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# Institutions and income inequality in transition economies

The relationship between economic growth and inequality has been intensively analyzed over the last decades. However, empirical results remain controversial. Although a majority of papers are linking economic growth and institutions, saying that good governance has a critical bearing on economic and social outcomes there is no guarantee that benefits of economic growth are broadly shared by all population including the poor. The empirical relationship between inequality and institutions has only relatively recently started to develop (Savoia et. al, 2010). The found interdependence is controversial: institutions could well change the ongoing distribution of wealth and income (Chong and Gradstein (2007), increasing property rights protection increases income inequality (Savoia at. al 2013).
The paper explores the relationship among income inequality and institutions in 28 economies (17 economies according to UNCTAD and 11 members of the EU) that have experienced a sharp increase in inequality after planned economy breakdown. The data for Russia and other countries in transition for the period of 1992 – 2016 is obtained from variety of different sources. The Gini coefficient is used as a measure of inequality and is from two sources the Standardized World Income Inequality Database (SWIID) and UNU-WIDER. Institution indicators relating mainly to political and economic institutions such as governance, economic freedom and corruption are from different sources. The log of GDP per capita in constant prices (2005 or 2011) from the World Bank's World Development Indicators is used as a welfare measure to capture the Kuznets curve hypothesis. We also control for education, financial development and inflation. The specification of the model has not been finally determined but we have used Fixed Effects estimates as well as 2-step Generalised Method of Moments. It was found that the property rights preserve the income inequality, but the democracy counterbalances that effect. In line with Savoia et. al (2013) in countries with a high level of democracy like EU member states the sufficiently representative systems reverse the inequality-worsening effect