SOCIAL CLASS STRUCTURE IN THE BALTIC COUNTRIES

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Abstract

Income distribution and inequality are frequently discussed topics today. It is necessary to assess the social classes' structure of the Baltic countries, which could justify the need for changes. However, there are no common criteria how society should be divided into social classes. The problem is how society can be classified into the rich, the middle class and the poor and what distribution of society would be "fair". The purpose of the article is to identify social classes' structure of the Baltic countries and to evaluate how "fair" the income distribution in those countries is. The structure of the research consists of three parts. The review of the society class structure classifications and analysis is given in the first part. The identification of the "fair" society class structure and the analysis of the society class structure in the Baltic countries are presented in the following parts. Thus, in this article author propose the solution how to assess society income structure and give results of the income distribution in the Baltic countries analysis. Analysis showed the need for further deeper research. It is necessary to develop a comprehensive model of poverty risk assessment, which could allow evaluating not just by income inequality but also could include other characteristics such as wealth, education, occupation, work, etc. Moreover, it would allow preparing a methodology, which could help evaluating countries by their social class structure according to their level of economic development.

The type of the article: Research report.

Keywords: "fair" income distribution, income distribution, middle class, structure of social classes.

JEL Classification: J31, F01, H24.

1. Introduction

The problem. The topic of inequality distribution among citizens is getting more popular today. It could be connected to the influence of the economic crises on people living standards, the increase on unemployment level and similar factors. Different indicators presenting incomes inequality are analysed by different authors in various countries. The aim of such studies is to reduce inequality and social exclusion among people. According to the Gini coefficient there is substantial imbalance of distribution during all analysed period (in years 2005-2011). Latvia in 2006 and Lithuania in 2010 recorded the highest income inequality among all the European Union countries, which hampers the country's economic growth and create social problems. Despite the fact that income inequality's problem was investigated by many authors there is still a lack of studies that would help to distribute the country citizens by social classes. The most authors just only mention that there it is quite difficult situation with the middle class in Lithuania and Latvia but do not reflect the class structure of society, and do not justify their claims with statistical data and on what basis and by what criteria the public members belong to one or another class.

Thus, the scientific problem of this study is lack of research, which would allow classifying the population into rich, middle class and the poor, and identify whether the "fair" public class structure is in the Baltic States (Lithuania, Latvia and Estonia).

The object of this study is the distribution of income among the population of the Baltic countries.

Theoretical background. Danziger, Gottschalk, and Smolensky (1989), Alesina and Rodrik (1994), Persson and Tabellini (1994), Burkhauser, Crews, Daly, and Jenkins (1996), Kangas (2001), Bellettini and Ceroni (2006), Peichl, Schaefer, and Scheicher (2010), Eisenhauer (2011) and many

others examined income inequality aspects of the world. Skuciene (2008), Sileika, Tamasauskiene, and Zaleskis (2009), Lisauskaite (2010), Zabarauskaite and Blaziene (2012) analysed issues of the income inequality in Lithuania.

The purpose and rationale background. The main purpose of the article is to identify social classes' structure of the Baltic countries and to evaluate how "fair" income distribution in these countries is. To achieve this purpose the following tasks were formulated:

1. To overview structures of social classes;
2. To identify "fair" distribution of income among the population;
3. To analyse and present the existing the Baltic States social class structures.

2. Method

The study was performed using a scientific literature analysis, statistical data analysis, graphical data visualisation and summary.

First of all, before analysing of the social classes distribution was a review of social class groups. Belonging to one of the classes of society groups can be determined by various aspects and criteria, such as income, wealth, education, occupation, work and so on. Similarly, the number of social classes can vary from 12 up to 3 classes (Socialiniu tyrimu institutas, 2005; Mikutaviciene, 2009; Urbanskiene, Clottey & Jakstys, 2000). 5 types of society class structure could be identified in most cases in the scientific literature (Berglee, 2012; Pusey, 2003; Young, 2009 and others). These types are vividly presented in Figure 1.
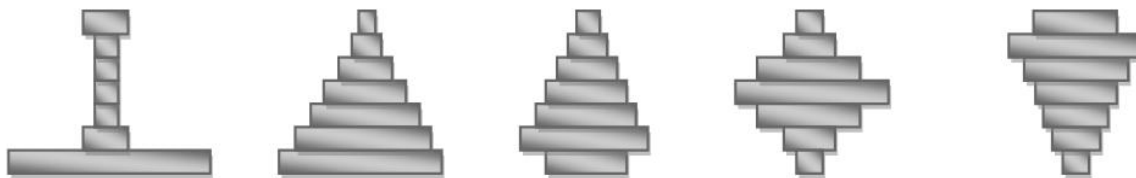

Figure 1. Types of society class distribution (Berglee, 2012; Pusey, 2003; Young, 2009)

All those types could be presented as follow:

1. The society, most of which are low-income earning population, a small part of the rich and the very few middle-class population;
2. A society, which graphically shows the "pyramid" shape: a little of rich, more people in the middle and highest part of the society who earn the lowest incomes;
3. The society which is similar to the above named, but the difference is that the small enough group of people are among the lowest-income earners;
4. The society consisting mainly of middle-income people (predominantly middle class) - "diamond" shape;
5. A society in which the majority of the people are close to the richest and only a small part is of the poorer.

