

## DEVELOPMENTS IN THE AVAILABLE INEQUALITY INDEXES FOR THE WESTERN BALKAN COUNTRIES: TRENDS IN THE LAST 10 YEARS<sup>1</sup>

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### *Abstract:*

*In this chapter we analyse the level of inequality in Western Balkan countries, particularly in Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia, during the past ten years. Inequality is one of the main challenges both for the economic theory and economies of the world today. Wage gaps widened and household income inequality increased in a large majority of OECD countries in the three decades before the recent economic crisis. Before the economic crises countries of Western Balkan region recorded economic growth. There was an increase in GNI per capita and HDI all over the region. The data on inequality in western Balkan countries are scarce – they are not available for all countries for the whole period 2001-2011. According to available data Croatia, Montenegro and Serbia belong to the group of the countries with low level of inequality, while Macedonia and Bosnia and Herzegovina have medium level of inequality. The highest levels of Gini coefficient over the period are present in Bosnia and Herzegovina and Macedonia. While in Serbia this indicator decreased and in Montenegro it was stable, in other countries it slightly increased over a period.*

**Key words:** *Distribution, Inequality, Western Balkans, Trends.*

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## INTRODUCTION

At the 2011 World Economic Forum in Davos, income inequality and corruption were stressed as the two most serious challenges today. Inequality has increased between nations over the last half century – in other words richer countries have generally grown faster than poorer countries, as the analyses of World Bank economist Branko Milanovic's shows (Milanovic, 2005). He also points out that inequality within countries has increased over the past two decades (Ibid). In addition, the feature of global capitalist market economy is "a staggering inequality, with a vast yawning gap between the global elite and the vast mass of humanity" (Nolan, 2007:120). Thus, the global inequality has risen significantly. In his recently published book *The Price of Inequality*, where he discusses the causes and consequences of huge inequalities in American society, Joseph Stiglitz points out that the price of inequality is that it is weakening society, economy and democracy (Stiglitz, 2012). Therefore, a research on inequality, its sources and trends, is of particular importance today.

In this chapter we aim to examine the trends of inequality in Western Balkan countries. In the first section, we define what inequality entails, how it is measured and why it should be in focus of our attention. In the second section, we analyse inequality trends with focus on Western Balkans countries.

### WHAT IS INEQUALITY, HOW WE MEASURE IT AND WHY WE SHOULD CARE ABOUT IT?

*Inequality* as defined by standard Cambridge English Dictionary is a „lack of equality or fair treatment in the sharing of wealth or opportunities between different groups in society”. According to a dictionary definition and our everyday usage, this term implies certain ethical concepts on desirability of a system of rewards, and as such it is discussed in moral and political philosophy. However, in economics, inequality is more “value neutrally” defined as dispersion of a distribution of income, consumption or some other welfare indicator or attribute of a population<sup>4</sup> (Litchfield, 1999). The main reason for this “purification” from its normative aspects might lay in the fact that economics has been striving to be (come) a *positive* sciences focusing on “technical” aspects of *production, distribution, and consumption* of goods and services.

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<sup>4</sup> Due to the data availability, the inequality in income is the most frequently analysed and discussed. In this chapter we will focus on income inequalities and when using a term inequality we will presume inequality in income. When we speak of other sources of inequality we will specify whether it is wealth, consumption or some other indicator.

When talking about inequality, we are in the branch of *distribution*, which refers to the way that total output, income, or wealth is distributed among individuals or among the factors of production (labour, land, and capital). *Marginal productivity theory* of neoclassical school has been dominant theory explaining distribution since mid-nineteenth century. It argues that those with higher productivities earn higher incomes which reflect their greater contribution to society, where competitive markets through the laws of supply and demand determine the value of each individual's contribution (Stiglitz 2012). The main point of this theory may be summarized in: "to each according to what he and the instruments he owns produces" (Friedman 2002). If someone is hard working market will reward him with higher income, while someone else might prefer leisure over work and hence a lower income. Market also awards those with scarce and valuable skills since they contribute to the society more. Thus the "neutral" market serves to equalize individuals' differences. In this theory, the social contribution of each worker is equal to his compensation, when workers with higher productivity get higher pay. In other words, as proponents of free market economy argue, distribution in free market economy is a result of "natural" forces of the "game of skill and chance".

However, it could be argued that distribution is not a "technical" problem but rather a *social issue*, or how Mill nicely put it: "Distribution of wealth is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever they please, and on whatever terms. Further, in the social state, in every state except total solitude, any disposal whatever of them can only take place by the consent of society, or rather of those who dispose of its active force. The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chose." (Mill, 1909). In other words, the system of distribution (implicitly) refers to certain values on how society (or as Mill argues "ruling portion of the community") perceives *justice* and *fairness*.

