

## INCOME INEQUALITY IN SLOVENIA FROM 1963 ONWARDS

**Abstract.** *This contribution to economic and social history examines income inequality in Slovenia over the past 60 years. New archival sources are used to fill gaps in previous studies and are then combined to create a synthesis of the evolution of income inequality in Slovenia. The liberal market reforms of the 1960s as well as the 1990s' transition added to inequality, while the egalitarian reforms of the 1970s reduced it. An idiosyncratic mix of socialist egalitarian institutions together with militant labour and conscious design choices made during the transition explain the persistence of low inequality and the Slovenian model of a coordinated market economy.*

**Keywords:** *inequality, top income shares, Gini coefficient, gender wage gap, socialism, transition*

### Introduction

For decades, Slovenia has boasted one of the lowest inequality levels in the world. According to the World Bank, it currently holds the second-lowest Gini coefficient of income inequality.<sup>1</sup> Despite its small size, it makes for an interesting study of many aspects of inequality. Having first experienced Soviet communism after the Second World War, in the 1950s its elites were instrumental in creating a specific Yugoslav version of socialism that sought to combine the best of both capitalism and communism. In the 1960s, it moved even closer to capitalism before taking a conservative communist turn in the 1970s. After the end of socialism, the country was in a unique position to ensure a relatively effortless transition. Being the most market-oriented and most developed region of former Yugoslavia, it could afford to ignore the Washington Consensus and forgo seeking foreign investment. It institutionalised many rights of workers and created its own unique variety of capitalism which has ensured almost socialist levels of income inequality even today.

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<sup>1</sup> Accessible at [https://data.worldbank.org/indicator/SI.POV.GINI?most\\_recent\\_value\\_desc=false](https://data.worldbank.org/indicator/SI.POV.GINI?most_recent_value_desc=false). 14. 5. 2020.

This article analyses economic inequality in Slovenia from the early stages of the Yugoslav period until today. It is structured as follows: the first two sections review the local and international literature on inequality in Slovenia, initially in the socialist period and then from the transition to capitalism onward, the third section examines the low gender inequality in Slovenia before the core fourth section presents an empirical analysis of income inequality in Slovenia since the 1960s. Three measures are used, the top 1% income share constructed from personal income tax and Gini coefficient and income quantiles based on household surveys. These are combined with data from previous studies to present a long-term view of inequality in Slovenia. The biggest events in Slovenian history concerning the distribution of income are then assessed using these three measures. The last section concludes.

### Income inequality in Yugoslavia

Immediately after the Second World War, the system for distributing income in Yugoslavia replicated the Soviet one. The state determined work norms and skill differentials, in effect having a complete and direct influence over differences in pay. Considerable conscious effort was made to reduce inequality. Skill differentials were very small. "Manual workers achieved near-parity in terms of pay with civil servants, whereas in the pre-war period this stratum had received twice the pay of manual workers" (Flakierski, 1989: 4). The egalitarian ideas held by members of the Partisan liberation movement, who formed the basis of a new political class after the war, strongly contributed to the elimination of many structural bases of inequality.

The first of those was inequality in land ownership. One of the first steps taken by the new authorities after the war was an agrarian reform conducted in early 1946. Land ownership was conspicuous for several reasons. First, the large estates, especially the forests, that cover between one-half to two-thirds of Slovenia were mainly owned by German-speaking aristocrats and often the Church. The reform held enormous political potential and the communists were well aware of it. Not only could they score points with the agricultural population by eliminating causes of inequality, they would simultaneously be acting in the national interest by dispossessing the foreign ownership going back to the Middle Ages, breaking off with the remnants of feudalism and the foreign oppression still vivid in the destruction of the war. Land was distributed during elaborate ceremonies that featured enthralling speeches and musical performances. One-fifth of all land in the country switched hands in a matter of months (Čepič, 1999).

Another crucial step in lowering inequality after the war was the

substantial reduction of non-agrarian private property. The first expropriations were conducted in the liberated areas during the war for the needs of autarky and warfare, often as punishment for collaboration. However, the communists' intentions regarding private property were not initially clear. For pragmatic reasons of seeking alliances, they affirmed the inviolability of private property in two agreements with liberal factions of the resistance. This sort of ambivalent attitude lasted through to the end of the war, when the Communist Party leadership decided to nationalise the means of production, especially in industry, which it did in 1946. Retail, small-scale industry and artisanal workshops were nationalised in 1948 with private property only surviving in the agrarian sector where collectivisation had started in 1949 but was not complete, meaning that some private property remained (Čepič, 1994).

In the early 1950s Yugoslavia abandoned the Soviet model and created its own version of socialism. For Boris Kidrič, the Slovenian in charge of the influential Federal Economic Council, bureaucratic centralism had fulfilled its purpose, having expropriated the bourgeoisie and unified the means of production, and was now standing in the way of progress. The new system was to be decentralised, state property was to become social property and administrative planning was to be replaced by workers' self-management, which gave the system its name (Prinčič, 1999a). Workers' collectives were given authority over state enterprises (Flakierski, 1989: 4). The new system would "separate state authority from the economy, give enterprises the right to manage their income and would set loose the laws of economics" (Prinčič, 1987: 202–203).

