several different activities at once. Other keys are higher education - at that in state-of-the-art subjects (Information Science, and finance and lending), risk and, last but not least, a close-knit family - parents support their children who appreciate this

and, perhaps, create close-knit families in their turn. On the other site, one of the main factors for downward mobility turned out to be the lack of strong family ties - nearly all of the interviewed poor people who identified as having always been poor came from broken families.

**Subjective poverty**

On the base of the results of the sociological survey about standard of life of Bulgarian population carried out in 2000, less than 1 percent of the inquired persons self-define "rich". 43.1 percent of the respondents positioned themselves "not richly, but not poorly". More than half of the inquired persons refer themselves to the group of "people living in poverty", and 14.9 percent - to the group "people living miserably".

Large groups of people (56 percent) are pessimistically accessed about their material status. The analysis shows the more optimistic viewpoint concerning material status among young people and among those, having tertiary education, as well as among members of households with higher number of employed. Pessimism increases with the increase in age it is characteristic for people having education lower than secondary, among incomplete families, families of many children as well as among member of households with higher number of unemployed. (Jaklina Tzvetkova – Anguelova, 2001).

**Table 20** Households' responses concerning difficulties in satisfying some basic necessities (percent), Bulgaria 2001

| Necessities | No | Yes, rarely | Yes, often | Almost always |
|---|---|---|---|---|
| Food | 25.7 | 27.7 | 29.9 | 16.7 |
| Clothing and footwear | 7.7 | 16.1 | 30.7 | 45.5 |
| Heating | 14.7 | 18.1 | 28.9 | 38.3 |
| Health services | 16.4 | 20.8 | 31.5 | 31.3 |
| Education | 64.7 | 9.8 | 10.7 | 14.8 |
| Dwelling | 9.9 | 14.1 | 28.7 | 47.3 |
| Furniture | 11.0 | 8.9 | 18.3 | 61.8 |
| Recreation | 5.9 | 5.7 | 13.5 | 74.9 |

*Source:* Jaklina Tzvetkova – Anguelova, 2001

Very impressive is the high relative share of the Bulgarian citizens who cannot afford the most needed goods and services. The discrepancy between the income received and existing price levels create difficulties "often" and "almost always" for 88.4 percent of households with reference to realization of their recreation; 80.1 percent referring to purchase of dwelling equipment and furniture; 6.7 percent at purchase of clothing and footwear; 67.2 percent referring to dwelling's heating; 62.8 percent referring to health services, and 46.6 percent referring to nutrition. At the same time "often" and "almost always" difficulties also have the households determining themselves as living "not poor, not rich". Every fifth of them has difficulties as regards to their nutrition, every second – at purchase of clothing and footwear and at dwelling's maintenance and heating, 68,2 percent at purchase of household equipment and furniture, and 80.5 percent at realization of their recreation.

Above results could be compared with the 1999 similar survey's results, when only 0.2 percent of the respondents have been on opinion their household lives 'richly', 43.5 percent have responded "live not rich, but not poor", 43.5 percent - "live in poverty", 12.9 percent have determined their condition as "miserable". But at the same time the comparison between results of the both indicated surveys give some grounds to consider 2000 self-assessments as a little more optimistic (Jaklina Tzvetkova – Anguelova, 2001).

For instance, while in 1999 survey only 13.3 percent of the inquired persons could afford purchase of foods 'without difficulties', the share of respondents giving the same respond in 2000 has increased to 25.7 percent. Also in 1999 for almost one third of the respondents (31.5 percent) purchase of foods was connected with 'big difficulties', while in 2000 similar respond is given by only 16.7 percent of the inquired. A little bit optimistic

are also the responses about purchase of new clothing and footwear – while in 1999 it was connected 'with big difficulties' for 72.4 percent of the respondents, in 2000, 45.5 percent of the inquired persons respond "purchase of clothing and footwear" is connected with difficulties "almost always". The same could be said about purchase of new furniture – in 1999 it has been connected with the "big difficulties" for 90.5 percent of the inquired, in 2000 similar respond is given by 61.8 percent of the inquired.

The parents' material condition is a decisive factor in respect to satisfying children's needs. During the past decade a sufficient part of children live in a socially weak families that puts them in a unequal social situation. Households face serious problems in satisfaction the needs of their children. During the years of transition families with children appear to be in the heaviest social situation. They constitute 32 percent of the sample used for year 2000 survey. Having in mind, 77.6 percent of the households with three children, 53.1 percent of those with two children and even 6 percent of the households with one child, define their life as "miserable", it could be assumed that a lot of children live and are brought up under unfavorable socio-economic conditions (Jaklina Tzvetkova – Anguelova, 2001).

In comparison with the similar sociological survey *Quantitative and qualitative aspects of the consumption*, carried out by NSI in 1992, in 2000 is observed a significant decline in the relative share of the households considering they fully satisfy needs of their children. Their share in 2000 is less compared to 1992 as follows: of food – by 14,1 percentage points; of clothing and footwear – by 12,2 points; health service – by 18,0 points; education – 21,1 points; recreation – by 5,1 points; entertainment – by 5,9 points.

At the same time increases the share of those households that cannot satisfy even the most urgent needs of their children as follows: of food – by 7,5 points; of clothing and footwear – by 11,5 points; health service – by 6,2 points; education – by 5,4 points; recreation – by 16,5 points; entertainment – by 18,5 points.

The results from the survey *Women in poverty* (1997) reveal the most serious among the problems facing Bulgarian households, is the problem of "unemployment". It has been pointed out as a "very and extremely serious" by 69 percent of the respondents in 1992 and by 81.7 percent in 2000. Perceptions of the population are consistent with the unemployment statistics. In September 1993, the unemployment rate was of 21,4 percent (LFS data). After 1993, unemployment gradually decreased reaching the value of 13.7 percent in November 1996. But, in connection with 1996 hyperinflation, during the following years the unemployment rate again began to increase and in March 2000 it reached the level of 18.5 percent. It is not necessarily high unemployment rate but the high and unpredictable fluctuations of unemployment that make people to perceive it as major problem.

More than half of the respondents - namely 61.2 percent in 1992 and 76 percent in 2000 are seriously disturbed by the problems connected with the "health service's value". Another disturbing problem for the majority of respondents is the "full-value nutrition", pointed out as a "very and extremely serious" respectively by 55.8 percent in 1992 and 64.9 percent in 2000.

"Inflation" is considered as a "very and extremely serious" problem by 62.6 percent of the respondents in 1992 and respectively by 70.7 percent in 2000. It is obviously, people cannot forget the level of 1997 inflation when the average annual consumer price index reached 1182,3 (previous year = 100).

## *2.4.b. Hungary*

**Zsuzsa Kapitany**

### Subjective poverty

Ferge, Tausz and Darvas (2002) were examining together the properties of long-term poverty, deprivation and social exclusion. Trends of Hungary and Slovenia were investigated. Some subjective poverty indicators were also used. The question whether declared income is sufficient to cover basic needs is one of these. The distribution of the responses usually displays a more or less asymmetrical Bell-curve. In the Hungarian sample, the curve is practically truncated. There is almost no one who responded satisfaction and in 56 percent of the households the respondents answered that their income was absolutely insufficient to cover their basic needs. The rate of absolute insufficiency reaches even 90 percent among the most deprived groups. While the majority of the sampled households are rather deprived, the differences between the answers of the lower and higher income terciles concerning need satisfaction are huge. Running out of money by the end of the month was also asked. These ratios are also inordinately high, and suggest extremely difficult living conditions.

To reveal subjective poverty, respondents were asked whether the family could be considered poor in the last three years and now. Like in several other independent survey the findings were rather similar: the share of the two extremes, the 'absolutely' poor and the non-poor, are each around 20 percent. The share of the (subjectively) poor is double that in any former survey, around 40 per cent. The proportion of who feel constantly poor is 50 percent in the bottom tercile and 70 percent in households with Roma members. The future expectations are largely shaped by past experiences. Optimism is almost independent of incomes. The young, the better educated, and the child-care grant recipients who expect to return to work are more optimistic, than the average. The Roma and older respondents over 45 years old are more pessimistic. Childless and families with many children are less optimistic than families with one or two children.

### Subjective well-being and income

Because of shortage of happiness studies and research in Hungary, in this chapter we also introduce papers dealing with East-European countries and data, and using the same methodology what we plan to use in the following empirical work.

Most of the literature on subjective well-being finds that after a certain level of absolute income and wealth, individuals subjective well-being is determined by relative rather than absolute income and wealth level. (See Easterlin, 1974, Blanchflower and Oswald, 1999, Frey and Stutzer, 1999). In a country in transition, the widespread diffusion of information about consumer goods and consumption standards across groups, countries and cultures can strongly affect perceptions. The personal perceptions lower the level of subjective well-being and increase the desire and intention for upward mobility. (See Kolosi and Sági, 1989, Fábián, Róbert and Szivós, 1999) The relative differences can lead to seemingly "non-rational" economic behaviour, to demonstrate wealth status individuals prefer conspicuous consumption, rather than investing in their children's education or in their own future consumption.

