THE INEQUALITY OF MATERIAL LIVING CONDITIONS IN THE EU COUNTRIES

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Abstract. The socio-economic inequality has become one of the most relevant problems in world6 economy. The studies that have been done in the past ten years revealed that high level of inequality stops economic growth. The standard means to measure socio-economic inequality include such methods and aspects as income inequality and inequality of consumption, however, the latter criteria of measurement do not reflect the actual level of inequality. In order to find out the actual level of socio-economic inequality, the wealth distribution should be analyzed. However, up until now, the aspects of unequal distribution of material living conditions and housing inequality were not the main objects of proper and sufficient scientific research. Due to this fact, the main aspects to be analyzed in this article are the distribution of material living conditions and housing inequality in Lithuania and other EU countries, with the special focus on the extent and volatility of the problem.

Keywords: wealth inequality, socio-economic inequalities, distribution of material living conditions, quality of life.

JEL classification:

D63 - Equity, Justice, Inequality, and Other Normative Criteria and Measurement

E21 – Consumption, Saving, Wealth

P46 – Consumer Economics, Health, Education and Training, Welfare, Income, Wealth, and Poverty

D31 – Personal Income, Wealth, and Their Distributions

Introduction

The society's quality of life is the main aspect that causes socio-economic growth. It has been influenced mostly by the change in the economic paradigm, as the universal monetary methods, based on the monetary aspects and fiscal policies, have been replaced by the nonorthodox conceptions of economic development, which emphasize the importance of society's interests and quality of life. The prioritizing of these aspects has led to the economic growth and society's satisfaction in such EU countries as Germany, France, Italy, Austria, also Scandinavian countries, Switzerland, etc. In the meantime, other countries underestimate the importance of human resources and still live in a belief that the radical and liberal doctrine of Washington Consensus, which happens to be criticized more and more often by the representatives of economics science, will improve the life quality in society, will increase competitive ability and will ensure socio-economic progress. Unfortunately, it might encourage a disappointment in political systems that exist in various countries as well as the polarization of society members, the uneven distribution

of income and resources and also high inequality rates and a respective rate of poverty. Thus, it might be stated that socio-economic inequality has become one of the most relevant problems in world economy. The studies that have been concluded in the past ten years (J. Stiglitz, A. Sen, J.P. Fitoussi, R. Reich, K. Rogoff, The World Bank, etc.) revealed that a high level of inequality stops economic growth. R. Reich (2010) stated that the reasons of global crisis are not the increase of national debts or the people's inability to live within their means, the main reason is high socio-economic inequality when the growth of GDP is based on the unjustified income increase of the rich (Rakauskienė, 2015). The report by J. Stiglitz, A. Sen and J. P. Fitoussi ("Report by the Commission on the Measurement of Economic Performance and Social Progress", 2009) revealed that the influence of socio-economic inequality must be analyzed in relation to both economic growth and quality of life.

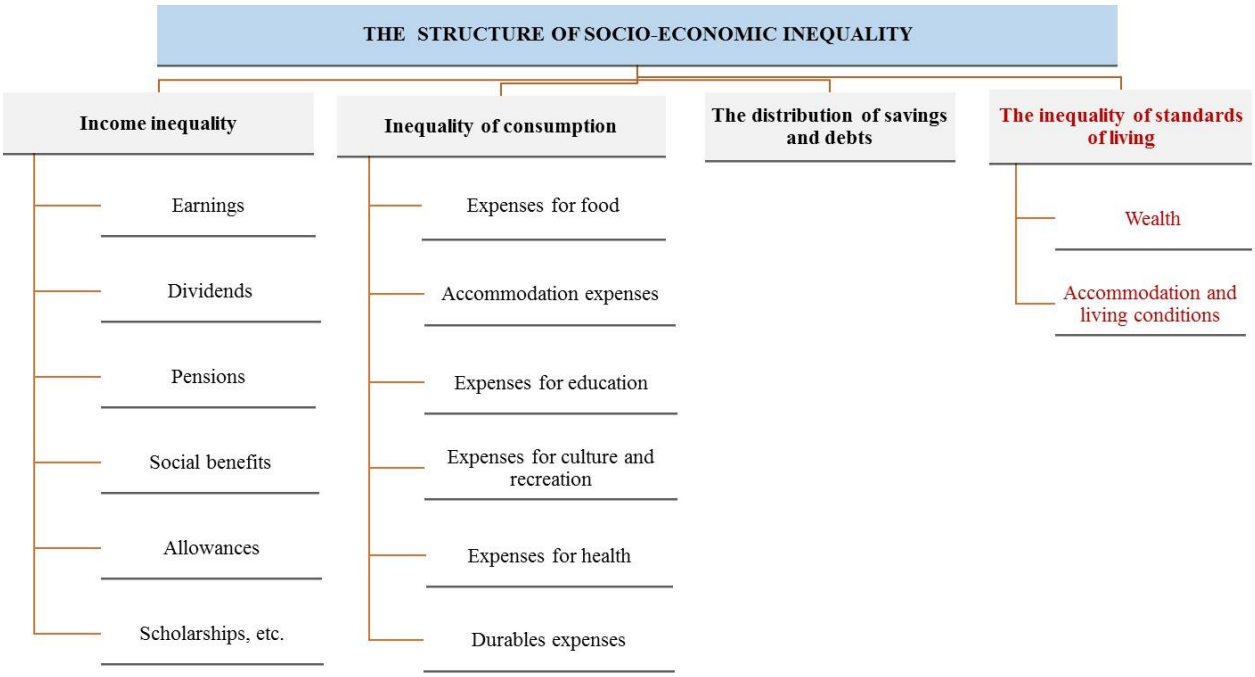
International organizations such as The World Bank, Organization for Economic Co-operation and Development (OECD), European Commission, Eurostat and others, have carried out the studies in relation of socio-economic inequality, quality of life and their influence on the economic development in a particular region or country. The conception of socio-economic inequality was also researched by J. E. Stiglitz, R. Reich, A. Atkinson, T. Piketty, G. O. Rakauskienė, R. Lazutka and others, the conception of wealth was analyzed by B. Galinienė, A. Jakutytė-Sungailienė, V. Pakalniškis and others, wealth inequality was studied by J. Chesters, H. Jurges, L. A. Keister, S. Moller, B. P. Simpson, C. Gollier, E. N. Wolff, O. Bover, P. Lysandrou, M. Cragg, R. Ghayad, D. R. Carroll, E. R. Young, M. D. Wood, J. Rieger, the aspects of life quality were researched by S. Puškorius, V. Servetkienė, B. Gruževskis, G. Merkys, D. Štrimikienė and others. However, it must be noted, that the influence of material conditions of living in relation to life quality was not broadly researched. The standard means to measure socio-economic inequality include the methods and aspects of income distribution and inequality of consumption, however, according to the authors, the mentioned criteria does not reveal the actual rate of inequality. In order to find out the actual rate of socio-economic inequality, it is reasonable to research the distribution of living conditions, which might be referred to as the most adequate criterion that reflect socio-economic inequality.