As Yugoslavia was distancing itself from the Soviet Union, its political economy followed suit. The 1950s and 1960s were a period of introducing market forces. Another key Yugoslav economic figure, Boris Kraigher, also a Slovenian, saw the reforms as reintroducing the law of value, which had been squandered. "The future of socialism", he claimed, was "a system, that will ensure the free functioning of the law of value to incentivise the worker and the peasant" (Prinčič, 1987: 204–205). The law of value is one of the basic tenets of inequality as defined in Marxism. It states that the value of goods is determined in a largely arbitrary way through unequal exchange, not based on the useful value of the goods. Inequality between the bourgeoisie and the proletariat thus occurs due to the unequal exchange which assigns a greater value to one group's products than to the other's and through the unequal value of labour. By consciously subscribing to this law, the communists effectively embraced greater inequality so as to incentivise workers and stimulate the economy. The argument being made was the same as that during the transition to capitalism in the 1990s, except that in the 1950s it was made as part of a distinctly Marxist discourse.

Important changes were made to the way pay was determined. In 1950 and 1951 the system of pay was split into two parts, one being fixed and based on skill and the other being a variable incentive. The pay differential between the highest and lowest pay, which was up to then 1 to 1.2 was increased tenfold (namely, the lowest pay was 4,000 and the highest 40,000 dinars). Pay differentials of employees were now set by workers' councils and no longer by the state, although the councils did include a commissioner from the Communist Party (Prinčič, 1987: 217–219). Progressive taxes were levied on those companies' pay funds that exceeded the standardised values and companies with below-average wages would have their wage funds increased relative to other internal funds and vice-versa (Flakierski, 1989: 5–7).

By the mid-1960s, liberalism had gained momentum in Slovenia. It was led by Jože Kavčič, a politician who articulated popular demands for further decentralisation, confederalism, republican sovereignty, development of the services sector, ecology, the implementation of stock ownership and ties with the West. The first set of reforms was introduced in 1961. Workers' councils were granted full discretion over the distribution of wages, progressive taxation was replaced by a flat rate while the autonomy of enterprises was increased so that the only remaining guideline regarding income distribution was the minimum wage (Flakierski, 1989: 8).

More radical reforms came in 1965. Boris Kraigher, the leading figure of the reform movement, saw affirming the market character of the economy and competition for market share as the principal tasks at hand. Inequality grew. Managers were given greater influence at the expense of workers and the Party. A new affluent class was created. Prices sometimes rose by more than 50%, hurting those on low incomes (Prinčič, 1999b). The initial enthusiasm shared by the public and the elites grew ever more into disillusionment over inequality in particular.

What followed was a move in the opposite direction, away from market forces towards institutional egalitarianism (Lorenčič, 2010: 267). The mechanism used to achieve this was based on contractual planning and social contracts, which pooled multiple companies' resources together, thereby serving as a replacement for a capital market. The political economy once more became a tool for achieving greater economic equality. The autonomy of enterprises was limited and once again guidelines forced those companies with substandard wages to increase them relative to other internal funds and companies with higher than standard wages to do the opposite (Orazem and Vodopivec, 1995: 4). The state introduced guidelines that assigned ratios for all wages relative to the unskilled wage. The pervading philosophy of the reforms in the 1970s was that of cooperation rather than competition (Flakierski, 1989: 12–14). This system remained in place

until self-management itself was dismantled prior to the collapse of the Federation in the late 1980s.

Overall, Yugoslavia was an egalitarian economy. Skill differentials were small compared to those in the West, even to those in other socialist countries. They were growing up until the reforms of the 1970s and then fell afterwards (Flakierski, 1989: 34). In the 1970s and 1980s, more than one-half of all companies had a ratio of the lowest to highest wage of 1 to 3 and 70%-80% had a ratio of 1 to 4. In a Yugoslav company, 20 years of experience would bring a 6.2% pay rise, while the same would have brought a 34% rise in the USA in 1991 (Orazem and Vodopivec, 1995: 6).<sup>2</sup> A survey from 2009 revealed that the Slovenian public's idea of a fair spread between the lowest and highest income is 1 to 5, meaning that the Yugoslav period still resonates in people's considerations of what constitutes a just economic outcome (Malnar, 2011: 955).

Nevertheless, three forms of inequality existed in Yugoslavia. High inter-branch and interfirm differentials meant that the difference in pay for the same qualification, same profession or even for the same job could be quite considerable. A study from Belgrade in 1986 found that the wages of cleaners could vary by a factor of 3.2, of workers by 3.3, engineers by 4.1, managers by 4.7, and lead accountants by 6.7. Given that the study was conducted in the capital, one would expect the numbers to have been even higher elsewhere in the country, with the outcome that moving to a different company could dramatically alter one's income, more so than improving one's qualifications. One was rewarded for working in a wealthy company, whose very wealth was often due to a monopoly and not something the employees earned. The result was that a cleaner could be better paid than an engineer or that a manual worker could earn more than a manager (Flakierski, 1989: 35).

The second inequality problem Yugoslavia faced was the agricultural sector, the only private sector left standing in Yugoslavia and considerably deprived. The wages in agriculture, which employed around one-third of the population, were just 40% of the wages in the socialised sector. Agricultural wages in the Soviet Union amounted to 78% of the socialised ones, while Hungary, Poland and East Germany all achieved parity. In Yugoslavia, 80% of the rural population had an income below the national average, with 20% living in poverty (Flakierski, 1989: 43).

