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The Impact of Social Transfers in Central and Eastern Europe

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ABSTRACT

This paper analyses the impact of social transfers in seven Central and Eastern European countries using 16 datasets provided by the Luxembourg Income Study (Czech Republic 1992, 1996; Estonia 2000; Hungary 1991, 1994, 1999; Poland 1986, 1992, 1995, 1999; Romania 1995, 1997, Slovakia 1992, 1996; Slovenia 1997, 1999). The principal objective is (a) to provide an overview of the development of social inequality in Central and Eastern Europe; and (b) to quantify the change of poverty rates among the total population and among targeted groups (unemployment compensation, means-tested and family benefits beneficiaries) before and after transfers. The results of this paper show that although the access to these benefits is no guarantee for leaving poverty, social transfers significantly improve the economic conditions of families in need. Without the existence of these types of provisions, Central and Eastern European societies would not only be more unequal societies, but would be also more atomised and disaggregated societies. In the long run, this might seriously damage further reforms or the democratisation process itself.

CONTENTS

INTRODUCTION

It has long been assumed that after a short, but painful economic transition, Central and Eastern European societies would share the same well-being and economic prosperity of the western world. More than a decade after the fall of the Berlin Wall, scholars and politicians are now forced to admit that something went wrong or, at least, not as planned. Raising unemployment, income inequality and poverty not only have implied insecurity and unsatisfied needs for the persons involved (Ferge & Tausz, 2002), but have also meant a redefinition of democratic institutions. How will Central and Eastern European governments ensure democratic stability if the number of poor people is increasing under the new economic order? Despite the importance of this question, however, the relationship of economic development, democratisation and social stability will not be discussed here because there is already an extensive academic debate on this topic (see for further information Arat, 1991; Diamond, 1989; Gastil, 1984; Huntington, 1991; Linz & Stepan, 1996; Lipset, 1960; Lipset et. al, 1993; Pinkney, 1993; Przeworski, 1991). Instead, the intention of this research is to provide an overview of the change in social inequality in Central and Eastern Europe and to quantify the impact of social transfers in reducing poverty. This paper is divided into four sections. Section 1 is intended to describe the Luxembourg Income Study micro data and the method used, whilst Section 2 summarises the main findings of previous research. Finally, Section three illustrates the data, while Section 4 will discuss the main results.

I. METHOD

This paper involves the analysis of 16 datasets provided by the Luxembourg Income Study (LIS). The LIS dataset is a collection of household income surveys, which provide demographic, income and expenditure information on three different levels: household, person and child. The 16 datasets involved in this study concern seven Central and Eastern European countries during the period 1986-2000 (Czech Republic 1992, 1996; Estonia 2000; Hungary 1991, 1994, 1999; Poland 1986, 1992, 1995, 1999; Romania 1995, 1997, Slovakia 1992, 1996; Slovenia 1997, 1999). For the purpose of this investigation, the analysis has been carried out on the household level. In other words, the overall household income, not the single income, has been taken into account. The assumption is that dependent spouses might share an important amount of their partner's revenue and, thus, they should not be considered as poor solely on the basis that they do not have regular earnings (The Canberra Group, 2001, p.7). Following the same logic, in the course of this paper, welfare benefits recipients will be considered as not only those who materially receive the benefits, but also the members of the households who share the recipients' income.

One problem using income surveys is that households may vary in size and this influences the purchase power of single members. In order to cope with these distortions, all calculations have been made according to the suggestions provided by the Luxembourg Income Study. This involves the use of an equivalence scale calculated as the square root of the number of persons in the household (Atkinson et al., 1995) and, as a general rule, a weight calculated by multiplying the household weight (HWEIGHT) by the number of units involved in the analysis[1]. Although the use of an equivalence scale can reduce the distortion caused by the comparison of different disposable incomes in different countries, it has been necessary to limit the effect of extreme values at the bottom or at the top of the distribution. The results presented in the following tables are bottom-coded at 1% of equivalised mean income and top-coded at 10 times the median of non-equivalised income. All records with zero disposable income or not applicable values have also been excluded from the count (see also LIS Methods; Förster et al., 2002; Smeeding, 2002; Atkinson et al., 1995).

The core of the analysis concerns the Net Disposable Income (DPI) available for single households. Here, I take, as example, the definition provided by The Canberra Group of Income Statistics (2001), which defines the disposable income as:

> "…the maximum amount that a household or other unit can afford to spend on consumption of goods or services during the accounting period without having to finance its expenditure by reducing its cash, by disposing of other financial or non-financial assets or by increasing its liabilities" (SNA 93 § 8.15 quoted in The Canberra Group 2001, p.15).

In more concrete terms, the variable DPI can be displayed as the sum of the income either generated by employment, or pensions and social transfers minus taxes and mandatory contributions.

[1] This weighting procedure is consistent to the recommendations provided by Atkinson (2002) and Eurostat Task Force (1998).

SUMMARY OF INCOME VARIABLES[2]

+ Gross wages and salaries V1
+ Farm self-employment income V4
+ Non-farm self- employment income V5
= Total Earnings
+ Cash property income
= Factor Income
+ Private pensions V32
+ Public sector pensions V33
= Market Income
+ Social Retirement benefits
+ Child or family allowances
+ Unemployment compensation
+ Sick pay
+ Accident pay
+ Disability pay
+ Maternity pay
+ Military/vet/war benefits
+ Other social insurance
+ Means-tested cash benefits
+ Near-cash benefits
+ Alimony or Child Support[3]
+ Other regular private income
+ Other cash income
=TOTAL GROSS INCOME
- Mandatory contributions for self-employed
- Mandatory employee contribution
- Income tax
= Net Disposable Income DPI

Social Transfers

Source: LIS, Summary Income Variables

The first stage of analysis involves examining the data for changes in social inequality among the population. In order to do this the percentage of net disposable income according to ten income deciles (1^{st} decile=bottom, 10^{th}decile=top) was computed. To facilitate the data presentation, these deciles were then regrouped into three groups (see The Canberra Group, 2001, section Data Presentation). This should provide a clearer idea of low, middle and high-income earners. As alternative measures of income inequality, the percentiles and the Gini index are also given. The latter calculated on net disposable income and on net disposable income minus social transfers. The purpose of this first part is to see to what extent the absence of social transfers would affect social inequality.

[2] The following variables are not present in the LIS datasets: a) Unemployment Compensation in Poland 1986; b) Means-tested benefits in Poland 1986, 1992 and in Romania 1995 and 1997; c) Family Benefits: Alimony and Child Support in Czech Republic 1992, Poland 1986, Poland 1992, Slovakia 1992, Slovakia 1996, Romania 1995 and Romania 1997. Maternity Pay in Estonia 2000.

[3] In the LIS summary, "Alimony or Child Support" is not included in the variable Social Transfers (Soctrans). In the course of this paper, however, "Social Transfers" refer to all social benefits with the exclusion of private and public sector pensions.