In a free society, argues Hayek, there will be a distribution in accordance with the perceived value of a person's actions and services to others and a distribution in accordance to benefits to others is a major patterned standard (Hayek 1972). There will and should be inequalities in "end results" since everyone does not produce a value for the others and it is *just* that those producing more value benefit more. The only thing that matters is equality of treatment and opportunity, securing that anyone has a chance to succeed. However, market does not operate in a vacuum. In fact, it is prone to fail and market failures bring distortions between social and

individual interests. To mention *externalities*, when “one party’s action can have large negative or positive effects on the other for which he does not pay or reap the benefits” (Stiglitz 2012, 34), and *rent seeking* when a party is “getting income not as a reward in creating wealth but by grabbing a larger share of the wealth that would otherwise have been produced without their effort” (Ibid, 32). Stiglitz has well documented how rent seeking by financial sector’s players (in forms of predatory lending and abusive credit cards practices) “sucked out money from the rest” and brought America into Great Recession, producing huge inequalities in income and wealth (Stiglitz 2012). Thus, a system of distribution and inequalities it creates are not only a result of abstract market forces, they are the result of government policies (or more broadly, *institutional forces*), which may be shaped by the interests of certain groups (such as for example the policy of regressive taxes in the USA when super rich pay on average lower tax rate than those less well off), or they may be in the interests of a broader community (for example through the system of public education or medical care). Stiglitz argues that inequality (he speaks of America’s, but it could be by analogy referred to the other countries as well) is cause and consequence of the political system failure, and it contributes to the instability of the economic system, which in turn contributes to increased inequality.

Distribution from which those who can impose their interests and declare them as societal interests benefit more, certainly is not a just nor fair society. The question that rises is what are the economic implications of high income inequalities? In other words, how economic growth and income inequalities are related? Kuznets in his paper on *Economic Growth and Income Inequality* published in American Economic Journal in 1955, analyses whether distribution of income increases or decreases in the course of country’s economic growth. Based on the data on Germany, England and United States, a “scant sample” as he argues, Kuznets concludes that “the relative distribution of income, as measured by annual income incidence in rather broad classes, has been moving toward equality” (Kuznets 1955: 4). He further discusses causes of such trends. His analyses are “summarised” into famous Kuznets’ curve which indicates that inequality grows with economic growth and then decreases after a certain average income is attained. However, it should be noted that Kuznets himself points out that his analyses are “perhaps 5 per cent empirical information and 95 per cent speculation, some of it possibly tainted by wishful thinking”. He furthermore stresses “that our knowledge of it is inadequate”, and that there is a need for further studies in the field, and more in detail understanding of the issues of causes and consequences of income inequalities.

Stiglitz’s major subject of doctoral dissertation at MIT was inequality. As he explains, he “took some of the standard assumptions (of what is called the

neoclassical model) and showed that under those assumptions there should be a convergence to equality among individuals. It was clear that something was wrong with the standard model.” (Stiglitz 2012, XXV). He furthermore argues that inequality destroys growth, pointing out on empirical evidences that countries with high inequalities do not grow as well and they are less stable. He stresses that it is not an accident that in the period right before the Great Depression inequality reached another peak just like it did in the years before the Great Recession.

Next question is how we measure inequalities. The measures presented in this chapter are given in accordance to the World Bank’s poverty and inequality indicators. The most commonly used measure of inequality is *Gini-coefficient*. The coefficient varies between 0, which reflects complete equality (which would be the case if income or consumption were shared in proportion to the population – for example bottom 10 per cent getting 10 per cents of the income) and 1, which indicates complete inequality (one person has all the income or consumption, while the others have none). More-equal societies have Gini coefficients of 0.3 (30) or below, while the most unequal societies have Gini of 0.5 (50) or more. Another measurement is *Theil-index* which is part of a larger family of measures referred to as the General Entropy class. This indicator is less commonly used than the Gini coefficient, but it has an advantage over Gini of being additive across different subgroups or regions in the country. A disadvantage of both the Gini coefficients and the Theil indices is that they vary when the distribution varies, no matter if the change occurs at the top or at the bottom or in the middle (any transfer of income between two individuals has an impact on the indices, irrespective of whether it takes place among the rich, among the poor or between the rich and the poor). *Decile dispersion ratio* presents the ratio of the average consumption or income of the richest 10 percent of the population divided by the average income of the bottom 10 percent. This ratio can also be calculated for other percentiles (for instance, dividing the average consumption of the richest 5 percent – the 95th percentile – by that of the poorest 5 percent – the 5th percentile). Its advantage is that it is readily interpretable, by expressing the income of the rich as multiples of that of the poor. Finally, *share of income/consumption of the poorest x%* is also an important indicator that tells us about the share of income of the people at the bottom. It should be stressed that inequality could be analysed on several levels – within countries, between countries (international inequality) and inequality between citizens of the world (global inequality) (Milanovic 2005). In this chapter we focus on inequality within countries.

To conclude with Kuznets’ words: “distribution is a focal point at which the functioning of the economic system impinges upon the human beings who are the

living members of society and *for whom and through whom* the society operate” (Kuznets 1955, 27, emphases added). The question is how economic systems have been functioning lately *for and through human beings*. Inequality trends, with focus on Western Balkan countries, are discussed in the section that follows.

