

Hungary: where do we stand in 2012?
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Drivers of income inequalities in Hungary on the long run

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Outline

- Structural changes
- Inequality trends - long run
- Drivers and phases
- Incidence
- Crisis years: hypotheses

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Structural changes in the background:

Demographic change between 1989 and 2010:

- 1/3 died, 1/3 newly born. The rest is the same, but 20 years older...
- There is a larger number of households – in a slightly smaller population, living shorter periods in family (start later, divorce earlier)
= on average, a smaller household size

Labour markets

Various phases of developments on the labour market (collapse and job-destruction in early years, followed by hysteresis and deadlock for almost two decades now)

Education expansion

- The average Hungarian is significantly higher higher educated but less connected to the labour market than before



Hungary, 1980-2010: demographic structure

Key data	1980	1990	2001	2010
total population, '000s	10,709	10,375	10,200	10,014
Age structure				
per cent 0–14	21.9	20.5	16.6	14.6
per cent 15–64	64.6	66.2	68.3	68.7
per cent 65+	13.5	13.2	15.1	16.7
Living patterns				
No. of hholds	3,720	3,889	3,862	4,071
persons living in hholds	10,377	10,124	9,945	9,747
average hhold size	2.79	2.60	2.57	2.39
percentage of 1 person hholds	19.6	24.3	26.2	31.0
percentage of 2 person hholds	28.1	29.0	28.8	29.8
percentage of 3 person hholds	22.3	20.6	19.7	18.6
percentage of 4–5 person hholds	26.4	23.7	22.4	
percentage of 5+ person hholds	3.7	2.4	2.9	20.6



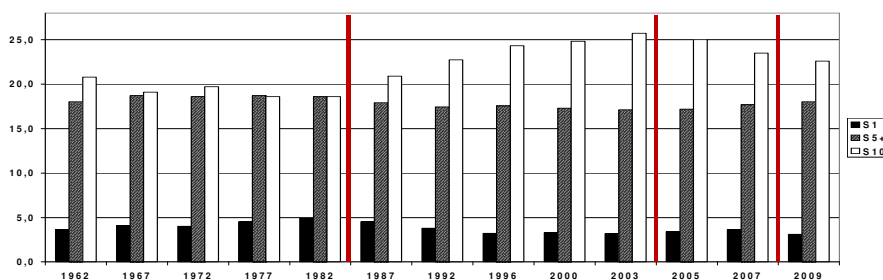
Hungary, 1980-2010: education and labour market structure

Key data	1980	1990	2001	2010
Education levels				
percentage at least primary of 15+	66.1	78.1	88.8	95.2
percentage at least secondary of 18+	23.4	29.2	38.2	49.3
percentage at least higher of 25+	6.5	10.1	12.6	18.9
Education composition of the 15+ population				
max. 8 years	66.7	57.5	45.0	33.1
vocational	11.0	15.0	18.6	19.6
secondary	17.3	19.9	26.7	30.5
tertiary	6.3	9.7	11.9	16.7
Employment composition of the population				
percentage employed	47.3	43.6	36.2	38.1*
percentage unemployed	n.a.	1.2	4.1	4.6*
percentage inactive earner	20.6	25.6	32.4	30.5*
percentage dependent	32.1	29.5	27.3	25.7*



Hungarian income inequalities on the long run

Share of various per capita income deciles from all incomes between 1962 és 2009



62-82: levelling down (and up)

82-03: strong growth of upper decile shares, some losses at the bottom

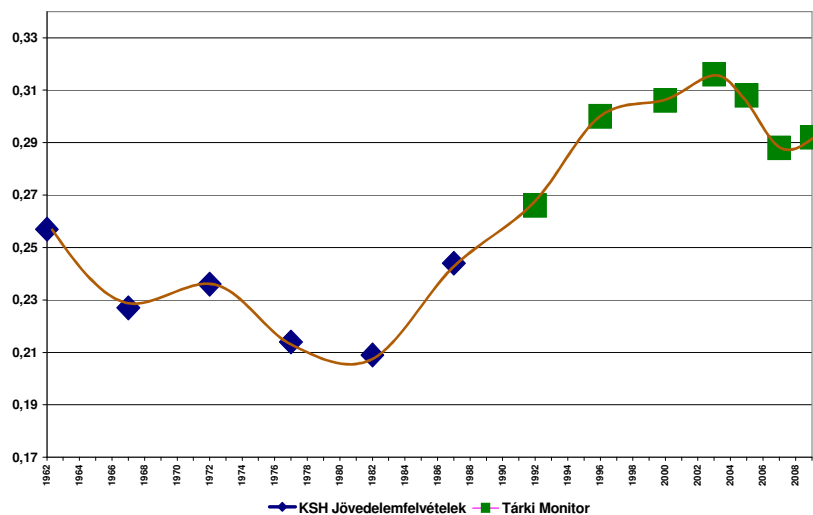
03-07: losses of the top decile, „protected” lower bounds

07-09: losses by the top AND the bottom

Source: 1962–1987: KSH income surveys, Atkinson–Micklewright [1992] Table H11.; 1992–1996: HHP waves I–VI., 2000–2009: Tárki Household Monitor.



