

## SOCIAL INEQUALITY IN THE REPUBLIC OF MACEDONIA

### SOCIJALNE NEJEDNAKOSTI U REPUBLICI MAKEDONIJI

**Prof. Biljana Petrevska, PhD, assistant professor<sup>61</sup>**

**Prof. Vanko Uzunov, PhD, professor<sup>62</sup>**

**Abstract:** *One of the tenets of sustainable economic development paradigm is that a society can experience sustainable progress merely within a framework of tolerable social disparities among the citizens. Having this in mind, the main subject of this paper is the issue of social inequality in the Republic of Macedonia.*

*The paper consists of three parts. The first one is an introduction which explains the subject of research; the second part focuses on the analysis of the social inequality in the Republic of Macedonia, and it consists of two sections - methodological aspects of the analysis, and then the analysis of the social stratification in Macedonia; the third part is conclusion.*

**Keywords:** *inequality, social inequality, policies, measures, reforms*

**Sadržaj:** *Sastavni deo paradigme održivog ekonomskog razvoja je da društvo može imati održiv napredak jedino u okvirima tolerantnih socijalnih razlika. Stoga, glavni cilj ovog rada je pitanje socijalne nejednakosti u Republici Makedoniji.*

*Rad se sastoji iz tri dela. Prvi je uvod koji objašnjava predmet istraživanja; drugi deo se fokusira na analizu socijalne nejednakosti u Republici Makedoniji, a sastoji se od dva segmenta - metodološki aspekti analize, a zatim sledi analiza socijalne razslojenosti u Makedoniji; treći deo su zaključci.*

**Ključne reči:** *nejednakosti, socijalne nejednakosti, politike, mere, reforme*

#### 1. Introduction

During the development of Macedonia as part of the former SFR Yugoslavia, when the country had a socialist type of social order, the social differences among citizens were relatively small. Moreover, until the early 1980's the standard of living of the citizens had a trend of almost ceaseless growth, which in some years was really impressive. However, with the beginning of the transition towards a market economy, and especially in the last ten years, things in Macedonia have changed dramatically. This had a reflection on the policy of redistribution, and also we think that it can cause innate changes in the economic system of the country in future. Hence, this paper deals with the social stratification and inequality and poverty in the Republic of Macedonia.

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<sup>61</sup> "Justinianus Primus Faculty of Law", Ss. Cyril and Methodius University in Skopje, Macedonia, Bul: Goce Delcev 9b, 1000 Skopje, Macedonia

<sup>62</sup> "Justinianus Primus Faculty of Law", Ss. Cyril and Methodius University in Skopje, Macedonia, Bul: Goce Delcev 9b, 1000 Skopje, Macedonia

## 2. Analysis of the Social Inequality in the Republic of Macedonia

### 2.1.1. Methodology

Social inequality is a question of division of citizens in a society according to social or income categories. Citizens in each country have different social status and they live with different levels of income and acquired or inherited wealth which determine their standard of living. A basic division of the citizens in this respect is as the rich and the poor, among which are those in the middle – the so-called middle class. Yet, since this is not sufficient, analyses usually rely on the following categorizations:

1. Sociological analyses separate citizens into three main classes - low, medium and high, and then each of those is classified into three classes: (a) low-low, low-medium, and low-high; (b) medium-low, medium-medium, and medium-high; and (c) high-low, high-medium and high-high class. The classes are separated according to the level of income and property, while the amount that a family should possess in order to belong to a certain class depends on the total wealth in the society, i.e. the level of economic development of the country.
2. In economic analyses the total population is distributed in groups - quintiles (fifths, i.e. 20%), or deciles (tenths, i.e. 10%). The analysis is then done through comparison of quintiles or deciles according to different parameters. The relationship of the total income and assets of the citizens in different groups will determine the social stratification of the society.