The Importance of Material Living Conditions in Contemporary Socio-economic Development

Socio-economic inequality. Socio-economic inequality is the outcome of modernization within societies and economic development in a contemporary world. The socio-economic inequality is influenced by various economic (macro) factors (such as economic growth, policies of taxation, labour markets policies and regulations, the policies of social benefits and allowances, income distribution, etc.) as well as social and demographic factors (such as family size and composition, income, education, qualifications, competences, age, sex, social status, culture) and by psychological (micro) factors (person's characteristics, way of thinking, competences, health, fears). Socio-economic inequality includes all the aspects of economic, wealth and income distribution differences within societies. Moreover, the inequalities of wealth and income in

contemporary society influence uneven opportunities for future generations (Rakauskienė, 2015). Income inequality and inequality of consumption are the two main concepts distinguished in scientific literature. According to the authors, this kind of distribution is not finite. Figure 1 reveals other equally important aspects of the phenomenon as well.

Figure 1: The Structure of Socio-economic Inequality



Source: created by the authors.

Socio-economic inequality remains a broad and complex concept, as many talented philosophers, political theorists, sociologists and economists had to rack their brains in order to explain its meaning and possible implications. Economic inequality can be conceived of as inequality with an economic effect or an economic origin, being as much an outcome of the underlying economic process as an input into these processes (Salverda, Nolan, Smeeding, 2013). Considering the above mentioned types of inequality, it might be stated that all of them are an integral parts of economics that either stop or increase economic growth and has certain consequences. Moreover, it should be emphasized that inequality is an economic problem rather than a social, i.e., it is a problem of economic system, especially when it becomes excessive and stops economic progress.

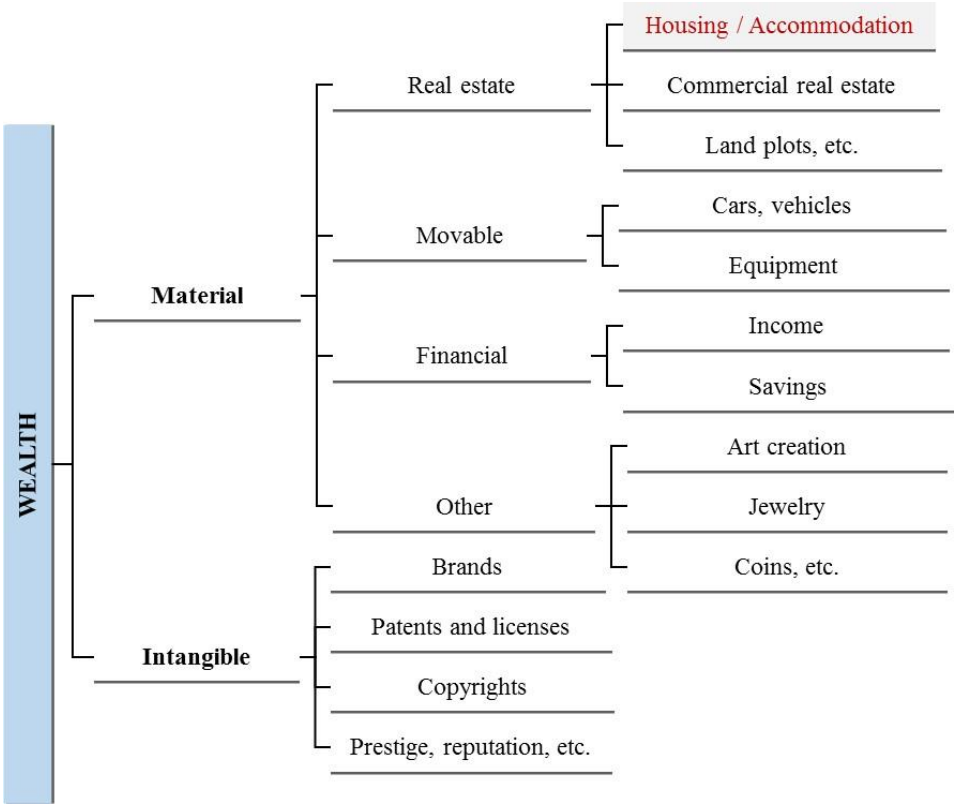
Income inequality – the key economic variable – is one of the most important socio-economic inequality problems and one of the main subjects in many studies regarding inequality in general. The income flow is only one part of this problem. The accumulated stock of wealth also constitutes a key economic resource (Salverda, Nolan, Smeeding, 2013). Regarding income and

wealth distribution, poverty might influence not only the disjuncture of people in relation to income and wealth, but also a disjuncture in relation to social life being the main reason of discontent in life quality.

The structure of material living conditions. The most important achievement of every country is the factual economic growth, the dynamics and level of which is influenced by various aspects. The increase of economic potential is based on the cumulated and newly created wealth that influence the development of that economic potential (Galinienė, 2005). It should be noted that the term 'wealth' might be understood differently in relation to legal, economic, physical, social or any other aspects. The wealth is defined according to the features and priorities characteristic to a particular scientific field. It explains why 'wealth' in general is such an abstract definition (Ragauskienė, 2011).