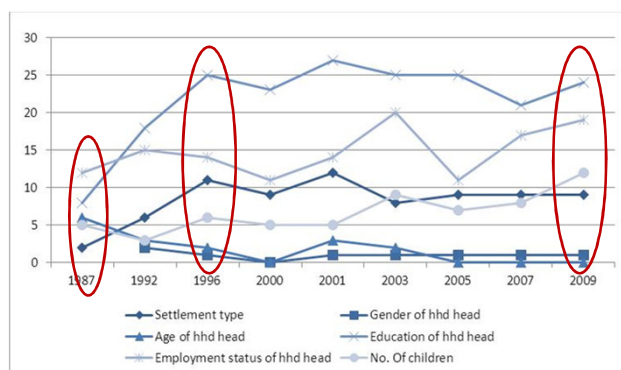
Gini coefficient of per capita net disposable incomes: Hungary, 1962-2009



Source: 1962–1987: KSH income surveys, Atkinson–Micklewright [1992] Table HI.1.; 1992–1996: HHP waves I–VI., 2000–2009: Tárki Household Monitor.



Evolution of between-group inequality as a % of total inequality according to different household attributes



Source: data from Tóth (2009)
 Note: % of between-group inequalities were calculated by univariate decompositions of the MLD index, so between-group % should not be added up.

Characteristics:

- Drastic restructuring: 1987-1996
- First employment shocks (1987/1992), large increase in returns to education >1987
- Effect of settlement type is mostly compositional
- Increasing role for fam size (number of children)



Drivers in Hungary: the first two and a half decades of the systemic change

1987-1992: structural change, employment losses, polarization

1992-2001: education expansion, technological change, sclerosis in the labour market

2001-2009: (social)politics and crisis management

(2002-2006: „system change in welfare” i.e. large welfare expansion) winners: lower middle classes (and public employees)

(2006-2008: consolidation/austerity packages) losers: upper middle classes (and public employees)

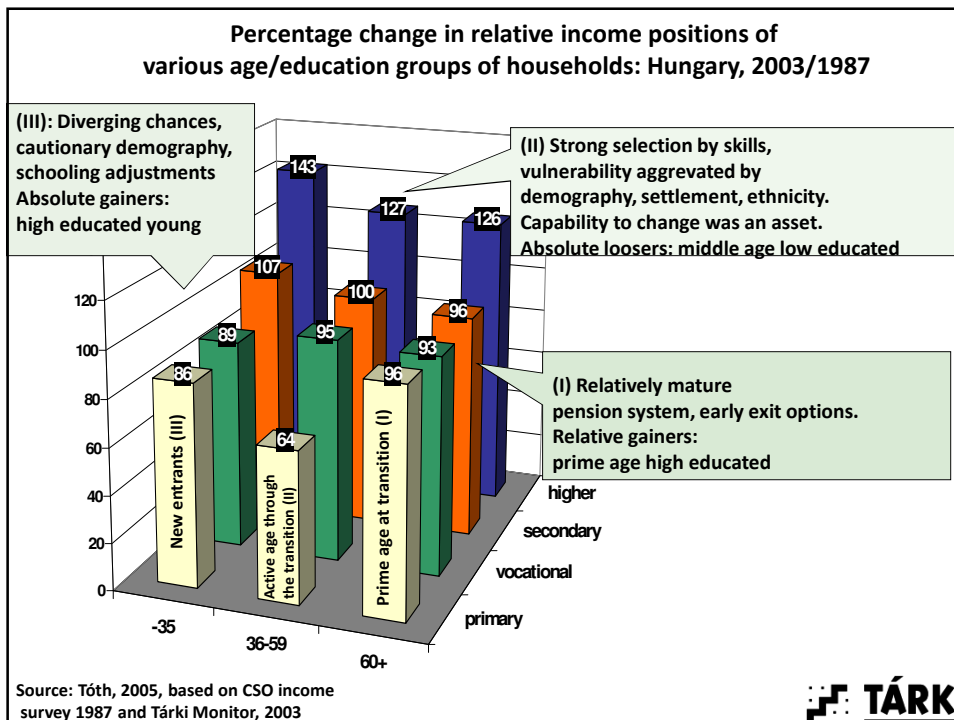
(2008-2009: the crisis and its management) losers: lower strata and (to smaller extent) the top decile

