

INCOME INEQUALITIES AND SOCIAL TRANSFERS IN GEORGIA

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Submitted to
Central European University
Department of Political Science

In partial fulfillment of the requirements for the degree of Master of
Political Science”

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Budapest, Hungary
2014

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Abstract

Collapse of the Soviet Union and the subsequent transition to market economy exacerbated income inequalities in Georgia. With the aim of addressing such inequalities often governments adopt redistributive policies. Among others, one of such policies is social transfers. Indeed, in 2006 Georgian government supplemented existing programs and introduced new social benefits targeted towards the most disadvantaged households (targeted social assistance). In order to assess the effect of the country's redistributive policy this research analyses impact of the social transfers on income inequalities between 2007 and 2012. With this purpose, the research uses descriptive statistics and survey data collected by the national statistics office of Georgia between 2009 and 2012.

In brief, the research finds that during this period redistributive potential of social transfers is limited to the degree that it provides minimum incomes for the most disadvantaged socio-economic groups. In other words, it finds that on average different income groups received relatively equal amount of such transfers, which were meaningful only for those households in the sample that are at the bottom of the income distribution. Therefore, the study finds that the existing policy between 2009 and 2012 was not able to balance overall post-market income inequalities in the country.

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List of Abbreviations

CEE – Central and Eastern Europe

CIS – Commonwealth of Independent States

ENPI – European Neighborhood and Partnership Instrument

FSU – Former Soviet Union

GDP – Gross Domestic Product

GeoStat – National Statistics Office of Georgia

GEL – Georgian Lari

IHS – Integrated Household Survey

IDP – Internally Displaced Person

OECD – Organisation for Economic Co-operation and Development

TSA – Targeted Social Assistance

WB – World Bank

WDI – World Development Indicators

1 Introduction

After the collapse of the Soviet Union, Georgia engaged in the military conflicts with its breakaway regions. Moreover, disastrous policies of the government (Jones, 2012) led to power struggles that shifted into civil war to the streets of the capital city. Soon, incumbent president Zviad Gamsakhurdia could not resist the pressure and fled the country. In 1992, an interim government was formed that was led by commanders of the two most powerful military fractions and the leaders of the previously opposition members. Later, it was agreed that the former minister of the Soviet Union, Eduard Shevardnadze, would be heading the government along with those commanders and their allies, and soon the struggle for power began once again. Shevardnadze emerged as the winner and was able to consolidate power and by 1995 he became the president of Georgia.

This political turmoil was followed by the collapse of the economic output that made the government unable to deliver social transfers neither in quantity nor in due time. During Shevardnadze's presidency (1995-2002), the headcount of poor below 2\$ a day increased from 14% of the population in 1996 to 40.6% by 2001 and later decreased to 34% by 2002 (World Bank, Poverty Indicators). Moreover, the post-socialist adjustment reforms, followed by dubious market liberalization (Jones, 2012) dramatically increased inequalities between the haves and have-nots. Due to neo-patrimonialism and strong informal networks that formed one legacy of the Soviet institutions, some were able to exploit economic reforms and state structures to their own benefits and accumulate large amount of wealth (Cook, 2007; Jones, 2012). Moreover, even those who got the smaller share of the wealth were far better off than the rest who did not (Jones, 2012). One could assume that the direct implication of such institutions would be significant income inequalities. It is also likely that the

transition to market economy, without the support of redistributive social welfare services and social benefits, would have increased this gap further. It is noteworthy that the similar trends of increased income inequalities and poverty (however, in a varying degree) can be observed among most of the post-socialist economies during the transitional period (Milanović, 1998).

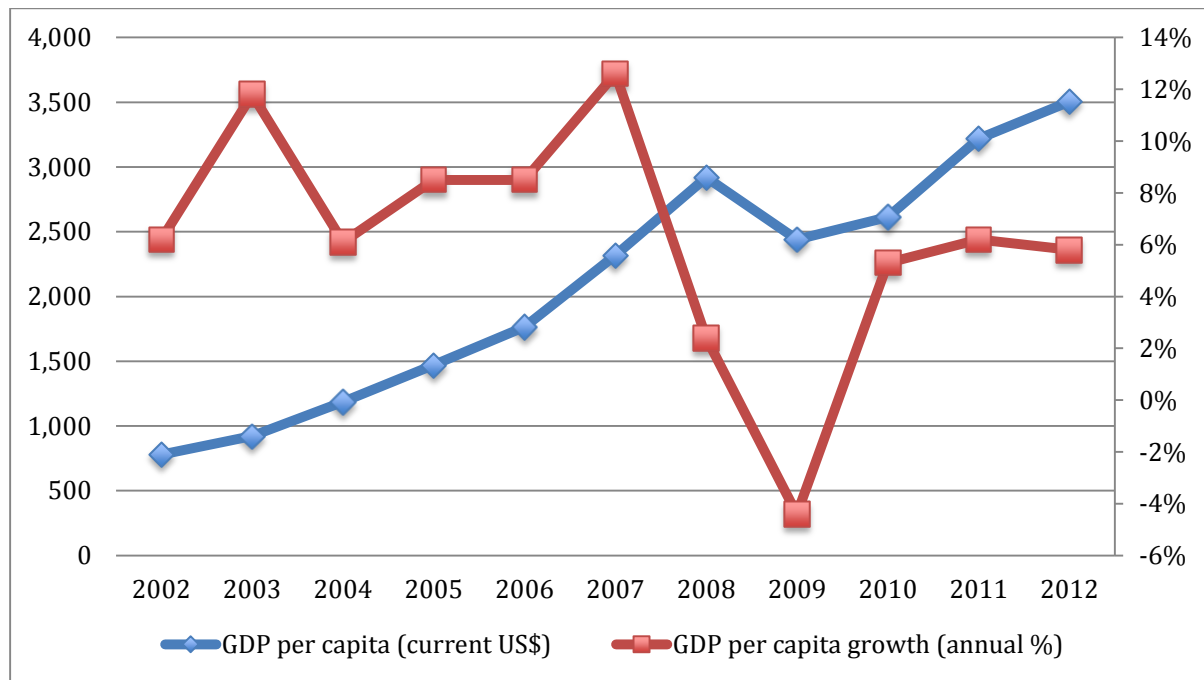


Chart 1.1: Economic Growth Rates in Georgia
 Source: WB: World Development Indicators

Dissatisfaction with the government increased and in 2003 spilled into another revolution (the so-called Rose Revolution), led by Mikheil Saakashvili, who was elected as the third president of Georgia the same year. During his presidency the country recovered from economic stagnation and maintained impressive growth rates (Chart 1.1). Having this in mind, one could argue that the economic growth, if followed by inclusive economic institutions (Robinson and Acemoglu, 2012, chap. 2) and strong social protection programs (Samson, 2009), could have a positive impact on the eradication of poverty in a country, including Georgia. However, if incomes rise unequally among different groups in Georgian society, income inequalities would

not only persist but also further increase. Hence, if the share of the income will not be given to those at the bottom of the income distribution, it is likely that the poverty rates would also persist and even rise.

On the other hand, among other means, income inequalities could be tackled by the redistribution of the accumulated wealth via social transfers. In brief, during 2003-2007 the social benefits indeed increased (World Bank, 2009). In this respect, one could assume that the inequalities could have decreased if the redistribution was sufficient, was targeted to those that are in need or was not undermined by some other external or internal factors. Considering all of the above, this project aims to investigate *in what ways, if at all, have social transfer programs in Georgia affected income inequalities between 2007 and 2012?*

This question is particularly relevant for Georgia due to the reason that in the context of the economic growth and large poverty rates decreased income inequalities would also decrease headcount of poor. On the other hand decreased poverty can further increase economic growth (Samson, 2009). This link is elaborated in details in the second chapter of this thesis. Moreover, analysis of the income inequalities in Georgia and the impact of the social transfers on the former would constitute an empirical contribution to the literature that is concerned with the implication of the transitional and post-transitional policies on income inequalities in the post-socialist and/or post-Soviet countries. Furthermore, it could also lay the ground for the future policy, which is particularly noteworthy due to the reason that there is no such research that would assess implications of the redistributive policy between 2007 and 2012. Hence, the research would also fill an existing gap in literature.

Moving on to the findings, the research has shown that social transfers were too small to have a notable redistributive outcome. Moreover, they were also equally distributed among the households that are towards the bottom and the top of the income distribution in most socio-economic groups. Nevertheless, it should be mentioned that the study also shows that such transfers comprise large part, if not whole, of the income of those households in each socio-economic group that are at the bottom of the income distribution. In this respect, the study finds that the redistributive effect of the social transfers during the given time frame is limited to the degree that it provides at least minimum income for the poorest sampled households in each socio-economic group.

In the next chapter the thesis locates this research within the broader literature. Hence, It reviews existing literature about the drivers of income inequality in the OECD and post-socialist countries. Moreover, it also reviews the role of redistributive policies in mitigation of the income inequalities. Third chapter proposes theoretical model. In the fourth chapter, the thesis elaborates on the methodology and the data that were used to analyze the impact of the social transfers. Furthermore, the fifth chapter analyses income inequalities in Georgia during 2009-2012, whereas, chapter six studies the effects of the social transfers on these inequalities. The final chapter concludes.

2 Literature Review

This chapter aims to locate this research within the broader literature and justify the research question. In this regard, next section elaborates on why income inequalities – that is, the dependent variable – are of particular interests for this project. Section 2.2 reviews the theoretical discussions about what drive income inequalities. This discussion also formulates justifications for the case selection. In brief, considering the socialist past of Georgia, it is likely that the determinants of income inequalities are similar to those in other post-socialist economies in the region. Hence, the findings of this project would be an empirical contribution to the discussion about income inequalities in transition economies more generally. The third section elaborates on what are the adopted practices to tackle income inequalities. It will draw on the existing literature with a particular focus on social transfers. Moreover, it also aims to find out whether countries with social programs have managed to decrease income gaps between haves and have-nots. The discussion focuses mostly on post-socialist economies, but also briefly touches upon Scandinavian countries that are thought to be the bastion of large, successfully redistributive social programs. The fourth section concludes.

2.1 Economic Growth and Income Inequalities

As it was briefly mentioned in the introduction, after the Rose Revolution in 2003 the Georgian economy grew significantly and by 2012 it was about seven times larger than in 2002 (see Chart 1.1 on p. 2). Despite such impressive economic performance, the poverty rates that dramatically increased during political turmoil and economic collapse in the early days of independence remained relatively unchanged (Chart 2.1). In other words, by 2010 about 18% of the population was surviving on less than \$1.25 per day and 48% lived on less than \$2.5 per day. Figures are not positively

different from those in 2002, when the number of poor living on less than \$1.25 per day was 16% and 47% was living under \$2.5 per day. In fact, as these statistics demonstrate, by 2010 the amount of the poor had increased when compared to the pre-Revolution period. Hence, the question that arises here is what happened to the accumulated wealth, which was generated by the economic growth between 2003-2012? While answering this question is not the direct aim of this thesis, it leads to another question, namely, to what extent, if at all, has the wealth generated by steep economic growth been shared across the entire population, including those at the bottom of the income distribution?

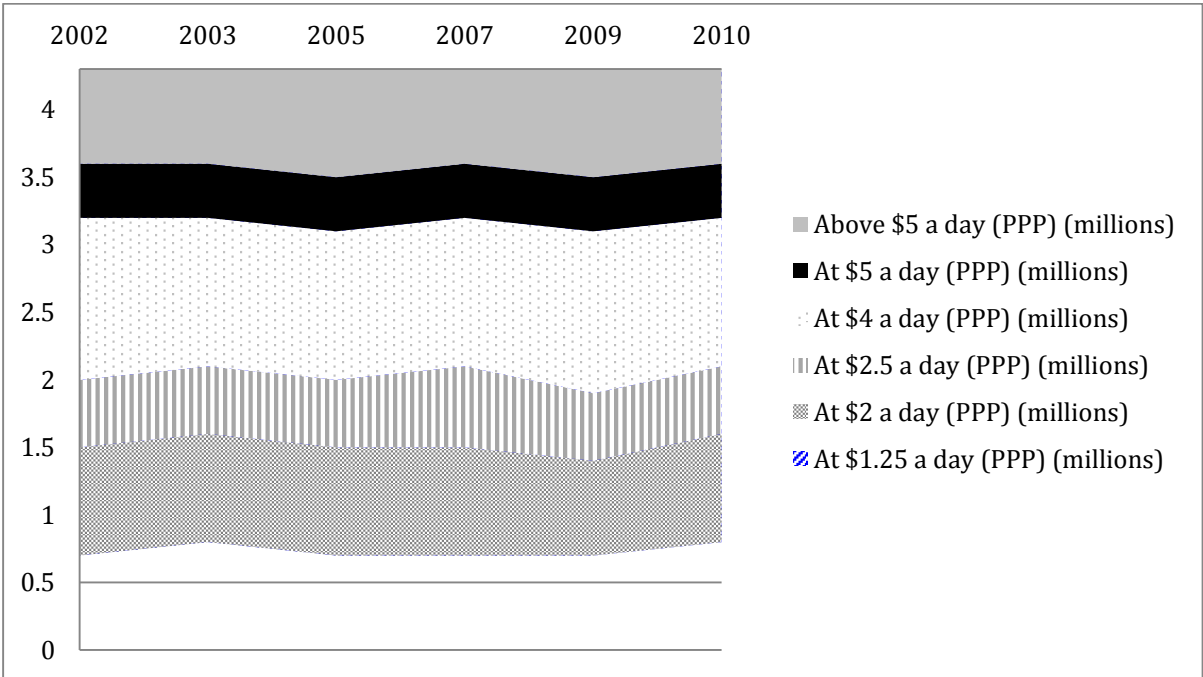


Chart 2.1: Poverty Rates in Georgia
 Source: WB: Poverty and Inequality Database

Considering that the population at the bottom of the income distribution are poorer than those on the top and that the reduction in income increases the headcount of poor (Milanović, 1998, p. 61), moreover, considering that the economic growth seems not to have altered poverty rates positively, it seems worthwhile to investigate how this accumulated wealth was distributed among the population. In

order to find out whether the poor received the share of the newly accumulated wealth or it was concentrated in the hands of few, one could measure the disparities of income distribution or in other words the income gap between the rich and poor over time, that is, income inequalities. Such approach, with particular focus on income inequalities, have been widely adopted over time and space (Milanović, 1998; Keane and Prasad, 2002; Mitra and Yemtsov, 2006; Vecernik, 2012).

Furthermore, as some argue, there is a synergy between economic growth and poverty and as an extension of the latter, between economic growth and income inequalities. Namely, reduction of the poverty rates could lead to economic growth by providing population possibility to invest in those long-term productive activities that are temporarily put aside or neglected when they often face immediate needs for survival (Samson, 2009). Hence, if a reduction of income gap can have a positive impact on the reduction of poverty rates, one could argue that it could also have a positive impact on the economic growth. The latter on the other hand, provides more wealth that the governments could further redistribute. Indeed, number of studies have investigated relationship between income inequalities and economic growth and found out that the declining inequality is in positive relationship with economic growth (Forbes, 2000). However, it is also noteworthy that such relationship is not present in advanced industrialized countries and is limited to the early stage of development (Barro, 2000; Shin, 2012). Hence, mitigation of income inequalities on the early stage of development could have a positive impact on the successful transition in Central and Eastern European countries (Keane and Prasad, 2002, pp. 336–339).

To sum up, considering that the reduction of the income gap between poor and rich could have a positive impact on the economic growth, in addition, having in mind that after the Rose Revolution aggregated economic output in Georgia

increased significantly but the poverty rates did not decrease, it is plausible to investigate what happened to the income inequalities.

