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Izlaganje sa znanstvenog skupa

DEMOCRATIC VALUES AND INEQUALITY, OR DEMOCRATIC INEQUALITY? A CASE OF THE FORMER SOCIALIST COUNTRIES

There is a lot of research on the relation between political democracy and income distribution and the correlation between economic growth and presence of a democratic regime based of cross country data but it has failed to find any robust relationship between inequality and democracy (Bollen and Jackman, 1985; Li et al, 1998). Or, to be precise, Milanovich and Gradstein came to the conclusion that -- there is a relatively weak effect of democracy on inequality (seldom statistically significant when controlled for other factors); the effect is particular weak for presidential systems (parlamentary systems are more pro-equality).

Relations between economic growth and inequality remains unclear. Bigsten and Levin (2001) argue that countries that have been successful in terms of economic growth are also more likely to have been successful in reducing poverty. There is no constant relationship between growth and changes in inequality.

On the contrary, Clarke (2001) stressed that inequality is negatively correlated with growth. However, the correlation between inequality and growth is not dependent upon whether the government is a democracy or a non-democracy. Boix (2000) suggested that the positive impact of economic growth in introduction of democracy is conditional upon the presence of organisations that allow for credible commitments among the poor.

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The situation becomes even more complicated if the experience of transitional economies are taken into account-- Milanovich and Gradstein state that while democracy and inequality increased practically in all transitional economies, higher increases in democracy were associated with lower increases in inequality. In other parts of the world the conclusion drawn from the studies is just the opposite-- the increase in democracy corresponds to decrease in inequality.

This phenomenon gave rise to a number of studies. The analysis of the relevant literature made Gradstein et al (2001) to suggest that democratization affects inequality indirectly. The aim of this paper is to have a closer look at that such indirect factors might be and how they are likely to form links between democracy and inequality. This is not to say that there is no link between democracy and inequality at all rather that such relationship is by no way simple.

Limitations and problems of the analysis

From the beginning we would like to point out some important limitations of research on democracy and inequality. As limitations of existing methods of measuring inequality and democracy are well known and discussed elsewhere it seems necessary to focus mostly on specific problems related to collecting and interpreting data for the former socialist countries.

1) The data on inequality comes from statistics and surveys. And the most popular measure of income inequality is Gini coefficient. It should be stressed that income is one of the most widely used indicators to measure inequality as it is relatively easier to calculate and compare. It can be suggested that the nature of inequality would be exacerbated were we to employ a comprehensive definition of income and took into account all the benefits, even what governments failed to do.

As a result there is an evident tendency to adapt a narrow focus paying direct attention largely to a classical form of inequality, income inequality, while other dimensions of inequality that are not so easy to quantify are often overlooked (age, gender, ethnicity).

Among factors that can alter the official estimates of income inequality in the former socialist countries the following should be mentioned first of all.

· Informal economy and informal income that are not counted by the official statistics. In the region discussed informal employment has always been a significant

source of income and consumption. Employers avoid reporting wages to escape payroll taxation. However, while income from informal activity certainly helped to support living standards of the poor it appears to have benefited well off families more. In Russia, for example, according to some estimates, more than 70 per cent of informal income go to the richest 20 per cent. So, it is likely that informal income could substantially strengthen overall inequality in society, and should be taken into account when the effects of income distribution on equality are appraised.

- Occupational provisions as their exclusion from the total welfare distorts understanding of the real scope of inequality in different countries. In the region the role of employers in providing social welfare for employees has traditionally been quite substantial.

- Country houses and possibility for people to have products from their plots of land. This practice is particularly widespread in Russia and other CIS countries. It is mostly low income families who benefit from consuming home produced goods.

The democracy is even more difficult to measure – in our paper we used Freedom House ratings for democratization, that is based on evaluating political rights and civil liberties. In fact, the difficulty to quantify democracy makes it rather difficult to compare economic and “political” indicators, especially in a long term perspective and, therefore, the results of such comparisons should be treated with caution.

2) Comparative approach to the problem also poses certain difficulties. Cross country comparisons are extremely difficult to carry on because information coming from the national sources may not be fully comparable. As a result, comparative inequality studies are mainly based on the data collected by international organizations, such as UNDP, UNESCO, World Bank that have sufficient resources both human and financial to carry out such type of work as well as a good access to national sources. However, there are often discrepancies in the data released by these agencies. One of the problems for the former socialist countries is that at the beginning of the transition period they changed their statistical systems to adapt them more to international standards and it is difficult to compare pre- and transition indicators.

Besides, the selection of countries for analysis also affects the results (see for example, Ivaschenko, 2001). In cross countries comparison that involve the large selection of countries (27 in our case) specific social and economic condition in which inequality might be embedded are missing. Therefore, it would be useful to supplement large scale comparisons with country specific case studies.

Our analysis reveals one more aspect that researches in the field should think more about -- it soon might be unproductive to cluster former socialist countries together, however similar they seem to be in certain respects, especially taking

into account the coming EU accession of a number of East and Central European and Baltic states.

3) The issue of wealth is clearly central in the analysis of inequality, yet statistics on wealth are everywhere problematic. This can hardly be accidental since countries have special statistical bodies to collect information. Generally, income is more equitably distributed than wealth. While wealth distribution in most states remains very unequal the degree of inequality does vary from society to society. As a trend, wealth distribution became more unequal during the 80s-90s in most countries.