2010 - : austerity, recession, stagflation



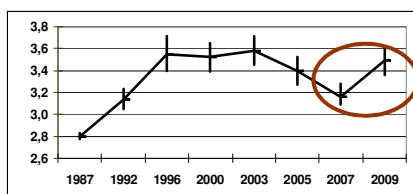




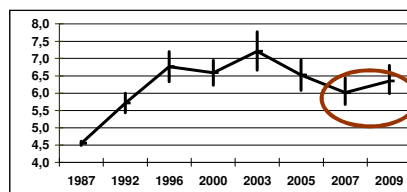



**More recent trends:
During the crisis: inequality has grown, but not shown uniformly by
various measures**

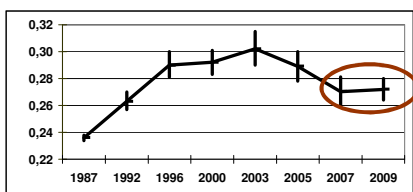
Ratio of lower cutpoint of top decile and upper cutpoint of lowest decile (P90/P10)



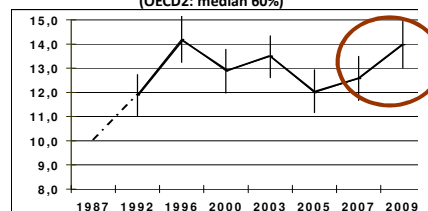
Ratio of top/bottom decile shares (S10/S1)



Gini coefficient



Relative poverty rate
(OECD2: median 60%)



Forrás: 1987: KSH jövedelemfelvétel;
1992–1996: Magyar Háztartás Panel I–VI. hullámai,
2000–2009: Társi Háztartás Monitor.

Megj: 95% konf. int. mellett,
személyi ekvivalens jövedelmek személyi eloszlása alapján.
Szeg. Ráta 1987: e=0,73 alapján



Some relevant economic trends (2010-2012)

- **Rise in unemployment** (between 2008 and 2011, overall: 8%→11%, in 2012 11%), incidence falling mostly on youth, 20-24yrs: 18% →25%
- **Real income of households** fluctuates in 2010 (-2,9%) and in 2011 (+2,6%), then expected to **fall in 2012 (cca - 5%)**
- **Ceased credits/loans** – no consumption smoothing options open
- **Nationalization of pensions rights**
- **Accelerated outward migration**



Recent tax and benefit measures (2010-2012)

- **Reduced ceiling** (max=MW=93000 Ft), shortened eligibility period for **unemployment benefit** (max 90days) „álláskeresői járadék” (from 2012)
- **Constrained rights to social assistance** (one benefit per household principle implemented from 2010), lowered ceiling max. 80% of min. pension (2012) ----- public work (for lower than MW)
- Expansion of the **conditionality principle** (child allowance tied to school visits, premium to get kids into kindergarten (from 2009 and 23K children affected in that year)
- **Lower compulsory education** age (effective from Sept. 2012 for 8th grade)
- **Increase of minimum wage** (73.5K to 93K)
- **Flat rate income tax**, two brackets in 2011-2012, real one from 2013 withdrawal of wage tax credit in two steps ,adójóvátolás’
- **Large tax allowance** for families (introduced for 1,2 child families, esp large increase for for 3+)
- **Increase of VAT and of profit taxes** (see EVA-rise, for example)
- **New taxes** on consumption (unhealthy items, telecom services)



Potential incidence of the various trends and measures

	Marginalized (OLF)	Lower segment	Middle	Upper segment	Special groups, notes
Reduced ceiling for unemployment benefit		-	-		Lower middle class short term unemployed
Constrained rights to social assistance	--	-			Roma and non-roma, marginalized poor
Flat rate income tax			+	++	(„ceteris paribus”)
Child allowances in PIT		+	++	+++	Conditional upon fam size
Conditionality principle	-	-	-		Direct effect only upon those actually losing fam allowance because of absenteeism
Lower compulsory education	(--)	(-)			No current effect, negative signal re the future generations and intergen. transmission
Increase in minimum wage	-	+			More difficult job prospects for the marginalized



Potential incidence of the various trends and measures (2)

	Marginalized	Lower	Middle	Upper	Special groups
Rise in unemployment		--	-	-	
Fall of real incomes	-	--	-	-	
Consumption and profit taxes increase	(-)	(-)	(-)	(-)	NO effective income loss, but contribution to real incomes loss
Ceased credits/loans			-	-	
Nationalization of pensions rights			-	--	
Outward migration		(?)		(?)	Young cohorts, distributional impact is difficult to assess