2.2 Drivers of Income Inequality

Esping-Andersen (2009, chap. 3) as well as others (Forster and Pearson, 2002; Atkinson, 2004) find that between 1980-2000 in most of the Organization for Economic Co-operation and Development (OECD) countries income inequalities have been on the rise. It is particularly noteworthy that the same trend can be observed even in Scandinavian countries, that are distinguished by extensive redistributive social programs (Esping-Andersen, 2009, p. 56). In this respect, it should be mentioned that the social transfers are not necessarily to be seen as a panacea for income inequalities, nor can they always prevent the rise in such inequalities. Similarly, increased income differentials can be observed in most transition economies (including Georgia) of the post-Soviet bloc (Milanović, 1998; Heyns, 2005; Bandelj and Mahutga, 2010). Hence, the question of particular interests for this section is what drives this phenomenon and whether these drivers overlap between OECD members and economies in transition.

Large part of increased income inequalities within the OECD countries can be attributed to increased unemployment and to the widening gap of the wage premiums in the labor market (Rodrik, 1997, p. 13). Arguably, consequences of this transformation were detrimental effects predominantly for the low-skilled labor force. There is no agreement in the existing literature what drives these factors. On the one hand, part of the literature ascribes this to the implications of globalization (Rodrik, 1997, chap. 2; Stiglitz, 2006, p. 3), on another to labor market transformations (Atkinson, 2004; Esping-Andersen, 2009).

To start with globalization, in theory trade liberalization, capital mobility and high-skill labor mobility could shift low-skilled jobs to those developing countries that have abundance of cheap labor, be that China, India or others (Rodrik, 1997, p. 14; Stiglitz, 2006, p. 67). This in turn would decrease demand for low-skilled labor. Expectations that low-wage jobs would be substituted by high-wage ones is unlikely, and many low-skilled workers would find themselves among the cohort of unemployed (Stiglitz, 2006, p. 67). Those who would not join this group would face significant decreases of wages, as a result of increased international competition that amplifies the elasticity of the demand for low-skilled labor (Rodrik, 1997, p. 14). The consequences of these two factors, as argued, would be raising income inequalities. Empirical studies find inconclusive evidence of these relationships. There are a number of empirical analyses that find no significant relationship between globalization and income inequalities (Faustino and Vali, 2013; Bigsten and Munshi, 2014), other empirical analyses in contrast find a significant relationship between these two phenomena (Dreher and Gaston, 2008; Figini and Gorg, 2011). Hence, it is not possible to conclude whether the globalization *per se* is a determinant of income inequalities or not.

On the other hand, proponents of another approach argue that the large part of increased income inequalities within the OECD countries can be attributed to the rising wage dispersion caused by labor market transformations (Atkinson, 2004; Esping-Andersen, 2009). In other words, there is an ongoing shift from the primary (production of raw material) and secondary (production by using raw materials) sectors to the service sector that emphasizes the need of the high skilled labor. This paved the ground for the income inequalities that are driven by increasing participation of women in the labor market, which creates another breadwinner in the

households (Esping-Andersen, 2009). Moreover, high skilled centric transition also disadvantages young entrants to the labor market compared to experience labor (Atkinson, 2004; Esping-Andersen, 2009, p. 58).

Leaving aside drivers of income inequality in OECD countries, most important for this research is that in Central and Eastern European (CEE) states, assistance for the post-socialist adjustment reforms led to the rapid liberalization of markets in these countries. This transition was followed by recession, leading to huge output drops and structural unemployment (Kornai, 1994). Most importantly, majority of the countries embraced neo-liberal policies and subsequently the state ownership was substituted by private ownership (Milanović, 1998, p. 7; Rodrik, 2005). While income inequalities were not unknown during socialist period, as some argue, they particularly increased during the early years of the transition period (Milanović, 1998).

Mitra and Yemtsov (2006, pp. 11–16) enumerate six main factors that have arguably driven income inequalities in transition economies. It is noteworthy that these drivers are country-specific and therefore are not necessarily present in each transition economy (Mitra and Yemtsov, 2006, p. 16). Firstly, the emergence of private property rights gradually shifted productive activities to the private sector. Wages became dependent on human capital, which in turn depends on education. As a result of such a transformation, returns to education are significantly higher especially among those with higher education (ENPI, 2010, pp. 43-49). As a result, wage inequalities emerge and keep expanding (Mitra and Yemtsov, 2006, p. 12). In the case of Georgia, by 1996, “75-80 percent of GDP was officially produced by private firms” (Jones, 2012, p. 199). Later, Saakashvili’s government further accelerated liberal restructuring reforms and between 2004 and 2008 reduced the role of the state and increased participation of the private firms in most of the sectors

(ENPI, 2010, pp. 56-57). Hence, Georgia is not an exception from other post-socialist countries and the first driver of income inequalities as outlined by Mitra and Yemtsov (2006) is likely to be also present both prior and after the Rose Revolution.

Even though wage dispersion accounts for the largest share of the income inequalities, this is not the only factor that drives it. A second factor that followed such restructuring was increased unemployment and the concentration of labor in low-productivity activities (Mitra and Yemtsov, 2006, p. 14). The reason for this is that during the transitional recession, many state managed firms were privatized or closed, leading to decreased demand for labor intensive production and often unnecessary labor (Kornai, 1994). As a result of this painful process of decreased employment, most inactive workers were concentrated in subsistence agriculture or informal activities that have low returns. In the case of Georgia, as the distribution of employment by economic sectors between 2002 and 2007 demonstrates, there is a consistent concentration of the labor force in the low productivity activities such as agriculture, fishing and forestry (ENPI, 2010 Table 3.7). While figures fluctuate and there is no apparent trend that could be emphasized, one generalization could still be made, that is that the sector accounting for more than half of the employed labor force “are small farmers living at the subsistence level” (Jones, 2012, p. 202). Moreover, sectors that employ most of the labor force are those that provide the lowest wages (ENPI, 2010, p. 73). As for the shadow economy, Jones (2012, p. 203) finds that by 2010 “it was estimated at 25-35 percent of GDP”. On the other hand, the ENPI (2010, p. 67) country report finds that the informal activities between 2002-2007 declined by 10% from the 30% estimated point. While this does not reveal the share of the low-productive activities in shadow economy, it points to the magnitude

of this sector. Hence, considering all of the above mentioned, it is likely that the second factor that drive income inequalities has also been at work in Georgia.

A third driver is “changes in government expenditure and taxation” (Mitra and Yemtsov, 2006, p. 14), in other words, changes in redistributive policy. Governments, especially those of low-income Commonwealth of Independent State (CIS) countries, decreased universal coverage of social transfers and started targeting these only to those that were in particular need. In other words, in such settings social transfers have reached only those at the very bottom of income distribution and have omitted those that are less needy when compared to those that are under extreme poverty. Existing literature on the social transfers in Georgia will be reviewed in next section of this chapter. Nevertheless, it should be mentioned that the third driver of income inequalities in the post-socialist countries has a peculiar character in Georgia. The reason is that the social protection system in the country practically collapsed during the political and economic turmoil during the early days of independence (Yemtsov, 2001, p. 17). The absence of verifiable data created a gap in the literature until 1996, that is, when the Integrated Household Survey (IHS) was conducted for the first time. However, during 1996-7 most of the public transfers were constituted of pensions and other minor types of assistance that were extremely limited both in generosity and coverage (Yemtsov, 2001, p. 17-19). Such a limited provision, as argued, had no impact on income inequalities. Hence, introduction of the targeted social assistance, even only for those that are at the bottom of the income distribution ladder, is likely to have had a positive rather than a negative impact on Georgian income inequalities during the growth period.

The fourth factor is price liberalization, which led to huge inflation in most post-socialist countries (Csaba, 2007). Devaluation had significant impact on real wages

and had a particularly strong negative impact on the poorest. The reason, as argued, is the appearance of arrears on social transfers and pensions during inflation (Mitra and Yemtsov, 2006, p. 15). However, such inflationary implications of price liberalization, are not stretched over time and are characteristic of early years of transition for the reason that they were followed by monetary stabilization (Csaba, 2007, p. 78, Table 5).

Another implication of macroeconomic restructuring and particularly of privatization in post-socialist countries, which is a fifth factor in the list of the drivers of income inequality by Mitra and Yemtsov (2006), is the emergence of property incomes. In the long run, considering the scarcity of resources, without redistributive policies such property incomes are likely to drive up income inequalities in liberal economies. In Georgia, privatization began in 1992 after the departure of president Gamsakhurdia (Jones, 2012, p. 78). It intensified and followed western recommendations after 1995 during Shevardnadze's presidency (Jones, 2012, p. 199). Later, Saakashvili's government further accelerated the state owned asset transfer to private individuals (Jones, 2012, p. 200). It should be mentioned that Jones (2012, pp. 199-202) finds that a privatization process throughout this period was characterized by favoritism and various machinations that subsequently enriched few. However, it is also noteworthy that the privatization of housing was relatively fair and equitable (Yemtsov, 2001, p. 17). Considering the collapse of most social programs, it is likely that the emergence of property incomes prior to the Rose revolution was also a determinant of income inequalities. Whether this determinant was altered via social transfers will be reviewed in the next section.

The sixth and the final factor is globalization, as in the case of OECD member states. In other words, the technological change that follows globalization is in turn

followed by “a rise in the premium for skilled workers and a decline in the relative wage of unskilled workers” (Mitra and Yemtsov, 2006, p. 16). However, considering that there is no agreement on the implications of globalization, this research will not go into detailed analysis of this driver of income inequality.

All these factors that are the results of transitional policies and particularly of transformation of the real structure of economy contribute to income inequalities in varying degrees in different post-socialist countries during the transition period. Indeed, in his analysis of income inequalities in Georgia during 1996-97, Yemtsov (2001, p. 9) outlines determinants of income inequality that also overlap with the drivers reviewed above. Considering the socialist past and the post-Soviet adjustment policies, one could argue that the drivers of income inequalities outlined by Mitra and Yemtsov (2006) in most cases overlap with that of other post-socialist countries. However, having in mind the “Great Divide” between the former Soviet Union (FSU) states (excluding the Baltics) and Central and Eastern European (CEE) countries (including the Baltics), the impact of such adjustment policies and transformational recession is much more severe (Keren, 2007). In other words, findings indicate that the FSU countries have lagged far behind CEE states on both, institutional and economic development. Hence, it is likely that the drivers of income inequalities would have more severe implications in FSU countries, including Georgia, than in CEE nations.

Furthermore, contrary to other authors who observe increased income inequalities in post-socialist countries, Henderson et al. (2008) argue that due to the unreliability of data of the pre-collapse period, it is not possible to conclude whether such inequalities increased during transition period or not. The authors argue that the income disparities, which can be observed during the transition period, could have

been present already during the late socialist period. If one is to believe that the income inequalities persisted and are not the consequences of transition, this would imply that those factors that were outlined above, and which are the result of post-socialist adjustment policies, are not necessarily the drivers of income inequality. Moreover, Henderson et al.(2008, p. 45) conclude that even if income inequalities increased, there could be some other factors that led to this outcome, and which are often omitted from analyses. They provide three additional factors that could have contributed to this shift (Henderson et al., 2008, pp. 41–44). The first factor is a decline in economic activity that was common for most post-socialist economies during the initial transition period, which began prior to the collapse of socialism rather than as a result of adjustment policies. Therefore, as argued, “increase in income inequalities should have been seen well before transition period” (Henderson et al., 2008, p. 42). The second factor is violent political turmoil in some countries, e.g. Georgia, and the third one is natural resource endowment, which often accounts for more than half of GDP. In natural resource abundant countries, GDP per capita is often substantial, but so are poverty rates (Henderson et al., 2008, p. 45), meaning that the returns from natural resources are tightly concentrated in the hands of few or even the state bureaucracy, reinforcing authoritarian institutions (Ross, 1999). In this respect, one might argue that the drivers of income inequality are not restricted to the transition policies. Moreover, while Georgia is not abundant in natural resources, other factors such as violent political turmoil and laggard economic activities prior to the collapse of the Soviet Union are indeed present (Milanović, 1998, p. 25). Thus, these factors along with drivers during the early transition phase could have also contributed to the upsurge of income inequalities. It is not the concern of this research to quantify the impact of each of these factors in the Georgian case.

However, considering the above discussion, it could be argued that the income dispersion that can be observed prior and soon after the Rose Revolution (Chart 2.2) could be linked to the above-mentioned factors.

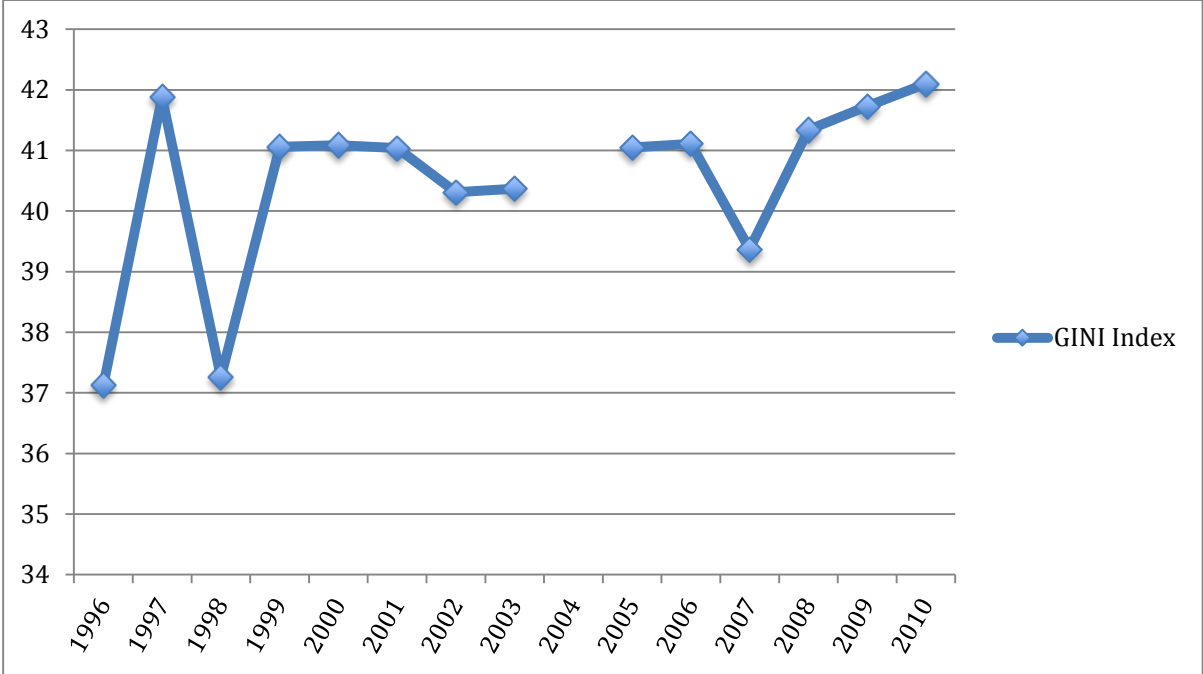


Chart 2.2: Aggregated Income Inequalities in Georgia
 Source: WB: Poverty and Inequality Database experienced

To sum up, there are various factors that are likely to have increased the income gaps in Georgia. Some of those factors are particular for post-socialist states, however, others can be observed both within and between some OECD countries and those of the former Soviet bloc. The researchers that focus on the latter often attribute increased income inequalities to the adjustment policies of the transition period, guided by the Washington Consensus (Rodrik, 2005). As a result of these policies, command economies based on state ownership were liberalized, leading to the emergence of property rights, which in turn restructured labor markets, income distributions and premiums on skills. This transition paved the way to increased income inequalities. However, as it has already been mentioned, consensus in the literature has not yet been achieved. As argued, inequalities could have been on the

rise way before transition began. Moreover, there could be other factors that drive inequalities, which are often omitted in the literature that investigates the income inequalities in the post-socialist states.