A special way of measuring the social stratification and inequality is through the so-called *Gini coefficient (or index)*. It is a statistical measure calculated for (in)equality in the distribution of total income among the citizens of a state. The coefficient values vary from 0 to 1, i.e. if expressed as a percentage, the specific amount is multiplied by 100. Gini coefficient equal to 0 indicates perfect equality in the distribution of income (all citizens have completely equal share of total income), while the Gini coefficient equal to 1 (or 100%), shows complete inequality in income distribution (only one citizen owns all income and all the rest have nothing). The extreme values 0 and 1 are only theoretical case and in practice the value of the Gini index ranges from about 0.25 to 0.7. [1]-[2]

Huge social stratification leads to poverty and social exclusion, and in order to measure them, the European Union has established a special methodology or set of statistical indicators known as the *Laeken indicators*. Parameters that are part of the Laeken indicators are: (a) *At-risk-of-poverty threshold* - because the social status is measured (determined) in the family (household), and poor households are those with income below 60% of the median national equivalised income of the persons living in households; (b) *At-risk-of-poverty rate* - the percentage of persons living in households with incomes below the at-risk-of-poverty threshold without inclusion of revenues from social transfers and pensions; (c) *The most frequent status of economic activity* - are employed, unemployed, retired and other inactive population; (d) *The number of households with very low levels of economic activity* - the intensity of economic activity is measured by dividing the sum of all the months actually worked by the working age members of the household, by the sum of the workable months in the household – i.e., number of months that could theoretically be worked within the household; Work intensity equal or inferior to 0.20 is considered as very low; (e) *S80/S20 ratio*- The ratio between the sums of the highest and lowest 20 percent equivalised incomes of persons within the households; (f) *Severe material deprivation rate* - is defined as the percentage of the population with an enforced lack of at least four out of nine material

deprivation items in the “economic strain and durables” dimension; (g) *People at-risk-of-poverty rate or social exclusion, (AROPE) indicator* - This indicator is the headline indicator to monitor the EU 2020 strategy poverty target. It reflects the share of the population, which is either at risk of poverty, or severely materially deprived or lives in a household with very low work intensity. [3]

### 2.1.2. Analysis of the Social Stratification in the Republic of Macedonia

The analysis of the social stratification of Macedonia is made according to data from the database of the World Bank until 2010 - this is the last year for which exist data for Macedonia<sup>63</sup> – and is presented with the Figures that follow, and also according to data from the State Statistical Office of the Republic of Macedonia. Thus, the Figure 1 presents data by dividing the total population in five equal groups of 20% according to the parts of the total income of RM that they have. The data show that in Macedonia there is *apparent uneven distribution of income*. We have this opinion because, *first*, while the group of 20% highest income persons of Macedonia has 49% of the total income, the group of 20% lowest income persons has only 4.9% of the total income in the country, which is *ten times less*. [4] *Second*, the three groups of 20% of the population who are between the two extremes have listed with an income that is almost double in each group then the income of the previous group. *Finally*, the group of the highest income 20% of the persons has income which is almost equal to the total income that have all the other 80% of the citizens of Macedonia (49%:51%). Thus it is a “snapshot” of a society with a very uneven distribution of income, i.e. with highly polarized social stratification.

