

**Income Inequality
in
East Europe**

B. Debroy

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
PUNE 411004**

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FOREWORD

The eight socialist countries of Eastern Europe form an insubstantial part of the world's population and economy. Nor are their trade ties outside the socialist system strong. The most important aspect of a study of the economics of socialist countries would, therefore, be from a comparative point of view as to the relative merits and achievements of the socialist system of economic organisation compared to a capitalist or mixed economy.

A comparative study of all aspects of socialist economic systems would be of monumental proportions and would be beyond the resources of one scholar. Debroy has, therefore, selected a very specific aspect of the socialist system for study, namely the inequality in incomes. This is an appropriate beginning since the socialist system is recognized to be more egalitarian than other economic systems.

This particular study makes a comparison of income inequalities among the socialist countries of Eastern Europe. Comparison with other economic systems would have to come later. There are special problems in accounting for individual or family income in a socialist country since health, educational and welfare services are provided on the basis of individual needs and their value has to be imputed. In a socialist system these welfare services could form a substantial portion of individual benefits than in other systems. There are also problems about creating a data base for this comparative study. East European socialist countries have eight officially recognized languages belonging to three major linguistic groups. The economic data are to be gleaned from publications in these languages because they are not available from English publications.

There are methodological problems in carrying out an analysis of income distribution from secondary source data. For instance, the open-ended income categories have to be closed using Pareto or other assumed distributions.

Given these several limitations, Debroy has done a creditable job in carrying out the comparative analysis and has brought out a useful study on income inequality in East Europe. The literature citations are extensive and would prove useful especially for a reader not fully conversant with this field. It is hoped that Debroy would follow up this study with other aspects of East European economics and extend the comparison of the socialist system to other systems of economic organisation.

Gokhale Institute of
Politics and Economics,
Pune 411 004

K. Sivaswamy Srikantan
Offg. Director

August 11, 1986

PREFACE

The socialist countries of East Europe (Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and Yugoslavia) together accounted for about 3% of the world's population in 1980. Their combined share in the world's total production of coal, crude petroleum or crude steel was less than 1% in 1980. If one adds the contribution of the Soviet Union and that of the socialist countries of Asia, Africa and Latin America, these shares would go up somewhat. But what these figures do illustrate is that these eight socialist countries of East Europe do not form a sizeable section of the world's economy; no matter how one chooses to measure their share. The case for studying these socialist countries is however not couched in terms of their contribution to the world's economy. What is interesting about the socialist countries of East Europe is that, together with the Soviet Union and/or China, they represent in more senses than one a direct contrast to the Western economic systems or even to the economic systems of the third world. They are of an altogether different genre, certainly differing within themselves, but collectively representing what might be called the socialist economic system.

There are ways and ways of evaluating economic systems. One can be interested in absolute norms of evaluation, in which case one studies the values of various statistical indices which purport to reflect the overall functioning of the system. Or one might be interested in relative terms of comparison. In that case one might pose different questions in comparing across economic systems. One might use statistical indices like the gross national product or the per capita income or the production of selected commodities. And probably study the time profiles of these indices. Or one might ask what are even more fundamental questions. Does one economic system allocate resources more "efficiently" than another? The notion of "efficiency" must of course be suitably defined. How does the decision-making structure in one system compare with that in another? Is the distributive mechanism of one system "better" than that of another system, "better" being suitably defined. Is it "fairer", more "equitable"? Obviously the answers to these questions will depend to a certain extent on how the notions of "efficiency", "fairer", "better" or "equitable" are defined.

One of the most logical ways to evaluate a socialist system is in terms of the distributive mechanism, since traditionally, the appeal of a socialist system is in a fairer distributive system and not so much in a more efficient allocation of resources. In the initial periods of reconstruction, the socialist countries did seem to be remarkably equal. Free medical and welfare services were instituted. There were sweeping reforms in the fields of taxation and income. Educational facilities were increased

and were made more open. Employment was made more secure. There did seem to be a bias towards a more egalitarian distribution of income. The reforms in the educational system were especially important, since in the last resort, it is the level of education that determines to a large extent an individual's occupation and social status. During this period of socialist reconstruction, the entire philosophy seemed to be one of positive discrimination in favour of the working class. The possibility of an egalitarian promised land was partly belied in the future. The case of the Soviet Union can be taken to be symptomatic of what has been said to happen in the socialist countries of East Europe in the post reconstruction period. The increase in economic inequality in the Soviet Union in the Stalinist era is well documented. This trend was also true in general of the socialist countries of East Europe and has also been reasonably well documented. The inequalities that are endemic in these countries have been pointed out, mostly in a sociological context. In fact it has been argued that the distributive system in these countries is not so egalitarian as to demonstrate conclusively their superiority over mixed capitalist economies, at least as far as the distributive aspects are concerned. This is of course particularly true of the distribution of income, though not of the distribution of wealth or property. As a corollary, it has been argued that the essence of the distributive system under socialism is no different from that under capitalism. The convergence thesis argues that the socialist countries of East Europe seem to be heading towards a system of class stratification that is similar to that of the Western capitalist type.

It is of course possible to adopt the position that this stratification is not a characteristic of the socialist system *per se*, but is a survival of the capitalist past. It can also be argued that the stratification in the socialist system is phenotypical, it is not genotypical as in the case of the Western capitalist economies. Alternatively, it might be argued that the stratification in the socialist countries of East Europe and the Soviet Union are characteristic of state socialism or etatism. These existing socialist systems are thus departures from the model socialist state, the demerits of the system are explained away as aberrations from an ideal state of being. Justifications for the stratification have also been found in a functional theoretic framework.

The present study is not concerned with making comparisons with the Western economies or with the developing economies of the third world. It merely focuses on inequality within East Europe. Nor is it concerned with many of the broader aspects of the issue of inequality. The concern is not with the relational aspects of inequality, the study discusses the distributional aspects of inequality alone. And within the distributional aspects, the distribution of income alone has been singled out for examination. It was felt that not

enough work had been done on income inequality in East Europe, so that the present study might fill a gap in the literature. The obvious reason as to why not enough work had been done on income inequality in East Europe was the paucity of data that were available, as well as the lack of availability of data in English language sources. As the discussion in the text makes clear, the paucity of data has been a problem even in the case of the present study. Data, for the most part, have been collected from non-English language sources.

In completing any research work, major or minor, one accumulates debts. The study would not have been possible without access to the wealth of material on East Europe that is available in the library of Gokhale Institute of Politics and Economics. I am indebted to the staff of this library for considerable help in ferreting out material. A number of individuals have made comments on earlier drafts. Not all of the comments have been incorporated. Had I sought to incorporate all of these comments, there would have been no study that could have been published. I am particularly grateful to Professor K.K. Dasgupta and Professor B.G. Bapat, my colleagues at the Centre for the Study of East European Economies, Gokhale Institute of Politics and Economics. I am also grateful to Professor K.S. Srikantan for the interest he has shown in my work on income inequality in general, and East Europe in particular, over the last couple of years.

Gokhale Institute of
Politics and Economics,
Pune 411 004

B. Debroy

August 1986

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