The third source of inequality was interregional differences. The difference between Slovenia and Kosovo as the most and least developed republics, respectively, was higher than today's difference between Lichtenstein

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<sup>2</sup> In the USA, for example, the ratio between executive pay and average pay was 20-to-1 in 1965 and between 278-to-1 and 221-to-1 in 2018. Accessible at <https://www.epi.org/publication/ceo-compensation-2018/>.

and Romania as a corresponding pair in the European Union. This inspired a popular myth in Slovenia that the extensive federal regulations for dealing with interregional disparities, a form of affirmative action, had exploited Slovenia in relation to the poorer republics (Žagar, 2010: 246). Indeed, Slovenia contributed the most to such funds, but was still profiting from other aspects of the common market. As Ivan Rubinić recently showed for the case of the EU, richer countries exploit the poorer ones through unequal exchange (Rubinić and Tajnikar, 2019) and, despite lacking the data to prove it for the case of Yugoslavia, an educated guess can be made that a similar mechanism existed there as well. Indeed, internal trade in Yugoslavia benefitted Slovenia as its economy, being the most developed in the federation, was based on buying cheap materials from the poorer republics and then selling higher-added-value products back to them (Prinčič, 2013). The redistribution among the republics, which involved Slovenia paying the most into the fund for underdeveloped republics, could at best even out this differential, as is the case today with the EU. By ignoring the structural plane in economic relations between the republics and focusing on the surface-level redistribution among the republics, Slovenian ideas of victimisation could become functional in affirming the national identity since victims do not exist without perpetrators (Lim, 2010).

## Transition

The goal of the transition to capitalism in the late 1980s and early 1990s was to converge with the West. A central idea in this process was that a temporary rise in inequality would lead to a lasting rise in efficiency. Differences were legitimised because they were seen to create the incentives necessary for entrepreneurship, innovation and risk-taking, all being crucial for economic growth (Heyns, 2005: 164–165).

The economic theory guiding the capitalist transitions in Central and Eastern Europe came in the form of international advisory commissions that flew in from abroad and often knew little about the individual circumstances of the countries they found themselves operating in. The Washington Consensus, as it was called, became the guiding principle for implementing capitalism and the guiding premise was a neoliberal one.

During 1987, in Eastern Europe and the Soviet Union 2.2 million people were living on below USD 1 a day. By 1993, the figure had grown to 14.5 million (Stark, 1994). The transition triggered an explosion of inequality. Two groups of countries emerged; on one hand, Russia and the Commonwealth of Independent States, where inequality jumped suddenly and markedly in low to medium income countries while, on the other hand, there were Poland and the new EU member states, including Slovenia, that experienced

a milder and more gradual increase (Mitra and Yemtsov, 2006: 6). Economic growth added to inequality in the first group of countries and reduced it in the second (Ivaschenko, 2002: 49). Inequality grew more in those countries that cut redistribution and privatised more, had larger minority populations, and received more foreign direct investment (Bandelj and Mathuga, 2010). Inequality moved in an inverse U-shape, growing substantially in the first half of the 1990s, then slowing down or settling and being lower in 2000 than in the mid 1990s, but higher than in 1990 (Giammatteo, 2006).

The reasons for this were mainly structural. "Liberalization of capital, goods and services, and labour markets and their integration into regional and world markets", and the privatisation of state-owned enterprises all served to increase inequality (Milanović and Ersado, 2010: 1). For Slovenia, the transition meant a move from social to private property, from an industrial economy to one based on the service sector, from large to small enterprises, from a Yugoslav market to a Western one (Lorenčič, 2011: 303).

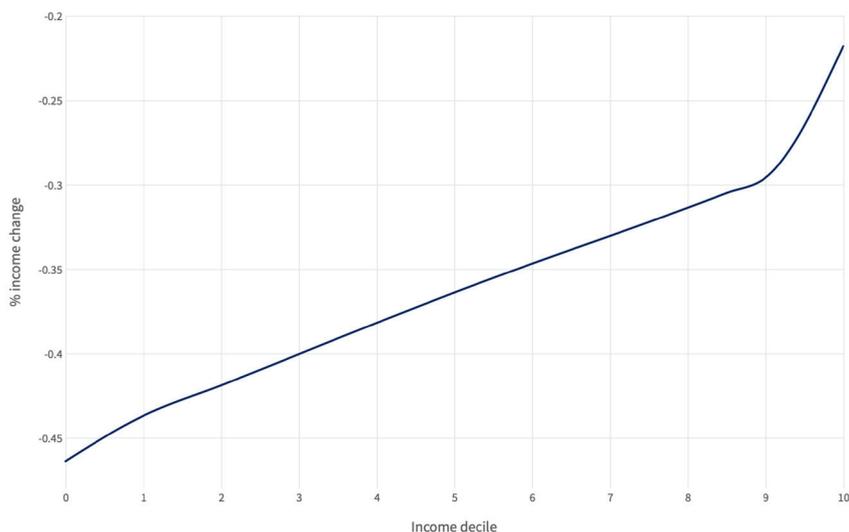
The key factors of the higher inequality were the dispersion of pay and the concentration of private property (Novokmet and Kump, 2018: 14). The transition created a growing private sector, which "introduced a tighter link between productivity and wages" (Mitra and Yemtsov, 2006: 12). The compressed socialist pay differentials expanded as the private sector grew (Milanović 1999). Transfers from successful companies to less successful ones were abolished, which increased the return on human capital (Orazem and Vodopivec, 1995: 30). In Slovenia, between 1991 and 1996 the top 10% gained what the bottom 50% lost (approximately 10% of the total income), with the income share of the middle class (the middle 40%) remaining the same (Novokmet and Kump, 2018: 8).

Inequality in Slovenia rose according to several criteria. Experience and qualifications were rewarded and the 'winners of the transition' were those with a better education and greater working experience. Holders of a university degree gained 27% relative to those with a primary education. After 8 years of work experience, pay substantially rose with differences becoming dramatic at 28 years of work experience (Orazem and Vodopivec, 1995: 17-18).

