



## CHAPTER 3.

**RISING SOCIAL INEQUALITY****3.1. Economic Insecurity of Different Social Groups**

Economic security constitutes an important factor in human security and sustainable human development. Related to basic human needs such as food, shelter, health, etc., economic security presupposes a favorable environment that would lead to decent living standards. It assumes the possibility for people to make choices in a free and secure way, without exposure to threats or undue constraints, and to achieve a fuller measure of personal development. In such a context economic security creates a sustainable basis for a prosperous daily life and a larger access to social opportunities.

Characteristic of the Republic of Moldova is a rather insufficient level of economic security that has an adverse impact on human development. The deep economic decline, made harsher by the low capability of public bodies, is among those facts that substantially undermine human development. Thus, poverty, morbidity, unemployment, environmental pollution and criminality lead to a pronounced human depression. Forced to face the penury of a turbulent environment, people become more sensitive and vulnerable to social economic threats. Erosion of a person's welfare causes the absolute majority of the population to be preoccupied primarily with earning an existence, making many people self-centered and indifferent to those around them. People in general become more frustrated and make no illusions regarding their future perspectives.

Current phenomena in the Republic have a deleterious influence on human security, in a number of cases bringing it closer to the critical threshold. However, the impact on the population is not a uniform one. The transition's social costs

most of all affect large families, invalids, and single old people making their life very poor. Here social tiers become more evident, and relations between them more tense.

Economic security is associated in the first place with availability of a secure income, usually originating from productive and remunerated labour, adequate to ensure the basic needs of a person. People's income in Moldova, however, doesn't have a stable basis of support, a fact that ultimately lead to its erosion. In 1998 average real disposable personal income showed a 13% decrease, constituting slightly more than one-fifth of the income registered in 1990. Erosion of real individual income turned out to be more pronounced when compared to the decline of basic macroeconomic characteristics. For example, the decline of global industrial and agricultural output in 1998 constituted 11% and 15%, respectively, resulting in a final GDP diminution of 8.6%. Thus, only 1/5 of the population may be conventionally considered to have a sufficient level of secure income.

Judging from the income level and dynamics that obtain, one understands that people's expectations that they would benefit from economic reforms were not realized. On the contrary, there is a worsening of living standards. And this is true in respect to all living standards characteristics, especially such characteristics as availability of a stable, remunerated job; individual, diversified and decent consumption; and free access to basic social services.

Three major changes related to personal income took place recently:

- A substantial decrease in real income following the devaluation of wages and social allowances, both of which constitute major income sources;

*“In the modern society money is only earned by money. Bread is earned through work.”*

Nicolae Iorga

- An essential change of the income structure — there was a decrease in the weight of traditional income sources (wages, pensions, allowances) compared to an increase of alternative sources;
- An intensified income-based differentiation of the population in response to a decompression of salaries, in turn, has led to a wider discrepancy between social groups.

The deepening personal income insecurity is mostly caused by a substantial decrease in wages and by an increase of occasional, temporary resources (currency operations, lease of apartments, etc). For example, salary in 1993 used to constitute 74.5% of personal income sources compared to a weight as low as 33.8% in 1998. During the first quarter of 1999 salary as a source of income has become even less significant constituting only one-fifth of disposable personal income. Such a phenomenon may cause serious social distortions in the Republic of Moldova, given the fact that more than 72% of people engaged in the economy are paid employees. (In highly developed countries, as a rule, the weight of the remuneration fund is not lower than 60% of the gross revenues of populations.)

Insecurity of income is constantly rising now that the private sector is expanding and a considerable segment of the population is employed in precarious jobs. Even given the fact that revenues in the private and informal sectors are considerably bigger than the ones in the public sector, the temporary and undefined character of such jobs is associated with a higher degree of risk for the employees. The structure of the population's disposable personal income to some extent undergoes changes also due to an increase of income generated by currency operations, the weight of which constitutes 20.9%. At the same time, one should not overestimate this phenomenon and have illusions vis-à-vis their role in the creation of personal income. This factor is indeed significant but only for limited segments of the society, the spread of the activity altogether remaining slow.

Economic security of the population able to work requires first of all the provision of adequate salaries to meet vital social needs. In 1998, however, the average salary of an employee in the Republic provided for only 52.9% of the minimum consumption basket needs. Based on such a situation one can make some judgement about state policy regarding labour remuneration. Thus, remuneration policy is treated as a derivative to other components of the economic policy. Set objectives appear as secondary ones to such goals as the establishment of macroeconomic financial stability, and in a majority of cases they are simplified to application of severe measures such as the "freezing" of salaries.

The provision of relatively low salaries in the country's economy is to a great extent related to the large share of rural sector employment. Practice shows that even in advanced countries remuneration of rural sector employees is lower compared to remuneration of employees of the industrial, or service delivery sectors. Characteristic for Moldova is a predominant employment in the agricultural sector: for example, the share of employees engaged in agriculture, forestry and hunting constituted 39.8% in 1998. The ratio is 2.7 rural sector employees to one industrial sector employee. This explains the predominance of cheap labour force in the overall employment structure and due to this indicator the Republic of Moldova finds itself closer to countries with a low living standard.

Recently, according to the National Accounts statistics, the share of remuneration funds in the GDP shows a decrease. In 1998 it constituted only 42%. This indicator is lower than those registered in industrially developed countries, and it may directly undermine human security.

*Arrears*, widely spread lately, is another phenomenon leading to further aggravation of the income situation. While in 1993 arrears to salaries constituted 3.4% of the total annual remuneration fund, in 1995 they had already reached an amount of 12.1% and in 1998 even further to

25.8%. Arrears to salaries are actually money withheld from the calculated salaries, a fact that considerably diminishes the labour force value and weakens the reproduction function of the salary. Payment of salaries made with big delays do not entirely compensate the losses supported by an employee during this period of time, for the reason that part of the salary undergoes devaluation even in conditions of moderate inflation.