The problem: rising inequality in the former socialist countries

The UN report (1993) states that the Gini coefficient which is a measure of income inequality was lower in Eastern Europe and the Soviet Union than in any other world region. In the former socialist countries distribution of income was quite egalitarian. For Central European countries Gini slightly increased-- maximum in Poland from 0.275 to 0.341, to Slovenia where Gini even slightly decreased. For the former Soviet Union, Gini demonstrates larger increases in all countries, except Belarus. The biggest values—about 0.400-- are for Kyrgyzstan, Russia and Turkmenistan. (See Tables 1-4)

These data highlights three problems: first, how substantial is inequality in the region, second, why inequality has increased during the transition period; and third, why inequality has increased unevenly across countries in question?

How deep is inequality in the region compared with other countries? Is Gini in the region in fact that high that gives cause for concern? Gini values of 0.25-0.35 provide a benchmark as inequality in most industrialized countries falls within this range. Inequality in the region was at the lower end of this range at the start of transition but increased during the 1990s. In Hungary and Poland Gini remained close to the average in advanced industrialized countries. However, it is worth noting that there is a significant trend to greater inequality in a modern world, both between and within the countries. At that the pattern of inequality remain stable-- rich countries are becoming richer, poor countries are becoming poorer. The same pattern applies to income groups within the countries. As to the country case, growing income inequality and volatility have characterized the US pattern of growth since the early 1970s. Reagan administration policies produced a massive concentration of wealth in a society already known for its inegalitarianism. The Gini for the USA was 40.8 in 1997, for the UK—36.0 in 1995. The ratio of the

richest 10 % to the poorest 10 % was 16.6 and 13.4, accordingly. At the same time poverty rates increased significantly in many developed countries.

Besides, it seems that in some cases the lower inequality is not directly translated into more happiness in the society – for example, Slovenia, that is doing very well in equality with the lowest Gini in the region at the same time has the highest record of juvenile suicide.

How to explain that transition caused an increase in inequality? The two most conventional explanations come from evaluating the progress of economic reforms. According to the World Bank analysis (WB, 2000) very large increases in inequality were caused by a lack of reforms and by the so called state capture, the ability of the powerful groups to influence policy for their own enrichment. On the other hand, inequalities can be explained by the fact that people were able to avail themselves of new opportunities and whereby the rewards in the labor market became more closely related to education and skills (UNICEF, 2000).

Transition to a market economy has resulted in major economic reversals in the former socialist countries. Economic decline has had an deleterious impact on social welfare-- unemployment has increased, incomes have fallen and poverty rates increased. The latter is one of the most important things that happened in income distribution and to our mind might be more important than the rise in inequality.

The poverty headcount ratio rose sharply throughout the region. The situation is most dramatic in the former Soviet Union. In Moldova, Kyrgyzstan, Tadjikistan, Armenia and Georgia more than half of population were defined as absolutely poor according to national standards. In Russia about 40 per cent of population lives below poverty line. Poverty might be even deeper as the threshold used (minimum basket) to measure poverty is itself low.

Households suffering from a greater depth of poverty are finding it increasingly difficult to emerge from it and are thus exposed for longer periods to all the risks that accompany extreme poverty. For many income poor material standards of living, including housing and access to services, still remain better than in other world countries with similar GDP per capita. However, as time pass their living conditions would deteriorate and they will not be able to maintain them the previous level.

Poverty in the region has a very strong psychological dimension -- many people have experienced collapse of values and believes, they are disoriented and suffer from social and economic insecurity finding it difficult to adapt to the new realities. A specific feature of poverty in the region is a weak correlation between poverty and level of education.

It is worth noting that income inequality is closely related to certain social conditions. For example, World Bank analysis suggests that more than 75 per cent

of the difference in child mortality across countries is associated with income differences. One of the most significant developments in the world health in the late XX century is the decline in life expectancy in the former Soviet Union and Eastern Europe. This situation is without precedent in modern history. Nowhere else has health worsened so seriously in peacetime among industrialized nations.

Former socialist countries are typically broadly divided into two main groups - countries of Eastern and Central Europe and CIS countries that are further divided into Western group (Russia, Belarus, Ukraine, Moldova), Central Asia (Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tadjikistan), Caucasus Republics (Armenia, Georgia and Azerbaijan) and Baltic states (Latvia, Lithuania, Estonia). The leading region doing better than others includes Central European countries - Check Republic, Poland, Hungary, Slovakia and Slovenia.

Though all the countries in the region have faced serious difficulties during the transition period, there are significant variations between the former communist countries. While Eastern European countries such as Poland and Hungary have been able to meet the basic needs of their citizens, this is not the case in some other countries where nutritional, health and housing standards remain poor when compared with the rest of Europe. Central Asia has faced additional challenges - low initial level of per capita income and rapid growing population and excess labor supply.

Why does the extent of inequality differ among the former socialist countries? Several tentative suggestions should be made here as suggested by statistical data and literature review.

- Initial conditions-- it is interesting to note that the grouping of the countries in question on inequality and other social indicators corresponds to their level of economic and social development at the start of reforms. The average GDP (per capita) in the former socialist countries is low but basic needs attainment is in general satisfactory in terms of life expectancy, infant mortality, nutritional standards, safe drinking water. But improvements in welfare in the region were not uniformly distributed between the countries. While levels of welfare were higher in Eastern Europe such as Czechoslovakia, Hungary and Poland, they were lower in the Central Asian States and Southern European countries which remained socially and economically backward. In addition there were variations in levels of welfare by income groups within the countries.