Lengyel and Tóth (1999) empirically analyzed the income opportunities and the resulting satisfaction with living standards of economic agents in Hungary. They investigated the relationship between market participation, wealth and satisfaction with prevailing living standards. They found that increased access to income opportunities does not mean that economic agents are more satisfied with their circumstances.

The perceptions of past economic process can result in persistent attitudes about inequalities, property and redistribution. When the data permit the comparison of respondents' subjective assessments of their well-being with their actual experience of household expenditure, a surprising finding is that a large proportion of respondents who

enjoyed income gains report that they were not better off, they declare downward slipping in positions. (Sági, 1999 and 2000). In Hungary, for example, the upper middle groups are the most frustrated in this sense. The negative perceptions of upwardly mobile respondents may also be relevant to the political sustainability of market policies.

Studies in Eastern Europe find that subjective perceptions are more important in influencing voter behaviour than are objective trends. (Mateju in Birdsall and Graham, 2000, and Sági, 2000). Even when a large majority of society is below the mean income, they will not vote for redistribution if they believe they will be above it in the future, and they will vote for redistribution if they are not positive in future growth. (See studies of Gy. Lengyel in Hungarian).

The frustrations of the upwardly mobile achievers can be also driven by high expectations, the raising of standards for reference groups due to globalisation of consumption standards, and the new insecurities that have accompanied new opportunities in the growing market countries. Also an additional frustrating factor can be the unknown pressures of adjusting to global / EU markets. In societies where the perception of inequalities are growing and the people have to adjust to international standards, the reference norm for the upwardly mobile groups consists of different kind of norms of different kind of reference groups. (See studies of Kolosi and Sági, 1999, Sági, 1999, and Sági, 2000, Milanovic and Jovanovic, 1999).

Subjective economic welfare is influenced by many other factors including health, education, assets, expectations about future. The paper of Lokshin and Ravallion (2000) tests whether persistent poverty – what has emerged in many transition economies - can arise from sufficiently large but short-lived income shocks at the household level and is due to underlying non-convexities in the dynamics of households income. Using Hungarian panel data of Tárki they found non-linearity in the income dynamics, but did not find evidence of non-convexities. They focused on the main question of whether transient income shocks might cause persistent poverty. Their results suggest that households tend to bounce back from transient shocks. The adjustment process is not rapid, the transient shocks can have relatively long-lasting impacts, but it does not appear likely that a short-lived shock can create permanent destitution.

Little is known on the determinants of subjective well-being in Eastern Europe. Andorka claims (See in Andorka et al., 1999) that a grave dissatisfaction indicated a deep societal crisis of alienation and anomie, which may have ultimately been one of the major causes of the collapse of the political system itself. But the economic transition has resulted 'transformational recession' (See Kornai, 1994), falling national income, rising unemployment, inequality and poverty, which factors have contributed to growing unhappiness. The occurrence of such decline, the appearance of huge unemployment seems to be an inherent part of the transition process and is widely discussed in the academic literature. Various specific characteristics of the transition process are expected to have consequences on subjective well-being, e.g. the dynamics of the mobility perceived by households. (See the pioneer work of Róbert, 2001 on subjective mobility of households, using facts and opinions in five ex-socialist countries, in the middle of 1990s.)

Lelkes (2002a) provides new empirical evidence and analyses the correlates of individual's subjective well-being. The paper focuses on two particular groups which might be expected to be strongly influenced by different aspect of transition: the religious and the self-employed. The starting hypothesis is that increasing freedom in an ideological sense contributed to the happiness of religious people, while increasing freedom in an economic sense benefited entrepreneurs. The paper uses Tárki's Hungarian survey data from an early and a later phase of economic transition, 1991-92 and 1997-98 to study the impact of religion and economic transition on happiness. The measure of experienced utility was general life satisfaction, a self-reported score of individual's satisfaction on a scale from 0 to 10. Religious involvement contributes positively to individuals' self-reported well-being. Controlling for personal characteristics of the respondents, money is a less important source of happiness for the religious. The impact

of economic transition has varied greatly across different groups. The main winners from increasing economic freedom were the entrepreneurs. Somewhat contrary to the starting hypothesis, the religious population was not positively affected by increasing ideological freedom. This implies that greater ideological freedom may not influence happiness per se. The happiness equations of the religious and non-religious groups significantly differ, indicating that there are attitudinal differences: religious people seem to be less affected by the changes of their financial circumstances, the non-religious appear to have benefited more from the increased opportunities of the market. In Lelkes (2002a) and (2002b), the estimated subjective well-being (SWB) equations are increasing in income, and show largely similar structures to those described in the existing literature on Western Europe and the United States. Unemployment and disability pensioner status, and divorce are negatively, high income, higher levels of education, religion and marriage are positively correlated with life satisfaction. There is a U-shaped pattern between age and SWB, the young being by far the most satisfied with both their past lives and future prospects. This may imply that age is one of the most important personal characteristics in people's ability to adapt to major social 'shocks'. The relative situation of the self-employed has significantly improved over time, they seem to be the major winners of the transition process.

Analyzing now the link between factors of competitive pressure and subjective well-being, we try to concentrate on the dynamics of new and non-traditional measures of opportunity and mobility, like the intergenerational transmission of poverty, or the intergenerational mobility of asset situation and life circumstances of the households. Patterns and paths in mobility rates over time may provide information about longer term distributive trends. Focusing on mobility in our empirical work D18, we will hopefully answer such kind of questions like: What is the main motive power of households in Hungary when they decide about everyday expenditure and long term investment? They would like to reach living standards of they reference group and to stabilise their position, or they would like to give a better position to their children using up the income, assets and other ranking of their own generation. (See the similar question in Birdsall and Graham, 2000.)

In our research, neglecting the tradition of social stratification, "winners" and "losers" will not be defined as individuals at the top and bottom of the different (income, expenditure, assets, education, activity) hierarchy respectively[25]. We try to define "winners" and "losers" in terms of changes in relative mobility of income, expenditure, assets, education and employment status. Our hypothesis is that there is a significant downward mobility trend in the society, as the result of much more dramatic changes in the structure of economy, but many educated groups, whose labour was undervalued in state planning, experience upward mobility. (See also Terrell, 2000). Shifts in the size and share of the middle class across countries suggests that there is a great deal of movement up and down the income ladder. While these trends are surely creating new opportunities for many people, it is also creating absolute or relative insecurity for others.

While education is very important, it is not the only factor determining intra- or intergenerational mobility. Incentives, attitudes are also very important. Poor parents probably will have low incentives to save and invest in their children's future. With low income and few assets, and where the chances are limited, the poor have neither possibility, nor attitude to make human capital investments. Most parents feel and hope that their children have better life than they did, because they have more education and higher standard of living. But despite higher level of education and access to consumer goods, these children are unable to break out of their parent's occupational and welfare categories.

25 The paper of Habich and Spéder (1999) compares winners and losers by the Hungarian and East German transformations with the advantaged and disadvantaged groups found under the relatively stable conditions of these countries.

## *2.4.c. Romania*

**Manuela Sofia Stănculescu**

In Romania, subjective well-being has represented a research topic addressed theoretically and empirically by sociologists and very rarely by economists. A large number of public opinion nationally representative surveys, particularly the *Public Opinion Barometer* (POB) funded twice a year by the Open Society Foundation (OSF) as well as the *Quality of Life Diagnosis* (QLD), conducted on an annual basis by the RIQL, include various subjective well-being measures. Nevertheless, much of these data are used either in a descriptive manner or as predictors of various attitudes and opinions.

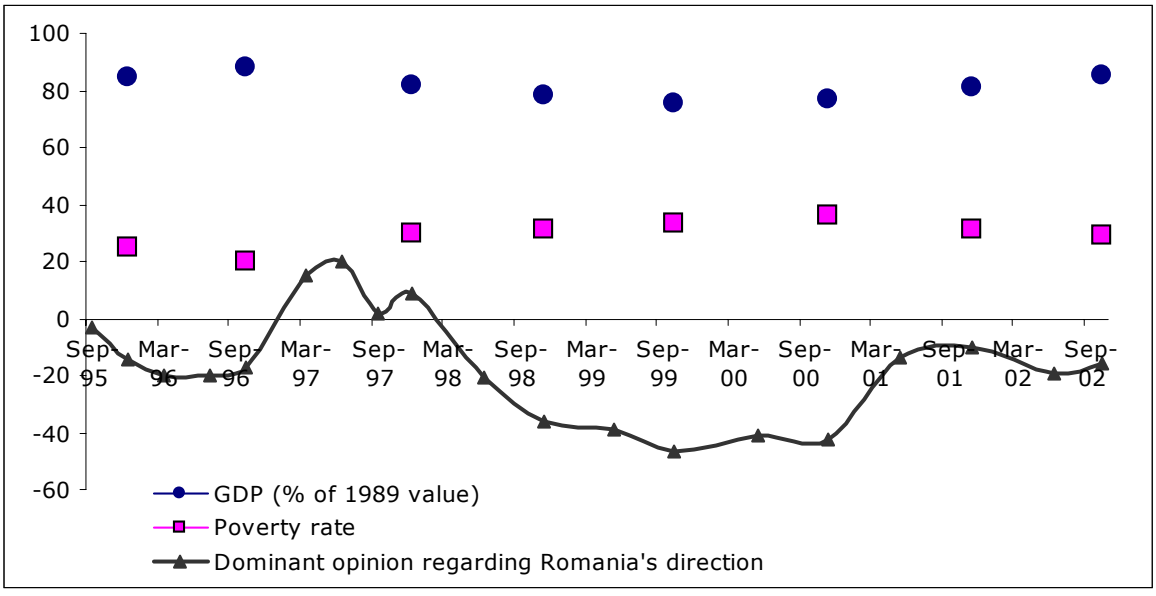
The Romanian Integrated Household Survey has never included questions on the subjective perception of income although there were debates in this respect.

