RESEARCH NOTES ON INCOME INEQUALITY IN ROMANIA - A REGIONAL PERSPECTIVE

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ABSTRACT: The aim of this paper is to provide an overview on the income distribution across the eight regions of development in Romania. Being far from a thorough research, the paper aims to be a first step in analysing the drivers of inequality and provide policy guidance for future directions of action. In the first part of the paper I will provide a short literature overview on inequality and economic growth and pointing some measures of inequality. In the next section I will present some basic patterns of income distribution across the Romanian regions and drivers of change within the country and I will finally conclude.

KEY WORDS: inequality, convergence, income distribution, growth, GDP, Romania

1. INTRODUCTION

The world is hyper-complex and every constitutive element has an important role to play and having an impact on the other elements too. It is really important to provide equal opportunities and not necessarily equal outcomes. Having equal opportunities and equal access to resources, everyone is free to manage in their own way the assets in order to meet and satisfy their needs.

However, the capability to manage better or not your assets may lead to different outcomes and inequalities. Inequality, means the quality of being unequal or uneven as a social disparity, a disparity of distribution or opportunity. Economic inequality is of great interest and it measures the disparity between a percentage of the population and the percentage of resources, such as income, received by that population. Inequality increases as the disparity increases. In the following sections I will provide some theoretical thoughts and a brief overview of income inequality across the Romanian regions.

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2. THEORETICAL BACKGROUND

Many anti-globalisation actors have claimed that the poor may not benefit from the global growth. It is said that „rich people get richer and poor get poorer“. Others may state that the poor benefit in absolute terms but much less than the others and this may lead to inequalities. How plausible these things are, it is a matter of long debate. Many researchers have tried to prove this empirically and only a few have used broad samples of countries over several decades (for example, Deininger and Squire have compiled a broad data set, in World Bank). Some authors have analysed the overall global distribution of income across people of the world and tried to explore the evolution of income inequality at global level and poverty. However, the global trend is determined by different driving forces related to changes in distribution between countries and within countries. Even if a country may rank well in terms of income inequalities across countries, it may experience very high levels of inequalities within country, among its regions. Some concerns have been raised along the growth process in relation to the evolution of within country inequality and if there is any causality.

In the “Regional inequality and the process of national development”, Williamson draws the attention on the nature of “regional dualism”, “north south problem” referring to poor and rich regions and finds a consistent relation between this one and the national economic development. Moreover, the level of regional inequality seems to be high in Kuznets’ middle income class and that inequality is more extensive in agricultural sector than in industry (Williamson, 1965, p.44). Kuznets (1955) suggested that a primarily agricultural economy has a low income inequality but during industrialisation the level increases over time and after reaching a critical point, inequality will reduce. It is interesting to notice the distribution of income across countries and see where a country is positioned relative to the others or the average of the area but I consider that more relevant would be to observe the variations within country. Even though the income inequality may not be very high across countries, the variation within the country may be significantly high and can also provide explanations for the national performance.

The income inequality analysis at a regional level for Romania is poor and very few studies have been done on this matter (Tatu and Barbulescu (2007) provide very basic analysis on the regional inequality within Romania). The ongoing global economic downturn has no doubt an impact on low income groups. The previous expansion led to an increase in inequalities but affecting largely a certain group of the population. The crisis is ongoing to affect all the groups but the way people perceive the impact may be different. The poor would be mostly affected as their basic needs may be put in danger while the rich might feel it less in the sense that they will have to give up partially to their luxurious life or see some of their businesses going down. According to the World Development Report 2009, between 1990-2005 two thirds of countries had an increase in income inequalities (as changes in Gini coefficient) meaning that the income of the richer households have increased relative to poor ones.

A place with no inequality would be of less interest. People would have no incentive to work harder, the talent wouldn’t be compensated and therefore, no incentive for innovation and development, no progress. The OECD reports point out
very well that what is really important is the equality of opportunities not equality of outcomes (OECD 2009). The way people would benefit from the opportunity is a matter of personal choice, rational choice, competitive advantage and needs. Different reports state higher or lower figures related to inequality. This difference resides in the accuracy and source of data collection, measurement unit and the measure used. The most common instruments used to measure inequality refer to range, range ratio, the McLoone Index, the Coefficient of Variation, the Gini Coefficient and Theil’s T Statistic. In terms of spatial inequality measures, the most popular ones are Gini, Atkinson and the general entropy measure. The Coefficient of Variation is a distribution’s standard deviation divided by its mean. The McLoone Index divides the summation of all observations below the median, by the median multiplied by the number of observations below median.