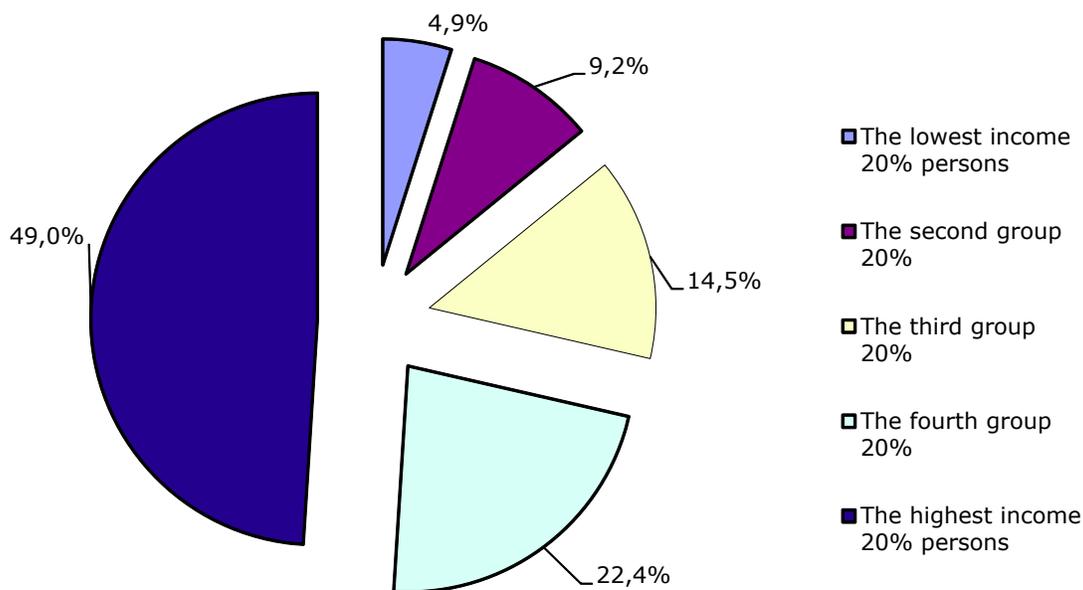
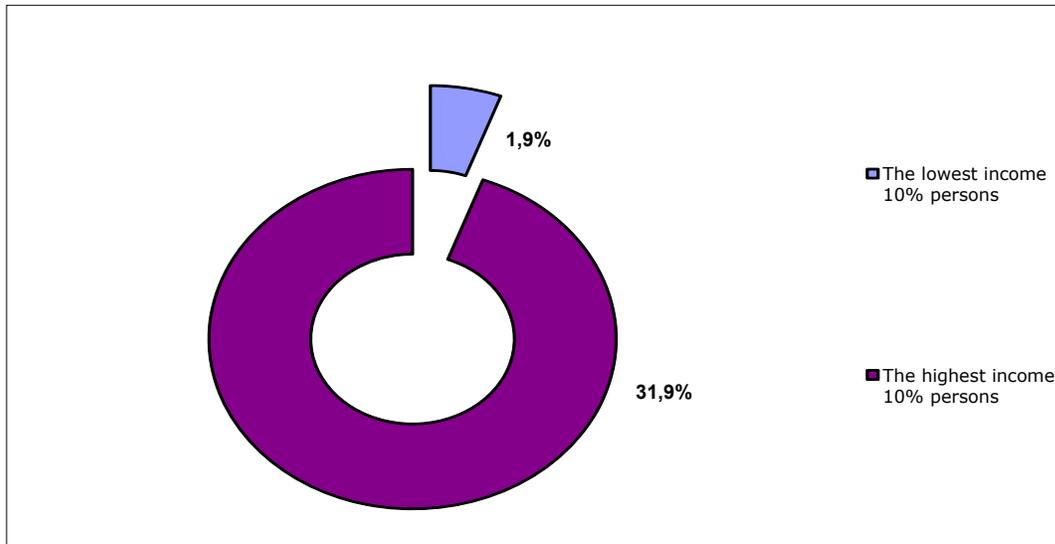


Figure 1. The social stratification by quintiles (fifths) in Macedonia in 2010

The data presented on Figure 2 further emphasize the stated conclusion. Unlike earlier, according to the share of total income of RM, here the persons are divided into 10 groups of

<sup>63</sup> We must note that data for social stratification for Macedonia were published in Database of the World Bank until 2014, but after their use in public, they were removed from that Database. We have used them in our paper before they were removed.

10%, but we presented differences only between groups of 10% of highest income persons, and 10% of lowest income persons. Data show that the highest income 10% persons of Macedonia have the income which is *17 times higher* than the total income that have the 10% of lowest income persons of Macedonia.



**Figure 2.** Participation in total income of RM of the highest and lowest 10% income persons

We can also conclude that great social stratification of Macedonia can be seen by the value of the Gini index. Gini index of Macedonia was 40.9% in 2010 and 38.5% in 2011. [5], (See Table 1), which is well above the level of the European countries. The following interesting and important issues are relating to the dynamic aspect of the existing social stratification in Macedonia, and for the comparison of the social stratification of Macedonia and other countries. In this sense, the data in the Figure 3 gives a comparison of the social stratification of Macedonia in 1998 and 2010. We can conclude that the changes that occurred at that time led to the current social stratification. The group of 20% lowest income persons of Macedonia in 1998 disposed of twice of the share of total income; the second group of 20% of the persons in 1998 disposed of about 25% greater share of total income; the third group disposed with income which was about 15% greater than the proportion in which it disposes in 2010; the fourth group in 1998 disposed of almost the same share of total income as in 2010; and only the group of 20% highest income persons in 1998 disposed of part of the total income which was about 25% lower than the income in 2010. [6]

The data on the Figure 4 reflect very interesting movements. Namely, they show the changes in the income of the richest 1% in comparison with changes in the income of all other 99% of the population, in the 20-year period from 1990 to 2010. In that sense, the first decade of transition, from 1991 to 2000 was a period of deprivation of all citizens, because they all had income that was lower than their income in 1990. But the group of 1% highest income persons had slightly smaller decline in living standards. Then, from 2000 to 2005 was a period when all citizens in Macedonia - and the richest 1% and the rest 99% - reached the level of income which they had in 1990. However, in 2006 stratification happens: income of the group of 1% richest citizens in Macedonia has wildly rise and, for a period of only 5 years, their income rose for three times (for this group the income is measured on a left scale), while the income of all the other 99% of the population in 2010 remained almost at the same level (for this group the income is measured on the right scale).