**Perceptions of poverty**

As a general rule the subjective evaluations and definitions provided by 'naïve sociologists' are consistent with the results of 'objective' studies done by experts.

In the period 1995-2003, the global evaluation of the population ("Things go in a right or in a wrong direction in Romania?") followed a curve rather parallel with the GDP curve and opposite with the poverty rate (Figure 1). What people mean by saying that "direction is wrong"? Answers focused on the country poor economic performances: "depreciation of living standard" (38 percent of the population 18 years and over), "ineffective economic policies" (19 percent), and "economic disaster" (in industry, agriculture, high inflation, and ever-raising prices) (18 percent), "unemployment" (7 percent), corruption (4 percent), and others (14 percent). By "direction is right" people referred to: "economic reform" (30 percent of the population 18 years and over), "present political system" (20 present), "freedom/democracy" (19 present), "getting away from the communist political system" (12 percent), "increasing living standard" (10 percent), "integration within the European Union and NATO" (4 percent), and others (5 percent). (POB OSF, Oct.1999, CURS SA Bucharest)

**Figure 8** "Things go in a right or in a wrong direction in Romania?"




Data: POB OSF, Sep. 1995 – Oct. 2002.
Note: Dominant opinion (Hoffstaeder) index = (positive – negative)* (100 – missing)/100. Values: + 100 = the direction of the country is right, and respectively -100 = the direction of the country is wrong.

"How would you characterize in one word the present situation of the country?" In June 1998, 12 percent of the Romanian population answered "poverty", and other 56 percent used negative labels such as: disaster, chaos, instability, corruption, inefficiency or wickedness (POB OSF, 1998). Those who used the label "poverty" are mostly rural residents from villages with poor social and physical infrastructure, persons with vocational education, highly dissatisfied with their housing conditions and their jobs, and with low confidence in the political and economic institutions. At the other extreme, 9 percent of the adult population used the label "prosperity". Most of these people are located in Bucharest (capital city) or in Transylvanian villages (the most developed region of the country). In their case, the individual or household characteristics play no role in determining the general perception of the country situation. The influential factors of the perception are global satisfaction with their life, satisfaction toward the government performances, trust in institutions and positive global evaluation (things go in a right direction in Romania). (Berevoescu and Stănculescu, 1999).

Poverty is perceived as a product of the Romanian transition. Answering to the question "Why are there poor people in our society?", in May 1999 as well as in October 2003, more than a half of the population selected "the society we live in", while in 1993, only 35 percent blamed society. The options for "because they are lazy and lack the will to do something about it" (blame the individual) remained constant, 33.5 percent in 1993 and 36 percent in 2003. (Sources: POB OSF, 1999, 2003, and *Basic Democratic Values*, 1993, C.Zamfir coord., RIQL)

"When would you say that a person is poor?" was an open question used in eight community studies (Stănculescu and Berevoescu, in UNDP, 1999a) realized in four villages and four urban workers neighbourhoods. There are two main categories of poverty markers used by 86.5 percent of the subjects. The first group of signs that population uses to identify a "poor person" refers the non-satisfaction of the basic human needs. Poor people "do not have bread in the house", lack clothes, do not meet a diffuse subsistence minimum, are homeless or have a house very poorly endowed - considered 65.5 percent of the subjects. For other 21 percent of the people, "poor" are those "without money" or with money that are enough only to survive from a day to another.

"Which is the main problem of your household?" 27.5 percent of the population answered "better nutrition" in June 1994 (Zamfir, 1995) "If you were to win a large sum of money, a half of billion lei, how would you use it?" Out of the ten possible answers, 20 percent of the population chose "I would buy food, clothes, footwear" both in 1998 and 1999. (POB OSF, June 1998 and May 1999). These people have low relational capital (underdeveloped social networks), very low media consumption, and belong to households with low material capital, low educational capital and poorly endowed with durable goods. Lower the standard of living more frequent survival represents the only life project. Although Romanian households spend for food about 60 percent of their total budget, yet satisfactory nutrition represents the "main problem" for a significant number of families.

**Subjective poverty**

**1.** Questions of *satisfaction* toward personal and household income are included in most national representative surveys. The scale is either of five points (1-very unsatisfied to 5-very satisfied) or of four points (lack the middle point "neither, nor"). Also, satisfaction toward "household standard of living", "generally, with life", "present way of living" are frequently asked. Nevertheless, these indicators are most frequently used as predictors or analysed in a descriptive manner.

**Table 21** Satisfaction toward household standard of living and optimism regarding life in the next year, Romania 1991-2000, (% population 18 years or over)

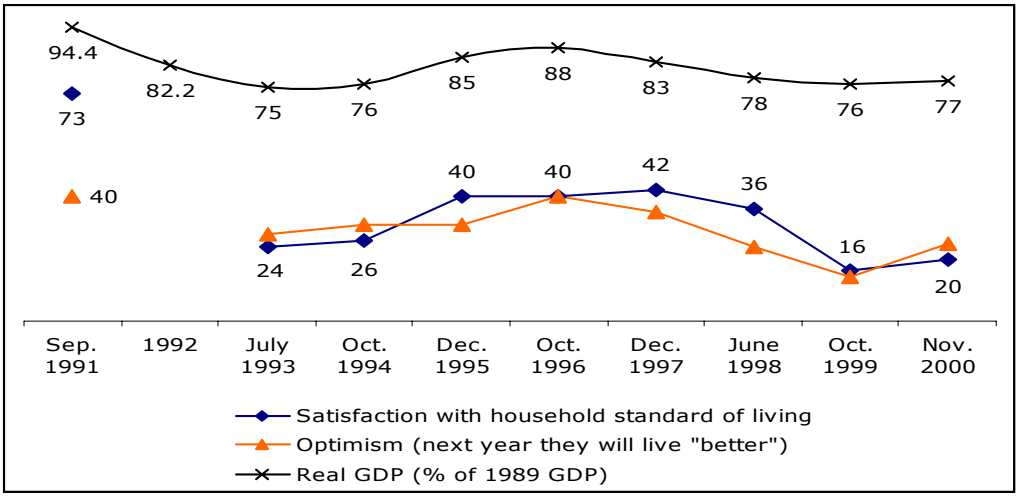
| Indicator | Sep. 1991 | July 1993 | Oct. 1994 | Dec. 1995 | Oct. 1996 | Dec. 1997 | June 1998 | Oct. 1999 | Nov. 2000 |
|---|---|---|---|---|---|---|---|---|---|
| "Satisfied" and "very satisfied" with their household standard of living | 73 | 24 | 26 | 40 | 40 | 42 | 36 | 16 | 20 |
| Optimist, next year they will live "better" | 40 | 28 | 31 | 31 | 40 | 35 | 24 | 14 | 25 |

Source: Abraham and Gânju, 2000: 77. CURS SA databases 1991-2000.

Based on public opinion surveys carried out by the CURS SA institute during 1991 and 2000, Abraham and Gânju (2000) illustrate the huge "satisfaction loss". The authors underline the existence of three phases of the "satisfaction with standard of living recession": the sharp decline between 1991 and 1994, followed by a relative recovery in 1995 – 1997, and the second fall during 1998 – 2000. The optimism dynamic follows a similar curve.

The authors explore the relation between satisfaction/optimism neither with the aggregate economic dynamic nor with the poverty dynamic, but they put the "recovery phase" in relation with the "pre/post-election optimism" (in 1996, general elections took place). Nevertheless, as Figure 9 illustrates the satisfaction and optimism curves are almost parallel with the real GDP curve.

**Figure 9** Real GDP, satisfaction with living standard and optimism regarding the next year, Romania 1991-2000 (%)




Data: CURS SA databases 1991-2000 and NIS (real GDP).

**2.** *Past-future subjective evaluation* represents the individual assessment of the economic standard/situation of the household dynamic, present compared to the last year (or last three/five years), and expectations for the next one (or next three/five years), which is frequently interpreted in "optimism - pessimism" terms. These types of subjective indicators are also included in various nationally representative surveys.

