

## ***Abstract***

The essays in this thesis investigate issues related to poverty, income inequality and health in transition economies of Eastern Europe and the Former Soviet Union. The major questions analyzed in the essays are the determinants of changes in income inequality observed in the transition region, the role of poverty and public health spending in explaining cross-regional and inter-temporal variations in life expectancy, and the returns to health in the labor market.

In the *first essay* the causes of unprecedented changes in income distribution are investigated using a unique panel of inequality estimates for 24 transitional countries for the period 1989-1998. The fixed effects model is used to control for the unobservable country-specific effects that result in a missing-variable bias in cross-sectional studies. The relationship between income inequality, measured by the Gini coefficient, and per capita GDP is shown to be positive for EE, but negative for the FSU. Economic liberalization, privatization and deindustrialization are found to have contributed to the rise in income inequality in the transitional region. Hyperinflation also makes the distribution of income more unequal. There is no strong support for unemployment and the size of government consumption affecting income distribution, and while civil conflicts increase income inequality, the extent of political rights and civil liberties is not found to directly affect income distribution.

The *second essay* examines the impact of poverty and public health spending on cross-regional and inter-temporal variations in longevity in Russia. It explores a regional-level dataset on poverty and public health spending that covers 77 Russian regions over the period 1994-2000. The dynamic panel data model is used as a tool of the empirical analysis. The model is estimated using the Arellano-Bond dynamic panel data estimator. Regional poverty and real public health expenditure per capita are found to be significant in explaining the observed variation in longevity across regions and over time. The empirical results indicate that male life expectancy is expected to respond more strongly to economic circumstances than female life expectancy, although the latter appears to be more predisposed to the influence of public health spending. The results support the idea that the (positive) effect of public health spending on life expectancy is greater for those regions experiencing higher incidences of poverty.

The *third essay* investigates the determinants of adult health and estimates the returns to health in the labor market in the context of a transition country – Ukraine. Health status is treated as an endogenous variable and the instrumental variable estimation is used to obtain unbiased estimates of the effects of health on labor income. The estimations also address the possible sample selection bias that arises from using a sample of workers. Health status is found to have a sizable effect on earnings. A 1 percent improvement in the individual's health status generally increases labor income by 0.4 percent for both men and women. A further analysis using quantile regressions and other econometric techniques indicates, however, that the effect of health on labor income is likely to depend on the type of job performed. The results of the analysis presented in this paper have significant policy implications for transition economies. They indicate that the improved provision of medical services is likely to have substantial economic rewards for transition economies through the impact on labor supply and productivity.

**Keywords:** Transition economies; Income inequality; Poverty; Health status; Life expectancy; Public health spending; Economics growth; Labor income; Panel data.

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