The second stage examines the impact of welfare provisions in reducing poverty among the population and among targeted groups. The main issue here is concerned with how resources (inputs) are turned into results (outputs) and whether reforms have had a positive impact on the population and on the beneficiaries. In order to have a clearer picture, the poverty rates among the population before and after the disbursement of social transfers were calculated. In addition, an in-depth analysis on unemployment compensation, means-tested and family benefits recipients, subtracting from their net disposable income the amount coming from these provisions, was carried out. The main question of this second part is what would have happened if a determined benefit would not be in place. Would, in this case, poverty rates become higher? By what percentage would they increase or diminish? The following table shows the main components of the welfare benefits mentioned above:

Unemployment Compensation (v21)
- Unemployment insurance (V21S1) - Training or retraining allowance (V21S2) - Placement/Resettlement Benefits (V21S3) - Other Unemployment Benefits (V21SR)
Total Means-tested benefits (Meansi)
- Means-Tested Cash-benefits (V25) o Social assistance (V25S1) o Old age assistance (V25S2) o Unemployment assistance (V25S3) o Unmarried mother's allowance (V25S4) o Other means-tested allowance (V25SR) - Means-Tested Near-cash benefits (V26) (near cash food benefits; near cash housing benefits; near cash medical benefits; near cash heating benefits; near cash education benefits; near cash child care benefits; other near cash means-tested benefits)
Family oriented policy (V20+V22+V34)
- Child or Family Allowances (V20) - Maternity pay (V22) - Alimony or Child Support (V34)

Before going into a detailed analysis of poverty rates in Eastern Europe, it is necessary to define what kind of poverty we want to measure. The literature on this topic is broad and a brief overview is available in almost all manuals of sociology. In brief, poverty can be described according to the axis of relative versus absolute poverty (Smeeding, 2002). Relative poverty is understood in terms of the lack of material resources and usually

calculated as 40%, 50% or 60% of average income/expenditure of the population. By contrast, the term absolute poverty is more ambiguous. Carmel (1999) defines it as a "chimera", since its measurement strongly depends on the definition of basic needs that we give, so that it may exist when or where a person is unable to buy enough food, water, or clothing, but it may also exist in absence of these extreme situations. In the course of this paper, the analysis will primarily concern all those people who find themselves below 60% of the median[4]. This is the official poverty line proposed by the European Union for comparisons among member states (Eurostat, 2000). Nonetheless, the reader can also find calculations at 40% and 50% of the median in the appendix.

II. PREVIOUS RESEARCH AND POSSIBLE METHODOLOGICAL PROBLEMS

Over the past decade, the study of income inequality has experienced numerous stages of evolution. Beginning with the description of how this phenomenon developed across countries and over time, researchers are now able to investigate and to quantify the determinant factors of poverty and social inequality. By exploring trends in income inequality in fifteen European countries (plus the United States), Atkinson et al. (1995) demonstrated that the majority of these nations showed a rise in inequality, but this was by no means universal and the extent of the increase differed significantly. Very frequently, it was found that the United States had an exceptionally large gap between the rich and the poor, while, in comparison, the Scandinavian countries were less unequal societies (Smeeding, 2002). The reasons for the good performance of the Scandinavian countries have often been attributed to the effectiveness of welfare provisions (Esping-Andersen, 1990), which have made these societies capable of responding to the rise in market income differences (Ritakallio, 2001). In other words, it was demonstrated that although the position in the labour market is a determinant factor for enhancing differences between the rich and the poor, welfare regimes could still play an important role to reduce these differences (Tsakloglou & Papadopoulos, 2002). Recent studies, on Central and Eastern Europe (but not limited to), have demonstrated that children (Förster & Tóth, 2001), women[5] (Fultz & Steinhilber, 2003; Balcerzak-Paradowska et al., 2003; Kotýnková et al., 2003; Lukács & Frey, 2003), unemployed (Ferge et al., 2002; Stanovnik & Stropnik, 2002), persons who live far from major urban areas (Förster & Smeeding, 2002), persons who live in households with more than three children, persons who are single parents (Chambaz, 2001), persons who are members of the Roma community (Emigh et al., 1999; World Bank, 2001; Zhelyazkova et al.,

[4] The median is usually preferred to the arithmetic mean since it is not affected by extreme values in the tails of the distribution (for further information see The Canberra Group, 2001; Atkinson et al., 2002).

[5] The issue on feminisation of poverty is, however, still controversial. For more information on this topic see AA.VV. (2002). Special Issue: Gender and the Experience of Poverty in Eastern Europe and Russia after 1989. *Communist and Post-Communist Studies., 35*(4); Szelényi, I. (ed). (2002). *Poverty, Ethnicity, and Gender in Transitional Societies*. Budapest: Akadémiai Kiadó.

2002; Szelényi, 2002, Orenstein et al., 2003) and, in general, ex-state sector employees (World Bank, 2002) remain the most vulnerable groups. Needless to say, without efficient welfare institutions and, of course, the political will to improve such institutions (Ferge & Tausz, 2002), their situation would dramatically worsen.

In order to measure the impact of welfare provisions and, thus, to have a better idea of what can be done to prevent poverty, particular attention has recently been given to the effectiveness of means-tested benefits across the European region (Behrendt, 1999; Sainsbury & Morissens, 2002). The investigation by Behrendt (1999) involved Germany, Sweden and the United Kingdom and has demonstrated that although the receipt of means-tested benefits is no guarantee for leaving poverty, the incidence of these benefits on poverty alleviation considerably varies across nations and across poverty brackets. In Great Britain, for instance, means-tested provisions are very successful in reducing "strong" or "extreme" poverty (calculated as less than 60% of the median), but less effective if poverty was calculated at 60% of the median. Sainsbury & Morissens (2002) conducted a similar analysis, on previous datasets of the Luxembourg Income Study, involving almost all European countries available at that date (this survey included, however, only three Central and Eastern European countries from older datasets). The two authors calculated poverty rates for the entire population and vulnerable groups, such as the unemployed, solo mothers, large families, and the elderly. This approach was concerned more with the impact of means-tested benefits on people "at risk of poverty", i.e. "potential recipients", rather than on the real beneficiaries. Their results, however, reconfirmed the diversity in basic safety nets across the European Union and their importance to alleviate poverty.

The choice of a determined method in comparative research is always painful and never free of procedural mistakes. This is particularly true with respect to household income surveys. The necessities of researchers rarely correspond to the possibilities given by the data and the distortion of results is not rare. Although the method used here matches the requests of the European Commission concerning the necessity of producing indicators of poverty before and after transfers (Social Protection Committee, 2001), this procedure has also its negative sides. Atkinson et al. (2002) argue, for instance, that simply subtracting transfers from disposable income is something that should be considered very carefully, if not directly avoided. According to the authors, "if benefits did not exist, then people would change their decisions. For example, unemployed young people would live with their parents" (Atkinson et al., 2002, p.109). Following this logic, however, the unpredictability of human actions would block further research and the impact of welfare provisions would remain unexplored.