Employment followed a similar process. Between 1987 and 1992, there was no reduction in employment in the finance, insurance and real-estate sectors, while construction saw a 31% drop in employment. Those with less than a primary education saw their employment decrease by 38%, while the university educated saw their employment increase by 3%. In every industry the less educated were let off, while the more qualified were employed. The biggest falls in employment were in manufacturing, agriculture, construction, logistics and services, which mostly relied on unqualified workers (Orazem and Vodopivec, 1995: 24). Figure 1 plots the growth incidence

curve for the initial years of the Slovenian transition. Everyone lost, with the poor losing the most.

Figure 1: GROWTH INCIDENCE CURVE OF SLOVENIAN INCOMES IN 1987–1991



Source: Orazem and Vodopivec, 1995: 50.

## Institutions

Compared to other transition countries, Slovenia chose a more generous path with regard to workers' rights. Slovenian workers were given 6 months' notice in advance compared to 3 months for Czech and Polish workers and just 1 month for Romanian ones. "Slovenian workers are entitled to severance pay of one month's wage for each two years of job tenure", wrote Orazem and Vodopivec,

*while in most Central and Eastern European economies severance pay amounts to up to two month's pay. The maximum duration of this unemployment benefit in all other transitional economies is 12 months (only six in the Czech republic and former Soviet Union economies) compared to the maximum duration of 24 months in Slovenia. (Orazem and Vodopivec, 1995: 11)*

The average Slovenian pension in 1992 amounted to 76% of the average wage, 64% in Poland, and 50% in Bulgaria and Hungary (Orazem and Vodopivec, 1995: 11).

In contrast with other post-socialist countries that all embraced various forms of neoliberalism, Slovenia developed a neocorporatist or coordinated market economy. Unlike those countries and contrary to the advice of international financial institutions, Slovenia chose a gradualist path towards capitalism with little foreign investment, extensive state ownership, slow privatisation, regulated labour relations, and a sizeable welfare state. Despite all of this, Slovenia proved to be one of the, if not the, most successful transition economy due to its favourable starting position (Crowley and Stanojević, 2011: 267). However, in recent years some transition countries have overtaken Slovenia in certain aspects of average income or average consumption.

According to the theory of varieties of capitalism, a coordinated market economy is the opposite of a liberal market economy. The latter is defined by a decentralised labour market, low union density, company-level bargaining, weak social dialogue and low employer coordination. A coordinated economy, on the other hand, is defined as having high union density, “highly articulated mechanisms of social dialogue” (Crowley and Stanojević, 2011: 270–271), well-organised employers and collective bargaining on a sectoral or national level.

In 2004, union density in Slovenia exceeded 30%, higher than in other ex-communist EU members where the average was around 19%, but lower than in the 15 old members of the EU. The collective bargaining rate was near 100%, higher than in the West. Collective bargaining was conducted on the sectoral level, while in Central and Eastern Europe it was performed at the company level. Employers’ density had also reached 100% prior to 2004 due to compulsory membership in the Chamber of Commerce. Yet, when membership was no longer compulsory, it fell to around 40%, close to where it was in Hungary and substantially higher than in other new members (27.4%) but still lower than in the old members (66.6%). Social expenditure was again similar to the Hungarian figures at 23%, higher than in new members where it was at 16.4% and once again lower than in old members (26.8%). In contrast to the Visegrad states, Slovenia did not liberalise its welfare state; for example, it did not turn its pension system into individual savings (Crowley and Stanojević, 2011: 272–273).

A key influence on shaping the new political economy was the mobilisation of both labour and union. The crisis of the 1980s caused a wave of strikes, which ran well into the 1990s. After independence, inflation reached 200% and the government froze wages, cancelled collective agreements and prepared a draft on social stability. Afterwards, the unions organised a large warning strike in 1992 entailing blockades and power outages. Another 200 strikes followed in the same year, creating a wave of strikes that averaged out at 150 strikes a year over the next 4 years, making Slovenia the most strike-prone country in Central Europe. The main institutions of the

Slovenian political economy were formed precisely during this period of strikes, led by unqualified workers from companies that depended on the former Yugoslav market, who were being hit the hardest (Crowley and Stanojević, 2011: 227–280).

Privatisation was the central issue of the economic transition. Jože Mencinger, who was in charge of economic issues in Demos, the new coalition overseeing the transition, had envisioned privatisation as a process to benefit already employed workers and managers, with the wealthy bearing the brunt of the cost of the transition. This brought him into conflict with the rest of the coalition who wanted a more liberal approach. Prime Minister Lojze Peterle especially had an issue with retaining the old managers and in response hired Harvard economist Jeffrey Sachs to provide an alternative. The two emerging concepts clashed. The first prescribed gradualism and delaying the creation of the country's own currency while the second one, by Sachs, called for an immediate break with the old, total privatisation, introduction of a domestic currency, and breaking up the largest bank in the country. Privatisation was thus a political issue as much as it was an economic one, with what to do with the remains of the old at the forefront. In the end, an intermediate model prevailed and the new ownership law was a compromise between the interests of the state, the managers and the workers (Lorenčič, 2009: 197).

Privatisation exacerbated inequality not only structurally but also in all of its contingencies. Individuals got hold of fortunes through a myriad of exploits and criminal shenanigans, generally by coming up with ingenious ways of lowering the price of companies. One-third of all 200 bankruptcies between 1991 and 1993 were fraudulent and 80%–90% of all situations of illiquidity were the outcome of criminal practices. Other exploits included dividing up companies, entering into harmful contracts, fictitious credit agreements, loan agreements with a social company privately owned by the same director, establishment of a private company by the social company management ('by-pass') and so on (Žnidaršič Kranjc, 1994). From 1990 to 1992, fraud amounted to EUR 1.4 billion (in 2020 terms), roughly half of Slovenia's budget in 1992 (Lorenčič, 2009: 189–193).