## INEQUALITY IN WESTERN BALKANS COUNTRIES

In this section we will first give an overview of the inequality indicators in OECD countries, and then we will focus on development and inequality indicators in Western Balkan countries.

OECD publication *An Overview of Growing Income Inequalities in OECD Countries: Main Findings* points out: “In the three decades prior to the recent economic downturn, wage gaps widened and household income inequality increased in a large majority of OECD countries. This occurred even when countries were going through a period of sustained economic and employment growth. Over the two decades real disposable household incomes increased by an average 1.7% a year in OECD countries. In a large majority of them, however, the household incomes of the richest 10% grew faster than those of the poorest 10%, so widening income inequality. In OECD countries today, the average income of the richest 10% of the population is about nine times that of the poorest 10% – a ratio of 9 to 1. However, the ratio varies widely from one country to another. It is much lower than the OECD average in the Nordic and many continental European countries, but reaches 10 to 1 in Italy, Japan, Korea, and the United Kingdom; around 14 to 1 in Israel, Turkey, and the United States; and 27 to 1 in Mexico and Chile. The Gini coefficient, stood at an average of 0.29 in OECD countries in the mid-1980s. By the late 2000s, however, it had increased by almost 10% to 0.316. Significantly, it rose in 17 of the 22 OECD countries for which long-term data series are available, climbing by more than 4 percentage points in Finland, Germany, Israel, Luxembourg, New Zealand, Sweden, and the United States. Only Turkey, Greece, France, Hungary, and Belgium recorded no increase or small declines in their Gini coefficients. Income inequality followed different patterns across the OECD countries over time. It first started to increase in the late 1970s and early 1980s in some English-speaking countries, notably the United Kingdom and the United States, but also in Israel. From the late 1980s, the increase in income inequality became more widespread. The latest trends in the 2000s showed a widening gap between rich and poor not only in some of the already high inequality countries like Israel and the United States, but also – for the first time – in traditionally low-inequality countries, such as Germany, Denmark, and Sweden (and other Nordic countries), where inequality grew more than anywhere else in the 2000s. At the same time, Chile, Mexico, Greece,

Turkey, and Hungary reduced income inequality considerably – often from very high levels. There are thus tentative signs of a possible convergence of inequality levels towards a common and higher average level across OECD countries. Increases in household income inequality have been largely driven by changes in the distribution of wages and salaries, which account for 75% of household incomes among working-age adults. With very few exceptions (France, Japan, and Spain), the wages of the 10% best-paid workers have risen relative to those of the 10% lowest paid. This was due to both growing earnings' shares at the top and declining shares at the bottom, although top earners saw their incomes rise particularly rapidly. Earners in the top 10% have been leaving the middle earners behind more rapidly than the lowest earners have been drifting away from the middle.”(OECD 2011: 22)

What is the level of inequalities in the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro and Serbia)? To answer this question, firstly, we will analyse some indicators of economic development in Western Balkan countries for the past decade, focusing on economic growth (measured by gross domestic product (GDP) growth and gross national income per capita (GNI per capita) growth) and the level of human development (measured by human development index (HDI)). Then, we will focus on inequality indicators, particularly, inequality adjusted HDI, Gini coefficient and share of income by the poorest 10 and 20 per cent.

The data on economic development are summarised in the next table.

*Table 1: Selected Development Indicators for WB Countries in last decade*

Country Name	Year	Population (total)	GDP growth (annual %)	GNI per capita, PPP (current international \$)	HDI
Croatia	2001	4,440,000	3.7	11,450	
	2002	4,440,000	4.9	12,370	
	2003	4,440,000	5.4	12,970	
	2004	4,439,000	4.1	14,200	
	2005	4,442,000	4.3	14,930	0.780
	2006	4,440,000	4.9	16,330	0.785
	2007	4,436,000	5.1	18,250	0.791
	2008	4,434,000	2.2	19,650	0.795
	2009	4,429,000	-6.0	19,040	0.793
	2010	4,418,000	-1.2	18,680	0.794

Country Name	Year	Population (total)	GDP growth (annual %)	GNI per capita, PPP (current international \$)	HDI
	2011	4,407,000	0.0	19,330	0.796
Macedonia, FYR	2001	2,016,075	-4.5	5,790	
	2002	2,022,255	0.9	5,960	
	2003	2,027,819	2.8	6,350	
	2004	2,033,039	4.6	6,970	
	2005	2,038,109	4.4	7,720	0.704
	2006	2,043,091	5.0	8,730	0.708
	2007	2,047,922	6.1	9,050	0.712
	2008	2,052,524	5.0	10,600	0.725
	2009	2,056,769	-0.9	11,130	0.725
	2010	2,060,563	1.8	11,100	0.725
	2011	2,063,893	3.0	11,490	0.728
Montenegro	2001	630,299	1.1	6,870	
	2002	628,594	1.9	7,170	
	2003	627,500	2.5	7,530	
	2004	626,912	4.4	8,050	
	2005	626,739	4.2	8,320	0.757
	2006	627,074	8.6	10,500	0.762
	2007	627,962	10.7	12,410	0.767
	2008	629,185	6.9	13,850	0.771
	2009	630,435	-5.7	12,870	0.768
	2010	631,490	2.5	12,790	0.769
	2011	632,261	2.5	13,720	0.771
Serbia	2001	7,503,433	5.3	6,170	
	2002	7,500,031	4.1	6,550	
	2003	7,480,591	2.7	6,920	
	2004	7,463,157	9.3	7,750	
	2005	7,440,769	5.4	8,410	0.744
	2006	7,411,569	3.6	9,310	0.749
	2007	7,381,579	5.4	9,910	0.754
	2008	7,350,221	3.8	11,200	0.760
	2009	7,320,807	-3.5	10,900	0.761