All these phenomena have a negative impact and maintain wages at extremely low levels in the Republic of Moldova. Estimated in US dollar value, salaries in the Republic of Moldova are in the seventh place among CIS countries. One should notice the recent tendency of a widening discrepancy between the remuneration level in the Republic of Moldova and in the majority of CIS countries.

Inflation processes under way in Moldova have an adverse influence on the *real wage*. Compared to 1990, real average salary per employee has decreased 2 fold in 1998. Current real salary values correspond to the ones in force several decades ago. Thus, in 1998 the real salary adjusted to for inflation turned out to be equivalent to the one registered in 1967 (for health protection sector), to the one characteristic for 1962 (social insurance sphere) and to the one in force in 1959 (education sector). The decline of real income has led to a substantial deterioration of purchasing power. The current level of wages does not allow employees to ensure a balanced consumption adequate to meet vital needs. In 1998 people could purchase a little more than half of the minimum consumption basket goods. This acted as a considerable constraint on human development.

Lately, the management of economic entities sends employees on unpaid leave or transfers large numbers of them to temporary or incomplete work programs. None of these practices are backed up by a well-defined legal framework, by labour legislation or other normative acts. A policy of withheld salaries was formerly implemented via labour report meas-

ures but also through austere budgetary policies (reduction of budgetary expenditures, compression of monetary mass, stringent control over the level and growth of money in circulation).

The level of well being of *elderly persons and invalids*, of families who have lost their breadwinner and of others who are unable to work has reached critical proportions. Most of them are on the brink of their existence, due to the fact that their pensions and social allowances are extremely small and cannot provide even for minimal physiological needs.

The total number of pensioners (including military) at the beginning of 1999 achieved 787.9 thousand people, which makes 22% of the entire population of the Republic of Moldova. The pension average amount was 84 lei in 1998, the minimum one being only 60 lei, including all supplements and additions. At the same time the real value of pensions fell 6.5% as compared to 1997, while related to the purchasing power constitutes only 40% of the pension amount registered in 1990.

The deterioration of pensioners' living standard has directly affected an even larger number of people. There has been a higher rate of increase in prices for goods and services traditionally consumed by pensioners as compared to the average inflation in the economy. The situation of pensioners and material needs has become critical also due to the fact that the pension does not fulfill its function of maintaining beneficiaries' living standards. According to the author's estimates, the relation between the average pension and the minimum consumption basket in 1998 didn't exceed 17.8%, while the minimum labour pension provided for only 27% of minimum existence.

The low income levels of pensioners in the Republic at present doesn't seem to make feasible in the near future the achievement of the desired human development goal, which was to align the well-being of pensioners to the one of employed population. A precondition for this would be an average pension substi-

tution rate of 75% of the average salary amount. In the Republic of Moldova, however, there is a tendency towards a worsening of this ratio, from 60.3% in 1993 down to 33.6% in 1998.

The low-income level is not the only factor leading to a deterioration in the social status of pensioners. The erosion of pensioners' economic security is also caused by the following processes:

- Considerable delays in the payment of pensions that have acquired a mass character lately. A pension is the only resource for many aged people and in view of this they simply are threatened with hunger. As of January 1, 1998 arrears to pensions constituted 192.2 ml lei, an amount which subsequently increased 1.5 fold and reached 296.8 ml lei at the beginning of 1999.
- An increase in tariffs for utilities, electricity and heating forced a majority of pensioners to considerably reduce their personal consumption of these supplies and limit their purchases mainly to food products.
- The increased cost of personal services has led to the exclusion

or limitation of many pensioners from access to such services as repairs of household utensils, haircuts, dry cleaning and laundries.

- Due to the collapse of social insurance, the cancellation of welfare funds and the partial commercialization of medical services, pensioners experience severe financial impediments in the procurement of medical treatment and medications.
- The difficult situation on the labour market provides very few opportunities for pensioners to find work and earn additional income.

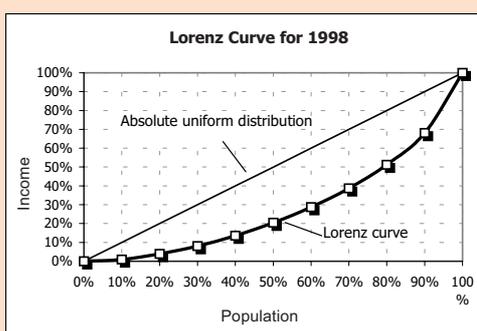
While not long ago the well being of pensioners could have been qualified simply as lower than that of the economically active population, at present they belong to the most vulnerable and excluded layer of society. This group of people is most severely affected by the economic recession and they are the ones that bear the burden of social costs. Elderly persons have chances to survive only when they possess household plots and are able to farm them, or when they benefit from their children's assistance. From the social demographic point of view one may say that present situation reflects a global distribution of social goods to the benefit of the younger generation and to the detriment of the older generation.

*Disparities between the well-being of the rural and urban population* continue to widen in Moldova. Average income per capita was 117.8 lei per person in 1998. However, in urban areas it used to be 1.23 times higher, compared with only 87.1% in rural areas. Disparities of income between townsmen and villagers becomes more and more significant: in 1994 it constituted 23% while in 1998 it increased up to 34.2%. The insecure income of those living in rural areas is also caused by the inefficient structure of their global income (Annex 3).

A characteristic of rural families' budgets is income in kind, which actually predominates in all cases. Its share in the total income structure makes 64.1%.

