GROWING INEQUALITY AND ITS IMPACTS IN HUNGARY

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Table of Contents

Executive Summary .................................................................................................................. 1

Introduction: general background on macro and structural indicators, Hungary, 1980–2010 ....... 8

The nature of inequality and its development over time ......................................................... 12

2.1 Has inequality grown? ..................................................................................................... 12

  2.1.1 Income inequality .................................................................................................... 12

  2.1.2 Wealth inequality ................................................................................................ 19

  2.1.3 Labour market inequality ....................................................................................... 21

  2.1.4 Educational inequality .......................................................................................... 24

2.2 Whom has inequality affected? .................................................................................... 28

2.3 Why has inequality grown? ......................................................................................... 30

The social impact of inequality ............................................................................................. 33

3.1 Introduction .................................................................................................................... 33

3.2 Patterns and trends in material deprivation ................................................................. 33

3.3 ‘Vulnerability’, cumulative disadvantage and multidimensional measures of poverty and social exclusion .......................................................... 36

  3.3.1 Vulnerable groups .................................................................................................. 36

  3.3.2 The EU2020 poverty target ................................................................................... 39

3.4 Social cohesion and the concept of social capital ....................................................... 40

3.5 Changes in patterns of family formation and breakdown ............................................ 43

3.6 Levels and trends in health inequalities ...................................................................... 47

3.7 Housing tenure patterns and trends .......................................................................... 53

3.8 Patterns and trends in crime and punishment .............................................................. 57

3.9 Patterns and trends in subjective measures of well-being, satisfaction, ‘happiness’ ........ 61

3.10 Intergenerational mobility ......................................................................................... 65

Political and cultural impacts ................................................................................................ 67

4.1 Political and civic participation: partisan involvement in a low social capital context .... 67

4.2 Non-revival of generalized trust, declining institutional trust ................................... 72

4.3 Political values and extremist behaviour ..................................................................... 77

4.4 Values concerning social policy and the welfare state .............................................. 86

4.5 Conclusions .................................................................................................................. 88

Effectiveness of policies in combating inequality ............................................................... 90

5.1 Introduction .................................................................................................................... 90

5.2 Labour income .............................................................................................................. 92

  5.2.1 Collective bargaining ............................................................................................... 92
5.2.2 Minimum wage........................................................................................................... 93

5.3 Tax ...................................................................................................................................... 96
  5.3.1 Volume and composition .......................................................................................... 96
  5.3.2 Taxes and households ............................................................................................... 97

5.4 Public social expenditure............................................................................................... 99
  5.4.1 Levels and trends ...................................................................................................... 99
  5.4.2 Social assistance ....................................................................................................... 102
  5.4.3 Services ................................................................................................................... 103

5.5 Education...................................................................................................................... 108

5.6 Concluding remarks...................................................................................................... 110

References.............................................................................................................................. 114
List of Tables

Table 1.1 Basic socio-economic background statistics, Hungary, 1980–2010 .............................. 10
Table 1.2 Government deficit and debt relative to GDP (per cent, election years in bold) .................. 11
Table 2.1 The distribution of equivalized (e=0.73) incomes between 1987 and 2009, as measured by indicators sensitive to different segments of the income distribution. ..................... 15
Table 2.5 Educational composition of the Hungarian adult population, per cent ........................... 24
Table 2.6 Returns to education: results from Mincer-equations, 1989–2002 ............................... 27
Table 2.7 Returns to education: results from Mincer-equations, 2002–10 ................................. 28
Table 3.1 Evolution of total occupational mobility rate .................................................................. 65
Table 3.2 Composition of the white-collar group by paternal occupation at the age of 14–18 .......... 66
Table 4.1 Turnout in national referendums in Hungary, 1989–2008 ........................................... 69
Table 4.2 Turnout in parliamentary, local and European Parliament elections in Hungary, 1990– 2010 ......................................................................................................................... 70
Table 4.3 Percentage of citizens who have ‘great’ or ‘some’ trust in various political institutions, 1991–2005 .................................................................................................................. 73
Table 4.4 Trust and satisfaction, by highest educational attainment in Hungary (means of 0–10 point scales), 2008 ................................................................................................. 77
Table 4.5 Proportion of people comfortable with a Roma neighbour, 2008, per cent .................. 82
Table 4.6 The proportion of those who think that good education, hard work, knowing the right people and coming from a wealthy family are important in getting ahead in life in 2007, per cent ........................................................................................................ 85
Table 5.1 Flows to ALMPs and staffing of the PES, 2006–2009 .................................................... 104
Log table Chapter 3 ......................................................................................................................... 112
Log table Chapter 4. ....................................................................................................................... 113
List of Figures

Figure 2.1 Long-run evolution of inequality in per capita household income .................................................. 13
Figure 2.2 Gini index for inequality of gross and net household income from EU-SILC data ............. 16
Table 2.2 Evolution of the percentage of the population belonging to different income classes......... 18
Figure 2.4 Gini index of per capita household consumption .............................................................................. 19
Table 2.3 Inequalities in housing wealth, by income quintile ........................................................................... 20
Table 2.4 Percentage of households with different types of financial savings ........................................ 20
Figure 2.5 Proportion of households repaying bank loans, by income quintile ........................................ 21
Figure 2.6 Inequality in gross monthly earnings of full-time employees (men and women) ............ 22
Figure 2.7 Inequality in gross monthly earnings of full-time employees, by gender (P90/P10 ratio) .. 23
Figure 2.9 Gini of years of schooling, by cohort............................................................................................. 25
Figure 2.10 Employment rate by level of education (males, 15–64), per cent................................. 26
Figure 3.2 Severe material deprivation rate, by age, 2005–2011, per cent................................. 35
Figure 3.4 Severe material deprivation rate, by income quintile, 2005–2011, per cent ............... 36
Figure 3.5 At-risk-of-poverty rate by age, 2005–2011, per cent................................................................. 37
Figure 3.6 At-risk-of-poverty rate by age, 1992–2009, per cent ................................................................. 37
Figure 3.9 Population at risk of poverty or social exclusion (EU2020 poverty target), by age, 2005– 2011, per cent ................................................................................................................................. 39
Figure 3.10 Population at risk of poverty or social exclusion (EU2020 poverty target), by education (18–64-year-olds), per cent .................................................................................................. 40
Figure 3.11 Percentage of those who never meet friends, relatives or work colleagues, by country.. 42
Figure 3.12 Total fertility rate .......................................................................................................................... 43
Figure 3.1 Crude marriage rates (per 1,000 inhabitants) and the proportion of live births outside marriage, as a percentage of live births .................................................................................. 44
Figure 3.14 Number of marriages and divorces (‘000s) ................................................................................. 45
Figure 3.15 Distribution of children at different ages, by different family types, 2001 ..................... 47
Figure 3.16. Life Expectancy, by age and gender (years) ............................................................................. 47
Figure 3.17 Life expectancy and healthy life years at age 35, by education level, 2005 ......................... 48
GINI Country Report Hungary

Figure 3.19 Age-standardized mortality rates for broad causes of death groups among Hungarian women aged 35–64, by educational level ................................................................. 50

Figure 3.21 Self-perceived health status (bad/very bad), by income quintile, per cent...................... 52

Figure 3.22 Long-standing illness or health problem, by educational level (ISCED 1997), per cent..... 52

Figure 3.23 Long-standing illness or health problem, by income quintile, per cent......................... 53

Figure 3.24 Population by housing tenure, 2010, per cent.............................................................. 54

Figure 3.25 Evolution of house prices in nominal and real terms, based on the FHB House Price Index (2000=100) .................................................................................................. 55

Figure 3.26 Debt service burden to household income ratio, by income quintile, 2007 and 2010, per cent......................................................................................................................... 57

Figure 3.27 Number of crimes and offenders in Hungary, 1965–2009............................................ 58

Figure 3.28 Prison population in Hungary, 1989–2008.................................................................... 59

Figure 3.29 Types of recorded crimes in Hungary, 1993–2008 (number of recorded crimes)......... 60

Figure 3.30 Share of persons who had been a victim of crime, 2002–2008................................. 60

Figure 3.31 Mean level of life satisfaction in ESS countries, 2002–2008.................................. 61

Figure 3.32 Life satisfaction: share of those who are very satisfied with life, selected countries and the EU, per cent ........................................................................................................ 62

Figure 3.33 Mean level of happiness in selected ESS countries, 2002–2008................................. 62

Figure 3.34 Financial expectations for the next year: share of those who expect the household’s financial situation to be better, per cent............................................................. 63

Figure 3.35 Share of those who expect the material situation of their household to improve in the next 12 months, per cent............................................................... 63

Figure 3.36 Suicide rate in Hungary, 1949–2010 ............................................................................. 64

Figure 3.37 Death due to suicide: standardized death rate per 100,000 inhabitants, 1998–2009 ...... 65

Figure 4.3 Level of generalized ( interpersonal) trust in 2010 .......................................................... 73

Figure 4.5 Changes in trust in legal system and satisfaction with government: Hungary and similar countries, 2002 and 2008 .................................................................................. 76

Figure 4.7 Left-right identification of Hungarian electorate, 2003–2010 ........................................ 78

Figure 4.8 Percentage voting for extreme left and right parties in Hungary, 1990–2010 ............. 79

Figure 5.1. Real GDP: Percentage change from previous year..................................................... 91
GINI Country Report Hungary

Figure 5.2. GDP per capita in Purchasing Power Standards (PPS, EU-27 = 100) .............................................. 91
Figure 5.3 Government deficit as a percentage of GDP ................................................................................. 92
Figure 5.4 The dispersion of the logarithm of gross real earnings (2009 = 100 per cent) ...................... 94
Figure 5.5 Gross minimum wages relative to average wages ................................................................. 95
Figure 5.6 Net disposable income at the minimum wage, relative to national poverty line (per cent) ........................................................................................................................................ 96
Figure 5.7. Total tax revenue as a percentage of GDP .......................................................... 97
Figure 5.9 Average tax rate ......................................................................................................................... 98
Figure 5.10 Distribution of VAT and PIT liabilities among income deciles, 2005 ...................... 99
Figure 5.11 Total public social expenditure as a percentage of GDP ............................................. 100
Figure 5.12 Public social expenditure, by function, percentage of GDP ........................................... 101
Figure 5.13 Type of expenditure as a percentage of GDP ................................................................. 101
Figure 5.14 Net disposable income relative to national poverty line in families receiving social assistance, able-bodied working-age persons (per cent) ......................................................... 103
Figure 5.15 Healthcare expenditure on long-term care, percentage of GDP ................................. 106
Figure 5.16 Healthcare expenditure on long-term care, share of total current healthcare expenditure, per cent ........................................................................................................................................... 106
Figure 5.17 Expenditure on education, per cent of GDP ............................................................................. 108
Figure 5.18 Lifelong learning, per cent of population aged 25–64 ......................................................... 109
Figure 5.19 Income inequality (Gini coefficient) and the role of public pensions and non-pension benefits and taxes (2007 incomes and policies) ............................................................... 111
Executive Summary

This summary provides an overview of the major findings of the Hungary country report prepared within the GINI project. The summary follows the structure of the report, highlighting what we think are the most characteristic findings of the individual chapters. An important narrative emerges from the seemingly fragmented stories: this is briefly summarized in the concluding section of this summary.

Income inequalities

Income inequality began to increase back in the 1980s, with the Gini index reaching 0.24 in 1987. There was a marked increase in inequality during the early years of transition, and the Gini index reached 0.30 in 1995. Changes in inequality were smaller in the period 1995–2005, the overall pattern being stagnation until the economic crisis broke.

The changes in inequality can be separated into various periods. The first, the early 1990s, was characterized by rapid and profound changes in the structure of the economy. Hungary’s trade with her eastern neighbours collapsed, and socialist mega-enterprises went bankrupt and were dismantled. This period was characterized by a massive decline in employment and a fall in the country’s GDP between 1990 and 1993.

Between 1995 and 2006, GDP grew at around 4 per cent annually. Foreign direct investment played a major role in kick-starting and accelerating this growth, which brought about a significant technological modernization of production processes. Technological change increased demand for young educated labour, while employment prospects worsened for the poorly educated and older cohorts with obsolete human capital. Wage inequality – and most importantly, returns to education – continued to increase during this phase. The employment rate of the poorly educated remained at the lowest level in the EU, partly because of the underdeveloped small and medium-sized enterprise (SME) sector.

In 2004–08, income inequality decreased. Redistribution policies played a significant role, by first increasing transfers to the lower middle class and then increasing the tax burden on the upper middle class.

The effect of the economic crisis on income inequality was moderate in 2009, but indicators of self-assessed living standards do show a significant increase in the proportion of those experiencing
financial hardship or inability to pay the rent or public utility bills. The increasing indebtedness of households also raises a severe problem.

**Social impacts: poverty and health changes**

Rising inequalities in the first half of the 1990s resulted in a sharp increase in the risk of poverty. While only one Hungarian in ten was at risk of poverty in 1987, the rate peaked at over 14 per cent in 1996–97. While the different data sources are ambiguous and do not reveal clear trends, it is most likely that, following a long succession of slight ups and downs, there was an increasing risk of poverty in the second half of the 2000s.

The sharp increase in income poverty during the early 1990s took place alongside a significant shift in the welfare level of elderly people and children, of small and large families. At the beginning of this period, the elderly had the highest risk of poverty; since then their relative position has steadily improved. By contrast, the position of families with children – and particularly of large families – deteriorated markedly in the first half of the 1990s, levelled off for a while, and then started to worsen again in recent years. The increasing vulnerability and the further deteriorating relative risk of children in recent years is also revealed by other indicators of social exclusion, like the composite Europe 2020 poverty target indicator or the at-risk-of-poverty rate anchored at a fixed moment in time.

The risk of poverty is associated with a set of factors that shows considerable stability during the whole period of observation. Among these, the highest attained level of education of the household head plays the most important role, even when other factors (like the labour market attachment of the household) are controlled for. In the case of the most vulnerable, level of education is strongly correlated with other characteristics (e.g. persistent unemployment or inactivity, ethnic background, region, type of settlement), which gives a persistent complexity to the problem of poverty.

Although more recent data would complete the picture, the risk of poverty seems to have risen again as a consequence of the economic crisis, while the gap between families with children and pensioners seems to have widened further. Moreover, the recent increase in the financial vulnerability of households (shown by the material deprivation indicator) foreshadows an even higher level of poverty and social exclusion in the coming period.

While overall health status of the population – at least on the level of averages – has improved, there remains a disturbingly strong social gradient of mortality. The disparity between the social strata increased during the 1990s, largely because the mortality rate of poorly educated citizens did not decrease in this period.
The low fertility rate that has been observed since the early 1970s has led to a tradition of Hungary being rather generous (compared to most other countries) in the maternity and childcare cash allowances it offers. This provides a strong incentive for new mothers to stay at home with their child for a whole three years. This is further reflected in crèche enrolment rates: only 9 per cent of children under the age of 2 are in formal childcare (the highest rate in the EU is in Denmark, at 66 per cent). It also has an impact on female labour market participation, and consequently on overall inequality.

**Political and cultural impact, social cohesion**

Hungary is traditionally a country with low social capital. The root causes of this are buried in history, but the trend was reinforced by communist rule, and there has been little improvement in the past two decades. A low level of generalized trust has been a relatively stable feature for the past decade. However, if we look at a wider timespan – from the beginning of the 1980s to the present day – we can observe a declining trend: according to European Values Survey data, a third of Hungarians were trustful in 1982, but by 2008 this share had fallen to a fifth.

There is a deficit in social capital of both the formal and the informal kind. Very few people participate in voluntary organizations (such as clubs or trade unions), and even informal ties to family members and friends became weaker during the transition.

Political identification and participation is relatively high due to specific characteristics of the party system, which promotes political polarization. The political system is characterized by a high level of party competition, generally stable players, low volatility, considerable ideological polarization and partisanship, and a small number of parliamentary parties.

The low level of social cohesion in Hungary and the high level of perceived conflict between different social groups may be a result of social inequality and lack of effective social policy measures. At the same time, the lack of trust and altruism may be a cause of social segregation and growing inequality.

Institutional trust and satisfaction declined sharply after 2002 as a result of poor governance; this culminated in the protracted macroeconomic and socio-political crisis of 2008.

Public safety began to deteriorate even before the transition to democracy. Although there have been improvements in many areas since 1998, the number of violent crimes has trended upwards since then.
Moderate (and extreme) right-wing opposition to the socialist/liberal government grew until the general election of 2010, when the conservative party alliance won a landslide two-thirds majority of parliamentary seats. Two new parties succeeded in crossing the parliamentary threshold, including the far-right Jobbik, which secured 16.7 per cent of votes. Jobbik was able to draw on the anti-Roma attitudes of Hungarians, which is a manifestation of the so-called ‘welfare chauvinism’.

**Policies and redistribution**

A high level of support for state intervention in various fields is a characteristic Hungarian attitude. When asked about inequalities, a very large proportion of people vent their frustration and anger. The *perceived* level of inequality was higher than the actual level even at the end of the 1990s, and while the accepted level of inequality has indeed grown during the transition, the perceived level has grown even more rapidly, which contributes to frustration. Thus, the level of intolerance of inequality has been growing, and we can detect a parallel increase in the demand for government redistribution.

Given the above characteristics of the political/electoral system and the already high share of the population living on various state redistributive benefits, political parties could not resist using election campaigns for welfare ‘auctions’; once their honeymoon period was over, though, a period of austerity would invariably ensue (which probably contributed significantly to the decline in trust in political institutions).

The volatility of this electoral budget cycle increased over time, significantly worsening the country’s growth potential. Partly as a result of this, the trend in Hungarian GDP developments has differed from that of the surrounding transition countries. Only around the year 2000 was there a period of steady growth – at an annual 3–4 per cent, this was higher than in Western Europe, but was nothing special compared to the other (then) EU candidate countries. The Hungarian GDP path has continued to deviate from the neighbouring economies over the past decade as well. The radical decline in GDP started earlier in Hungary than in the other countries – well before the crisis broke. In Hungary, the economic slowdown of 2007 was a result of badly chosen economic and fiscal policies, and a continued high level of redistribution, despite the country’s unsustainably low tax base. The process was accompanied by continued budget deficits, which rose to unsustainable levels especially in the election years of 2002 and 2006.

The level of social expenditure is around 20–22 per cent of GDP, while tax revenue is around 40 per cent of GDP. Though not outliers in the broader country coverage, these levels are higher than in most post-socialist countries.
The effectiveness of redistribution is pronounced in Hungary: while the level of market-income inequality is one of the highest in the EU, disposable-income inequality is in the lower range in a European comparison. This also shows that the tax/benefit system has a significant role to play in shaping income inequality of the population.

Lessons learned

The rise in inequalities has been driven by a multitude of factors. First, education: the gap between the well-educated and the poorly educated has widened both in terms of monetary returns to education among the employed and in terms of employment chances by education categories. Second, differential re-employment chances (also a clear failure of the education system) and continued low activity levels have contributed to a ‘freeze’ in the original employment differentiation which resulted from the transition shocks around the time of systemic change. Third, state redistribution policies have also been important – not only because the operation of the progressive tax/benefit system has contributed to smaller after-tax-and-transfer inequalities, but also in the sense that the politics of redistribution has come to dominate political discourse in the second half of the observed period.

Political science emphasizes how personal wealth and its distribution can result in biased policies that favour influential groups. In the Hungarian experience, though this type of manipulation by the rich cannot be excluded, a different ‘hostage-type’ situation emerged. The country descended into a downward spiral: it began with a poorly managed labour market shock; various instruments of social policy were tried out; and finally significant sections of Hungarian society were detached from the labour market. This led to a situation whereby policy-making fell hostage of these large inactive groups.