As mentioned, the method used in this paper has its weaknesses, as described above, but also its strengths. The strength of this method concerns the possibility to explore

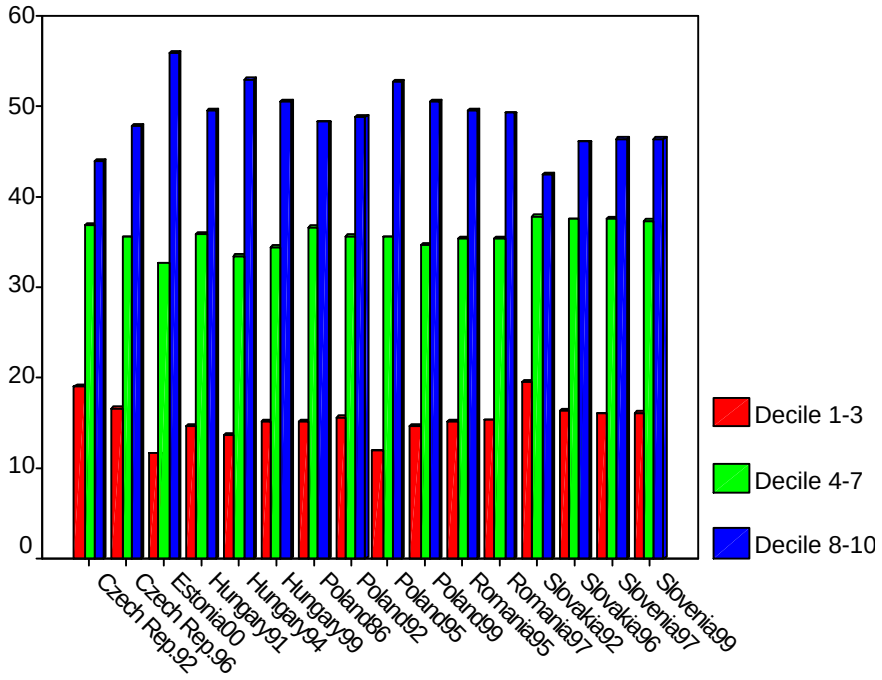
the impact of a determined welfare provision, not on “potential beneficiaries” (such as the “unemployed”), but on “real beneficiaries” (all those who receive the benefit). In fact, it should be made clear that NOT all the unemployed receive unemployment compensation, NOT all potential means-tested beneficiaries receive some form of assistance, and NOT all families with children receive family support. Thus, the impact of a welfare provision does not only depend on the amount of benefits, but also on the entitlement criteria. If, on the one hand, the analysis carried out here neglects all those potential beneficiaries who have not received the benefit, it allows a closer investigation of the real performance of welfare benefits, limiting possible distortions. In addition, not only means-tested benefits are taken into account, but also other fundamental provisions such as unemployment compensation and family support policies.

III. MONITORING THE IMPACT OF SOCIAL TRANSFERS

A. MONITORING THE CHANGE IN SOCIAL INEQUALITY IN CENTRAL AND EASTERN EUROPE

Figure 1 and Table 1 show the share equivalent disposable income within decile groups in seven Central and Eastern European countries. Decile shares are commonly used not only to demonstrate how unequal income distribution can be in one country or among many countries, but also used to display where changes occur. Lower-income groups are the three bottom deciles, middle-income groups are the four middle deciles, while high-income groups are the top three deciles (The Canberra Group, 2001, p.97). Taking as example the Czech Republic in 1992, Figure 1 can be read as follows: a) the lowest income individuals (Decile 1-3) received 19 percent of total net disposable income; b) the middle-income individuals (Decile 4-7) received approximately 37 percent, c) while the highest income individuals received about 44 percent. From a brief comparison, we can conclude that inequality in income distribution drastically increased in all countries since the first years of transition. The percentage of total net disposable income also moved from the bottom to the top of income deciles. This means that the proportion of total disposable income is decreasing for lower income individuals, while high-income earners have access to a bigger fraction. In 1999, however, the net disposable income in the lowest income deciles slowly increased in Hungary and Poland, showing a slow reduction of income inequality (Hungary: from 13.7% in 1994 to 15.1% in 1999; Poland: from 11.9% in 1995 to 14.7% in 1999).

Fig.1 Share of total disposable income within decile groups



Source: Author´s calculations using LIS.

(see also Table 1)

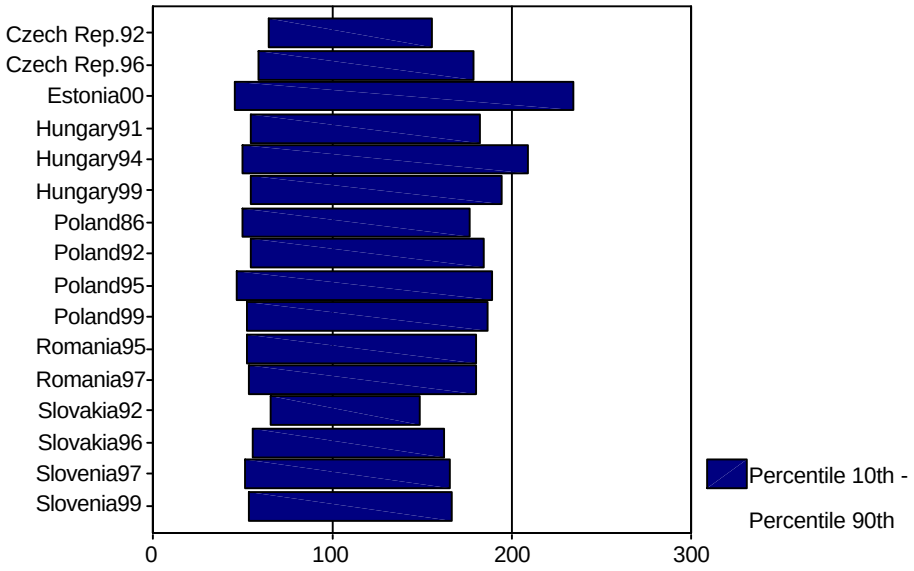
Another way to display income inequality is through the use of percentiles of the distribution as percentages of the median. The 10th percentile (P10) represents, for example, a household in the bottom decile, while the 90th percentile (P90) represents a household in the highest income decile. The difference between the 10th and the 90th percentile corresponds to the distance between lowest and highest income groups, while the ratio between the incomes of those at the 90th and 10th percentiles (the so-called „Decile Ratio"; P90/10) quantifies the gap between the richest and the poorest. The percentiles can be, therefore, seen as a measure of social distance (for a detailed explanation on this topic see Atkinson et al., 1995; Smeeding, 2002). To clarify, taking as example the Czech Republic in 1992 (see Figure 2 and Table 2), it might be affirmed that a low-income citizen (P10) had an income equal to 65 percent of the median, while a high-income citizen (P90) had an income equal to 155 percent of the median. In other words, high-income individuals had 2.4 times (P90/10=Decile Ratio) the income of low-income individuals.