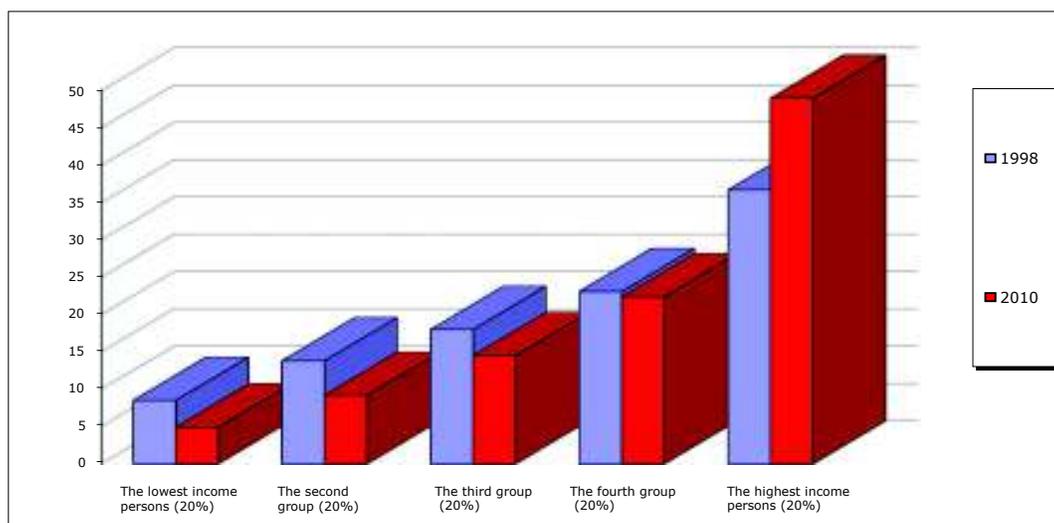


Figure 3. The differences in social stratification in Macedonia 1998 and 2010

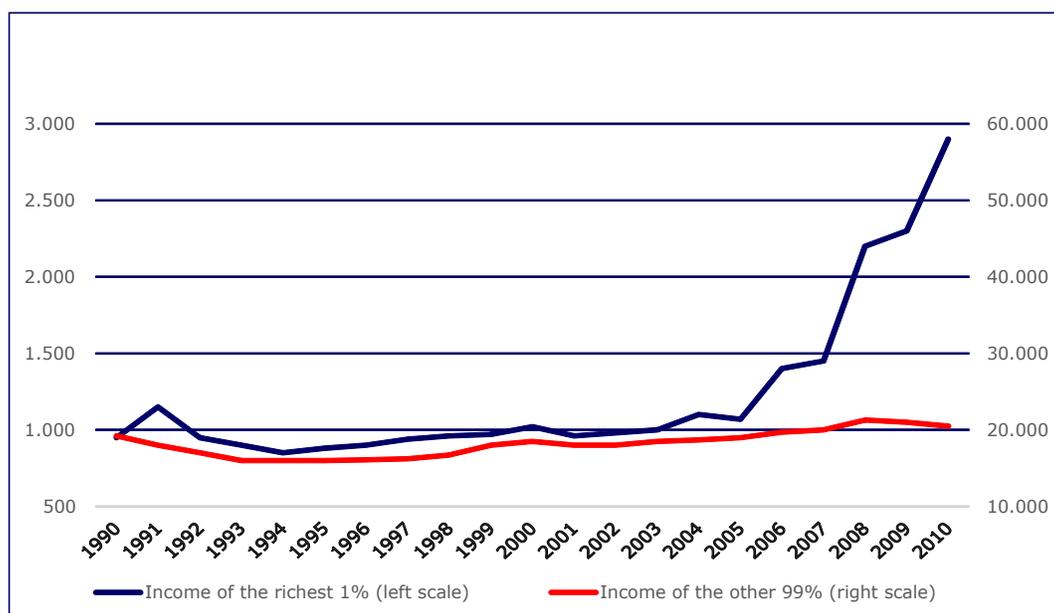
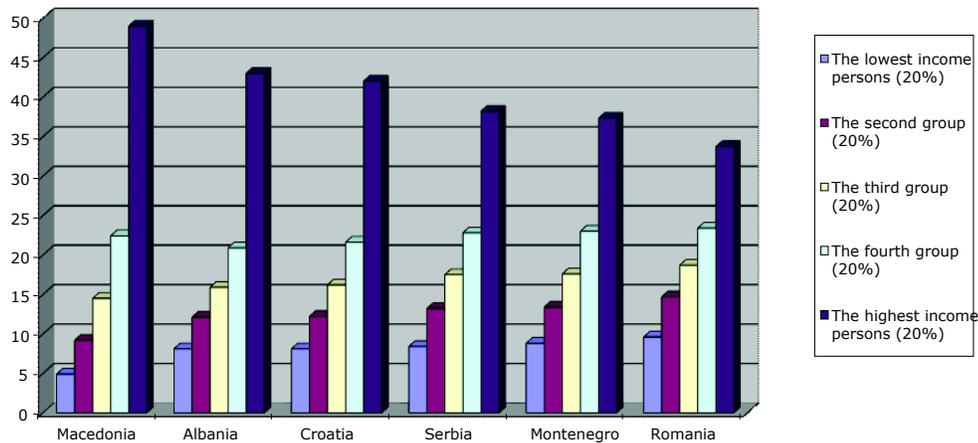


