Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 12 (2014) 57 – 65

Procedia Economics and Finance

www.elsevier.com/locate/procedia

Enterprise and the Competitive Environment 2014 conference, ECE 2014, 6–7 March 2014, Brno, Czech Republic

The impact of economic development in the Czech Republic on the income inequality between groups of households

Naďa Birčiaková[a,*], Jana Stávková[a], Veronika Antošová[a]

[a] *Department of Marketing and Trade, FBE, Mendel University in Brno, Zemědělská 1, Brno 613 00, Czech Republic*

Abstract

From the results of existing conducted and published analyses of the income situation of households, some unanswered questions have emerged about whether the economic development has influenced all income groups of households by the same measure. The period observation spans 2005–2012, representing a period of economic growth, crisis and stagnation and is expressed as GDP per capita. To depict the situation of households as the main variable, the total gross income as reported in the primary survey Statistics on Income and Living Conditions of the European Union (EU SILC) has been used. The paper uses these empirical data and through mathematical functions describes the evolution of the household income situation. Similarly, an empirical investigation of total household expenditure for each commodity according to COICOP describes how the level of household spending has trended. The parameters of the selected functions allow us to analyse the nature of changes in both variables during the observed period of time. The paper aims to answer whether the function that best describes the trending of incomes and expenditures of households and the growing annual increases in the gap in both observed variables (resembling an open pair of scissors), can be used to describe the movement of both variables for different groups of households by quintile classification with an emphasis on households at risk of poverty. Different economic trends manifest themselves in different ways for selected groups of households and negatively affect income inequality.

Selection and/or peer-review under responsibility of the Organizing Committee of ECE 2014

Keywords: Consumption; EU SILC; household income; inequality; quintiles

* Corresponding author. Tel.: +420-545-132-332.
E-mail address: nada.birciakova@mendelu.cz

Selection and/or peer-review under responsibility of the Organizing Committee of ECE 2014
doi:10.1016/S2212-5671(14)00320-7

1. Introduction

Changes in economic development, particularly a societal crisis and its social impacts, bring about a number of questions concerning the appropriateness of the emphasis put on the dynamics of economic development with regard to its inconsistency with the dynamics of society's social development. Gross domestic product, the basic indicator used to assess economic growth, is regarded as an indicator of success in economic development and as a guarantee of improvement in the citizens' standard of living. It follows from the definition of GDP that the indicator measures the success of economic development by the volume of outputs passing through the market, i.e. regardless of its social benefit or individual human welfare (Sherman et al., 2008). GDP shows growth even in cases where the final effect is socially undesirable (e.g. a deteriorating environment) and does not include the results of social programs, etc. In connection with the societal-wide impact of the financial crisis, it became more apparent that the very dynamics of GDP are not a reliable indicator of economic development and stability of the economic environment. Some new EU member countries serve as an example. These countries had been among the most economically progressive in recent years, but certain factors including environmental quality, level of education, healthcare and care for socially vulnerable citizens did not confirm this. Recently, expert discussions on the use of GDP as a general indicator for assessing economic success have been held by Joseph E. Stiglitz, Amartya Sen, Jean-Paul Fitoussi and many other international experts. One of the impulses for these discussions is, inter alia, the results learned from investigating the income situation of households and the results of large opinion polls on the citizens' own perception of their standard of living and life quality. The citizens most often equate their standard of living with income level and amount of consumption. This is due to a strong mutual connection with the possibility to satisfy one's own needs. The second reason is the ability to definitively quantify income data (Deaton, Grosh, 2000). The current economic changes have increased income inequality; the difference between the average and median income levels is growing. If income is more substantially increasing only for a certain group of people, the average income may grow even if the income level of most households decreases. This fact once again confirms the unsuitability of using strongly generalizing characteristics regarding the income situation of citizens as an indicator to show the general standard of living. Special attention has to be paid to the selected income groups of households whose level of income does not allow them to provide for their own basic needs, thus not reaching even the common standard of living.

In the submitted paper, the authors attempt to answer the question of how changes in society's economic development impact groups of households with different incomes and how the number of households whose income does not reach the level necessary to provide common consumables is changing, thus leading to an extension of consumer loans by banks, providers united in the Czech Leasing and Finance Association or providers from the "grey area". The reason this question is being asked is the existing analyses of the income situation of households that was performed and published by the authors between 2005 and 2013. Their results conflict with the presentation of the development of the income situation of households for the entire Czech Republic, with the prevailing impact of high-income household groups on the average income level, and the knowledge related to the GDP indicator as a suitable indicator of economic growth or as an indicator of the citizens' standard of living.

The economic development of society expressed as the growth of GDP and the income situation of households, the number of households at risk of poverty, the extent of poverty and the rate of income inequality have an identical development trend. It would be different if the economic development trend changes. (Stávková et al, 2012).

Stávková et al (2013) add that a very strong instrument that can significantly decrease household income problems is social policy. However, it is not only how much is spent on social protection, but also towards which social groups a social policy is oriented. If it is incorrectly focused, this generates economic inactivity and slows down economic growth, and thus decreases the standard of living.

2. Methodology

The source data is obtained using two European methodologies enabling a comparison between the EU countries. These are the European Union Statistics on Income and Living Conditions (EU-SILC) and the Classification of Individual Consumption by Purpose (COICOP). The results are regularly provided by the Statistical Office of the European Commission (Eurostat).