



Inequality, mobility and the closure of the upper middle class

(lessons for Hungary, from the OECD reports)



István György Tóth

OBSERVATIONS ON MOBILITY IN HUNGARY (BY OECD 2018)

- Low overall mobility
- „Sticky floors”
- „sticky ceilings”



HUNGARIAN MOBILITY TRENDS: THE BIG PICTURE

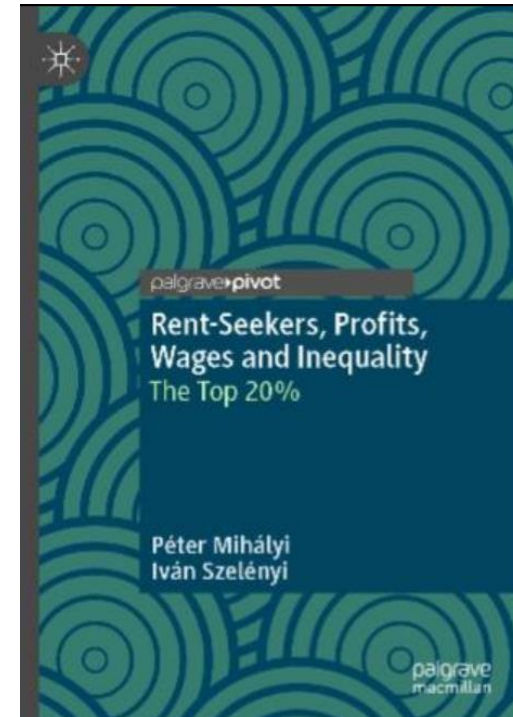
- Slowdown in eighties (under final agony of socialism):
 - economic stagnation, institutional rigidities, loyalty as merit for getting ahead, status-preserving privileges systems in housing, health etc.
- Transition churning and turbulence:
 - low skilled and deprived got stuck to a very low level employment equilibrium, while managers of „old” firms, young and high skilled had chance to pick up the new opportunities)
- Post transition period:
 - slowdown of institutional change, newcomers' (generation X) careers blocked by slightly older bosses
 - growing role of wealth accumulation, diverging real estate prices

BARRIERS TO MOBILITY (1)

- Patrimonial tendencies



- The increasing role of inheritance (new phase of transition – the passing through of wealth accumulated by the first generation „builders”)
- Increase of rents (political redistribution of income generating assets)
(Mihályi and Szelényi, 2019)



Assortative mating

- Decline in hipogamy, increase of homogamy
(Esteve et al, 2012, for 1980-2010 and own analyses of KSH censuses for 2011-2016)

BARRIERS TO MOBILITY (2)

HIGH LEVEL OF SELECTIVITY IN EDUCATION

- Fragmented public schooling (early selection, large quality and efficiency differentials, segregation tendencies)
- Growing importance of private schools at all levels (from kindergardens to secondary schools)
- In higher education: increasing trends to study abroad



MIDDLE CLASS=
HOUSE+LIFESTYLE+JOB+CHILDREN'S FUTURE,

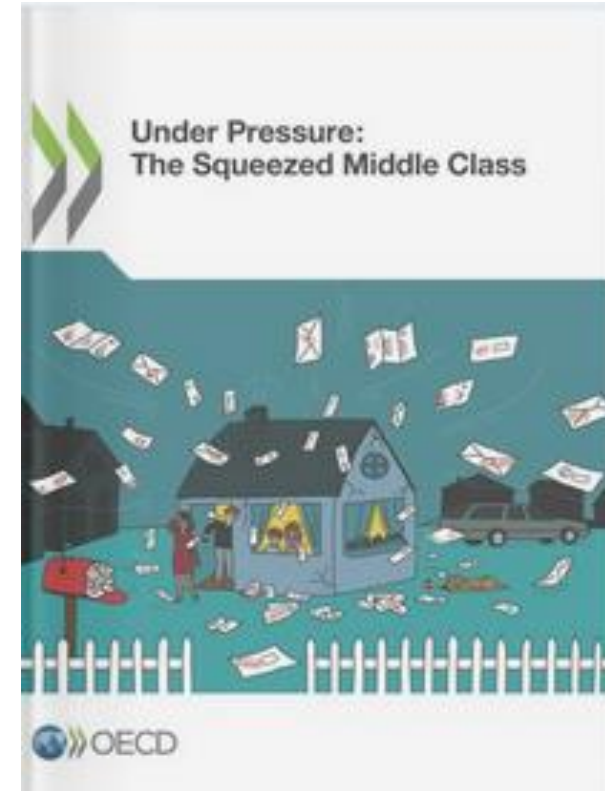
THEREFORE, TO BE IN THE MIDDLE CLASS =

- secure flow of decent incomes
- + proper and affordable housing
- + protection for health, employment risks
and for retirement
- + stock of wealth that can be liquidated in
case of need,
- + capacity to pay for kids' education, for
recreation, etc.



OBSERVATIONS ON MIDDLE CLASSES IN HUNGARY (OECD, 2019)

- Low level of „middle class bias” (relatively large segment „objectively” belongs to middle income group in any case)
- Considerable weakness (financial vulnerability) – despite relatively fair (2%) median income growth (which was in the upper range in the OECD)
- This is shown by expenditure structure ...
 - Large share goes to housing costs (>40%)
 - Relatively modest share on leisure and on transport (<10%)
- ... and by self reported problems in making ends meet (70%!)



EXPLANATIONS TO THE WEAKNESS OF THE MIDDLE CLASS

Historic, long run

- Pre war: latifundia, wars, backward economic structure
- After II WW: utopia of classless society, mobility, widespread status inconsistency

Transition related:

- Privatization motivated by huge debt legacy from socialism, dominated by management buy-outs and high speed large scale sales, slow and hesitant development of home grown enterprises
- Transition to a lower employment equilibrium: large drop of employment, low skilled pushed out, strong selection by age and skills, intensive race between technology and education expansion

EXPLANATIONS TO THE WEAKNESS OF THE MIDDLE CLASS

Transition related (contnd):

- Modernization in and by competitive economic sectors but slow and hesitant reforms in public sectors (large public sector employment and inefficiency prevails)
- Weak trade unions and institutional background to wage setting mechanisms
- Inequalities and job polarization: electoral tax/benefit cycles, hollowing out of the middle

EXPLANATIONS TO THE WEAKNESS OF THE MIDDLE CLASS

Recent

- Oligarchic tendencies and clientilism
- Dual economy, obsolete skill structure,
- Partially good responses to globalisation challenges
 - inefficient treatment of emigration
 - inadequate public education system,
 - inefficient adult learning institutions,



SUMMARY

- Low social mobility (despite relatively low inequalities)
 - Sticky floors and sticky ceilings
 - Increasing role of inheritance and rents
- Weak and vulnerable middle classes
- Need for policy change and reforms ...
 - ... in education (to foster mobility and adaptability of middle classes)
 - ... in public sectors (health, education)
 - ...in economic policies (against dualisms)