Meanwhile in the theory of economics, the term 'wealth' includes anything that has value and is considered as a personal property (Pakalniškis, Papirtis et al., 2008). In every case of 'wealth' conception analysis, there are certain separate wealth units or types given, however, a common conception to summarise certain wealth units, types and forms is never presented. The criteria of wealth regarding economic context are the following (Ragauskienė, 2011): 1) wealth must have a value, 2) a subject must have a right to an object, 3) an object must be useful in the time to come.

Figure 2: The Classification of Wealth



Source: created by the authors.

The above given Figure 2 demonstrates an economic classification of wealth that is created by the authors. In this case, the material wealth is the most important: the distribution and correlation between real estate and life quality, emphasizing the importance of dwelling place. Whereas movable and other type of wealth is considered to be directly related with the obtainable income. The opportunity to obtain and manage non-material wealth depends accordingly on the amount of material wealth that a person has, i.e., the opportunity to obtain and manage such non-material wealth as copyrights, licenses, etc., might emerge if that person has a certain social status, has cumulated a certain amount of material wealth or in case of favorable circumstances (for example, in case of inheritance).

The influence of income and material living conditions inequality, with the special focus on the importance of dwelling place, has never been analyzed and evaluated in relation to life quality. However, it is presumed that the influence might be huge. In order to shape political system in a country and ensure the well-being of a society and every individual in general, this influence and its importance must be thoroughly evaluated.

The distribution of material living conditions. The material living conditions and their distribution in society might be analyzed by using different variables. The main variables include various financial indicators such as expenditure, income and wealth, also they include non-monetary indicators such as multidimensional measures of material well-being, happiness and other indicators of well-being. Income is not the only one indicator of high life quality. The welfare of households depends on the number of family members, their health, economic and social environment and economic resources. These resources include human capital and non-human capital, i.e., wealth. It must be noted, that wealth is more unequally distributed compared to human capital, earnings or income. The Gini coefficient for disposable income in OECD countries ranges from 0.30 to 0.50, whereas the Gini coefficient for wealth distribution ranges from 0.50 to 0.80 (Davies, 2013). The top 1% of families in the United States share over 30% of wealth in general, moreover, based on certain estimates, 50% of the world's household wealth belongs to 2% of adults (Davies, 2013). Wealth and income are correlated thus high level of concentration highlights the problems of socio-economic inequality.

The concept of 'wealth' is used in the meaning of all material non-human assets minus debts. In theory, the term of wealth includes cash and deposits, other liquid assets, stocks and bonds, business equity, owner-occupied dwelling or any other real estate, also consumer durables, including antiques, art and jewelry. However, in practice not all assets are included, for example, consumer durables are often understood and limited by vehicles. Moreover, the concept of wealth and such assets as consumer durables and real estate are often understood differently in different countries.

Table 1: The International Comparison of Wealth Inequality

Country	WIDER/UNU WORLD WEALTH STUDY			
	Year	Share of top 10%	Share of top 1%	Gini
Australia	2002	45.0		0.622
Canada	1999	53.0		0.688
Denmark	1975	76.4	28.8	0.808
Finland	1998	42.3		0.621
France	1994	61.0	21.3	0.730
Germany	1998	44.4		0.667
Ireland	1987	42.3	10.4	0.581
Italy	2000	48.5	17.2	0.609
Japan	1999	39.3		0.547
Korea	1988	43.1	14.0	0.579
New Zealand	2001	51.7		0.651
Norway	2000	50.5		0.633
Spain	2002	41.9	18.3	0.570
Sweden	2002	58.6		0.742
Switzerland	1997	71.3	34.8	0.803
UK	2000	56.0	23.0	0.697
USA	2001	69.8	32.7	0.801

Source: Davies, 2013.

The above given Table 1 demonstrates the international comparison of wealth inequality. Based on this analysis, it is clear that wealth inequality is high in all 17 OECD countries. The top 10% of the people share from 39,3% to 76,4% of all wealth, the Gini coefficient ranges from 0.547 to 0.808. It must be noted, that the results presented in Table 1 were gathered using different methods: surveys, wealth-tax based estimates, estate multiplier figures. Considering the variety of applied methods, it remains unclear how intercultural differences might have shaped the results. The highest results are observed in the United States, where the top 10% share 69,8% of all wealth, and Gini coefficient is 0.801. In several other countries where the method of surveys was applied the results are similar. Based on results of the wealth tax and estate multiplier estimates, the top 10% in the United Kingdom share 56% of wealth, the top 10% in Switzerland share 71,3% of wealth, and Gini coefficients range from 0.697 (in the United Kingdom) to 0.803 (in Switzerland) (Davies, 2013).

The impact of wealth inequality on the economic well-being depends on the correlation between wealth and income. Income and wealth are correlated, however, they are not completely identical. It might be stated that the coefficient of their correlation is about 0.5 (Davies, 2013).

Uneven Distribution of Material Living Conditions in the EU Member States

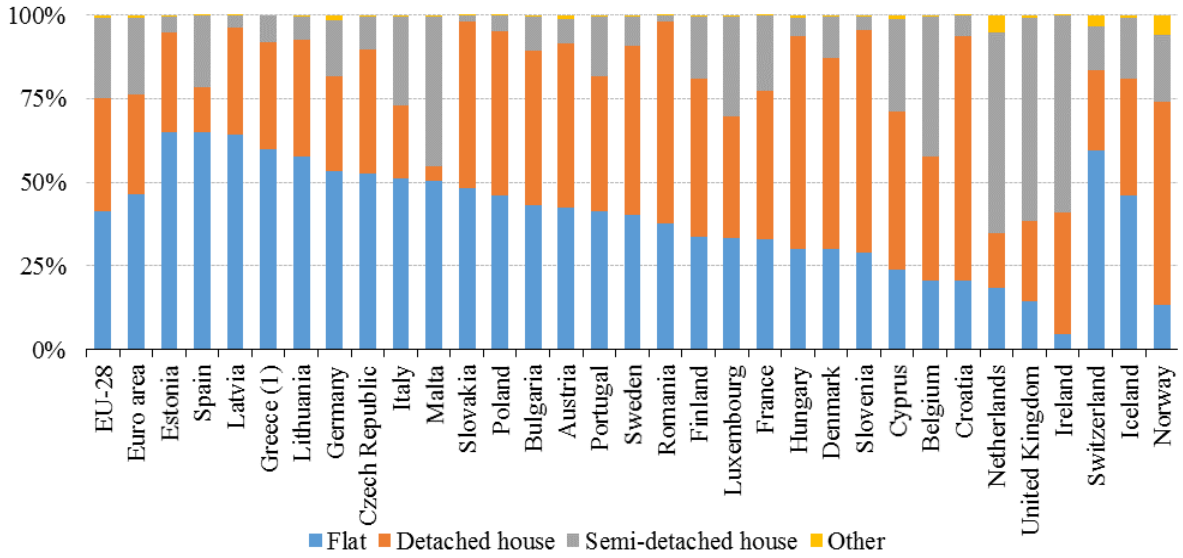
An asset is considered to be a wealth unit only if it has a proprietor (Galinienė, 1999). The ability to obtain wealth and have it in one's disposition ensures material and moral felling of security,