This institutionalization of financed inactivity, together with the specific features of the Hungarian political system, has resulted in a ‘benefit auction’ at election time, with no strong countervailing institutional factors to limit volatile budget deficits. The political cycle has produced a series of unbalanced periods of overspending followed by spells of austerity. This has further eroded trust in the political system as a whole, and in political parties in particular. Reinforced distrust – much of it already inherited from the communist past – leads, paradoxically, to further pressure on government to follow unsustainable paternalistic policies.

The methodological and theoretical conclusion of the Hungarian story, therefore, is that we cannot simply speak of a linear causality ‘from inequality to various social impacts’ (like social capital and trust, for example). That interpretation would (erroneously) suggest that inequality change is
exogenous to societal reactions. Rather, we propose an interpretation according to which initial trust and social capital (together with initial income inequalities) are part of the story right from the outset. When – for whatever reason – inequality starts rising, the collective reaction will depend very much on the portfolio of initial social capital (social and political trust, ability to collaborate, experience of cooperation, etc.) in the country. And we conclude from our analysis that all these factors played their role in the evolution of inequality and poverty in Hungary. And probably this is the main lesson to be drawn from the Hungarian case.
Introduction: general background on macro and structural indicators, Hungary, 1980–2010

There are a great many factors that affect income distribution changes over the long term: GDP growth, socio-economic structural adjustment, and changes in the general institutional environment (including social and economic policies) are all of great importance. Since the primary focus of this paper is the period 1980–2010, we present here some basic illustrative trends in real income, employment rates and income distribution.

Some basic information on the socio-economic characteristics of Hungary between 1980 and 2010 (census years) is provided in Table 1.1. In the period concerned, Hungarian society both declined in size and aged. The population in 2010 was about 94 per cent of the population in 1980. This decline was largely due to high mortality and a fall in fertility rates during a period when there was only a moderate increase in average life expectancy. For men, average life expectancy stagnated at slightly above 65 years between 1980 and 1995, before showing a growth of more than five years (from 65.25 to 70.5) in the 15 years between 1996 and 2010. For women, the increase was similar but smoother: from 72.7 in 1980 to 74.5 in 1995 and then 78.1 in 2010. The generational balance shifted significantly from the young to the older generations: whereas in 1980 almost 22 per cent of the population were in the 0–14 age bracket, by 2005 the share of children (thus defined) had declined to less than 15 per cent. At the same time, there has been some ageing at the other end, with the share of the 65+ population rising from 13.5 per cent in 1980 to almost 17 per cent in 2005. The average household size declined from almost 2.8 to below 2.5 in the period, and this was accompanied by a dramatic change in the composition of the population by living arrangements. The share of those living in one-person households increased from less than one fifth of the total population to 31 per cent. Much of this shift is due to later first marriages (the average age of first marriage rose from 24.5 (male) and 21.8 (female) in 1990 to 31.4 and 27.7, respectively, in 2010), as well as to the differential life expectancy of men and women. The share of all household types with more than three members has declined.

If we look at education, the structural changes reflect somewhat higher levels of education in the first half of the period and a significant expansion in education thereafter: the share of those completing at least secondary schooling within the 18+ age bracket grew from 23.4 per cent in 1980 to 49.3 per cent in 2011, and the proportion of tertiary education graduates in the 25+ age bracket rose from 6.5 per cent in 1980 to 18.9 per cent in 2011. Here stocks and flows matter a lot: the
change in stocks showed a dramatic (from 80.4 to 98.3 per cent) rise in the secondary school enrolment rate within the 16–17 age cohorts and an even more significant rise (from 17.5 to 25.1 per cent) in the tertiary education enrolment rate within the 18–22 age cohort between 2000 and 2010. (Statistical Yearbook 2010, CSO 2012, Tab. 3.6.4)

As for the macroeconomic data, one of the most important trends has been the diverging evolution of GDP and incomes available to households. While real GDP grew by some 25 per cent between 1990 and 2005 (a 40 per cent increase if the base were chosen as 1980) average real incomes in 2010 were stuck at the 1990 level (though they had fluctuated in the intervening period). The dynamics of this process is shown in Figure 1.1.

Data on the evolution of the public debt (Table 1.2) shows strong political budget cycles. Election years (every four years, starting from the first free elections in 1990) have seen peaks in the budget deficit, followed by austerity measures of varying severity. Only in 1995 was the first austerity package implemented by a (by then) socialist/liberal government to get the macroeconomic figures back on a sustainable track. This package, which included devaluation of the national currency and some real (and some symbolic) social expenditure cuts, accelerated inflationary trends but resulted in a further sharp decrease in real incomes in the middle of the 1990s. The 2002 election year and the subsequent few years witnessed a massive expansion in public spending (mostly on pensions and public-sector wages) followed by austerity measures, with tax rises in 2006 and then budget cuts from 2008 onwards.
Table 1.1 Basic socio-economic background statistics, Hungary, 1980–2010

<table>
<thead>
<tr>
<th>Key data</th>
<th>1980</th>
<th>1990</th>
<th>2001</th>
<th>2010</th>
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<td><strong>Age structure</strong></td>
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<td>per cent 0–14</td>
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<td>20.5</td>
<td>16.6</td>
<td>14.6</td>
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<td>66.2</td>
<td>68.3</td>
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<td>per cent 65+</td>
<td>13.5</td>
<td>13.2</td>
<td>15.1</td>
<td>16.7</td>
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<td><strong>Living patterns</strong></td>
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<tr>
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<td>percentage of 2 person hholds</td>
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<td><strong>Education levels</strong></td>
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<td>percentage at least primary of 15+</td>
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<td>percentage at least secondary of 18+</td>
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<td>percentage at least higher of 25+</td>
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<td>12.6</td>
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<td><strong>Education composition of the 15+ population</strong></td>
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<td>max. 8 years</td>
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<td>57.5</td>
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<td>Vocational</td>
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<td>30.5</td>
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<tr>
<td><strong>Employment composition of the population</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>percentage employed</td>
<td>47.3</td>
<td>43.6</td>
<td>36.2</td>
<td>38.1*</td>
</tr>
<tr>
<td>percentage unemployed</td>
<td>n.a.</td>
<td>1.2</td>
<td>4.1</td>
<td>4.6*</td>
</tr>
<tr>
<td>percentage inactive earner</td>
<td>20.6</td>
<td>25.6</td>
<td>32.4</td>
<td>30.5*</td>
</tr>
<tr>
<td>percentage dependent</td>
<td>32.1</td>
<td>29.5</td>
<td>27.3</td>
<td>25.7*</td>
</tr>
<tr>
<td><strong>Economy, consumption</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP/cap, PPS, EUR (USD 7,380)</td>
<td>12,250</td>
<td>15,462</td>
<td></td>
<td></td>
</tr>
<tr>
<td>per cent GDP/1990</td>
<td>89.4</td>
<td>100</td>
<td>114.2</td>
<td>124.6</td>
</tr>
<tr>
<td>per cent GDP/previous year</td>
<td>100.2</td>
<td>96.5</td>
<td>104.1</td>
<td>101.3</td>
</tr>
<tr>
<td>per cent consumer</td>
<td>36</td>
<td>100</td>
<td>682</td>
<td>1084</td>
</tr>
<tr>
<td>price index (CPI)/1990</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>per cent CPI/previous year</td>
<td>109.0</td>
<td>135</td>
<td>109.2</td>
<td>104.9</td>
</tr>
<tr>
<td>per cent real income/1990</td>
<td>88.2</td>
<td>100</td>
<td>99.1</td>
<td>99.1</td>
</tr>
<tr>
<td>per cent real income/previous year</td>
<td>100.4</td>
<td>98.3</td>
<td>103.6</td>
<td>101</td>
</tr>
<tr>
<td>per cent food share (incl. tobacco)</td>
<td>38.5</td>
<td>35.1</td>
<td>25.2</td>
<td></td>
</tr>
</tbody>
</table>


*Microcensus 2005.
Figure 0.1 GDP and per capita real incomes of households, 1990=100

Table 0.2 Government deficit and debt relative to GDP (per cent, election years in bold)

<table>
<thead>
<tr>
<th>Years</th>
<th>Government deficit</th>
<th>Government debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>3.1</td>
<td>79.2</td>
</tr>
<tr>
<td>1992</td>
<td>7.3</td>
<td>81.1</td>
</tr>
<tr>
<td>1993</td>
<td>6.8</td>
<td>92.0</td>
</tr>
<tr>
<td>1994</td>
<td>11.4</td>
<td>91.8</td>
</tr>
<tr>
<td>1995</td>
<td>7.7/8.8</td>
<td>88.8/85.6</td>
</tr>
<tr>
<td>1996</td>
<td>4.4</td>
<td>72.4</td>
</tr>
<tr>
<td>1997</td>
<td>6.0</td>
<td>62.9</td>
</tr>
<tr>
<td>1998</td>
<td>8.0</td>
<td>60.9</td>
</tr>
<tr>
<td>1999</td>
<td>5.4</td>
<td>60.8</td>
</tr>
<tr>
<td>2000</td>
<td>3.0</td>
<td>56.1</td>
</tr>
<tr>
<td>2001</td>
<td>4.1</td>
<td>52.7</td>
</tr>
<tr>
<td>2002</td>
<td>8.9</td>
<td>55.9</td>
</tr>
<tr>
<td>2003</td>
<td>7.3</td>
<td>58.6</td>
</tr>
<tr>
<td>2004</td>
<td>6.5</td>
<td>59.5</td>
</tr>
<tr>
<td>2005</td>
<td>7.9</td>
<td>61.9</td>
</tr>
<tr>
<td>2006</td>
<td>9.4</td>
<td>65.9</td>
</tr>
<tr>
<td>2007</td>
<td>5.1</td>
<td>67.0</td>
</tr>
<tr>
<td>2008</td>
<td>3.7</td>
<td>73.0</td>
</tr>
<tr>
<td>2009</td>
<td>4.6</td>
<td>79.8</td>
</tr>
<tr>
<td>2010</td>
<td>4.2</td>
<td>81.8</td>
</tr>
<tr>
<td>2011</td>
<td>4.3 (surplus!)</td>
<td>81.4</td>
</tr>
</tbody>
</table>

The nature of inequality and its development over time

2.1 Has inequality grown?

According to a recent report by the OECD (2011), Hungary – together with France and Belgium – belongs to a group of countries where inequality changed little (by less than 2 Gini points) if we compare the endpoints of the period studied (mid-1980s to the late 2000s). This picture contrasts Hungary (and the other countries in this group) with the majority of OECD countries, including other post-socialist countries (such as the Czech Republic), where income inequality increased during this period. In the following we give a detailed picture of the evolution of different facets of inequality in Hungary. We rely on a longer time-series than the OECD report, and we compare different phases of the period studied. The studies reviewed here show an important increase in income inequality between 1987 and 2005, followed by a moderate decline in inequality at the end of the 2000s.

2.1.1 Income inequality

General measures of inequality

In this section we review trends in income inequality in Hungary. The data used come from income surveys of the Hungarian Central Statistical Office (CSO) for the period 1962–87, and household surveys of the Hungarian Household Panel and Household Monitor carried out by TÁRKI between 1992 and 2009. These surveys use similar income concepts and sampling procedures, and thus provide comparable figures for inequality (Tóth, 2005). They record the net disposable income of

---

1 Income surveys of the Hungarian Central Statistical Office were carried out every fifth year between 1962 and 1987. Sample size varied between 20,000 and 40,000 households.

2 The Hungarian Household Panel (HHP) was organized by TÁRKI, in collaboration with the Sociology Department of the Budapest University of Economics, to monitor social changes during the years of transition. The initial sample included 2,600 households, a representative sample of households in Hungary. Fieldwork for the first wave was conducted in April–May 1992. As panel attrition had decreased the sample size substantially by 1997, the investigation had to be concluded. The following year (1998) another project (Household Monitor) was begun, using similar questionnaires and methodology to HHP, but with the (not negligible) difference that it followed a cross-sectional (rather than panel) design. Sample size was approx. 2,000 households each year. Respondents to the individual questionnaires of the HHP and the Household Monitor had to fill in a detailed income table, and then the most competent member of the household responded to a household questionnaire, which included separate questions on household-level incomes. All questions referred to the after-tax, net income.
households (that is, income after taxes and transfers). Figure 2.1 shows the long-run evolution of inequality of per capita net income in Hungary. According to this data series, income inequality decreased between 1962 and 1982, during which period the Gini index fell from 0.26 to 0.21. That was the lowest level of income inequality recorded over the past fifty years. Inequality began to increase back in the 1980s, with the Gini index reaching 0.24 in 1987, a couple of years before the start of the transition. The rapid increase in inequality continued during the first years of transition, and the Gini index reached 0.30 in 1995. Changes in inequality were smaller in the period 1995–2005. There was a slight increase during this period, with the highest Gini being observed in 2003, when the index reached 0.32. In the second half of the past decade, inequality started to decrease, with an important decline between 2005 and 2007. With regard to the most recent changes, inequality indices seem to imply different trajectories: there is an increase in the percentile ratio, while the Gini remains constant.

Figure 0.1 Long-run evolution of inequality in per capita household income


Table 2.1 shows the evolution of various income inequality measures calculated over the distribution of equivalent household income during the past two decades. As far as more recent changes in inequality are concerned, the various measures show unambiguously that inequality declined during the period 2005–07. Since the P90/P50 ratio declined, while the P10/P50 ratio stayed practically constant, we conclude that the decline in inequality came mainly from a decrease in top incomes.
In the period 2007–09, the indicators do not show consistent results. The indicators sensitive to the centre of the distribution or symmetrically sensitive to the two extremes paint an ambiguous picture. The Atkinson index with its parameter set to 1, the Gini coefficient and the generalized entropy index with its parameter set to 0 – GE(0) – show essentially no change. The S10/S1 index and the P90/P10 index increased, while the GE(1) index fell.

The indicators sensitive to the upper end of the distribution show similarly contradictory results. The variance of the distribution (the GE(2) index) decreased substantially, while the ratio of the lower cut-off point of the 90th percentile to the median income (P90/P50) increased somewhat. Among the indicators sensitive to the lowest segment of the distribution, however, the P10/P50 shows a decline in the position of those at the lower end of the income scale.

The most recent Eurostat data on income inequality show Hungary among the least unequal countries of the European Union. According to Eurostat data, based on EU-SILC the Gini index of income inequality in Hungary is around 0.25 (see Figure 2.2), roughly the same as in Sweden, Slovakia and the Czech Republic. Comparison of data from EU-SILC and the TÁRKI Household Monitor for the most recent years shows higher Gini indices estimated from the TÁRKI Monitor (approximately 2 Gini points higher) for four of the five overlapping years, except for 2005, when there is a sudden jump in the EU-SILC estimate. Based on TÁRKI Household Monitor data, Hungary would rank among the lower middle-inequality countries in the EU, with a Gini close to that of the Netherlands and Denmark.
Table 0.1 The distribution of equivalized (e=0.73) incomes between 1987 and 2009, as measured by indicators sensitive to different segments of the income distribution.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indices sensitive to the top of the distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P90/P50</td>
<td>1.69</td>
<td>1.86</td>
<td>1.90</td>
<td>1.92</td>
<td>1.92</td>
<td>1.91</td>
<td>1.74</td>
<td>1.81</td>
</tr>
<tr>
<td>GE(2)</td>
<td>0.116</td>
<td>0.168</td>
<td>0.236</td>
<td>0.207</td>
<td>0.261</td>
<td>0.26</td>
<td>0.205</td>
<td>0.155</td>
</tr>
<tr>
<td>A(0.5)</td>
<td>0.046</td>
<td>0.059</td>
<td>0.071</td>
<td>0.072</td>
<td>0.078</td>
<td>0.073</td>
<td>0.064</td>
<td>0.062</td>
</tr>
<tr>
<td>Indices sensitive to the middle part or symmetrically sensitive to bottom and top</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S10/S1</td>
<td>4.55</td>
<td>5.52</td>
<td>6.62</td>
<td>6.63</td>
<td>7.3</td>
<td>6.68</td>
<td>6</td>
<td>6.35</td>
</tr>
<tr>
<td>P90/P10</td>
<td>2.8</td>
<td>3.1</td>
<td>3.6</td>
<td>3.5</td>
<td>3.58</td>
<td>3.42</td>
<td>3.16</td>
<td>3.53</td>
</tr>
<tr>
<td>GE(0)</td>
<td>0.092</td>
<td>0.119</td>
<td>0.143</td>
<td>0.147</td>
<td>0.156</td>
<td>0.145</td>
<td>0.127</td>
<td>0.128</td>
</tr>
<tr>
<td>GE(1)</td>
<td>0.097</td>
<td>0.127</td>
<td>0.156</td>
<td>0.155</td>
<td>0.175</td>
<td>0.163</td>
<td>0.14</td>
<td>0.128</td>
</tr>
<tr>
<td>Gini</td>
<td>0.236</td>
<td>0.263</td>
<td>0.29</td>
<td>0.292</td>
<td>0.302</td>
<td>0.291</td>
<td>0.271</td>
<td>0.272</td>
</tr>
<tr>
<td>A(0.5)</td>
<td>0.088</td>
<td>0.112</td>
<td>0.133</td>
<td>0.137</td>
<td>0.144</td>
<td>0.135</td>
<td>0.119</td>
<td>0.12</td>
</tr>
<tr>
<td>Indices sensitive to the bottom of the distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P10/P50</td>
<td>0.6</td>
<td>0.59</td>
<td>0.54</td>
<td>0.55</td>
<td>0.54</td>
<td>0.56</td>
<td>0.55</td>
<td>0.51</td>
</tr>
<tr>
<td>A(1)</td>
<td>0.164</td>
<td>0.219</td>
<td>0.244</td>
<td>0.294</td>
<td>0.259</td>
<td>0.243</td>
<td>0.228</td>
<td>0.233</td>
</tr>
</tbody>
</table>


\[
GE(\alpha) = \frac{1}{n} \sum_{i=1}^{n} \left( \frac{y_i}{\mu} \right)^\alpha - 1, \text{ if } \alpha \neq 0, 1, \quad GE(0) = \frac{1}{n} \sum_{i=1}^{n} \log \frac{\mu}{y_i}, \quad GE(1) = \frac{1}{n} \sum_{i=1}^{n} \frac{y_i}{\mu} \log \frac{y_i}{\mu}
\]

Atkinson-index:
\[
A_\varepsilon = \left[ \frac{1}{n} \sum_{i=1}^{n} \left( \frac{y_i}{\mu} \right)^\varepsilon \right]^{1\varepsilon}, \text{ if } \varepsilon \geq 0 \text{ and } \varepsilon \neq 1, \quad A_0 = \exp \left[ \frac{1}{n} \sum_{i=1}^{n} \ln \frac{y_i}{\mu} \right]
\]
Parts of the distribution

When the lower parts of the distribution are examined, Hungary is placed among those countries with a relatively low overall risk of poverty in a European comparison, as is the case when the level of overall income inequality is considered (see Figure 2.3). According to the latest figures, the at-risk-of-poverty rate of the overall population in Hungary is 12.3 per cent; that is more than 4 percentage points lower than the EU-27 average and places the country between the Northern countries and some new Member States (Slovenia, the Czech Republic, Slovakia) with very low risk and certain Continental countries (Austria, France, the Netherlands).

The risk of poverty, along with general income inequality, rose sharply after the political changes: whereas in 1987, the at-risk-of-poverty rate (estimated at a threshold set as 60 per cent of the median equivalent income, e=0.73) was 10 per cent, in 1996–97 it exceeded 14 per cent (Tóth, 2005: 145). Figure 2.3 plots the HHP and TÁRKI Household Monitor Survey data between 1992 and 2009, based on the Eurostat methodology (OECD2 equivalence scale, with 60 per cent of median income as the poverty threshold). According to this data series, the risk of poverty reached its peak in 1996; then, after a long period of slight ups and downs, it started to increase again slowly in the second part of the 2000s, rather in line with what was observed in the case of the P90/P10 ratio. The EU-SILC data in Figure 2.3 show a somewhat different pattern between 2005 and 2010: while the spike in
2006 is likely to be an EU-SILC data problem, more importantly the data do not indicate any changes in the lower parts of the income distribution in the period of crisis.