Hypotheses on overall income distribution effects of the 2010-2012 period

Most likely outcome:

- fall of incomes at all levels
- Rise in inequality – widening dispersion
- Rise in poverty
- Restructuring in dimensions difficult to observe

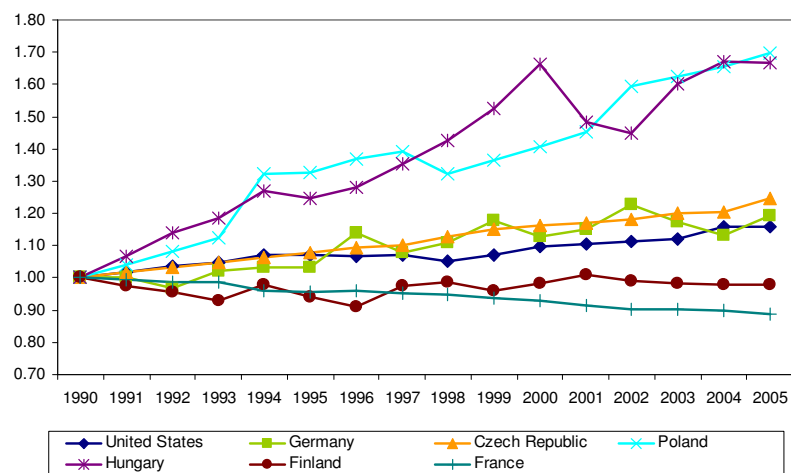