self-confidence, self-esteem and respectively influences the quality of life. In a historical perspective, real estate is considered to be the most valuable type of wealth. Housing is a significant part of human well-being and guarantee of stability in a society (Lipnevič, 2012), however, this subject still has not been appropriately thoroughly covered in a scientific literature, i.e., the distribution of wealth has not been measured, also, the influence of wealth inequality, with the special focus on the importance of dwelling, in relation to human life quality, has not been analyzed.

In 2010, in order to create new workplaces and increase economic growth, the EU countries started to implement the ten-year strategy *Europe 2020*, the main purpose of which is to increase the competitive ability of EU and to maintain its economic model of social market, at the same time increasing the effective use of resources. The main idea of the strategy is to ensure the partnership of EU member states, set priorities and purposes and create a special system to implement those purposes. There are five main correlated goals, that EU has to accomplish until 2020 in fields of employment, scientific research and development, climate change and energetics, education and battle against poverty as well as social disjuncture (European Commission, 2014). It is stated, that one of the main challenges that the strategy Europe 2020 will face is the reduction of poverty and social disjuncture, as the main goal is to provide every EU citizen with a dwelling place that would be decent both in relation to price and quality. According to Eurostat researchers, the quality of housing is the key to good quality of life, however, the lack of appropriate housing is a deep rooted problem in many EU countries (Eurostat, 2014). It must be noted, that there are no studies made that would reveal the correlation between the obtained wealth and life quality, with the special focus on the dwelling place and its quality. On the other hand, the studies made by EU institutions in the last few years which examined the living environment, housing places and their quality, revealed that these aspects directly influence the quality of life.

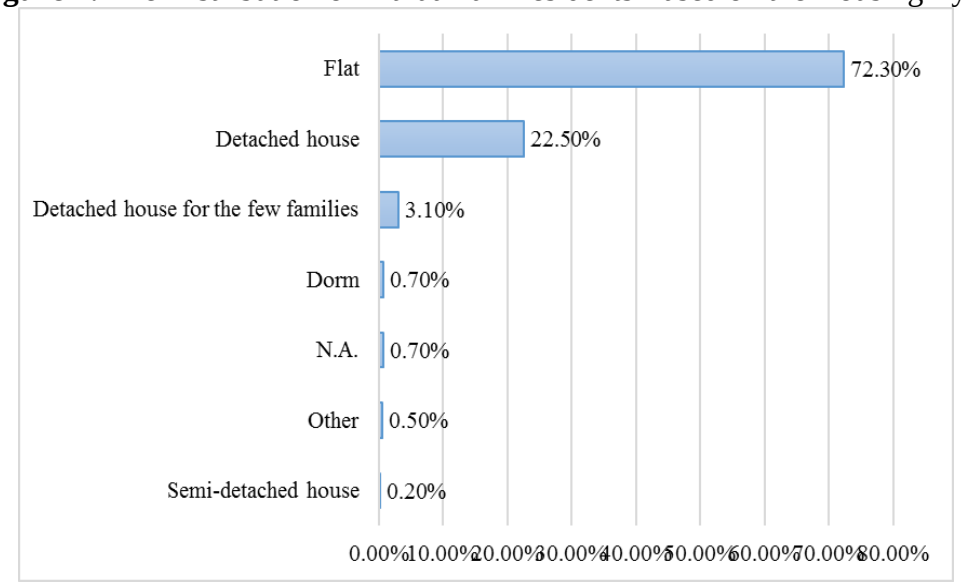
In 2012, Eurostat completed a research in which the material living conditions and living environment in EU member states was studied, with the special focus on a decent dwelling place as one of the most important needs of human being. According to the results of the research concluded in 2012, 41,3% of EU citizens had been living in flats, one third (34,1%) of citizens had been living in detached houses, 24,0% of people had been living in semi-detached houses. The majority of people that had been living in flats proved to be from Estonia (65,1%), Spain (65,0%) and Latvia (64,4%). Meanwhile the majority of people that had been living in detached houses proved to be from Croatia (73,0%), Slovenia (66,6%), Hungary (63,9%), Romania (60,5%) and Norway (60,7%). Semi-detached houses proved to be the most popular in United Kingdom (60,9%), the Netherlands (60,0%) and Ireland (59,0%) (see Figure 3).

Figure 3: The Distribution of Population Based on the Housing Type (2012)



(1) Not significant for 'Other' category
Source: Eurostat, 2014.