In the time span defined by last year-next year, Pop (1999) determined the "subjective losers" and the "subjective winners" of the Romanian transition, using POB OSF data for the period 1995-1998. In the first step, the author used a segmentation analysis based on the question "how is your present life now, compared to the previous year" (1. much worse to 5. much better) and six indicators at the individual level: age, sex, occupation, and education, and residential area (urban/rural) plus the historical region. The most important identification criteria (in their importance order) were: occupation, age and

historical region. The five groups resulted from this analysis have been tested with a loglinear hierarchical model[26] for the entire period 1995-1998, which showed that the profile of both the "subjective losers" and the "subjective winners" has remained constant throughout the period.

| | **Every year between 1995 and 1998, their life had been … than in the previous year** |
|---|---|
| **"Subjective losers"** of the Romanian transition | 1. "much worse": unemployed, 36 years or over, and pensioners located in Bucharest |
| | 2. "somewhat worse": workers, 26 years or over, pensioners all over the country except Bucharest, and peasants |
| | 3. "the same": technicians, associate professionals, clerical, and professionals, 36 years or over, and young (18-25 years) unemployed |
| **"Subjective winners"** of the Romanian transition | 4. "somewhat better": pupils/students, and younger than 35 years technicians, associate professionals, clerical, and professionals |
| | 5. "much better": employers and young (18-25 years) workers |

Source: Pop, 1999: 22.

Concerning expectations for the next year the author (Pop) showed that, throughout the period 1995-1998, while "the optimists" (believe that their life will be "better" or "much better" in the next year) are significantly over-represented among the "subjective winners" and the group assessing their life as "the same" (group 3. in the above chart), "the pessimists" (believe that their life will be "worse" or "much worse" in the next year) are nearly all "subjective losers" of the transition. Nevertheless, the author emphasizes that pessimism and optimism depend only in a small extent on individual characteristics. They are instead parts of subjective "vicious", respectively "virtuous" circles, being strongly correlated with perceptions of the "rules of game" of the transitional society. Thus, pessimist individuals share in large proportions (significantly larger compared to the optimists) beliefs such as in Romania "fortune" may be achieved only "by breaking the law", "for economic recovery" the country needs either "a firm president" or "support from rich (foreign) states", and "would be better to have a unique political party".

Sandu (1999b: 33-53) studied "social types of pessimism-optimism" based on opinion polls data for the period 1991-1999 (for 1991-1993 surveys of the Research Office of USIA in Romania and for 1994-1999, POB OSF data). The analysis is based on past-future (previous year, next year) subjective evaluation questions. Throughout the period few "individual optimism cycles" are identified, the variation of the optimism curve being consistent with both electoral and economic cycles. Thus, "waves of hope" are related to pre/post electoral enthusiasm (1992, 1996) and/or with years when the real wage as well as the food consumption (measured in average consumption of calories per day per inhabitant) improved (1994).

The curve of satisfaction with "present way of living" follows the same pattern but is more sensitive to economic cycles than to the electoral ones. Furthermore, satisfaction with life is richer in determinants[27] indicating the individual or household resources. In contrast, optimism is mainly determined of other attitudes/evaluations, out of all

[26] Variables: year of the survey, subjective evaluation of present life compared with previous year, age, historical region, and occupation. SPSS Procedure Model Selection, Chi square=3750, df=7652, p=1,00 (Pop, 1999: 23).

[27] The author tested the same regression model for optimism and satisfaction with present way of living. Predictors: age, sex (young, old), household durable goods index, household average income per person in the last month, "useful" social relations, satisfaction towards quality of human relations, index of satisfaction with the community (transport, medical services, town/village cleaning, leisure opportunities), satisfaction with personal finances, satisfaction with job, satisfaction with personal health, trust in government, area of residence, county level of development, trust in institutions of public order (Police, Army, Justice). The model for optimism included in addition the following variables: risk taking/risk aversion attitude, unemployment represents the main concern, satisfaction with present way of living, and evaluation of present situation compared to previous year. (Sandu, 1999b: 45-47, 181, 189)

individual characteristics only sex and age proving significant (women and young are more optimist than men and elderly).

Five "social types of optimism-pessimism" are determined by intersecting satisfaction with present way of living and optimism-pessimism (positive-negative expectations for the next year):

- "chronic pessimism" ("now is bad and next year it will be worse")
- "recent pessimism" ("it is good but next year it will be worse");
- "stable" ("it is bad/good and next year it will be the same")
- "reaction optimism" ("now is bad but next year it will be better");
- "continuity optimism" ("it is good and next year it will be better").

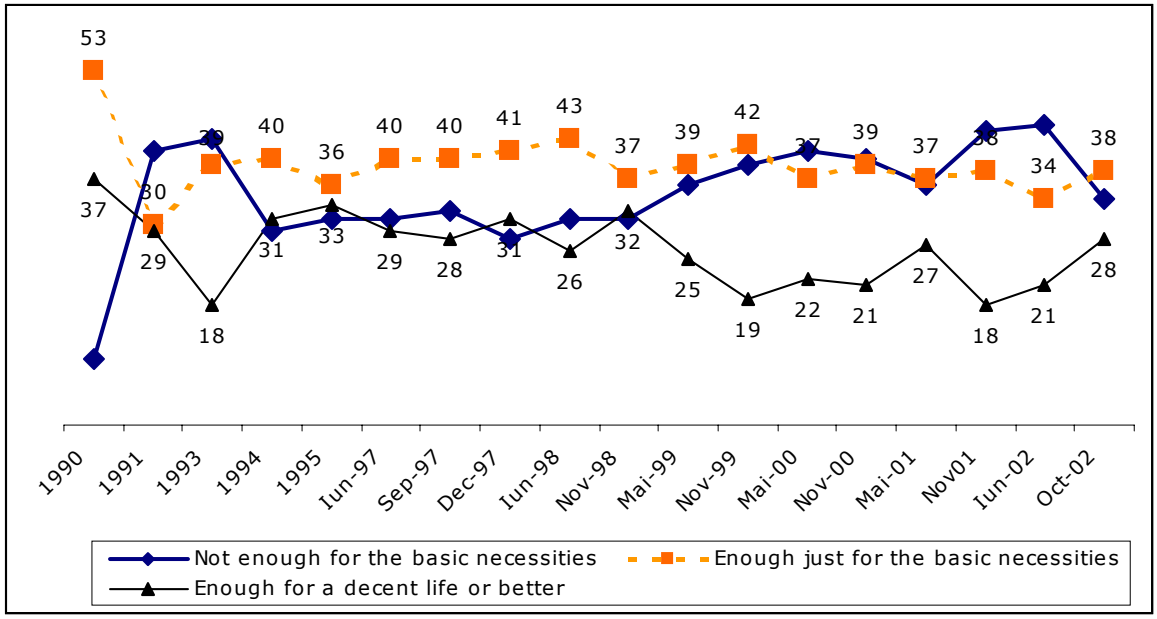
The main trend during the years 1997 and 1999 was the increase of the proportion in the total adult population of the "chronic pessimists" (from 18 percent to 35 percent) in the disadvantage of the reaction (from 20 percent to 14 percent) and continuity (from 23 percent to 9 percent) optimism. The five "social types of optimism-pessimism" are deeply embedded in the "status space" defined by wealth, age, sex, and residence. In addition, the multivariate analysis indicated that "optimism is part of an open culture defined by risk taking attitude, trust in government and institutions, and pro-reform opinions" (Sandu, 1999b: 50).

The next step of this analysis focused on the "persistent satisfaction", index built as factor score of evaluation of the present situation compared to previous year, satisfaction with present way of living, and optimism-pessimism regarding the next year. The author considers "persistent satisfaction" an aggregate measure of the "satisfaction with past, present, and future". A multilevel regression model, applied on 1998 data, indicated that household material[28] and social[29] capitals are highly significant determinants of the individual's score of "persistent satisfaction". Age was determined as the unique "objective" individual characteristic significant (higher the age, lower the score). Instead, other individual perceptions of society or own situation, and concerns (unemployment, inflation) proved to be highly influential. Out of the regional and community related variables only area of residence and location of the locality next to an European road were found as influential determinants.

**3.** Since the eighties when the Romanian sociologists developed the first survey on quality of life (Zamfir, coord.) a *subjective income question* was designed: "Compared to your family needs how do you assess your current family total income: 1. not enough for the basic necessities; 2. enough just for the basic necessities; 3. enough for a decent life but insufficient for purchasing of expensive goods (such as furniture, car or house); 4. sufficient for purchasing expensive goods but with efforts; 5. can afford anything you want". After 1990, the question was introduced in every QLD survey (RIQL) and also in most public opinion surveys. The subjective income question is highly correlated to the reported household income (Zamfir, 1995). However, there is no analysis similar, for instance, to the Dubnoff's (1985) one, who using a similar scale (in six points) showed that the household characteristics (particularly the reported household income and the number of members) are more influential than the individual's characteristics in determining the subjective income.