- Uneven economic growth – it renewed in nearly all 27 countries starting from 1998. This positive development followed the prolonged period of decline and stagnation throughout the 1990s. However, the level of 1989 is reached by Check Republic, Poland, Hungary, Slovenia and Slovakia only. Economic decline was steeper in CIS in 1990s than it was in Central and Eastern Europe.

- The level of economic development – countries differ substantially as to per capita GDP. In 2001 it ranges from less than 1000 USD (Armenia, Azerbaijan, Georgia, Kyrgyzstan, Uzbekistan, Tadjikistan, Moldova, Ukraine) to about 4000-5000 USD (Check Republick, Slovakia, Poland Hungary, Croatia), others following within this range (the biggest GDP per capita is in Slovenia--9500 USD).

- Share of wages in income –as there is a negative correlation between inequality and the share of wages in income, higher share of wages and social transfers in Central European countries make them more equal societies.

- Public debt is another issue that is a challenge that must be faced in conjunction with the continued provision of quality public services. Several countries in the region may face external debt crisis with serious consequences for social expenditures (Armenia, Georgia, Moldova, Kyrgyzstan and Tadjikistan).

- Government policy, reflected in government expenditures. Even if personal incomes do not change people may still be better off if the government increases its spendings on health, education and other public services. Government expenditures as percentage of GDP decreased in most countries by the end of the discussed period, in some countries quite dramatically (see Table 6).

- Degree of sovereignty is also mentioned when inequality issues are discussed. In Central and East European countries reforms were initiated from the bottom and thus they demonstrates much more commitment to equality than CIS countries, where reforms were started by elites.

- High corruption is correlated with high inequality. Allegedly, corruption is especially widespread in the countries of the former Soviet Union (see table 5).

Inequality, democratic values and political ideology

All the economic factors mentioned above, however important, do not provide the satisfactory explanation of inequality developments in the former socialist countries. As the most important development in the political life is democratization some researchers attempt not only to relate inequality to the degree of democratization in the countries in question but the find more specific aspects that might effect inequality. That is why in search of plausible explanations of the raising inequality in the region they turned their mind to ideology and values characteristic of emerging societies.

Some experts do include ideology into the factors that influence inequality. Gradstein et al (2001) argued that democratization effect worked through ideology. In fact they distinguished two major factors-- democratization of political process and value of equality in society. Consequently, the two propositions that were put forwards were as follows: level of income inequality was expected to be low when political process is democratized than when it was controlled by rich

oligarchy; the more society value equity the less is the rise in inequality during democratization. In fact they suggested that social context and societal values as well as working of the political system were important determinants. For example, they argued that parliamentary systems are more likely to generate lower inequality than presidential.

Gradstein et al (2001) came to the conclusion that country dominant religion is related to inequality. They suggested that Muslim and Confucian societies has either small, or even positive effect on inequality, they are intrinsically more equal than the Judeo-Christian societies., for example strong family ties. As a result, democratization in Muslim societies leads to low increases in inequality.

Milanovich and Gradstein (2002) suggested that it is necessary to incorporate into analysis the prevailing ideology. They posed a question why did socialist countries characterized by a strong concentration of power exhibited very low levels of equality. They suggested that inequality is also a reflection of social values, or the values hold by the elite.

We are more concerned with the political philosophy and ideology that in turn is translated in practical policies implemented by political parties in power, the way preferences of social agents and their political strategies influence inequality.

Several propositions should be made clear before we proceed to the discussion of the value of equality/inequality in modern political ideologies.

1) When we discuss the correlation between democracy and inequality first of all it is necessary to understand what is meant by democracy. The problem is embedded into the wider context of the role of political system in economic and social development. Democracy can be view both in terms of values and political ideology and political mechanism, the tool of achieving certain aims. Its only visible advantage is that people allegedly can express their attitudes and choose policy they like for whatever reason.

Former socialist countries did became more democratic, but first of all in the formal sense of democratic elections and in terms of providing for essential economic, civil and political rights. The famous World Bank book (2000) describes the state capture phenomenon that appeared in the former socialist countries -- control of the policy-making and legislative process by vested interests in collusion with those holding political power. Another widely used connotation is "rent seeking behavior" meaning the vested interest are able to redistribute resource in their interests.

The interaction between civil society and the government has much more implications for the implementation of democratic values rather than democratic mechanisms. All former socialist countries now have elections and more than one party but despite these facts according to Freedom House rating, some of them are

not doing well on democratic freedoms—Turkmenistan, Uzbekistan, Kazakhstan and Belarus are considered as consolidated autocracies, Azerbaijan, Tadjikistan and Kyrgyzstan—as autocracies. All this make it difficult to believe that the essence of the new regimes is really democratic.

Probably this justifies Lindenberg’s remark that “democratic regimes.. were as likely to administer strong economic medicine-- structural adjustment programmes -- as authoritarian regimes and were no more likely to be overthrown as a result of their efforts” (as cited in *Social Capital*, 2002)

Besides, two facts further complicate the analysis. On the one hand, data by Milanovich and Gradstein (2002, p.22) suggested that inequality is growing as the regime becomes less democratic (the case of Belarus, Uzbekistan, and Turkmenistan) and visa versa, more democratic countries demonstrate less increase in inequality. But on the other hand, some countries do have almost the same Ginis but quite different scores in Freedom House ratings, for example, Slovenia and Belarus (see table 5).