Figure 4: The Distribution of Lithuanian Residents Based on the Housing Type

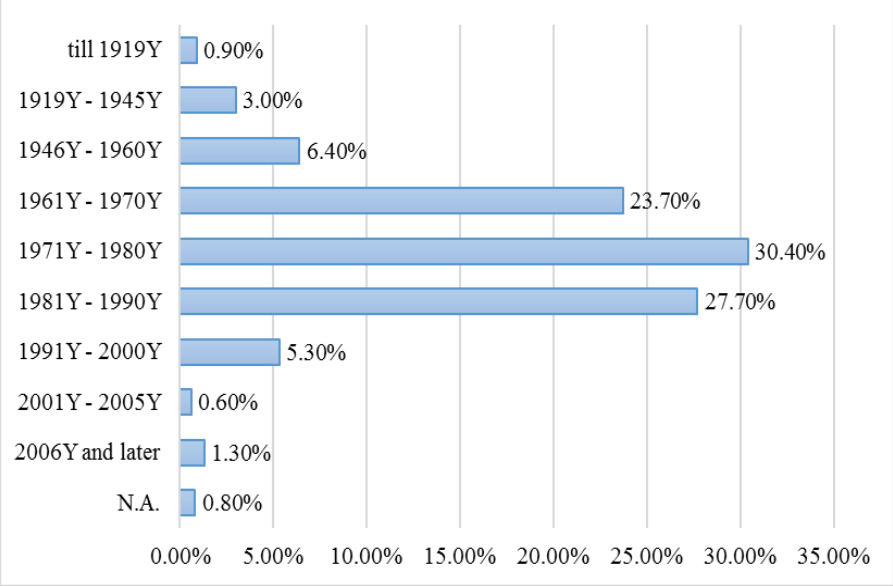


Source: MRU, the *Vilmorus* Centre of Public Opinion and Market Research, 2016.

In 2016, on behalf of Mykolas Romeris University, the Centre of Public Opinion and Market Research *Vilmorus* completed a study and, according to the results of the study, 72,30% of Lithuanian citizens have been living in flats. Meanwhile, 22,50% of citizens proved to have been living in detached houses for one family, 3,10% of people proved to have been living in townhouses shared with several other families. 0,70% of citizens have been living in blocks of flats, 0,50% of citizens have been living in flats located in uninhabitable buildings, and 0,20% of Lithuanian people have been living in cottages (see Figure 4).

It should be noted that at the moment, 81,80% of Lithuanian residents live in dwellings that were constructed between 1961 and 1990 (see Figure 5). Only 1,90% of residents proved to be living in relatively new (2001-2006 and newer) buildings. Thus, based on these tendencies, the following assumption might be drawn: the majority of Lithuanian residents either lack a decent housing of high quality or are not able to obtain one and thus face various exploitation issues, whereas the policies of housing renewal are not able to meet their goals in such an extent that they should.

Figure 5: Housing Places According to Their Year of Construction

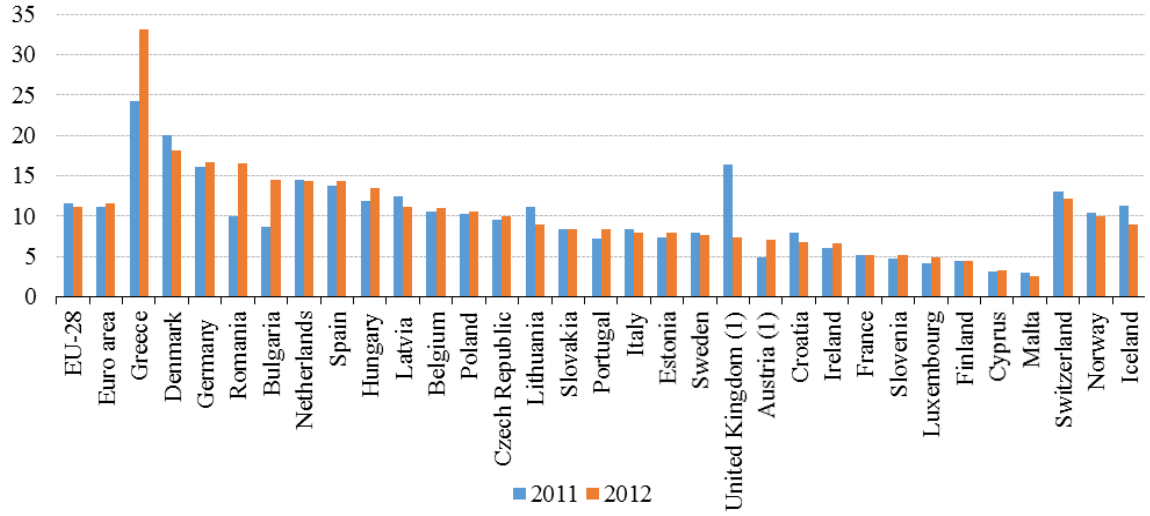


Source: MRU, the *Vilmorus* Centre of Public Opinion and Market Research, 2016.

The housing cost overburden rate, which is calculated by Eurostat, should be taken into consideration as it reveals the percentage of all the households in which housing expenditures constitute more than 40% of their equivalised disposable income (see Figure 6).

In 2012, 11,2% of all 28 EU member states' citizens lived in households in which more than 40% of all the disposable income were spent on housing and its maintenance. In Greece, Denmark, Germany, Romania, Bulgaria and Netherlands the norm of the rate was exceeded by 14,0%, whereas the lowest rates were observed in Cyprus (3,3%) and Malta (2,6%). Compared the results of 2012 with the results of 2011, the housing cost overburden rate in 28 EU member states decreased by 0,4 percentage points. On the other hand, the rate increased in Greece (by 8,9 percentage points), Romania (by 6,6 percentage points) and Bulgaria (by 5,8 percentage points).

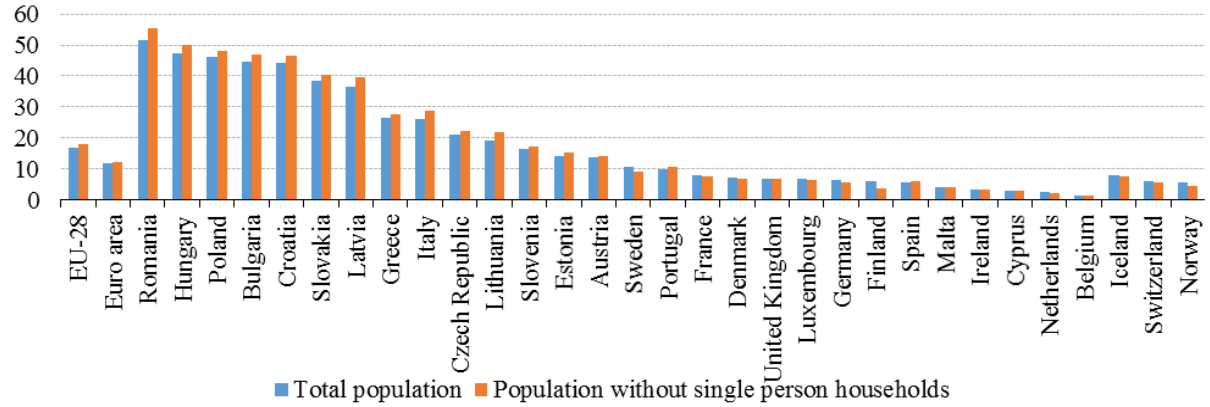
Figure 6: The Housing Cost Overburden Rate (in 2011 and 2012)



(1) Break in series, 2012
Source: Eurostat, 2014.