In this paper I will refer mostly to simple measures such as the range and range ratio, and the coefficient of variation. Regions are different from others. Even though different regions may be facing similar challenges this does not necessarily imply a similar response or a general pattern. In the following section I am going to refer to the specificities of the Romanian regions by using different indicators and measures related to the income distribution.

2. THE CASE OF ROMANIA

Romania is divided in 8 regions which have formed mostly on a voluntarily basis and will of neighbouring counties (territorial units with administrative structures). The GDP of the country has experienced an increase particularly in 2000-07.

![Figure 1. Evolution of GDP per capita in Romania](source: generated using data from the World Bank database)
The fall of the communist regime has brought new perspectives for Romania. However, the way to progress was slow due to several reasons. Also, from 1990 on, the market economy and the new economic, social and political conditions made Romania to experience significant increases in inequalities and particularly in income inequality. The period 1990-2000 has been one of tumultuous transition with fluctuating figures. However, starting from 2000, Romania experienced an increasing growth rate and trends could be seen. I will focus in my analysis mostly on the period after 2000 in particular due to the availability of data and consistency reasons. As compared to the EU levels, Romania has a marginal position in terms of GDP at current prices. In 1999, the GDP level was more than 4 times less than EU 15 but it has slightly reduced the handicap - though still a small figure - such that in 2007 it was three times less than the same EU level. However, Romania is seven times poorer than the wealthiest state – Luxembourg.

Very few studies have been conducted related to the income inequality in Romania, across its regions. Among the region of Central and Eastern Europe, Romania has a medium increase in inequality compared to other countries in the area. Related to the GDP evolution within the country, the period after 2000 has brought growth in all the regions. The capital region is the one performing the best due to its power to attract investments, skilled labour and the activity of major corporations. Regions of different sizes achieve different levels of GDP. However, a real comparison can only be made by comparing the regional GDP with the population of the region in question. Out of the eight regions of development, the one registering the highest GDP per capita is the capital region of Bucharest Ilfov.
According to the calculations of the Eurostat regarding the regional dispersion, the richest country of the EU experience the highest degree of dispersion by weighting the GDP level to national average. This is to account for the fact that regions with similar GDP may have a different structure and so the comparability would not be relevant. Different sources and institutions may provide different values for the Gini coefficient but they all seem to provide figures over 30 for the more current years.

After a short period of less income inequalities, the dispersion of regional GDP per inhabitant increased and passed over 30. The trend of income inequality is presented in the above graph which resulted from my own computations using data from the Eurostat dataset. In terms of disposable income, the capital region has the highest performance net superior to the other regions which seem to be at almost the same level. However, the lagging region is again the North East one.

**Households’ income.** Now it is opportune to refer to the households’ income across the regions and in time to see the evolution of these indicators in terms of inequality patterns. In the following table I have computed the income disparity of households as a fraction between the top and bottom deciles. In total income, the top deciles is five times higher than the bottom one while in terms of gross salaries and other rights the figure is higher: 19 times.

Source: Eurostat Regional Yearbook 2008

**Figure 3. Dispersion of regional GDP per inhabitant in some of the EU 27**
In terms of average gross and net earnings across regions in 2006, the capital region experiences the highest levels compared to the least performing North East area of the country. Interesting to notice is that in all regions men are better paid than women both in gross and net terms. The following table presents the differences in payment between women and men across the regions computed as a fraction between the women earnings and men. This means that a lower fraction results in higher disparity between men and women earnings. The poorest region of the country provides the lowest levels of earnings but experiences the lowest gap of inequality between men and women while South Oltenia has the largest gap between men and women earnings.