2) The problem of inequality in modern society is inseparable of the problem of social justice, namely it is the extent of inequality that society accepts as just (fair) that matters. Measuring inequality, therefore, involves a moral judgment. There is a wide acceptance in the civilized world that some basic minimum standard of living should be available to all citizens. Beyond this views differ across the political spectrum about what is acceptable as inequality.

Saunders (1990) noted that it should be accepted that the modern society is unequal. It was important to decide what inequalities were just or unjust. Rawl’s famous second principle of justice reads as follows:

“ Social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone’s advantage, and (b) attached to positions and offices open to all”. (Rawls, 1972: 60).

In the sense of Rawls’ comment that inequality in distribution of wealth and income should be consistent with equal citizenship and equal opportunity it might be argued that the Western societies can be considered as fair enough systems.

3) Milanovich and Gradstein (2002) suggested that the length of democratic experience should be incorporated into analysis and it might well happen that the rise of inequality in the former socialist countries is to be attributed to transitional period only and will not be characteristic of the new societies that are to emerge out of transition.

4) The value of equality in society has very important practical implications for both economic and social policy for it defines the role for government in public affairs and justification of inequalities rather than taking them as natural

beneficial and inevitable. Different political ideologies take different positions on the possibility to reach desirable social change through political action and the nature of the future society and the role of the state in achieving it. However, the problem of equality/equity is usually addressed from the concept of citizenship and social rights. The problem of equality and justice in society is expected to be solved by the state which is supposed to look after the fairness of treatment of different groups of population.

In discussing political ideologies we followed the European tradition and distinguished two major ideological streams-- the right and social democrats, that in our view are the most important today in forming political climate in Europe. We also included a description of socialist ideology (hereinafter referred to as Soviet ideology) which legacy is important to understand the development of political scene in the former socialist countries.

It should be noted that for a long time drastic differences in ideology did not permit Western and Soviet researchers to approach the matters pertaining to ideology and democracy in a similar way. Soviet scholars proceeding from the Marxist theory were always critical about Western research traditions while their Western counterparts representing the non-Marxist traditions spoke in a critical tone evaluating Soviet studies. Both sides tried to stress those features of each others' systems they thought of as negative and different from their theory and practice. This, of course, failed to contribute to a fruitful scientific discussion.

New right interpret equality as equality of opportunity in economic terms. In case market is operating efficiently inequality of outcome is not only tolerable but also necessary and even desirable. Freedom from this perspective is a freedom for individuals to compete in the economy. Democracy is only a secondary (and not very effective or representative) indicator of consumer demand. Friedman (1962) argues that capitalism maximizes economic freedom and that this in turn promotes political freedom, to choose and make decisions about one's life. The notion of democracy is important only to allow governments to legitimize their attempts to preserve the status quo in which individuals are freed from the power of the state in the organization and public and private life.

For social democrats equality and equity are seen as valuable in their own right as a means of encouraging social integration, diminishing social conflict and pursuing social justice. Therefore, freedom can never be absolute in a libertarian sense since to ensure that freedom means the same thing to all citizens some kind of actions should be limited. The route to balancing equality with liberty is rooted in democracy.

At present this is the market model that attracts most political legitimacy and in many areas of social welfare most public support. It promotes an ideology of limited

inequality which supposedly increases individual incentive and nurtures the work ethics as opposed to equality that might undermine initiative in the market. As a result, employment tends to be accepted as a criterion of distribution of social benefits. Many scholars note that social policy issues discussed, for example, at the European Union (the EU) level are evidently dominated by employment considerations. This implies a gradual shift from broad social citizenship understanding of equality to equality of opportunity and overcoming social exclusion or, briefly, from welfare to workfare.

Equality in the Soviet ideological tradition was understood in terms of social status rather than in purely distributional terms.

All individuals were regarded equals as members of society. It was presumed that they all worked if they were able to and satisfied their needs even in case they could not work; actively participated in public life; possessed equal civil rights and bore equal responsibilities. The ultimate principle of justice of communist society was expressed in the maxim "to everyone- according to his needs, from everyone -- according to his abilities".

Equity was major concern of Soviet scholars mainly because of economic / property considerations. Since the means of production were in public ownership all people were equal in relation to it. They were considered to be co-owners of enterprises and possessors of equal rights to outcomes of their activities.

Employment figured prominently in the concept of socialist social justice which implied:

- equal position in relation to means of production;
- securing employment for every economically active person;
- remuneration in accordance with labor input.

In the post-Soviet period the ideological debates stress economic efficiency considerations first and are mostly concerned with securing the economic growth. Inequality is regarded as a part of the package of incentives and is therefore seen less as an incentive for individuals to work harder to improve their own circumstances rather than a problem in itself. Whereas a lot has been said about how much social benefits cost to the society much less is mentioned about positive effects of such spending, for example, on people's

The role of the (welfare) state

Market economy is based on inequality and certain state interventions aimed to redistribute resources in the society are necessary to promote equality. The

country needs economic and social policies to compensate for the unsatisfactory outcomes of market system.

Social democracy is based on criticism of inequalities and inefficiencies that market inevitably generate and reproduce. Nevertheless most advocates of this approach accept the context of a capitalist economy in the belief that the detrimental effects of the market can be ameliorated if not transformed through the state intervention. Reforms can be achieved without altering the fundamental structure of the capitalist economy. Emphasizing equality, social democrats explicitly aim to create greater equality within capitalist society and are essentially concerned with promoting equality of opportunity. They accept that capitalism can be gradually transformed into a society in which citizens are equal.