### Box 3.1.1

One of most frequently used methods in social stratification analysis is the Lorenz curve. It shows the degree of equality/inequality of distribution of incomes. The smaller the curve convexity, the more even is the income distribution, and conversely, the more convex the curve, the more pronounced the inequality. An absolutely even distribution would be a straight line (bisector) of 45 degrees. The area between the straight line and the Lorenz curve in the figure denotes the degree of inequality in the distribution of income. In the case of Moldova, the Lorenz curve displays the lack of uniform distribution of income. Thus, the first decile (the poorest) hold less than 1% of the overall disposable income, whereas the tenth decile (the richest) accounts for 48.7% of income.



Source: CISR calculations based on HBS data.

About 90.9% of revenues originating from agriculture are in kind, this referring firstly to the internal consumption (i.e. of own products). Non-salary incomes predominate in rural areas, and this factor along with small and delayed earnings lead to a substantial reduction of the population's purchasing power.

The main part of a rural household income (64.1%) is in kind. These are agricultural products obtained from plots nearby or received as remuneration for labour. Thus, the majority of agricultural products represent raw products that need additional expenditures for their processing. Besides, the rather poor assortment of products at the disposal of households cannot ensure a well-balanced and varied structure of consumption. These factors ultimately undermine personal security and make human development more difficult.

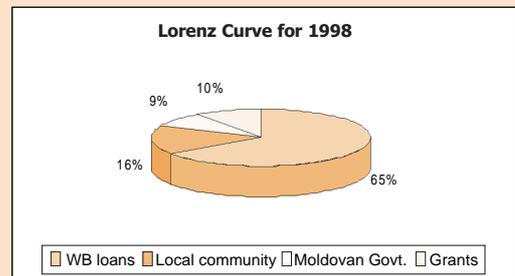
Personal well-being depends on a person's place in the social-economic network of the Republic. Businessmen and non-agricultural employees are in a slightly better situation, their disposable personal income being 56.1% and, respectively, 22.9% higher than the average for the Republic.

*Agricultural employees* turn out to be the most vulnerable as far as economic security is concerned. Very often they are unqualified (or minimally qualified) workers, whose salaries are much lower than those in other sectors of the economy. Large and continuously growing arrears to salaries are the main reason for these employees' worsening material condition. During 1998 salary arrears for agrarian sector employees showed a 1.2 fold increase, attaining about 1/3 of the total amount of salary arrears in the country. The palliative character of reform-oriented measures along with delayed cardinal transformations in the agrarian sector of the economy have contributed to an intensification of farmers' vulnerability. At present, with an average per capita income 18% lower than the average income in the Republic, farmers represent one of the most sensitive strata in the turbulent economic environment.

#### Box 3.1.2.

#### Social Infrastructure Rehabilitation

A significant role in strengthening human security is played by micro-projects aimed at social infrastructure. In this regard particular attention should



be paid to the Social Investment Fund (SIF). The SIF was set up in 1997 to assist in restoring the social sphere in rural areas. Selected to participate in 214 investment projects were 519 villages in disfavored rural zones. The projects were designed for sustainable development in the social sphere. The projects focus on: (i) the roads network; (ii) schools; (iii) hospitals; (iv) houses of culture; (v) shops; (vi) water provisioning systems; (vii) and gas supply. So far 17 projects in 6 Moldovan districts have been implemented. Another 25 projects are being contracted and approved. In the near future some 400 more small projects worth US\$15 mil. are envisaged.

Cost sharing is done as follows: the Government of the Republic of Moldova, rural communities, credits from the World Bank, grants from foreign governments and non-governmental organizations. Thus, 85% of SIF sources are international grants. Rural communities contribute another 15% of projects' costs, out of which one-fifth are cash contributions, and the remaining are construction materials, necessary equipment and machinery.

*Source: data from the WB-Moldova office*

Income generation by households is closely connected with the *type of activities* practiced by family members. Thus, in the case of farmers, 76.5% of their personal disposable income originates from entrepreneurial agrarian activities; 61.6% of non-agrarian workers' income comes from salaried activities; 65.6% of entrepreneurs' income is generated by independent activities out of which 39.6% are trade-related and 26.0% are non-agrarian. In the case of agricultural sector employees and pensioners there is no correspondence between the type of activity and the main income source; their incomes come predominantly from auxiliary agricultural activities.

*Land plots* owned by a household have a decisive role in the basic creation of income, whereas for many families is even their main source of existence. The total amount of households in the Republic possessing land plots makes about 76.3%. The distribution is the following: almost all households in the rural area and 42.2% in the urban area own plots. Plots adjacent to or near to houses constitute the most frequently held plots of households; e.g., 91.3% of the total number of plots in rural areas and 53.7% from urban areas. Out of the total number of urban plots, 40.1% household represent plots within fruit growing associations. Households in the rural area account for 8.4% of agricultural land tenure.

Housing provisioning in the Republic is sufficient in general. A household comprises on the average 62.7 square meters of housing, out of which the liv-

ing quarters average 44.1 m<sup>2</sup> with approximately 2.8 rooms. Inhabitants in the rural areas have larger dwellings compared to those in town, the area being 1.5 times larger. On the other hand availability of utilities in rural areas is extremely insufficient.

One should mention that families with children have less living space compared to other households. For example, while housing space averages 46 m<sup>2</sup> per person and a married couple has an average of 68.4 m<sup>2</sup>, an incomplete family has 52.7 m<sup>2</sup>. In contrast to the recent past, more than 91.6% of families live in houses or separate apartments, which is a positive factor. About 84.2% of households have become owners of their housing. Most part of households in villages (97.9%) possesses private separate houses (96.7%). In urban area, according the polls, only 62.3% own their housing, with a majority (63.1%) living in separate apartments.

One can judge the economic insecurity of the population based on the purchasing behaviour and the dynamics and structure of *consumption expenditures*. Low level of income per person appears to be a main constraint in a household's expenditures. Food expenditures predominate, accounting for 65.7% of total household consumption expenditures.