As mentioned, Figure 2 shows the distance between low- and high-income individuals (for detailed statistics see Table 2). The gap is bigger in Estonia (2000), in Hungary (1994, 1999), in Poland (1995,1999) and in Romania (1995, 1997). In 2000, the Estonian lowest-income individuals had only 46 percent of the median net disposable income, while the

richest Estonians had 230 percent of the median (five times more). In Hungary (1994), this proportion was equal to 50 percent of the median for low-income individuals and approximately 210 percent for high-income citizens (four times more). The decile ratio decreased, however, to 3.5 times in 1999, showing a reduction in income inequality. In Poland (1999), the share was 52 percent of median for low-income and 187 percent for high-income individuals (3.6 times more). Compared to the previous survey, however, income inequality in Poland slightly decreased (1995: 4 times). In Romania, low-income individuals had access to 50 percent of the median (1995, 1997), while high-income individuals to approximately 180 percent (about 3.3 times more). The lowest social distance can be found in the Czech Republic (1992,1996), Slovakia (1992, 1996) and Slovenia (1997,1999) with high-income individuals having access between 2 and 3 times more disposable income than low-income citizens.

Fig.2 Distance between 10th and 90th percentile

(adjusted disposable income)



Source: Author´s calculations using LIS.

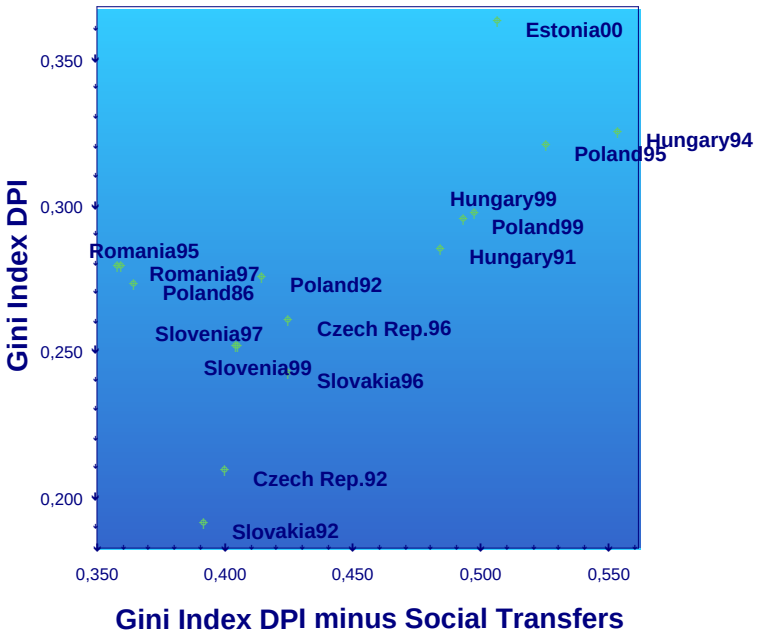
(see also Table 2)

How would social inequality change in Central and Eastern Europe if social transfers would not be in place? In other words, what kind of scenario would prevail if less fortunate citizens would not have access to some form of income replacement? In order to achieve this aim, the redistribution factor of all the most important welfare provisions, with the exclusion of pension benefits coming from social insurance contributions, was deduct from the equivalent net disposable income (see also recommendations of the Social Protection Committee,

2001). The reason why pension insurance payments are not counted here depends on the fact that these benefits can be seen as a replacement of the previous wage at the end of the work-career and, thus, their redistribution role is not always automatic. These calculations, however, include old-age allowance, which is a basic income available for all those elderly who have no access to contributory pensions and, thus, would fall into absolute poverty.

Figure 3 and Table 3 show the Gini index before and after disbursement of social transfers. From their analysis, it is immediately clear that a society without social transfers would be a more unequal society. The degree of inequality would dramatically increase at the expenses of lower social classes if some form of redistribution was not in place. Estonia, Hungary and Poland, especially, would be particularly vulnerable to income inequality, but no country would be an exception. From this it is interesting to note how Hungary and Poland recovered in 1999 from the shock of the mid-1990s.

Fig.3 Gini Index



Source: Author´s calculations using LIS

(see also Table 3)

B. MONITORING THE IMPACT OF SOCIAL TRANSFERS

The second part of this analysis deals with the impact of welfare provisions among the population and among the beneficiaries. This section analyses the change in poverty rates among the total population before and after the disbursement of social transfers, and the impact of unemployment compensation, means-tested and family benefits on targeted groups. The aim is to have a better description of the effectiveness of such provisions, both at national level, as part of the general poverty reduction strategy, and also at local level, monitoring the impact on those groups of citizens who materially depend on these provisions.

Figure 4 shows the poverty rate among the total population (all members of households) in seven Central and Eastern European countries with and without social transfers. This figure is to be read as follows, the first segment of the bar represents the poverty rate with social transfers, while the second segment represents the ratio without social transfers. The longer the bar, the higher is the ratio. As a general conclusion, it can be affirmed that poverty rates greatly vary from country to country and according to how poverty is measured. A country may display a low level of poverty when measured at 40% of the median, but high if measured at 60% of the median (for detailed statistics see Table 4).

Estonia (2000) is the country that displays the highest poverty rate, followed by Poland (1995,1999), Romania (1995, 1997) and Slovenia (1997,1999). The situation becomes even worse if we exclude from the net disposable income the revenues from social transfers. In this case, overall poverty rates in Central and Eastern Europe would be much higher. Poverty would change from 10% to 29% in Czech Republic (1996); from 20% to 34% in Estonia (2000); from 13% to 33% in Hungary (1999); from 15% to 33% in Poland (1999); from 14% to 24% in Romania (1997); from 12% to 30% in Slovakia (1996); and from 14% to 29% in Slovenia (1999). These results demonstrate the great importance of social transfers in the poverty reduction strategy at national level. All countries, indeed, seem to rely primarily on social transfers in order to artificially lower the number of poor people (calculated at 60% of median). This is particularly evident in the Czech Republic (1996=+19), Hungary (1999=+20), Poland (1999=+18) and Slovakia (1996=+18) (see RPR Table 4).

