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Inequality and Inclusive growth: Evidence from the Selected East European and CIS countries

There has been a growing concern about the rising inequalities arising out of the pattern of growth and the concern picked up momentum since the global meltdown in 2008. Discontentment from existing growth outcomes became evident in many protests starting with the Occupy Wall Street Protests in 2011, which later on spread to many other countries. The rise of protectionism, expansionary fiscal policies and anti- globalization leading to Brexit and similar right-wing sentiments in few other countries has perhaps been the expression of dissatisfaction towards existing growth strategies being adopted across different countries. Some of these growth strategies adopted by countries around the World resulted in high unemployment and huge disparities between countries and within countries. The questions are being raised as to how the growth strategies have impacted poverty and inequalities; the two banes of the economies. The voices of discontentment have become stronger in recent years when the growth is not creating enough jobs. Some of the disparities are even gradually leading to social tensions and unrest. The rise of new technology and the "gig economy" are threatening to worsen inequality by further increasing corporate concentration and reducing bargaining power for workers.
While the root of much of the study on income inequality is found in Kuznets' (1955) paper, "Economic Growth and Income Inequality", the relationship has been tested and verified across time and countries by many studies. Even the UN's SDGs have recognized (While Target 1 aims to eliminate 'absolute poverty'; Target 10 of SDGs aspires to reduce inequality and promote inclusive growth.) the presence of inequalities and poverty within and across countries and made it a part of the goals to be achieved by 2030. Literature on inclusive growth shows evidence that while the recent growth in GDP in most of the countries, especially in the emerging economies have experienced reductions in poverty but the countries have also experienced a simultaneous increase in inequalities of income and wealth. Studies (Piketty, 2014; Alvaredo F. et. al., 2018) conclude that inequalities in most part of the world have increased during the last three decades as a result of which the economies have drifted away from inclusiveness and social justice. While Basu and Stiglitz (2016) bring into focus the debate about growth and poverty and find that growth alone is not sufficient to reduce poverty because despite high growths; Stiglitz (2016) points out the need to adopt both domestic and international policies, which are inclusive and lead to equitable and sustainable growth to come out of global growth slowdown. The ESCAP (2017), study also highlights the growing income and wealth gaps between rich and poor due to high growth and argues for a comprehensive strategy to reverse rising economic inequality.

Equality was one of the lofty goals of Communism in Central and Eastern Europe. However after their transformation and with the spread of market economies and globalization inequality has become an important issue in these countries during the last two decades. With reduction in State subsidies and emergence of markets; market transitions are thought to inevitably produce spiraling inequality on the road to economic growth. The empirical studies for these countries since 1989 agree that inequality had increased during 1990's and has stabilized since then. These countries are now quite diverse in nature and in their stages of development. Whereas few of the countries are advanced or upper middle income (Slovakia, Lithuania, Hungary, Poland, Romania and Russia) with a per capita GDP of more than $10000 in 2017-18; there are others (Armenia, Ukraine, Moldova, Uzbekistan, Kyrgyz Rep.) which are low middle income countries with less than $4000 GDP per capita. As the countries experience different income levels, they do also experience differences in the inequalities and inclusiveness. Inequality in these countries was much lower during the Communist era than they are at present (Milanovic; 1998, Bandelj and Muhutga; 2010, Brainerd; 2016, World Bank; 2005), and the inequalities are higher in the CIS countries as compared to Eastern Europe (The CIS countries generally rank higher than the East European Countries in the Oxfam's overall CRI rank for 2018). The increase in inequality however has been higher in the initial stages of transition, with smaller rises (or in some cases reductions) in inequality indicators after 2000 and especially after the global crisis of 2008 (World Bank; 2005, IMF; 2014, Brainerd; 2016) (Inequality increased the most in the least successful countries (Heyns; 2005)). The different levels of income inequality in the transition economies are described to be due to different governmental approaches taken towards stabilization, liberalization, privatization, and the 'tax and transfer' redistributive policies (Ivanova, 2007; Bandelj and Mahutga, 2010; Porras, 2010). The importance of inequality lies in the fact that it not only plays a role in enhancing or reducing the poverty impact of growth but also deprives sections of the society 'from opportunities, services and chance for a better life' (SDGs; UNDP) and thus affects their 'well-being'. UNDP in the SDGs has also advocated that countries must empower and promote inclusive social and economic growth. Income inequality along with wealth inequality, poverty rate and median income has also been included by the WEF as an indicator of the pillar of inclusion in its Inclusive Growth and Development Index.

In view of the importance of the issue of inequality and the increasing discontentment against the rising inequality; the paper aims to dig deeper into the available evidence of inequality in the East European and CIS countries which were once the example of equality and inclusive growth. It would be interesting to understand how the transformation of these erstwhile Socialist countries in the 1990's have impacted their distribution of income and wealth and helped in achieving inclusive growth. The study would be based on the available evidence for the countries and appropriate statistical tools would be applied. Some of the data sources would be World Development Indicators, WEF's Inclusive Growth and Development Index Reports, UN-WIDER database, etc.