

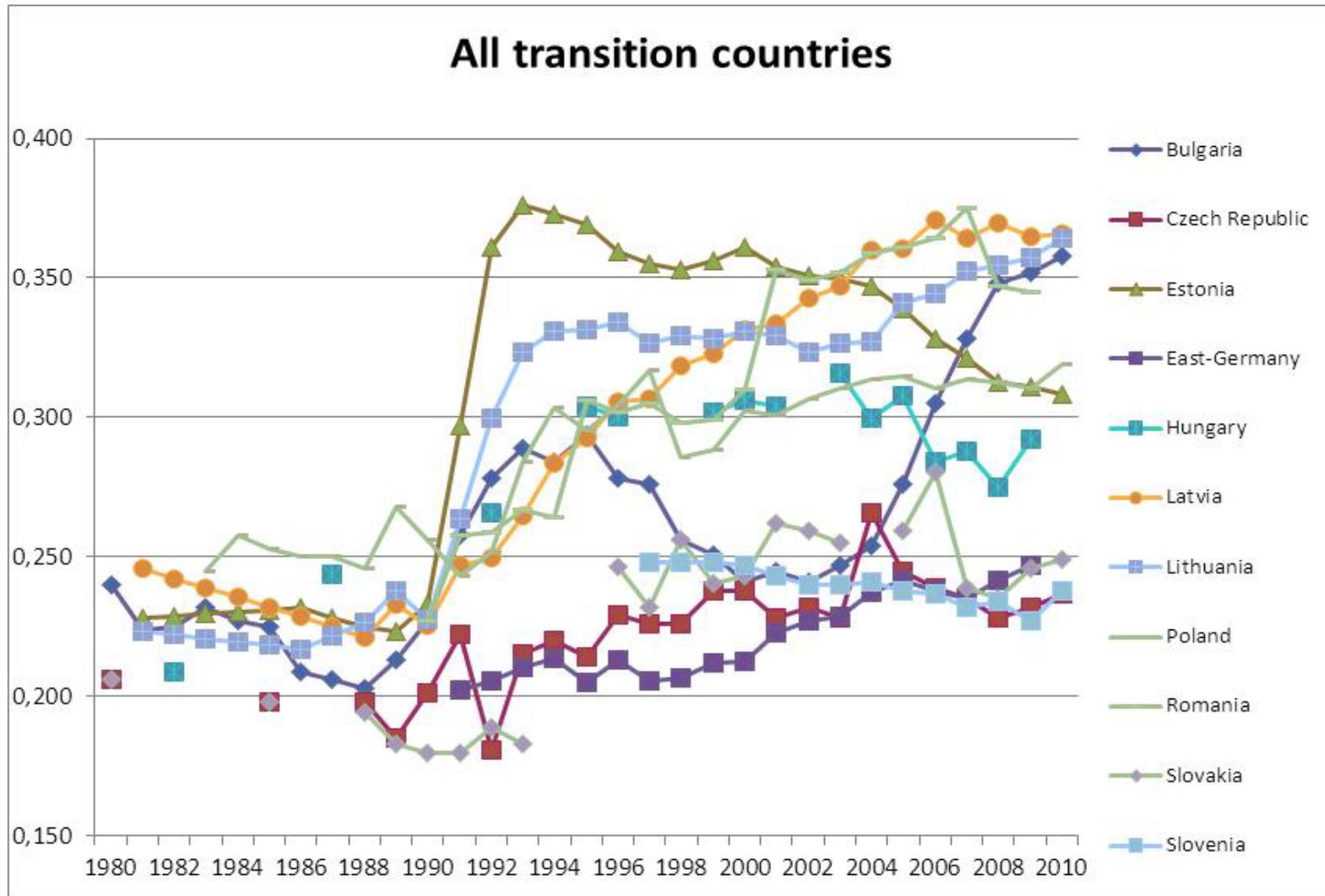
What can we learn from
country experiences?
Poland and the Baltic States