[28] Material capital is measured with the following variables: household durable goods index, household average income per person in the last month, household main source of income in the last 12 months comes from the private sector of the economy, cattle index, surface of agricultural land owned by the household (hectares).
[29] Social capital is a combination of variables at the household and individual level: "useful" social relations, trust in government, and average score of trust in managers, intellectuals, and journalists. (Sandu, 1999b: 50-52, 180-184, 192)

**Figure 10** Subjective income question, Romania 1990-2002




Data: QLD, RIQL, 1990-1994 and POB OSF, Sep. 1995 – Oct. 2002.

The subjective income question has been also asked in the national surveys on Roma population. While in 1992, the distribution of Roma's answers were rather similar with the entire population, in 1998 the large gap in poverty mirrored at the subjective level. Thus, 68 percent of Roma people appreciated their household income as "not enough for the basic needs", 18 percent as "enough just for the basic needs", and only 14 percent considered that their household income permits a decent life or better. (Zamfir and Preda, 2002)

The RIQL national survey on young population (16-29 years) done in 1994 used also the subjective income question. The results show that, in 1994, 19 percent of young evaluated their family income as "not enough to meet the basic needs" and another 35 percent declared "just enough to meet the basic needs". The probability of a negative evaluation increases significantly for married young people, for those living with parents, for those poorly educated, for unemployed and jobless young. (Marginean, Popescu and Zamfir, 1996)

**4.** *Self-identification as poor* indicator uses a scale of ten points (1-poor and 10-rich) and its role is to rank individuals according to their self-assessment as poor, medium or rich "compared to the others". "Poor" are those who self-identify on the first two positions. Most studies use this indicator as predictor. However, strong direct relation between household consumption or income and the individual self-identification as poor is proved in various community or regional studies.

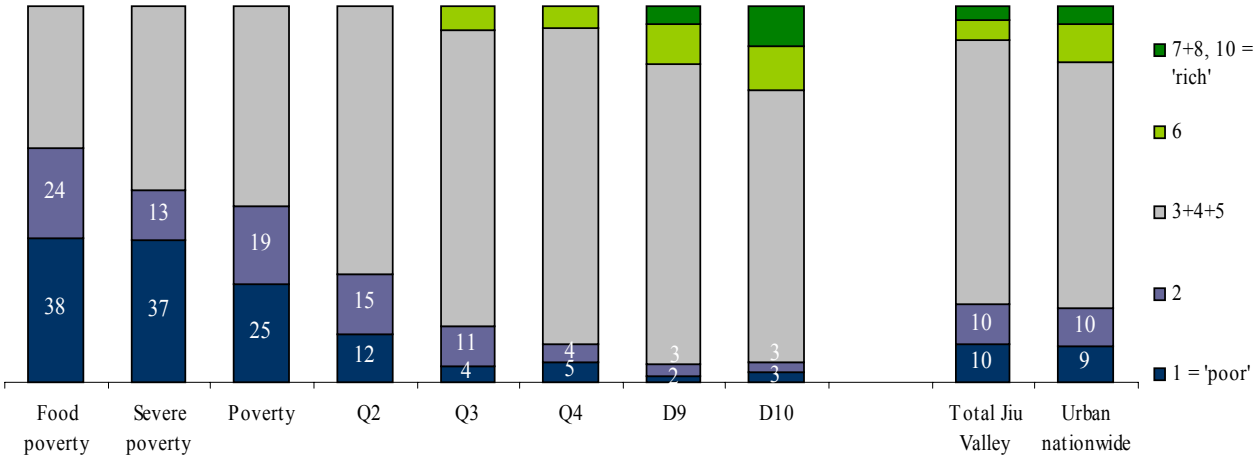
**Table 22** Compared to the others, where do you place yourself on the following scale?

| Year | Poor | | | | | | | | | Rich |
|---|---|---|---|---|---|---|---|---|---|---|
| 1998 | 6,8 | 10,6 | 17,6 | 19,6 | 31,4 | 9,5 | 2,2 | 0,7 | 0,4 | 0,1 |
| 1999 | 6,9 | 9,8 | 16,9 | 18,1 | 33,2 | 8,5 | 3,8 | 1,0 | 0,1 | 0,2 |
| 2000 | 7,7 | 8,9 | 15,7 | 17,3 | 37,1 | 8,1 | 2,9 | 1,3 | 0,3 | 0,6 |
| 2001 | 12,8 | 8,1 | 14,1 | 17,0 | 32,7 | 8,8 | 4,8 | 1,4 | 0,2 | 0,05 |

Data: Romanian POB OSF, 1998-2001.

For instance a World Bank study realized in the mining area Jiu Valley (*Economic Sector Work, Jiu Valley Regional Development*, Negulescu, coord., 2003) assessed poverty based on household total income per adult equivalent against the national poverty lines determined based on the IHS data (WB Poverty Assessment, 2003). As subjective measures four indicators were used: subjective income question, self-identification as poor, assessment of the present economic situation of the household compared to the one in 1989 (beginning of the transition), and income-evaluation questions based on which the consensual Leyden poverty lines were determined. The results of this study demonstrate that the great majority (over two thirds) of respondents from households in poverty assess their household income "not enough to meet basic needs", consider that their standard of living worsened after 1989, and more than a half self-identify "poor". At the other extreme, more than half of the respondents from households in the highest quintile assess their household income "enough for a decent life or better", declare that since 1989 onwards their living standard has remained the same or has become better and self-identify on the rich-to-poor scale on the middle positions, particularly 4, 5, and 6 (Stănculescu, 2003).

**Figure 11** Self-identification on a scale from 1 ('poor') to 10 ('rich')




Note: Respondents 18 years and over. Valid N=1,756.
Source: Stănculescu, 2003, Jiu Valley Social Assessment, WB Report. Urban national data from the POB OSF, April 2003.

As a general rule, the rate of subjective poverty measured based on the self-identification compared with others is lower than the relative poverty rate. For example, in 1998, only about 18 percent of the people self-defined as poor (see Table 10) compared with 33.8 percent, the relative poverty rate according to NIS estimations. The rate obtained using self-identification is also lower than the one based on the subjective income question. For instance, in 1998, while 31 percent of the population consider that their family income is "not enough to meet the basic needs" (see Figure 2), only 18 percent of the population self-defined as poor.

Self-identification as poor depends of a complex of factors such as material, human, symbolic or relational capital of the individual, but also on the development level of the community he/she lives. More developed the community where he/she lives, higher the level of expectations, thus higher the proportion of those self-identified as poor. In an extremely poor village located in Vaslui county (rank of the synthetic poverty index is 40, out of 41 counties of the country) from the North-East region, the average position on the poverty-to-rich ten points scale was 4.27 in the summer of 1998, only 16.5 percent of the villagers self-defining poor. In a community context very poorly endowed with infrastructure, with low human capital, where the NIS relative poverty rate was about 75 percent, the self-identification as poor was mainly determined by comparison with people

one interacts daily and not with an absolute standard (UNDP, 1999a). In others six villages belonging to Brasov and Sibiu counties (rank of the poverty index is 2, respectively 4) from Transylvania, the subjective poverty rate (determined based on self-identification) of 60 percent, exceeds the relative poverty rate, which was about 50 percent of the population. Between 1990 and 1992 these villages were left by hundreds of Saxons ethnics, at present being strongly linked with communities from Germany. The selected position on the poverty-to-rich scale is no longer result of the comparison with the other villagers but with the models seen or heard about from Germany or other Western countries. Thus, direct or intermediate interaction with Western models is associated with a high level of expectations difficult to meet. (Sandu and Stănculescu, 1999)

**5.** *RIQL Subjective poverty index* was built by RIQL (Zamfir, 1995: 28) as factor score of three indicators, namely subjective income question, self-identification as poor (applied as dichotomic question), and satisfaction toward family income (five points scale). The subjective poverty indicator as factor score explains 65 percent of the total variation of the model and takes values in the interval (-1.7, 2.7). The value zero was selected as subjective poverty threshold, all those below this line being considered subjectively poor (48 percent of the population in 1994).

**6.** Ştefănescu (1997) studied subjective poverty on the RIQL databases from 1993 and 1994. The analysis used the question "In present, what is the monthly income your family would need to assure the basics?", rather similar to the question Muffels et al (1992) used in their study. The author determined a subjective poverty line defined as the point in which the total reported income of the household equals the "subjective minimum". This subjective poverty line proved to be insignificantly different from the RIQL decent normative threshold.

The determinants of the subjective poverty line (logarithm) have been tested with a stepwise regression model. Five variables were used as predictors: *pens* (dummy variable, 1= head of the family is pensioner); tanar (dummy variable, 1=head of the family is young, under 30 years); adult (number of adults besides the family head); nrcopii (number of children in the family); raport (equal to total income of the family divided by the RIQL decent normative threshold). The equation (with R square of 0.56) obtained was:

Ln (subjective poverty line) = 12.1–0.37*pens+0.21*adult+0.11*nrcopii+0.12*raport

Thus, the higher the total income of a family, and the larger the number of adults or children in the family, the higher the subjective minimum estimated by the individual. On the other hand, individuals from pensioner-headed families tend to estimate lower subjective minimum.