"Fair" structure in majority cases was depicted after review of the main society class structures. Such structure could be aspiration of any state. Most authors in the scientific literature confirm that the middle class layer has a vital role not only in the national economy but also the social environment. It can be argued that the fairest structure to both economic sense and population terms is such when the largest part of society is composed of the middle class. This is supported by and residents.

According to the Great Britain study, as much as even 58 percent of respondents of this study named "diamond" shape income distribution structure as the "correct" one (Young, 2009). Berglee (2012) and other authors in scientific literature also agree that such distribution of society levels is the "fairest". Furthermore, it is the middle class is the main buyer of consumer goods, which plays a vital role in formation of the country's domestic demand. Therefore, it is even more thought provoking about the situation in the Baltic countries, as income inequality weakens the middle class layer. A small middle-class purchasing power not only prevents the potential use of domestic

consumption but also poses a number of social problems, which do not allow the country to develop harmoniously.

Analysis of society classes asks by what criteria one or the other residents could be assigned to their respective social class. It is important to define what is a high, low income, and so on, to identify how much a person has to earn that he could be classified as a middle-class income earner. It is quite difficult to assess because there is no consensus on what criteria the society can be classified into social classes. Moreover, it is complicated by the "middle class" uncertainty. Since the object of this study is the distribution of income, belonging to one of the society classes was determined based on the income for simplified social classes fall into three groups: the rich, the middle class and the poor. The reference point for the distribution of the Baltic population in social classes was chosen poverty threshold based on Burkhauser *et al.* (1996). They give a middle-class assessment, which involves those inhabitants, whose income is 2-5 times higher than the poverty threshold.

3. Results

Burkhauser *et al.* (1996) proposed the criterion - the argument that middle-class of society should include those inhabitants, whose income exceeds poverty threshold by 2-5 times. An assessment based on this criterion shows that Lithuania and Latvia society class distribution are not fair (a pyramid-shaped structure of society). These results are presented in Figure 2. Both in 2007 and 2011 Latvia's population distribution stays the same, while in Lithuania the society class distribution inequality is increasing rapidly. There was 40 percent of the population belonging to the middle class in 2007, while only 9 percent of middle class and even 90 percent of poor citizens in 2011. Estonia has a very different situation at the same period. It has a diamond shape, indicating that the Estonian society class distribution is "fair". The middle class accounted the majority of the population both in 2007 and in 2011, respectively 50 and 60 percent. These calculations were done using data of income distribution by quintiles from the statistical office of the European Union "Eurostat". Central Statistical Bureau of Latvia provided subsistence level consumer basket per one person per month, which shows complete minimum consumer basket of goods and services that meets minimum level of needs of living standards accepted by society. Statistics of Estonia provided estimated subsistence minimum. This is minimum estimated food basket and non-food expenditures per 30 days for one person household. Meanwhile, as the Statistics Department of Lithuania does not provide data of the poverty risk, indicators were taken from Sileika and Zabarauskaite (2009). Moreover, the statistical office of the European Union "Eurostat" provides only the relative risk of poverty threshold (60 percent of median income), which does not reflect the actual income level that would be sufficient to guarantee satisfaction for the minimum socially acceptable needs.
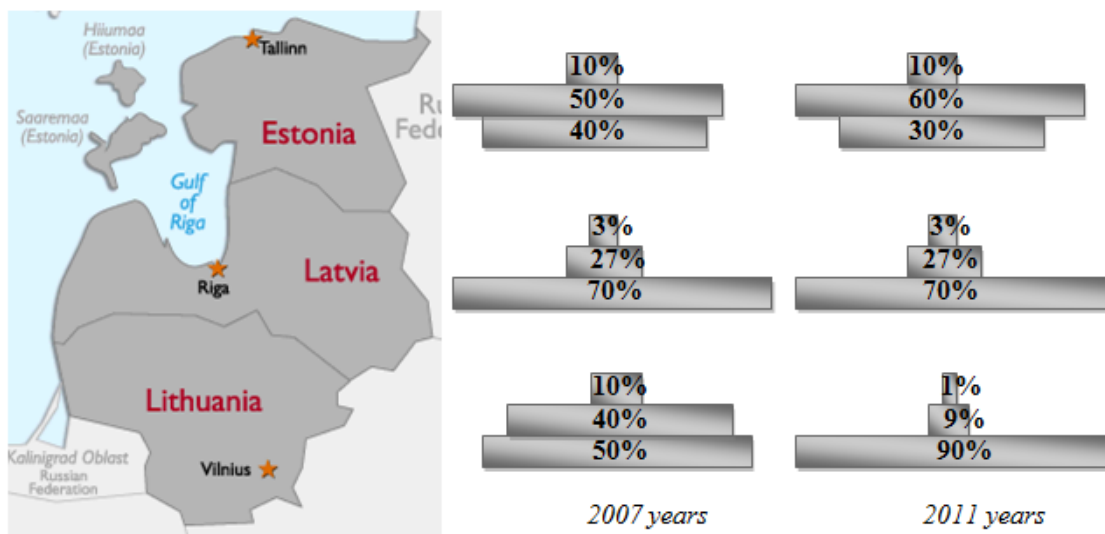