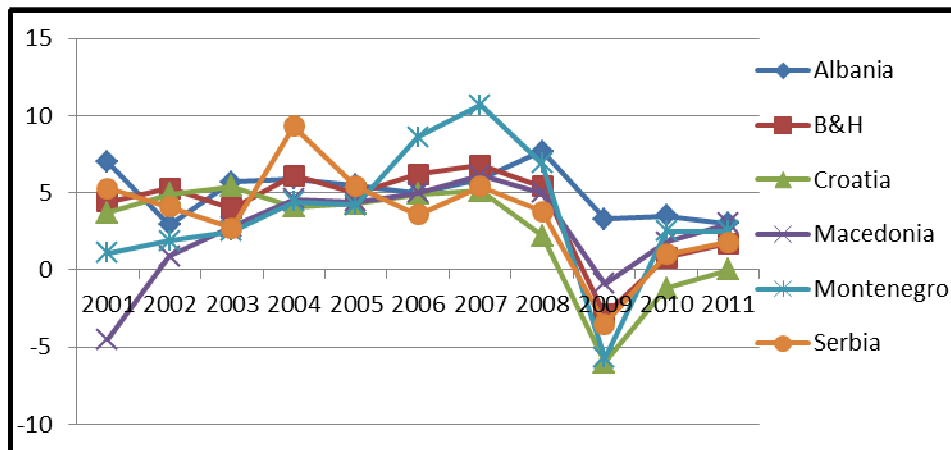
Country Name	Year	Population (total)	GDP growth (annual %)	GNI per capita, PPP (current international \$)	HDI
	2010	7,291,436	1.0	11,090	0.764
	2011	7,261,000	1.8	11,640	0.766
Albania	2001	3,077,378	7.0	4,820	
	2002	3,089,778	2.9	4,980	
	2003	3,106,701	5.7	5,350	
	2004	3,124,861	5.9	5,770	
	2005	3,141,800	5.5	6,220	0.721
	2006	3,156,607	5.0	7,000	0.724
	2007	3,169,665	5.9	7,390	0.729
	2008	3,181,397	7.7	8,280	0.733
	2009	3,192,723	3.3	8,560	0.734
	2010	3,204,284	3.5	8,570	0.737
	2011	3,215,988	3.0	8,900	0.739
Bosnia and Herzegovina	2001	3,748,370	4.4	5,200	
	2002	3,775,883	5.3	5,440	
	2003	3,782,717	4.0	5,700	
	2004	3,781,358	6.1	6,140	
	2005	3,781,001	5.0	6,610	0.717
	2006	3,781,588	6.2	7,400	0.720
	2007	3,779,034	6.8	8,150	0.725
	2008	3,774,164	5.4	9,000	0.730
	2009	3,767,683	-2.9	8,900	0.730
	2010	3,760,149	0.8	8,870	0.731
	2011	3,752,228	1.7	9,200	0.733

\*Data for 2010

Source: World Bank Data, Human Development Reports

The data show that there was an economic growth in all Western Balkan countries during the period 2001 – 2008, prior to the crisis. In 2009, the greatest recession was present in Croatia, reaching -6%, while the only country escaping the recession was Albania, with annual GDP growth of 3.3% at the time. While all other countries managed to get back on track to growth during the following 2010, the recession in Croatia stopped only a year later.

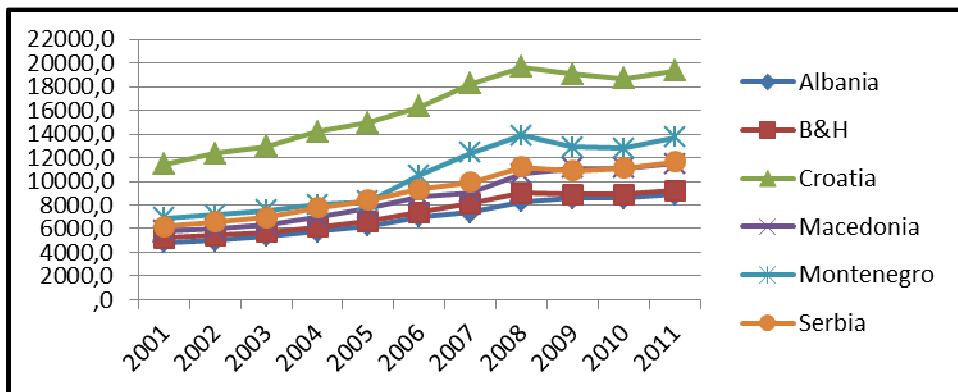
Figure 1: GDP growth in Western Balkan countries in the period 2001 -2011



Source: World Bank Data

All Western Balkan countries are in the group of middle-income countries. Analysing the gross national income per capita for Western Balkan Region during the past decade, one can easily notice a significant rise of this indicator achieved in all countries in the years before the crises. Then in 2009 due to a negative economic growth rates, GNI per capita decreased. During the 2010 and 2011 the GNI per capita has been rising again.