Excessive inequalities are unjustified and they should be reduced. But what constitutes acceptable or unacceptable inequality? Taking wealth or income for example, there is no agreement on the dividing line between acceptable and the unacceptable equality. These are matters to be decided not a priori but in the democratic process of policy. There are however some agreed policy guidelines that are followed in the developed nations, namely minimum income, minimum wage, redistribute taxation policies.

Social democrats put an emphasis more on reduction of power inequality between individuals than on the reduction of economic inequalities. They believed it can be promoted by welfare state policies, in particular by education as it bears potential for both reinforcing social stability and traditional values and at the same time providing opportunities for social mobility and social change.

There is a number of reasons why equality is necessary in a civilized society. First, it secures social cohesion while excessive inequality may lead to conflict and social breakdown. Second, it is regarded as a means to promote social efficiency on the assumption that excessive inequality reduces social mobility and hinders the creation of a meritocracy, and that market economies misallocate resources by responding only to demand and not to need. Third, if inequality denies some of their natural rights, equality is viewed as a route to social justice. Fourth, equality is regarded as a means of self realization while inequality is thought to prevent many less powerful individuals from realizing their full potential. Equality is viewed both as a social right per se and as a means of achieving other social goals (extension of freedom, sense of altruism and social obligation).

But who should benefit from the wealth generated by the national economy. Not only economic growth is important but how it is diffused to individuals and families. The society moral obligations to the poor and move towards a more integrated society are important justifications used to promote the greater equality.

There is also a debate concerning whether even if accepted as desirable a strategy of equality could succeed as a recent common challenge both from the left

and the right is that it is impossible to achieve equality embedded in the welfare state ideal.

The debate about equality and welfare state was originally concerned with issues of class and income. The belief that government social programmes would reduce class inequality has been challenged by several investigators. Some also claimed that access to social services remains highly inequitable. Recently the debate broadened to include gender and ethnicity.

The research into the impact of government social programmes has also examined the extent to which these programmes have affected social equality. As they expanded in the industrial countries during the 20th century many assumed that these programmes would reduce social inequalities, that access to health care, education, housing and social security would help to promote greater equality.

Over recent years there have been a reassertion of the ideology of inequality as those in traditionally privileged positions claw back the gains made by less privileged groups during the 1960s-1970s. The more powerful and advantaged groups in the society can effectively use the resources at their disposal to preserve their privileged position.

This tendency has been increasingly evident in recent years. The official doctrine of progressivity in taxation is still in place but it is weakened by lowering of the top tax rates in this era of economic rationalism and tax revolts. Moves to privatization and cuts of government expenditures as well as other policies favoring the market magnify the tendency of government activity to benefit the already blessed.

This fact raises the debate of what the notion of equality means and whether its achievement is, in fact, the aim of the state. Conflicting views on the problem are very well illustrated by Le Grand versus Powel discussion.

Le Grand in his influential "Strategy of Equality" (1982) distinguished five types of equality: equality of public expenditure, equality of final income, equality of use, equality of cost, equality of outcome. Proceeding from the premise that the objective of the welfare state was to promote equality he came to the conclusion that "the strategy of equality through public provision has failed" (Le Grand, 1982: 151). Welfare state can not overcome the basic inequality on which the capitalist system is based and failed to reduce social inequality. The middle class has better access to government social programmes and receives better standards of service than the working class.

Powell (1995), on the contrary, argued that, first, equality should not be defined in distribution terms only and, second, reaching equality might not be an objective of the welfare state. He stated that in fact the aim of the welfare state was to secure a minimum standard of living.

The Soviet ideology acknowledged that social equality could not be fully achieved in socialist society as it was a lower stage of communism. Some inequalities were explained by the specific historical background (Engels noted that the perception of justice itself was a product of historical development) and by the lack of resources society had to satisfy all needs of all people. Differences between social groups were expressed, for example, in income status dependent of distribution according to work. The importance of material stimuli was admitted, especially in 1970s-1980s when the rate of growth of the national economy decreased.

The aggregate means allocated by socialist society for consumption by population were divided – as suggested by Marx in the “Critique of the Gotha programme”-- into:

wages/salaries;

public consumption funds (PCF) consisting of centralized funds accumulated in the state budget via taxation system and decentralized funds formed at enterprises.

Centralized public consumption funds were set up to promote equality between members of society by enabling them to fully realize their potential abilities as inequalities arising from distribution according to labor input rather than needs, differences in family status and personal abilities could not be eliminated through personal income. Through public consumption funds those needs were satisfied that were considered important from the point of view of society. They were excluded from individual choice based to a large extent on individual income. These funds covered services which were regarded as fundamental for the whole society as distinct from purely individual needs dependent on income and choice of an individual.

It was argued that combination of goods and services distributed individually according to labor input (wages/salaries) and collective provision of services to all people regardless of their income status through public consumption funds by health care system, educational, cultural, recreation and sport institutions, construction of housing, etc., as well as cash payments to support the disabled, the elderly and children (pensions, stipends, family benefits) was the most effective and efficient way to meet needs of all members of society.

The communist countries were ideologically, constitutionally and organizationally committed to promoting welfare of their citizens. It should be noted that low income inequality did not mean that the communist countries had no class system. A well established system of privileges favor party officials, government officers. However, these privileges often have more social rather than income value, meaning first of all better access to goods and services. One should also remember that industrial workers employed in large factories enjoyed not less privileges.

