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Slovenia social briefing:

The changes in Slovenian Social Strata in the past 30 years

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The changes in Slovenian Social Strata in the past 30 years

Summary

The last 30 years in Slovenia were marked by several key factors that influenced social and economic changes. Two most important markers can be identified in this process: the transition from the socialist economy into the capitalist economy and the 2008/9 financial and economic crisis and its aftermath with the subsequent recovery. The rise and fall of inequality reflected these factors, as well as the changes in social strata, especially the marked dynamic in the middle class that can be identified in the last decade.

(In)equality dynamics in the last 30 years

Comparatively, Slovenia ranks among the OECD countries with the lowest level of inequality with the Gini coefficient in the range between 23 and 27 for most of the last three decades. As it will be shown below, the comparative equality of the Slovenian society is mostly a reflection of the working of social transfers and pension system, since without them the inequality would be considerably higher.

The rates of inequality in the 1980s socialist economy of the former Yugoslavia were low, with Gini coefficient for Slovenia in 1987 being only 21.5. The economic transition coincided with the political separation, which was realized in June 1991, but took a decade for the first stage to be completed. The first step, a change in the company legislation was made on the federal level already before independence, in summer 1990, when worker's councils were abolished and a new leadership model was adopted, with boards, managers and assembly. Privatisation and establishment of private companies was enabled by the same legislation, also triggering the separation of big state-owned companies into smaller companies along with the privatisation processes, while also stimulating the establishment of smaller privately owned companies. The establishment of a model for the privatisation of state-owned companies took a longer time. The debate between the two dominant models and their protagonists, Slovenian economist Jože Mencinger and the US advisor Jeffrey Sachs, took two years before the legislation was finally adopted at the end of 1992. Most of the privatisation was done by internal buyouts (25%), transfer to investment funds (19%), internal division (18%) and stock sale

(13%), importantly using the system of state-issued certificates, giving each citizen an opportunity to invest his or her share into a company or an investment fund. Along with these changes, this period was marked by a significant growth of inequality, especially in the first years of transition. From the 21.5 coefficient value in 1987 it reached 27.2 in 1993 before it started dropping again to 24.2 in 1998.

The relatively low inequality rates even after the transition can also be seen as partly misleading, since they don't reflect the significant change in the structure of the income and the actual market income inequality (before taxes and transfers), but calculate the disposable income inequality (after taxes and transfers). The complementary effect of the social transfers in the growing inequality situation was very important in the 1990s. Compared to the 21.9% of households that received social transfers in 1983, 25.1% received them in 1993. Especially important segment of these were the unemployment aids, received by 0.1% in 1983 and by 8.1% in 1993. Without the social transfers the Gini coefficient in 1993 would reach a much more worrying 30.5. The situation partly stabilized in the next decade –the inequality first grew to 24.7 in 2000 and then slowly went down to 23.3 in 2007.

The turbulent dynamics of the financial and economic crisis in the years after 2008 reflected in the inequality as well. The economic crisis which in Slovenia strongly affected the large employers, especially the building industry, which almost collapsed, reflected in the fast rise of unemployment rates in the next half decade: from 8.2% in 2008 to 17.7% in 2014. This also changed the relative position of Slovenia, which previously ranked first among OECD countries, to fourth place in 2013. While this rate of inequality is still extremely low compared to the EU average or to other OECD countries, many economists (notably Damijan, see sources below) warn that the changes that occurred in the post-crisis period are actually not reflected in this numeric assessment. During the crisis, the inequality actually grew by a tenth as a result of the fact that the income of the lower income population was more affected than the income of the high-income population. Situation was worst in the lowest income population. The 10% of the lowest income population lost a third of their income between 2007 and 2013. It explains why, in the post-crisis period, the market income inequality actually grew faster than the disposable income inequality. The change in the former reflects the growing inequality in income, while the latter remained relatively stable due to the effect of taxes and, especially, social transfers. Without the social transfers and the taxes corrections, the inequality rates would reach well over 40 in terms of Gini coefficient. This dimension makes the high equality situation in Slovenia less stable and more prone to rapid aggravation in case of the political reforms which would affect the social transfers or pension system. It also means that any privatizing interventions in the current health care system and schooling system could make the actual inequalities in income more visible.

Changes in social strata

Along with the global changes in the social stratification that occurred in the post-industrial context, Slovenia as a post-socialist country went through a series of changes related to the social and economic change in the systemic transition of the country since the 1990s onwards. As described in the previous paragraph, the most radical economic transition took place in the 1990s. The economic transition period reflected in the social stratification, bringing about new types of elites, and restructuring the society in general. The new social elites emerged from the juncture between political and economic elites, especially in the form of company managers in the late socialist times which were transformed into large-scale shareholders in the privatisation process. The merging of political and economic elites especially materialized in the form of high-level political actors entering the business world by becoming managers of large companies. This merged political-economic elite is a typical phenomenon of post-socialist societies. The social stratification changes in the transitional period Slovenia were marked by the merging of political and economic elites, based also on the manoeuvres in the privatisation of the state-owned property.

Lower strata of the society were also significantly transformed by the transition as well as the additional global changes in the industrial production and the effects of economic globalisation (especially affecting certain industries, in Slovenia, notably the textile industry). With the growing unemployment the most vulnerable social groups within the lower strata became the lower-qualified workers, retired citizens, large families with an unemployed parent etc. Changes also occurred in the middle strata – with the growing lower middle class, whose income is based on the production of goods and services, and the upper middle class of the private sector and management. The lowest income strata grew considerably as well, especially its lowest segment, with a growing number of people receiving an income that barely secures survival: the retired people with minimum pensions, unemployed, social security recipients, working poor, ethnic minorities etc. Changes in the economic dynamics in the post-crisis decade also brought a new detrimental trend, the precarisation of the workforce, forcing especially younger employees to become sub-contractors and losing all beneficial elements of employment security.

It is also significant to compare the situation with other countries. A recent comparison of the situation in Slovenian middle class with a similar societal segment in Germany showed a remarkable discrepancy. Middle class, narrowly defined as the population segment receiving between 80% and 150% of the income median, in Slovenia includes around 45% of the working population, comparable to the German example. The purchasing power of this segment of population, however, is significantly weaker. For example, a middle-class income recipient in Slovenia has to save 22 monthly incomes for a medium range car, while the same car only requires a yearly income of a German middle class employee. Significant difference can also be identified in the living costs and rents, leaving a Slovenian employee a significantly lower savings potential.

Conclusions

In the dynamics of the social stratification in the last three decades, two factors were had an especially defining role in Slovenia: the 1990s economic transition with the privatisation of the state-owned companies, and the effects of the 2008 economic crisis. Along with global economic and political changes in the last period, this caused significant changes in social strata. The upper social strata underwent a transformation in the juncture of political and economic power structures, developing a new type of the political-economic elite. The middle strata of the society especially grew in its lowest segment, while also being in a significantly disadvantaged position compared to middle strata in economically stronger European countries. The lower strata suffered both the effects of transition and economic crisis the strongest, both having especially detrimental effects on the lowest income segment.

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