2.3 The Role of Social Transfers in Income Inequalities?

There are several forms of equality (White, 2007, pp. 4–14), but the direct concern of this thesis is economic (in)equality. The latter is often a key concern of democratic governments and it implies the redistribution of various factors in such way to achieve less socio-economically stratified society. In democratic societies governments respond to the adverse effects of the free market, which often leads to income inequalities, through redistributive policies. Among other elements of such policies (e.g. tax base) are the social transfers (Sefton, 2006; Radu, 2012; Marx and Rie, 2014).

Social transfers could be both horizontal and vertical (Sefton, 2006, pp. 2–4). The former aim to redistribute “between the people with similar incomes, but different ... needs” (Sefton, 2006, p. 3) and the latter aim to redistribute from rich to the poor (“Robin Hood” function). Hence, as argued, redistributive policies aim to account for the various needs of the whole population rather than only the poor. Moreover, considering that the population at the bottom of the income distribution is also likely to experience those needs that horizontal policies are designed for, they would also benefit from these (Sefton, 2006, pp. 2–3). It is also noteworthy that different democratic regimes favor diverging provisions of welfare benefits (Sefton, 2006, pp. 6–8; Radu, 2012, pp. 229–30). Sefton (2006) distinguishes between a universal and targeted provision of social programs. The latter is directed only towards poor and is favored by liberal democracies, whereas, the former as the name entails is universal and is favored by the social democracies. Decades of comparative scholarship has

found that regimes that adopt a universalist approach to social transfers and services perform better on both poverty alleviation and the narrowing of income disparities than regimes with selective and targeted policies (Sefton, 2006, p. 11; Marx and Rie, 2014).

Furthermore, social transfers that are received directly by the household members typically take two forms, cash transfers and in-kind transfers (Radu, 2012, p. 228). Former are the monetary transfers that directly contribute to disposable household income. Therefore, especially those transfers that are directed from the top to the bottom can decrease income dispersion. On the other hand, the in-kind transfers (such as food stamps, electricity vouchers, education grants, or other similar assistance that do not arrive in monetary form) enhance household's consumption and the ability to divert disposable income to other needs. In this respect, in-kind transfers, if received by the households affected by the determinants of income inequalities, have an indirect impact on this phenomenon. In other words, they are likely to significantly dampen the impact of those factors that lead to divergent incomes (e.g. dependence of wages on human capital, which in turn depends on education, can be addressed in the long run via scholarships or grants directed towards prospective students from low-income backgrounds).

In the post-socialist context, the impact of social transfers has varied. As some have argued, increase of the government expenditure on social transfers during the transition period in Poland, the Czech Republic and Slovakia had significantly reduced the intensity of the increase in income disparities (Garner and Terrell, 1998; Keane and Prasad, 2002). However, others argue that in Russia during the transition social transfers "may have actually exacerbated the rise in inequality" (Commander and Lee, 1998 via Keane and Prasad, 2002, p. 324). Moreover, as it was already

mentioned, despite relatively strong social protection programs, income gaps have widened even in Scandinavian countries. Hence, arguably the impact of the social transfers is not straightforward and requires further investigation.

As for the welfare regime in Georgia, along with Romania and Moldova, it has been classified under the least developed regimes among other Central and Eastern European countries (Fenger, 2007, p. 25). Since independence, significant increase in the spending on social programs happened between 2003-2007 (World Bank, 2009, p. 3). As a result, according to the World Bank's (2009) unpublished poverty evaluation survey, on average social transfers per household in real terms increased by 3.3 times by 2007 as compared to 2003 (World Bank, 2009, p. 3). Moreover, the share of social transfers in the disposable income of an average household by 2007 also increased to 17.2% from 6.8% in 2003 (World Bank, 2009, p. 3). The lion's share of this increase could be attributed to the increase in the value of old age pensions and the introduction of the targeted social assistance (TSA) program in 2006 (World Bank, 2009, p. 174). It is also noteworthy that by 2007 the country spent 4.4% of the GDP on transfers covering 64.4% of the population. Moreover, of all social transfers in 2007, 25% was redistributed to the bottom 20% of the population, whereas 16% was redistributed to the top 20% (World Bank, 2009, p. 95).

According to the World Bank (2009, p. 174-5), the decomposition of social transfers in Georgia in 2007 revealed that the system consisted of four major elements: (1) pensions, (2) TSA, (3) assistance to internally displaced persons (IDPs), and (4) subsidized energy vouchers. To start with, according to World Bank data (2009), the country allocates 72% of the spending on social transfers (which is 2.9% of GDP) to pensions. It is noteworthy that "of all Georgian households, 55 percent reported pensions are their source of income" (World Bank, 2009, p. 174). Moreover,

53.4% of surveyed households reported that they receive pensions. In this respect, it is argued that the pensions reach most of the population (World Bank, 2009, p. 93).

In contrast to pensions, TSA is target only to the poorest and socially most vulnerable households (World Bank, 2009, p. 174). Each household can apply for this program and later they are prescribed a score according to their assessed well-being, in case they are below a certain threshold that defines their eligibility for the program. In 2007, the program covered 11 percent of the households and comprised only 0.4% of GDP. As argued, TSA is well targeted and the error of inclusion of ineligibly is 30%, which, in this regard, makes the program the best performing of its kind (World Bank, 2009, p. 94). Another noteworthy impact of the TSA program is that since 2003 the income of rural households increased more than that of households in urban areas (World Bank, 2009, p. 3). In this respect, one could expect a certain decline in income inequalities between rural and urban areas.

As already mentioned, one of the last two elements of social transfers is assistance for the first-wave IDPs (war with Russia in 2008 created the second-wave of IDPs). The number of recipients (initially about 6.6% of the population) declined over time and in 2007 the government spent 0.2% of GDP on their benefits. Considering that IDPs are more exposed to poverty and inactivity than other citizens, this intervention should be regarded as a particular form of poverty alleviation scheme and, thus, a redistributive policy aimed at narrowing the income gap in Georgia. Finally, on the energy subsidies, which are the last element of the Georgian social transfer system, targeted at teachers, farmers, and pensioners, the government has spent 0.5% of GDP.

Considering these figures, one could expect a positive impact of the increased social transfers on the reduction of income inequalities. Indeed, looking at the GINI

coefficient between 2006 (41.1) and 2007 (39.3), the income gap has closed by almost two points (see Chart 2.2 on p. 16). One might argue that the introduction of the TSA had contributed to this phenomenon. However, since 2008 income inequalities have again been on the rise. One should mention that two external shocks, that is, the war with Russia and the financial crisis in 2008-9, likely contributed to this trend. Moreover, while overall inequalities seem to be rising, considering certain benefits to particular groups it is likely that the gap between certain groups (e.g. rural vs. urban) could still be closing. In this respect this thesis aims to investigate what was the impact of the social transfers, if there was such an impact at all, on income inequalities since 2007.

2.4 Conclusion

As argued in this chapter, three points stand out to justify the research question. To sum up, firstly, reduced income inequalities could further foster economic growth. Hence, it is of particular relevance to assess whether redistributive policy in Georgia is able to reduce such inequalities. Moreover, Georgia similarly to other post-socialist countries is characterized with those factors that drive the increase and/or persistence of income inequalities. In this respect, it is plausible to investigate whether these factors similarly to other post-socialist countries also drive income inequalities in Georgia. Furthermore, considering that Saakashvili's government introduced new social program in the face of TSA in 2006 and also increased the social benefits in real terms during the growth period, moreover, considering that the effect of the social transfers on the reduction of income inequalities is not necessarily positive, it is relevant to investigate whether redistributive policy in Georgia was able to mitigate shortcomings of the drivers of income inequality. Considering all of the mentioned the research question could be summed as follows: *in what ways, if at all,*

have social transfer programs in Georgia affected income inequalities? As for the justification of the time frame that is, between 2007 and 2012, chapter four elaborates upon it into more details.

3 Theoretical Model

This chapter proposes a theoretical model for the relationship between social transfers and income inequalities in Georgia during the period of interest, which will be tested in the sixth chapter of this project. However, before defining expectations, it is necessary to decompose the population by different income groups, upon which the model will be subsequently built. Therefore the first section is concerned with decomposition, whereas, second articulates the theoretical model.

3.1 Decomposition by Socio-Economic Groups

Given the survey constrains (to be reviewed in detail in the fourth chapter), this section will decompose population by three groups, that is, by (1) geography, (2) labor market status, and (3) education (Chart 3.1). Moreover, these 3 groups are further divided by different socio-economic units. One could argue that the main breadwinner’s affiliation to any of these socio-economic groups could determine the degree of the household’s income.

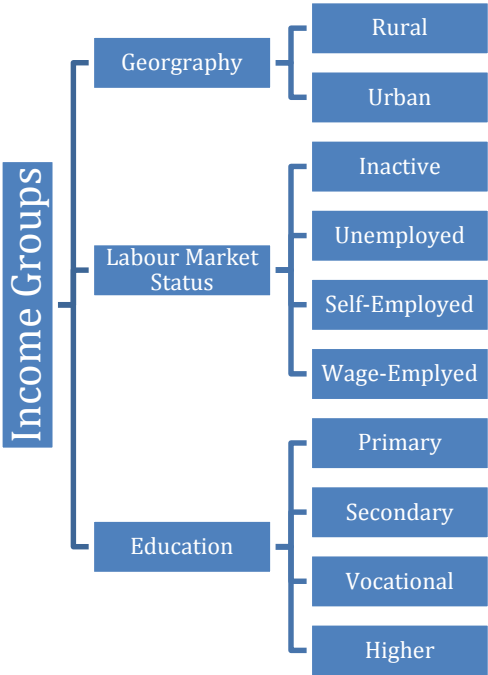


Chart 3.1: Decomposition by Socio-Economic Groups in Georgia

To start with geography, it could be further divided by two elements. First element in this group is geographic location divided by rural and urban areas. Indeed, such divide could be observed in most of the post-socialist countries (Mitra and Yemtsov, 2006, pp. 23–24), including Georgia (Jones, 2012, chap. 7). Moreover, the World Bank (2009, p. 59) finds that the amount of poor in rural areas is almost twice as high as in urban areas. In addition, rates of unemployment in rural areas are significantly higher than the rates in urban areas (World Bank, 2009, p. 85). One of the possible reasons for this could be that the concentration of high-wage, high-productivity activities tends to be higher in the urban areas and the low-wage ones, such as agriculture, in rural. Furthermore, second element is income disparities between different regions. It could be argued that productive activities are often region-specific (for example, coastal regions with ports are economically more active than those from central regions). Hence, the likelihood that there would be income disparities between different regions is also high. Indeed, according to the World Bank (2009, p. 5), the regional distribution of poverty in 2007, indicates large concentrations of poor in some of Georgia's regions, e.g. Kvemo Kartli being best performer with the rate of 17.3% of the poor population whereas Shida Kartli being a worst performer (59.4%). Hence, the income inequalities could be both regional and rural-urban area specific. This decomposition is adopted by Mitra and Yemtsov (2006) in their study of income inequalities in the transition economies. However, while it is necessary to account for both elements of geographic division, it is beyond the scope of this study to contrast regional income inequalities given that it requires another comprehensive research. Hence, this study focuses only on rural-urban divide.

Moving on to the labor market status of the economically active population, one could distinguish three different socio-economic groups that are likely to have diverging incomes, that is, (1) the unemployed, (2) the self-employed, and (3) wage-employed households. Indeed, World Bank (2009, p. 87) finds that the employment status is strongly correlated with the likelihood of poverty. In other words, unemployed and self-employed are being disadvantaged when compared to wage-employed. While it is intuitive why unemployed are likely to be disadvantaged, those from the cohort of self-employed requires clarification. The latter predominantly comprise of those who are employed in low-productivity self-sustaining agricultural sector (World Bank, 2009, p. 88). Even, among those self-employed that own non-agriculture-based private businesses, the incidence of poverty is significantly high (World Bank, 2009, p. 89). Furthermore, consumption rates of unemployed and self-employed are well below of those from wage-employed (World Bank, 2009, pp. 87-89). Hence, considering all of the mentioned, it is likely that there would be significant income disparities between these three groups. It should also be mentioned that the likelihood that there would be a gap between those that are wage-employed is also high. The reasons for this are the drivers of income inequality outlined in the previous chapter. Hence, the subsequent decomposition aims, but is not limited, to account for these disparities.

Decomposition by the level of education is a possibility to account for the increased significance of the human capital in the labor market. In order to control the model for the income inequalities driven by education level, one could contrast three groups, those with at most compulsory, at most vocational, and at least higher education. World Bank (2009, p. 80) finds that in 2007 premiums of individuals with

higher education in Georgia, especially those employed in the private sector were on average 78% higher than those with compulsory education.

3.2 Expectations

Considering that the economy of Georgia was shaken by a brief war with Russia and the global financial crisis in 2008-9, and the ungenerosity of the social transfer system prior to these shocks, it is likely that the social transfers that were communicated in the pre-shock period would be insufficient to reduce the aggregated income inequalities and cover the basic needs of the least advantaged. According to World Bank (2009, p. 2) estimates, in the context of given social assistance by 2007, the headcount of poor was likely to increase significantly. Hence, in such case, other factors kept constant, in order to account for the newly emerging needs, it would have been necessary to increase social transfers both in generosity and coverage, which come as a greater fiscal costs to the government. Moreover, a second wave of IDPs, is likely to increase both poverty and inequality rates in the country. These trends could account for the lion's share of increased aggregated income inequalities that are displayed by the GINI coefficient (see Chart 2.2 on p. 16).

However, considering the introduction of the TSA and real term increase of pensions, which as it was already mentioned benefited rural population more than urban, one could still expect certain reduction of income differences between these two groups. However, it is unlikely that such a limited social benefits could have dampened increase of inequalities between other socio-economic groups, especially in the context of economic recession caused by the two external shocks. Moreover, considering that the TSA is well targeted, therefore and reach mostly poorest households, one could expect that the benefits of these households in each socio-economic group would prevent further increase of overall income inequalities.

4 Methodology

This chapter elaborates on the justification of case selection and time frame. Moreover, it will also introduce main data source and its analysis approach, on which this research is built on.

To start with the case selection, the main rational here is that analysis of income inequalities in Georgia, which is a post-soviet and post-socialist country, would be an empirical contribution to the debate reviewed in the previous chapter. In other words, it will test whether the drivers of income inequalities that emerged in transition, persisted during the process and are thought to be common to most of the emerging economies, are also present in Georgia. Considering that the latter shares the socialist and transitional past of such economies, the likelihood that such factors would be present is indeed significant. On the other hand, considering that the thesis aims to investigate impact of the social transfers, the research will also contribute to the literature that investigates such implications in the post-socialist realm.

As for the time frame, that is, from 2007 to 2012, the main rational for the focus on this period is threefold. First reason is the introduction of the targeted social assistance in 2006. Hence, it is plausible to question whether such social transfers altered income inequalities over time. Second reason, that justifies limitation of the period by 2012, is that after the parliamentary election during this year, new government was formed. Moreover, many policies, including redistributive policy were revised and reformed by 2013 (Gugushvili, 2013). Considering that only a year has passed since the reforms, it is too early to assess their impact on income inequalities. Final rational for this time frame is that the publicly available data is only from 2009 to 2012.