Five regions are experiencing higher gaps than the average level most of them in the south and western part of the country, particularly those which have high levels of gross and net earnings for 2006. This means that the disparity is higher than in the rest of the regions and the higher the income/earnings the higher the inequality between men and women. The average earning across all the regions has pointed out that the most promising sector is the financial one bringing the highest returns. Surprisingly, his outstanding position is followed by the public administration and defence. The least appealing sector seems to be the hotels and restaurants.
Table 2. Income dispersion – households, 2006

<table>
<thead>
<tr>
<th>Total income</th>
<th>5.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money income</td>
<td>2.07</td>
</tr>
<tr>
<td>gross salaries and other rights</td>
<td>18.71</td>
</tr>
<tr>
<td>income from agric</td>
<td>0.35</td>
</tr>
<tr>
<td>income from non-agric indep activities</td>
<td>0.60</td>
</tr>
<tr>
<td>Equivalent value of income in kind obtained by employees and receivers of social provisions</td>
<td>3.17</td>
</tr>
</tbody>
</table>

Source: National Institute of Statistics, Bucharest, Romania

Table 3. Disparity between men and women on gross and net earnings

<table>
<thead>
<tr>
<th>Earnings per region</th>
<th>Gross</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>average</td>
<td>0.869</td>
<td>0.871</td>
</tr>
<tr>
<td>N-E</td>
<td>0.951</td>
<td>0.953</td>
</tr>
<tr>
<td>S Muntenia</td>
<td>0.848</td>
<td>0.851</td>
</tr>
<tr>
<td>SW Oltenia</td>
<td>0.810</td>
<td>0.813</td>
</tr>
<tr>
<td>West</td>
<td>0.839</td>
<td>0.842</td>
</tr>
<tr>
<td>Centre</td>
<td>0.899</td>
<td>0.903</td>
</tr>
<tr>
<td>Bucharest Ilfov</td>
<td>0.890</td>
<td>0.888</td>
</tr>
</tbody>
</table>

Source: own calculations using data from the National Institute of Statistics, Bucharest

Computing the average net monthly earnings in Romanian lei, the graph shows that the activity bringing the highest average earning is financial intermediaries, surprisingly followed by the public administration and defence. The lowest average earning across economic activities can be found for fishing and hotels and restaurants.

When looking within the activity sector across the regions, the financial intermediaries sector provides the maximum earning across all activities and also the highest minimum across activities. Less performing seems to be the hotels and restaurants sector which experiences a double poor performance - the lowest minimum earning and maximum across all activities.

The figure 6 shows the variation across sectors within the poorest region of Romania North East. Less variation is noticed in the trade and hotels and restaurants sectors. However, the highest variation is in mining and quarrying.

The highest variation is in the mining sector, Bacau being the best performer while Botosani the least one.
Figure 5. Average earnings per activity

Figure 6. Variation across sectors in North East region, 2006

Source: own calculations based on National Institute of Statistics data, Romania
3. CONCLUSION

Very few studies have been conducted related to the income inequality in Romania, across its regions. The availability and shortage of units of analysis may bias the results or the conclusions. Moreover, using different sources of information may result in different outcomes and this is the case of different Gini coefficients provided by different international organisations.

Nevertheless, there is also a matter of measurement method chosen that may have an impact on the results, or the assumptions underlying any study. Income inequality varies within the country ranging from the levels of the North East region to the top performance of the Bucharest region in terms of GDP per capita distribution and disposable income. However, the variation within every region is even higher than across regions. The current financial crisis will affect the income of the Romanian population very soon if it hasn’t started to do so. Within the context of rather weak institutions the recovery of the economy would definitely take longer than for other countries affected. Not to mention that the transition period took long and in some aspects I might say that it is still in progress.

The main key issues that really need to be addressed in Romania are strengthening the institutional system and the rule of law which are the core elements when making policies. Transparency, responsibility, efficiency, multi level governance, competitiveness are key words that should be the pillars of every system. In Romania these seem to be still in the work in progress phase. However, every structure has its own gaps failures and deficiencies. The discussion can go further in human capital, innovation, infrastructure, effects of agglomeration, distance to markets and accessibility and can provide the starting point for an extensive research.

The context is hyper-complex and there is no one size fits all solution to address the problem of income inequality. Moreover, whether it is good or bad to have inequality is debatable. I consider that inequality is inevitable given the current democratic system and inequality will always exist in one way or the other. Even if the access to resources, skills and information is equal, people are different and so their behaviour. The way they decide to make use of their assets is a rational choice more or less and it will be based on the needs at a certain moment in time. Preferences change in time and so are the assumptions. Once the assumptions are changed, different directions of action may emerge.

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