The availability of sufficient space in the dwelling is one of the main aspects necessary for the evaluation of housing quality and living conditions. The latter rate reveals the percentage of people that live in overcrowded dwelling places. The results are based on the number of rooms that belong to a household, household size, age of family members and their domestic situation (see Figure 7). In 2012, highest rate of overcrowded housings was observed in Romania (51,6%), Hungary (47,2%) and Poland (46,3%), whereas the lowest rate of overcrowded houses was observed in Cyprus (2,8%), the Netherlands (2,5%) and Belgium (1,6%). The overall average of overcrowding in all 28 EU member states was 17,0%. It should be noted, that these housing overcrowding rates might become even higher, provided that households comprised of only one person are eliminated from overall count. And vice versa, the elimination of these kind of households reduces the rate in such countries as Sweden, France, Denmark, Luxembourg, Germany, Finland, the Netherlands, Belgium, Iceland, Switzerland and Norway as it is often the case in these countries that a single person lives in a small flat or a studio.

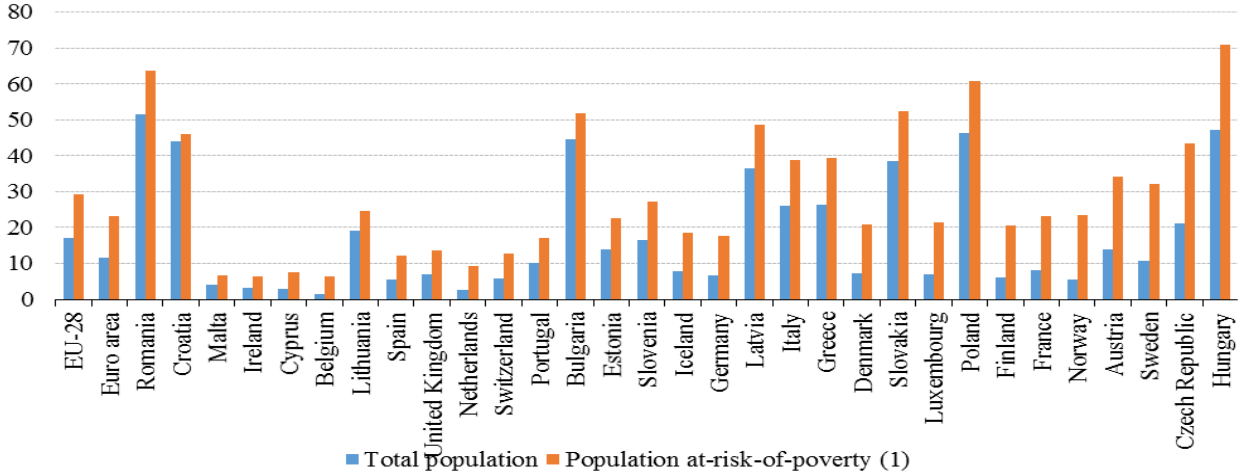
Figure 7: The Rate of Housing Overcrowding (percentage, in 2012)



Source: Eurostat, 2014.

The higher rate of housing overcrowding in 28 EU countries is observed in cases when a household is facing poverty (i.e., in households, where equivalised disposable income per person is lower than 60% of the national median). The biggest differences between the overcrowding rates were observed in Hungary (difference by 23,8 percentage points), the Czech Republic (difference by 22,4 percentage points), Sweden (difference from 21,3 percentage points), Austria (difference by 20,4 percentage points) and Norway (difference by 17,8 percentage points). On the other hand, differences in Croatia, Malta and Ireland were lower than 4 percentage points (see Figure 8).

Figure 8: The Rate of Housing Overcrowding Based on the Poverty Rate (percentage, in 2012)



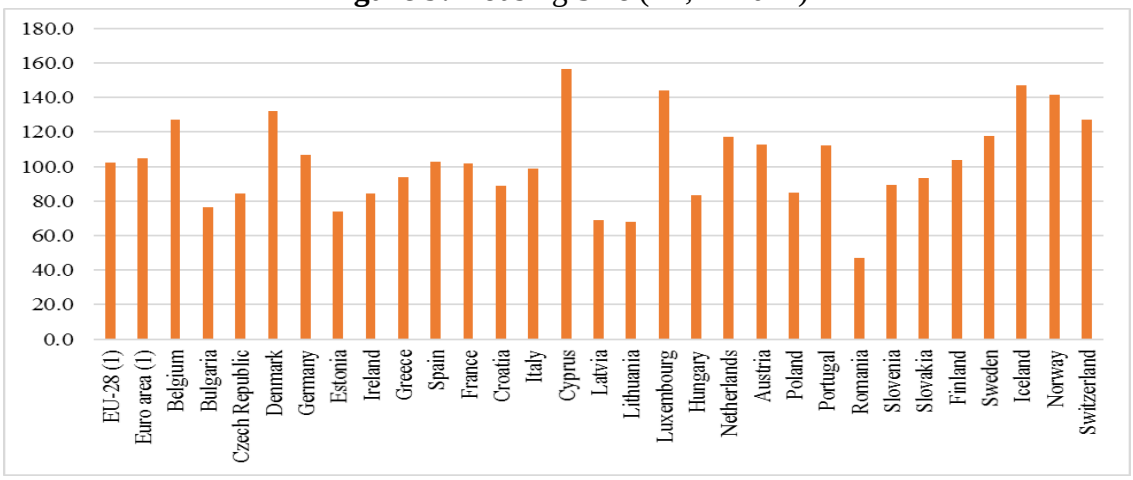
(1) Population below 60 % of median equivalised income

Source: Eurostat, 2014.