The data that is used in this research comes from the Integrated Household Survey (IHS) conducted by the National Statistics Office of Georgia (GeoStat). It is collected quarterly and the sample size of each quarter is 6,786 households. The survey began in 1996 and the first significant methodological changes appeared in 2003, however, since then no notable changes have been made. Furthermore, the survey covers every region of Georgia, excluding two breakaway territories (Abkhazia and South Ossetia). As for the population, the survey covers both present and temporarily absent household members of age 15 and over. However, it excludes armed forces, institutionalized individuals, and foreigners.

Moving on, one immediate question that emerges at this point of discussion is – income inequalities between whom? There are two types of approaches – individualistic and household based. It is also noteworthy that some use them in conjunction with one another (Vecernik, 2012). For the former, units of analyzes are individuals and for the latter, households. In other words, the former aims to establish income inequalities between individuals and the latter, between households. Considering that this research will use data from the Integrated Household Survey, it will proceed with the income inequalities between households.

In order to analyze this phenomenon in Georgia, main tool that would be used is descriptive statistics. Households are divided into five equal quintiles according to their monthly expenditure rates. This gives five socio-economic strata, first quintile being poorest as it consumes the least and the fifth quintile, richest. Moreover, considering the impact of the informal economy, which was a significant characteristic of socialist republics, especially those in Soviet Union (Rosser et al., 2000) focusing on expenditure rather than income is justifiable. Indeed, as estimated, in Georgia, such informal economy still accounts for a significant share of productive

activities and, consequently, incomes (Jones, 2012). In other words, considering that people might underreport income from such activities, focusing on net household incomes could omit such proceeds. In order to include them into analyzes of those countries that bear such legacy, the focus could be on household consumption rather than income (Keane and Prasad, 2002; Mitra and Yemtsov, 2006; Yemtsov, 2001).

Once the consumption quintiles are set, next the thesis will analyze distribution of the households from different income groups within and between these quintiles. For example, to demonstrate the rural-urban divide (in case such exists), households from the rural and urban area would be crosstabulated with the consumption quintiles in the chapter 5. Given that the distribution is skewed towards poorest quintile in rural area and towards richest quintile in urban areas, one would be able to argue that there are income inequalities both within and between these income groups. By doing so, the thesis detects anomalies that are not in line with theory reviewed in the second chapter. This will subsequently, lay the ground for discussion of social transfers. In other words, in the chapter 6, the thesis analyses whether social transfers are to be held accountable for those anomalies. As for the operationalization of the income groups, it is already made in the section 3.1 and is summarized in Chart 3.1 (see p. 23). Furthermore, it should also be mentioned that the figures are not adjusted to inflation rates. In this respect, one might argue that the adjusted figures could yield slightly different results.

Moving on, the impact of social transfers is analyzed by looking at the distribution of average social transfers between different quintiles. In order for redistributive policy to have a positive redistributive outcome, one could argue that the households towards the bottom of income distribution should receive higher average social transfer than households towards the top of income distribution.

Moreover, in real terms they should also be relative to the earnings of richer households. Furthermore, it should benefit those socio-economic groups that are disadvantaged by the drivers of income inequality, as opposed to those groups that are better off. As for the negative redistributive outcome, opposite would be true. In other words, for such outcome most advantaged households at the top of the income distribution should receive higher average social transfer than most disadvantaged households at the bottom of the income distribution. Hence, such approach makes it possible to argue whether anomalies that are not in line with theory and are reviewed in the next chapter, could be considered as an outcome of Georgia's redistributive policy.

5 Income Inequalities in Georgia

So far, the study has focused on the theoretical overview of income inequality, its drivers and the research design. This chapter introduces the empirical analysis. Section 5.1 decomposes income by different components and thus lays the ground for the analysis of income inequalities, which is done in the section 5.2. Section 5.3 concludes.

5.1 Income Composition and Overall Inequalities

This section aims to lay the ground for discussion of income inequalities in Georgia and therefore elaborate on different components of a household's income in the country. In this regard, the first aim is to contrast household average monthly income and consumption (measured in terms of household expenditure) in order to determine whether these two match, and whether taking consumption as an indicator for income is justifiable. Next, it will also decompose consumption by different income components, which will demonstrate the magnitude of the informal and other income components within and between different socio-economic strata in Georgia.

To start with, as it is evident from Chart 5.1, there is a notable mismatch between reported household average income and consumption. The latter tends to be larger in each income quintile. In other words, households reported lower incomes than they consumed in cash or in kind. Such a mismatch is in line with the theory mentioned in the previous chapter and is likely to be attributed to informal economic activities characteristic for post-Soviet countries. Moreover, as the Table 2 (see p. 64) demonstrates, while the overall share of such unreported income decreased between 2009 and 2012, it still accounts for a substantial part of the total income in each quintile of the population. In this respect, in order to account for the unreported

component of income it is more valid to measure average household income in terms of consumption.

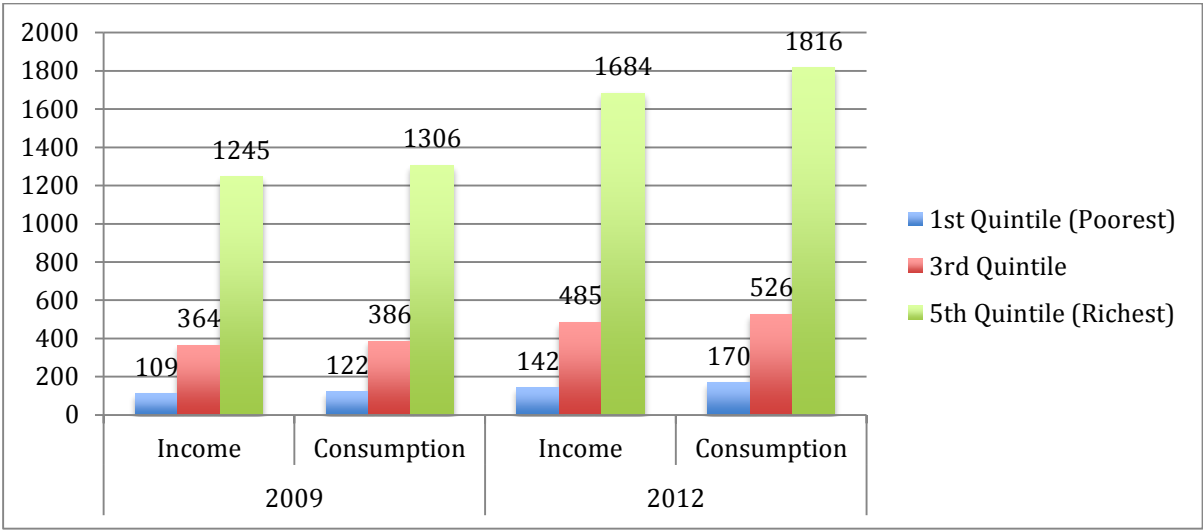


Chart 5.1: Household average monthly income and consumption rates in 2009 and 2012
 Source: GeoStat Integrated Households Survey

Furthermore, Table 2 (see p. 64) also reveals that the most important income source for the first quintile in 2009 was social transfers (46.5%) followed by in-kind income (13.2%), whereas for the fifth quintile, the largest income share was represented by wages (25.4%) followed by informal income (21.3%). A similar trend could be observed in each year. As for the 3rd quintile, during 2009 and 2010 the largest source was in-kind income, followed by wages. However, in 2011 21% and in 2012 20.9% it was wages that were the largest source of income. Another noteworthy pattern observed is that during each year, the lower the quintile on income distribution, the higher the share of social transfers in the total income and the lower the share of wages and informal incomes (see Table 2 on p. 64). In other words, households at the top of the income distribution derive the largest share of their income from labor market participation, whereas households at the bottom from social transfers. This finding is in line with theory, and particularly with the consequences of private property rights and labor market transformation, mentioned in the second chapter.

Surprisingly, throughout each year, the share of the farm income in the total income, which could be considered as a low productivity activity, tends to be higher at the top and middle of the income distribution than at the bottom. At the same time, the share of asset income is slightly different at the top than at the bottom and middle quintiles and accounts for a minor part of the total income (between 0.1% to 1% throughout every year). Both of these findings are contrary to the theory, that argued that the low productivity activities would be concentrated at the bottom of the income distributions whereas private property incomes at the top. However, one might argue that the small share of farm income at the bottom of income distribution could be due to the reason that in this socioeconomic strata agricultural activities are mostly at the subsistence level (Jones, 2012) that could be later reflected in in-kind income or yet another explanation could be that such households do not own land. As for the asset income, the equitable privatization of housing and land during the early days of independence (Yemtsov, 2001) are likely to be held accountable for such minor discrepancies. On the other hand, one should also consider that the large share of informal income towards the top of income distribution could also be held accountable for the small share of asset income in the richer quintiles. In other words, considering that for example formal agreements for the rents are taxed, owners could negotiate with the renters informally, therewith avoiding tax payments. This points to the need for further research, which due to the constraints of this thesis is not possible to be conducted. Nevertheless, while the expectations were that the richest quintile would derive a notable share of their income from private assets and wages and the poorest quintile from such low productivity activity as agriculture, findings demonstrate that this is not the case.

Furthermore, according to theory reviewed in the second chapter, substantial part of the income towards the top of income distribution should derive from wages, whereas according to Table 2 (see p. 64), in 2009 this share was only 25.4%, which by 2012 (27.1%) slightly increased. Again, similarly to asset income, share of the unreported wages could be attributed to informal income. It is not possible to find out what is the share of wage income or asset income in total informal income. However, as expected from the theoretical discussion, considering that the share of both informal income and wage income is increasing towards the top of income distribution, drivers of income inequality that derive from the labor market participation or property ownership are likely to be contributing to overall income inequalities in Georgia.

One could argue that the most of the findings map into theoretical expectations. In other words, transition to market economy laid the way to the forces that are characteristic to the libertarian societies, which subsequently shape distribution of the generated wealth. Indeed, by summing up incomes that derive from the market exchange it is evident that households in the richest quintile derived 40.7% (62% with informal income) of their total income via such activities, in 2009 (see Table 2 on p. 64). At the same time, poorest quintile derived only 16.3% (26.3% with informal income) of their total income via market exchange during the same year. As for the large presence of farm income and in-kind income towards the top of income distribution, implications of this phenomenon is explained in the next chapter. Moreover, while the figures are different, in 2012, there is a similar trend as in 2009 (see Table 2 on p.64).

Considering that the share of the returns from market participation (especially of labor market participation) in total income of every quintile tends to increase

towards the top of income distribution for each year under scrutiny, the next section will contrast the distribution of the population by the socio-economic groups that were outlined in section 3.1 and are likely to be influenced by such activities. Subsequently, such comparison outlines income inequalities between and within different socio-economic groups, moreover, it also detects anomalies that are not in line with the theory.

5.2 Inequalities by Income Groups

Following Chart 3.1 (see p. 23) and the theoretical discussion of the drivers of income inequality in the chapter 2, this section analyzes inequalities by geographic location, labor market status of a household's main breadwinner, and his or her level of education. In other words, it aims to outline whether affiliation to a certain group (e.g. rural or urban) could influence the position of a household at the bottom, middle or top socio-economic strata in terms of income. Furthermore, it will also look whether trends observed in 2009, change over time. However, before moving to these analyses, firstly this section will briefly elaborate on the notable patterns in the average monthly consumption distribution.

Looking at distribution of consumption (hereafter income distribution) per household in Chart 5.1 (see p. 32), two noteworthy patterns can be distinguished. In 2009, there was a clear and easily noticeable inequality between each group. While on average households' income in the poorest quintile was about 3 times less than in the middle quintile, the latter's income was also around 3 times less than for the household in the richest quintile. Moreover, on average earnings of those households in the poorest quintile were about 11 times less than the earnings of richest households. The second pattern is that the inequalities observed in 2009 persisted over time and, by 2012, the average household in the middle quintile was again

earning about 3 times as much as the average household in the 1st quintile and about 3 times less than average household from the 5th quintile. Hence, one could argue that the increase in the GINI coefficient during these years (see Chart 2.2 on p. 16) are likely to be due to the increasing income inequalities between and/or within different socio-economic groups rather than increasing disparities between different income quintiles of total population.

Geographic Divide

To start with the urban and rural divide, Table 3 (see p. 65) depicts that a household in the sample from the two poorest quintiles throughout each year is more likely to be from rural than from an urban area. However, within rural areas, it has almost equal chance of appearing in either of the quintiles, each year (see Table 4 on p. 65). On the other hand, in 2009, among surveyed households, those from the urban area had slightly (5-6%) more chance to appear in the richest quintile than in the rest, yet such chance decreased by about 2% in 2012. Hence, by 2012, there is a uniform distribution of households within both urban and rural areas across income quintiles, meaning that rural households are not disadvantaged over urban ones and do not tend to be clustered towards the bottom of income distribution as the theory suggested. To recall, according to the theory, the population in rural areas is likely to be engaged in low productivity activities (such as agriculture) that have lower yields in terms of income than high productivity activities from urban areas. In this respect, contrary to the theory, according to Tables 3 and 4, there is a fairly egalitarian distribution of households by income within rural and urban areas in Georgia. However, between these two, the poorest households are still those in rural areas. Even though the rural households comprise a larger share of the bottom quintiles (which is in line with the theory mentioned in the section 3.1), they are also present in each quintile. Hence, one could argue that the factors that disadvantage rural

population are either not present or are repealed by some other factors that work in their favor, which amongst others could also be social transfers.

In this respect, one could conclude that while income inequalities are present within both areas (due to the reason that, as shown in Chart 5.1 (see p. 32), there are inequalities between each quintile), they are not determined by the affiliation to either of the group. Moreover, considering that by 2012 households were distributed more equally than in 2009, inequalities that could be driven by rural-urban divide cannot be held accountable for the increase of GINI coefficient (see Chart 2.2 on p. 16).

Labor Market Status

Moving on to the labor market status, as it is evident from Chart 6.10 (see p.54) incomes of those households that have unemployed, self-employed or waged breadwinners slightly diverge from each other once compared to equivalent quintiles of each socio-economic group in 2009. In other words, households with unemployed breadwinners in the richest quintile during this year had slightly (160 GEL) less income than the households with waged breadwinners in the same quintile. The same applies to other quintiles in each socio-economic group (Chart 6.10). In this respect, one could argue that the expectations that there would be notable income inequalities between different socio-economic groups (according to main breadwinner's labor market status) are not the case. On the other hand, there are considerable inequalities between most disadvantaged and the most advantaged households. In other words, households with unemployed breadwinners at the bottom of the income distribution in 2009 on average earned 14 times less than the households with waged breadwinners at the top of the income distribution. Moreover, considering that the households at the bottom of the income distribution in each socio-economic group on average earned relatively equal amount, such households earned similarly less than those households that are the most advantaged.

Furthermore, according to Chart 6.11 (see p.55) similar pattern as in 2009, can also be observed in 2012. This means that between 2009 and 2012 noteworthy income inequalities existed within rather than between different socio-economic groups divided by breadwinner's labor market affiliation.

Education

The final comparison that is made in this chapter is contrasting the average incomes of households according to the breadwinner's level of education. To start with, according to Charts 6.14 (see p.58) and 6.15 (see p.58) notable income inequalities during the given time frame were again within rather than between different socio-economic groups decomposed by the main breadwinner's education level. Indeed, to take the most disadvantaged socio-economic group (households with main breadwinners that have primary education) and compare average incomes in each quintile to their equivalents from the most advantaged socio-economic group (households where main breadwinners have higher education), the previous claim becomes evident. In 2009, in the poorest quintile on average the latter's income was twice as much as the former's (Chart 6.14). In the middle quintile households where main breadwinner has primary education on average earned 1.8 times less than those households where breadwinner has higher education and comes from the same quintile (Chart 6.14). Furthermore, even in the richest quintile the latter households in the sample on average earned only 1.4 times more than the former (Chart 6.14). However, most disadvantaged households, that is, those in the poorest quintile where breadwinner has primary or less education on average earned 16 times less than the households where breadwinner has higher education and come from the richest quintile. Moreover, the same pattern as in 2009 can again be observed in 2012 (Chart 6.15). In this respect, contrary to the theoretical expectation one could conclude that during 2009-2012, while there are slight income inequalities

between different socio-economic groups divided by main breadwinners education level, the most notable inequalities existed within these groups.

