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Income inequality and the Great Recession in Central and Eastern Europe

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Highlights

- We study the impact of the Great Recession on inequality in Central and Eastern Europe.
- Income inequality increased in Bulgaria, Estonia, Hungary and Slovenia.
- Falling full-time employment rates played the biggest role in inequality increases.
- Increased part-time or temporary employment had a small or negligible role.

Abstract

This paper uses data from the European Union Statistics on Income and Living Conditions (EU-SILC) to study changes in income inequality in Central and Eastern Europe during the Great Recession (2008-2012) and its determinants. Changes in inequality are decomposed using an Oaxaca-Blinder-like decomposition analysis based on the Recentered Influence Function (RIF) methodology, which allows splitting the overall change in inequality into endowment effects associated with changes in the distribution of inequality covariates and coefficient effects, which are related to changing returns to these covariates. Our results show that the Gini for disposable incomes has increased in a statistically significant way over 2008-2012 for Bulgaria, Estonia, Hungary and Slovenia. For most of the countries with significant increases in inequality, a falling full-time employment rate played the biggest role in explaining changes in inequality, accounting for about 50-60% of the Gini change for disposable incomes and about 60-80% of the Gini change for market incomes. The fall in the full-time employment rate had a smaller inequality-increasing effect for disposable incomes in Hungary (about 15% of the Gini increase). Increased part-time employment during the recession had either no impact on inequality or was rather inequality-decreasing. We did not find evidence that changes in the incidence of temporary jobs had any impact on income inequality.