There is one more important indicator distinguished by Eurostat – the size of a dwelling, which may reveal the quality of housing in consideration of the living space availability. In 2012, the average size of a housing place in 28 EU countries varied around 102,3 square meters. The

average useful space in a housing varied from 46,9 m^2 in Romania, 68,1 m^2 in Lithuania, 69,1 m^2 in Latvia and up to 156,4 m^2 in Cyprus (see Figure 9).

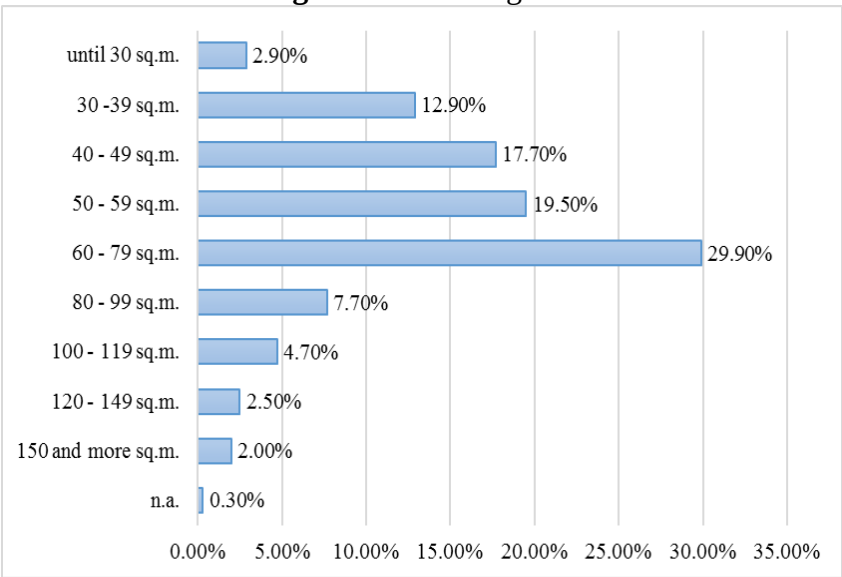
Figure 9: Housing Size (m^2, in 2012)



(1) Eurostat estimates
Source: Eurostat, 2014.

According the results of the study carried out by MRU and the *Vilmorus* Centre of Public Opinion and Market Research, in 2016 49,40% of Lithuanian residents lived in average size housings of 50-79 m^2, 30,60% of residents lived in housings of 30-49 m^2, 16,90% of residents lived in housings bigger than 80 m^2, and 2,9% of residents lived in housings smaller than 30 m^2 (see Figure 10).

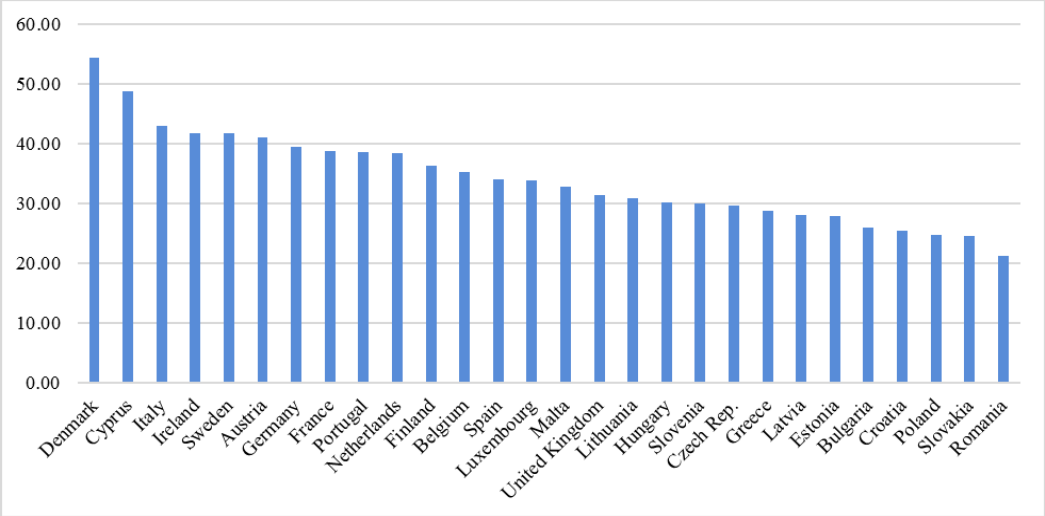
Figure 10: Housing size



Source: MRU, the *Vilmorus* Centre of Public Opinion and Market Research, 2016.

It must be noted, that on the average in Lithuania one person gets 30,90 m2 of a dwelling. In Denmark one person gets 54,36 m2, in Cyprus one person gets 48,80 m2, in Italy – 42,92 m2. In Romania one person gets 21,23 m2, in Slovakia – 24,51 m2, in Poland – 24,70 m2, and it is lower than in Lithuania (see Figure 11).

Figure 11: Dwelling-Space (m^2) for a Single Resident



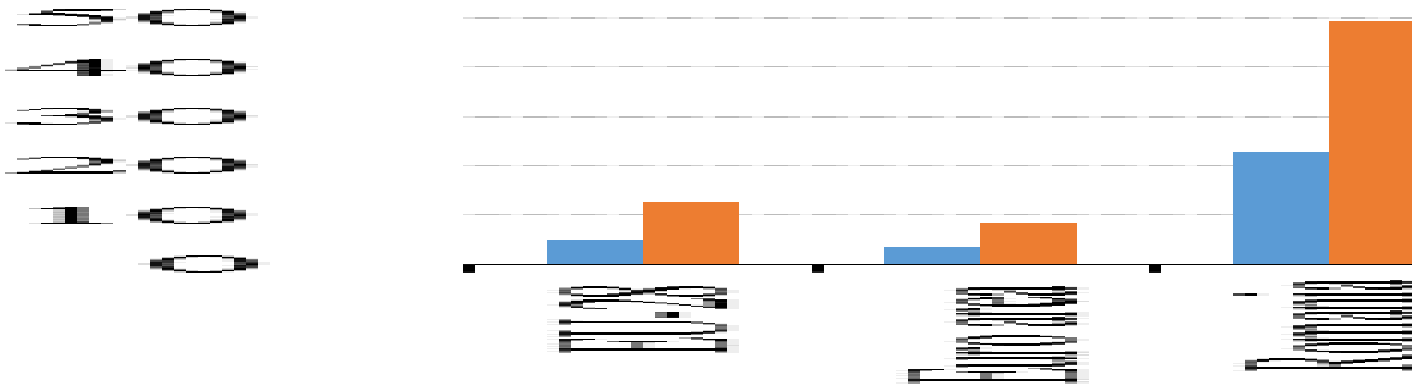
Source: *Enerdata*, 2016.