Figure 2: GNI per capita in Western Balkan countries in the period 2001 -2011

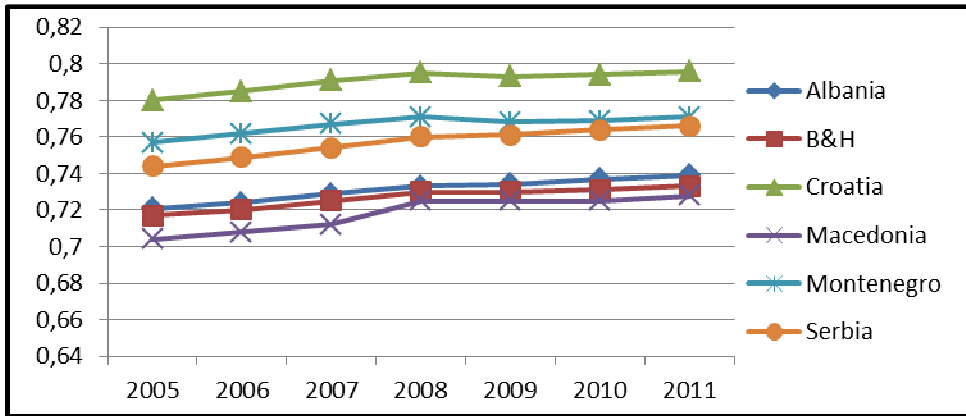


Source: World Bank Data

According to Human Development Index (HDI) all western Balkan countries possess a medium level of human development. The level of human development has been slightly increasing in all countries during the last five years of the past

decade. However, there are certain differences among the countries. Croatia thought the period has the highest level, while Macedonia is on the lowest level of human development among the Western Balkan countries.

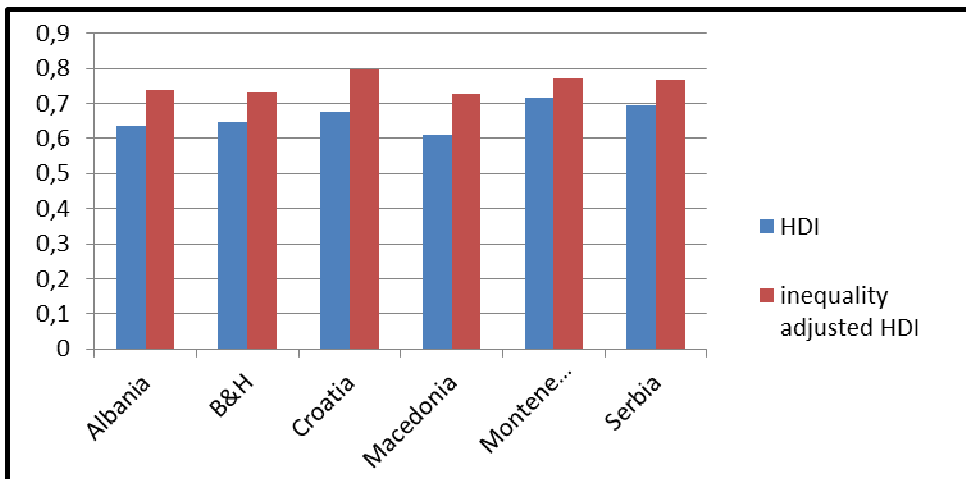
Figure 3: HDI in Western Balkan countries in the period 2005 -2011



Source: UNDP, Human Development Reports

However, when compared by inequality adjusted HDI a measure introduced in 2011, Montenegro is a country with the highest level of human development in the region, while Croatia deteriorated the most its picture of the human development level.