In this context occupational welfare was incremental as it was available only to those in employment and sometimes their dependants. However, as it existed side by side with the state system of social protection that covered all social risks and all citizens, the employed could get social services through two systems, namely, the state and enterprise, often duplicating each. To solve the arising principal ideological problem of finding arguments to justify such a situation the idea of a preferential treatment of workers was put forward. As the social and economic status of any stratum of population was measured by its contribution to development of economic basis of the new society those people who contributed more to welfare of society were to be rewarded more. Industrial workers came the first on the list as the main productive force. It was considered to be just especially because workers input to the growth of the national economy would in the end enable all citizens to benefit through public ownership on means of production.

well being. Is it all about financial matters only or there is a place for changing attitudes?

The today experience of the former socialist countries demonstrates three more things. First, it turned out that democracy can not be achieved from the spot — it requires effort and commitment on the part of the state, that should promote democratic values. But it should be remembered that one of the basic democratic values is choice and the society can vote for inequality for whatever reason. The American dream phenomenon is a good example here. Second, the longer the legacy of the Soviet ideology the less state capture seems to be (compare CIS and Central Europe). Third, one of the hot issues in analyzing inequality and the attitude to it in society is the origins of wealth and poverty, especially in the CIS, where allegedly many fortunes were gained by not very honest means.

Conclusions

Our brief analysis demonstrated that ideological factor might have a potential to explain the rise in inequality in the former socialist countries against the expectation that as they are moving into democracy inequality should decrease. In a modern society inequality is linked to a complex of political and institutional factors rather than democracy per se.

The right see achieving economic and social equality as economically and socially damaging and thus doomed to failure. They only believe in equality of opportunity that in fact means equality of access. Social democrats, on the contrary, regard inequality as economically and socially damaging and wasting society's

resources as well as socially divisive. They want to see reductions in inequalities and promote the real equality of opportunity that requires a whole range of economic and social policies. They are concerned with the removal of socially destructive inequalities rather than the advancement of equality.

Social status was as valuable or even more valuable in socialist countries than income status that was not approved by people. Therefore, as former socialist countries are on the move from egalitarian (socialist) to unequal (capitalist) society the rise in inequality should not come as a surprise. Another problem is degree of inequality and why it differs between the countries. We suggest that Soviet type elite in introduction of a market economy translated their power and social status into power and economic capital.

However, though there are quite clear and sharp divisions between ideologies on the issue of equality and inequality both ideologies are built upon the notion of market that is unequal per se. The increase in inequality as well as country variations in the former socialist countries might be explained by an evident shift towards market-oriented ideologies that imply a certain degree of inequality from egalitarian socialist/communist one with lower degree of inequality.

Former socialist countries are developing democratic societies, at least in terms of political mechanisms used. But in a democratic society inequality is legitimate as a value and democratic political mechanisms can produce and often legitimate some of the major patterns of inequality, or democratic inequality. Translated into practical policies, equality has never been an aim of the reforms carried out in transitional economies. The reform rhetoric is concerned first of all with formation of market economy. Liberal economic policies adopted by many former socialist countries strengthen vertical and horizontal inequality (the latter through accumulation of wealth by market dominant groups). One can speak about a principal shift in policy -- to control inequality rather than fight for equality.

Cuts in government expenditures that in some countries go along with renewed economic growth is another issue. But what matters is how economic gains are distributed to various population groups in the society. Unprecedented economic and political changes have a major impact of welfare in the region and social conditions deteriorated during this period. The gap between rich and poor has rapidly increased along with the collapse in production and the spread of poverty. Other things being equal, growth leads to less reduction in poverty in unequal societies than in egalitarian ones. Therefore, it is necessary to increase the share of growth that accrues to the poor. The role of the state seems important in this case.

The case of the former socialist countries also highlights the importance to understand the national social and cultural traditions. While the experience of Central and Eastern European countries is highly influenced by the European

political tradition Central Asian states demonstrate the modification of oriental political tradition and its peculiar adjustment to the modern challenges.

To our mind, two propositions need further investigation. First, why Soviet type elites change their ideological preferences almost overnight and Soviet egalitarian political ideology was replaced by the almost opposite approaches, probably reflecting the general trend towards inequality in developed countries. Second, what might be the measures governments in the former socialist countries should undertake to address the raising inequality.

Table 1

DISTRIBUTION OF INCOME-- GINI COEFFICIENT

	1989	1993	1995	1996	1998	1999	2000	2001
Check Republic	0.198	0.214	0.216	0.230	0.212	0.232	0.231	0.237
Check Republic	-	-	-	0.258		-	-	-
Hungary	0.225	0.231	0.242	0.246	0.250	0.253	0.259	0.272
Hungary	-	0.307	0.312	-	-	-	-	-
Poland	0.275	0.317	0.321	0.328	0.326	0.334	0.345	0.341
Slovakia	-	-	-	0.237	0.262	0.249	0.264	0.263
Slovenia	-	-	0.264	0.252	0.243	0.248	0.246	-
Estonia	0.280	-	0.398	0.370	0.354	0.361	0.389	0.385
Latvia	0.260	-	-	-	0.330	0.330	0.327	-
Lithuania	0.263	-	-	0.347	0.332	0.343	0.355	0.354
Bulgaria	0.233	0.335	0.384	0.357	0.345	0.326	0.332	0.333
Romania	0.237	0.267	0.306	0.302	0.298	0.299	0.310	0.353
Albania	-	-	-	-	-	-	-	-
Bosnia	-	-	-	-	-	-	-	-
Croatia	0.360	-	-	-	0.350	-	-	--
Macedonia	-	0.273	0.295	0.311	0.308	0.308	0.346	0.334