Figure 0.3 At-risk-of-poverty rate, by different sources, 1992–2010 (per cent)

The following table shows the percentage of the population that belongs to different income classes. Five income categories are defined relative to the median income. The first category groups together those with less than half the median income (the poor); the second group comprises those with income of between 50 and 80 per cent of median income (lower middle class); members of the middle group have between 80 and 120 per cent of the median; the fourth group has between 120 and 200 per cent of the median (upper middle class); and members of the fifth group (the rich) have more than double the median income. During the transition years, the percentage of both the poor and the rich has increased, but the rise in the percentage with less than half of the median is more pronounced (from 4 to 12 per cent). At the same time, we see the percentage of those belonging to the middle classes declining during the period 1987–96. Only minor changes can be discerned during the period 1996–2007. The beginning of the economic crisis brought about a further polarization of the income distribution (Tóth and Medgyesi, 2011a).
Here we describe income distribution based on data from income surveys. Income data from tax authorities and social security tend to be biased in Hungary because of the importance of undeclared work. Estimates of the size of the informal economy range from 15 per cent to 30 per cent of GDP (Elek et al., 2009). Informal work is widespread, and estimates made by comparing the number of workers in income tax files and in labour force surveys suggest that 16–18 per cent of the population aged 15–74 were involved in undeclared work around 2005. Men and workers near retirement age are over-represented among those working in the informal sector. Undeclared work is also more frequent in such economic sectors as construction, as well as in the central and south-eastern regions of Hungary (Elek et al., 2009). Income data used in this chapter come from household surveys, which are theoretically able to capture income from undeclared work. We are, of course, unable to check whether respondents are willing to report their true income, either from official or from undeclared work.

### Consumption inequality

Inequality of consumption expenditure, as measured in the Household Budget Surveys, also shows rising inequality between 1989 and 1999: the Gini index of consumption expenditure rose from 0.21

---

3 The Household Budget Survey (HBS) included 12,000 households from 1987 to 1991, and 8,000 from 1993. HBS is an instrument for detailed investigation of household incomes and consumption. The households in the survey were required to keep a detailed diary of their consumption expenditure. Moreover, at the beginning of each year respondents were required to report their annual income and the personal income...
to 0.259 in this period. From 1999 to our most recent data in 2002, consumption inequality stagnated.

**Figure 0.4 Gini index of per capita household consumption**

![Gini index chart](chart.jpg)

Notes: based on HBS, except for 2003, where NOBUS data are used.
Sources: Mitra and Yemtsov (2006).

### 2.1.2 Wealth inequality

There are no comprehensive data on household wealth in the case of Hungary. Household surveys generally collect seriously incomplete data on wealth holdings. For example, the TÁRKI Household Monitor survey collects information on the value of owner-occupied housing, but does not record holdings of other real estate. Nor is the value of financial wealth holdings and consumer durables recorded (except for cars). In this section, wealth inequality is described by showing indicators of wealth in income quintiles.

As the following table shows, the proportion of those who do not own the housing they live in is highest among households that belong in the lowest income quintile, while the corresponding percentage is 10–15 points lower for households that belong in the highest income quintile. The differences in the percentage of those who live in relatively high-value housing are considerably more important: in 2001, half of those households in the highest income quintile lived in housing that fell into the highest quintile in terms of value, while this was true of only 4 per cent of those in the lowest income quintile.

---

tax paid, along with social security contributions, which made it possible to investigate both gross and net income on the basis of the survey.
Table 0.3 Inequalities in housing wealth, by income quintile

<table>
<thead>
<tr>
<th></th>
<th>Percentage of those not owning their housing</th>
<th>Percentage of those living in housing in the highest quintile according to its value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest quintile</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>2.</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>3.</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>4.</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>Highest quintile</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>All households</td>
<td>18</td>
<td>12</td>
</tr>
</tbody>
</table>

Note: Value of housing was estimated by the respondent.
Source: own calculations, data from TÁRKI Household Monitor survey.

The next table shows differences in the holdings of different types of financial savings by income quintile: 58 per cent of households in the richest quintile have some form of savings, while this is true of just 44 per cent of households in the poorest quintile. The biggest difference can be seen in the case of stocks, bonds and other securities: some 17 per cent of households in the highest quintile possess such savings, but only 1 per cent of those in the lowest income quintile.

Table 0.4 Percentage of households with different types of financial savings

<table>
<thead>
<tr>
<th></th>
<th>Bank account</th>
<th>Savings accounts</th>
<th>Stocks, bonds, securities</th>
<th>Life insurance, private pension</th>
<th>Cash</th>
<th>Any kind of savings (other than bank account)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest quintile</td>
<td>65</td>
<td>4</td>
<td>1</td>
<td>37</td>
<td>9</td>
<td>44</td>
<td>398</td>
</tr>
<tr>
<td>2</td>
<td>64</td>
<td>9</td>
<td>3</td>
<td>38</td>
<td>14</td>
<td>46</td>
<td>401</td>
</tr>
<tr>
<td>3</td>
<td>60</td>
<td>11</td>
<td>5</td>
<td>34</td>
<td>18</td>
<td>48</td>
<td>400</td>
</tr>
<tr>
<td>4</td>
<td>70</td>
<td>12</td>
<td>7</td>
<td>35</td>
<td>17</td>
<td>53</td>
<td>402</td>
</tr>
<tr>
<td>Highest quintile</td>
<td>77</td>
<td>19</td>
<td>17</td>
<td>47</td>
<td>15</td>
<td>58</td>
<td>400</td>
</tr>
<tr>
<td>All households</td>
<td>67</td>
<td>11</td>
<td>7</td>
<td>39</td>
<td>15</td>
<td>51</td>
<td></td>
</tr>
</tbody>
</table>

Source: own calculation, data from TÁRKI Household Monitor survey.

TÁRKI Household Monitor also records types of debt holdings by households. According to the survey of 2009, 35 per cent of households owed money to banks or other financial institutions – a 15-point increase since the start of the decade. Much of the increase occurred in the first half of the decade, when the proportion of households repaying bank loans rose from 19 to 31 per cent. The upward trend did not stop, however, and by the end of the decade there was an increase of 4 percentage points over the figure for 2007.
In parallel with this process, we can observe a convergence in the frequency of debt holders between households at the top and the bottom of the income distribution. At the beginning of the decade, the proportion of households repaying bank loans was substantially higher in the richest income quintile than in the poorest; for the poorest quintile, the increase seen in the first half of the decade continued after 2005, whereas the figure for the top quintile shows no significant change. As a result, in 2009 the proportion of households repaying loans was slightly over 40 per cent at both ends of the income distribution. The corresponding figure for households in the middle quintile was lower, at about 30 per cent.

2.1.3 Labour market inequality

Figure 2.6 shows the trend in earnings inequality over recent decades. Just as we saw in the section on income inequality, so earnings inequality started to increase even before the political transition: the P90/P10 ratio increased from 2.6 in 1986 to 3.07 in 1989. The increase in inequality continued during the years of transition, and the P90/P10 index peaked in 2000 at 4.66. After 2000 we see a fluctuation in earnings inequality, with the P90/P10 index varying between 4 and 4.5.
**Figure 0.6 Inequality in gross monthly earnings of full-time employees (men and women)**

Note: Data are gross monthly earnings of full-time employees in May of each year. Data source: Enterprise survey (Survey of Individual Wages and Earnings). Before 1994, workers in private enterprises with fewer than 20 employees were not included. Since 1994, the sample also covers enterprises with 10–20 employees. Data exclude enterprises with 5–9 employees. Data include 1/12 of non-regular payments from the previous year. Source: OECD Earnings Database.

*Figure 2.6* also shows how inequality evolved in the lower and upper parts of the distribution. In the upper part, we see a steady increase in the P90/P50 ratio: the value of this index was 1.64 in 1986, 2.00 in 1992, and 2.43 in 2009. The path of the P50/P10 index closely followed that of the P90/P50 up to 2000, but then comes a divergence in the two series, with the P50/P10 index declining between 2000 and 2002 (meaning that low earnings came closer to the median). A similar phenomenon occurs from 2006. From *Figure 2.7* we can see that earnings inequality is lower among women than among men, but that it largely follows the same pattern over time.

Another indicator of earnings inequality is the proportion of employees with low earnings. This proportion rose from 19.9 per cent in 1995 to 24.4 per cent in 2000, before falling to 22.4 per cent in 2002. Between 2004 and 2006, the value of the indicator was again above 24 per cent, while the most recent years show lower values of around 21.5 per cent. As *Figure 2.8* shows, differences are considerable according to level of education. The proportion of low earners is consistently low among those with tertiary education. Among those with a secondary diploma we see some increase up to 2006. This rise is more pronounced in the case of those with vocational education. The proportion of the least well-educated employees with low earnings decreased between 2000 and 2003, and increased thereafter.
Figure 0.7 Inequality in gross monthly earnings of full-time employees, by gender (P90/P10 ratio)

Data: see notes to Figure 2.6.
Source: OECD Earnings Database.

Figure 0.8 Proportion of employees with low earnings (lower than two-thirds of the median), per cent

2.1.4 Educational inequality

A significant expansion of education occurred in Hungary after the political transition. In the 1990s, the proportion of young people attending secondary school and higher educational institutions increased. In 1989, only a fifth of those completing elementary school continued their studies at grammar school and only 27 per cent at a secondary technical school. By the end of the 1990s, a total of 70 per cent of all pupils who completed elementary school continued their studies at a secondary school to take the leaving-certificate exam. At the same time, the proportion of those who went on to a vocational school dropped significantly, by some 20 percentage points (Loboda et al., 2007). The proportion of those going on to higher education has also increased in recent cohorts, partly due to the introduction of the Bologna system.

Table 2.5 shows the educational composition of the population in the 2005 Microcensus by cohort. The data clearly show an increasing percentage of those with a leaving certificate from secondary school and a tertiary diploma/degree, and a declining percentage of those with a vocational qualification or only primary education.

### Table 2.5 Educational composition of the Hungarian adult population, per cent

<table>
<thead>
<tr>
<th>Age groups (year)</th>
<th>Unfinished primary education</th>
<th>Primary school (8 years)</th>
<th>Vocational school</th>
<th>Secondary school, leaving certificate</th>
<th>Tertiary education</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20–24</td>
<td>1.5</td>
<td>20.4</td>
<td>14.9</td>
<td>56.5</td>
<td>6.7</td>
<td>100.0</td>
</tr>
<tr>
<td>25–29</td>
<td>1.4</td>
<td>15.4</td>
<td>28.0</td>
<td>35.1</td>
<td>20.1</td>
<td>100.0</td>
</tr>
<tr>
<td>30–34</td>
<td>1.4</td>
<td>18.6</td>
<td>30.8</td>
<td>32.0</td>
<td>17.3</td>
<td>100.0</td>
</tr>
<tr>
<td>35–39</td>
<td>1.6</td>
<td>18.7</td>
<td>31.3</td>
<td>31.8</td>
<td>16.6</td>
<td>100.0</td>
</tr>
<tr>
<td>40–44</td>
<td>1.8</td>
<td>20.2</td>
<td>31.1</td>
<td>29.6</td>
<td>17.2</td>
<td>100.0</td>
</tr>
<tr>
<td>45–49</td>
<td>2.2</td>
<td>24.4</td>
<td>29.9</td>
<td>28.1</td>
<td>15.4</td>
<td>100.0</td>
</tr>
<tr>
<td>50–54</td>
<td>1.8</td>
<td>21.9</td>
<td>40.6</td>
<td>23.4</td>
<td>12.3</td>
<td>100.0</td>
</tr>
<tr>
<td>55–59</td>
<td>3.6</td>
<td>39.8</td>
<td>0.0</td>
<td>37.6</td>
<td>19.0</td>
<td>100.0</td>
</tr>
<tr>
<td>60–64</td>
<td>6.0</td>
<td>53.1</td>
<td>0.0</td>
<td>25.1</td>
<td>15.9</td>
<td>100.0</td>
</tr>
<tr>
<td>65–69</td>
<td>13.8</td>
<td>57.7</td>
<td>0.0</td>
<td>19.0</td>
<td>9.5</td>
<td>100.0</td>
</tr>
<tr>
<td>70–74</td>
<td>28.2</td>
<td>49.9</td>
<td>0.0</td>
<td>12.9</td>
<td>9.1</td>
<td>100.0</td>
</tr>
<tr>
<td>75+</td>
<td>51.4</td>
<td>32.2</td>
<td>0.0</td>
<td>9.8</td>
<td>6.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Microcensus, 2005 Hungarian Statistical Office.

An additional important feature of the changing enrolment to tertiary education appears if the field of study is taken into account. Enrolment has particularly increased for business and administration, social sciences and humanities, while it has decreased for engineering. With respect to field of studies, ‘soft fields’ (humanities, social sciences) are somewhat over-represented and ‘hard fields’ (information technology, engineering) are under-represented in higher education in Hungary as compared to the distribution in developed EU states (Bukodi and Róbert, 2008).
In order to describe changes in educational inequality over time, we present the Gini index of years of schooling by cohort. Here the distribution of educational attainment in EU countries is described on the basis of data from the Adult Education Survey. Educational attainment was measured by a categorical variable with three categories (below upper secondary, upper secondary, tertiary), and was converted to years of formal schooling. Conversion of educational categories into years of schooling was based on OECD (2007).

In most old Member States we see decreasing inequality in educational attainment (though not in Portugal). Among the new Member States, Poland and Slovenia show declining educational inequality, while the Gini index is more or less stuck in the case of the Czech Republic, Hungary and Slovakia. In the Baltic States, inequality first declined but then rose again.

Figure 0.9 Gini of years of schooling, by cohort

Source: Own calculations based on Adult Education Survey.

4 The first release of anonymized micro data covers 24 out of the 29 countries. Ireland, Iceland and Luxembourg did not take part in the pilot survey, Malta preferred not to participate in this exercise. Denmark is the fifth country missing from the first release of the data. As there was no information on Cyprus and Croatia in this table, these countries were also omitted, so our study covers 22 countries. The total net sample size for the first 22 countries is about 170,000 and represents those aged between 26 and 64 years.
Education is an important determinant of inequalities in labour market prospects in Hungary. The differences in the employment rates of people with different levels of education are considerable. Among men in the 15–64 age group, the employment rate among tertiary graduates was 83 per cent in 2009, while for men with only a primary education, the employment rate was only 29 per cent. The employment rate among those with least education is among the lowest in the OECD area (OECD, 2009).

**Figure 0.10 Employment rate by level of education (males, 15–64), per cent**


Another possible indicator for the relationship between level of schooling and labour market situation is entry into the labour force after leaving education. On the one hand, graduates find a first job faster than other school leavers with a lower level of schooling (Bukodi and Róbert, 2011). On the other hand, entry into the labour market takes longer for Hungarian graduates than for their counterparts in Poland or the Czech Republic, as comparative data from the REFLEX/HEGESCO project on young graduates reveal (Róbert, 2010; Allen, Pavlin and Velden, 2011). Another finding of the aforementioned comparative research was that Hungarian graduates were (along with Lithuanian and Turkish graduates) the most likely to use social contacts and networks to find their first job. Nearly 30 per cent of Hungarian graduates reported using this channel for job search.

The wage premium associated with higher education increased considerably during the period of transition. In 1989, graduates had earnings that were 57 per cent higher than those of employees with only primary education; by 1995 the wage premium had risen to 70 per cent, and by 2002 it was 92 per cent (see Table 2.6). Since then the wage premium of college education over primary school
has fluctuated between 90 and 100 per cent. In other words the wage premium of degree holders halted in the second part of the 2000s (see Tables 2.6 and 2.7). The wage premium of secondary school (leading to a leaving certificate) also increased during these years: in 1989, people with a leaving certificate as their highest educational award earned 24 per cent more than those with primary education, while in 1999 the figure was 35 per cent more. Since 2003, the wage premium of secondary education over primary schooling has been around 35 per cent. The labour market value of vocational education, on the other hand, has not increased over the past twenty years: the wage premium associated with this level of education (relative to primary schooling) has remained roughly stable, at around 10 per cent throughout the period.

### Table 0.6 Returns to education: results from Mincer-equations, 1989–2002

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>0.222</td>
<td>-0.154</td>
<td>-0.132</td>
<td>-0.142</td>
<td>-0.127</td>
</tr>
<tr>
<td>Experience</td>
<td>0.028</td>
<td>0.025</td>
<td>0.021</td>
<td>0.022</td>
<td>0.017</td>
</tr>
<tr>
<td>Experience squared</td>
<td>-0.000</td>
<td>-0.000</td>
<td>-0.000</td>
<td>-0.000</td>
<td>-0.000</td>
</tr>
<tr>
<td>Vocational school</td>
<td>0.117</td>
<td>0.129</td>
<td>0.106</td>
<td>0.122</td>
<td>0.097</td>
</tr>
<tr>
<td>Secondary school</td>
<td>0.238</td>
<td>0.300</td>
<td>0.297</td>
<td>0.354</td>
<td>0.313</td>
</tr>
<tr>
<td>College</td>
<td>0.572</td>
<td>0.663</td>
<td>0.697</td>
<td>0.872</td>
<td>0.918</td>
</tr>
<tr>
<td>Industry dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Region dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>City-town-village dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Constant</td>
<td>8.77092</td>
<td>8.30731</td>
<td>8.40765</td>
<td>10.1015</td>
<td>10.9588</td>
</tr>
<tr>
<td>Observations</td>
<td>145,198</td>
<td>131,745</td>
<td>153,112</td>
<td>164,706</td>
<td>137,713</td>
</tr>
<tr>
<td>R2</td>
<td>0.44</td>
<td>0.45</td>
<td>0.43</td>
<td>0.45</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Notes: Left-hand side variable: log of deflated after-tax earnings. Right-hand side variables: female dummy; potential labour market experience (difference of age and modal age at highest completed education) and its square. All regressions contain 2-digit industry dummies, 7 region dummies, and 4 city-size dummies (Budapest, other city, small town, and village).

Table 0.7 Returns to education: results from Mincer-equations, 2002–10

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>0.141</td>
<td>0.149</td>
<td>0.152</td>
<td>0.172</td>
<td>0.148</td>
</tr>
<tr>
<td>Less than primary school</td>
<td>-0.455</td>
<td>-0.390</td>
<td>-0.409</td>
<td>-0.403</td>
<td>-0.370</td>
</tr>
<tr>
<td>Primary school</td>
<td>-0.364</td>
<td>-0.367</td>
<td>-0.383</td>
<td>-0.405</td>
<td>-0.374</td>
</tr>
<tr>
<td>Vocational school</td>
<td>-0.273</td>
<td>-0.265</td>
<td>-0.284</td>
<td>-0.280</td>
<td>-0.244</td>
</tr>
<tr>
<td>College, university</td>
<td>0.540</td>
<td>0.587</td>
<td>0.579</td>
<td>0.556</td>
<td>0.575</td>
</tr>
<tr>
<td>Labour market experience</td>
<td>0.021</td>
<td>0.024</td>
<td>0.025</td>
<td>0.025</td>
<td>0.023</td>
</tr>
<tr>
<td>Square labour market experience</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Public servant</td>
<td>-0.058</td>
<td>0.160</td>
<td>0.092</td>
<td>0.022</td>
<td>-0.059</td>
</tr>
<tr>
<td>Region dummies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Hungary</td>
<td>0.090</td>
<td>0.065</td>
<td>0.069</td>
<td>0.047</td>
<td>0.060</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>-0.038</td>
<td>-0.031</td>
<td>-0.019</td>
<td>-0.093</td>
<td>-0.077</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>-0.112</td>
<td>-0.141</td>
<td>-0.143</td>
<td>-0.182</td>
<td>-0.148</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>-0.095</td>
<td>-0.095</td>
<td>-0.086</td>
<td>-0.138</td>
<td>-0.122</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>-0.117</td>
<td>-0.140</td>
<td>-0.130</td>
<td>-0.193</td>
<td>-0.170</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>-0.107</td>
<td>-0.127</td>
<td>-0.113</td>
<td>-0.164</td>
<td>-0.160</td>
</tr>
</tbody>
</table>

Note: the results indicate the earnings differentials of the various groups relative to the reference group in log points (approximately percentage points). All parameters are significant at the 0.01 level. All equation specifications control for industrial classification. We do not include the parameter estimates of the industrial classification variables, since the classification changed several times between 1998 and 2009. Reference category: women, with leaving certificate (general education certificate), in the business sector, working in the Central Transdanubia region.