The high share of food expenditures in household budgets indicates the existence of poverty in Moldova. Unlike other countries and even from the situation registered at the beginning of the '90s, when food expenditures constituted 34% – 35%, Moldova now falls in the range of countries with food insecurity. Also the quality and nutritional composition of food has considerably deteriorated. Due to a lack of money, a majority of the population finds it difficult to procure essential food products. The caloric value of food has diminished during last three years 1.3 fold, reaching in 1998 a minimum of 1980 calories per capita. This is well be-

	Urban	Rural	Total
<b>Ownership</b>			
Public	18,9%	0,5%	7,8%
Departmental	11,8%	0,1%	4,8%
Cooperative	4,5%	0,1%	1,8%
Personal	62,3%	97,9%	83,7%
Rented by private owners	2,4%	1,3%	1,7%
Other	0,1%	0,1%	0,1%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<b>Housing Characteristics</b>			
Separate apartment	63,1%	0,6%	25,5%
Communal apartment	0,0%	0,0%	0,0%
Hostel	12,2%		4,9%
Individual separate house	20,1%	96,7%	66,1%
Part of an individual house	4,4%	2,6%	3,3%
Other	0,1%	0,1%	0,1%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Average number of rooms	2,2	3,1	2,8
Average housing area (m <sup>2</sup> )	47,8	71,5	62,7
<i>Source: HBS, 1998</i>			

low the minimum requirement of 2500 calories set by the World Food Organization. Malnourishment primarily affects the poor layers of society. It has been estimated that 20% of the poorest quintile of population receives only 1775 calories per day or 85% of the average amount per Republic. For another 10% at the bottom of society the caloric intake is lower than the critical level of 1500 calories, which falls into the hunger category as set by the World Food Organization.

Specifics of individual consumption in the Republic of Moldova consist of an essential reduction of food expenditure outside the household. This is due to a considerable rise in prices on meals prepared and served in the catering sector. For this reason the great majority of the population prefers to purchase food products from the market for subsequent preparation of meals at home.

Contrary to Western countries, goods that meet basic needs (clothing, shoes, linen, personal hygiene, indispensable goods) predominate in the structure of non-food individual expenditure, with a modest share of longer use goods included.

At the same time the supply of households with longer-use goods procured in the past, such as TV sets (86 per 100 families); refrigerators (73 per 100 families); washing machines (52 per 1000 families) seem to be adequate. There is, however, a disparity between rural and urban areas as far as distribution of these appliances is concerned. Thus, in villages, per 100 families, the number of TV sets is 15 less (15.5%) than in towns; 25 fewer refrigerators (28.4%); and 23 fewer washing machines (35.7%).

Thus, the economic security of Moldova's people is considerably endangered. The situation is aggravated by the fact that the state does not apply full its full capabilities to regulating these processes. Strengthening of economic security requires that an income policy be incorporated in the general social devel-

opment program of the Republic of Moldova.

In order to consolidate the economic security of different social groups, it is necessary to undertake the following measures:

- An improvement in the labour remuneration system, through an increase in the real composition of salaries and their adjustment to inflation rates;
- The adjustment of public sector salaries to those found in the private sector through a system of collective agreements regarding tariffs (per branches);
- An Increase of incomes in the agricultural sector through the creation of the conditions necessary for the development of efficient activities and a gradual reduction of discrepancies between prices for agricultural products and those for such inputs as equipment, fertilizers, fuel, etc.;
- The development of a number of programs aimed at securing the income of vulnerable layers of the society including aged single people, invalids and large families, and encouragement of targeted social assistance;
- Performance of additional activities by voluntary and charitable organizations that complement the National Poverty Eradication Program with the aim of localizing and reducing poverty zones;

A realignment of the tax system with the aim of redistributing the fiscal burden, at present borne by the poor layers of society, through a considerable expansion of the tax base, covering the "shadow economy" in the fiscal circulation.

*“Poverty is a source of physical and moral evil, but it’s also true, however, that moral evil is, in its turn, a cause of economic decline.”*

Mihai Eminescu

### 3.2. Changes in the Income Distribution Pattern and Increase in Disparities: the “Newly Rich” in Relation to the “Newly Poor”

Strata creation seems to be an indispensable phenomenon in everyday life at present. It is seen both in industrially developed countries and in those making their first steps toward a market economy. Social differences within a population to a great extent are explained by the very nature of the human being. People behave differently as far as their contribution to the creation of their own welfare is concerned and also in their consumption of goods and services. Some are inclined towards exaggerated consumption, others, on the contrary, towards ever growing savings. There additionally come differences of people’s physical and intellectual capacity to perform work and their different places in the hierarchy of the social network, which also leads to differences in peoples’ welfare.

Social stratification becomes even more pronounced in an uncertain world undergoing a transition to the market economy. Transformation processes have had an adverse impact on living standards, resulting in a deeper inequality between income and expenditures. Along with economic recession, the erosion of real income causes negative long-term distribution consequences and facilitates the expansion of poverty. The Republic of Moldova, similar to other European countries in transition, shows one of the highest growth rates in the social stratification of its population from the welfare point of view. Between 1993 and 1998 there occurred a 15.4 percentage point increase of the Gini coefficient on the average, reaching 44.1 at the beginning of 1999. Judging from social and economic events so far, there are no premises indicating a change of this trend.

The deepening of inequalities and social stratification is predominantly caused by the following phenomena:

- *Liberalization of the salary structure* following the exclusion of bureaucrat-

ic barriers from the remuneration policy and the increase of non-traditional income sources (currency operations, lease of assets, interest rate on securities, etc.). As a result of the cumulative effect of such phenomena a dispersion of income has occurred notwithstanding the fact that the educational and professional profile of employees underwent no change. At the same time earnings have become more volatile due to the risks assumed by a person at the moment of engagement or to frequent failures in business.