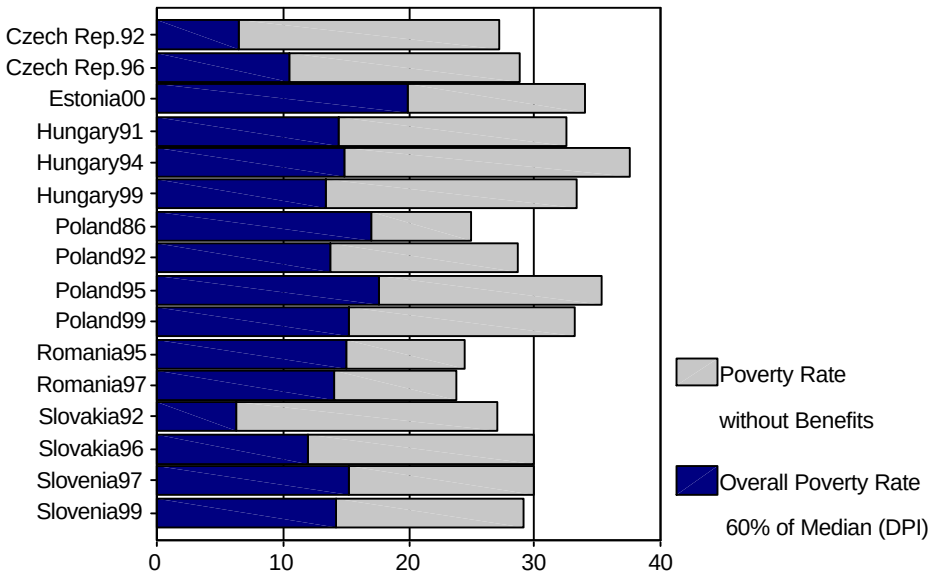
However, in order to see whether a determined policy is continuing to produce the expected positive results, it is also important to measure the ratio of poverty reduction (RPR[6]) within countries across time. The RPR diminishes in Czech Republic from +20 points in 1992 to +19 in 1996; from +21 in Slovakia in 1992 to +18 in 1996; it remains stable in Slovenia (approximately +14), but it increases in Hungary from +19 in 1991 to +20 in 1999; in Romania from +9 in 1995 to + 10 in 1997;and, finally, in Poland from +15 in 1992 (+8 in 1986) to +18 in 1999 (see Table 4). In other words, this means that, particularly in Slovenia,

[6] The RPR is calculated subtracting the poverty rate without transfers from the poverty rate with transfers. Example: If the poverty rate in Czech Republic in 1992 was equal to 7% with social transfers and 27% without social transfers, the RPR will be equal to +20.

Hungary, Poland and Romania, social transfers have maintained or increased the level of effectiveness in poverty reduction, which existed when the first income survey was conducted. For the Czech Republic and Slovakia, the situation seems to be a bit different, but even in these countries, no drastic decline can be observed.

Fig.4 Poverty rates with and without social transfers

among total population



Source: Author´s calculations using LIS

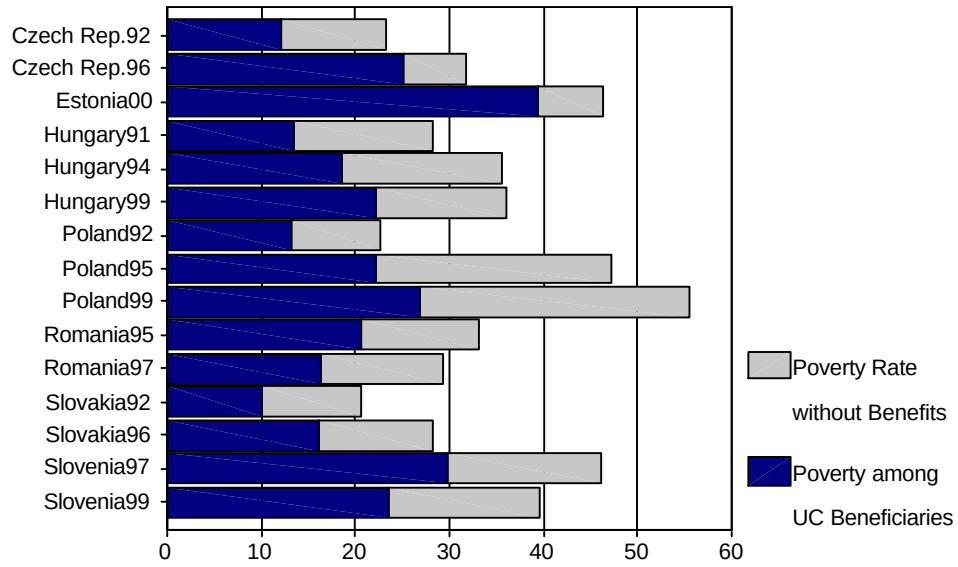
(see also Table 4)

Figure 5 and Table 5 show the poverty rates among the beneficiaries of unemployment compensation (all members of households) before and after the disbursement of unemployment benefits. As it can be immediately seen, unemployment compensation benefits had a huge impact on reducing poverty among this group of citizens. The percentage of beneficiary households which find themselves below 60% of median would increase without transfers from approximately 25% to 32% in Czech Republic (1996), from 39% to 46% in Estonia (2000), from 22% to 36% in Hungary (1999), from 27% to 55% in Poland (1999), from 16% to 29% in Romania (1997), from 16% to 28% in Slovakia (1996) and from 24% to 40% in Slovenia (1999). This is undoubtedly a remarkable result. If, on the one hand, it is possible to prove that access to these provisions is no guarantee for leaving poverty (see also the results of Behrendt mentioned above), then, on the other hand,

unemployment compensation benefits do improve the economic conditions of families in need[7].

As far as the ratio of poverty reduction across time is concerned, the RPR diminishes in Czech Republic from +11 points in 1992 to +7 in 1996 and in Hungary from +15 in 1991 to +14 in 1999; it remains almost unchanged in Slovenia (approximately +16) and Romania (+13), but it increases in Poland from + 10 in 1992 up to +28 in 1999 and in Slovakia from +11 in 1992 to +12 in 1996. Stated another way, in Czech Republic, Hungary, Romania and Slovenia these provisions have lost a bit of effectiveness if compared to the first wave of surveys, while in Poland and Slovakia they have improved. Again, the success of Poland is clear. This might be explained by the generous access to these benefits provided until 1999, which has resulted in a significant improvement in the economic condition of beneficiary households.