**7.** Results consistent with Ravallion and Lokshin's (2002 subjective welfare in Russia) have been obtained in Romania in 1998. Using QLD data (RIQL, 1996, sample of 1511 households) Stănculescu (1998) applied the relative, the normative (per adult equivalent income, including in-kind) and the subjective estimation methods. The poor traced by both relative and normative estimation methods are those: living within large households including many inactive members, unskilled and with low education, owing small pieces of land if any, strongly dependent on social transfers and subsistence agriculture.

Subjective poverty was determined based on the *RIQL subjective index* (see above). The analysis revealed that 46 percent of poor people (according both relative and normative methods) are not subjectively poor. On the other hand, only 53 percent of all subjectively poor are also poor according the relative and normative methods. Thus, there is a large gap between the subjective and the objective estimates.

The author used two regression models for explaining subjective poverty. The first model, besides other variables, included as predictor the household income per adult equivalent.

In the second model the household income was replaced with a welfare index[30]. The equation (with R square of 0.30) obtained was:

Subjective well-being = 0.51*welfare –0.24*education -0.14*urban-0.10*nrcopii

In other words, in Romania, the higher the material capital of the household (flows + stocks), the better the individual's subjective well-being. Interesting, for the model using income as predictor R square drops to 0.20, and the corresponding beta coefficient decreases to 0.28. This finding shows clearly that in the uncertain context of transition, household assets (other than income) play a major role on the individual's subjective well-being.

On the other hand, "correlates of happiness" do not coincide with those presented in subchapter 2.1, at least not when happiness is measured using a complex index such as the RIQL subjective one, or least in Romania, or both. The age effect, at least in 1996, was insignificant, the positive influence of marriage did not exist, the same applies for the religious beliefs (more than 90 percent of the Romanian population is Orthodox); health and unemployment status were not included in the regression models. Furthermore, the relation between education and subjective well-being has been proved negative. The explanation stays in the high expectations of the educated people who although have more, they assess their situation according Western standards (a house, a car, stable and decent wages, holidays etc.) and, consequently are unhappier with their situation compared to the less educated who most dream just to a secure life.

In addition, Stanculescu ran multivariate analysis for an entire set of satisfaction variables, towards environment, social relations, political life, economical and social public services, work, and satisfaction with life. Worthwhile to mention is the lack of significance of both household income and household wealth. Subjective well-being instead is highly influential in determining all other aspect of "hapiness".

**8.** *Leyden subjective poverty line* and subjective poverty gap in Romania has been applied only within the World Bank study realized in the mining area Jiu Valley, above mentioned. Stănculescu (2003) determined two consensual Leyden poverty lines (survival subjective line and decent subjective line) based on income-evaluation questions applied to the respondents. In accordance with the literature, the Leyden poverty lines have been determined based on all households but also on the poorest 60 percent households (first three quintiles) and 30 percent of households (first three deciles). Firstly to be mentioned is the stability of the survival subjective line. There is a consensus that with an income lower than some US$ 25 per adult equivalent, per month, survival would not be possible. Thus, the consensual survival line is fairly close to the national food poverty line (the former represents more than 90 percent of the latter).

When it comes to the decent subjective poverty lines large gaps depending on the reference population emerge. At the level of the entire studied population, in intuitive terms, the decent subjective poverty line represents the income for a four-member family of two adults and two children, in which the mother is housewife and the father is skilled miner working underground. Thus, the decent subjective poverty line reflects the community cultural norm. Consequently, any poverty line (determined based on concrete incomes/expenditures) will be far of working as consensual line that distinguishes between poverty and a decent life. Moreover, the poverty gap (distance between the actual income and the decent subjective line) is quite high, which indicates high frustration with present standard of living. When the decent subjective line is based only on respondents from the poorest 60 or 30 percent of households its value diminishes considerably. However, even in this latter case the assessed income represents for the same four-member family of two adults and two children an amount four times higher

[30] It reflects the household material capital. The idea behind it was to capture both "flows" (income) and "stocks": household employment rate, ownership over a car (which is a highly discriminatory asset between poor and non-poor in Romania) and index of household endowment.

than the national minimum wage, two good wages in private firms or a wage of an unskilled worker that works underground.

Noteworthy are also the discrepancies between cities (Jiu Valley mining region includes six cities). In the larger and more developed cities people's expectations (and frustrations) are significantly higher than in smaller and poorer ones.

**9.** The most recent World Bank Poverty Assessment (Teşliuc et al, 2003) uses as subjective poverty measurement two items both related to consumption: "Can you buy enough food?" and "Does your household income cover the current expenditures?" In 2002, a half of the respondents declared that they cannot buy enough food and two thirds considered that their household income does not cover the current expenditures. The negative perception of the current level of consumption is considerable even for non-poor; in their case the corresponding proportions decreasing only to 42 percent and 59 respectively. Thus, there is a clear discrepancy between the consumption related 'objective' poverty determined by the researchers and people's perceptions regarding their consumption.

**Relative deprivation**

The relative deprivation scale was used only in few surveys and community studies.

Voicu (1995) performed one of the first analysis of relative deprivation, based on small samples from two villages with distinct profiles: one community rich and heterogeneous regarding inhabitants' socio-demographic characteristics and the other community poor and homogeneous. The author determined the community average of "objective" ($\overline{ODI}$), respectively "subjective" ($\overline{SDI}$) relative deprivation (in line with Mack and Lansley, 1985). While the $\overline{ODI}$ reflected the economic gap between the two communities (deprivation values for the rich village were lower than for the poor one), the situation reversed for the subjective index. In other words, in the poor and homogeneous village nearly everyone achieved what they wish for yet nobody is satisfied, whilst in the rich and heterogeneous village (wishes are more diverse, thus) a few achieved the community normative standard yet a large part of the population is satisfied with what they have.

In 2003, Sandu developed the first relative deprivation analysis at the national level, using POB OSF data. Firstly, he identified four groups of individuals based on the "level of resources" they hold. The index is built as factor score of three types of capital:

- human capital (factor score of individual's education and media consumption, namely how often he/she reads newspapers, listen to radio, and watch television),
- material capital (factor score of individual's income in the last month, average income per person of the household, and an index of the durable goods of the household)
- relational capital (index of the "useful" social network of the individual, namely acquaintances working in institutions such as hospital, legal office, police, Town-Hall that can help).

The three types of capital are highly correlated, consequently their factor score explains over two thirds of the variance of the entire model. The index "level of resources" has been divided into three equal parts. Out of those with minimal values, the group that obtained minimal values on every type of capital was distinguished. Thus, four groups emerged: "minimal", "below-average", "average", and "maximum" resources individuals. The "minimal resources individuals" are in large proportions old women based in rural areas, mostly in peripheral villages, highly concentrated in South and North-East regions of the country, overlapping to a certain extent the rural community map.

Secondly, the author computed the relative deprivation index (following the methodology described by Whealan et al, 2001), namely the global index (using all 17 items of the deprivation scale), the basic deprivation index (using the 6 items that refer to basic need:

daily bread, fish-meal, basic clothes, heating, housing costs, medicines), secondary deprivation index (6 items that refer to holidays, furniture replacement, social relations, new clothes and shoes, savings), and goods related deprivation (5 items referring to durable goods: automatic washing machine, automobile, telephone, freezer, and colour TV set). At the level of the entire population 18 years or over, the global index of relative deprivation has the value 3.1 (May 2003), the highest deprivation level being recorded for: 1. "cannot afford a telephone/mobile phone", 2. "cannot afford needed medicines", 3. "cannot afford new clothes and/or new shoes". However, there are large discrepancies according to the individual level of resources as the below Table 14 shows.

**Table 23** "Level of individual resources" and relative deprivation, Romania, 2003

| Type of relative deprivation | "Minimal resources individuals" | "Below-average resources individuals" | "Average resources individuals" | "Maximal resources individuals" | Population 18 years+ |
|---|---|---|---|---|---|
| - basic deprivation | 2.2 | 1.5 | 0.9 | 0.4 | 1.0 |
| - secondary deprivation | 1.3 | 1.2 | 1.0 | 0.6 | 0.9 |
| - goods related deprivation | 1.9 | 1.6 | 1.1 | 0.5 | 1.1 |
| - global deprivation | 5.4 | 4.3 | 3.0 | 1.5 | 3.1 |

Source: Sandu, 2003.

Thus, the higher the individual resources, the lower the relative deprivation.

Thirdly, the author (Sandu, 2003) shows that individual resources of education, income and social relations determine also the past-future subjective evaluation as well as satisfaction with "life", "health", "goods", and "housing conditions". Expectedly, the higher the individual resources, the more optimist and satisfied he/she is.