- *Development of private sector and increased flexibility level in the labor market* ensure a wider range of opportunities to choose between the public sector (relatively inefficient) with secure but small (fixed) salaries and the private sector with higher salaries but also with a greater risk level. Empirical examples show that people prefer the private sector. Thus, there occurs a redistribution of labour force from the public sector to the private one. In 1998 the number of employees in public enterprises and organizations constituted 28% of the total number of employees in the national economy, compared to 55% in 1992.

- *Privatization and structural reforms* have acted as an impetus to entrepreneurial activities that are associated with a broader differentiation of remuneration. Causing essential modification of forms of ownership and employment opportunities, privatization ultimately leads to inequalities in the distribution of total income. The fact that public assets are procured during auctions mainly by wealthier layers of society enhances their more advantageous position compared to the poorer social strata and increases their consolidation of their own personal welfare. Income sources become more varied and less dependent on governmental restrictions and barriers. At the same time, a concentration of assets in the hands

of a restrained group of the society deepens further the degree of income inequality, since discrepancies between salaries in the public sector and the private become more and more significant.

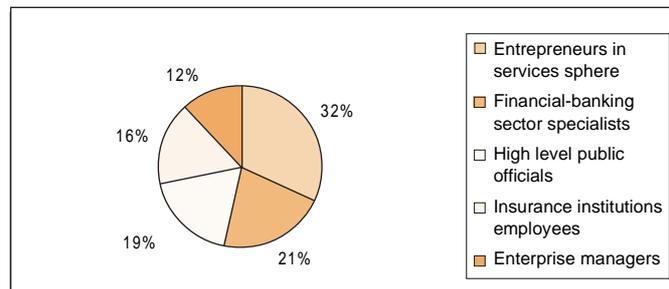
- *Creation of new service markets* within which the private sector may partially substitute for the public sector in rendering of a number of basic services such as education, health protection, telecommunications, etc. Such transformations are not expected to affect the poor layers of population, should they not bring about a reduction of the number of employees in the public institutions. Benefits of the private service sector are predominantly enjoyed by the wealthier layers of society, they being the only ones that can pay extra sums for elite schools, specified medical services, mobile telephones, etc. Thus, new service markets create possibilities for rich actors to have access to luxurious basic services, contributing in such a way to a hypothetical increase of benefits deriving from expenditures for the procurement of such services. As a result, the discrepancy between the well being of the rich and the poor becomes even more pronounced.

The above facts link deepening social stratification and economic reforms, and constitute an objective process during the period of adjustment to new market conditions. The level of social differentiation based on income criteria has, however, exceeded the critical limits and has acquired a negative and destructive character. The inequitable approach to production factors — capital and labour force — when labour is subordinated to capital, has to some extent led to the above situation. Such an approach in reality results in an underestimation of the labour force contribution, in favor of an overestimation of the material factor (capital and technologies).

The collapse of the old system that ensured a decent way of life by securing

Fig.3.2.1.

### The “new rich” profile, 1998



Source: HBS, 1998

a modest living standard to the majority of the population brought about a total ruin in the quality of life. Poverty has acquired a mass character. The situation is also aggravated by the fact that against a background of mass pauperization of the population, a relatively small segment has appeared with fabulous incomes originating predominantly from dubious activities.

The household budget survey indicates a significant differentiation of the population based on income criteria: 20% of the least well-provided for (first quintile) has only 3.4% of the total money resources, whereas 20% of the wealthiest (fifth quintile) shares 50.3% of the social wealth. The decile differentiation coefficient (relation between 10% of society's richest segment and 10% of the poorest one) exceeds the 35-fold amount. The Gini coefficient value, which characterizes the degree of social stratification, constitutes 44.1. At the same time, according international research, it is believed that whenever the Gini coefficient value fluctuates within a 29-31 range that also characterizes an average degree of inequality. Should the Gini coefficient exceed a magnitude of 35, and then the situation would be characterized by a highly inequitable degree of inequality.

Thus, according to international criteria, the distribution of global income may qualify as being one of total penury. In reality, the distribution of income is even less uniform, because the household budget survey hasn't also covered the revenues of

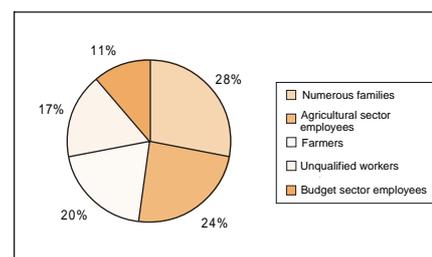
the self-employed, to say nothing of the fact that there is no recording of illegal, semi-legal and informal revenues created within the shadow economy.

A distribution of households per quintiles based on average per capita income makes it possible to establish the factors that influence this phenomenon. The tendencies indicated below show the dispersion of population by different welfare levels:

- *Fluctuations of the monetary income levels* is the first factor that has an influence on the differentiation of global disposable incomes both from the point of view of their character and degree. In-kind income has a less significant impact on the dimensions of welfare distribution. Thus, 20% of the poorest possess 8.2% of the in-kind income, while 20% of the richest possess 30.7%. Distribution of the in-kind income is more uniform compared to the distribution of total income. At the same time there is a more pronounced differentiation based on money income criteria: the poorest layers of society account for less than 1% of total income, while 62% go to the richest segment of society;
- *Heterogeneous distribution* of rural and urban population per quintiles. Every third member of a household is covered by the first quintile (the poorest one) and in case of rural households every fifth member of a family is part of the first quintile. The picture is

Fig. 3.2.2

## The “new poor” profile, 1998



Source: HBS, 1998

completely different regarding distribution of population per richest quintiles. Urban inhabitants constitute 27.5% compared to only 10.9% of the inhabitants from rural areas;