Serbia	-	-	-	-	0.289	0.273	0.373	0.378
Belarus	0.229	-	0.253	0.244	0.253	0.235	0.247	0.245
Moldova	0.251	-	-	-	-	-	0.437	0.435
Russia	0.265	0.409	0.381	0.375	0.374	-	-	-
Russia	-	0.441	0.439	0.501	0.446	-	0.432	0.422
Ukraine	0.228	-	0.470	-	-	0.320	0.363	0.364
Armenia	0.251	-	-	0.420	-	-	-	-
Azerbaijan	0.308	-	-	-	-	-	0.301	0.373
Georgia	0.280	-	-	-	0.503	-	-	0.458
Kazakhstan	0.281	-	-	-	-	-	-	-
Kyrgyzstan	0.270	-	-	-	0.411	0.399	0.414	0.377
Tadjikistan	0.281	-	-	-	-	0.470	-	-
Turkmenistan	0.279	-	-	-	0.209*	0.262*	-	-
Uzbekistan	0.280	-	-	-	-	-	-	-

* earnings not income

Source: UNICEF (2003) p.94

Table 2

INCOME INEQUALITY IN RUSSIA

	1992	1997	1998	1999	2000	2001
income, total	100	100	100	100	100	100
of which						
1 st decile	6.0	5.9	6.0	6.1	6.0	5.9
2nd	11.6	10.2	10.4	10.4	10.4	10.4
3rd	17.6	14.8	14.8	14.7	14.8	15.0
4th	26.5	21.6	21.2	20.9	21.2	21.7

5th	38.3	47.5	47.6	47.9	47.6	47.0
5th to 1st ratio	8.0	13.5	13.8	14.0	13.8	13.8
Gini	0.289	0.401	0.399	0.400	0.399	0.396

Source: *Sotzialnoye polozeniye i uroven' zhizni 2002*: p.130

Table 3

INCOME INEQUALITY IN SELECTED COUNTRIES

country	year	1 st decile	2 nd decile	3 rd decile	4 th decile	5 th decile	Gini
C h e c k Republic	1996	10.3	14.5	17.7	21.7	35.9	25.4
Hungary	1998	10.0	14.7	18.3	22.7	34.4	30.0
Poland	1998	7.8	12.8	17.1	22.6	39.7	31.6
Slovakia	1992	11.9	15.8	18.8	22.2	31.4	19.5
Slovenia	1998	9.1	13.4	17.3	22.5	37.7	28.4
Bulgaria	1997	10.0	13.9	17.4	21.9	36.8	26.4
Romania	1994	8.9	13.6	17.6	22.6	37.3	28.2
Belarus	2001	7.9	12.8	17.2	22.9	39.2	30.5
Ukraine	2001	6.8	12.0	16.5	23.0	41.7	34.0
Russia	2001	5.9	10.4	15.0	21.7	47.0	39.6
Moldova	2001	6.6	10.9	15.1	21.5	46.0	37.9
Latvia	1998	7.6	12.9	17.1	22.1	40.3	32.4

Estonia	1998	7.0	11.0	15.3	21.6	45.1	37.6
Lithuania	1996	7.8	12.6	16.8	22.4	40.3	32.4
Kazakhstan	2001	6.3	11.0	15.9	22.9	43.9	34.8
Kyrgyzstan	2001	5.0	9.4	14.3	21.7	49.7	44.1
Turkmenistan	1998	6.1	10.2	14.7	21.5	47.5	40.8

Source: *Sotzial polozeniye i uroven' zhizni* 2002. P 427

Table 4

INEQUALITY IN INCOME OR CONSUMPTION

	HDI rank	Survey year	Poorest 10 %	Poorest 20 %	Richest 20 %	Richest 10 %	Richest 10 % to poorest 10 %	Richest 20 % to poorest 20 %	Gini
C h e c k Republic	32	1996	4.3	10.3	35.9	22.4	5.2	3.5	25.4
Hungary	38	1998	4.1	10.0	34.4	20.5	5.0	3.5	24.4
Poland	35	1998	3.2	7.8	39.7	24.7	7.8	5.1	31.6
Slovakia	39	1996	3.1	8.8	34.8	20.9	6.7	4.0	25.8
Slovenia	29	1998	3.9	9.1	37.7	3.0	5.8	4.1	28.4
Estonia	41	1998	3.0	7.0	45.1	29.8	10.0	6.5	37.6
Latvia	50	1998	2.9	7.6	40.3	25.9	8.9	5.3	32.4
Lithuania	45	2000	3.2	7.9	40.0	24.9	7.9	5.1	36.3
Bulgaria	57	2001	2.4	6.7	38.9	23.7	9.9	5.8	31.9
Romania	72	2000	3.3	8.2	38.4	23.6	7.2	4.7	30.3
Albania	95	-	-	-	-	-	-	-	-
Bosnia	66	-	-	-	-	-	-	-	-
Croatia	47	2001	3.4	8.3	39.6	24.5	7.3	4.8	29.0