Figure 4: Inequality adjusted HDI in Western Balkan countries in 2011



Source: UNDP, Human Development Reports

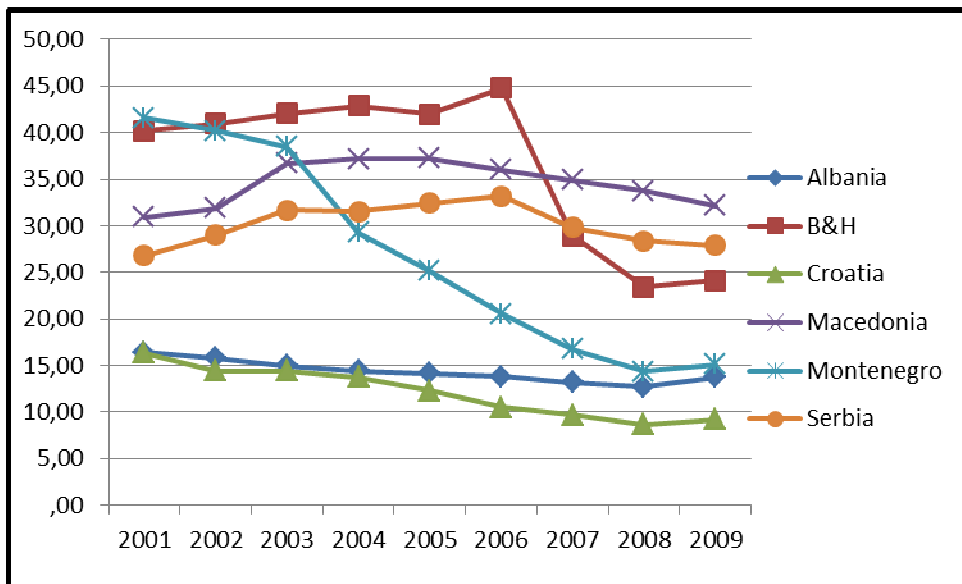
All Western Balkan Countries have high levels of unemployment through the period. However, the unemployment rates differ through the region. Croatia and Albania recorded relatively low levels in comparison to other countries of the region, while Montenegro recorded the greatest decrease of unemployment – from 41.6% in 2001 to 15.1 in 2009. The data on unemployment rates as percentage of total labour force given in accordance to EBRD data is presented in the next table and in the figure.

Table 2: Unemployment in Western Balkan Countries in the period 2001 -2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Albania	16.4	15.8	15.0	14.4	14.1	13.8	13.2	12.7	13.7
B&H	40.2	41.0	42.1	42.9	42.0	44.8	28.9	23.4	24.1
Croatia	16.4	14.5	14.4	13.8	12.3	10.5	9.7	8.7	9.2
Macedonia	30.9	31.9	36.7	37.2	37.3	36.0	34.9	33.8	32.2
Montenegro	41.6	40.2	38.5	29.3	25.2	20.6	16.8	14.4	15.1
Serbia	26.8	29.0	31.7	31.6	32.4	33.2	29.8	28.4	27.9

Source: EBRD, Economic Data

Figure 5: Unemployment in Western Balkan Countries in the period 2001-2009



Source: EBRD, Economic Data

Before we precede to the analyses of the inequality indicators in Western Balkan countries, we will give a brief overview of the Gini coefficients in the European Union. The Gini coefficient, when analysed for EU 15, indicates that inequality in old member states is low. It is slightly higher for the 12 New Member States indicates, though it decreased over the period 2004-2010. Estonia, Greece Spain, Italy, Latvia, Lithuania, Poland, United Kingdom, Romania, Portugal recorded Gini coefficients over 30 through the period 2002-2011, while the most equitable countries are Sweden and Slovenia with Gini below 25.

*Table 3: GINI coefficient in European Union*

GEO/TIME	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
European Union (15 countries)	/	30	30	29.9	29.5	30.2	30.7	30.4	30.5	/
New Member States (12 countries)	/	/	37.4	33.2	33.0	31.8	31.3	30.7	30.3	/
Belgium	/	28.3	26.1	28.0	27.8	26.3	27.5	26.4	26.6	26.3
Bulgaria	26	24	26	25	31.2	35.3	35.9	33.4	33.2	/
Czech Republic	/	/	/	26.0	25.3	25.3	24.7	25.1	24.9	25.2
Denmark	/	24.8	23.9	23.9	23.7	25.2	25.1	26.9	26.9	27.8
Germany	/	/	/	26.1	26.8	30.4	30.2	29.1	29.3	29.0
Estonia	35	34	37.4	34.1	33.1	33.4	30.9	31.4	31.3	31.9
Ireland	/	30.6	31.5	31.9	31.9	31.3	29.9	28.8	33.2	/
Greece	/	34.7	33.0	33.2	34.3	34.3	33.4	33.1	32.9	/
Spain	31	31	30.7	31.8	31.2	31.3	31.3	32.3	33.9	34.0
France	27	27	28.2	27.7	27.3	26.6	29.8	29.9	29.8	/
Italy	/	/	33.2	32.8	32.1	32.2	31.0	31.5	31.2	/
Cyprus	/	27	/	28.7	28.8	29.8	28.3	29.1	29.1	/
Latvia	/	/	/	36.1	39.2	35.4	37.7	37.4	36.1	35.2
Lithuania	/	/	/	36.3	35.0	33.8	34.0	35.5	36.9	32.9
Luxembourg	/	27.6	26.5	26.5	27.8	27.4	27.7	29.2	27.9	27.2
Hungary	24	27	/	27.6	33.3	25.6	25.2	24.7	24.1	26.9
Malta	/	/	/	26.9	27.0	26.3	27.9	27.2	28.4	27.4
Netherlands	27	27	/	26.9	26.4	27.6	27.6	27.2	25.5	25.8
Austria	/	27.4	25.8	26.2	25.3	26.2	26.2	25.7	26.1	26.3
Poland	/	/	/	35.6	33.3	32.2	32.0	31.4	31.1	31.1
Portugal	/	/	37.8	38.1	37.7	36.8	35.8	35.4	33.7	34.2
Romania	30	30	31	31	33	37.8	36.0	34.9	33.3	33.2
Slovenia	22	22	/	23.8	23.7	23.2	23.4	22.7	23.8	23.8
Slovakia	/	/	/	26.2	28.1	24.5	23.7	24.8	25.9	/