5.3 Conclusion

To sum it all up, contrary to the theory, income inequalities (especially those that are determined by the participation in the market exchange) that were to be expected between different socio-economic groups decomposed by household's (1) geographic area of residence, (2) main breadwinner's labor market status and (3) level of education, were not present notably in Georgia during 2009-2012. On the other hand, considerable inequalities can be observed within these groups both in 2009 and 2012. As an extension of the latter, notable inequalities were also observed between lower and upper income quintiles of different socio-economic groups. In this regard, next chapter explores whether redistributive policy in Georgia, is to be held accountable for the mitigation of the shortcomings of the drivers of income inequalities.

6 Social Transfers in Georgia

This chapter finds what is the size of average social transfer per households in different income quintiles among total households in the sample. Next, it also looks at the magnitude of average social transfers per households in different income groups operationalized as income quintiles. By looking at the disparities in allocated average social transfers to households between and within different groups, it is possible to analyze whether social transfers reduce income inequalities driven by the factors reviewed in the second chapter of this thesis and, if so, in what ways. Furthermore, it should also be mentioned that with the purpose of comparison of the incomes and social transfers of each socio-economic groups, new income distributions were created for each group. Following this logic, section 6.1 analyses social transfers to all households in the sample, while section 6.2 reviews social transfers to average households in different socio-economic groups, especially based on the type of residence (urban/rural), labor market status (employed, unemployed and self-employed) and level of education. The final section (6.3) concludes.

6.1 Social Transfers to All Households

To start with the assistance per household in the whole sample, Table 5 (see p.54) depicts that there is a relatively flat distribution of social transfers among each income quintile both in 2009 and 2012. Indeed, in 2009, the average household in the poorest quintile received about 78 GEL per month, whereas those in the middle quintile about 76 GEL per month, and in the richest quintile 70 GEL per month (Chart 6.1). Moreover, even though social transfers in real terms increased by 2012, the distribution during this year was again relatively flat. By looking at Chart 6.1, this trend becomes evident. In other words, average social transfers per household in the poorest quintile increased to 104 GEL, whereas, for a household in the middle

quintile, to 105 GEL and to a household in the richest quintile to 88 GEL (Chart 6.1). Another notable difference is that a household at the top of the income distribution received smaller amount of social transfer than a household at the bottom and middle of income distribution. Nevertheless, these differences both in 2009 (6-8 GEL) and 2012 (16-17 GEL) are very small.

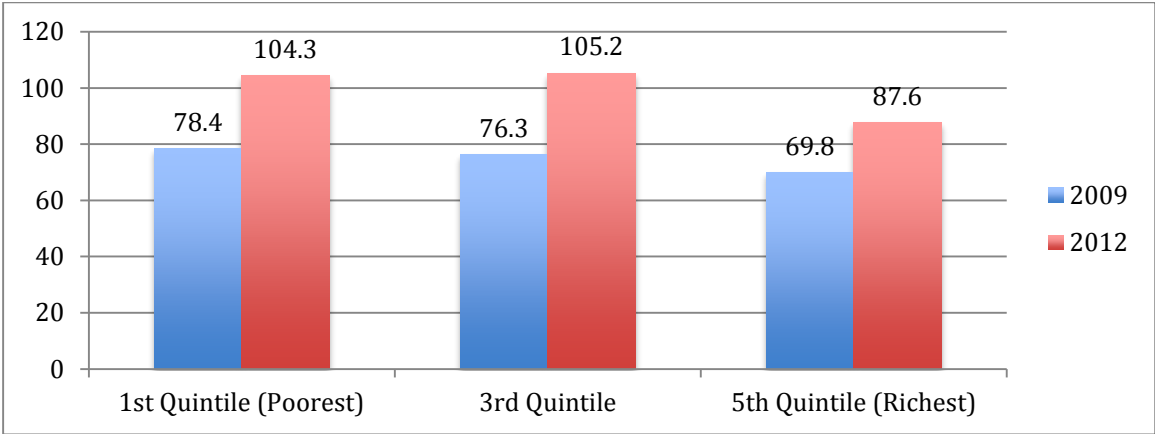


Chart 6.1: Average social transfer per household in the whole sample (GEL per month)
 Source: GeoStat, Integrated Household Survey

One of the reasons of such a uniform distribution could be the universal coverage of pensions, which – as argued in the section 2.3 – takes the largest share of total social transfers and reaches the whole population. Unfortunately, it is not possible to disaggregate social transfers by different components due to the reason that the data combines income from such transfers into one variable. Hence, it is not possible to directly separate implications of pensions from TSA or other types of social assistance. Nevertheless, considering that at the bottom of the income distribution an average household in the sample derives its largest share of income from social transfers (see Table 2 on p. 64), the implication of such a flat distribution is that overall income inequalities without such social transfers would be larger. In other words, income discrepancies between bottom quintile and the rest would be greater.

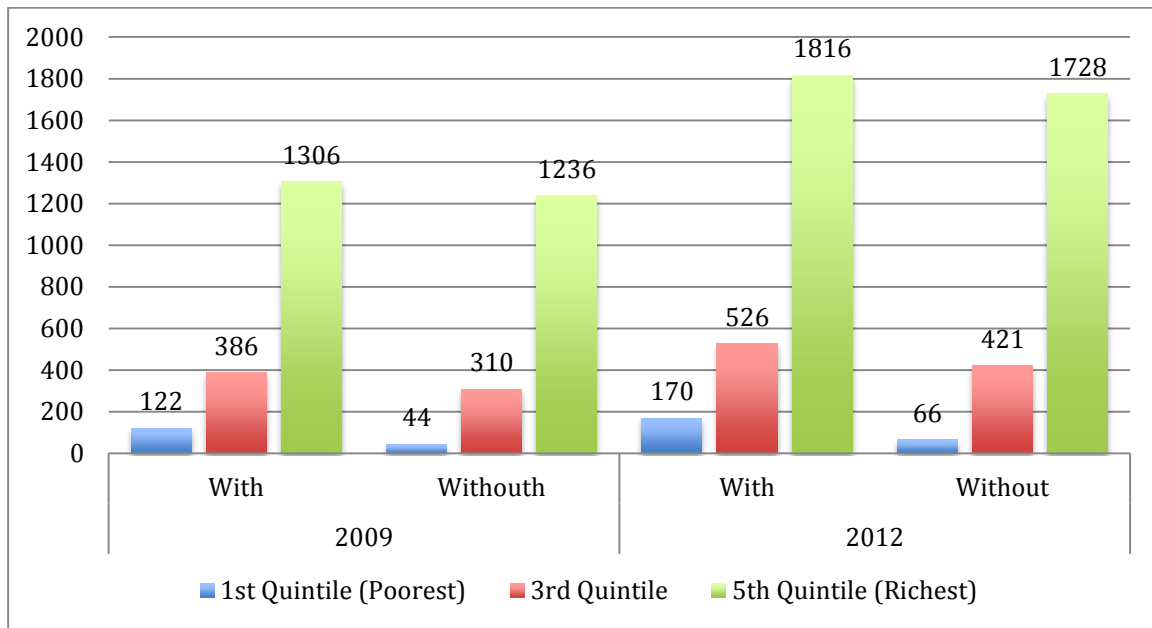


Chart 6.2: Average household income with and without social transfers (GEL per month)
 Source: GeoStat Household Integrated Survey

Indeed, looking at Chart 6.2, it is evident that once the social transfers are removed, average incomes per household in the sample at the bottom of the income distribution decreases 2-3 times both in 2009 and 2012. On the other hand, the removal of the social transfers from middle and richest quintiles does not alter the amount of income notably. In other words, in 2009 and 2012, without social transfers the earnings of a household from the poorest quintile is 7 times less than the income of a household from the middle quintile and 28 times less than that of those from the richest quintile (Chart 6.2). In comparison, with the social transfers, the average income of a household from the 1st quintile is about 3 times less than that of a household from the 3rd quintile and about 11 times less than income of those from the 5th quintile (Chart 6.2). This means that without social transfers overall inequalities would be higher, particularly affecting those at the bottom of the income distribution. Considering that the middle and top quintiles received almost equal

amounts of social transfers in real terms, this also implies that the transfers had no redistributive effect between these two socio-economic strata.

Furthermore, another noteworthy finding is the amount of social transfers itself. In other words, in 2009 and 2012, a household from the first and the third quintiles received social transfers in the size of only about 5-6% of the total income of a household in the richest quintile. This means that the income gap between top and the bottom and between top and the middle decreased by 5-6%. One could argue that this amount is very small to have a notable redistributive impact. This is especially true for a household in the bottom quintile even if the household at the top of income distribution did not receive any social transfers. Indeed, after social transfers, average income of a poorest household in 2009 increased from 3.5% to 9.8% and in 2012 from 3.8% to 9.8% of the total mean income (excluding social transfers) of a household from the richest quintile. In other words, richest households in the sample, even without social transfers, have about 900% larger income than poorest households after social transfers are also included in their income.¹ Hence, one could conclude that social transfers are indeed too small to have a notable redistributive impact, especially at the bottom of the income distribution.

Based on the analysis in this section, four major points are to be considered. Firstly, there is a uniform distribution of social transfers between each income quintile, meaning that, on average, the poorest, middle and richest households received relatively equal amounts of social transfers in real terms. However, these transfers have different significance for the households in poorest quintile and the rest. This leads to the second major point, that is, households at the bottom of the income distribution benefited more than the households towards the top of the income

¹ Figures are based on my own calculation and are built on the Tables 9 and 10 (see p.70).

distribution. In other words, overall income gap between poorest and the rest would be larger without such transfers. The third major point is that, despite such positive implications for the households from the poorest quintile, social transfers are too small to close the income gap notably. Final finding in this section is that, the patterns observed in 2009, can also be spotted in 2012. Hence, redistributive policies in Georgia did not alter overall income inequalities over time, however, without such policies, as it is evident from this section, the gap would be more severe.

6.2 Social Transfers by Socio-Economic Groups

Moving on to the social transfers for different socio-economic groups, this section analyzes whether social transfers were able to reduce income inequalities that are driven by the affiliation to a certain group. It will follow operationalization of these groups that was reviewed in the section 3.1, were analyzed in the section 5.2 and are summarized in Chart 3.1 (see p. 23), that is, rural-urban divide, labor market status, and level of education.

Geographic Divide

To recall, in section 5.2 this thesis finds that rural households in the sample, similarly to urban households, have equal chance to be earning incomes equivalent to each consumption quintile. In other words, rural households do not tend to be earning lower incomes, on average, because they are from rural areas and urban households higher incomes because they are from urban areas. Hence, affiliation to these socio-economic groups does not seem to determine income inequalities. Considering that the average income for each quintile is the same for both rural and urban households, one possible reason for such an outcome could be that rural households, especially towards the bottom of the income distribution, receive higher social transfers than urban households at the bottom of the income distribution, which subsequently levels

urban-rural income differences (that emerge due to market-based drivers of income inequality) between these two groups.

By looking at Chart 6.3, it becomes evident that the social transfers to rural households in each quintile are higher than to the urban households both in 2009 and 2012. Indeed, in 2009, rural households in the poorest quintile on average received 7 GEL more via social transfers per month than an average urban household. Furthermore, in the 3rd quintile this difference was 12 GEL more in the favor of a rural household, and in the 5th quintile, 23 GEL more (Chart 6.3). One could argue that such a small difference would have very limited redistributive potential. Indeed, to take the largest difference, that is 23 GEL among the highest income households, it comprises only 1.8% of an average household income (1236 GEL per month) in the 5th quintile (based on national data). Moreover, even though by 2012 the largest difference, which is again between richest quintiles in rural and urban areas, increased from 23 GEL to 34 GEL, the difference was again too small to have a meaningful redistributive potential. Hence, considering such a limited redistributive effect of the social transfers between households in rural and urban areas, there should be some other factors that counteract the potential drivers of income inequality, which, according to the theory, should disadvantage rural households compared to urban ones.

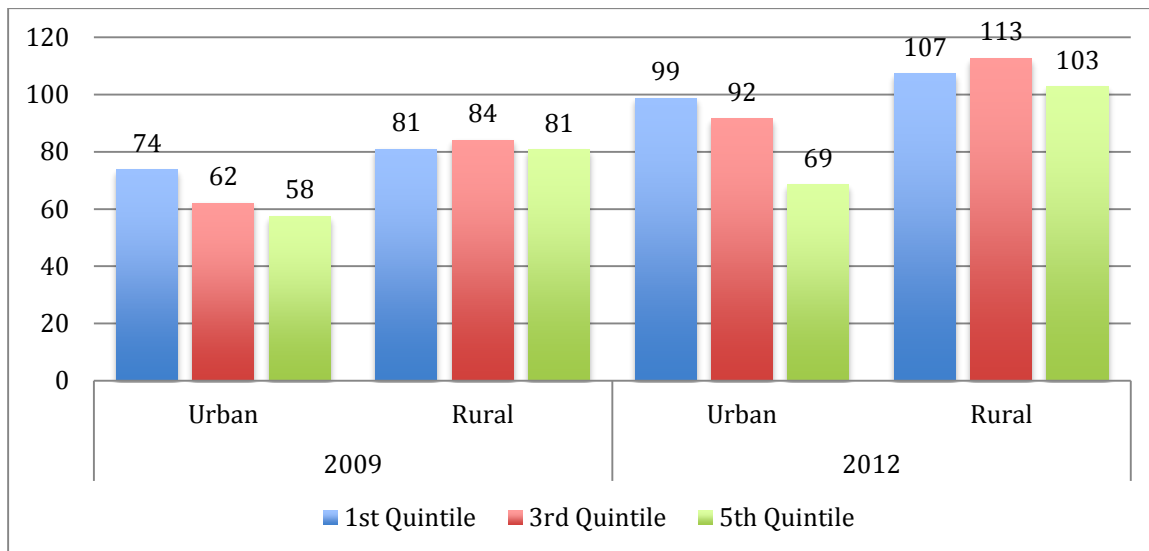


Chart 6.3: Average social transfer in rural and urban households (GEL per month)
Source: GeoStat Household Integrated Survey

The answer to this puzzle can be found in Charts 6.4 and 6.5, which decompose average monthly income of rural and urban households in the sample for 2009 and 2012, respectively. To start with 2009, in Chart 6.4 it is evident that almost 50% of the total income of urban households in the 5th quintile is represented by wages and self-employment (excluding farming), whereas income from these activities in rural areas in this income quintile is only 21%. On the other hand, in the same quintile farm income and in kind income in the urban areas is very low (5%), whereas, in rural areas it accounts for 33% of total income. While figures are different, a similar pattern is characteristic for each quintile. This means that the gap that emerges from the labor market participation and self-employment (excluding farming), which is higher in urban areas than in rural ones, is filled by the returns from the productive activities that are characteristic to rural areas. In other words, one could argue that while in urban areas households need to spend some of their earnings on food, in rural areas such expenses are relatively smaller. In the chart, this is reflected in the differences of in-kind income among rural and urban areas, which tends to be 3-6 times larger in rural quintiles than in urban ones. Hence, while the share of self-employment (excluding farming) is larger in urban areas than in rural ones, this is

replaced by farm income in rural areas. As for informal income, social transfers and other types of income, they are relatively equal between rural and urban sub-samples across all income quintile groups (Chart 6.4). In this respect, assuming that the income gap created by wages and self-employment in the rural areas is not filled by in-kind and farm income, households in this area would shift towards the bottom of the income distribution. In other words, more rural households would be earning income equivalent to those quintiles that are towards the bottom of the income distribution than towards the top, thus disadvantaging rural households over urban ones. Furthermore, according to chart 6.5, similar patterns that are observed in 2009 can be seen in 2012 as well.