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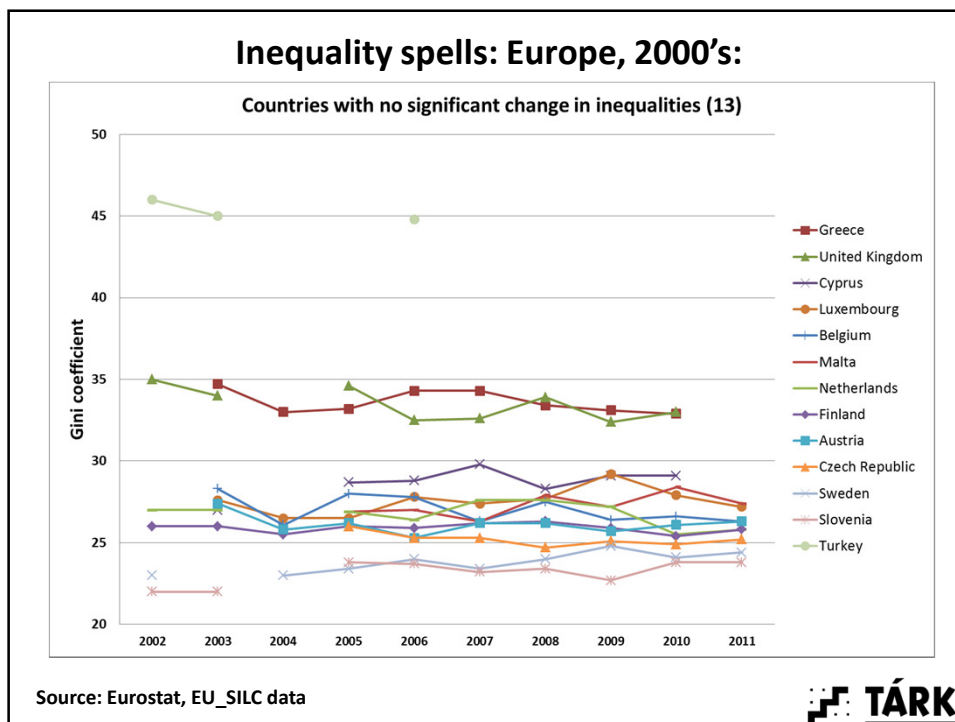
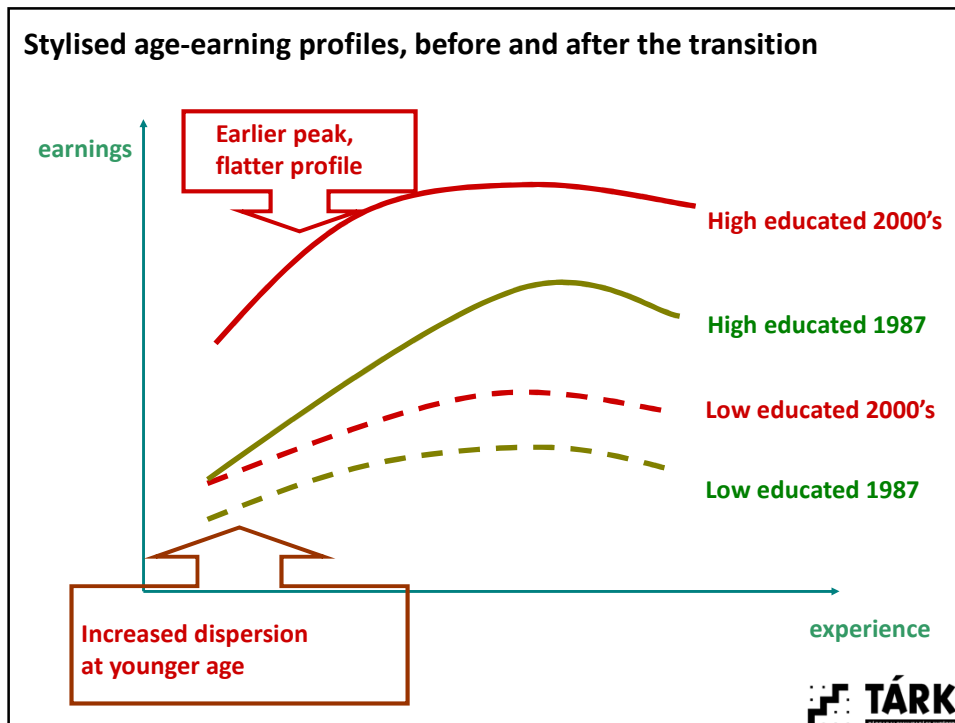
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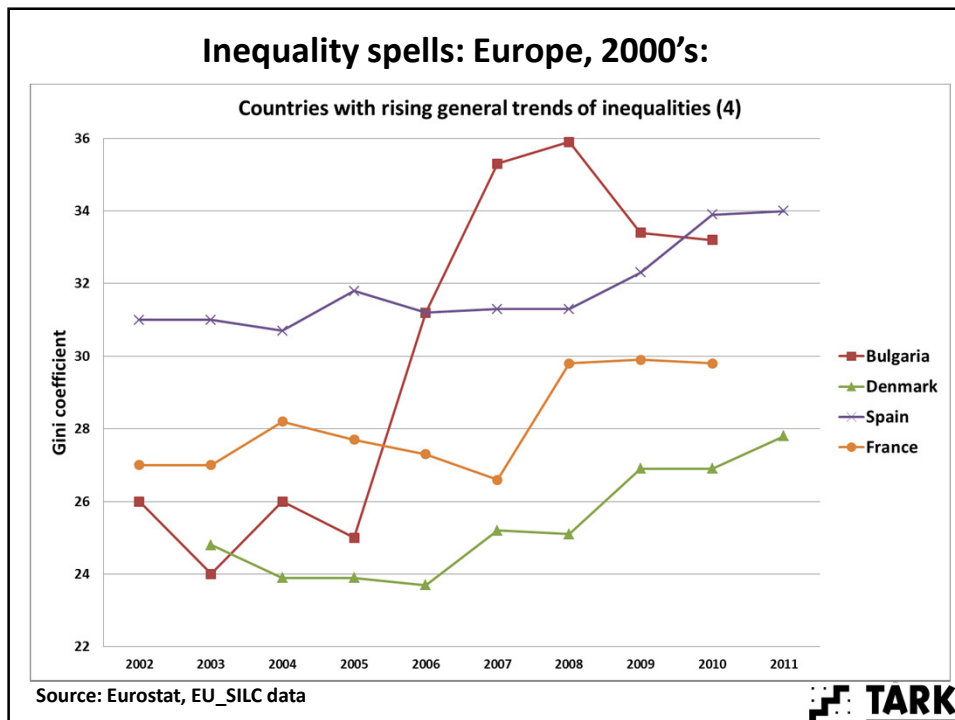
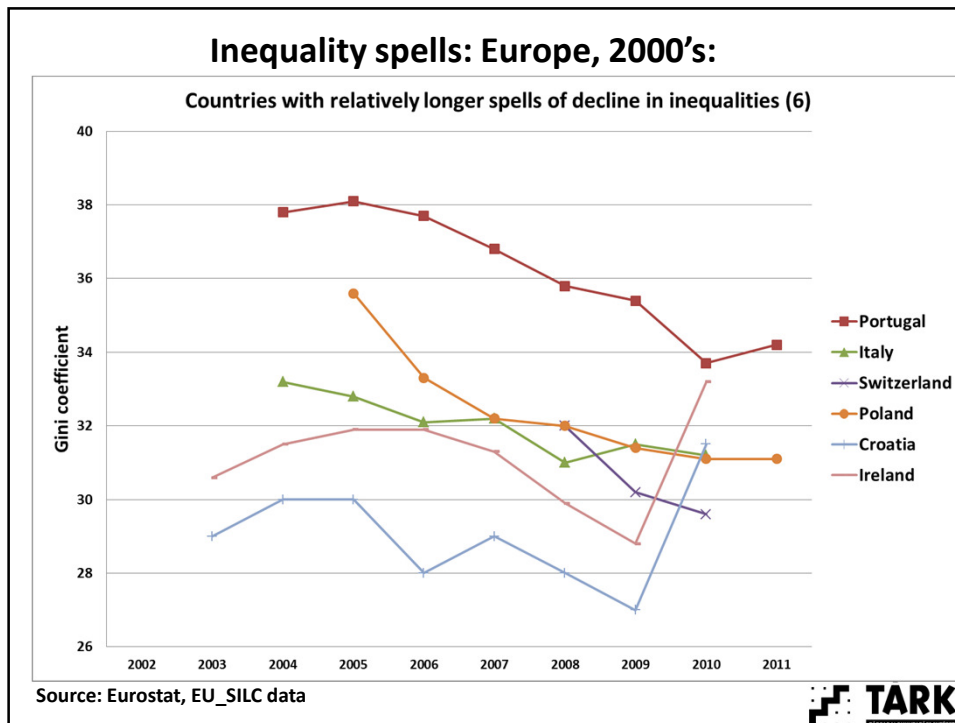