Figure 4. The changes in the income of the richest 1% and the other 99% in Macedonia 1990-2010 (in dollars)

Finally, since it can be assumed that the displayed social stratification of Macedonia is a normal condition and expected to state that left socialist organization and build a market economy, the analysis should be compared with the social stratification in other states that are comparable with Macedonia. It is done with the data presented in Figure 5., where for comparison are presented neighboring countries (SEE region) that also until the 1990 have had a socialist social order like Macedonia, and from 1990-91 they were in the transition. The data are related to 2010. From these data it is clear that Macedonia has the most sweeping social stratification. When the comparison is deeper, it recognizes that the greatest differences

in income in the case of Macedonia has exactly the group of 20% lowest income persons (that group in Macedonia has the lowest share of total income compared to all other countries), and the group of 20% highest income persons (compared to all other countries, that group in Macedonia has the largest share of total income). In the remaining three quintiles, especially the third and fourth, the differences between Macedonia and other countries are much smaller. Moreover, the social stratification of Romania is interesting because it reflects the typing pattern differences in income between social groups - growth from group to group is relatively balanced, as it should be. When we compare the relative contributions (shares) in the total income each quintile persons of Romania had in 2010 (Figure 5.), with a respective shares of total income each quintile persons of Macedonia had in 1998 (Figure 3), it indicates that they are almost identical. Hence, it appears that the enormous social stratification that Macedonia has, was not necessarily inevitable to happen because of the transition. Rather, it is the result of *specific and wrong policy* that was implemented in the Republic of Macedonia.



**Figure 5.** The comparison of social stratification of RM with other states - distribution of income in quintiles in %

The great social stratification, by default, creates poverty and social exclusion. It is the case in the Republic of Macedonia, as shown by the Laeken indicators presented in Tables 1. And 2. below. First, in Macedonia, over 550.000 people are living below the at-risk-of-poverty threshold, i.e. at-risk-of-poverty rate is 27 % of population. This means that *every fourth citizen of Macedonia live in poverty*. Second, when at that number will be added and the number of people that live at risk of social exclusion, their participation rises to 50% of the population. So *every other citizen of the Republic of Macedonia live in poverty or at risk of social exclusion*. Third, the indicators show that poverty in Macedonia is closely related to the status of unemployed and/or economically inactive persons, because poverty is drastically more present among the unemployed and inactive people. Fourth, the indicators point to the importance of pensions and social allowances to improve the poverty situation. Namely, the poverty rate of 27% is reached only after the payment of pensions and social allowances, and otherwise it is 44%. Fifth, the indicators point to the minimum necessary income to overcome the situation, that in Macedonian case, is considered as poverty. The single-person household income is 5000 denars per month, while a four-person household income is 11.340 denars (about 200 EUR). But, according to the World Bank, in 2010, 9.1% of the population in Macedonia lived on less than 2 dollars per day. Those dollars have the value of the dollar in 2005 that as calculated in denars is around 40 denars. In other words, it means that *about*

180.000 people in Macedonia live on less than 40 denars per day. It makes 1.200 denars per month, which is ten times less than the minimum monthly amount required for a four-person household. Assuming that these four-person household are 180.000 people who are living on less than 40 denars per day, then it means that about 45.000 households in Macedonia are living with so low incomes.