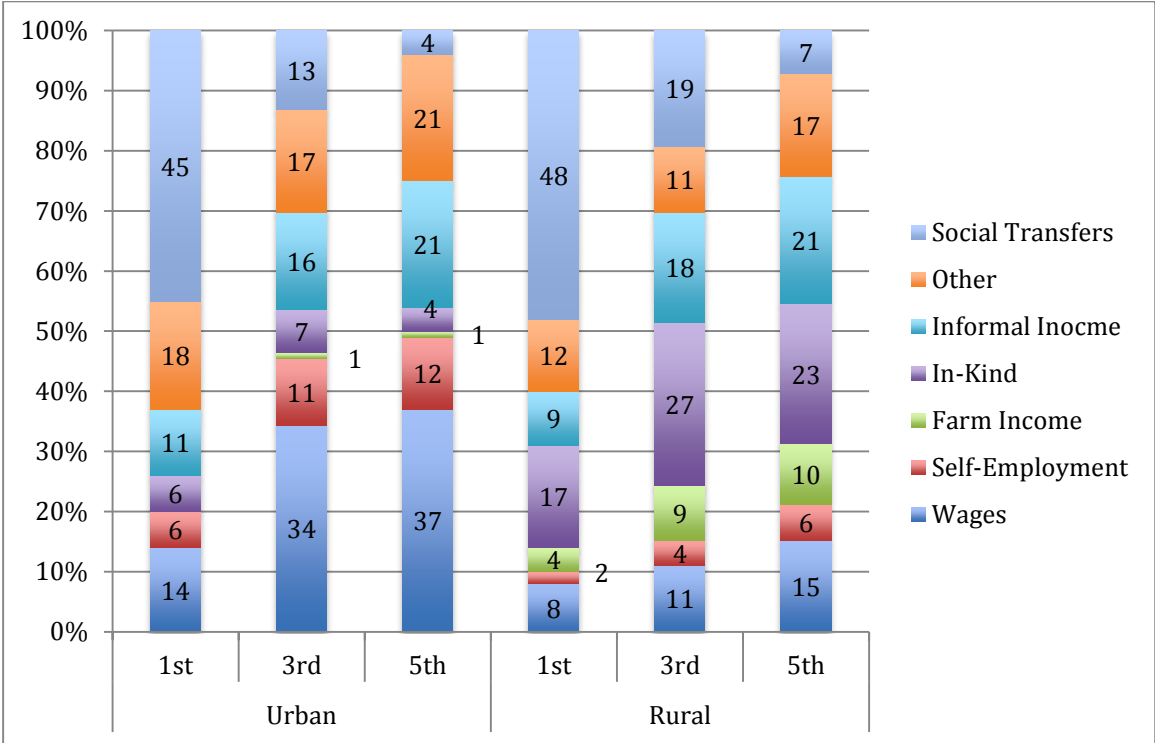


Chart 6.4: Composition of monthly income for different quintiles in rural and urban areas in 2009
 Source: GeoStat Households Integrated Survey

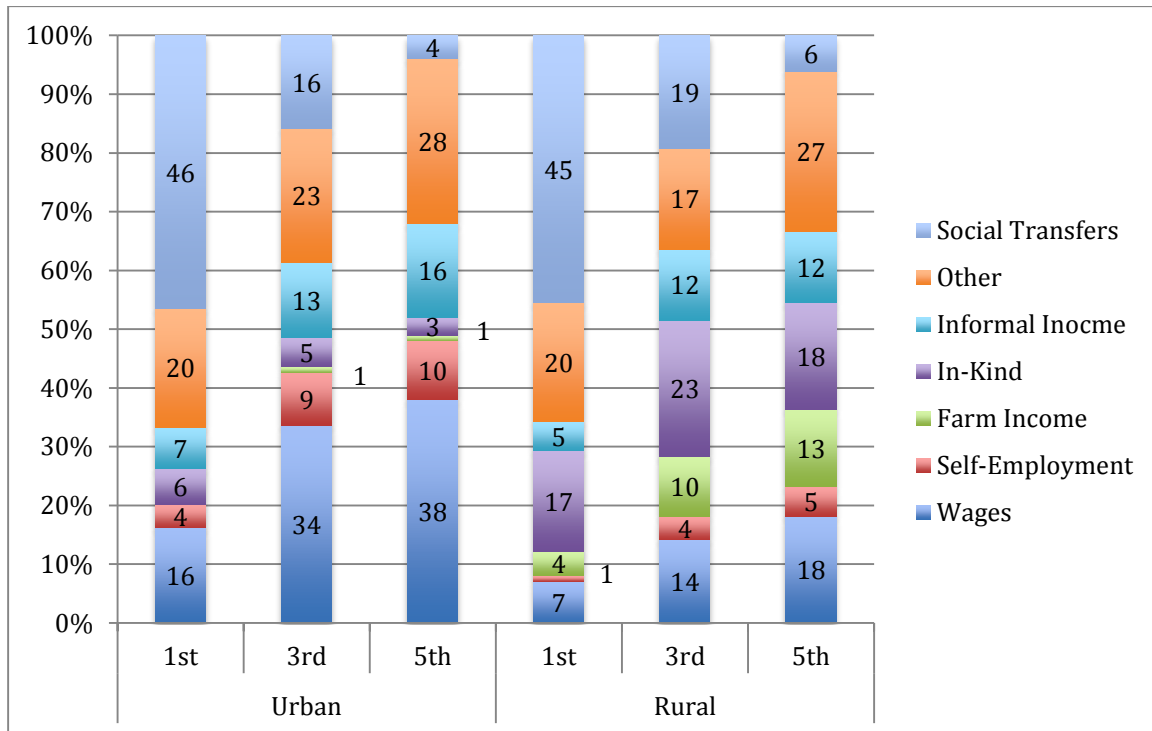


Chart 6.5: Composition of monthly income for different quintiles in rural and urban areas in 2012
 Source: GeoStat Households Integrated Survey

In this respect, social transfers cannot be held accountable for the egalitarian distribution of households within rural and urban areas, partly because urban/rural income differences are quite small in the absence of social transfers also, particularly when comparing income quintile groups for each sub-group (e.g. urban bottom income quintile versus rural bottom income quintile). On the other hand, further income inequalities are halted by the exact specificities of the rural and urban divide, which, in theory, should be driving inequalities between these two income groups. This could be due to the reason that in Georgia, on average, returns from labor market participation or non-farm self-employment are not considerably different from the returns from such low productivity sector as the agricultural one. Another explanation could be that the sample does not capture the richest households at the top of the income distribution that derive large returns from labor market participation and self-employment. Nevertheless, it is not possible to account for the shortcomings that could emerge due to the latter explanation and the research is limited to the

existing results. This points to the need for further research, which is not the concern of this thesis. Nevertheless, what is to be taken from this discussion is that social transfers to rural and urban households cannot be held accountable for the absence of urban-rural income disparities in Georgia.

Labor Market Status

Moving on to social transfers to households where breadwinners have different labor market status, this section firstly contrasts average social transfers to households that differ according to main breadwinners' labor market status (employed, unemployed and self-employed), and later it also analyses their redistributive outcome.

According to Charts 6.6 and 6.7 (below), the largest amount of the average social transfers during 2009 and 2012 in each income quintile were received by the households that had unemployed breadwinners, whereas the smallest amounts by those that had waged breadwinners. Furthermore, the size of the average social transfers to households with self-employed heads is in between these two. What is partly surprising are the relatively small differences in benefit levels received by households differing according to the main breadwinner's labor market status. Benefit levels seem to be relatively similar regardless of the main breadwinner's labor market status (Chart 6.6). In 2009, households with unemployed breadwinners in the poorest quintile received 63 GEL more than those with waged breadwinners in the richest quintile (Chart 6.6). The latter, as recorded, had the largest income (1336 GEL) during this year (Chart 6.10) in the entire sample. On the other hand, households with self-employed breadwinners at the bottom of the income distribution on average received 38 GEL more than the households with wage-employed breadwinners in the richest quintile (Chart 6.6). This means that larger amount of the average social transfers reach those socio-economic groups that according to the theory are most

disadvantaged by the drivers of income inequality, but by small margins only. However, considering that the magnitude of the difference is too small, one could argue that the redistributive potential of benefits received is also limited. Indeed, the difference of the average social transfers between households with unemployed (63 GEL) or self-employed (38 GEL) breadwinners in the poorest quintile compared to the richest households with waged breadwinners is only 4.7% and 2.8% of the latter's total income, respectively (Chart 6.10). This means that the social transfers account for only 4.7% of the income gap between households with unemployed heads of households (in the poorest quintile) and waged (in the richest quintile) breadwinners; or for 2.8% of the income gap between households with self-employed (in the poorest quintile) and wage-employed breadwinners (in the richest quintile).

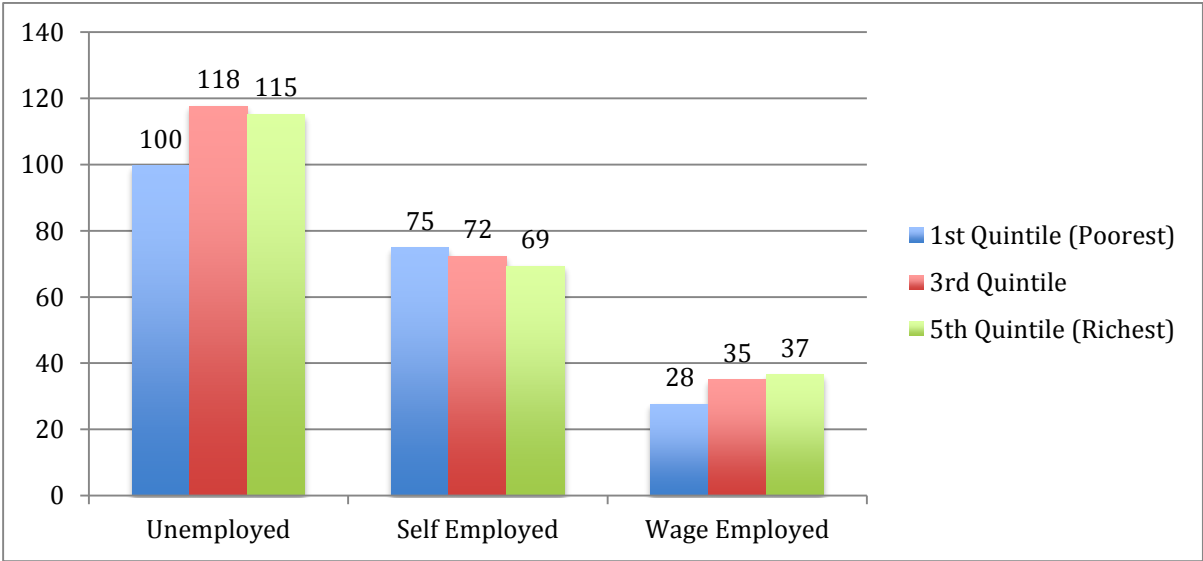


Chart 6.6: Average social transfer per household by breadwinner's labor market status in 2009 (GEL per month)
 Source: GeoStat, Integrated Household Survey

Furthermore, according to Chart 6.7, even though by 2012 the average social transfers and previously mentioned differences increased in real terms compared to 2009, the magnitude is again too small to have a notable redistributive effect. In other words, households with unemployed breadwinners in the poorest quintile received 88 GEL more than households with waged breadwinners (Chart 6.7). However, this

difference cannot compensate for the 1730 GEL difference between the average income of an unemployed breadwinner-headed household and that of a waged breadwinner-headed household. This difference is again 4.7% of the latter's total income (Chart 6.11). Moreover, the difference in the amount of the average social transfers between households with self-employed heads in 1st quintile and wage-employed breadwinners in the 5th quintile (60 GEL) is 3.2% of the latter's total income. This means that in 2012, similarly to 2009, social transfers have limited redistributive effect.



Chart 6.7: Average social transfers per household by breadwinner's labor market status in 2012 (GEL per month)
 Source: GeoStat, Integrated Household Survey

Despite the limited redistributive impact in real terms, considering that the social transfers are the main income source at the bottom of the income distribution, without such transfers income inequalities would be much larger. To start with, Chart 6.8 and 6.9 depict that the social transfers comprise about 100% of the income of an average household in the sample with unemployed breadwinner in the poorest quintile both in 2009 and 2012. As for the households with self-employed

breadwinners at the bottom of the income distribution, they derive more than half of their income from social transfers both in 2009 and 2012 (Chart 6.8 and 6.9). In this regard, one could argue that, even though average social transfers are small in real terms they benefit the neediest and prevent further increase of income disparities.



Chart 6.8: Average income of a household in each income quintile by breadwinner's labor market status in 2009 (GEL per month, **without social transfers**)
 Source: GeoStat Households Integrated Survey

This finding becomes even more evident once the magnitude of the average income with social transfers at the bottom of income distribution is compared with the average income without social transfers at the top of income distribution. In other words, the average income of a household with a self-employed breadwinner in the 1st quintile is about 10 times smaller than the average income of a household with a waged breadwinner in the 5th quintile once the social transfers are included (Chart 6.10). In contrast, the average income without social transfers for the former is 22 times smaller when compared to the average income without social transfers for the latter (Chart 6.8). Hence, the difference in total incomes during 2009 decreases 12 times once the social transfers are removed. Similarly to 2009, the same pattern can

be observed in 2012 (Chart 6.9 and 6.11). As for the households with unemployed breadwinners in the poorest quintile, considering that on average they derive 100% of their income from the social transfers both in 2009 and 2012 (Chart 6.8 and 6.9), without such transfers income gap would again be much larger.