Figure 2. Social class structures in the Baltic countries

According to Eurostat statistics database provided Gini coefficient, we can say that, if value of Gini coefficient is higher than 30, there is substantial inequality of income distribution in the country. Data of the analysed period (2005-2011) shows that in Lithuania in 2010 and in Latvia in 2006 Gini coefficient was the highest among all EU countries and exceeded the level of 30 respectively by 9.2 and 6.9 points. Despite the fact that Estonia's society class structure is "fair", Gini coefficient exceeded the level of 30 in 2007 and 2011 respectively by 3.4 and 1.9 points. The question is "why Estonia has "fair" society structure if Gini coefficient exceeds the level of 30?" The answer can be found by looking at the Baltic minimum monthly salary and the absolute poverty line dependence, as indicated by Figure 3.
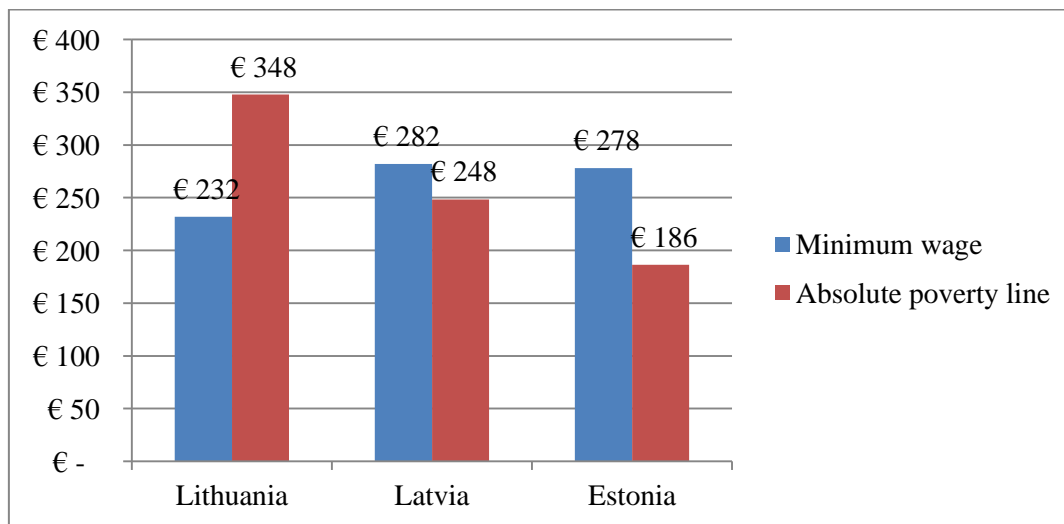

Figure 3. Comparison of minimum monthly wage and absolute poverty line in the Baltic countries in 2011

Data, given in Figure 3, shows that Estonia's minimum monthly wage is 1.5 times higher than the required amount of money to satisfy socially acceptable needs. Meanwhile, the opposite situation is observed in Lithuania - the minimum monthly salary is of 1.5 times lower than the absolute poverty line. Thus, even the workers cannot meet the minimum needs of life. Moreover, those residents, who receive minimum or less wage is even more than one-fifth, while more than a half of population receives less pay than it is necessary to satisfy socially acceptable minimum needs. Latvia is slightly better than in Lithuania. The minimum monthly salary is 1.14 times lower than the socially acceptable minimum standard of living there.

4. Discussion

Scientific problem of this study was formulated as the lack of studies, which would provide the most objective breakdown of the population in the rich, the middle class and the poor, and to identify the most "fair" society class structure. This issue is important because the fact that if deviation from the "fair" society class structure is observed in early period it is easier to reduce social exclusion. The results showed that it is necessary to focus not only on indicators of income inequality, such as Gini coefficient, but it is necessary to evaluate society's guarantee of the minimum needs satisfaction for people with the lowest income. It is necessary to define the income amount that allows residents to ensure sufficient minimum socially acceptable needs' satisfaction. It would be a suggestion that poverty risk threshold should be identified not as the relative risk of poverty threshold showing indicators (e.g. Eurostat provides poverty threshold, which is 60 percent median of income) but such indicators, which would show the absolute risk of poverty threshold.

Thus, there are a number of poverty measurement indicators, but not all of them reflect the real situation. This research revealed the Estonian example, which showed that it is not always possible to evaluate fairness of society class structure using indicators such as the Gini coefficient.

Although, Estonia's Gini coefficient exceeded the normal level but inhabitants, who earn the lowest income, can still satisfy socially acceptable minimum needs, because the minimum monthly salary is 1.5 times higher than the absolute poverty threshold, while in Lithuania it is 1.5 times lower.

Analysis showed the need for further research. It is necessary to develop a comprehensive model of poverty risk assessment, which could allow evaluating not just by income inequality but also could include other characteristics such as wealth, education, occupation, work, etc. Moreover, it would allow preparing a methodology, which could help evaluating countries by their social class structure according to their level of economic development.

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