- There is a close correlation between *a household’s welfare level and the number of children in it*. The smaller the number of children in a family, the better the welfare levels. And vice versa: the less numerous the family (one without children), the better the welfare level and the greater the probability of avoiding poverty. Out of the total number of households with 4 and more children, the share of the poorest ones constitutes 36.2%; and respectively 28.3%, 24.0% and 17.8% in households with 3, 2 and one child. At the same time the share of one-child families in the richest layers of society stands at only 22.5% and families with 2, 3 and 4 children, respectively, constitute 14.5%; 9.9% and 2.9% (table 3.2.1);

- *There is a direct relationship between a person’s position in a social strata and the character of income differentiation*. Out of total the number of farmers covered by the household budget survey only each tenth belongs to the richest quintile while every fourth or fifth falls into the poorest groupings of society. Characteristic for agrarian sector employees is a more profound differentiation. Thus, 24.0% of their total number are poor farmers and only 10.8% qualify as well off.

Table 3.2.1

## Distribution of Households per Quintiles Depending on the Numeric Composition of Families, %

Composition of Families	Total	Per Quintile				
		1	2	3	4	5
One-child family	100,0	17,8	19,1	20,0	20,6	22,5
Two children	100,0	24,0	21,1	22,2	18,2	14,5
Three children	100,0	28,3	27,5	20,3	14,0	9,9
4 and more children	100,0	36,2	32,8	14,4	13,7	2,9
No children	100,0	12,9	15,2	19,1	24,0	28,8

Source: HBS, 1998

In case the of the non-agrarian and entrepreneurial sector the tendency is out to quite the opposite. There 17.5% of families belonging to the non-agrarian sector and 10.9% of entrepreneurial families fall into the first quintile (the poorest one). In the top quintile (number five) respectively fall 29.3% non-agrarians and 41.0% entrepreneurs (table 3.2.2).

The relation of average per capita monetary income indicates the existence of an objective welfare dispersion asymmetry between farmers and workers of the agrarian sector on one-hand and entrepreneurs and non-agrarian workers on the other. Thus, average disposable income per one agrarian sector employee constitutes 77.5% of the average amount for the entire sample of households; respectively, 85.9% per a farmer household; 120.7% for non-agrarian workers and 164.5% for entrepreneurs.

- Peculiarities of population differences per different socio-economic categories determine in turn the peculiarity of the distribution of household members based on *income sources*. Only every tenth person falls into the poorest social group, the income of which is coming from employment remuneration (wages), and, respectively, every sixth person conducting entrepreneurial activities falls in this social group. On the other hand, the richest categories of society include more than one-third of salaried employees and about 40% of people involved in entrepreneurial activities. The relationship between the well being of different socio-economic groups and their distribution per quintile can also be related to income sources (table 3.2.3).

- *Jobs* constitute a decisive factor in determining the degree of material differentiation within the population. Only 10.7% out of the total number of households employed in agriculture, forestry and fishery fall into the most well off quintiles (iv and v). At the same time wealthier layers of society include 29.45% workers from

Table 3.2.2

**Distribution of Households per Quintiles Related to Different Socio-Economic Categories, %**

Socio-Economic Categories	Total	Per Quintile				
		1	2	3	4	5
Farmers	100,0	19,7	25,0	23,6	17,9	13,8
Employees in the agrarian sector	100,0	24,0	27,3	20,5	17,4	10,8
Workers in the non-agrarian sector	100,0	17,5	15,3	17,4	20,5	29,3
Entrepreneurs	100,0	10,9	9,1	22,8	16,2	41,0
Pensioners	100,0	18,4	18,9	22,8	23,0	16,9
Other categories	100,0	38,3	18,9	15,5	16,8	10,5

Source: HBS, 1998

telecommunications, 34.5% from the processing industry, power supply networks and communal services areas and 47.3% from the trade sphere. The situation appears similar in respect to professions of household members: the higher the qualification of employees, the greater the number of persons falling into the top quintiles (the richest ones). Thus, quintiles 4 and 5 include 51.3% managers and top clerks; 39.9% high-qualified experts and 30.9% qualified industrial workers.

Table 3.2.3

**Distribution of Households per Quintiles Related to Income Sources, %**

Income Sources	Total	Per Quintile				
		1	2	3	4	5
Income originating from salaried jobs	100,0	7,7	14,3	19,6	24,3	34,1
Income generated by individual agrarian activities	100,0	23,7	25,2	21,5	18,2	11,4
Entrepreneurship	100,0	15,4	7,3	19,3	20,5	37,5
Social allowances	100,0	15,0	16,1	22,4	26,4	20,1
Other incomes	100,0	38,3	18,9	15,5	16,8	10,5

Source: HBS, 1998

Families' well being is strongly dependent on the education level of their members. Out of the total number of families with higher education, only 12.2% fall into the category of the very poor while 40.7% of these families possess rather high income and belong to rich quintiles. The number of persons with incomplete secondary education falling into quintile 1 (the poorest one) is rather significant, at 18.6% whereas their share in quintile 5 (the wealthiest one) is very insignificant and accounts for only 15.2%.

Thus, there is a *dramatic deepening of social stratification* in the Republic of Moldova, and it acquires a threatening magnitude. The result is that at one pole relatively small groups of society possess the bulk of social wealth, while at the other pole the great majority live in poverty and do not have the resources to secure a decent living standard. Their possibilities to contribute to broader human development are extremely limited, a fact that makes them sensitive and vulnerable in respect to transformations that are occurring in society today. Judging by the peculiarities indicated below, the phenomenon of poverty continues to become more and more pronounced:

- The extent of poverty in the Republic of Moldova exceeds that in the Eastern and Central European or CIS countries;
- Socially vulnerable categories (pensioners, large families, invalids and the unemployed) also include a sizeable number of employees from the production sphere, including qualified workers who have fallen into poverty-affected zones;
- Poverty-affected groups of the population currently manage to preserve relatively sufficient standards of education, health protection, and supplies of basic goods (housing, long term-use goods), a fact that considerably alleviates destructive distributive consequences and welfare inequality;
- Characteristic of poverty zones is a low mobility of the labour force, due to which the majority of those affected do not have the possibility of leaving a given home and engaging in dual employment;
- Characteristic of the mass expansion of poverty is the creation of a stagnant, self-reproducing mechanism, one element of which is compression of social and individual consumption.