The privatisation law brought an end to the strikes but did not resolve the issue of wages. Demos lost the election to the Liberal Democrats of Slovenia and the unions were invited to help solve the question of wages. They accepted and that exchange led to the Economic and Social Council, "which institutionalised the process of social dialogue". The government, employers and unions were all represented on the Council and debated important socio-economic issues. Labour mobilisation was hence paramount to the development of neocorporatism and the coordinated Slovenian model (Crowley and Stanojević, 2011: 281).

The unique existence of such a model in Slovenia points to a legacy of historical processes and institutions. Authors like Iverson and Cusack emphasised the pre-socialist institutions of the guild-like Chamber of Commerce, which dates back to the Habsburg Empire, the unions and the existence of industry, an export sector, and crafts. But this explanation would have seen the Czech Republic, for example, also develop a coordinated model because it surpasses Slovenia in all the stated parameters, yet it has not done so. The Slovenian model must therefore be linked to the specific Yugoslav version of socialism as opposed to Soviet communism. The workers' councils and the decentralised market economy created a strong workers' movement (also present in Croatia and Serbia), which played a key role in a watershed moment (as opposed to the Polish labour movement, which was powerful but failed to act appropriately while the new capitalist institutions were being created) (Crowley and Stanojević, 2011: 286–287). Both structure and agency played their parts. The Slovenian model is therefore historically contingent and based on path-dependency on a mix of Austrian and Yugoslav institutions of political economy. Its low inequality is idiosyncratic.

### **Gender inequality**

Economic inequality is not only a matter of qualifications, education, work experience and occupation but also a matter of gender and other innate qualities. A considerable deal of gender pay differences originates from family mechanics. Most analyses find that unmarried men and women have roughly the same wages and differences occur after becoming married and having children. Men's pay tends to rise after they become fathers, while women's pay goes down after they become mothers. An inverse relationship between career and family means that women pay for their motherhood with a worse economic standing. In the West, these differences come in the form of occupational sorting, which means that women with or without children earn roughly the same while working for the same employer, but that women with children tend to be situated in lower paying jobs (Penner et al., 2012: 858–859).

Although Yugoslavia did not publish data on the gender wage gap, we may conclude that the differences were substantial. Women were concentrated in unqualified jobs. In 1971, one-third were found in unqualified jobs, only 4% were highly qualified and only 1% held a managerial position. Women were especially concentrated in occupations that were an extension of household chores, such as food preparation, textile industry, primary education, they were nurses, midwives, secretaries etc. The wage gap was 1 to 1.9 in 1966 and 1 to 1.7 in 1983. In Slovenia, the labour participation rate of women was 41% in 1971 (Flakierski, 1989: 30–31).

Nonetheless, the wage gap and labour participation rate were high relative to Western countries. While it was around 40% in the early 1970s, the labour participation rate had risen to 75% by 1987, when in Austria it was 54%, in West Germany 55% and in the USA 68% (Orazem and Vodopivec, 1995: 19). By 2010, it had dropped to 62.6% in Slovenia, but it was still above the EU average at 58.2% (Penner et al., 2012: 860). In the first half of the 20<sup>th</sup> century, women in Slovenia were paid 70% of what men were paid (Penner et al., 2012: 860), rising to 88% by the end of the 1980s, while in Austria it was 73%, in West Germany 79% and in the USA 68% (Orazem and Vodopivec, 1995: 19).<sup>3</sup> By 1991, women in Slovenia were paid just under 90% of what men received, much more than in Russia where they received 60%, in Hungary 79.4%, in the USA 70% and even in Western Europe (75%–85%) (van Der Lippe and Fodor, 1998: 145). Despite these two factors, the imbalance in unpaid household work continued, meaning women bore the brunt of taking care of the home. This was partially relieved by Slovenian institutions established in the 1970s and 1980s, like publicly subsidised care for pre-school children, care for the elderly, and the policy of full-time 1-year parental leave, which helped women balance paid and caring work (Penner et al., 2012: 860).

Penner, Kanjuo Mrčela, Bandelj and Petersen find that, in contrast to occupational sorting which is the primary cause of the gender wage gap in the West, in Slovenia differences occur within the same company, occupation or even the same job. In Norway or the USA, occupational sorting explains 80% to 90% of the gender wage gap, whereas in Slovenia it explains just 24%. They conclude that:

*between 2003 and 2007, women earn, on average, 11 percent less than men, but about 20 percent less than men in the same company, 18 percent less than men in the same occupation, and 15 percent less than men in the same job.* (Penner et al., 2012: 868–871)

The transition increased gender inequality. The labour participation rate went down, the share of female members of parliament dropped dramatically from 24% in 1986 to 17.5% in 1990 (where it remained for 20 years until new normative quotas were introduced that increased the number to 37%, the highest in Central and Eastern Europe) (Antić Gaber and Selišnik, 2017) while cultural norms regarding unpaid caring and household work changed to produce a rising trend in occupational sorting similar to the inequality channel known in the West (Penner et al., 2012: 872).