In addition to better employment prospects and higher wages, another – more subjective – labour market outcome related to education investments is people’s satisfaction with their job. On the one hand, a higher level of schooling (particularly holding a degree) increases job satisfaction. This is true of Hungary as well, even if job satisfaction, generally speaking, is lower in the post-communist countries than in the developed EU market economies (Medgyesi and Róbert, 2000). On the other hand, a lower level of job satisfaction is characteristic of graduates, too, if Hungarian diploma holders are compared to their counterparts in other European societies. Still, Hungarian graduates report high or very high job satisfaction in 63 per cent of cases, which is quite a large proportion. Nevertheless, it is lower than in Austria, Norway, Belgium, Estonia or the Czech Republic, where the figure is above 70 per cent (Allen, Pavlin and Velden, 2011).

2.2 Whom has inequality affected?

If one groups individuals in society into mutually exclusive groups (e.g. by gender or level of education), one can then use decomposition analysis to show what fraction of total inequality is due to income differences between groups and to income differences within a group. Here we show the results of decomposition of the MLD index, which is an additively decomposable inequality measure that is easy to interpret (Shorrocks, 1982). The grouping variables considered here are: gender of the
GINI Country Report Hungary

household head (male/female); age of the household head (below 35 years, 35–59 years, over 60 years); settlement type (Budapest, city, village); level of education of the household head (primary, vocational, secondary, tertiary); employment status of the household head (head is the only working adult in the household, head and other adult working, head inactive, head retired, head retired with other working adult); and number of children in the household (0, 1, 2, 3 or more).

Figure 0.11 Evolution of between-group inequality as a percentage of total inequality, according to different household attributes

Note: The percentages of between-group inequalities were calculated by univariate decompositions of the MLD index, so between-group percentages should not be added together.
Source: data from Tóth (2010).

As Figure 2.11 shows, the single factor accounting for the highest fraction of total inequality is the education of the household head. The importance of income differences between groups by education level rose steeply during first years of the transition period – from 8 per cent of total inequality in 1987 to 25 per cent in 1996 – and it has remained at around that figure for the past 15 years. The factor accounting for the second-highest fraction of total inequality is employment status of the household head: 10–15 per cent of total inequality in most years of the period, and 20 per cent in 2003 and in most recent years. The differences in income between those living in different settlement types gained in importance during the initial years of transition: in 1987, this factor accounted for only 2 per cent of total income inequality, but since 1996 it has accounted for around 10 per cent. Income differences between households with different numbers of children also account for approximately 10 per cent of total inequality, but the importance of this factor has been rising steadily throughout the period. Income differences between groups by gender and age of the
household head account for only a small fraction of total inequality: income differences between households with male and those with female heads have never exceeded 2 per cent of total inequality, while the age of the household head accounted for 6 per cent of total inequality in 1987, but for at most 3 per cent thereafter.

2.3 Why has inequality grown?

Before the political transition, countries with a socialist economic system were characterized by relatively low levels of inequality – approximately at the level of Scandinavian societies (Flemming and Micklewright, 1999). The transformation of the economy brought about profound changes in these societies, and in most of them led to significant increases in inequality and poverty. Some 15–20 years after the transition, old and new EU Member States seem to be equally heterogeneous in terms of overall income inequality (Tóth and Medgyesi, 2011b; Ward et al., 2009; OECD, 2008). Some of them (Slovenia, Czech Republic) are low-inequality countries, whereas others are among the most unequal countries in the EU (Baltic States), and yet others belong to a group of countries with middle-level inequality.

Many comparative studies have sought to analyse the change in inequalities in Eastern European countries during the transition process. A very careful analysis of trends in earlier years of the transition is provided by Flemming and Micklewright (1999); Milanovic (1999) and World Bank (2000) give an in-depth analysis of the driving forces behind the evolution of income inequalities in these countries; while Heyns (2005) reviews certain aspects of increasing inequality, such as inequality related to gender, age, region of residence, etc. Here we give a brief summary of the Hungarian literature.

In Hungary, the first period of economic transition in the early 1990s was characterized by structural change. Due to the collapse of trade with the country’s eastern neighbours, whole branches of industry (such as mining or heavy engineering) went bankrupt, while new enterprises mainly sprang up in the service sector. This period was marked by a fall in both domestic and foreign demand for goods and, consequently, a decline in the country’s GDP between 1990 and 1993. During this first phase of the transition, employment fell dramatically: by 1.2 million between 1990 and 1997. Employment levels fell first and foremost in mining, agriculture and food processing, but also in the iron and steel industry. At the same time, employment figures improved in the service sector. The decline in employment was reflected in a rapid increase in the unemployment rate, which peaked in 1993. At the same time, there was a rise in the economically inactive population, with the proportion of inactive people of working age growing from 23 per cent in 1990 to 35 per cent in 1996.
During 1997–2001, however, the economy grew at a significant pace—about 4–5 per cent annually. Foreign direct investment played a major role in kick-starting and accelerating this growth, which brought about a significant technological modernization of production processes. During the economic growth (which really took off in the second half of the 1990s) there was a slight increase in employment: between 1997 and 2000, the number of those employed grew by 200,000. This was also reflected in a decrease in the unemployment rate.

These economic changes had a number of effects on the distribution of income. The income situation of households that lost their employment prospects deteriorated tremendously, and this gave rise to a form of inequality that was previously unknown to them: inequality between those in employment and those working-age people who were out of the labour market.

Inequality among workers also increased (as we have seen). One important factor in the growing earnings disparity was the increasing wage premium for educated labourers. An important driving factor of increasing inequality was the rise in returns to education, and specifically to university education during the 1990s (Kertesi and Köllő, 2002; Rutkowski, 2001). Education is thus a key factor in understanding the evolution of inequality in the first decade after transition. In the first phase of the transition, increasing wage premiums accompanied the structural change of the economy. Demand for labour in general was on the wane, but the drop was far more pronounced among the less well educated. After the take-off of economic growth, educational wage premiums continued to rise because technological changes were skills based and increased the demand for educated labour. This might result in an increasing wage premium for education if in the short run the increase in supply is not able to match the increase in demand.

The rise in income inequality during the transition has been partly due to a shift in the composition of incomes: the proportion of self-employment incomes, entrepreneurial incomes and capital incomes has risen, while the share of labour income has fallen. This is partly due to the collapse of socialist industry, which led to a substantial decrease in employment, but also to the emergence of the private sector (World Bank, 2000). The removal of legal restrictions on private ownership and entrepreneurship has led to the emergence of new small, private firms in industry and services. Privatization of formerly state-owned firms has resulted in the formation of national economic elites of corporate business owners. This has contributed to increasing income inequality, since self-employment and entrepreneurial income is more unevenly distributed than wages. Moreover, these activities often depend on an individual’s access to assets (property, but also information), which thus reinforce initial inequalities.
Another aspect of increasing income inequality on the labour and capital markets in the new Member States is the emerging regional inequality. Foreign direct investment, which has been perhaps the main driving force in economic recovery, is concentrated in regions close to Western European markets and in regions with a more skilled labour force. This has often contributed to increasing regional differences.

The most significant of the vulnerable population groups in Hungary is the Roma population. Risk of poverty among the Roma is well above average. Their labour market opportunities are few on account of their low level of education and the fact that they characteristically live in settlements (mainly villages) and regions that offer little scope for employment. Although more Roma now have elementary education, when it comes to secondary schooling or higher education the differences between the Roma and the non-Roma have widened (Kemény and Janky, 2006). Analysing factors behind the severe employment disadvantage of the Roma, Kertesi and Kézdi (2011) found that one-third of the gap is explained by the lower level of education. Number of children is also a significant factor in the female employment gap, while geographical location seems to be less important in explaining differences in employment rates.
The social impact of inequality

3.1 Introduction

This part deals with the social impact of inequality in Hungary over the past 20 years. The main focus is on different aspects of social exclusion, and it seeks to provide inputs to describe the societal processes going on in the country. The thematic coverage is wide and heterogeneous. First of all, the material dimensions of social exclusion are discussed: material deprivation (3.2) and cumulative disadvantage and multidimensional measures of poverty and social exclusion (3.3). This is followed by a more varied section, including non-material aspects of social exclusion, like social cohesion measured as the frequency of contact with other groups of people (3.4), family formation and breakdown, lone parenthood and fertility (3.5), health inequalities (3.6), patterns and trends in housing (3.7), crime and punishment (3.8), subjective well-being (3.9) and intergenerational mobility (3.10).

3.2 Patterns and trends in material deprivation

Here the position of the Hungarian population in terms of material deprivation is analysed, using the standard indicators of Eurostat, either as part of the agreed portfolio of social inclusion strands of the Social Open Method of Coordination (OMC) (the primary indicator of material deprivation) or taking the EU2020 poverty target (severe material deprivation).

Hungary’s material deprivation rates are among the highest in the European Union, whichever of the main indicators is examined. While Hungary’s performance is among the worst in terms of almost every individual item, the best indicators of the country’s position are ‘inability to go on a one-week

5 The main data source for this chapter is the Eurostat database. Indicators of material deprivation, cumulative disadvantage and multidimensional poverty and social exclusion are mostly based on the EU-SILC data, but we also use the TÁRKI Household Monitor Survey. For Hungary, EU-SILC-based data for 2011 are now available on the Eurostat website and are included in this analysis. Patterns and trends of family formation have been described on the basis of Eurostat data, with complementary information from the Hungarian CSO and thematic papers in the field, and the same holds for the health inequality part (including a few EU-SILC indicators within the Eurostat data). Eurobarometer has been used for information on subjective well-being. Before starting to provide a description of the social impacts of changing inequalities in Hungary, it should be mentioned that for some important indicators of vulnerability and social exclusion (e.g. material deprivation) consistent trends cannot be provided – only trends for the latter part (2005–10) of the period.
holiday’ and ‘inability to cover unexpected expenses’. More than two-fifths of the population were considered to be materially deprived in 2011 according to the primary indicator, and about 23 per cent according to the indicator of severe material deprivation. These values are slightly higher than the average for the new Member States (20 per cent). Comparable data based on the Eurostat methodology go back only as far as 2005. In the period since then, there was a slow improvement until 2008, followed by a clear deterioration since 2009, mostly in terms of severe material deprivation (Figure 3.1).

**Figure 3.1 Trends in the main indicators of material deprivation, 2005–2011**

![Graph showing trends in material deprivation](image)

Source: Eurostat.

*Figures 3.2, 3.3 and 3.4 show that the shift in the trend came mostly from a deterioration in the position of households with children, of those with low education and of those with the lowest household income. Meanwhile the position of the elderly was unchanged from 2008, though it deteriorated slightly between 2010 and 2011. At the level of individual items, inability to face unexpected expense is most responsible for the increase in the share of Hungarians at risk of severe material deprivation (an important indicator of how Hungarians have been hit by the economic crisis).*
Figure 3.2 Severe material deprivation rate, by age, 2005–2011, per cent

Source: Eurostat.

Figure 3.3 Severe material deprivation rate, by highest attained level of education (18–64-year-olds), 2005–2011, per cent

Source: Eurostat.
3.3 ‘Vulnerability’, cumulative disadvantage and multidimensional measures of poverty and social exclusion

3.3.1 Vulnerable groups

Before starting to present the trends and recent results on the EU2020 poverty target and other indicators of cumulative disadvantage and the multidimensionality of poverty and social exclusion, we briefly list the most vulnerable groups in Hungary, as identified by their risk of income poverty.

The risk of poverty in Hungary strongly correlates with age. SILC data for the period between 2005 and 2011 indicate that the risk faced by children (aged 0–17) is some four or five times higher than the risk faced by the elderly, and about 50 per cent higher than the population average. If we look at the period between 1992 and 2009, then we find that around the time of the political transition elderly people were at most risk of poverty, but their position has been steadily improving since. However, the opposite has happened with children: their average position deteriorated in the first half of the 1990s, levelled off for a while, and then started to deteriorate again in recent years (Figure 3.6).
Figure 3.5 At-risk-of-poverty rate by age, 2005–2011, per cent

Source: Eurostat.

Figure 3.6 At-risk-of-poverty rate by age, 1992–2009, per cent

Source: TÁRKI.

As Figure 3.7 clearly shows, education is the most important factor in shaping the risk of poverty in Hungary. This is the case not only when two-way correlations are analysed, but also when other factors are controlled for (Gábios and Szivós, 2010). In addition, the urban/rural, regional and ethnic (Roma/non-Roma) differences are striking (Gábios and Szivós, 2010).
The SILC data indicate that, keeping the poverty threshold at the 2005 level in terms of real income, the risk of poverty decreased between 2006 and 2009, but increased between 2009 and 2011, largely due to the increased risk facing children (Figure 3.8.).
3.3.2 The EU2020 poverty target

The methodology used for the indicator of poverty and social exclusion (a composite of three elementary indicators), which serves as a basis for the EU2020 poverty target, provides an opportunity to capture the multidimensionality of the main material aspects of social exclusion. The individual indicators that form the basis for the target are: the at-risk-of-poverty rate, the severe material deprivation rate and the share of individuals living in low work-intensity households. The first two have already been presented above, but here we briefly summarize the third before turning to present the composite index. According to the latest data, 11–12 per cent of all Hungarians live in households where the value of the work-intensity indicator does not exceed 0.2, meaning that practically no household member of active age (18–64) worked during the year preceding the data collection. This figure is among the highest in the EU.

Turning to the share of population at risk of poverty or social exclusion, close to a third of Hungarians are at risk. This is almost 7 percentage points higher than the EU-27 average and is among the highest in the Central and Eastern European region (not including Bulgaria and Romania). The figure was marginally higher in 2005 (32 per cent). It declined slightly until 2008, and then levelled off until 2010. According to this indicator, the share of Hungarians at risk of poverty and social exclusion rose slightly between 2010 and 2011 (from 29.9 per cent to 31 per cent).

Figure 3.9 Population at risk of poverty or social exclusion (EU2020 poverty target), by age, 2005–2011, per cent

![Population at risk of poverty or social exclusion](image)

Source: Eurostat.

The level shows considerable variation across levels of education: the lower the level of education, the higher the proportion of individuals aged 18–64 at risk of poverty or social exclusion.
Figure 3.10 Population at risk of poverty or social exclusion (EU2020 poverty target), by education (18–64-year-olds), per cent

Source: Eurostat.

3.4 Social cohesion and the concept of social capital

The aim of this section is to assess the patterns and changes in those mass attitudes, values and behaviour that are related to social inequality and to social policies that seek to amend the unintended and unfavourable impacts of inequality. Changing economic conditions have an impact on attitudes toward inequality and on public support for government measures. In boom times, people may value greater individual responsibility, whereas – as we have seen recently during the worldwide economic crisis – when employment is low and austerity measures are on the political agenda, people tend to demand more redistribution (Blekesaune, 2007; Keller, 2011). This is likely to be the case when the perceived level of inequality and poverty is unacceptable to the majority in society. Hungary is ideal as a case study to illustrate this, as will be demonstrated below.

Further issues to do with this topic are covered in Chapter 4 of our report, which focuses on ‘political and civic participation’ and ‘trust’. Both are related to important elements of the broader concept of social capital.6

6 This concept originated in the work of Bourdieu (1985) and Coleman (1988) (see Portes, 1998). There are three forms of capital: economic, cultural and social (Bourdieu, 1985). The last of these was defined as ‘the
The concept of social capital became very popular and was widely used in the social sciences at the end of the 1980s. For many researchers it provided a theoretical and analytical tool to complement the economic theory of rational action, criticized as an ‘undersocialized’ view of human systems.

Their membership of groups and networks provides individuals with resources that are derived from social structure and social interactions. Consequently, an individual’s behaviour, attitudes and values can be interpreted as the outcomes of group norms and interpersonal trust. Social capital can increase human capital (educational achievements, skills and capabilities) and can shape the formation of economic capital under certain conditions (Coleman, 1988).

There can therefore be many forms and manifestations of social capital, such as membership of different civic organizations, e.g. voluntary associations, trade unions or political parties. More generally, it is also related to participation in different forms of political action, including voting and protest behaviour.

The question of how inequality is related to social capital has been widely studied. High inequality can prevent groups with fewer resources engaging in voluntary activities and can alienate them from the norms and values of the dominant social classes – and, as a consequence, can deter them from voting in elections. Hence, a low level of participation undermines the legitimacy and quality of democratic representation.

A comparative study by Hermann and Kopasz (2011) showed a significant and positive association between social capital and earnings. They found this relationship to be more pronounced in the post-socialist countries than in other EU Member States.

Economic inequality – defined by inequality in income and wealth – can impact social capital and participation in several ways (Lister, 2007). In a recent GINI discussion paper, Horn (2011) studied the relationship between income inequality and voter turnout in parliamentary elections. He demonstrated that inequality indeed correlates negatively with turnout at national elections, but that there are also some patterns of inequality that actually increase turnout. He concludes: the ‘larger difference in income between the very rich and the middle decreases overall turnout, while higher difference between the middle and the very poor increases turnout’ (Horn, 2011: abstract).

aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition’. More simply, social capital means ‘membership in a group’ (Bourdieu, 1985: 47).

See Lancee and van de Werfhorst (2011) for a recent review and contribution.
Other studies have distinguished between different types of social capital. Pichler and Wallace (2007) studied ‘formal’ and ‘informal’ social capital. The former is associational behaviour and trust, while the latter indicates forms of contact with and support from family and friends (‘strong ties’). The authors’ analysis showed that European societies are made up of different types of social capital regimes. The Scandinavian and some Western countries are high on both dimensions (‘complementarity’), whereas, for example, the Eastern-Central countries (the Visegrad 4 and Slovenia) are high on informal, but low on formal social capital. It is worth citing one of their main conclusions: ‘In countries where family or informal social capital predominate to a much greater extent, it may be more difficult to establish a vibrant civil society of the kind described by Putnam because the culture does not allow it. Yet societies change. As civil society is rekindled in Southern and Eastern Europe, we might find new forms of social cohesion emerging.’\(^8\) Indeed, the level of informal social capital in Hungary seems to be lower than in other European countries. In the present context, we would underline the fact that, of all the countries that participated in the European Social Survey, the percentage of socially isolated adults is highest in Hungary. Figure 3.11 shows that about 8 per cent of Hungarians never meet friends and relatives socially.

**Figure 3.11 Percentage of those who never meet friends, relatives or work colleagues, by country**

![Percentage of those who never meet friends, relatives or work colleagues, by country](image)

Source: European Social Survey Question wording: Using this card, how often do you meet socially with friends, relatives or work colleagues? Answer categories: Never/Less than once a month/Once a month/Several times a month/Once a week/Several times a week/Every day.