Box 3.2.1.

### Poverty Alleviation

#### National Strategy for Poverty Alleviation

##### *Active policies*

Promoting economic opportunities for poor

##### *Passive policies*

Social protection of the poor

- public works for low qualified individuals;
- large access of the poor to land plots, infrastructure and productive means;
- special programs for making loans to the poor;
- easy taxation of activities carried out by poor.

- nominal cash compensations;
- casual social help;
- transfers in kind;
- communal utilities subsidy;
- public transport facilities;
- home care;
- institutionalized social assistance.

National strategy on poverty eradication comprises 2 elements: (i) promoting economic opportunities for the poor to use productively the only good that they have available, *i.e.* their man power; (ii) rendering basic social services through the social protection net.

Source: UNDP. National Strategy on poverty alleviation in the Republic of Moldova for 1998-2000.

### 3.3. Differentiated Access to Goods and Social Services

Two main groups, of an equal value, may be distinguished among factors which influence the access of the population to goods and influence the structure and quality of personal consumption in the Republic. In the first group of factors is the expansion of the right to ownership, including the right to real estate. In the next group is the appearance of goods and services, traditional for developed countries but new for the Moldovan consumer, and the general growth of the consumer culture. These changes, otherwise favourable in the longer run, at present, however, face the problem of creating a corresponding solvable demand (second group of factors). These phenomena have led to an intensification of population differentiation as far as access to social goods is concerned.

Reduction of the amount of disposable income and its influence on the consumption of different social goods is seen to result in a differentiation of the consumption ratio expenditures within income groups. Access to different social goods varies approximately sixfold among decile groups I through X of income groups.

At the same time, resources ensuring such a variety of consumption possibilities by socio-economic group differ essentially.

In order to satisfy resolvable demand, the less-well provided for groups, in addition to their current income, have to utilize resources originating from the sale of their property and objects already in their use. Monetary income covers from 16.3% to 98.9% of the total consumption expenditures within decile groups I through IX. Only within decile group X does the current monetary income permit resolvable demand without the involvement of previously accumulated resources.

Food products occupy a predominant place in the structure of social consump-

tion goods in all income groups. They account for 65.5% of the total population expenditures in the first decile group and up to 50.6% in decile ten. However, specifically high share of food expenditures does not mean an adequate level of product consumption for low-income families. Insufficient consumption of meat and milk by the population in the first decile group appears to be a serious problem. Compared to the consumption level of decile group X, the deficit is 9.3 for meat; 6.0 for semi-prepared meat products; 5.8 for poultry, 8.5 for pork; 4.5 for sour cream; 4.9 for cheese and 5.0 for butter.

In the case of bread and potato consumption the difference appears smaller. Nevertheless, all decile groups tend to consume products from their own households, which accounts for a consumption of 65.8% potatoes, 77.4% milk, 65.6% eggs, 59.3% vegetables, 59.7% fruits and cereals, and 61.8% cheese. Ownership of a land plot has become a rather important factor as far as access of the low-income population to food products.

Irregular purchasing power (even a tendency toward this) in respect to a number of food products has contributed to their forced exclusion from consumption (particularly in the case of families with a low living standard). Replacement of these products with less valuable ones from the caloric point of view has led to the deterioration of the food ratio structure. Thus, to ensure sufficient caloric composition, calories are obtained from bread and potatoes to a greater extent than before. The increased lack of balance in the food ratio, as far as content of fat, carbon hydrates, vitamins and microelements is concerned, may have long term negative effects on the population's health and vital activities.

Changes in the amount and availability of food products, along with the possibilities of seasonal supplies and the eradication of deficits, have undoubtedly increased the Moldovan capacity to meet the population's food needs. These changes, however, accompanied a reduc-

**“In a well governed country poverty is shameful.**

**In a badly governed country welfare is shameful.”**

**Confucius**

tion in economic access to products for the entire population of the Republic as well as a change in established proportions of consumption. It is obvious that restoration of the food consumption structure and a return to scientifically recommended proportions will require a much longer period of time than has their destruction.

International experience shows that an increase of living standards brings about a change of *consumption expenditure structure* for non-food products. There occurs a constant reduction of expenditures for short-term use goods and an increase of the specific expenditure share for long-term use goods. This is not the case in the Republic of Moldova. The consumption expenditures for non-food goods within decile group ten exceeded by 10 fold similar expenditures in the first decile group.

The expenditure share for short-term use basic goods like clothing and shoes varies from 49.3% of the total expenditures for non-food goods in the first decile group to 71.6% in decile group II; from 80.4% in group IX to 77.6% in group X.

Such a distorted structure of expenditures has been created due to the fact that the individual needs Moldovans for these basic goods are not properly satis-

fied. In conditions of low solvency, members of households have no possibilities to replace their clothes. Even families with high incomes are not fully supplied with the necessary short-term use goods. This tendency is valid also for long-term use goods. Price is that factor which played an essential role in diminishing the population's access to major appliances. Due to prices it was impossible for people to replace obsolete or worn out goods in current use, like refrigerators, TV sets, and washing machines, with new ones. It seems that at the turn of the '80s and '90s there also occurred a halt in the procurement of sophisticated household equipment.