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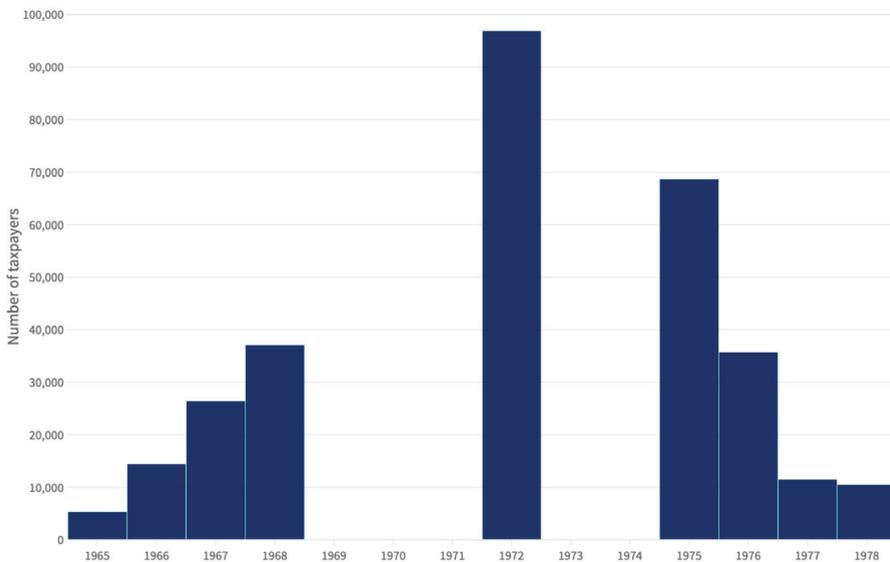
<sup>3</sup> This refers to unconditional wage gaps, not taking education, experience and occupation into account.

## Inequality empirically

In this section, historical income inequality in Slovenia is to be analysed empirically. Three measures will be applied using two sources. First, top income shares are to be analysed from personal income tax data and, second, long-run Gini coefficient and quintile shares will be constructed from household income surveys by the Statistical Office of the Republic of Slovenia (SURS). Data will then be paired with other research to produce graphs showing long-term income inequality in Slovenia.

Top income shares were previously constructed by Novokmet for the 'Austrian period' until 1914 and the period of independence after 1991, with data lacking for the socialist period (Novokmet and Kump, 2018). Archival income tax data from the socialist period were used to fill this gap. The income tax data used here are in tabular form, divided into several classes by income. The main tax parameter is that the taxpayers are those whose income is twice as large as the average income in the socialised sector, which became three times the average income in 1979.

*Figure 2: THE BIRTH AND DEMISE OF AN AFFLUENT CLASS; NUMBER OF PERSONAL INCOME TAXPAYERS IN 1965–1978*



Source: Own calculation based on archival fiscal data.

Yugoslavia introduced a personal income tax called a ‘tax on the personal income of citizens’ in 1958, which generally taxed high incomes arising from work with progressive rates. In 1964 this tax was abolished and a new tax was introduced, called the ‘tax on the total income of citizens’. It now included all sources of income, including work. When the tax was introduced in 1964, an exemption threshold was set at two times the average wage in the social sector, which increased to three times the average wage in 1979 (Novokmet and Kump, 2018: 44–45).

Personal income taxpayers represent the top few percent of the Slovenian income distribution and determining their number gives an indication of the existence of an affluent class. As Figure 2 shows, the reforms of 1965 gave birth to a new affluent class that previously did not exist. Still, it did not last long because it disappeared again during the egalitarian reforms of the 1970.

Figure 3: LONG-RUN TOP 1% INCOME SHARE IN SLOVENIA IN 1898–2012



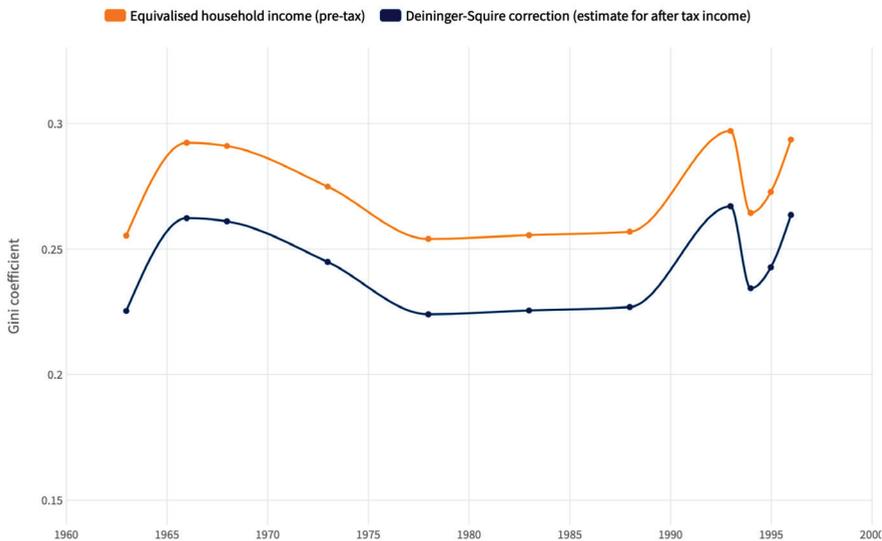
Source: Novokmet and Kump (2018) for the period before 1914 and after 1991; own calculation for the socialist period based on archival fiscal data.

Figure 3 combines own research with Novokmet’s calculations of the top income shares. The period up until 1914 saw aristocracy reap the benefits of an *ancien regime*, with the top 1% taking in between 14% and 16% of total income. After the Second World War, this share dropped to just over 5%, before substantially rising to around 7% in 1968. Due to the lack of data, we are unable to pinpoint the high watermark between 1968 and 1975 since

only the aggregate number of total taxpayers is available (Figure 2). It probably reached and perhaps even exceeded today's value. After the egalitarian reforms in the mid 1970s, the share dropped dramatically to almost 3% and remained at just over 4% through to the end of socialism. After 1991, the share of income of the top 1% again jumped up to around 7%, where it remains today.

Income inequality is most commonly measured with the Gini coefficient or index. It spans from 0 to 1, with 0 representing perfect equality and 1 representing perfect inequality (one individual or household owns all the income). The following coefficients were calculated using household surveys conducted by SURS.