\(^8\) The article refers to Putnam (1995a; 1995b).
3.5 Changes in patterns of family formation and breakdown

Fertility

Fertility in Hungary is marked by a strongly fluctuating, but basically declining, trend over recent decades. The declining trend can be attributed to an enduring process of demographic transition and to political regime changes – the communist takeover after the Second World War and then the political and economic upheaval at the end of the twentieth century (Spéder and Kamarás, 2008). The total fertility rate dropped below the replacement level in the late 1950s and has remained below that level throughout the past 50 years, except for during a four-year period: the Hungarian ‘baby boom’ of the mid-1950s was basically the outcome of a ban on abortion (Spéder and Kamarás, 2008). After this four-year period, the total fertility rate fell below 1.8 (see Figure 3.12). Policy measures contributed to the comparatively large ‘baby boom’ birth cohort of the mid-1970s. But from the early 1990s onwards, the total fertility rate declined each year, dipping below 1.3 in 1999. Following a period of stagnation in the 2000s, the total fertility rate stood at 1.32 in 2009. Since then, fertility figures have reached even lower levels – in 2011 the rate was only 1.23, among the lowest in Europe.

Figure 3.12 Total fertility rate

While the total fertility rate has stagnated at well below the reproduction level, important changes have occurred in the demographic profile of childbearing women. The mean age of women at childbirth was under 25 years in the 1970s, and most women had their first baby when they were 22–23 years old. The signs of delayed motherhood were clear for all to see from the 1990s onwards:
the mean age of women at childbirth rose from 25.7 in 1990 to 29.4 in 2011, while their mean age at the birth of their first child rose from 23 to 27.7 between 1990 and 2009. Half of all babies born in 2009 were to mothers aged 30 or over.

Over the past two decades, the fertility gap between married and unmarried women has shrunk substantially: between 2001 and 2009, fertility among married women rose by 11 per cent, while fertility among unmarried women (including those cohabiting) rose by 19 per cent. The proportion of live births outside marriage in Hungary has more than tripled, from 13.1 per cent in 1990 to 42.3 per cent in 2011 (see Figure 3.13.). According to calculations based on data from the years 1990 to 1998 (Pongrácz, 2002), the share of births outside marriage largely depends on educational level: throughout the period examined, women with less than eight years of schooling were more likely to give birth outside marriage than were those with more education.

Figure 0.1 Crude marriage rates (per 1,000 inhabitants) and the proportion of live births outside marriage, as a percentage of live births

Source: Eurostat data.

Couple formation and dissolution

Since the mid-1970s, the number of marriages in Hungary has declined. The greatest fall has occurred over the past two decades: between 1990 and 2011, the figure dropped by 46.2 per cent (see Figure 3.14). The crude marriage rate in 1990 was 6.4 (per thousand inhabitants), and 3.6 in 2011, one of the lowest in the EU. While the decline in the number of marriages can be observed across all age groups, it is more considerable in the younger age groups. Thus, the increase in mean
age at first marriage has continued: the mean age of men and women at first marriage rose by approximately 5.5 years between 1990 and 2007, reaching 30.1 years for men and 27.5 for women. The timing of first marriage is strongly influenced by the level of education. Men and women with a lower level of education still tend to get married early, whereas men and women with a higher level of education mostly get married for the first time in their late twenties or even put it off into their early thirties.

![Figure 3.14 Number of marriages and divorces ('000s)](image)

Source: Hungarian Central Statistical Office.

The proportion of families that consist of married couples (with or without children) within the total number of families fell from 80 per cent in 1990 to 71 per cent in 2005, whereas the rate of cohabiting couples increased threefold during the same period (Földházi, 2010b): the share of those cohabiting rose from 5.1 per cent in 1990 to 11.3 per cent in 2001, before rising further to 15 per cent in 2005. Non-marital cohabitation has become a generally accepted form of partnership in Hungary over the past two decades. Cohabitation is common mainly as a first partnership, but the proportion of those choosing it as a lasting form of conjugal relationship is definitely increasing: some 57 per cent of people cohabiting have never been married, a third are divorced and one in ten is widowed (Pongrácz, 2010).

The number of children born to married and cohabiting couples differs greatly. The rate of childless cohabiting couples is substantially higher, reaching 54 per cent by 2005 (compared to 41 per cent of married couples). The share of couples with one child is similar in the groups of cohabiting and
married couples (26 per cent and 28 per cent, respectively). But the proportion of those with two or more children is far lower among cohabiting couples (20 per cent, compared to 32 per cent of married couples). Thus, on average, cohabiting couples tend to have fewer children than married couples (Földházi, 2010b).

The number of divorces in Hungary grew slowly between 1980 and 1987, when there was a sudden fall due largely to a change in family law: in 1986, a compulsory reconciliation process was introduced to prevent hasty divorces. During the 1990s and 2000s there was no substantial change in the number of divorces. However, the frequency of divorce (measured by the total divorce rate) shows an unfavourable tendency: in 1990, the total divorce rate stood at 31 per cent; by 2007 it had soared to 45 per cent, indicating that almost half of all marriages end in divorce. In a European comparison, Hungary is towards the upper end of the scale, between the Nordic countries (with the highest rates) and the Southern European countries and Poland (with the lowest rates) (Földházi, 2010a).

Lone-parent families

The rate of lone-parent families in Hungary grew slightly between 1990 and 2005. At the beginning of the period, 15.6 per cent of families were headed by a single parent, while in 2005 the figure was 16.8 per cent. The most common type of single-parent family consists of a mother and her child(ren): the share of mother-headed single-parent families increased from 80 per cent in 1990 to 87 per cent in 2005. No data are available for Hungary on the distribution of lone parents by educational attainment.

The high number of divorces and the greater instability of cohabitation have brought about changes in the structure of two-parent families: the share of children living with their biological parents has fallen, while the share of those living with one biological and one step-parent has risen. The overwhelming majority (85.1 per cent) of infants under one year of age live with their biological parents, but among children aged 14 the share of those living with two biological parents drops to 68.8 per cent. Two-parent families consisting of one biological and one step-parent account for 2.7 per cent of infants under the age of one year, and for 9.7 per cent of children aged 14 (Spéder, 2006).
3.6 Levels and trends in health inequalities

Life expectancy

Figure 3.16. Life Expectancy, by age and gender (years)

Source: Hungarian Central Statistical Office.

Life expectancy at birth in Hungary declined slightly between 1968 and 1993. Since 1994, life expectancy has been growing. It has increased by 5.7 years for men and 3.9 years for women in the period between 1994 and 2010. Most of the improvement in longevity (for both sexes) occurred in the second half of the 1990s. Despite these gains, life expectancy in Hungary in 2010 (70.5 years for
men and 78.1 years for women) is among the lowest in the EU. In 2010 the gender gap in life expectancy at birth was 7.6 years, 1.8 years less than in 1994, when it peaked.

Life expectancy by level of education is a very important indicator of socio-economic inequalities in health (Corsini, 2010). According to a study published by the Hungarian Central Statistical Office (2007), educational attainment has an effect on both life expectancy and healthy life years in Hungary. As Figure 3.17 illustrates, those with low educational attainment (ISCED 0–2) – men and women – can expect a significantly shorter life and fewer healthy life years at age 35. The relationship between level of education and life expectancy (including healthy life years) is stronger for men than for women. The best-educated women have no greater life expectancy at age 35 than women with secondary education. However, they do enjoy some advantage in terms of more healthy years.

**Figure 3.17 Life expectancy and healthy life years at age 35, by education level, 2005**

![Life expectancy and Healthy Life Years](image)


A recent study on inequalities in the mortality rates of 22 European countries (Mackenbach et al., 2008) reveals that in almost all countries the rates of death are substantially higher in lower socio-economic groups. However, the magnitude of the inequalities between lower and higher socio-economic groups varies widely from country to country. In Hungary, education-related inequality in mortality is higher than in Europe as a whole. In line with the European tendency, the magnitude of inequality between those with the lowest and those with the highest level of education is larger for men than it is for women: in Hungary, the relative index of inequality for men is larger than 4,
indicating that the rates of death from any cause differ by a factor of more than 4 between the lower and the upper end of the education scale.

As Figure 3.18 and Figure 3.19 show, age-standardized mortality rates (calculated for men and women aged 35–64) in Hungary decreased in all educational categories between 1990 and 2000 – except for in the lowest educational group, where they remained the same for both sexes (Leinsalu et al., 2009). Thus, education-related inequality in mortality increased over the period of economic transformation.

Figure 3.18 Age-standardized mortality rates for broad causes of death groups among Hungarian men aged 35–64, by educational level

Source: based on data published by Leinsalu et al. (2009).
Figure 3.19 Age-standardized mortality rates for broad causes of death groups among Hungarian women aged 35–64, by educational level

![Figure 3.19](image)

Source: based on data published by Leinsalu et al. (2009).

The distribution of deaths by the major groups of causes in Hungary is very similar to other European countries: almost two-thirds of all deaths are a result of diseases of the circulatory system and cancers. Thanks to comparative studies by Mackenbach et al. (2008) and Leinsalu et al. (2009), information on inequalities in cause-specific mortality rates is also available. In almost all European countries, death from virtually every cause is more frequent among those with less education than among those with more education. In Eastern European countries, Hungary included, larger inequalities in the rate of death from all causes are due mostly to larger inequalities in the rate of death from cardiovascular disease. Important contributions are also made by inequalities in cancer-related and in smoking-related mortality in this group of countries. In addition, in Hungary inequalities in alcohol-related mortality account for the higher inequalities in death rates from all causes (Mackenbach et al., 2008).

Health status

Based on data from EU-SILC, Hungary is one of the EU Member States with the highest share of people reporting bad/very bad health: in 2010, 16.7 per cent of respondents reported poor health, compared to 9.3 per cent in the EU as a whole. Figure 3.20 shows the variation in self-perceived health by level of education. As we can see, the most striking difference is between the least educated (ISCED 0–1) and the other educational categories. In Hungary, the proportion of people who judge their health status to be poor has been extremely high among those with only primary
education. Although this trend has been improving, their proportion was as high as 50.5 even in 2010.

In Hungary, the proportion of people who say they are in poor health is higher in all income quintiles than in the EU as a whole. Generally, those with higher incomes tend to report better health (Figure 3.21). More precisely, people in the upper two quintiles are less likely to judge their health to be poor than are those in the other quintiles. The second income quintile is an exception, with the highest proportion of those reporting poor health for most of the period between 2005 and 2010. Nevertheless, income inequality in health status shows a slight downward trend in Hungary.

Figure 3.20 Self-perceived health status (bad/very bad), by education (ISCED 1997), per cent

Source: Eurostat (EU-SILC).
Figure 3.21 Self-perceived health status (bad/very bad), by income quintile, per cent

Source: Eurostat (EU-SILC).

Figure 3.22 Long-standing illness or health problem, by educational level (ISCED 1997), per cent

Source: Eurostat (EU-SILC).
Mackenbach et al. (2008) also examined the lifestyle factors that can affect self-assessed health status. According to their results, smoking and obesity are generally more common among those with lower education. Education-related inequalities in the prevalence of smoking are greater among men; prevalence of obesity is higher among women. However, the magnitude (and in some cases even the direction) of education-related inequalities varies from country to country. For Hungary, the study reports insignificant education-related inequalities in terms of smoking and below-average education-related inequalities in terms of obesity.

However, according to another recent study, education and income are strong predictors of smoking in Hungary (Leinsalu et al., 2011). Education and income are associated with equally large differences in smoking prevalence in the 25–64 age group. Among men, smoking initiation is related to low educational attainment, whereas smoking continuation is related to low income level. Among women, low education and low income are associated with both high initiation and continuation rates.

### 3.7 Housing tenure patterns and trends

In Hungary, housing was privatized between 1989 and 1997. During this period, 15–20 per cent of the housing stock moved from state ownership to the owner-occupied sector. The privatization was basically a give-away, under which households paid only 10–15 per cent of the market value of the
housing. As a consequence, Hungary has a high rate of home ownership: 89.7 per cent in 2010, compared to the EU average of 70.8 per cent (Figure 3.24). The remaining public rental sector caters to families with low incomes and low social status (Rózsavölgyi and Kovács, 2005). Data from the EU-SILC survey show that the share of tenants decreases as income increases (Beck et al., 2010).

Figure 3.24 Population by housing tenure, 2010, per cent

![Diagram showing population by housing tenure in 2010 for EU-27 and Hungary]

Source: Eurostat data.

House prices

Three periods can be identified in the evolution of house prices over the past decade. At the beginning of the period, in 1999–2000, prices grew spectacularly (by 60 per cent in real terms over two years). After 2000, the housing supply widened and the pace of house price increases slowed significantly. The 2003 data reflect the announcement that the housing subsidy schemes would be tightened up from 2004, which resulted in an increased demand for housing. Between 2000 and 2004, house prices rose by 28 per cent in real terms. From 2004 to 2007, house prices stagnated, and after 2007 they started to fall: between 2004 and the end of 2008, prices fell by 13 per cent in real terms. In sum, then, over the period under consideration (2000–08), house prices showed a 15 per cent increase (Horváth and Körmendy, 2010). According to the FHB Land Credit and Mortgage Bank

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9 It should be noted that data published by the Hungarian Central Statistical Office show higher home ownership rates (92.4 per cent for 2009). The difference is probably caused (at least partly) by the 2007 modification in the definition of ‘home owner’, according to which everyone who utilizes the accommodation is considered to be an ‘owner’.
GINI Country Report *Hungary*

Company, the second half of 2009 saw a price shock, in line with the economic crisis. Thereafter prices continued to fall, but rather more slowly. In the second half of 2010, a 6.8 per cent price decrease was measured (in real terms) relative to the same period of 2009.

**Figure 3.25 Evolution of house prices in nominal and real terms, based on the FHB House Price Index (2000=100)**

![Graph](image)


**Expenditure on rents or mortgages**

In Hungary, national rent control was abolished in 1990. There were fears that this would lead to an escalation of rents in the public sector, but this has not happened – the average rent has remained very low. (Housing is a ‘loss-generating’ service for local governments – rents cover only about 30–40 per cent of actual costs.) Since the households ‘trapped’ in the public sector are typically the neediest, many find even this low rent unaffordable.

The housing sector in Hungary was heavily subsidized during the socialist regime, with home-buyers having access not only to subsidized housing loans, but also to an up-front subsidy based on the size of the household (Hegedüs and Várhegyi, 1999). However, in the wake of the collapse of the state socialist regime, the government decided to abolish housing subsidies, due to the rising budget deficit. As a result, the formerly subsidized housing loans were converted into market-rate loans. This imposed a severe debt burden on households (Rózsavölgyi and Kovács, 2005).

At the beginning of the economic transformation in the early 1990s, there was practically no mortgage market in Hungary. Mortgage-related loan portfolios were virtually non-existent, and only
those who had their own funds could afford to construct or buy homes. Economic consolidation, begun in the mid-1990s, created the requisite financial environment for a mortgage market. In 1997, Parliament passed the Act on Mortgage Institutions. However, despite improving macroeconomic and financial conditions and the establishment of a legal and regulatory framework, the mortgage market remained stagnant until 2000, when the government initiated mortgage-related subsidies. Initially interest subsidies on long-duration mortgage loans were limited to new housing construction. Although these schemes did not have a major economic impact, the mortgage/GDP ratio started to grow. To further promote this growth, the government extended the interest subsidy to the purchase of existing dwellings (Bethlendi and Kiss, 2005). (These measures were coupled with a personal income tax exemption related to housing loan repayments.)

This housing subsidy scheme resulted in a sudden and spectacular rise in housing loans by 2002. Under the subsidy scheme, households had the incentive to borrow more than they needed for their housing and thus to finance consumption. Based on calculations done by the Hungarian National Bank, 15–30 per cent of mortgage loans raised for existing housing could have financed consumption during 2001–03 (Bethlendi and Kiss, 2005).

In 2003, faced with a high budget deficit and worsening macroeconomic conditions, the government decided to tighten the conditions of the mortgage scheme. As a result, the demand for new loans dropped immediately. The withdrawal of housing subsidies prompted a shift to foreign currency borrowing. Households sought an alternative source of low-interest housing finance, but in so doing they did not fully take account of the exchange rate risk associated with these foreign currency loans (Rózsavölgyi and Kovács, 2005). In Hungary, a large proportion of housing loans are denominated in foreign currency. The share of foreign exchange mortgage loans rose to 66 per cent by the end of 2010, and many of those are denominated in Swiss Francs – a currency that is typically more volatile than the Euro.

The indebtedness of Hungarian households is still far below the level of developed economies. Yet despite this, Hungarian households spend almost the same proportion of their income on loan repayments (Holló, 2007). Housing loans accounted for about 52 per cent of total household credit in June 2011.10 Indebted households (including those with housing loans) spent on average 19.1 per cent of their net income on repayments in 2007. As a consequence of high unemployment and the higher interest

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10 Own calculations, based on data published by the Hungarian National Bank.
costs on Swiss Franc-denominated mortgages, the household debt service ratio – the ratio of debt payments to disposable income – rose dramatically to 31.8 per cent in 2010. As Figure 3.26 illustrates, in 2007 the household debt service burden tended to decrease with an increase in household income. But the tendency was less clear-cut in 2010, when households in the second income quintile had by far the highest debt service ratio.

![Figure 3.26 Debt service burden to household income ratio, by income quintile, 2007 and 2010, per cent](image)

Source: Hungarian National Bank, based on Gfk Hungária.

Calculations based on EU-SILC data reveal differences in financial vulnerability in Hungary, depending on housing tenure status (i.e. mortgage holders and outright owners or renters). Outright owners report a lower financial burden than mortgage holders, but renters report a higher burden than mortgage holders (Beck et al., 2010). However, it should be noted that these surveys were conducted in the years before the economic crisis, which has affected households with different tenure status to greatly varying degrees.

### 3.8 Patterns and trends in crime and punishment

The number of crimes increased sharply after the democratic transition, though there was only minor growth in the number of offenders identified by the police. This discrepancy indicates how public safety deteriorated dramatically in Hungary in the early 1990s.
Prison inmates who had committed lesser crimes were granted an amnesty in 1989 and 1990 to mark the declaration of the republic and the first free parliamentary election after the end of state socialism. The size of the prison population varied from 12,000 to 18,000 inmates as penal policy changed (Figure 3.28). The trend in the Hungarian data deviates from the general EU-27 trend, which shows a steady increase between 1998 and 2007; the Hungarian graph is rather more bell shaped in that period,\textsuperscript{11} with the highest population in 2002.

The prison population rate (per 100,000 persons) averaged 149 per year from 2005 to 2007. This is above the European average of 123 for the same period, according to Eurostat figures.

There is a more complex picture behind the general trend in registered crime. The number of vehicle thefts and domestic burglaries (crimes committed against private property) rose until 1996/97 and then declined until 2006/07, when they began to go up again. There has been a more consistent rising trend in the number of violent crimes, which dipped temporarily only in 2004. Drug trafficking offences also grew in number until 2005 (with a slight dip in 2002/03) (Figure 3.29).

Another approach to assessing the level of public safety looks at things from the victims’ point of view. The European Social Survey asked respondents if they had been the victim of crime in the ‘past five years’. Between 2002 and 2008 a smaller proportion of Hungarians reported having been the victim of crime: in 2008 slightly more than 10 per cent of Hungarians said they had experienced burglary or assault in the past five years. This is one of the lowest figures in the EU (Figure 3.30).
**Figure 3.29 Types of recorded crimes in Hungary, 1993–2008 (number of recorded crimes)**

Source: Eurostat.

**Figure 3.30 Share of persons who had been a victim of crime, 2002–2008**

Source: ESS - European Social Survey. Question wording: ‘Have you or a member of your household been the victim of a burglary or assault in the last 5 years?’ The figure shows the proportion of respondents answering ‘yes’.
3.9 Patterns and trends in subjective measures of well-being, satisfaction, ‘happiness’

For reasons of history, there is a deep well of resentment in Hungary and a sense of the country having been ‘hard done by’. Most chapters in Hungarian history are interpreted as other nations wilfully disregarding the Hungarian contribution in the centuries of war against the expanding Ottoman Empire. Then, after the First World War, the victorious Western powers meted out a wholly disproportionate punishment, depriving Hungary of two-thirds of its former territory. Any Hungarian could easily catalogue further grievances as the nation and its families experienced at least six changes of political system in the course of the twentieth century.