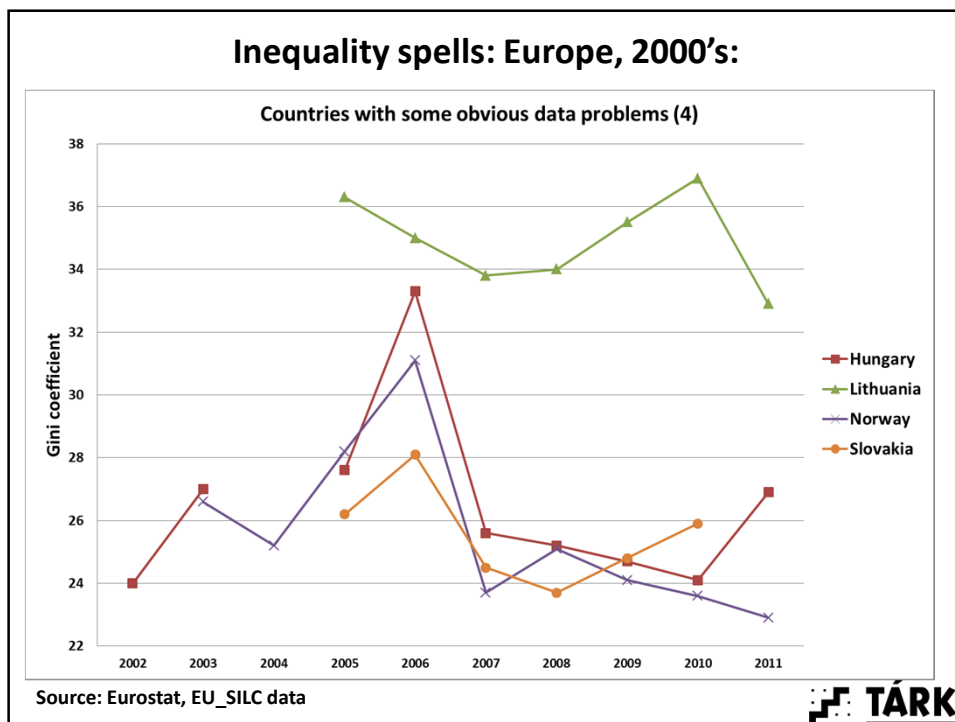
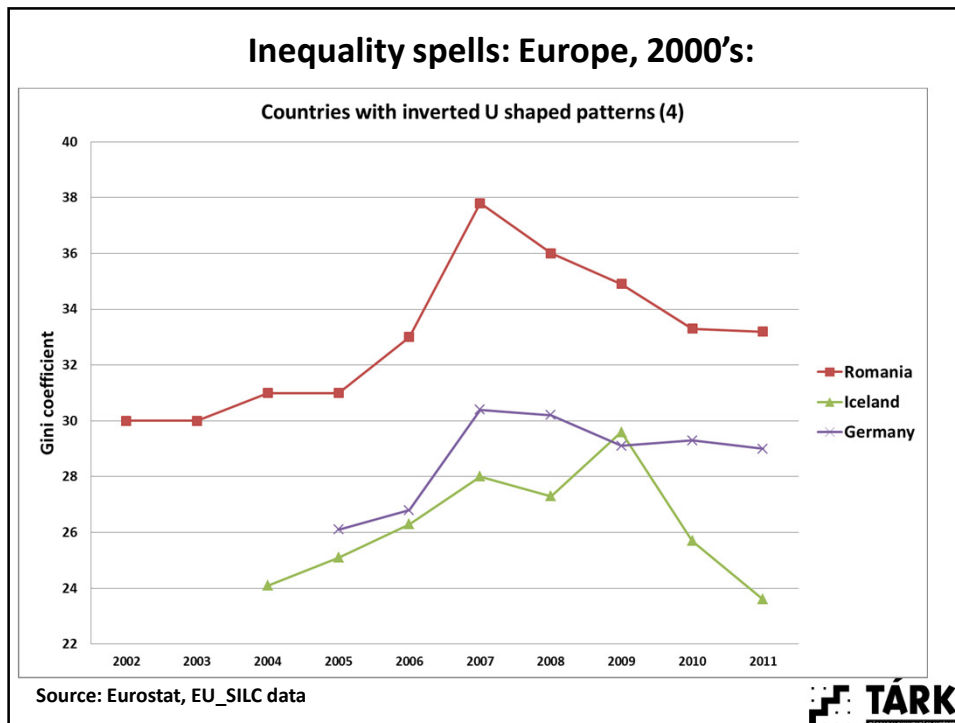
Wage inequality, P90/P10 1990=100% (among men employed full-time)