The relative deprivation method of assessing the subjective well-being was applied also in the Jiu Valley WB study mentioned above. Sandu's findings for the entire population have been confirmed in the mining region. What this study brought new was the relation between the relative deprivation and the household income measured poverty (determined based on WB methodology but on incomes and not consumption; used the national poverty lines for identifying the food-poor, the extreme poor, and the total poor). Thus, Stănculescu (2003) looked at each of the 17 items of relative deprivation, how these vary according to the household poverty status. Significant difference between the poverty groups makes only daily bread deprivation. On the one hand, only in the three poverty groups there are households that do not afford daily bread. On the other hand, the deeper the poverty, the higher the share of individuals deprived in this respect: from 8 percent respondents in households in poverty to 16 percent of those in severe poverty, and to 22 percent of respondents from households in food poverty.

Besides food deprivation, the housing deprivation makes the difference between the poverty groups and the rest of the population. Compared to all the other income groups, respondents from households in poverty do not afford the housing related costs; again the deeper the poverty, the higher the share of those deprived.

All the other deprivation dimensions (basic needs related to heating, clothes, footwear, medicines as well as other needs such as new furniture, a holiday outside the city, regular savings, social and cultural ones) do no longer differentiate between the poor and the others but between the poor plus Q2 (20-40% poorest households) and the others. In other words, significant proportions of respondents in Q2 are also deprived in all these respects, which is in harmony with the result obtained using the RIQL indicators of subjective poverty (see p.74).

**Social comparison**

Starting from the *Conditions of happiness* (Veenhoven, 1984) a group of researchers from Faculty of Sociology, University of Oradea, carried out in 1999 a survey in Bihor county on a sample of 885 individuals. Using these data Bălţătescu (1999) tested the correlation between satisfaction toward own situation and perception of other people's satisfaction, thus if personal satisfaction is influenced or not by social comparison. In this respect, the author used besides the life satisfaction indicator ("Generally, how satisfied are you with your life?"), another five social comparison indicators ("Generally, how satisfied with their life do you think that are family members/ neighbors/ relatives/ people in your town or village/ other people in the country?"). All questions use scales in four grades (1-very dissatisfied and 4-very satisfied). The main finding of this study is the "curve of descending comparison of satisfaction with life". That is to say that, the "concrete others" (family, neighbors, relatives) are perceived as "happy" or "equal unhappy", while the "abstract others" (other people from town/village and people in the country) are perceived "considerably unhappier". In other words, although the majority of subjects are not satisfied with their life, still consider that "abstract others" are in a "much worse" situation.

**Perceived quality of life**

Romanian sociology has already gained tradition in studying the "quality of life". This theoretical framework has been adapted to the country context and has been developed once the "quality of life" concept was developed in the mid 1970s. The novelty of the "quality of life" approach has consisted in taking into account individual perceptions and subjective definitions concerning both physical and social environments, living conditions, and also various aspects of life. "Quality of life" is not equal specific dimensions such as the economic standard, housing or health, but is a global approach that encompasses and puts in relation all these dimensions both at the 'subjective' and the 'objective' levels, at the individual/household, social group, community and/or society levels. Quality of life is about how people live and how do they consider their life, various specific methodologies and strategies of research being developed in this respect.

The first studies of quality of life in Romania used a comprehensive approach. The concept of quality of life in Romania was defined as a couple of two elements: 1. a state (measured using 'objective' indicators) and 2. a set of evaluation criteria based on which the state is evaluated by the population as 'good' or 'bad'. Thus, a complete quality of life research represents a barometer both of the state of affaire and of the state of spirit of the society. (Zamfir, 1984: 17)

The broad and complex grid of indicators, developed since the eighties, has been adjusted after 1990 and applied by RIQL within a longitudinal programme of study, by annual diagnosis (QLD). Consequently, there is a large body of literature concerning quality of life in Romania, either books or articles mostly issued in the *Quality of Life Review*. The concept of quality of life is estimated based on over 100 indicators grouped on the following dimensions: economic standard of the household (income, housing, durable goods, properties), conditions of life (individual, family, natural environment), subjective economic standard, work (activities and work program), working conditions, leisure, social environment, infrastructure and economic services, social services (education, healthcare), social participation, state of spirit, perceptions of change (optimism/pessimism), political environment, global life satisfaction, and security and public order. (Mărginean and Socol, 1991: 124-125)

For the first years of transition (up to 1993), QLDs surveys revealed a "surprisingly weak relation" (although statistically significant) between the level of reported monthly income (either individual or of the household) and the subjective income evaluation or satisfaction. On the other hand, a very strong correlation between the subjective indicators (subjective income question and satisfaction towards income) was recorded. (Mărginean et al, 1994)

Mărginean (1997) performed a dynamic analysis of the perceived quality of life based on a battery of 30 indicators (scale of 5 degrees), out of which 22 perceptions of living standard indicators (1-"very bad" to 5-"very good") and 8 satisfaction indicators (1-"very dissatisfied" to 5-"very satisfied"), QLD data for 1990, 1993, and 1996. The author identified five areas of perceived quality of life:

- "very critical area" (average values under 2): participation in decision making at local and central level;
- "critical area" (average values between 2 and 2.5): opportunities to find a job, opportunities of personal development, and income satisfaction;
- "area with serious problems" (average values between 2.5 and 3): participation in decision-making at the work place, leisure opportunities, evaluation of the country government, satisfaction with the political life of the country, assessment of the day-by-day life, access to education, quality of public transport, observation of personal rights, satisfaction with leisure, satisfaction with the social relations, evaluation of the public safety;
- "area of warning" (average values between 3 and 3.5): working conditions, town-hall activity, personal health, healthcare service, satisfaction with the personal achievements, environment, house;
- "area out of problems" (average values between 3.5 and 4.02): satisfaction with the work place (only for employed), quality of the educational services, satisfaction with the profession, quality of mass-media, relation with the neighbours, satisfaction with the family life and evaluation of the family relations.

During 1990 and 1996, the perceived quality of life related to individual's living conditions diminished, while that related to the social environment improved. However, perceived quality of life varies according the social and demographic characteristics of the individuals. Sex, ethnic affiliation, occupational status, education, and residential area are all significantly correlated with the perceived quality of life.

The same author Mărginean (2002) revisited the analysis of the perceived quality of life using 62 indicators included in the QLD, for the period 1990-1999. He built up seven "hierarchical categories of perceived quality of life": 1. "Privileges" (average value higher than 4.5, thus "very good" and "very satisfied"); 2. "Human relations of support" (average value 3.5-4.5, thus "good" and "satisfied"); 3. "Professional success" (average value 3-3.5, thus "rather good", "rather satisfied"); 4. "Leisure" (average value equal 3, thus "neither, nor"); 5. "Precarious conditions of life"/"Social pathology" (average value 2.5-3, thus "rather bad", "rather dissatisfied"); 6. "Survival" (average value 1.5-2.5, thus "bad" and "dissatisfied"); 7. "Fiscal pressure" (average value lower than 1.5, thus "very bad" and "very dissatisfied"). The sixth category "survival" refers mainly to the economic indicators: satisfaction toward personal and household income, satisfaction with the living standard, and self-identification as poor, but also indicators that point out negative perception of the society as "disregarding the poor", as "work-poor", as lacking opportunities for personal development, as "unfair" because "disfavour" workers and peasants, and as marked of conflicts between rich and poor, between employers and employees. Consequently, the economic aspects form at the perception level a highly critical area.

## *2.4.d. Slovenia*

**Tine Stanovnik**

The Centre for Research of Public Opinion and Mass Media of the Faculty of Social Sciences in Ljubljana carries out public opinion polls in which the respondents are also asked questions on their satisfaction with the quality of living, satisfaction with their work, financial position, standard of living etc[31]. These questions appear irregularly in the surveys. Answers to the standard of living question, or rather material deprivation, are reproduced in table 24.

**Table 24** Subjective perception of material deprivation

| Which of the following statements would best describe your current situation | 1993 | 1997 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| - spending without any particular constraints | 9.5 | 6.9 | 11.6 | 13.6 | 13.6 |
| - somewhat thrifty, restraint in purchases of less important goods | 33.6 | 40.1 | 47.8 | 43.5 | 46.3 |
| - very careful in managing financial resources, restraint in purchases of clothing, housing appliances etc. | 45.7 | 37.1 | 33.3 | 36.9 | 35.0 |
| - severe restraint even for food purchases | 6.7 | 2.8 | 3.5 | 4.0 | 3.4 |
| - experiencing lack of basic goods | 2.2 | 1.0 | 0.7 | 1.2 | 1.1 |
| - living in poverty | 0.9 | 0.6 | 0.4 | 0.7 | 0.4 |
| Do not know, undecided | 1.4 | 1.4 | 2.6 | 0.2 | 0.4 |

Source: Javornik and Korošec, 2003. Public opinion surveys, Center for Research of Public Opinion and Mass Media, Faculty of Social Sciences, Ljubljana.

Table 24 seems to indicate that a growing share of the population experiences less material deprivation and that it experiences improved material well-being.

There were attempts to include a question on the subjective perception of income into the Household Expenditures Surveys for all the Yugoslav republics. This initiative, undertaken in 1988, failed, and only the Slovenian Statistical Office included two questions in its 1988 HES. The Slovenian 1988 HES included the so-called minimum income question (MIQ). This question was formulated as follows: "With what monthly household income would your family not be able to lead a normal life (considering your current family situation and employment)?