With this kind of national worldview, it is not surprising that Hungarians are less satisfied with their lives and less happy than the citizens of other European countries. Regardless of data sources (whether the ESS or Eurobarometer), dissatisfaction and unhappiness have grown in Hungary, whereas other countries in the region – such as Poland and Slovakia – have become happier lands (Figure 3.31).

Figure 3.31 Mean level of life satisfaction in ESS countries, 2002–2008

Note: Means on a 0–10 scale. A higher score indicates a greater level of satisfaction. Source: European Social Survey.
Figure 3.32 Life satisfaction: share of those who are very satisfied with life, selected countries and the EU, per cent

Source: Eurobarometer.

Figure 3.33 Mean level of happiness in selected ESS countries, 2002–2008

Source: ESS European Social Survey.

Question wording: ‘Taking all things together, how happy would you say you are?’ Answers were coded on a 0–10 scale, where 0 equals ‘extremely unhappy’ and 10 ‘extremely happy’. A higher mean on this scale indicates greater happiness.

Future expectations influence the current level of satisfaction and happiness. Those who expect the current situation to improve are usually more tolerant of present nuisances. Expectations have declined in Hungary in recent years, both for the country’s economic prospects and for those of the
individual household, although the general election of 2010 and the formation of a new government did generate more optimism among the public. The decline started back in 2006, well before the financial crisis broke in 2008 (Figure 3.34 and 3.35).

**Figure 3.34 Financial expectations for the next year: share of those who expect the household’s financial situation to be better, per cent**

![Graph showing financial expectations for the next year](image)

Source: Eurobarometer interactive.
Question wording: 'What are your expectations for the year to come: will [next year]... be better, worse or the same, when it comes to... the financial situation of your household?'

**Figure 3.35 Share of those who expect the material situation of their household to improve in the next 12 months, per cent**

![Graph showing share of those who expect the material situation of their household to improve](image)

Source: CEORG surveys. Wording: 'Do you think that in the next year the material living conditions of your household will get better, moderately better, stay the same, moderately worse, worse.' The chart displays the proportion of respondents answering 'better' or 'moderately better'.

Page 63
The Hungarian suicide rate in the middle of the 1980s was the highest in Europe (Figure 3.36). Although the relatively liberal socialist regime of János Kádár (Hungary’s long-standing communist leader) was widely praised (even by some Western commentators), the steadily rising number of suicides indicated that there was much latent frustration in society. Interestingly enough, the suicide rate started to decline just before the system change. Some clinical psychiatrists insist that the main reason for this was the development of mental-hygiene treatments, and especially the prescription of modern drugs to treat depression and other mental illnesses. Although this may be a factor, Durkheim’s classic theory could also provide a clue as to why the suicide rate started to fall. Durkheim demonstrated that during revolutions and wars the number of suicides falls because individuals come to identify themselves with larger groups (e.g. they become more nationalistic), so the level of social integration is higher, and this shields individuals from self-destruction.

Figure 3.36 Suicide rate in Hungary, 1949–2010

![Graph showing suicide rate in Hungary from 1949 to 2010](http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_hosszu/h_wdsd001a.html)

Although the Hungarian suicide rate has dropped from about 45 (per 100,000) to 25 over the past two decades, this is still among the highest in the EU (Figure 3.37).
3.10 Intergenerational mobility

As Table 3.1 shows, intergenerational occupational mobility did not change between 1983 and 1992, but it decreased from 1992 to 2000. During the whole period, the total mobility rate, which shows the percentage of those in an occupational category that was different from that of their father decreased from 73.4 per cent to 65.8 per cent in the case of men. The total mobility rate also decreased in the case of women, albeit to a somewhat lesser extent.

Table 3.1 Evolution of total occupational mobility rate

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20–69 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>73.4</td>
<td>72.2</td>
<td>65.8</td>
</tr>
<tr>
<td>Women</td>
<td>77.5</td>
<td>76.1</td>
<td>73.9</td>
</tr>
<tr>
<td>20–34 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>66.4</td>
<td>65.5</td>
<td>60.5</td>
</tr>
<tr>
<td>Women</td>
<td>74</td>
<td>72.3</td>
<td>73.4</td>
</tr>
</tbody>
</table>

Note: mobility rates are based on a 7*7 mobility table with occupational categories: manager, professional, clerk; routine non-manual; self-employed; self-employed agriculture; skilled worker; unskilled worker; worker in agriculture.

Source: Bukodi (2002).

Another aspect of mobility involves studying the composition of those at the top of the occupational scale. Table 3.2 shows the composition of those in a white-collar occupation by the occupation of
their father. The data clearly show that, especially among men, the percentage of those with a white-collar father increased among this group. Put another way, the probability that someone from a lower parental background reaches a managerial grade has declined.

Table 3.2 Composition of the white-collar group by paternal occupation at the age of 14–18

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Men</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>manager, professional, clerk</td>
<td>22.4</td>
<td>28.1</td>
<td>41.1</td>
</tr>
<tr>
<td>routine non-manual</td>
<td>3.9</td>
<td>4</td>
<td>2.6</td>
</tr>
<tr>
<td>self-employed</td>
<td>8.5</td>
<td>8.4</td>
<td>5.8</td>
</tr>
<tr>
<td>self-employed agriculture</td>
<td>10.8</td>
<td>7.8</td>
<td>3.2</td>
</tr>
<tr>
<td>skilled worker</td>
<td>19.9</td>
<td>23.9</td>
<td>23.3</td>
</tr>
<tr>
<td>unskilled worker</td>
<td>23.1</td>
<td>18.3</td>
<td>16.4</td>
</tr>
<tr>
<td>worker in agriculture</td>
<td>11.3</td>
<td>9.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Total</td>
<td>99.9</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Women</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>manager, professional, clerk</td>
<td>22.5</td>
<td>27.8</td>
<td>30.2</td>
</tr>
<tr>
<td>routine non-manual</td>
<td>5.9</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>self-employed</td>
<td>6.4</td>
<td>5.8</td>
<td>4.4</td>
</tr>
<tr>
<td>self-employed agriculture</td>
<td>8.1</td>
<td>4.9</td>
<td>2.8</td>
</tr>
<tr>
<td>skilled worker</td>
<td>22.8</td>
<td>26.6</td>
<td>27.1</td>
</tr>
<tr>
<td>unskilled worker</td>
<td>23.7</td>
<td>21.9</td>
<td>20.1</td>
</tr>
<tr>
<td>worker in agriculture</td>
<td>10.7</td>
<td>10.3</td>
<td>12.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.1</td>
<td>100.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Bukodi (2002).
Political and cultural impacts

4.1 Political and civic participation: partisan involvement in a low social capital context

Under the state socialist regime, ‘the development of a comprehensive welfare state, secularisation, and the atomisation of society via the erosion of communal forms of entertainment, associational life and collective identities progressed further than in most of the West’ (Enyedi and Tóka, 2007). The communist history explains much about Hungarian society, which is more atomized and less participatory than the majority of European countries. Still, the political institutional settings of Hungary established as a result of negotiations between various political forces in 1989 did create what has been a stable party system for the first two decades of new democracy. The value of this stability is, however, rather questionable in the light of the latest political processes. The country was almost politically paralysed between 2006 and 2009, when an unpopular government faced a strong, combative opposition: the government was unable to execute social and economic reforms, and the opposition could not bring about early elections. This apocryphal party-system stability is based on a complex, mixed-type electoral system, which combines majority-system elements in certain districts with the characteristics of a proportional representation system.

After a fluid period between 1990 and 1998, by the turn of the millennium, Hungary had developed a party system with a strong ideological polarization in terms of the electorate being ‘left’ or ‘right’ and a high level of consolidation – i.e. the players (parties) were stable and no new parties entered the competition until 2010. For example, aggregate volatility was rather modest (8.2 per cent) from 2002 to 2006, well below the European average at that time. Parties exercise overwhelming control over the political processes, but they fulfil few social functions and their reputation is low compared to other institutions (cf. low membership rates and low level of trust in parties). The latest

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12 Aggregate volatility is measured by Pedersen (1979) volatility index (V). V expresses the net change in share of votes; the 2002/2006 value comes from the author’s calculation. According to Tóka (2005), the values of V were 25.8 (1994), 31.7 (1998), 22.0 (2002). This index has a theoretical range of 0 to 100. If there is no change in the share of votes for each party from election to election, then the index value was 0. If no old party received any votes in the subsequent election (just new ones) the index was 100. However different calculations may affect how party alliances and minor parties are treated. This may cause small variations in V values.
parliamentary elections held in 2010 resulted in an absolute majority for the conservative party alliance of Fidesz-KDNP that had been in opposition for eight years. There were high expectations that the new government would produce better social and economic policies, but these hopes were damped down by the effects of the economic and financial crisis that erupted in 2008. Despite the efforts of the two major incumbent parliamentary forces (the socialist-liberal coalition in government and the centre-right coalition in opposition) to monopolize the political arena, in 2010 two new parties crossed the 5 per cent parliamentary threshold, both of them protest parties. The green, ecological LMP got 7.5 per cent of the vote; its name means ‘politics can be different’. The extreme-right Jobbik got 16.7 per cent of the vote; its name contains a double meaning and is a play on words – ‘rightist’ and ‘better’. The aggregate volatility index (V) exceeds all previous values, indicating considerable political realignment.

The current Hungarian party system is very concentrated; the effective number of parliamentary parties is low (2.5), although this is not exceptional in democracies.

In terms of Laakso and Taagepera’s (1979) formula, the effective number of parliamentary parties (ENP) in 2010 was 2.52. This formula weights the number of parties by their share, using the formula

\[ N = \frac{1}{\sum_{i=1}^{n} P_i^2} \]

where \( n \) is the number of parties with at least one seat, and is the square of proportion of party \( i \) of all seats. The value of 2.5 is closer to what is found in majority election systems, rather
than proportional ones (Enyedi and Benoit, 2011). According to figures presented by Jungerstam-Mulders (2006), the average ENP in eight new post-communist EU Member States between 1994 and 2004 was 4.3, while the average calculated for the same period for the 15 old EU members was 4.0. The corresponding Hungarian value was already as low as 2.83 in that period.

So the ENP decreased further by 2010, and the high level of ideological polarization remained, in terms of how the electorate saw the main political parties along the left–right dimension. Recently, in 2011, a new constitution was instituted and a new election law was passed by Parliament. Under the new system, the legislature will shrink from 386 members to 199, but the mixed nature of the system will be preserved. However, the majority nature of the system will probably strengthen, since most of the mandates (106) will be obtained from individual constituencies. Consequently, the small ENP will probably continue to be a feature of the Hungarian party system.

As in some European countries, voter turnout rates are higher in Hungary in parliamentary elections than in local or municipal polls, with the European Parliament elections being the least mobilizing events (Table 4.1). Turnout rates at referendums – there were six between 1989 and 2011 – ranged from 14 to 58 per cent (Table 4.2).

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnout</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>58</td>
<td>Four questions on the conditions of democratic transition</td>
</tr>
<tr>
<td>1990</td>
<td>14</td>
<td>Direct election of the president</td>
</tr>
<tr>
<td>1997</td>
<td>49.2</td>
<td>NATO membership</td>
</tr>
<tr>
<td>2003</td>
<td>45.6</td>
<td>EU membership</td>
</tr>
<tr>
<td>2004</td>
<td>37.5</td>
<td>Citizenship for ethnic Hungarians living outside borders, privatization of hospitals</td>
</tr>
<tr>
<td>2008</td>
<td>50.5</td>
<td>On abolition of medical fees and tuition fees</td>
</tr>
</tbody>
</table>

Table 4.2 Turnout in parliamentary, local and European Parliament elections in Hungary, 1990–2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Parliamentary elections (1st round)</th>
<th>Local election</th>
<th>European Parliamentary election</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>65.1</td>
<td>40.2</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>68.9</td>
<td>43.4</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>56.3</td>
<td>45.7</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>70.5</td>
<td>51.1</td>
<td>38.5</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>67.8</td>
<td>53.1</td>
<td>36.3</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>64.4</td>
<td>46.6</td>
<td></td>
</tr>
</tbody>
</table>


According to a comparative analysis by Angelusz and Tardos (2005), the Hungarian mean turnout rate in local elections was well below the EU-15 average (1993–2001: 68.2 per cent), but was almost at the same level as the ten new Member States (1994–2003: 51.7 per cent). Similar tendencies apply for general elections. Using the Comparative Political Data Set III 1990–2008, the calculated mean turnout for 189 elections across 23 OECD countries, including Hungary, was 73.1 per cent, while the mean for Hungary was 65.7 per cent. Although, the average turnout rate is relatively low, the level of partisanship (i.e. the share of those who feel close to a party) was somewhat higher in Hungary than in other European countries (Tóka, 2006).

Analysis of the first-wave European Social Survey (ESS) data by Angelusz and Tardos (2005) showed that the level of associational behaviour – like membership of unions, parties, hobby clubs (that is ‘formal social capital’) – was significantly lower in Hungary not only than in the EU-14 (EU-15 without France) but also in Slovenia and Poland. A similar picture can be painted of the trend of participation in voluntary work over the past decade: Hungarians are less participatory than people living in Nordic or Western countries.

The trend of union density in Hungary has dropped sharply since the transition – from 83 per cent to less than 20 per cent in a decade. After decades of quasi mandatory union membership, there was a kind of natural drop in union density after 1989. The old trade union (named SZOT) participated in talks in 1989 on the ‘third side’ of a ‘triangular table’ – SZOT and some other civil society...
organizations were neither on the opposition’s nor on the ruling communist party’s side. By contrast, some newly formed trade unions joined the opposition.

Declining union membership was a more general European trend. A European Commission report found that, around the middle of the 1990s, every third worker belonged to a trade union. This share had dropped to one in four by the middle of the last decade (European Commission, 2006). It was found that large ‘differences in (net) trade union density exist between the Member States, ranging from 80% in Denmark to 8% in France. The density rate is high in the Nordic countries, closely followed by the two small Mediterranean islands, Cyprus and Malta. Spain and France, with throughout the 1990s a very low membership level, are joined by a lot of the new East-European Member States. Slovenia and Slovakia are the only eastern nations with an above average density rate’ (European Commission, 2006: 23).

A number of reasons have been suggested by Keune (2008) for the declining trend in union density. These include: (a) the shift from Fordism to post-Fordism, (b) the declining share of blue-collar workers and the growing share of service-sector employees, (c) the hostile ideological and political context, particularly in new Member States, and (d) the precarious labour market situation during the transition to capitalism. It was difficult to retain old members and recruit new members in the new Member States, partly because of the unions’ perceived links to the state-socialist regimes.

The above patterns of variation confirm Pichler and Wallace’s (2007) and Giczi and Sik’s (2009) findings on different ‘social capital regimes’ across European societies. However, we cannot conclude that the low level of formal social capital has been replaced fully by informal social capital – i.e. contact with family members, friends, neighbours and colleagues. Some studies have found that these types of networking became less intense and less frequent during the first decade of transition (Albert and Dávid, 1998; Angelusz and Tardos, 1998).

Analysis of determinants of participatory behaviour and civic engagement in Hungary has revealed that individuals with greater resources, a higher level of education and better material status tend to be more engaged in activities of associations or clubs, and that there is also a kind of gender gap: males are more likely to participate than females (Angelusz and Tardos, 1998). According to the findings of Lancee and de Werfhorst (2011), resources are indeed an important, though not sufficient, explanatory factor for participation. There are also other non-material, inter-individual processes that hinder or facilitate participation.
4.2 Non-revival of generalized trust, declining institutional trust

Trust in others and institutions, as discussed briefly above, is a central concept in social capital theory, and as such is widely studied by political scientists due to concerns about the observed declining level of trust in political institutions, most visible in the United States (Newton and Norris, 1999; Newton, 1999). Although the declining trend is far from universal in advanced democracies, different aspects of political trust are obviously a matter of interest for the study of the impacts of economic inequalities on political institutions.

In Hungary, the level of generalized trust is about 4 (on a scale of 0–10). It is significantly lower than the level found in the Nordic countries (means of above 6). Among the (mostly European) countries surveyed, interpersonal trust is lowest in Bulgaria (Figure 4.3). There is significant cross-country variation in the level of interpersonal trust, but it was relatively stable over time within countries over the previous decade.
Figure 4.3 Level of generalized (interpersonal) trust in 2010

Source: European Social Survey Round 5. Data file edition 2.0. Norwegian Social Science Data Services, Norway Data Archive and distributor of ESS data. A higher mean on a 0–10 scale indicates greater interpersonal trust.

Turning to some of the dimensions of political trust, between 1991 and 2005 people in Hungary trusted the President more than the Constitutional Court, the government or Parliament; they trusted political parties least (Table 4.3).

Table 4.3 Percentage of citizens who have ‘great’ or ‘some’ trust in various political institutions, 1991–2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Constitutional Court</th>
<th>President</th>
<th>Government</th>
<th>Political parties</th>
<th>Parliament</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>67</td>
<td>79</td>
<td>56</td>
<td>36</td>
<td>56</td>
</tr>
<tr>
<td>1992</td>
<td>48</td>
<td>56</td>
<td>32</td>
<td>26</td>
<td>32</td>
</tr>
<tr>
<td>1993</td>
<td>57</td>
<td>64</td>
<td>33</td>
<td>28</td>
<td>33</td>
</tr>
<tr>
<td>1994</td>
<td>64</td>
<td>76</td>
<td>55</td>
<td>39</td>
<td>51</td>
</tr>
<tr>
<td>1995</td>
<td>62</td>
<td>70</td>
<td>37</td>
<td>32</td>
<td>39</td>
</tr>
<tr>
<td>1996</td>
<td>63</td>
<td>69</td>
<td>37</td>
<td>30</td>
<td>36</td>
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<tr>
<td>1997</td>
<td>65</td>
<td>68</td>
<td>39</td>
<td>32</td>
<td>38</td>
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<tr>
<td>1998</td>
<td>69</td>
<td>73</td>
<td>53</td>
<td>40</td>
<td>50</td>
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<tr>
<td>1999</td>
<td>69</td>
<td>75</td>
<td>46</td>
<td>37</td>
<td>46</td>
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<tr>
<td>2000</td>
<td>67</td>
<td>74</td>
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<tr>
<td>2001</td>
<td>67</td>
<td>67</td>
<td>45</td>
<td>37</td>
<td>45</td>
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<tr>
<td>2002</td>
<td>68</td>
<td>66</td>
<td>54</td>
<td>42</td>
<td>52</td>
</tr>
<tr>
<td>2003</td>
<td>65</td>
<td>63</td>
<td>48</td>
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<td>47</td>
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<tr>
<td>2004</td>
<td>65</td>
<td>65</td>
<td>42</td>
<td>36</td>
<td>44</td>
</tr>
<tr>
<td>2005</td>
<td>66</td>
<td>68</td>
<td>42</td>
<td>35</td>
<td>43</td>
</tr>
</tbody>
</table>

When we look at the trends for Hungary in the European Social Survey, which covers the period between 2002 and 2010, we need to bear in mind the specific political processes of that period: this is a time when the bipolar competition crystallized between the socialist-liberal left and the conservative right. Two elections were won by the former coalition (with very slight differences). Straight after the 2006 victory, the prime minister admitted in a speech (supposed to be confidential) that the party had lied during the election campaign and that austerity measures were inevitable. The speech was taped and broadcast by the media, leading to mass protests and riots. The opposition sought an early election, but the majority in Parliament gave the prime minister a vote of confidence.