Fig.5 Poverty rates with and without unemployment compensation among UC beneficiaries



Source: Author´s calculations using LIS

(see also Table 5)

Figure 6 and Table 6 show the poverty rates among means-tested beneficiaries (all members of households) before and after transfers. Also in this case, the results clearly show that poverty rates among these groups of citizens would be much higher in all poverty brackets. Without benefits, the percentage of beneficiary households who would find themselves below 60 percent of the median would increase from 17% to 22% in Czech Republic (1996), from

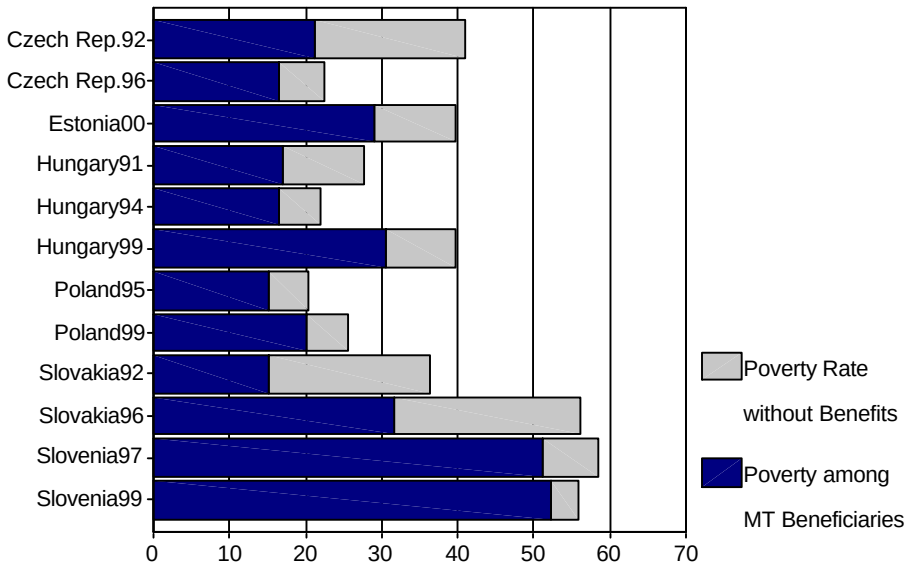
[7] Only in Czech Republic and Estonia, the ratio of improvement is less than ten percent.

29% to 40% in Estonia (2000), from 31% to 40% in Hungary (1999), from 20% to 26% in Poland (1999), from 32% to 56% in Slovakia (1996), and from 52% to 56% in Slovenia (1999)[8]. The extreme positive result of the Slovak Republic is undoubtedly remarkable (+24 in 1996). Here, it is clear that Slovak policy-makers have particularly used means-tested benefits as the main tool in lowering the negative impact of economic transition. Unfortunately, the data considered in this study only comes from years prior to 1996, as there is no recent data available.

A more in-dept analysis on the ratio of poverty reduction across time shows that the RPR diminished in the Czech Republic from +20 points in 1992 to +5 in 1996; in Hungary from +10 in 1991 to +9 in 1999; in Slovenia from +7 in 1997 to +4 in 1999; it remained stable in Poland with approximately +5; but it increased from +21 in Slovakia in 1992 to +24 in 1996. Interestingly, while in almost all countries the RPR has remained almost unchanged, that is to say, there has been no clear decline in its power to prevent the fall of beneficiary households into poverty, this has not been the case in the Czech Republic. Indeed, while approximately 20% of beneficiary households in 1992 were not at risk of poverty thanks to the existence of means-tested benefits, this ratio is declined up to 5% in 1996.

Fig.6 Poverty rates with and without means-tested

among MT beneficiaries



Source: Author´s calculations using LIS

(see also Table 6)

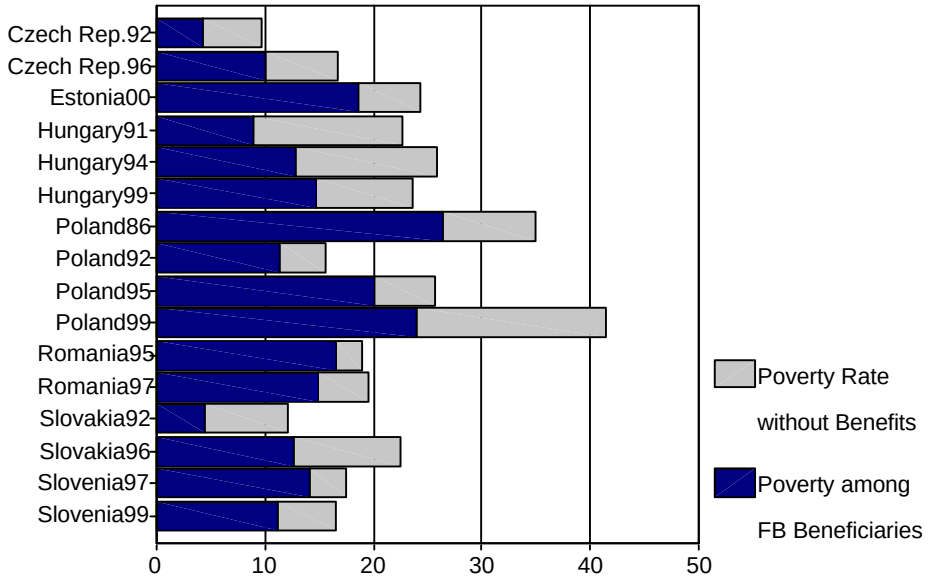
[8] Please note that no data is available for Romania (1995 and 1997).

Figure 7 and Table 7 show the poverty rates among family benefits beneficiaries (all members of households) before and after receiving some kind of family support. In absence of these benefits, the number of current beneficiaries who find themselves below 60 percent of the median would increase from 10% to 17% in Czech Republic (1996), from 19% to 24% in Estonia (2000), from 15% to 24% in Hungary (1999), from 24% to 41% in Poland (1999), from 15% to 20% in Romania (1997), from 13% to 22% in Slovakia (1996) and from 11% to 17% in Slovenia (1999).

The RPR diminished only in Hungary from +14 in 1991 to +9 in 1999, but it increased in Czech Republic from +6 points in 1992 to +7 in 1996; in Poland from +5 in 1992 (+9 in 1986) to +18 in 1999; in Romania from +2 in 1995 to +5 in 1997; in Slovakia from +8 in 1992 to +9 in 1996; and in Slovenia from +4 in 1997 to + 6 in 1999. Again, Poland is the country in which family support policies seem to have achieved the best results. Nevertheless, it should also be remembered that this positive outcome also indicates that the decision to transform the economy through shock therapy has required additional help from state through social transfers. Without the existence of family benefits, Polish households could not rely sufficiently on resources coming from market income. This situation seems to be a bit better in the other countries, where the ratio of poverty reduction is smaller, but also the poverty rates among beneficiary households without benefits.