There is not necessarily a distinct relationship between a family's supply of long-term use goods and their average total income. The availability of such goods in low-income families does not differ too much from that in wealthy families. The number of TV sets per 100 is 87 in the first decile group and 92 in group X; refrigerators, respectively, are 70 and 83; and washing machines, 51 and 63 for the respective deciles.

In urban areas the relation between family supply with sophisticated household equipment and the total average income is even smaller. In the case of certain items, their level in small-income households is higher than that in high-income families. Thus, there are 97 TV sets per 100 people in the first decile group compared to 91 TV sets in group X; refrigerators, respectively 87 and 84. One explanation of such a phenomenon is the peculiarity of the family composition in these deciles; they include a large number of pensioners and so-called "newly poor" who purchased the majority of their valuable goods in previous years. The data below confirm the observation that households of poorly-provided families have a considerable number of obsolete goods in their use (table 3.3.1).

There are also other than numerical differences between the availability of long-term use goods within households. Thus, relatively new, improved models of

Table 3.3.1

**Length of Use of Social and Cultural Goods within Families**

<i>Social and Cultural Goods</i>	<i>Decila Group in Conformity to Total Disposable Inc.</i>	<i>Length of Use, %</i>		
		<i>Up to 5 years</i>	<i>From 6 to 10 years</i>	<i>More than 10years</i>
Color TV	1	23,1	45,4	31,5
	10	31,6	44,6	23,8
White and black TV set	1	8,9	21,2	69,9
	10	13,4	22,2	64,4
Refrigerator, freezer	1	5,2	22,0	72,8
	10	10,3	24,5	65,2
Washing machine	1	11,1	23,4	65,5
	10	17,9	34,4	47,7

*Source: HBS, 1998*

long-term use goods began to appear in large quantities on the Moldovan market only at the beginning of the '90s and only families with a higher income can afford to procure them.

The creation of a system supplying social services, equally accessible to the entire population, appears an absolutely needed condition for human development on the brink of the 21st century. Before the '90s, the levels of the population with access to basic social goods was much higher in Moldova compared to that in other countries at similar stages of economic development. At present, because of the systemic crisis, the problem has become rather acute, a fact that has an extremely unfavourable influence on the social situation.

Recently, *differences regarding access to social services* have become more significant from the point of view of human development. This is also true with respect to such priority services in the medical and cultural fields, a fact that generates a strongly adverse reaction among people. The introduction of fees for services, which were formerly free or were privileged, is a very sensitive issue for less well-provided families. Less than one-third of the population has access to central heating and sewage. Even less — one-fourth are provided with hot water and bathtubs. In rural areas the situation is even more critical, because there are no such facilities there.

Household expenditures for health care per one family member in the first decile group constitute 3.75 lei; in group II — 1.61 lei; in group IX — 7.05 lei and in group X 11.75 lei. The inability of less well-provided families to cover expenditures for medical care has led to a considerable aggravation of their members' health. Of the total number of households which have assessed their health condition as "acute" and "very acute," 42% belong to decile groups I and II, and only 35% to groups IX and X. The incidence of chronic diseases, with the exception of diabetes, also presents much more frequently among low-income families. (table 3.3.3).

Table 3.3.2

**Availability of Communal Utilities**

<i>Sewage</i>	Urban	Rural	Total
Yes	76,1%	2,7%	32,0%
No	23,9%	97,3%	68,0%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<i>Hot water</i>			
Yes	66,3%	0,3%	26,6%
No	33,7%	99,7%	73,4%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<i>Heating</i>			
Centralized	75,4%	3,0%	31,9%
Local	24,6%	97,0%	68,1%
No	0,0%		0,0%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<i>Bath Room</i>			
Yes	69,6%	0,6%	28,1%
No	30,4%	99,4%	71,9%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<i>Source: HBS, 1998</i>			

Free and guaranteed access to basic education is a key element that ensures human developmental stability. This goal was achieved in Moldova during Soviet times and a considerable number of children continue their studies in higher institutions. However, a real danger has arisen that these positive outcomes will be lost.

Household living standards and social status more and more contribute to the intensification of *differentiation within the educational sphere*. These factors increase differences between starting positions of young people. Children from wealthy families, especially in urban settlements, have considerably more opportunities to choose between educational institutions. Also, secondary general education takes place in more privileged conditions in these groups. Thus, the number of pupils in an urban school class, belonging to the first decile, constitutes 27.7 compared to a number of 25.9 pupils in decile group X. Children from these families can afford to study in specialized and higher education institutions on a contract basis. Expenditures per one

member of households belonging to decile group X exceed by 11.3 fold the same expenditures made by a family belonging to the first decile. Thus, this tendency is in contradiction to the principle of social equity and constitutes an obstacle to children from poor families in obtaining higher education.

When income is highly differentiated in a population, it is very important to ensure access to vital social services, such as health care and education. It is equally important that a minimum standard be provided to all Moldovans. Such a commitment would ensure a qualitative labour force, relatively equal starting positions for all young people, a basic level of vitality within the population and social security in extreme situations (loss of health, loss of jobs, etc.). It would also attenuate tension in the society. In view of this, the free provisioning of services by the main social institutions should become an organizing principle, consolidated through law and socially guaranteed, and meant to ensure human development in Moldova at recommended, normative levels. The reform of the social sector, currently underway in the Republic, is expected to contribute to this goal.

Table 3.3.3

**Health Condition of Household Members Based on Their Own Assessment, %**

Assessment of Health Condition	<i>Total</i>	<i>Decile Groups Based on Disposable Personal Income</i>					
		<b>1</b>	<b>2</b>	<b>...</b>	<b>9</b>	<b>10</b>	
(i) Acute	100,0	10,5	9,7	...	10,4	8,3	
(ii) Very acute	100,0	12,9	9,0	...	9,0	7,4	

*Source: HBS, 1998*