The income satisfaction question was formulated as follows: "In relation to our living costs, our family income is: (1) very insufficient, (2) insufficient, (3) sufficient, (4) amply sufficient (encircle appropriate answer)". Both the MIQ and income satisfaction question (ISQ) were analysed in Stanovnik (1992); the latter question with the ordered probit model.

With regard to the ISQ, it has been shown that the answer depends on certain socioeconomic characteristics of the household, in particular: family size, family income, housing tenure and age of head of household. These questions were repeated in the 1993 HES. Following methodological changes in the HES, the MIQ and ISQ question were also modified. Thus, since 1997, the following ISQ was posed: "Considering your monthly disposable income, is your household able to make ends meet: (1) with great difficulty, (2) with difficulty, (3) with some difficulty, (4) without difficulty, (5) with ease, (6) with great ease". Answers to the ISQ based on the 1988 HES, 1993 HES and 1997-99 HES were analysed by Stanovnik and Verbic (2003). Once again, the analysis was performed using the ordered probit model, and the number of included explanatory variables was somewhat larger than the analysis in Stanovnik (1992). The statistical estimation

[31] Results of the Public Opinion Surveys for the period 1990-1998 are published in Toš (1999).

produced results, which were mostly according to our expectations. Thus, family income is positively related to satisfaction with one's income and family size is negatively related (all other things being equal). Similar to the analysis by Stanovnik (1992), home ownership is positively related to satisfaction with one's income. Also worth mentioning is the fact that elderly households tend to be more satisfied with their income (all other things being equal). This is hardly surprising, as elderly households also have lower income aspirations.

# 3 Annex

During this review we frequently used HBS or IHS acronyms that stand for the Household Budget Survey or Integrated Household Survey. For this reason we include in this annex few information about the Household Budget Surveys by country.

**Bulgaria**

The household budget survey (HBS) in Bulgaria is conducted annually by the National Statistical Institute. The HBS questionnaire gives information on: household composition and socio-demographic characteristics of members; numbers of days at work and absence from work due to illness for all workers in the household; amounts of money and in-kind income by sources; amounts of money and in-kind expenditures by uses; purchased amounts of food products and some non-food goods; goods produced and consumed by the household; and the number, turnover and production from household animals.

The size of the annual HBS sample is 2,508 households from 418 sites for 1988–1992. There were some changes in 1993 and in the middle of 1994 an additional 3600 households from 600 sites were included in the sample.

The method of the survey enquiry is self-recording by a member of the sampled household, combined with an interview. Households record daily information on: all money expenses for food and non-food products, services and other; all money income from wages and salaries, social insurance, sale of produce from household plot and other sources; income in-kind and consumption of food and non-food products; data on the members of the household and changes in the household or its members.

Diaries are kept for a whole year, avoiding problems associated with within-year inflation. Interviewers attend a household at least twice per month. They carry out a detailed interview with members of household and check for completeness and reliability of records in the diary.

Survey concept of income includes seven major sources - earned income, property income, social insurance, social benefits, income from sales, other sources of income, income from loans, credits and savings. Some of these sources, such as income from sales of property, borrowing and saving withdrawals, do not belong to current income. The inclusion of these sources potentially alters income distribution in Bulgaria, as they are typically concentrated in the richest groups. The income unit which corresponds with the income concept employed in the Bulgarian income survey is the household. The household concept adopted in the survey includes one-person households, one family households, and households of more than one family who make common provision for food or other essentials for living. This concept includes salaries and wages in cash and in-kind (excluding social security and private insurance contributions both by employees and employers), net income from self-employment including consumption of own production, income from personal property and investment including imputed rent from owner-occupied dwellings, social security and private insurance transfers, minus personal income and property taxes. However, the Bulgarian survey does not include imputed rents.

**Hungary**

The studies analyzing the income and the expenditure of households in Hungary during the 1990s relied on two large, comprehensive databases: the household statistics of the Central Statistical Office (CSO), and the Hungarian Household Panel (HHP) survey of TÁRKI. Many studies and articles used TÁRKI's HHP database. Probably due to its not being a panel, the database of CSO's Household Budget Survey (HBS) was less frequently used for measuring income inequalities and for tracking their changes in time.

TÁRKI's HHP study focusing primarily on gathering income data was closed in 1997. Since that time no panel data of the Hungarian households have been collected. Hence the

primary aim of Kapitány and Molnár (2002) was to establish a panel database for the period between 1993-1995 and 1996-1998 on the bases of CSO HBS[32]. This database is named Hungarian Rotation Household Panel (shortly: Rotation Panel) referring to the method of its creation.

**Romania**

The information on income and the expenditure of households in Romania is derived from two comparable, nationally representative surveys carried out by the National Institute for Statistics: (i) the Romanian Household Budget Survey (ABF, upon its Romanian acronym) for the period 2001-2002; and (ii) the Integrated Household Survey (AIG) for the period 1995-2000. These two surveys are perfectly comparable (Tesliuc, Pop and Panduru, World Bank project, 2003).

The ABF (AIG) is a multi-purpose nationally representative survey administered by the Romanian National Institute for Statistics (INS) in cooperation with the Ministry of Labor and Social Solidarity, and designed with the technical assistance of the World Bank. The survey was first administered in April 1994, and continued since. The survey aims for an annual sample of 36,000 households, in fact 12 repeated cross-sections of 3,000 households interviewed for one month during the year. Each month, responses are gathered from 2,600-2,800 households out of 3,000 selected households. These households provide detailed information regarding demographics, assets, labor market activities, income, purchases and consumption for that month only. The information is collected using a household questionnaire (administered in three visits by trained interviewers), complemented by a diary. The diary is used to help the household keep track of cash flows: incomes, expenditures, and savings.

Initially, the survey was designed as a rotating panel, with 50 percent of the households interviewed in a given year to be interviewed again the next year. This feature was not respected during implementation. So, households have been interviewed for 2, maximum 3 consecutive years, especially during 1995-1998. Based on these, Tesliuc and Pop established a rotation panel (database of 3,000 households). No panel element was maintained since 2001, with the implementation of the ABF.

The strength of the ABF (AIG) is in measuring monthly current consumption, i.e. household purchases of food, non-food and services, as well as consumption of food out of own production. The food consumption module collects information about the consumption of 104 (83) commodities, using a balance approach. The household reports the initial stock of that commodity, the inflows and outflow during the month, and the final stock. The inflows are split between (the value and quantity of) goods bought *(B*o), quantities produced on-farm, derived from processing, received in gift or in exchange with other commodities. Outflows consist of (the value and quantity of) goods sold, processed, given as gifts, used as farm inputs, exchanged and goods consumed *(C*s) by the members of the household. One can determine consumption out of own production as *Sc* = max (0, *Cs* – *B*o), and the amount purchased as food for the household members as *Pr* = *Cs* – *S*c. The non-food module collects information on the purchases of 121 (113) items, mostly as total monthly outlays. Similarly, the services module records information on the value of the monthly purchases of 89 (56) items. The survey does not record the self-consumption of non-food or services. The survey collects information on few durable goods owned by the household.

In the Romanian NIS household survey income data suffer from incomplete measurement. Total income represents a simple aggregation of the cash income with the costs of home production that have been declared in the month when the household was surveyed, which induces seasonality distortions. Nevertheless, data permit calculation of the current monetary disposable income, which includes earnings, income from self-employment, pensions, other social transfers, income from capital and property rights and intrafamily monetary gifts and transfers.

32 On the panels between 1993-5, see Kapitány, Keszthelyiné Rédei and Molnár (1999).

Romanian Household Survey is highly underutilized being rather unavailable except for UNDP and World Bank studies. Consequently, most Romanian scientists rely on nationally representative polls. Worthwhile to mention is that in Romania most surveys (such as Public Opinion Barometer or Quality if Life Diagnosis), besides opinions, use household grids (record demographics for all members of household), income and consumption measures (some quite extensive, constructed in a manner comparable with NIS), extensive data on housing, durable goods and various other assets (land, properties etc.), and labour market data (some more extended than IHS). Despite inherent biases and smaller number of individual/households (about 1,500 to some 2,200) most results based on survey data has appeared on relevant dimensions very close to those obtained based on IHS data.

**Slovenia**

Since the late 1980s, research on poverty and income inequality has been performed regularly in Slovenia. This research was mostly based on the Household Expenditure Survey data. The survey is carried out by the Statistical office of Slovenia; up to 1993, the "big" surveys were carried out in five-year intervals, and smaller surveys were carried out annually.

The "big" surveys were carried out on larger samples than the annual surveys, and are in this respect more reliable. The annual surveys were being carried out till 1996, when methodological changes were introduced. In spite of these changes, comparability with the previous surveys is assured. In order to obtain similarly large samples as in the previous surveys, three annual surveys are now suitably merged. Thus, the 1997-1999 survey refers to the merged three annual surveys for 1997,1998 and 1999.

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