Figure 4: GINI INDEX OF EQUIVALISED HOUSEHOLD INCOME IN 1963–1996

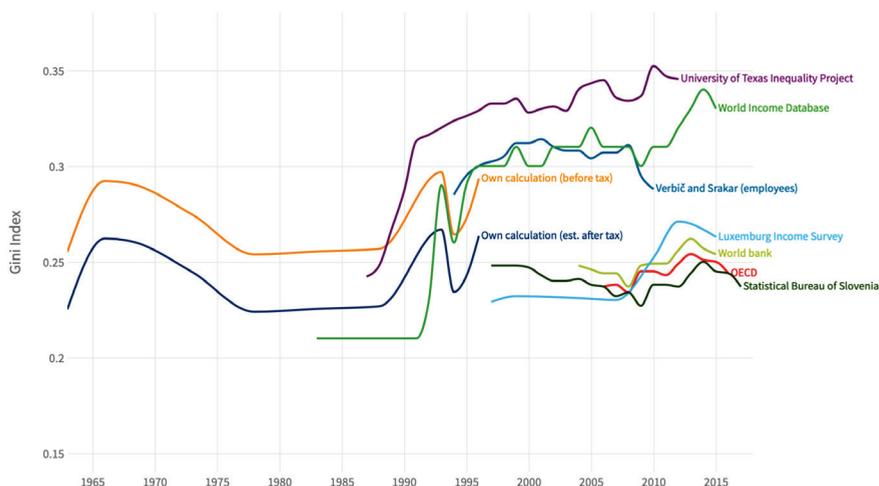


Source: Own calculation based on household surveys by SURS.

Two lines are plotted. The yellow line represents the Gini index of income for pre-tax equivalised household income, meaning households are split evenly into the individuals residing in them. The blue line represents a 3-point correction downwards so as to account for tax and provide an estimate for a net Gini. A 3-point difference between pre- and post-tax income was proposed by Deininger and Squire (Deininger and Squire, 1996). The dots represent consecutive surveys. The results are straightforward: The market-oriented reforms of the 1960s increased the Gini index by around 20%, before the egalitarian reforms of the 1970s returned it to its former level. The transition to capitalism during the 1990s led roughly to the same

20% rise. The fall in 1994 is due to the passing of a new progressive income tax law.

Figure 5: GINI INDEX OF INCOME IN SLOVENIA FROM 1963 ONWARDS, MAIN SOURCES



Sources: Own calculation; Verbič and Srakar;<sup>4</sup> World Bank;<sup>5</sup> OECD;<sup>6</sup> Luxemburg Income Survey;<sup>7</sup> World Income Database;<sup>8</sup> SURS;<sup>9</sup> University of Texas Inequality Project<sup>10</sup>.

A collection of the most important sources for Gini figures for Slovenia after its independence is presented above. All are correct, but take different measures into account. The University of Texas Inequality Project uses United Nations industrial pay data and the Deininger-Squire dataset, Piketty's World Inequality Database uses pre-tax fiscal data of adults, Verbič and Srakar use data on the employed population only, the Luxemburg Income Survey uses its own surveys of after-tax disposable household income, while the World Bank and the OECD rely on household surveys from SURS.

<sup>4</sup> Srakar and Verbič, 2015.

<sup>5</sup> Accessible at <https://data.worldbank.org/indicator/SI.POV.GINI?locations=SI>, 14. 5. 2020.

<sup>6</sup> Accessible at <https://stats.oecd.org/index.aspx?queryid=66670>, 14. 5. 2020.

<sup>7</sup> Accessible at <https://www.lisdatacenter.org/lis-ikf-webapp/app/search-ikf/figures>, 14. 5. 2020.

<sup>8</sup> Accessible at <https://wid.world/country/slovenia/>, 14. 5. 2020.

<sup>9</sup> Accessible at <https://www.irssv.si/index.php/demografija-2/2013-01-11-18-12-38/ginijev-koeficient?fbclid=IwAR3N0pmm2C1rPzaK5yZrWnIIEWhYxCNQuW5mCG4DmdxmvRrK3qxiMjwefnc>, 14. 5. 2020.

<sup>10</sup> Accessible at <https://utip.lbj.utexas.edu/data.html?fbclid=IwAR17OSOPTdD2Gs12MkKZSynxuC9RoddlibyCbEmcNpW4fDjmykyVrgKzVMg>, 14. 5. 2020.

Figure 6: GINI INDEX IN SLOVENIA IN 1963–2017



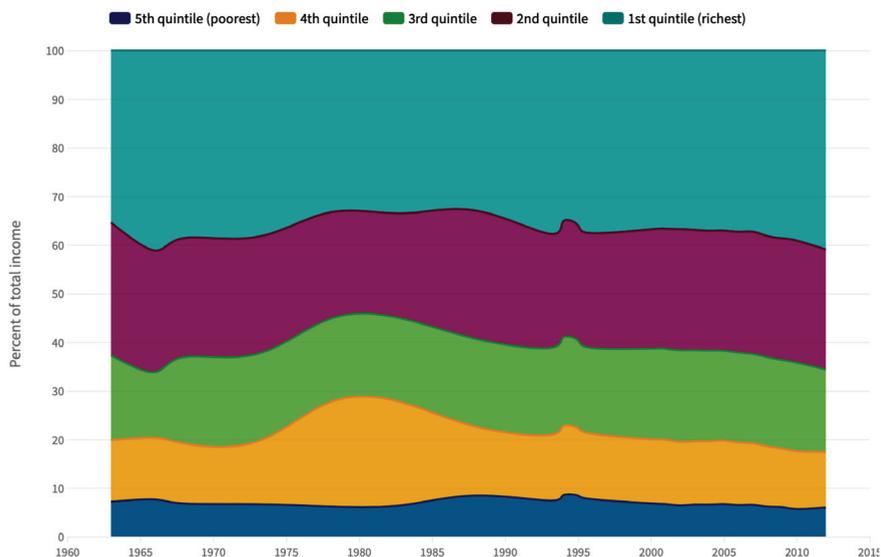
Source: Own calculation based on household surveys by SURS for 1963–1996, SURS 1997–2017.

