ACTIVITY, INCOMES AND SOCIAL WELFARE: A COMPARISON ACROSS FOUR NEW EU MEMBER STATES, *Manuela Sofia Stănulescu and Tine Stanovnik (eds.), 2009, European Centre Vienna, Ashgate, 283 pp.*

Review*

Gross domestic product (GDP) is the most widely used indicator of economic advancement. However, economists are aware of its many deficiencies in expressing the social welfare of citizens. For example, the current recession is a consequence of the economic boom that preceded it, during which many goods were produced that now cannot find buyers. Thus, the construction industry has contributed a lot to GDP growth rates in previous years, but what is the utility of that to citizens if the flats remain empty? Furthermore, the public sector usually "contributes" significantly to GDP through the production of public services and infrastructure spending. However, as these are goods that do not have to pass the market valuation test, we can never really know their actual contribution to living standards (French, 2009).

In the "production" of GDP the owners of the factors of production participate and earn incomes. These factors include workers, entrepreneurs, capitalists, land owners, and the government. However, the growth rates of GDP and factor incomes may not be highly correlated, at least not in the short term. Secondly, among the individuals taking part in production significant differences in income levels appear, i.e. income inequality exists. Furthermore, a part of population does not participate in current productive activities; these people consume their savings, receive transfers from other individuals, or obtain social transfers from the government. This makes the prospect of income inequality much more complex.

Therefore, the question arises as to how the value of GDP is "translated into" the citizens' incomes and living standards. "Social engineers" are certainly not satisfied by studying only total GDP or GDP per capita, or average wages, pensions and rents. They analyse the *distribution* of income or some other measure of living standard, classifying the individuals into income or socio-economic groups. The focus here is usually placed

* *Received*: November 18, 2009
Accepted: December 2, 2009

on groups with lower standards, in order to reveal how the government does or should help them to improve their situation.

For countries that twenty years ago shifted from a centrally planned to a market economy, the questions posed above are particularly important, due to significant changes in their production structures, organization of markets, and the role of government in the economy and income redistribution processes. The common features of the transition process are a fall in GDP in the early years and a subsequent rise of GDP, a decrease in employment and increase in unemployment, and a large increase in the number of pensioners. These developments have created a pressure on the levels of social transfers. How did the transition countries face these difficulties and has the "GDP recovery" brought a rise of incomes and living standards for different groups of citizens?

The book *Activity, Incomes and Social Welfare* offers answers to these questions for Slovenia, Hungary, Bulgaria and Romania. It contains a comparative analysis of numerous welfare indicators, primarily based on household budget surveys (HBS), in the long period from 1992 to 2004. The distinctive feature of this study i in fact inheres in its use of HBS data, setting it apart from other, comparable, studies, which rely solely on official data.

Household budget surveys are conducted on representative samples of a country's households and contain plentiful data on demographic and socio-economic characteristics of household members, very detailed data on their incomes and the consumption of various goods. HBSs serve as a source in many types of research, but primarily in studies of social welfare. In Croatia, the Central Bureau of Statistics conducts an HBS called "Anketa o potrošnji kućanstava", the databases of which are available to all domestic institutions of science and research.

However, the book also contains "official" data. The first chapter, written by Manuela Sofia Stănulescu, presents a comparative analysis based on these data for the four countries, such as macroeconomic indicators in 2005; GDP trajectories in the period from 1989 to 2007; changes in population and its structure. The chapter also speaks in great detail about the working age population, rates of activity and employment, and the structure of employment by industries and type of activity. This is followed by an extensive analysis of the structure of the unemployed, the inactive and the retired, and even of participation rates of young people in education.

The second chapter is the key part of the book. As said by its authors, Tine Stanovnik i Nataša Kump, it "sets the stage" for the more detailed analysis of individual countries, which follows in subsequent chapters (my recommendation is also to read chapter two *before* going further, for easier orientation). As wages and pensions are the main income sources in many countries, it is useful to start with inspection of their evolution during the period. An extensive analysis of HBS data follows, which compares different indicators in the beginning (early nineties) and in the end (early two thousands) of the period under investigation, for all four countries. These indicators are household income structure (wages, pensions, social benefits, etc.), total household income, and socio-economic structure of households. Income structure is also analysed by decile groups. Analysis of "coverage" of social benefits is also included, which shows the ratios between the number of people receiving different benefits and people who are eligible to receive them.

As an income distribution analyst, I have found the related parts of the book the most interesting. Income distributions are first compared across countries and over time by decile groups and then also by Gini coefficients of disposable income.[1] Rao (1969) decomposition follows, which presents the above Gini coefficient as a weighted sum of concentration coefficients of individual income sources, where the weights are shares of these income sources in total disposable income. This decomposition was used in many studies, but the indicators obtained are sometimes interpreted in a wrong manner, whereby the sense of the analytical undertaking is largely lost. The authors of this book, however, offer a truthful interpretation and detailed explanations as to how different income sources contribute to overall inequality.[2] But this is not the only reason for analysts to be pleased, because the treatment of inequality is followed by a poverty analysis.

Thus, the book offers plenty of information. Individual country chapters follow the pattern laid down in the second chapter, revealing many new and interesting details. Silviya Nikolova writes about Bulgaria, on Hungary there is a chapter by György Molnár and Viktoria Galla, Romania is investigated by Manuela Sofia Stănulescu and Lucian Pop, while Tine Stanovnik and Mitja Čok study Slovenia. It is important to note that these chapters represent much more than a further scrutiny of the topics announced in the second chapter. They provide us with economic, institutional and legal explanations why the indicators changed in the way they did. A great deal of attention is given to the effectiveness of social transfer systems in the palliation of poverty. Thus we obtain four interesting and freshly told transition stories for the four countries that joined the EU several years ago. The introductory chapter contains the main findings of the research and is written by Michael Förster, prolific empirical researcher in this field (see, for example, Förster 2005).

Household budget surveys are true wells of data, but every neophyte researcher will meet with the problem of making sense when processing the date and presenting the results the most effectively. Knowing the related field is crucial. The book *Activity, Incomes and Social Welfare* may serve as a pathway for analyses in the field of labour activity, social transfers, inequality and poverty.

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[1] Disposable income is household's income after the social transfers have been received and after payment of social security contributions and personal income tax(es).

[2] Interpretation of Rao decomposition in the book is based on Podder (1993). When the concentration coefficient of pensions is positive, but lower than Gini coefficients of disposable income, we can only conclude the following: if all pensions are increased proportionally, the inequality of disposable income will decrease. Thus, the simple explanation (Urban, 2008), by which the positive concentration coefficient of pensions indicates that pensions aggravate inequality, is mistaken.

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