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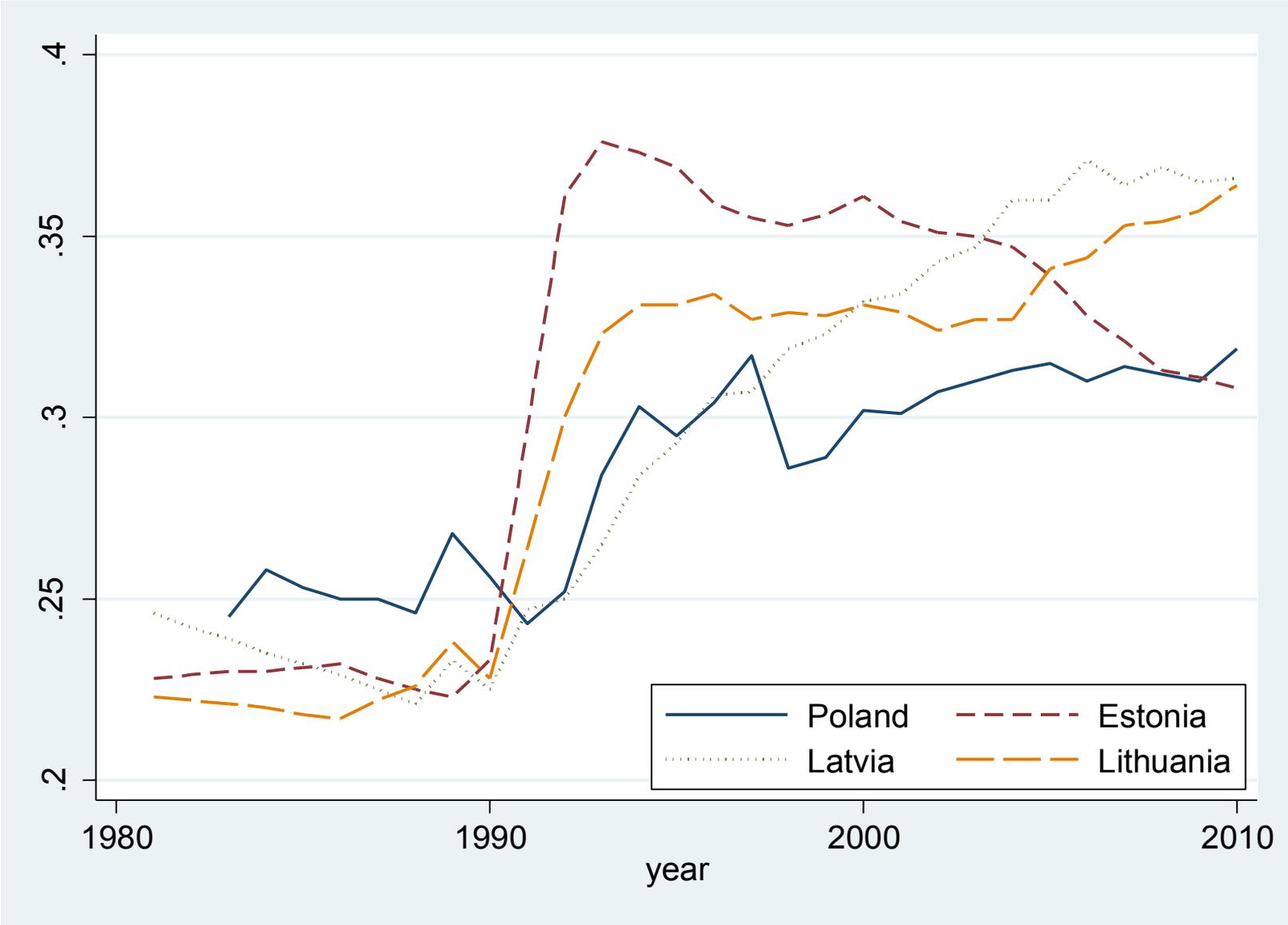
GINI concluding conference, 4-5 June 2013

Trends in income inequality (1)

The evolution of Gini index in post-socialist European transition countries



Trends in income inequality (2)



Similarities and differences in inequality trends and their possible explanations

- An **explosion of inequality** in Estonia and Lithuania over 1990-92 (Gini rise by 10-13 points), while only a gradual increase in Latvia and Poland
 - Estonia (very quick introduction of radical free-market reforms; fast privatization; withdrawing state's redistributive functions; exceptionally low educational premia in socialism turned into high premia)
- Slower, but constant growth of inequality in Latvia vs. stabilization in Lithuania and Poland
 - Latvia (slower transition; legacy of big industrial socialist sector;)
- Relatively slow and moderate in size inequality rise in Poland
 - Slightly higher initial level of inequality; quite generous unemployment protection and social transfers in 1990s
- Steady **fall in inequality** in Estonia after 1993
 - Decreasing returns to education (?); migration of low-skilled workers

Social impacts

- **Fertility:** negative correlation between fertility and inequality in the Baltics in 1990s; in Poland fertility started to decline already in 1970s.
- **Self-perceived health:** is may be correlated with educational level in the Baltics; while there is no such relationship in Poland, where the correlation between financial satisfaction and health statuses has followed closely changes in the Gini.
- In Poland, there is no evidence that rising inequality has affected material deprivation, satisfaction with life, social cohesion or crime.
- There is strong correlation between inequality and crime in Latvia.

Political and cultural impacts

- In all four countries, it seems that the growth of inequalities has had a **profound negative effect on politics and system legitimacy** - the decline of confidence in political institutions, falling voting turnout and unionization
- For all four countries, social trust has declined initially in early 1990s, but started to grow since then – it seems that trust has followed rather changes in economic growth than inequality changes.
- **High and growing aversion to inequality** in all four countries: the proportion of people perceiving inequalities as too large is high; in Poland the trend in the proportion follows closely the Gini.

Effectiveness of policies combating inequality

- The shares of taxation and public spending in the GDP has been relatively low in all four countries
- The Polish tax system has become less and less redistributive over time; until recently, taxation policies in the Baltics benefited the wealthier part of the society.
- In Poland, combating income inequality has never been a part of political agenda; this may be because of the prevailing free-market economic worldview of majority of Polish policymakers emphasizing growth as a cure for all economic problems.
- This creates **a mismatch between politicians' priorities and a growing aversion to inequality** among Poles that may undermine system legitimacy in vulnerable times.

Conclusions about Poland and the Baltic States

- Inequality increases have been **moderate and high** in this group as compared with other transition countries
- Lithuania and Latvia have ended up with significantly higher inequality levels than Poland or Estonia
- There are some social impacts of growing inequality visible in the Baltics (fertility, crime, health)
- Both in Poland and in the Baltic countries there is **evidence on high and growing inequality aversion and the correlation between rising inequality and negative political effects** – declining confidence in politics, political participation and unionization