INDICATORS	2010	2011
Gini coefficient (in %)	40,9	38,5
Number of persons below at-risk-of-poverty threshold	555.600	551.700
At-risk-of-poverty rate, % of population	27	26,8
People at-risk-of-poverty rate or social exclusion, (AROPE) indicator in %	47,2	50,4
At-risk-of-poverty rate by most frequent activity status and, (in %)		
Employed	9,4	10,2
Unemployed	50,1	48,7
Retired	14	13
other inactive population	34,6	34,8
People aged 18-59 living in households with very low work intensity in %	24,5	20
At-risk-of-poverty rate before and after social transfers and pensions, in % of population		
At-risk-of-poverty rate before social transfers	44,1	43,9
At-risk-of-poverty rate before social transfers and after pensions	30,5	30,4
At-risk-of-poverty rate after social transfers and pensions	27	26,8
At-risk-of-poverty threshold of single-person household (monthly income in denars)	5000	5400
At-risk-of-poverty threshold of four-person household (2 adults and 2 children aged less than 14) (monthly equivalent income in denars)	10.500	11.340
Inequality of income distribution, S80/S20, in %	11,3	10,6

**Table 1.** Laeken indicators for the Republic of Macedonia from 2010 - 2012  
Source: State Statistical Office, Press Release no. 4.1.14.95, from 28.11.2014

The data presented in Table 2., which are also part of the Laeken indicators for Macedonia complement the "dramatic picture" of poverty and social exclusion in the country. The situation in 2012 was such that 74% or 2/3 of the population of Macedonia could not afford to pay for one week annual holiday during the year; over half (54%) of the population could not afford to pay a meal every second day; 40% of persons have been unable to pay on time due to financial difficulties for any of the housing costs; 65% of the population could not face with an unexpected required expense and pay through their own resources; more than a quarter of the population could not afford to keep their home adequately warm; and also they could not afford a car; etc. Moreover, despite the lack of recent data, it is safe to assume that this state from 2012 until today has not been improved.

INDICATORS	2012	
	Deprived persons	% of population
Persons that have been unable to pay on time due to financial difficulties for any of the listed housing costs: mortgage repayment for the main dwelling, rent, utility bills for electricity, water, heating, etc. or hire purchase installments or other loan	815.000	39,5

payments		
Persons that can not afford to pay for one week annual holiday away from home	1.517.000	73,6
Persons that can not afford to pay a meal with meat or fish every second day	1.097.700	53,2
Persons that can not face with an unexpected required expense and pay through their own resources	1.327.600	64,4
Persons that can not afford to possess a telephone (including mobile)	74.700	3,6
Persons that can not afford to possess a color TV	12.200	0,6
Persons that can not afford to possess a washing machine	104.000	5
Persons that can not afford to possess a car/van	591.600	28,7
Persons that can not afford to keep their home adequately warm	552.300	26,8
Persons that can not at least 4 of this 9 needs	832.783	40,9

**Table 2.** Materially deprived persons in relation to certain items, 2010-2012  
Source: The same as in the Table 1.

### 3. CONCLUSION

At the end, we can conclude that the Republic of Macedonia has not lead efficient policy of redistribution of income. Our research clearly indicates a great social stratification over the years that is constantly widening, namely the rich are richer and the rest barely somehow maintained a low standard of living. The impoverishment of broad categories of people (including the already poor but also the middle class) is a continuous process in Macedonia, which unfortunately today is present in our country. This is an obstacle in the development of the Republic of Macedonia, which is also required for general improvement of life and standard of the population in Macedonia. Although the Macedonian Constitution declared our country as a social state, yet we see that it is not true. Namely, we live in a country that has an unfair distribution of income and as a result we are a country with poverty and a high the degree of inequality.

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