GEO/TIME	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Finland	26	26	25.5	26.0	25.9	26.2	26.3	25.9	25.4	25.8
Sweden	23	/	23.0	23.4	24.0	23.4	24.0	24.8	24.1	24.4
United Kingdom	35	34	/	34.6	32.5	32.6	33.9	32.4	33.0	/
Iceland	/	/	24.1	25.1	26.3	28.0	27.3	29.6	25.7	23.6
Norway	/	26.6	25.2	28.2	31.1	23.7	25.1	24.1	23.6	22.9
Switzerland	/	/	/	/	/	/	32.0	30.2	29.6	/

Source: SILC

The data on inequality in western Balkan countries are scarce – they are not available for all countries for the whole period 2001-2011. According to the available data Croatia, Montenegro and Serbia belong to the group of the countries with low level of inequality, while Macedonia and Bosnia and Herzegovina have medium level of inequality. However, while in Serbia this indicator decreased and in Montenegro it was stable, in other countries it slightly increased. The highest levels of Gini coefficient over the period are present in Bosnia and Herzegovina and Macedonia. While the income share of the highest 10% is above 20% in all countries and it has increasing trend in all countries except in Serbia, the income share of the lowest 10% is below 4%. The income share of the lowest 10% is the lowest in Macedonia with on average 2.3% of the total income.

When inequality indicators of Western Balkan countries are compared with the EU New Member States, it is noticeable that while in the New Member States inequality has decreasing trend, in the Western Balkan countries it has been increasing through the period in all countries except in Serbia and Montenegro.

It should be pointed out that while all countries recorded economic growth in the years before the crisis, most of them also recorded increase in inequality, which indicates that the wealthy benefited more from the economic growth. The data on available inequality indicators are summarized in the next table.

Table 4: Selected Inequality Indicators for WB Countries in last decade

Albania											
Indicator	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11
GINI index		28.2		31.1	33.0			34.5			
Income share held by fourth 20%		22.7		22.6	22.3			20.9			

Income share held by highest 10%		22.6		24.4	26.1			29.0			
Income share held by highest 20%		37.4		39.5	41.2			43.0			
Income share held by lowest 10%		4.0		3.5	3.3			3.5			
Income share held by lowest 20%		9.1		8.2	7.8			8.1			
Income share held by second 20%		13.4		12.7	12.2			12.1			
Income share held by third 20%		17.4		17.0	16.5			15.9			
<b>Bosnia and Herzegovina</b>											
<b>Indicator Name</b>	<b>'01</b>	<b>'02</b>	<b>'03</b>	<b>'04</b>	<b>'05</b>	<b>'06</b>	<b>'07</b>	<b>'08</b>	<b>'09</b>	<b>'10</b>	<b>'11</b>
GINI index	28.0			35.8			36.2				
Income share held by fourth 20%	22.6			22.3			22.7				
Income share held by highest 10%	22.8			27.7			27.3				
Income share held by highest 20%	37.2			43.1			43.2				
Income share held by lowest 10%	3.8			2.9			2.7				
Income share held by lowest 20%	9.1			7.0			6.7				
Income share held by second 20%	13.6			11.5			11.3				
Income share held by third 20%	17.5			16.1			16.1				
<b>Croatia</b>											
<b>Indicator Name</b>	<b>'01</b>	<b>'02</b>	<b>'03</b>	<b>'04</b>	<b>'05</b>	<b>'06</b>	<b>'07</b>	<b>'08</b>	<b>'09</b>	<b>'10</b>	<b>'11</b>
GINI index	31.1			29.0			33.7				
Income share held by fourth 20%	22.5			22.6			21.6				
Income share held by highest 10%	24.6			23.2			27.5				
Income share held by highest 20%	39.6			38.0			42.0				
Income share held by lowest 10%	3.5			3.7			3.3				
Income share held by lowest 20%	8.3			8.7			8.1				
Income share held by second 20%	12.7			13.3			12.2				