Fig.7 Poverty rates with and without family benefits

among FB beneficiaries



Source: Author´s calculations using LIS

(see also Table 7A)

IV. DISCUSSION

Since the 1960s, there has been a clear and increasing interest for the evaluation of social policies. The Bureau of Applied Social Research of Merton and Lazarsfeld at the Columbia University was probably the first and most famous attempt to respond to the necessity of finding standard and rational methods to evaluate the effectiveness of social programs. Especially in the United States, where there is no strong tradition of state intervention in the economy, the money spent on social policies had to be well spent. Too many times, however, policy evaluation has focused on the inefficiencies, on what has not worked, rather than emphasising on what has worked, on what has been successful in a determined policy-making. As a response to this negative attitude, some author has recently begun to focus on the positive consequences, both expected and unexpected, of the implementation of social policies: “on what has been successful in an ocean of normal inefficiency” (Tendler, 1992 quoted in Stame, 2000, p.154). This was not only a reaction to the difficulties in funding created by Reagan and Thatcher, but it was necessary to improve the effectiveness of the poverty reduction strategy on the basis of what had worked, rather than focusing on what had not worked.

Similarly to their American colleagues, social policy analysts in Europe have developed the predisposition, even more accentuated, to exaggerate what the welfare state has not been able to do, rather than to emphasise what it has achieved. Of course, there are good reasons for this attitude. An amplification of the positive results might lead policy-makers and politicians to reduce future funds, instead of increasing the efforts. This approach, however, has led to the belief that social policies are in essence inefficient and subsequently the welfare state itself has been accused of incapacity: no matter how much effort was invested. In brief, what social policy analysts have often forgotten is an adequate response to the key questions of any evaluation, which Stame (2000, p.126) correctly identifies as:

a. What has happened exactly? Have the objects been achieved? And if not, what has been achieved?
b. Was what has been achieved positive (good)?
c. Was it worthwhile to implement those policies?
d. How could policy-makers improve them?

These very simple questions does not hide the reason for the existence of the welfare state, in that it is there to improve the living conditions of less fortunate citizens, and not to resolve all problems arising from the economic transition.

As mentioned earlier, Central and Eastern European countries have witnessed a huge increase in income inequality primarily due to the shock of the economic transition. The huge decline in household income, for the most part caused by the loss of numerous jobs, has created new vulnerable groups – such as the unemployed, the Roma, children, etc. (see above, §2) -. These new vulnerable groups have survived the collapse of the command economy thanks to the existence of welfare provisions, rather than market resources. Poland is a good example of how the situation of households with welfare beneficiaries might dramatically worsen if social transfers would not be in place.

If the main objective of policy-makers was the complete evaporation of poverty, then this objective has not been achieved, or, at least, only achieved in part. Nevertheless, what has been possible to achieve was a significant reduction of poverty through the access to generous welfare benefits, such as unemployment compensation, means-tested and family benefits (generosity was a key characteristic of these welfare states especially during the first years of transition). Unfortunately, most of the data presented by the Luxembourg Income Study consider the reforms prior to 1999. Numerous countries, such as Poland, have only recently restricted the access to these provisions (see Consensus II: Country Reports, 1999). and, at present, there is still no possibility to monitor the latest trends. Nevertheless, the analysis of the data available demonstrates how important the existence of welfare benefits has been in reducing poverty.

To those who insist on the necessity to cut welfare expenditures in order not to compromise the efficiency of the market, there is now enough empirical evidence to point out the inconsistency of such statement. Especially the data concerning Poland, the first country to implement shock therapy, reconfirms the incapacity of the market to resolve alone the problems arising from the change in economic alignment. Even though it is possible to prove that social transfers are no guarantee for leaving poverty, they have greatly helped to lower its negative effects and to diminish the costs of economic transition. In other words, shock therapy would have been even more disastrous, or could not have been implemented without the existence of strong social transfers. In this context, the welfare state achieved great results in reducing economic deprivation and, thus, it was good and worthwhile implementing such policies.

Our last question should now focus on what can policy-makers do to improve the lack and inefficiencies of the welfare state, which, of course, have been numerous and not always unavoidable, in Central and Eastern Europe? Needless to say, a response to this question is extremely difficult and any attempt at finding a single, homogenising solution suitable for all countries is inevitably problematic. Nevertheless, a general rule can be expressed: the more the countries in transition have moved towards a market economic system, the more social transfers were required to reduce the negative effects of the change in economic alignment.

In brief, the analysis shows that Eastern Europe needs a more active welfare state rather than a diminished welfare state, as neo-liberal supporters would recommend. Nevertheless, forty years of communism have made the point clear that excessive state paternalism will not be a successful strategy for improving the living conditions of citizens. As János Ladányi and Iván Szelényi (1996) have pointed out, Central and Eastern Europe has a desperate need for an "Empowerment State": a welfare state, which actively invests in the material, human and social capital of its citizens (Ladanyi & Szelényi, 1996). This final objective may be achieved by means of social programs, which aim to support the citizens and not only allow them to recover, as it has been done so far, from the negative effects of market mechanisms.

CONCLUSION

There can be little doubt that welfare institutions have played, and will probably continue to play, a crucial role in limiting the negative effects in income and social inequality. They have helped to reduce not only the negative repercussions of the economic shock, but have also helped to maintain a sense of public responsibility and solidarity, which has reinforced social cohesion during these difficult times. Without efficient welfare institutions, Central and Eastern European societies would not only be more unequal societies, but would be also more atomised and disaggregated societies. In the long run, this might seriously damage further reforms or the democratisation process itself.

Despite the existence of numerous inefficiencies, partly due to budget constraints but also due to wrong political decisions (such as those concerning cuts in welfare expenditures in the hope that the market would resolve all economic problems), social transfers have achieved most of the objectives, for which they had been created: reducing the negative impacts of economic transition. What is required now is, however, a change in mentality: from a cushioning welfare state, Central and Eastern European policy-makers and politicians should turn into an "empowerment state". This will be the key of success for future social policies.

APPENDIX

Table 1A Decile Shares

	Decile 1-3	Decile 4-7	Decile 8-10
Czech Rep.92	19,0	36,9	44,0
Czech Rep.96	16,6	35,5	47,9
Estonia00	11,6	32,6	55,9
Hungary91	14,7	35,9	49,5
Hungary94	13,7	33,5	53,0
Hungary99	15,1	34,5	50,5
Poland86	15,2	36,7	48,2
Poland92	15,6	35,6	48,8
Poland95	11,9	35,5	52,7
Poland99	14,7	34,7	50,5
Romania95	15,2	35,4	49,5
Romania97	15,3	35,4	49,2
Slovakia92	19,6	37,9	42,5
Slovakia96	16,4	37,5	46,0
Slovenia97	16,0	37,6	46,4
Slovenia99	16,2	37,4	46,3

Source: Author´s calculations using LIS.

Table 2A Percentiles DPI

	Percentile 10th (DPI)	Percentile 90th (DPI)	Percentile Distance 90th-10th (DPI)	P90/P10 (DPI)
Czech Rep.92	65	155	89	2,37
Czech Rep.96	59	179	119	3,01
Estonia00	46	234	188	5,08
Hungary91	54	182	128	3,39
Hungary94	50	209	159	4,19
Hungary99	54	194	140	3,57
Poland86	50	177	126	3,51
Poland92	54	184	130	3,42
Poland95	47	189	142	4,04
Poland99	52	187	135	3,59
Romania95	52	180	127	3,42
Romania97	53	180	127	3,38
Slovakia92	66	149	83	2,25
Slovakia96	56	162	106	2,88
Slovenia97	51	166	114	3,24
Slovenia99	53	167	114	3,15

Source: Author´s calculations using LIS.