Chart 6.9: Average income of a household in each income quintile by breadwinner's labor market status in 2012 (GEL per month, **without social transfers**)
 Source: GeoStat Households Integrated Survey

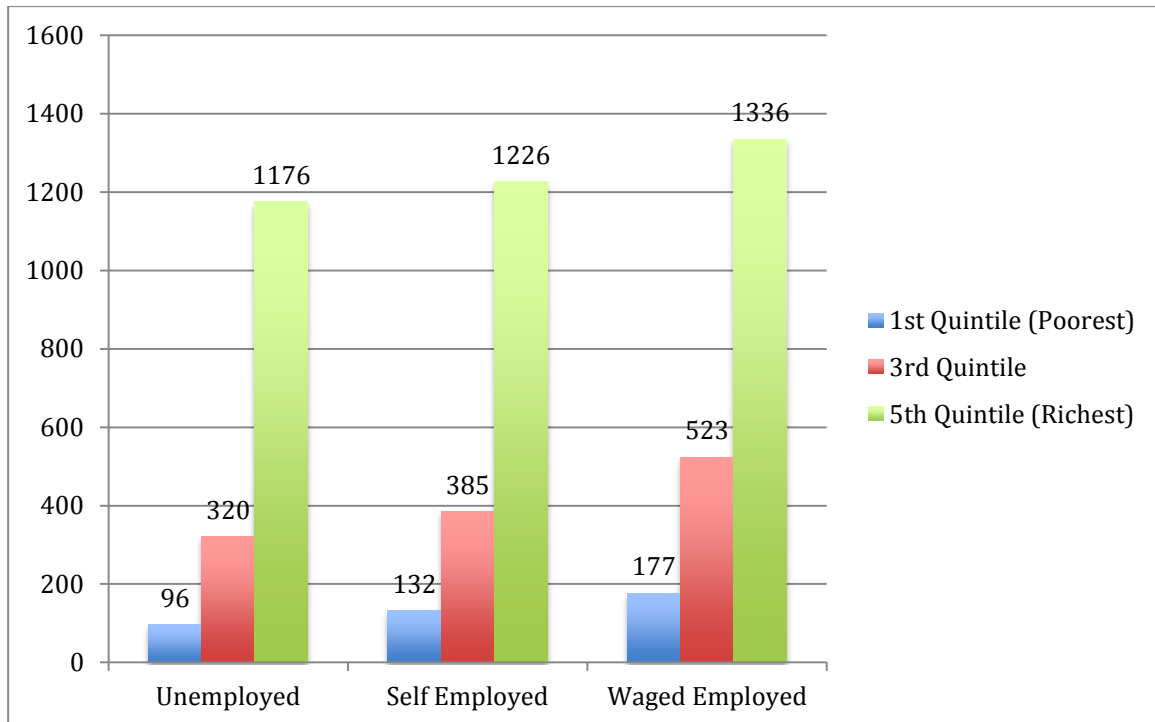


Chart 6.10: Average income of a household in each income quintile by breadwinner's labor market status in 2009 (GEL per month, **with social transfers**)
 Source: GeoStat Households Integrated Survey

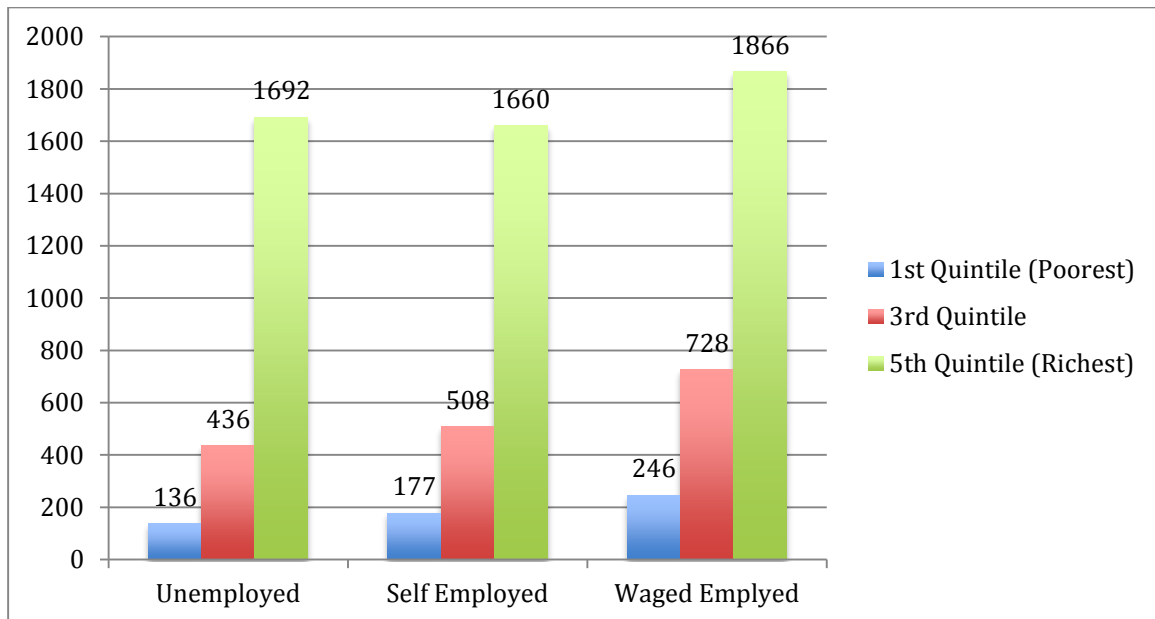


Chart 6.11: Average income of a household in each income quintile by breadwinner's labor market status in 2012 (GEL per month, **with social transfers**)
 Source: GeoStat Households Integrated Survey

Considering all of the mentioned, even though in real terms social transfers are too small to have a notable redistributive outcome, without such transfers most disadvantaged households in these socio-economic groups would be much worse-off.

In this regard, an ability of the social transfers to address income inequalities driven by the factors reviewed in the chapter 2, are limited to the bottom quintile to the degree that the poorest households with unemployed and self-employed breadwinners are not left at least without minimum income.

Education

The last socio-economic groups that are contrasted in this section are households where breadwinners have primary (or less), secondary, vocational and higher education. To recall, according to the theory, higher levels of education should be linked to higher returns from labor market participation. In this respect, in order for social transfers to have a redistributive outcome, those households that are worse-off, on average, should receive larger social transfers than those that are better off. Moreover, for these transfers to have notable redistributive outcome they should also be relative to the incomes of those that come from the higher socio-economic groups.

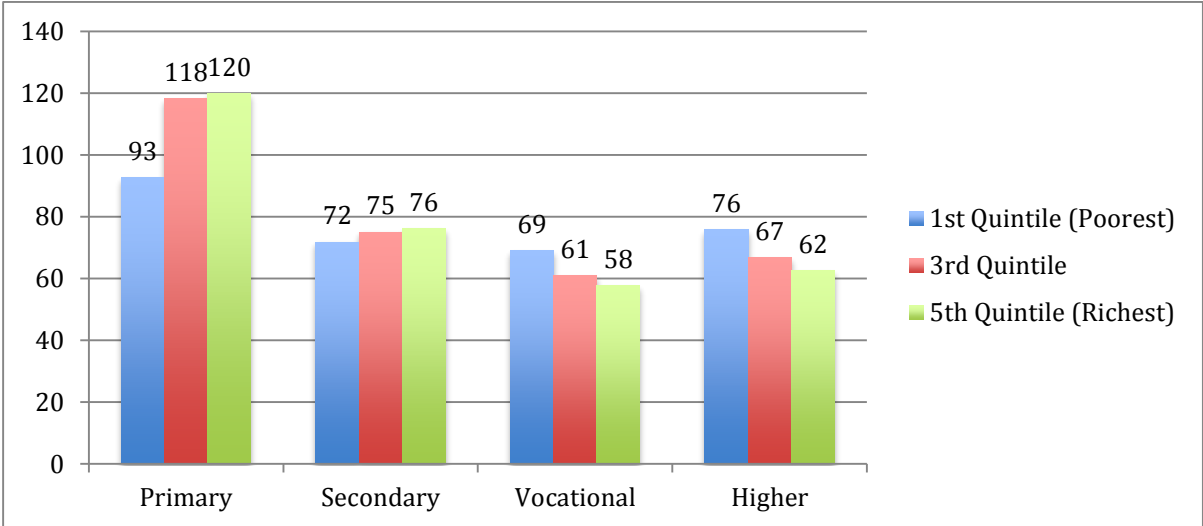


Chart 6.12: Average social transfer per household by breadwinner's education level in 2009 (GEL per month)
 Source: GeoStat, Integrated Household Survey

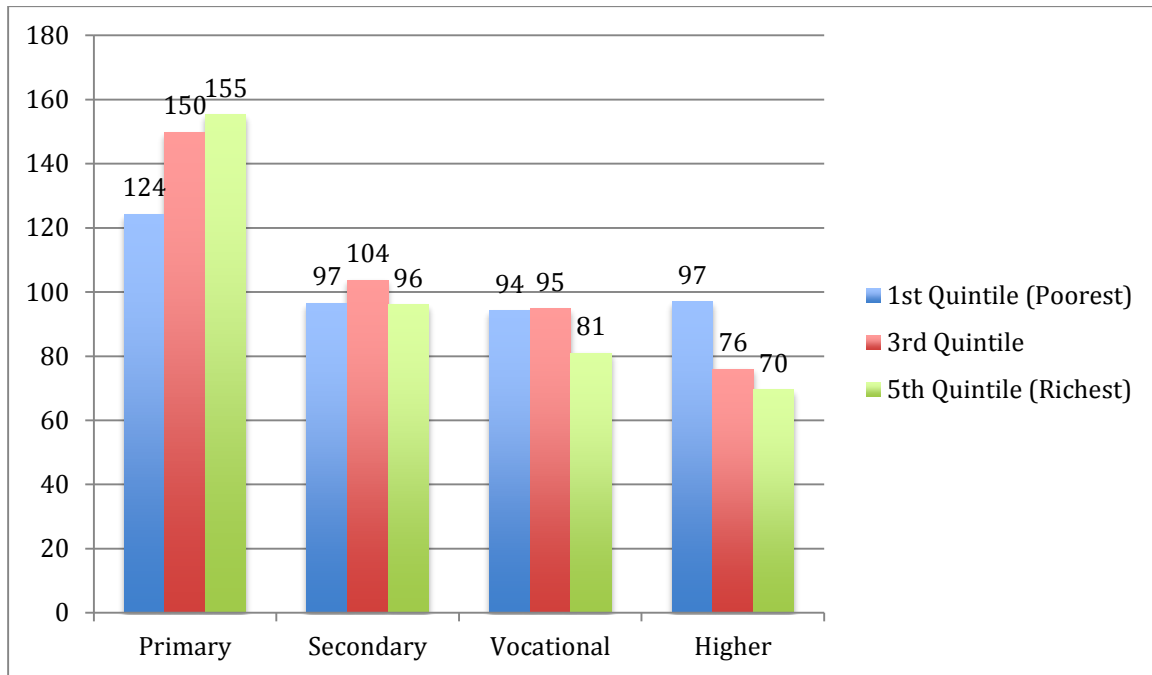


Chart 6.13: Average social transfer per household by breadwinner's education level in 2012 (GEL per month)

Source: GeoStat, Integrated Household Survey

To start with, Charts 6.12 and 6.13 depict that in 2009 and 2012, respectively, average social transfers to each group were relatively equal with the exception of the households where breadwinners had primary education and were in 3rd and 5th income quintiles. In 2009, the differences, with the exception of those two groups, were between 17-35 GEL depending on the socio-economic group. Once those two are also included, this amount become between 44-62 GEL. To take the most disadvantaged group in terms of income, that is, households in the first quintile with breadwinners that have primary education (Chart 6.14) and the most advantaged one (households in the richest quintile that have breadwinners with higher education) (Chart 6.14), according to Chart 6.12 it is evident that the former received only 31 GEL more than the latter. Leaving aside other groups, even in this case the amount is too small to have a notable redistributive outcome, especially since average income differences between these two groups are 1305 GEL/month. Indeed, this difference comprises only 2.2% of the average income (with social transfers) of the

household where breadwinners have higher education (Chart 6.14). Moreover, even the largest observed difference, which is 62 GEL, is only 4.4% of the average total income of the households that have breadwinners with higher education. Hence, one could conclude that social transfers in 2009 had very limited redistributive potential (and actual effect).

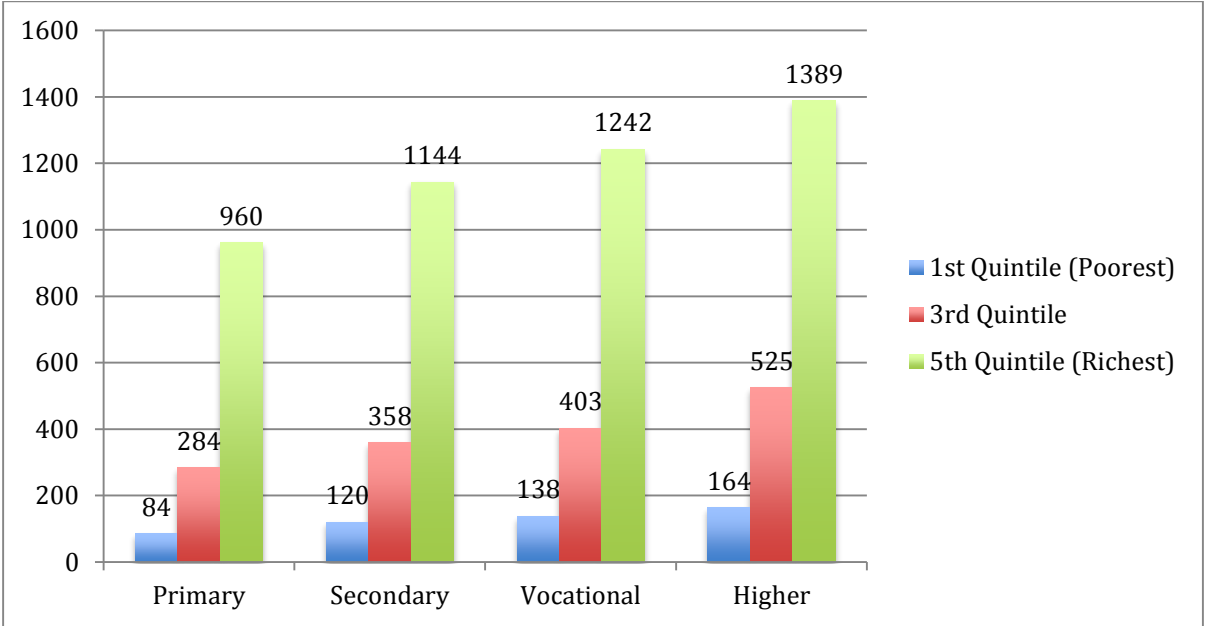


Chart 6.14: Average income of a household in each income quintile by breadwinner's education level in 2009 (GEL per month, **with social transfers**)
 Source: GeoStat Households Integrated Survey

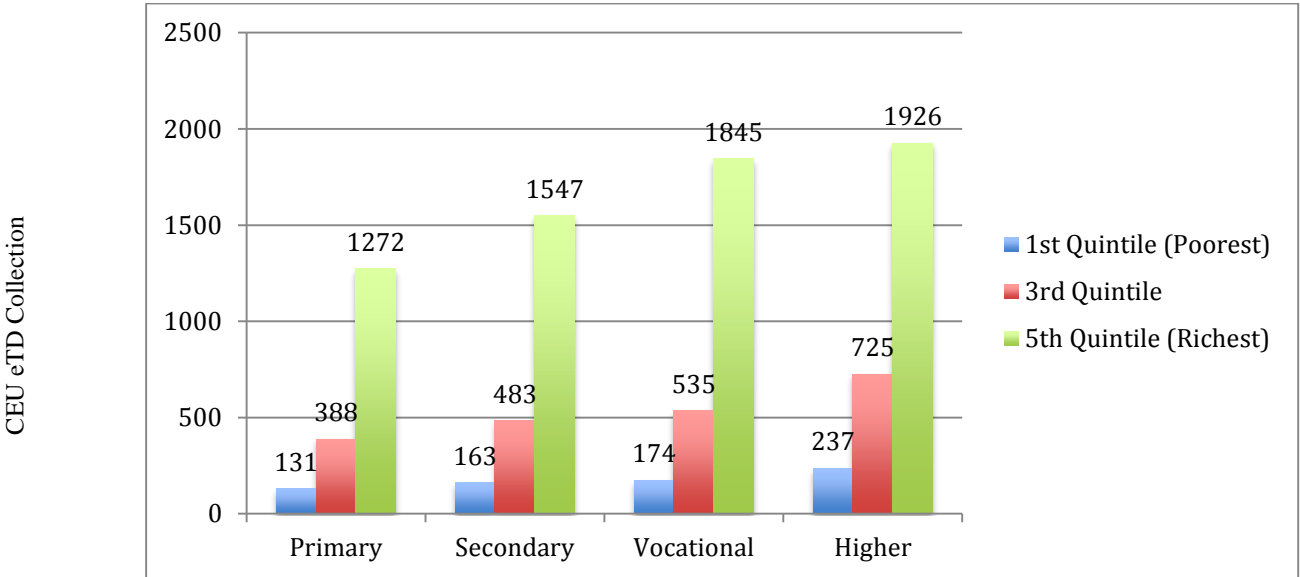


Chart 6.15: Average income of a household in each income quintile by breadwinner's education level in 2012 (GEL per month, **with social transfers**)
 Source: GeoStat Households Integrated Survey

Moreover, even though social transfers increased in real terms (Chart 6.13) in 2012 compared to 2009, the difference between the most disadvantaged and most advantaged groups (54 GEL) was again only 2.8% of the latter's average income (with social transfers) (Chart 6.15). Moreover, the largest difference (85 GEL) is again too small (4.4% of the average income of households with breadwinners that have higher education) to have a notable redistributive effect (Charts 6.13 and 6.15). In this respect, one could argue that similarly to 2009, in 2012 redistributive potential of social transfers are again limited.