Insufficient dwelling-space or poor amenities in a housing are the aspects used to define one more indicator distinguished by Eurostat – severe housing deprivation rate[1.] In 2012, 79,5 % of the Europeans were declared as not deprived for the 'housing dimension', 15,5 % were found to suffer from one of the dwelling problems, 4,0 % suffered from two, 0.8 % suffered from three and 0.2 % suffered from all four of dwelling problems (i.e. leaking roof/damp walls/floors/foundation or rot in window frames and accommodation being too dark and no bath/shower and no indoor flushing toilet for sole use of the household) (Eurostat, 2014).

In 2012, the severe housing deprivation rate in EU was 5,1% and in some cases two times higher (12,6 %) among the residents that are at the edge of poverty. The highest severe housing deprivation rate was observed in Romania (22,8%), Hungary (17,2%) and Latvia (16,4%), the lowest – in the Netherlands, Finland, Belgium and Ireland (less than 1% for all the residents).

Figure 12: Severe Housing Deprivation Rate Based on the Poverty Rate (percentage, in 2012)

1 *Severe housing deprivation rate* indicates the percentage of people who live in overcrowded dwelling-places and face at least one of the following housing issues, i.e. lack of certain basic sanitary facilities in the dwelling (such as a bath or shower or indoor flushing toilet), problems in the general condition of the dwelling (leaking roof or dwelling being too dark).



(1) Population below 60 % of median equalized income
Source: Eurostat, 2014.

The lack of high quality housing, the housing cost overburden rate for a single household, housing overcrowding as well as insufficient dwelling-space, running and environmental issues and, finally, insufficient income to acquire a housing that would meet person's needs are the main problems that both Lithuanians and other EU member states citizens are faced with. Hence, the essential demand – satisfactory housing and good living environment – is not met, thus the good quality of life as well as other needs are not ensured.

Conclusion

Socio-economic inequality is one of the most relevant global problems in contemporary world as it negatively influences the development of economics and economic progress. The concept of socio-economic inequality is rather broad: it includes the aspects of income inequality (earnings, dividends, pensions, social benefits, allowances, etc.), inequality of consumption (expenditure on food, accommodation, education, cultural development, recreational, health, durables), the distribution of savings and debts, the inequality of conditions of living (wealth, accommodation and life quality) and many other inequality aspects. The opportunities to acquire dwelling-place, health insurance, education, the possibilities regarding upbringing of children and cultural life are unequal for different individuals – in some cases these aspects motivate people, in other cases they supress person's self-realization and creative potential. They also increase or stop economic development in a country. The standard means to measure economic and income

inequality are various methods of income distribution, however, they do not reflect the actual level of inequality. In order to find out the actual level of socio-economic inequality, it is purposeful to analyze the distribution of material living conditions (wealth) which might be referred to as the most adequate criterion of socio-economic inequality.

A dwelling-place is a significant aspect of human's well-being as well as the guarantee of the stable society. The lack of high quality housing, the housing cost overburden rate for a single household, housing overcrowding as well as insufficient dwelling-space are the main issues that both Lithuanians and citizens in other EU member states are faced with. Hence, the essential demand – satisfactory housing place and good living environment – is not met, and the good quality of life as well as other needs are not ensured. In order to form a political system in a country, reduce socio-economic inequality by providing every individual with good living conditions and stable foundation for future generations and to create a general well-being in a country, it is essential to understand the importance of a dwelling-place to a person's life quality and to understand the tendencies of accommodation needs.

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PREDICTING CORPORATE BANKRUPTCIES IN POLAND AND LITHUANIA – COMPARATIVE ANALYSIS

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Abstract: The research on predicting bankruptcies of enterprises constitutes one of the most important areas of financial management. In developed countries, the first publications on the subject appeared in the early twentieth century. The situation is different in the countries of Eastern Europe, which introduced the market system already at the beginning of the 1990s, which resulted in first corporate bankruptcies. The article compares the experiences in the field of forecasting corporate bankruptcies in two countries of Eastern Europe, i.e. Poland and Lithuania, confronting them with the results of research conducted in developed countries. In the conclusions the similarities and differences between the two countries were shown and the future directions of research on this issue were proposed.

Keywords: corporate bankruptcy prediction, bankruptcy risk, fundamental analysis

JEL classification: G31, G33, C38

Introduction

The bankruptcies of enterprises constitute an indispensable element of a properly functioning market economy. They have a negative impact on many stakeholders, in particular providers of capital, business partners and employees. Hence a particularly high emphasis is placed on creating models predicting the risk of corporate bankruptcy. While studying the literature in the area of corporate finance, one may note that this issue is very timely and more and more scientists engage in research devoted to this subject. The corporate bankruptcy forecasting models are most often used to assess the risk of counterparty or borrower default. They also allow for determining company ratings. Such models can also serve as synthetic measures of the financial condition of companies. In developed countries, models of such type have been created and used for many years, while in the countries of Eastern Europe the interest in them appeared only upon the change of the economic system, that is to say relatively recently.

The purpose of this article is to conduct a comparative analysis of research on forecasting corporate bankruptcy in two countries of Eastern Europe, i.e. Poland and Lithuania, and to confront them with the experiences of developed countries. This publication is an introduction to the implementation of more extensive analyses using information on a larger number of Eastern