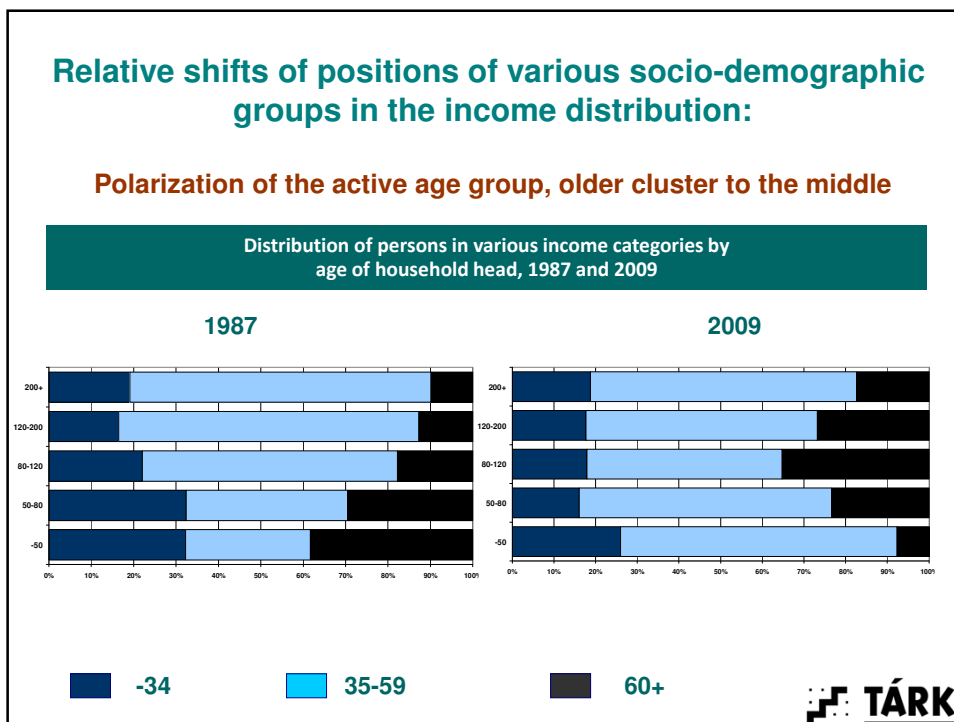
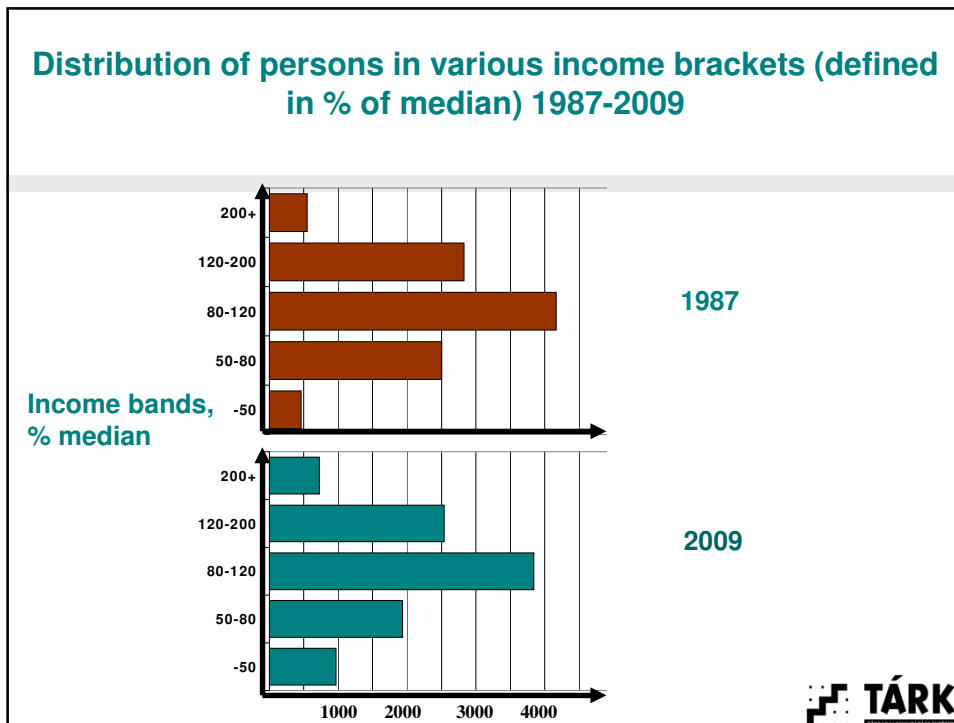