Macedonia	60	1998	3.3	8.4	36.7	22.1	6.8	4.4	28.2
Serbia									
Belarus	53	2000	3.5	8.4	39.1	24.1	6.9	4.6	30.4
Moldova	108	2001	2.8	7.1	43.7	28.4	10.2	6.2	36.2
Russia	63	2000	1.8	4.9	51.3	36.0	20.3	10.5	45.6
Ukraine	75	1999	3.7	8.8	37.8	23.2	6.4	4.3	29.0
Armenia	100	1998	2.6	6.7	45.1	29.7	11.5	6.8	37.9
Azerbaijan	89	2001	3.1	7.4	44.5	29.5	9.7	6.0	36.5
Georgia	88	2000	2.2	6.0	45.2	29.3	13.4	7.6	38.9
Kazakhstan	76	2001	3.4	8.2	39.6	24.2	7.1	4.8	31.2
Kyrgyzstan	102	2001	3.9	9.1	38.3	23.3	6.0	4.2	29.0
Tadjikistan	113	1998	3.2	8.0	40.0	25.2	8.0	5.0	34.7
Turkmenistan	87	1998	2.6	6.1	47.5	31.7	12.3	7.7	40.8
Uzbekistan	101	2000	3.6	9.2	36.3	22.0	6.7	4.0	26.8

Source: Human development report, 2002. P. 282-284.

Table 5

DEMOCRATIZATION RATINGS

	Democratization scores			Corruption score
	1991/2	1997	2003	2003
Check Republic	2.20	1.50	2.00	3.50
Hungary		1.50	1.81	2.75
Poland	2.20	1.50	1.63	2.50
Slovakia	3.40	3.80	1.81	3.25
Slovenia	2.30	2.00	1.75	2.00
Estonia	2.30	2.10	1.94	2.50
Latvia	2.30	2.15	1.94	3.50
Lithuania	2.30	2.15	1.88	3.50

Bulgaria	6.50	3.99	3.13	4.25
Romania	5.50	3.95	3.25	4.50
Albania	4.40	4.70	3.94	5.00
Bosnia	6.60	na	4.31	5.00
Croatia	3.40	4.20	3.44	4.75
Macedonia	3.40	3.90	3.94	5.50
Yugoslavia	6.50	na	3.50	4.63
Belarus	4.40	5.90	6.63	5.50
Moldova	5.40	3.90	4.38	6.25
Russia	3.30	3.80	4.88	5.75
Ukraine	3.30	4.00	4.50	5.75
Armenia	5.50	4.70	4.69	5.75
Azerbaijan	5.50	5.60	5.31	6.25
Georgia	2.20	4.70	4.69	5.75
Kazakhstan	5.40	5.30	6.13	6.25
Kyrgyzstan	5.40	4.65	5.63	6.00
Tadjikistan	3.10	6.20	5.50	6.00
Turkmenistan	6.50	6.94	6.94	6.25
Uzbekistan	6.50	6.35	6.56	6.00
Median		3.95	3.94	5.00
Average		3.97	3.93	4.78

Source: Freedom House, 2003.

* Ratings and scores are based on a scale of 1 to 7, with 1 representing the highest level and 7 representing the lowest level of democratic development.

Table 6

GOVERNMENT EXPENDITURES (AS PERCENTAGE OF GDP)

	1990	1991	1995	1999	2000	2001	2002
C h e c h Republic	60.1	54.2	44.1	43.0	44.2	45.2	47.8
Hungary	57.5	52.1	52.6	44.8	46.0	43.0	53.5
Poland	39.8	49.0	49.2	43.9	42.6	45.2	45.7
Slovakia	60.1	54.2	45.2	43.3	45.4	47.7	50.2
Slovenia	49.6	41.1	43.4	44.5	44.1	44.3	43.5
Estonia	32.8	31.8	41.5	42.7	38.6	37.8	39.2
Latvia	44.0	31.0	41.5	44.1	42.0	37.6	37.5
Lithuania	49.2	38.7	36.8	40.2	33.2	31.4	29.3
Bulgaria	65.9	45.6	41.3	41.6	42.4	37.4	38.9
Romania	39.3	38.7	34.7	35.6	35.1	34.6	33.6
Albania	62.1	61.9	33.4	32.7	31.4	31.5	31.0
Bosnia	-	-	39.3	69.5	66.4	61.3	55.0
Croatia	-	39.0	44.9	49.7	48.8	46.0	51.5
Macedonia	-	40.4	39.0	35.4	34.2	40.6	37.8
Serbia	-	-	-	-	40.1	42.8	48.7
Belarus	-	43.9	43.0	46.4	44.3	31.3	42.0
Moldova	-	24.7	39.6	36.4	30.2	27.4	31.5
Russia	-	-	40.2	38.4	35.8	35.8	37.0
Ukraine	31.44	41.0	37.8	36.1	36.4	36.6	-
Armenia		28.0	28.9	30.1	25.9	23.9	20.8
Azerbaijan		40.7	22.5	23.6	20.8	19.9	23.5
Georgia		33.0	12.3	22.1	19.4	18.2	18.1
Kazakhstan	31.4	32.9	20.8	23.1	22.8	22.4	21.9
Kyrgyzstan	36.3	30.3	42.1	35.8	29.9	28.0	28.3
Tadjikistan	-	49.6	20.8	16.6	15.2	16.3	15.6
Turkmenistan	-	38.2	23.1	19.4	25.3	24.4	24.5
Uzbekistan	-	49.7	38.7	32.0	30.4	32.5	25.8

Source: UNICEF, 2003.

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