To present the long-term trajectory of the Gini index, two coefficients are used, the after-tax simulation of own research results and the SURS data from 1997 onwards. The two sets are chosen because they use comparable data as the SURS series relies on household surveys up until 2004 when it switches to EU-SILC surveys. Inequality is comparatively very low throughout the whole period 1963 to 2017. Three jumps in inequality are visible. Inequality first increases in the 1960 and falls in the 1970s and 1980s, rises again during the transition in the 1990s before gradually falling again, leading up to the financial crisis in 2009. The last jump is seen in 2014, before the index falls once more. Namely, 1960 to 1974 is the first rise, 1974 to 1991 is the first fall, 1991 to 1995 is the second rise, 1995 to 2009 is the second fall, 2009 to 2014 is the third rise, while 2014 to today is the third fall.

Another way to visualise income inequality is through quintile shares. A graph of quintile shares in Slovenia from 1963 to 2012 is shown above. The same processes as before can be seen. The first and second quintiles gained in the 1960s, while the 4<sup>th</sup> quintile, roughly accounting for manual workers, gained the most in the 1970s, almost doubling its share. At the onset of the transition, the first quintile gained the most, while the 4<sup>th</sup> quintile lost the most, having almost halving its share compared to 1980. The bump in 1994 is due to the egalitarian income tax legislation. Interestingly, the lowest quintile's share peaked in the late 1980s and has since then lost relatively

the most (almost half) leading up to today. The series ends in 2012, meaning inequality appears to be rising, but from 2012 to 2017 it falls again.

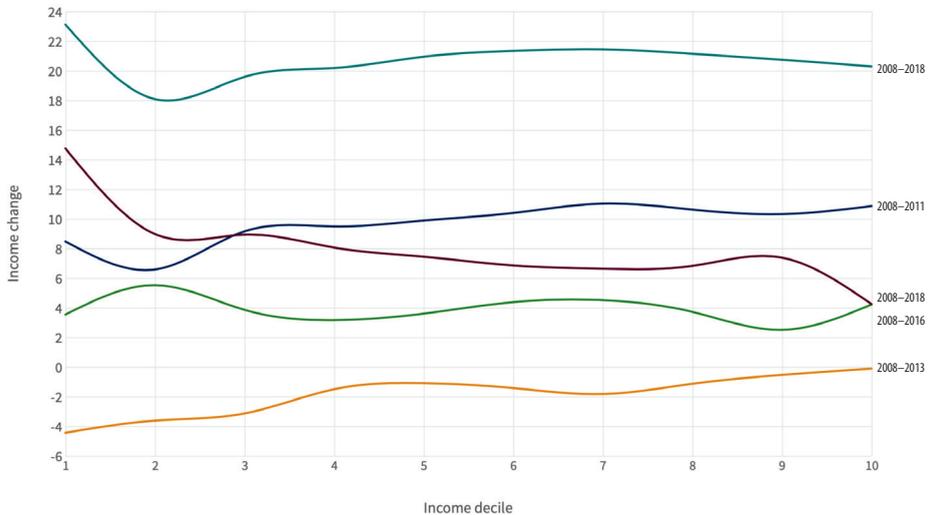
Figure 7: QUINTILE SHARES IN SLOVENIA IN 1963–2012



Source: Own calculation based on household surveys by SURS.

For a more up-to-date representation, the above graph shows how inclusive growth was between 2008 and 2018. Four periods are selected. From 2008 to 2011, everyone gains with the poor gaining the least, from 2011 to 2013 everyone loses except for the richest, with the poor losing the most (4%), from 2013 to 2016 everyone gains a small amount with the poor gaining the most while from 2016 to 2018 growth was very pro-poor with the poorest gaining 15% and the richest only 4%. The entire period saw gains range from 20% to 22% for the top 50% and amount to 18% for the second decile. The poorest gained the most at 23%.

Figure 8: GROWTH INCIDENCE CURVE IN SLOVENIA FROM 2008 TO 2018



Source: Own calculation based on household surveys by SURS.

## Conclusion

Two main events distinguish the development of Slovenian income inequality from 1963 to today. The first was the introduction of market-oriented reforms in the 1960s, after which inequality grew by some 20% and a new affluent class was created. In the 1970s, inequality subsided and returned to its previous levels, the affluent class disappeared and manual workers gained the most. During the transition, inequality skyrocketed by around 20% again, with privatisation and liberalisation increasing returns to education and work experience, expanding the socialist pay differentials and concentrating private property, often in fraudulent ways. Compared to other transition countries, Slovenia chose a gradual path involving little foreign investment, extensive state ownership of companies, institutionalised labour rights, and a large welfare state. The new political economy was strongly influenced by militant labour and union strikes and entailed continuity with socialist and Habsburg institutions, boasting one of the lowest inequality levels in the world. This low inequality equilibrium has persisted over the last 50 years with rises in inequality always coming in tandem with the greater introduction of market forces. Gender inequality was traditionally low during socialism compared to the West and this remains the case today, with the transition process exacerbating differences between the sexes. Growth between 2008 and 2018 was inclusive and roughly the same for everyone.

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