**Figure 4.4 Tracking the political change in Hungary between 2002 and 2010**

Note: A higher mean on the 0–10 point scale indicates greater trust and satisfaction. Source: European Social Survey Cumulative File, ESS 1-4 (2011). Data file edition 1.0 and ESS Round 5. Norwegian Social Science Data Services, Norway - Data Archive and distributor of ESS data.

There was a dramatic drop in each of the selected dimensions of political trust in Hungary between 2002 and 2008. Trust in Parliament, the legal system, satisfaction with government and democracy all dropped from about 5 to 3 on the 0–10 scale. We can confirm Newton and Norris’s (1999: 12) conclusion that ‘at national level, social trust and confidence in government and its institutions are strongly associated with each other’.
The share of people who trusted Parliament dropped from 37 per cent (2002) to 10 per cent in 2008. Hungarianians trusted the legal system more than Parliament. Whereas in 2002, 38 per cent of the adult population tended to trust the legal system, that number had fallen to 22 per cent by 2008. In line with distrust in Parliament and the legal system, Hungarians were more and more dissatisfied with their national government. The mean satisfaction score dropped 3 points on a 0–10 scale, and in 2008 the percentage of satisfied adults was below 10 per cent (6.3 per cent). However, there were only a few countries where the majority of the electorate was satisfied with their own governments at the time of the ESS 4th round (2008): Switzerland, Cyprus, Denmark, Finland and the Netherlands.

Some 12 per cent of the Hungarian electorate were satisfied with the way democracy worked in the country in 2008. Six years earlier, almost a third of adults were satisfied, so the tendency is similar to what we have seen for trust in political institutions, such as government and Parliament. However, there were quite a lot of countries in Europe where most of the people were satisfied with their democratic system.

Diminution of trust on a similar scale could be observed in only one other country – Ukraine. Obviously, one cannot find any more appropriate explanation for these parallel trends than the country-specific political developments in those countries: the ‘Orange revolution’ and disillusionment, the rise and sudden fall of the ‘Gyurcsány era’ between 2005 and 2006. Those are probably unique socio-political processes that can be only partially explained by trends in social inequality. Figure 4.5 illustrates the erosion of political institutional trust between 2002 and 2008 and puts Hungary’s position into the international context.

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14 The data presented here are not comparable to Table 4.3. In ESS data answers higher than 5 were treated as ‘trust’ on a 0–10 point scale, whereas the source of Table 4.3 uses a 5-point scale.
Figure 4.5 Changes in trust in legal system and satisfaction with government: Hungary and similar countries, 2002 and 2008

Notes: x axis: level of satisfaction with government, y axis: trust in legal system. Higher means on 0–10 scales indicate higher level of satisfaction and trust. Beware of different y ranges of time references.

There are certain differences in the levels of generalized, interpersonal and political trust between social groups, but the differences sometimes do not correlate linearly with social status, and are not always statistically significant (Figure 4.6). Generally, people with more resources tend to be more trustful, but in case of educational difference, political trust and satisfaction are greater among the least and best educated groups than in intermediate groups (Table 4.4).

Figure 4.6 Mean satisfaction with democracy scale scores, by subjective income status in Hungary 2008

Source: European Social Survey
Table 4.4 Trust and satisfaction, by highest educational attainment in Hungary (means of 0–10 point scales), 2008

<table>
<thead>
<tr>
<th>Highest level of education</th>
<th>Most people can be trusted or you can’t be too careful</th>
<th>Trust in country’s parliament</th>
<th>Trust in the legal system</th>
<th>How satisfied with the national government</th>
<th>How satisfied with the way democracy works in country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than lower secondary education</td>
<td>3.92</td>
<td>3.2</td>
<td>4.24</td>
<td>2.44</td>
<td>3.65</td>
</tr>
<tr>
<td>Lower secondary education completed</td>
<td>3.94</td>
<td>2.38</td>
<td>3.51</td>
<td>1.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Upper secondary education completed</td>
<td>4.22</td>
<td>2.73</td>
<td>3.88</td>
<td>1.88</td>
<td>3.14</td>
</tr>
<tr>
<td>Post-secondary non-tertiary education completed</td>
<td>3.72</td>
<td>2.08</td>
<td>3.18</td>
<td>1.58</td>
<td>2.39</td>
</tr>
<tr>
<td>Tertiary education completed</td>
<td>4.75</td>
<td>3.13</td>
<td>4.44</td>
<td>2.1</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4.09</strong></td>
<td><strong>2.59</strong></td>
<td><strong>3.74</strong></td>
<td><strong>1.88</strong></td>
<td><strong>3.01</strong></td>
</tr>
</tbody>
</table>

**4.3 Political values and extremist behaviour**

**Left–right identification: vanishing middle, growing demand for extreme right**

The political middle in terms of the electorate’s left–right identification had shrunk by the eve of the 2010 general election, and the proportion of those who identified with the extreme right had doubled. (A similar tendency emerges from the ESS data.) The means of the left–right scale shifted rightward between 2002 and 2008 (*Figure 4.7*).
Political extremism

General parliamentary elections were held in Hungary in 2010. This proved to be a ‘critical election’ that altered some fundamental features of the party system (Enyedi and Benoit, 2011). The Fidesz-KDNP coalition gained an absolute majority in the legislature, and the extreme right-wing Jobbik party secured 16.7 per cent of votes on its party lists. This result is almost identical to the percentage of people who identified themselves with the most right-wing position on the left–right scale (18.5 per cent) in the HES pre-election survey. Until then, in the history of post-communist democracy in Hungary, there had been only one occasion when an extreme right-wing party had managed to gain enough votes to cross the 5 per cent parliamentary threshold: between 1998 and 2002, the Party of Hungarian Justice and Life (MIÉP) was in Parliament, but for only one term (Figure 4.8). The ideology of Jobbik can be described as anti-establishment, anti-EU and nationalistic. However, its central issue is the Roma minority, as the party expresses deep concerns about ‘Roma criminality’ and public safety. There is nothing like the immigration to Hungary from outside Europe that is seen in other parts of the continent. In fact, the share of the foreign-born population is one of the lowest in the EU, and the influx of foreigners is not on a large scale.\textsuperscript{15} Anti-Roma attitudes in Hungary function in the same way as anti-immigrant feelings and anxiety do in extreme rightist discourse in countries like France, Germany or Norway. The context of debates about Roma policies is also about whether the

\textsuperscript{15} The official statistics registered a foreign population inflow of 232,880 between 2000 and 2010. Cf. OECD International Migration Database (http://stats.oecd.org). Probably a large part of these were ethnic Hungarians from neighbouring countries.
GINI Country Report Hungary

Roma are ‘deserving’ – should a particular group (immigrants, minorities like the Roma) be entitled to welfare provisions, and under what conditions should the public at large, or local communities, support such groups? Although Dutch findings are not necessarily transposable to the Hungarian context, it could be worth mentioning that the analysis by van der Waal et al. (2010) of the Dutch population showed that egalitarian attitudes can be associated with ‘welfare chauvinism’, especially among those who experience competition with immigrants for welfare provisions, and have less cultural capital and a high level of cultural insecurity. Welfare chauvinism was successfully associated with anti-Roma attitudes by Jobbik, and they have managed to attract the attention of the mass media by claiming ‘ownership’ of the issue of so-called ‘Roma criminality’ and by the establishment of Magyar Gárda (Hungarian Guard), a paramilitary organization that used symbols associated by many with pre-1945 extreme right-wing movements (Karácsony and Róna, 2010).

Figure 4.8 Percentage voting for extreme left and right parties in Hungary, 1990–2010

<table>
<thead>
<tr>
<th>Year</th>
<th>% voting for extreme left parties</th>
<th>% voting for extreme right parties</th>
<th>Parliamentary threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>4.0</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>1994</td>
<td>5.0</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>1998</td>
<td>5.0</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>2002</td>
<td>4.0</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>2006</td>
<td>2.0</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>2010</td>
<td>18.0</td>
<td>12.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>


The first indications of an upsurge of extreme right-wing parties in EU countries came in the 1990s, and in 1995 the FPÖ become a coalition member in Austria after gaining 27 per cent of votes.

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16 Hungarian Guard was disbanded by the Budapest Tribunal in 2009. Many dispute the paramilitary nature of the Guard, since they did not carry weapons, but only wore uniforms.
Since 1989, extreme left-wing parties have never been able to garner enough votes to surmount the 5 per cent parliamentary threshold in Hungary. The best result by the Workers’ Party – the successor to the former ruling Communist party – was 3.95 per cent, in 1998.

According to official data sources, 42,700 immigrants from the EU and 28,600 non-EU immigrants lived in Hungary in 2008 (Hárs, 2009). At less than 1 per cent, the share of immigrants in the total population is much lower than in other EU countries. Yet Hungarians are not open to receiving migrants, especially from poorer countries outside Europe. A tenth of the population would not allow anybody to come and live in Hungary, even if the immigrants are of Hungarian ethnicity (Figure 4.9). This might seem strange, given that significant Hungarian minorities have lived in neighbouring countries since 1918. The relationship to those minorities is, however, a politically sensitive question, and there are certain differences between the parties on that issue. Right-wing parties are more supportive of dual citizenship and are more positive about ethnic Hungarians living outside the country’s borders. Despite the low influx of immigrants, the level of anti-immigrant attitudes is generally higher in Hungary than in other countries, according to ESS data. This may be a result of growing frustration/anxiety about the level of inequality and poverty. There is an empirically proven relationship between the level of inequality and intolerance: Andersen and Fetner (2008) analysed cross-national data on attitudes toward homosexuality. They concluded: ‘state policies that have the goal of economic growth but fail to consider economic inequality may contribute to intolerant social and political values, an attribute widely considered detrimental for the health of democracy’ (Andersen and Fetner, 2008: 942).
Prejudice against Roma was very widespread even during the state socialist regime. The ill-educated, unskilled Roma bore the brunt of system change. They suffered high unemployment and poverty, while society at large became more and more reluctant to provide them with welfare support. Openly discriminatory anti-Roma opinions were less frequently aired during the 1990s in Hungary, but nevertheless attitudes towards the Roma remained essentially negative and – in comparison with other ethnic groups – rejection of the Roma stood at a high level at the beginning of the last decade and has remained so (Enyedi et al., 2005; Marián, 2009). Anti-Roma attitudes have become something of a political issue due to the appearance of Jobbik (a far-right party) on the Hungarian political scene. Only one cross-nationally comparable indicator is available to help us locate the level of anti-Roma feeling in Hungary in the international context. Special Eurobarometer wave 69.1 contained a social distance scale-like question on how people would feel about having a Roma as a neighbour. On average, Europeans scored 6 (on a 10-point scale), while Hungarians scored 5.5 (right in the middle of the scale). The most negative attitude was expressed by Czechs (3.7) and the Poles were the most positive (7.5). Hungary has the second-highest proportion of people who have personal contact with Roma (Table 4.5).
Table 4.5 Proportion of people comfortable with a Roma neighbour, 2008, per cent

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean on scale of 1–10</th>
<th>Comfortable (8, 9, 10)</th>
<th>Uncomfortable (1, 2, 3)</th>
<th>Roma friends/acquaintances</th>
</tr>
</thead>
<tbody>
<tr>
<td>PL</td>
<td>7,5</td>
<td>58</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>SE</td>
<td>7,1</td>
<td>52</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>FR</td>
<td>6,9</td>
<td>48</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>LU</td>
<td>6,9</td>
<td>36</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>ES</td>
<td>6,8</td>
<td>42</td>
<td>13</td>
<td>32</td>
</tr>
<tr>
<td>MT</td>
<td>6,8</td>
<td>43</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>DK</td>
<td>6,7</td>
<td>47</td>
<td>21</td>
<td>4</td>
</tr>
<tr>
<td>NL</td>
<td>6,7</td>
<td>40</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>BE</td>
<td>6,6</td>
<td>45</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>UK</td>
<td>6,3</td>
<td>40</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>EL</td>
<td>6,2</td>
<td>42</td>
<td>26</td>
<td>6</td>
</tr>
<tr>
<td>LT</td>
<td>6,2</td>
<td>42</td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td>RO</td>
<td>6,2</td>
<td>34</td>
<td>20</td>
<td>42</td>
</tr>
<tr>
<td>SI</td>
<td>6,1</td>
<td>36</td>
<td>24</td>
<td>13</td>
</tr>
<tr>
<td>EU-27</td>
<td>6</td>
<td>36</td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>EE</td>
<td>5,9</td>
<td>36</td>
<td>28</td>
<td>7</td>
</tr>
<tr>
<td>DE</td>
<td>5,8</td>
<td>33</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>PT</td>
<td>5,7</td>
<td>24</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>CY</td>
<td>5,6</td>
<td>37</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td>HU</td>
<td>5,5</td>
<td>28</td>
<td>28</td>
<td>42</td>
</tr>
<tr>
<td>FI</td>
<td>5,5</td>
<td>25</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>AT</td>
<td>5,3</td>
<td>22</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>LV</td>
<td>5,2</td>
<td>24</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>BG</td>
<td>4,8</td>
<td>21</td>
<td>36</td>
<td>47</td>
</tr>
<tr>
<td>IE</td>
<td>4,8</td>
<td>24</td>
<td>40</td>
<td>6</td>
</tr>
<tr>
<td>SK</td>
<td>4,5</td>
<td>17</td>
<td>38</td>
<td>37</td>
</tr>
<tr>
<td>IT</td>
<td>4</td>
<td>14</td>
<td>47</td>
<td>5</td>
</tr>
<tr>
<td>CZ</td>
<td>3,7</td>
<td>9</td>
<td>47</td>
<td>18</td>
</tr>
</tbody>
</table>

Note: The average result on the 10-point scale and the percentage of respondents who give the three most comfortable (8, 9 or 10 points) and uncomfortable (1, 2 or 3 points) answers. Question wording: ‘For each of the following situations, please tell me, using this scale from 1 to 10, how you would personally feel about it. On this scale, 1 means that you would be very uncomfortable and 10 means that you would be totally comfortable with the situation of having a – Roma as neighbour?’ Source: Eurobarometer (European Commission, 2008c: 8).

Attitudes toward the European Union

According to the Eurobarometer data, the proportion of Hungarians who thought the European Union ‘a good thing’ was highest in 2002, when two-thirds of the population (67 per cent) held that view. At the time of the country’s accession, support for the EU was still at a high level; but right after joining a (fluctuating) downward trend began, which lasted until 2008/09, by which time less than a third of Hungarians thought that the EU was a good thing. The level of support was as low as in the UK, a country where Euroscepticism has been a significant factor in national politics ever since it joined the European Economic Community (EEC) in 1973. Certainly the Hungarian public had
GINI Country Report *Hungary*

harboured certain illusions about the European Union: for instance, it had hoped to catch up rapidly with the European average income. Contrary to expectations, however, according to Eurostat, disposable per capita household income has been declining in Hungary since 2006, well before the effects of the 2008 financial crisis reached the country.\(^{17}\) Hungary’s poor economic performance is all the more obvious when we compare such welfare/economic indicators as GDP per capita to Slovakia and Poland (*Figure 4.10*).

*Figure 4.10 GDP per capita in Purchasing Power Standards (PPS) (EU-27=100) in Hungary, Slovakia and Poland (1995–2011)*

Source: Eurostat (Code: tsieb010).

An earlier study found support for the European Union and further integration to be dependent on national identity, economic anxiety and trust in national institutions and satisfaction with national democracy (Netjes and van Kersbergen, 2004). In Hungary, all these factors changed after 2002 in a direction that lessens support for the EU. Moreover, fewer people felt that the country was benefiting from its EU membership: in 2008 and 2009 the share of those who thought that Hungary was profiting from integration was extremely low (36 per cent) compared to other new Member States (*Figure 4.11*). Other studies have demonstrated that support for the political system and for institutions is dependent on the public’s perception of macroeconomic performance and on the perceived microeconomic situation of the household (e.g. Haerpfer, 2010). The European Union has

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\(^{17}\) Eurostat: ‘Real adjusted gross disposable income of households per capita’ (Code: tec00113).
become part of Hungary’s political system, and attitudes toward the EU are presumably determined largely by the country’s economic and governmental performance.

Figure 4.11 Percentage of those who think that their country has benefited from EU membership

![Graph showing percentage of those who think their country has benefited from EU membership over time for Bulgarian, Czech Republic, Hungary, Poland, Romania, and Slovakia.](image)

Question wording: ‘Taking everything into consideration, would you say that (your country) has on balance benefited or not from being a member of the European Community (Common Market)?’ Answer categories: Benefited/Not benefited/Do not know.


**Getting ahead: efforts or pedigree?**

How do individuals perceive the determinants of getting ahead in life? Are they more dependent on efforts or on some situational factors, such as coming from a wealthy family or having good contacts? Looking at the rankings of EU countries, it turns out that Hungary has the lowest rate (33 per cent) of people who consider that getting a good education is important in getting ahead in life. On the other hand, almost a third of Hungarians (31 per cent) thought that a wealthy family background was important for an individual’s career – the highest rate among EU countries in 2007 (Table 4.6). This latter belief may be related to observed patterns and to the low level of social capital in Hungary. Lannert (2009) found empirical evidence in the PISA 2006 study that Hungary had one of the highest
correlations between students’ performance and their families’ economic, social and cultural standing.

Table 4.6 The proportion of those who think that good education, hard work, knowing the right people and coming from a wealthy family are important in getting ahead in life in 2007, per cent

<table>
<thead>
<tr>
<th></th>
<th>Getting a good education</th>
<th>Working hard</th>
<th>Knowing the right people</th>
<th>Coming from a wealthy family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>58</td>
<td>44</td>
<td>31</td>
<td>16</td>
</tr>
<tr>
<td>Belgium</td>
<td>63</td>
<td>49</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>48</td>
<td>39</td>
<td>21</td>
<td>14</td>
</tr>
<tr>
<td>Cyprus</td>
<td>73</td>
<td>46</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>47</td>
<td>29</td>
<td>31</td>
<td>11</td>
</tr>
<tr>
<td>Denmark</td>
<td>83</td>
<td>43</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Estonia</td>
<td>67</td>
<td>41</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>Finland</td>
<td>68</td>
<td>54</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>59</td>
<td>54</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Eastern Germany</td>
<td>73</td>
<td>31</td>
<td>39</td>
<td>8</td>
</tr>
<tr>
<td>Western Germany</td>
<td>82</td>
<td>27</td>
<td>26</td>
<td>8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>77</td>
<td>70</td>
<td>21</td>
<td>4</td>
</tr>
<tr>
<td>Greece</td>
<td>54</td>
<td>57</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>Hungary</td>
<td>33</td>
<td>40</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td>Ireland</td>
<td>74</td>
<td>60</td>
<td>19</td>
<td>5</td>
</tr>
<tr>
<td>Italy</td>
<td>47</td>
<td>44</td>
<td>33</td>
<td>18</td>
</tr>
<tr>
<td>Latvia</td>
<td>69</td>
<td>15</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Lithuania</td>
<td>67</td>
<td>23</td>
<td>28</td>
<td>8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>76</td>
<td>36</td>
<td>23</td>
<td>4</td>
</tr>
<tr>
<td>Malta</td>
<td>76</td>
<td>27</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>61</td>
<td>36</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>81</td>
<td>76</td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td>Poland</td>
<td>57</td>
<td>36</td>
<td>32</td>
<td>12</td>
</tr>
<tr>
<td>Portugal</td>
<td>67</td>
<td>37</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Romania</td>
<td>50</td>
<td>40</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Slovakia</td>
<td>49</td>
<td>35</td>
<td>35</td>
<td>7</td>
</tr>
<tr>
<td>Slovenia</td>
<td>61</td>
<td>42</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>50</td>
<td>50</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>Sweden</td>
<td>67</td>
<td>41</td>
<td>54</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
<td>45</td>
<td>26</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Lannert (2009), based on Eurobarometer 66.3.