Source of data: OECD Earnings Database





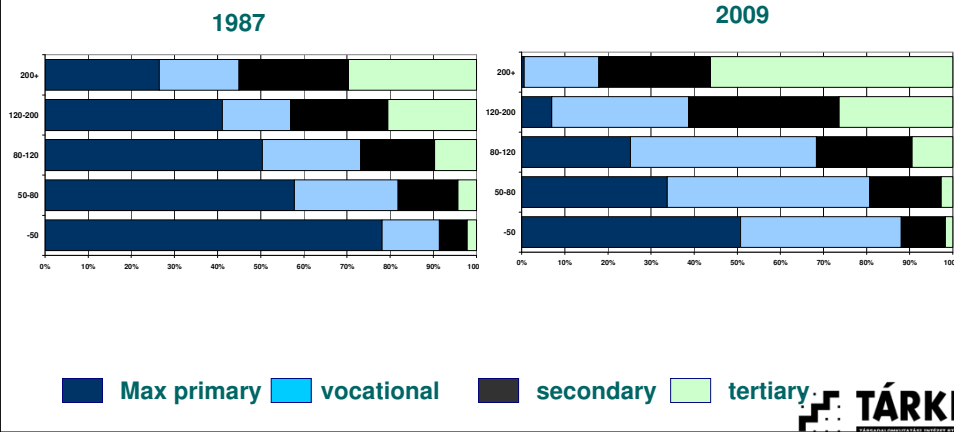




Relative shifts of positions of various socio-demographic groups in the income distribution:

Increase in level of education and differentiation by education

Distribution of persons in various income categories by education of the household head 1987 and 2009



Relative shifts of positions of various socio-demographic groups in the income distribution:

Strong employment polarization

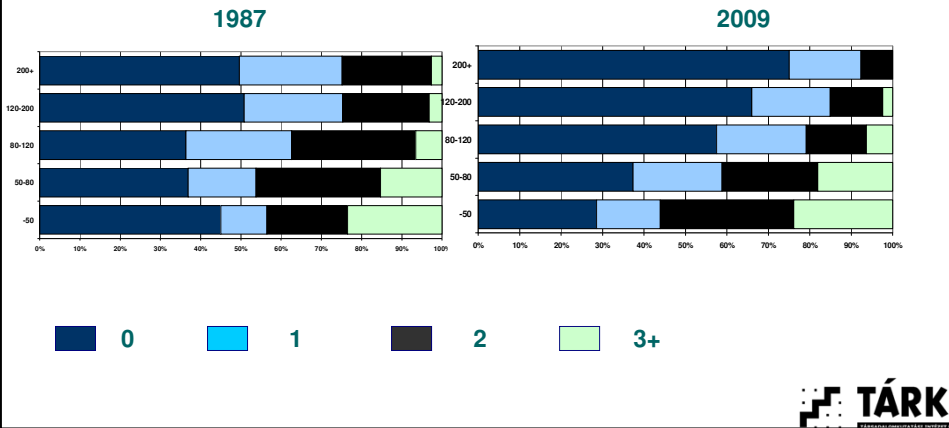
Distribution of persons in various income categories by employment status of the household head, 1987 and 2009



Relative shifts of positions of various socio-demographic groups in the income distribution:

Lower number of children in general, worsening position of large families

Distribution of persons in various income categories by number of children in the household 1987 and 2009



Relative shifts of positions of various socio-demographic groups in the income distribution:

roma falling out

Distribution of persons in various income categories by ethnicity 1992 and 2009