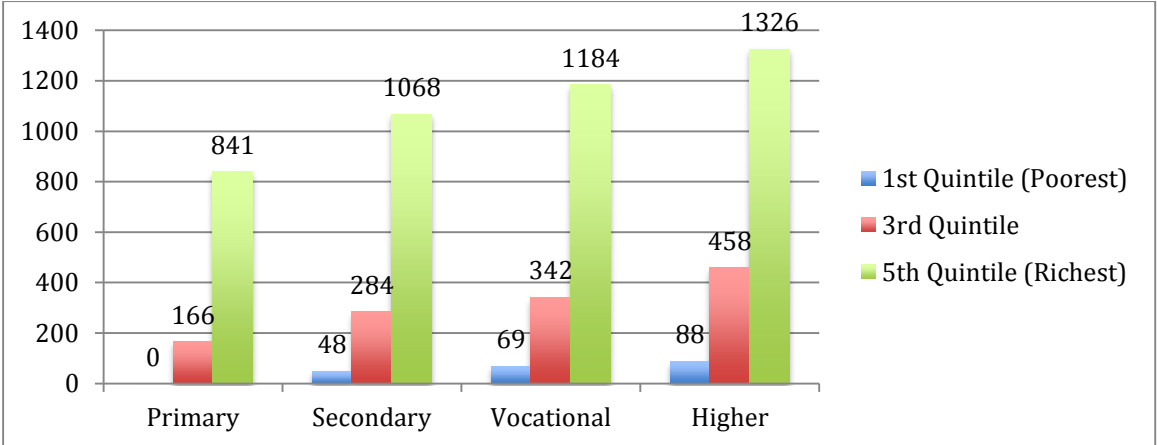


Chart 6.16: Average income of a household in each income quintile by breadwinner's education level in 2009 (GEL per month, **without social transfers**)
 Source: GeoStat Households Integrated Survey

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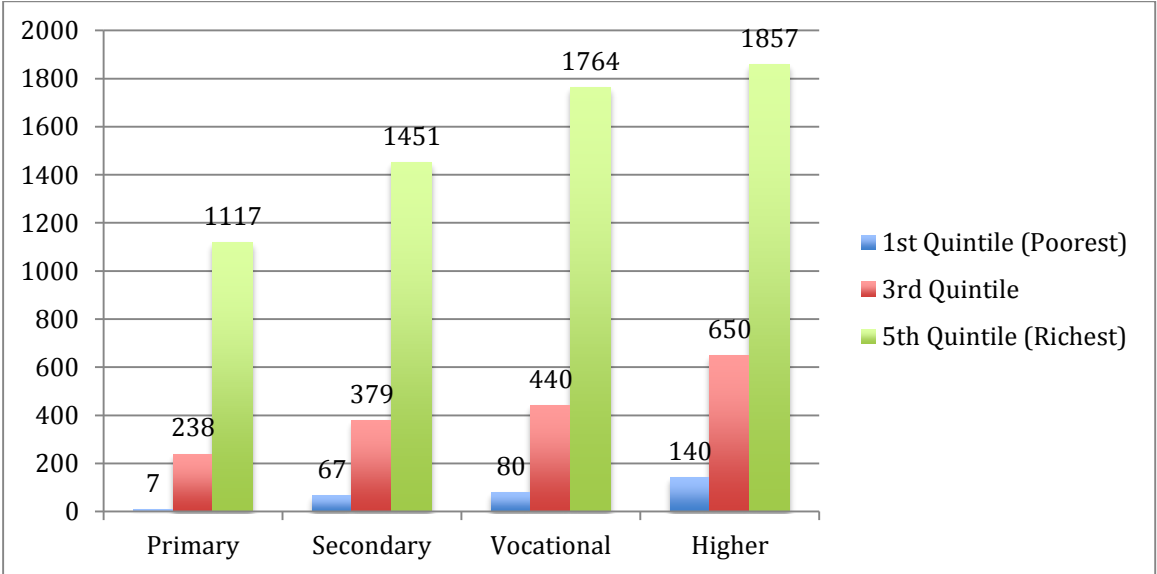


Chart 6.17: Average income of a household in each income quintile by breadwinner's education level in 2012 (GEL per month, **without social transfers**)
 Source: GeoStat Households Integrated Survey

Nevertheless, as in the case of households with unemployed and self-employed breadwinners at the bottom of the income distribution, here again on average most disadvantaged households tend to derive substantial, if not the entire, part of their income from social transfers both in 2009 and 2012 (Charts 6.16 and 6.17). Hence, one could argue that income inequalities without social transfers would be much larger.

In other words, in 2009 earnings with social transfers of an average sampled household at the bottom of the income distribution where the breadwinner had secondary education was about 11 times less than the earnings of a household that had a main breadwinner with higher education. Once social transfers are removed (Chart 6.14), the former's earnings are about 27 times less than the latter's (Chart 6.16). Moreover, considering that average social transfers and income in 2009 of the different socio-economic groups at the bottom of the income distribution were relatively similar (Charts 6.12 and 6.16), the income disparities once social transfers are removed would considerably increase for each group. It is also noteworthy that the most disadvantaged socio-economic group, that is, households where breadwinners had primary education or less at the bottom of the income distribution, considering that the social transfers comprised 100% of their income, they were the ones to benefit the most from them (Chart 6.16). Furthermore, while figures are different in 2012, it is noteworthy that there is a similar pattern as in 2009. In other words, the redistributive potential of the social transfers both in 2009 and 2012 is again limited to the provision of the minimum earnings at the bottom of the income distribution in each socio-economic group reviewed in this section.

7 Conclusion

As it is evident from the findings, distribution of the social transfers to most socio-economic groups was flat, in other words, most groups received relatively equal amount of such transfers. Moreover, in those cases where the disadvantaged ones receive larger amount than those that are better off from the participation in the market exchange, the difference is too small to have a notable redistributive outcome. Hence, this points that the redistributive policy in Georgia between 2009 and 2012 cannot mitigate income inequalities and the households towards the bottom of the income distribution cannot converge to those that are towards the top of this distribution, with the exception of the poorest households. Redistributive effect of the social transfers are limited to the degree that it provides the most disadvantaged, that are, each socio-economic group at the bottom of the income distribution, with at least minimum income. In this respect, considering that these households in terms of income fully rely on the social transfers, without such benefits overall income disparities would be greater. Furthermore, theoretical expectation that the households that are engaged in agricultural sector would be represented in the lower half of the income distribution, that is, among the poorest households, is not the case. As argued, this could be explained by the notion that, on average, earnings from the wage-employment and non-farm self-employment in Georgia correspond to the returns from agricultural sector.

Considering all of the argued, as it is evident from the findings, redistributive policy of the Saakashvili's government was not able to mitigate income inequalities that were inherited from the Soviet times, were further triggered by the transitional policies and are sustained or driven by the characteristics of the liberal market economy. Nevertheless, in 2012 new government was elected which among other

policies also implemented new reforms directed towards existing redistributive policy (Gugushvili, 2013). Even though as some have argued the new policy is again “missing the most vulnerable” (Gugushvili, 2013, p. 20), existence of such reforms and the will displayed by the new government to alter the *status quo*, points to the need of the further research, which could be undertaken once the required data is available.

Appendix

Table 1 Household Average Monthly Income and Consumption by Consumption Quintiles

	2009	2010	2011	2012
<i>Distribution of Income per capita (GEL, per month)</i>				
1st Quintile (Poorest)	109	112	121	142
2nd Quintile	235	248	274	307
3rd Quintile	364	396	455	485
4th Quintile	556	620	705	750
5th Quintile (Richest)	1245	1421	1577	1684
<i>Distribution of Consumption per capita (GEL, per month)</i>				
1st Quintile (Poorest)	122	127	139	170
2nd Quintile	250	268	297	339
3rd Quintile	386	425	487	526
4th Quintile	588	661	751	812
5th Quintile (Richest)	1306	1507	1670	1816

Source: GeoStat Integrated Household Survey

Table 2: Household Income Components by Consumption Quintiles (Percentage to Total)

2009												
	Wages	Self-Employment	Farm Income	Asset Income	Social Transfers	Remittances	Private Transfers	Property Disposal	Borrowing & Saving	In-Kind	Informal Income	Total
1st Quintile	10.0	3.1	2.8	0.2	46.5	1.3	8.7	0.2	3.9	13.2	10.0	100
2nd Quintile	15.3	4.7	4.9	0.3	26.9	1.9	6.6	0.1	4.5	18.8	16.0	100
3rd Quintile	19.5	6.4	6.1	0.3	17.1	2.4	5.5	0.1	4.8	20.1	17.5	100
4th Quintile	23.2	7.0	6.2	0.4	11.6	2.3	5.4	0.2	5.1	20.2	18.4	100
5th Quintile	25.4	8.5	5.7	0.5	5.9	2.9	7.0	0.6	7.8	14.3	21.3	100
2010												
	Wages	Self-Employment	Farm Income	Asset Income	Social Transfers	Remittances	Private Transfers	Property Disposal	Borrowing & Saving	In-Kind	Informal Income	Total
1st Quintile	9.8	2.7	2.8	0.2	47.4	1.0	9.9	0.2	4.8	12.7	8.7	100
2nd Quintile	16.2	4.4	5.5	0.2	27.5	1.6	8.6	0.3	5.0	17.4	13.4	100
3rd Quintile	19.7	5.9	6.4	0.4	17.3	2.4	7.3	0.4	5.5	19.9	14.9	100
4th Quintile	24.2	7.0	6.8	0.5	11.2	2.3	6.9	0.3	7.0	17.8	16.0	100
5th Quintile	24.8	7.7	6.7	0.9	5.7	3.6	9.4	0.8	10.9	12.0	17.6	100
2011												
	Wages	Self-Employment	Farm Income	Asset Income	Social Transfers	Remittances	Private Transfers	Property Disposal	Borrowing & Saving	In-Kind	Informal Income	Total
1st Quintile	10.8	2.4	3.0	0.2	46.6	0.9	11.7	0.4	4.7	11.9	7.4	100
2nd Quintile	15.9	4.2	5.2	0.3	27.3	1.6	9.5	0.2	5.0	17.6	13.1	100
3rd Quintile	21.0	6.1	6.3	0.2	16.5	2.6	8.5	0.2	5.9	17.6	15.1	100
4th Quintile	24.5	6.1	7.0	0.3	10.5	2.6	7.8	0.4	7.5	16.8	16.5	100
5th Quintile	23.5	7.0	8.1	0.7	5.2	3.7	9.1	0.8	11.1	13.0	17.8	100
2012												
	Wages	Self-Employment	Farm Income	Asset Income	Social Transfers	Remittances	Private Transfers	Property Disposal	Borrowing & Saving	In-Kind	Informal Income	Total
1st Quintile	10.4	2.3	2.8	0.2	45.5	1.2	12.8	0.2	5.6	12.8	6.1	100
2nd Quintile	16.3	4.1	5.2	0.1	26.5	1.9	11.3	0.2	6.6	16.8	10.8	100
3rd Quintile	20.9	5.9	6.4	0.2	17.9	2.6	9.9	0.1	6.3	17.0	12.7	100
4th Quintile	28.5	6.2	7.0	0.3	10.7	2.5	9.2	0.3	7.1	15.0	13.2	100
5th Quintile	27.1	7.4	7.5	0.5	5.4	3.7	10.0	1.2	12.2	11.3	13.8	100

Source: GeoStat Integrated Household Survey

Table 3: Distribution of the Households *between* Urban & Rural Area by Consumption Quintiles (Percentage to Total)

	2009		2010		2011		2012		
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Total</i>
1st Quintile	35.2	64.8	34.8	65.2	37.1	62.9	36.7	63.3	100
2nd Quintile	35.0	65.0	35.1	64.9	35.5	64.5	36.5	63.5	100
3rd Quintile	35.5	64.5	35.8	64.2	38.0	62.0	35.5	64.5	100
4th Quintile	37.3	62.7	40.2	59.8	39.6	60.4	39.2	60.8	100
5th Quintile	47.2	52.8	46.2	53.8	43.2	56.8	44.4	55.6	100

Source: GeoStat Integrated Household Survey

Table 4: Distribution of the Households *within* Rural/Urban Area by Consumption Quintiles (Percentage to Total)

	2009	2010	2011	2012
<i>Urban</i>				
1st Quintile	18.5	18.1	19.2	19.1
2nd Quintile	18.4	18.3	18.4	19.0
3rd Quintile	18.7	18.6	19.7	18.5
4th Quintile	19.6	20.9	20.5	20.4
5th Quintile	24.8	24.1	22.3	23.1
<i>Total</i>	100	100	100	100
<i>Rural</i>				
1st Quintile	20.9	21.2	20.5	20.6
2nd Quintile	21.0	21.1	21.0	20.6
3rd Quintile	20.8	20.9	20.2	21.0
4th Quintile	20.2	19.4	19.7	19.8
5th Quintile	17.0	17.5	18.5	18.1
<i>Total</i>	100	100	100	100

Source: GeoStat Integrated Household Survey

Table 5: Average Social Transfer per Household by Consumption Quintiles (GEL per month)

	2009	2010	2011	2012
1st Quintile (Poorest)	78.4	84.4	89.8	104.3
2nd Quintile	80.1	89.0	96.3	106.6
3rd Quintile	76.3	84.6	89.8	105.2
4th Quintile	75.0	81.6	87.7	93.8
5th Quintile (Richest)	69.8	82.1	77.8	87.6

Source: GeoStat Integrated Household Survey

Table 6: Average income per Household Without Social Transfers by Consumption Quintiles (GEL per month)

	2009	2010	2011	2012
1st Quintile (Poorest)	44	43	49	66
2nd Quintile	170	179	201	232
3rd Quintile	310	340	397	421
4th Quintile	513	579	663	718
5th Quintile (Richest)	1236	1425	1592	1728

Source: GeoStat Integrated Household Survey

Table 7: Average Social Transfer per Household in Rural/Urban Area by Consumption Quintiles (GEL per month)

	2009	2010	2011	2012
Urban				
1st Quintile	73.7	77.5	86.3	98.8
2nd Quintile	72.8	82.8	90.0	99.4
3rd Quintile	62.1	71.6	74.8	91.5
4th Quintile	59.7	68.1	75.4	70.6
5th Quintile	57.5	74.5	68.2	68.6
Rural				
1st Quintile	81.0	88.1	91.8	107.4
2nd Quintile	84.0	92.4	99.7	110.7
3rd Quintile	84.1	91.8	99.0	112.7
4th Quintile	84.2	90.7	95.7	108.7
5th Quintile	80.8	88.6	85.1	102.7

Source: GeoStat Integrated Household Survey

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Data Sources

GeoStat Integrated Household Survey

World Bank Development Indicators (WDI), available at:
<http://databank.worldbank.org/data/databases.aspx>

World Bank Poverty and Inequality Database available at:
<http://databank.worldbank.org/data/databases.aspx>