Table 3A Gini Index

	Gini Index DPI	Gini Index DPI minus Social Transfers
Czech Rep.92	,207	,399
Czech Rep.96	,259	,424
Estonia00	,361	,506
Hungary91	,283	,484
Hungary94	,323	,553
Hungary99	,295	,497
Poland86	,271	,365
Poland92	,274	,414
Poland95	,318	,525
Poland99	,293	,493
Romania95	,277	,357
Romania97	,277	,359
Slovakia92	,189	,391
Slovakia96	,241	,425
Slovenia97	,250	,404
Slovenia99	,249	,405

Source: Author´s calculations using LIS.

Table 4A Change in Overall Poverty Rates DPI & DPI minus Social Transfers

	DPI (OPR 40% of median)	DPI (OPR 50% of median)	DPI (OPR 60% of median)	DPI-Social Transfers (OPR 40% of median)	DPI-Social Transfers (OPR 50% of median)	DPI-Social Transfers (OPR 60% of median)	RPR (OVP 40% of Median)	RPR (OVP 50% of Median)	RPR (OVP 60% of Median)
Czech Rep.92	1	2	7	21	23	27	20	21	21
Czech Rep.96	2	5	10	21	25	29	19	20	18
Estonia00	7	12	20	26	30	34	19	17	14
Hungary91	4	8	14	26	29	33	21	21	18
Hungary94	6	10	15	31	35	38	25	25	23
Hungary99	3	7	13	26	30	33	23	23	20
Poland86	4	10	17	16	20	25	12	10	8
Poland92	3	8	14	20	24	29	16	16	15
Poland95	7	12	18	29	32	35	22	20	18
Poland99	4	9	15	26	29	33	21	21	18
Romania95	4	9	15	14	19	24	10	10	9
Romania97	4	8	14	13	18	24	10	10	10
Slovakia92	1	2	6	19	23	27	19	21	21
Slovakia96	4	7	12	23	26	30	19	19	18
Slovenia97	5	9	15	21	25	30	17	16	15
Slovenia99	4	8	14	21	25	29	16	17	15

Source: Author´s calculations using LIS.

Table 5A Change in Poverty Rates among unemployment compensation beneficiaries with and without benefits

	DPI (UCBPR 40% of median)	DPI (UCBPR 50% of median)	DPI (UCBPR 60% of median)	DPI-UC (UCBPR 40% of median)	DPI-UC (UCBPR 50% of median)	DPI-UC (UCBPR 60% of median)	RPR (40% of Median)	RPR (50% of Median)	RPR (60% of Median)
Czech Rep.92	3	6	12	8	13	23	6	7	11
Czech Rep.96	9	16	25	15	24	32	6	7	7
Estonia00	18	29	39	27	37	46	9	8	7
Hungary91	4	7	13	14	20	28	10	13	15
Hungary94	9	13	19	14	19	35	6	6	17
Hungary99	6	13	22	15	23	36	9	10	14
Poland86	,	,	,	,	,	,	,	,	,
Poland92	3	7	13	9	16	23	6	9	9
Poland95	7	13	22	26	37	47	20	24	25
Poland99	7	16	27	32	45	55	25	29	29
Romania95	5	12	21	13	22	33	8	10	13
Romania97	4	10	16	13	20	29	9	9	13
Slovakia92	2	4	10	6	12	21	4	8	10
Slovakia96	6	10	16	14	20	28	8	10	12
Slovenia97	10	18	30	21	35	46	11	17	16
Slovenia99	7	14	24	18	29	40	12	14	16

Source: Author´s calculations using LIS.

Table 6A Change in Poverty Rates among means-tested beneficiaries with and without benefits

	DPI (MTBPR 40% of median)	DPI (MTBPR 50% of median)	DPI (MTBPR 60% of median)	DPI-MT (MTBPR 40% of median)	DPI-MT (MTBPR 50% of median)	DPI-MT (MTBPR 60% of median)	RPR (40% of Median)	RPR (50% of Median)	RPR (60% of Median)
Czech Rep.92	4	9	21	13	23	41	10	14	20
Czech Rep.96	5	9	17	8	14	22	4	5	6
Estonia00	14	21	29	25	30	40	12	9	11
Hungary91	3	8	17	6	14	28	3	6	11
Hungary94	7	13	16	11	17	22	4	4	5
Hungary99	5	16	31	18	31	40	13	15	9
Poland86	,	,	,	,	,	,	,	,	,
Poland92	,	,	,	,	,	,	,	,	,
Poland95	5	9	15	9	14	20	4	5	5
Poland99	5	12	20	10	18	26	5	6	5
Romania95	,	,	,	,	,	,	,	,	,
Romania97	,	,	,	,	,	,	,	,	,
Slovakia92	2	6	15	15	25	36	13	19	21
Slovakia96	7	16	32	24	35	56	17	18	24
Slovenia97	25	40	51	34	50	58	9	10	7
Slovenia99	22	38	52	41	51	56	19	13	4

Source: Author´s calculations using LIS.

Table 7A Change in Poverty Rates among family support beneficiaries with and without benefits

	DPI (FBBPR 40% of median)	DPI (FBBPR 50% of median)	DPI (FBBPR 60% of median)	DPI-FB (FBBPR 40% of median)	DPI-FB (FBBPR 50% of median)	DPI-FB (FBBPR 60% of median)	RPR (40% of Median)	RPR (50% of Median)	RPR (60% of Median)
Czech Rep.92	1	2	4	2	5	10	1	3	5
Czech Rep.96	2	5	10	5	10	17	3	5	7
Estonia00	7	12	19	13	18	24	5	5	6
Hungary91	3	5	9	11	16	23	8	11	14
Hungary94	5	9	13	14	20	26	9	10	13
Hungary99	3	7	15	8	17	24	5	10	9
Poland86	7	14	26	12	23	35	5	9	9
Poland92	2	6	11	5	10	16	3	5	4
Poland95	7	12	20	11	18	26	4	5	6
Poland99	6	13	24	18	30	41	12	17	17
Romania95	4	9	17	6	12	19	2	2	2
Romania97	4	9	15	7	12	20	3	4	5
Slovakia92	0	2	4	2	6	12	2	4	8
Slovakia96	5	7	13	9	15	22	4	7	10
Slovenia97	4	9	14	7	12	18	4	3	3
Slovenia99	3	6	11	6	11	17	3	5	5

Source: Author´s calculations using LIS.

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