Income share held by third 20%	16.9			17.4				16.2			
<b>Macedonia, FYR</b>											
<b>Indicator Name</b>	<b>'01</b>	<b>'02</b>	<b>'03</b>	<b>'04</b>	<b>'05</b>	<b>'06</b>	<b>'07</b>	<b>'08</b>	<b>'09</b>	<b>'10</b>	<b>'11</b>
GINI index		38.8	39.0	38.9	39.1	42.8		44.2	43.2		
Income share held by fourth 20%		22.3	22.2	22.6	22.7	21.7		21.0	22.0		
Income share held by highest 10%		29.3	29.7	29.2	28.9	32.7		34.5	32.4		
Income share held by highest 20%		45.2	45.5	45.0	45.3	48.6		50.3	48.9		
Income share held by lowest 10%		2.4	2.4	2.4	2.3	2.1		2.2	2.0		
Income share held by lowest 20%		6.0	6.1	6.0	5.8	5.3		5.4	5.1		
Income share held by second 20%		10.8	10.7	10.7	10.5	9.7		9.3	9.5		
Income share held by third 20%		15.6	15.6	15.7	15.6	14.6		14.0	14.5		
<b>Montenegro</b>											
<b>Indicator Name</b>	<b>'01</b>	<b>'02</b>	<b>'03</b>	<b>'04</b>	<b>'05</b>	<b>'06</b>	<b>'07</b>	<b>'08</b>	<b>'09</b>	<b>'10</b>	<b>'11</b>
GINI index					30.1	29.3	30.8	30.0			
Income share held by fourth 20%					22.5	22.8	23.0	22.4			
Income share held by highest 10%					24.0	23.1	23.9	24.1			
Income share held by highest 20%					38.9	38.1	38.9	38.8			
Income share held by lowest 10%					3.6	3.6	3.3	3.6			
Income share held by lowest 20%					8.5	8.6	8.1	8.5			
Income share held by second 20%					13.0	13.2	12.8	13.1			
Income share held by third 20%					17.1	17.4	17.3	17.2			
<b>Serbia</b>											
<b>Indicator Name</b>	<b>'01</b>	<b>'02</b>	<b>'03</b>	<b>'04</b>	<b>'05</b>	<b>'06</b>	<b>'07</b>	<b>'08</b>	<b>'09</b>	<b>'10</b>	<b>'11</b>
GINI index		32.7	32.8	32.9	33.4	29.6	29.4	28.2	27.8		
Income share held by fourth 20%		22.1	22.2	22.3	22.5	22.6	22.5	22.5	22.8		
Income share held by highest 10%		26.3	26.1	26.0	26.1	23.6	23.5	22.8	22.2		



Income share held by highest 20%		40.9	40.9	41.1	41.1	38.3	38.2	37.4	36.9		
Income share held by lowest 10%		3.2	3.2	3.3	2.9	3.5	3.6	3.9	3.7		
Income share held by lowest 20%		8.0	7.8	7.8	7.5	8.4	8.6	9.1	8.9		
Income share held by second 20%		12.5	12.4	12.3	12.3	13.3	13.3	13.5	13.7		
Income share held by third 20%		16.6	16.7	16.6	16.7	17.4	17.4	17.5	17.8		

Source/ *World Bank Data*

At the end, we will summarise the main causes of inequalities in transitional and Western Balkans countries, according to the studies undertaken on the topic. Leinter and Stehre in their study point out three groups of variables which are particularly important for explaining patterns of inequality in Western Balkan countries and these are socio-demographic variables, employment status and education. (Leitner, Stehrer, 2009). Milanovic and Ersado in their research on the economic reform influences on inequalities in transitional countries found out that “economic reform (measured by the EBRD index) is strongly negatively associated with bottom deciles’ income shares and positively with income shares of the top two deciles. However, once economic reform is broken into its different component parts, the picture is more nuanced: large-scale privatization and infrastructure reform (mostly consisting of privatization and higher fees) are responsible for this pro-inequality effect while small-scale privatization tends to raise income shares of the bottom deciles. Acceleration in growth is also pro-rich. On the other hand, democratization (measured by the Polity measure) is strongly pro-poor, as is lower inflation. Somewhat surprisingly, we find no evidence that higher government spending as share of GDI reduces inequality” (Milanovic, Ersado, 2008: 25).

We can conclude that while Western Balkan countries have low or medium levels of inequalities as measured by the Gini coefficient, it is noticeable that there is an increasing trend of inequality in most countries of the region.

## CONCLUSION

In this chapter we discussed inequalities with focus on Western Balkan countries. While mainstream economic theory predicts that in the course of country’s development the level of inequality would decrease, the world today in fact is facing increasing inequalities, both in developed and developing countries.

During the past decade, particularly before the crisis all Western Balkan countries recorded economic growth, though on different paces and erratic. The data on inequality in western Balkan countries are scarce – they are not available for all countries for the whole period 2001-2011. According to the available data, with the Gini coefficient of around 0.3, Croatia, Montenegro and Serbia belong to the group of the countries with low level of inequality. However, while in Montenegro and Serbia this indicator decreased, in other countries it slightly increased over the period. The highest levels of Gini coefficient over the period are present in Bosnia and Herzegovina and Macedonia. When inequality indicators of Western Balkan countries are compared with the EU New Member States, it is noticeable that while in the New Member States inequality has decreasing trend, in the Western Balkan countries it has been increasing through the period in all countries except in Serbia and Montenegro.

We can conclude that while Western Balkan countries have low or medium levels of inequalities as measured by the Gini coefficient, it is noticeable that there is an increasing trend of inequality in most countries of the region.

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