Ironically enough, Hungarians rated family background higher than Americans and West Germans did even back in the 1980s, under state socialism (which, of course, had an egalitarian official political ideology).
According to Albert Hirschman’s (1973) ‘tunnel effect’ hypothesis, anticipated individual mobility chances have an impact on demand for government redistribution. As Tóth (2008) concluded, analysing Hungarian data: ‘Perceptions of (levels of and changes to) actual incomes and confidence in the future development trajectories of respondents’ households play an important role. In other words, the belief that things will get better in the future decreases the redistributive expectations of even those who may be currently in need of help’ (p. 1083). A similar conclusion was reached by Ravallion and Lokshin (2000) for Russia in the 1990s.

4.4 Values concerning social policy and the welfare state

Hungary used to be an egalitarian country, according to both the measures of income distribution and the public’s attitudes toward income differences in the 1980s. Cross-national comparative studies found a dynamic attitude change right after the transition in former communist Central European countries like Poland and Hungary. By the end of the 1990s, Hungarians and Poles tolerated greater wage differentials than most Westerners thought right. Alongside greater tolerance of income inequalities between groups, the gap has widened in Hungary in recent decades between perceived and acceptable levels of inequality: people could accept that a factory chief executive was paid ten times more than a blue-collar worker, but they perceived a much higher difference, which they thought to be legitimate: ‘As a market economy gradually sprang up after the fall of Communism, acceptance of income inequality in Poland and Hungary grew rapidly, taking public opinion far from the egalitarian norms of the past. But the actual amount of inequality also seems to have grown rapidly – indeed the public mostly think it grew even more rapidly. So there has been relatively little change in public opinion on broad questions about “whether there is too much inequality in our society” or whether the government should have “reducing inequality” as a goal for public policy’ (Kelley and Zagorski, 2004).

This is exactly what we can observe looking at Hungarian (and to a lesser extent Polish) trends from the ISSP ‘Social inequality’ survey data. However, the growing intolerance of income inequality is far from being a universal pattern in ex-communist countries. There were declining trends in Bulgaria, the Czech Republic, Eastern Germany and Slovakia, but we should note that the level of intolerance of perceived income inequality was already higher in those countries than in the established democracies. Bulgaria was an extreme case in 1992. By 2009, its position had been usurped by Hungary. In 1992, 85 per cent of Bulgarian adults ‘strongly agreed’ and a further 12 per cent ‘agreed’ that ‘income differences are too high’. The share of those who perceived unacceptable income differences has since dropped in Bulgaria, but has increased very sharply in Hungary: in 2009, 78 per
cent of Hungarians ‘agreed strongly’ and an additional 20 per cent just simply ‘agreed’ that the range of income differentials exceeded an acceptable level. The remaining 2 per cent could be a measurement error, so it is safe to conclude that the whole of Hungarian society believes that income differences are too high (Figure 4.12).

Growing demand for government redistribution went hand in hand with a growing level of perceived and unacceptable income differences in Hungary. While, at the beginning of the democratic transition (1987–92), about a third of Hungarians agreed strongly that government should reduce differences, this figure had grown to 55 per cent by 2009. The correlation between redistributive demand and intolerance of income differences seems to be universal among the countries selected for comparison (Figures 4.12 and 4.13). The trend is always the same: no matter whether intolerance grew or declined, the demand for redistribution follows the same pattern in each country as intolerance of income differences.

Tóth (2009) points out that Hungarians tend to underestimate the value of public services in terms of the tax burden those services place on society. They expect more from public services than the state (the government or its agencies) is able to deliver. Low tax consciousness could be an explanation for the higher demand for redistribution in Hungary than in other countries.

Figure 4.12 Proportion of those who ‘strongly agree’ that ‘income differences are too high’, selected countries, 1987–2007

4.5 Conclusions

On the basis of an analysis of the World Values Survey, Tóth (2009) and Keller (2009) found that Hungarian society is characterized by (1) a lack of generalized and institutional trust, (2) an intolerance of inequality, (3) an ambivalent relationship toward corruption and norms, and finally (4) an underestimation of the tax value of public services, leading them to have greater expectations of state and government than those institutions can fulfil. We have shown symptoms of all these diagnostics.

- Hungary has developed a stable party system, with an electoral system that combines proportional representation with a first-past-the-post system. The main characteristics of the system are its low volatility and the high level of ideological polarization between left and right. Parties have a poor reputation, but they can successfully mobilize the electorate at the time of general elections: the mean turnout rate is 66 per cent. Hungarians are less likely to participate in local elections, and even less likely to participate in elections to the European Parliament.

- Trade union participation in Hungary has declined sharply since the transition – from 83 per cent to less than 20 per cent between 1990 and 2002. Other types of civic engagement are less frequent in Hungary than in established democracies of the EU.
The level of generalized trust in others is lower in Hungary than in most EU countries. Institutional trust declined between 2002 and 2008 (including trust in the European Union).

According to different studies, both formal and informal types of social capital have decreased during the transition: people keep contact less frequently even with friends and relatives.

There was a so-called critical election in 2010, when right-of-centre parties gained an absolute majority of parliamentary seats. Two old parties that were important political forces in 1990 (and therefore symbolic of the system change) were left out of the legislature. Two new parties crossed the parliamentary threshold, one of them the far-right Jobbik party, which secured 16.7 per cent of votes. Jobbik can rely on the anti-Roma attitudes of Hungarians, which is a manifestation of ‘welfare chauvinism’.

People perceive poverty and inequality to be ‘too high’, and there is strong popular demand for government redistribution. The current Hungarian government has introduced a flat personal income tax system. It is frequently criticized in the media for favouring the rich.

The belief that coming from a wealthy family is important for getting ahead in life was more widespread in Hungary in 2007 than anywhere else in Europe, and Hungarians place the lowest value on a good education.

Further research is needed to identify the causal mechanisms that determine the dynamics of attitudinal and value changes over time, with special focus on the relationship between socio-economic inequality and attitudinal variables.
Effectiveness of policies in combating inequality

5.1 Introduction

In this chapter we present some basic facts on social protection and taxation, in order to paint a broad picture of the policies that are in place to combat inequality. As comparability is a focus of this study, the main sources of information are international statistics from OECD, Eurostat and ILO, supplemented by national statistics and research findings.

The chapter is structured as follows: first we look at the minimum wage, then taxation; after that there is a section describing social expenditure, followed by sections on services and educational issues. Finally there are some concluding remarks.

Before moving forward to the core issues of the chapter, we need to provide some information on the framework within which policies have been formulated. There is no intention here of going into detail on the country’s peculiarities in terms of social structure or the political movements of the last two decades, but two basic elements are of importance.

In Hungary, the evolution of GDP growth differs from other countries in the region. Although annual growth for the decade around 2000 of 3–4 per cent was high by Western European standards, it was fairly low by comparison with other new EU Member States. The second difference is that the steep decrease started earlier in Hungary than in other countries (where it was a consequence of the world economic crisis): in Hungary, the slowdown in the economy in 2007 was a result of economic and fiscal policy, in particular the austerity package that was introduced. The reason for that package is visible in Figure 5.3. – the budget deficit of previous years had reached an unsustainable level, especially in the election years of 2002 and 2006. Since 2007, budget consolidation has been the top priority for the various administrations, which have applied a wide range of measures that have affected the tax/benefit system of the country.
As a consequence of the way things developed, the period of relatively rapid convergence with the EU average per capita level was over by 2003, to be followed by a period of stagnation. Around 2010 there were some improvements again, party by the decline of EU average.
Figure 5.3 Government deficit as a percentage of GDP

![Graph showing government deficit as a percentage of GDP from 1999 to 2012 for Hungary and EU27.](image)

Source: Eurostat.

Figure 5.3 also shows the is an asynchronicity in the development of the government deficit: during the recession, other European governments tended to stimulate their economies by spending and thus going into deeper deficit; but in Hungary deficit reduction had to be continued on account of the dangerous imbalances and international financial difficulties – and in 2011 Hungary even produced a surplus thanks to one single measure: the nationalization of private pension funds. This is an important characteristic that strongly determines tax and benefit measures of these years.

5.2 Labour income

5.2.1 Collective bargaining

The legal system (Labour Code) was reshaped as a fundamental Act in 1992, after the political transition. It established a system of collective agreements at the enterprise level, as well as sectoral agreements. The enterprise level is probably the most important in Hungary, and sectoral agreements are of secondary importance. National-level collective bargaining is typical only of the public sector, where wage negotiations affect state budget expenditure. The Act also stipulates that the Government should discuss issues of national significance pertaining to labour relations and employment relationships with the interest representation organizations of employees and employers, through the National Labour Council. The National Labour Council is a tripartite forum for conciliation of the different (government, employees and employer) interests. According to the database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social
Pacts, 1960–2010 (ICTWSS), today collective bargaining coverage is 35–40 per cent – similar to Latvia, for example, but far less than in some Western European countries (e.g. Austria, Italy).

Until recently, trade unions were able to influence bargaining developments through a tripartite body called the OÉT (Országos Érdekegyeztető Tanács – National Interest Reconciliation Council), whose role and importance changed according to what shade of government was in power. It provided a forum where the three parties could agree the national minimum wage and set a minimum rate for skilled workers, too. It also made recommendations to lower-level negotiators on the proposed level of pay increases, although these recommendations were not binding. However, in 2011, the government decided to replace the OÉT with a new body, the NGTT (Nemzeti Gazdasági és Társadalmi Tanács – National Council on Economy and Social Issues). This will include a wider range of organizations (including chambers of commerce and churches), and it will no longer be able to set minimum rates. Hungary’s national minimum wage is laid down by government decree, since the OÉT, which used to conclude a formal tripartite agreement, has been abolished.

5.2.2 Minimum wage

The minimum wage, as a labour market institution, can influence one part of the change in wage inequality: it affects the lower part of the distribution directly, while indirectly it has an impact on movement into and out of the labour market. It also influences labour supply and demand – especially in the low-wage segment. 

Figure 5.4 The dispersion of the logarithm of gross real earnings (2009 = 100 per cent) shows the effect of the minimum wage on the Hungarian wage distribution: its role is most visible in the data for 2002. The minimum wage censored the distribution, particularly affecting the low-wage part (at least in the case of wages that were legal and above board, though in Hungary the hidden economy is estimated to represent around 24 per cent of GDP) (Schneider, 2011).
The path of the minimum wage has two abrupt turning points – clearly visible in Figure 5.5. During the years 2001 and 2002, the minimum wage was doubled, in two steps. While average wages also grew, the relative level of the minimum wage increased from 0.29 to 0.41 within this short period. Since then it has been stable. This kind of shock shines light on the complex effect of a minimum wage increase. On the one hand, it is an instrument for the social protection of employed people; on the other, it is a barrier to labour market participation, as it increases the cost of labour. According to a study by Köllő (2008), the immediate negative effect of doubling the minimum wage significantly reduced employment in the small-firm sector and adversely affected the probability of low-wage workers losing their jobs and of finding a job. These effects appear to be stronger in low-wage segments of the market and in depressed regions, where the minimum wage bites deeper into the wage distribution.

However, the current government took another leap forward in 2012, at a stroke increasing the minimum wage significantly, from 78,000 to 93,000 HUF/month, and thereby raising the ratio of the minimum wage to the average wage by 5 percentage points, to 0.42.
Figure 5.5 Gross minimum wages relative to average wages

Source: CSB-MIPI.

Figure 5.6 may give some idea of the social consequences of the minimum wage, set in a family context. The incomes of three family types are shown in relation to the national poverty line (defined as 60 per cent of median equivalized disposable income). In all cases, there is one earner on the minimum wage. The calculations of disposable income take account of the relevant social benefits, most notably child-related allowances. Accordingly, there are certain differences between the years in question. The position of the single household remains roughly the same across the years, with income slightly below the poverty line. The position of families with children first deteriorates and then improves: between 2001 and 2009, their income declined in relative terms, so that by 2009 a couple with two children had fallen below the poverty line, while a lone parent with two children was right on the poverty threshold. By 2012 their income had recovered again. Between 2001 and 2009, the rise in benefits did not compensate for the stagnation of the minimum wage, and the poverty line rose faster (i.e. as median income increased) than the income of those families. Then in 2012 the sharp rise in the minimum wage kicked in.
5.3 Tax

5.3.1 Volume and composition

Government income from households and corporations is essential to finance state obligations, such as social protection, health or education. In this project, the focus is restricted to redistribution effects and does not address issues of incentives, macro-economic balances, growth impact, etc. In Hungary, tax revenue relative to GDP declined between the start and the end of the period in question: in 1991 it was 45.5 per cent; in 2011 – 35.7 per cent. However, the peak year was 1993, with 46.1 per cent and the lowest was 2005/06 with 37.3 per cent. The available statistics show a stable 40 per cent in 2007–09, and a decline of 2 percentage points in both years of 2010 and 2011.

While the overall level of tax revenue was more or less stable, the structure has changed over the years. At the beginning of 1990s ‘Social contributions’ represented the highest share with 16.2 per cent of GDP, ‘Taxes on goods and services’ (in practical terms VAT and excise duties) lagged behind on 15.0 per cent and ‘Taxes on income, profits and capital gains’ came third, with 12.5 per cent. By 1995, ‘Taxes on goods and services’ had become the main source of state revenue, ‘Social contribution’ had fallen to second place, and ‘Taxes on income, profits and capital gains’ remained in third place with a stable share almost throughout the period. The most marked changes of recent years is the sharp decline of the ‘Taxes on income, profits and capital gains’, while it represented 10-
11 percent of GDP in 2008, in 2011 it is only 6 percent. The other three sources are negligible in the entire period.

**Figure 5.7. Total tax revenue as a percentage of GDP**

![Graph showing total tax revenue as a percentage of GDP from 1991 to 2011.](image)

Source: OECD.

**Figure 5.8 Tax revenue by origin, as a percentage of GDP**

![Graph showing tax revenue by origin from 1991 to 2011.](image)

Source: OECD.

### 5.3.2 Taxes and households

Switching from a macro to a micro approach, **Figure 5.9.** shows the average tax rate by certain household types, as defined in OECD statistics. In each case, the average production wage (APW) is
applied, together with available benefits and the appropriate personal income tax (PIT) rate, as well as social contributions. The amount of these components – and therefore the ratio of net to gross earnings – depends on individual circumstances. While different family types are considered, all have average earnings. There are differences with respect to marital status (single or married), number of workers (only in the case of couples), number of dependent children, and level of gross earnings, expressed as a percentage of the gross earnings of an average worker – the figure shows just a small selection of the available types.

Figure 5.9 Average tax rate

Note: tax rate defined as the income tax on gross wage earnings plus the employee’s social security contributions less universal cash benefits, expressed as a percentage of gross wage earnings.
Source: OECD.

Since Hungary had a PIT system for the whole period, cases 1 and 4 show exactly the same result – those households are on the highest rate. The ‘two-earner two-child’ household has a medium tax rate, while throughout this period the lowest rate is for the ‘one-earner married couple with two children’ household type. Tax rates are far from stable; all the cases considered witness similar ups and downs. All households ‘suffered’ the steepest increase in 2000, had the highest level between 2007 and 2009, and saw the most notable single-year decrease in 2010. In 2011 there was a further decrease, with significant changes in the design: tax credit on income from wages was reduced substantially, while the tax allowance related to children was increased and extended. However, due to budgetary constraints, no further decrease was planned for 2012. Nevertheless, a comparison covering Germany, Italy, Austria, Slovenia, Croatia and Hungary (Cok et al., 2011) shows that of those
countries Hungary still has the highest level of taxation. Slovenia and Croatia are at almost the same level, while the other three countries’ taxpayers contributed substantially less in 2010.

Figure 5.10 Distribution of VAT and PIT liabilities among income deciles, 2005

Figure 5.10. shows the result of a calculation applied by TÁRKI’s microsimulation model for the year 2005: while personal income tax is highly progressive, the distribution of VAT is much more even. In the case of VAT, households in the various income deciles make almost equal contributions to the revenue – 8–13 per cent, i.e. VAT results in hardly any rearrangement of the original income distribution based on conventional disposable income. By contrast, only 0.5 per cent of personal income tax revenue is paid by households in the lowest income decile, whereas 37 per cent comes from households in the top decile: clearly, PIT results in a substantial income rearrangement.

Government introduced a semi-flat tax regime in 2011, and consequently the progressivity of PIT is much lower today; however, the different labour market participation rates and the different family structures in the top and bottom deciles mean that some differences remain.

5.4 Public social expenditure

5.4.1 Levels and trends

The magnitude and evolution of social expenditure can be seen in Figure 5.11. Here OECD SOCX data are used to avoid confusion with Eurostat ESSPROS. For an expenditure item to be classified as
'social' in the OECD SOCX data, two main criteria need to be simultaneously satisfied. First, benefit has to be intended to address one or more social purposes (risks, see functions listed in Figure 5.12 below). Second, programmes regulating the provision of benefits have to involve either a) interpersonal redistribution, or b) compulsory participation. ‘Public’ social expenditure is social spending with financial flows controlled by general government (different levels of government and social security funds), as social insurance and social assistance payments. The level of expenditure (presented as a percentage of GDP) is fairly stable in Hungary over the (relatively short) period available for the statistics. A fifth of GDP is allocated to public social expenditure – a level that corresponds to the OECD average, but that is well below the Western European welfare states. However, new trend emerged while 3 percentage points decline occurred between 2009 and 2012 – very unique in Europe.

Figure 5.11 Total public social expenditure as a percentage of GDP

![Graph showing the percentage of GDP allocated to social expenditure for each year from 1999 to 2012.]

Source: OECD SOCX.

Splitting total expenditure into more homogeneous parts makes the analysis more valid. In the case of Hungary, it shows three distinct groupings according to spending level: two main areas of expenditure are ‘high’; two are ‘medium’; and the rest are ‘low’. ‘Old age’ (pension) is the biggest item and is increasing (three-quarters of the increase in social expenditure is accounted for by this item), while ‘health’ is the second biggest, but is more or less stable. In the mid-range are ‘family’ and ‘incapacity’, both of them constant as a percentage of GDP. No clear trend is visible among the lower-ranked functions.
In Hungary, the share of cash expenditure is larger than that of expenditure in kind. The largest functions are ‘old age’ (mainly cash) and ‘health’ (mainly in kind); therefore these have the biggest influence on the patterns shown in Figure 5.13 for the types of expenditure.
5.4.2 Social assistance

Social assistance benefits are among the few that are means-tested in Hungary. These last-resort benefits are provided by local government, which also has some responsibility for defining the eligibility criteria. Ninety per cent of these benefits are financed by the central budget, while the local authorities pay the rest.

Until recently, the major benefit was ‘Regular social benefit’ (Rendszeres szociális segély). This is a social assistance scheme to ensure a minimum standard of living. It is an income supplement provision in the form of cash, and it aims to guarantee a minimum standard of living for those with no other income. Although this scheme is not a major one in terms of expenditure, it is subject to redesign from time to time – for example, in mid-2006 its conditions and the way it was calculated changed. Before that date, local government had awarded regular social benefit if a person was over 18 and of active age, had lost at least 67 per cent of his or her working ability or received blind person’s benefit, or if the person was of active age but not in employment, provided they had no other means of subsistence. Under the new rules, only one person in a family is entitled to the benefit. The amount of benefit payable used to be calculated on the number of household members, but it was modified and based on consumer units: the first member of the family and any disabled child counts as 1.0 consumer unit; while a partner (spouse) counts as 0.9 and a child as 0.7. The amount of support is variable and supplements the family’s effective total income up to the limit of the entitlement.

On 1 January 2009 a new benefit was introduced, largely replacing regular social benefit. Called ‘Stand-by allowance’ (Rendelkezésre állási támogatás), it is intended for people aged 55 or less who either have no children or whose children are in day care. The local authorities reclassified people/cases by 1 April 2009, since when the scheme has been fully functioning. The amount of benefit was higher than the regular social benefit (it was equal to the minimum pension) and it was awarded to eligible persons (not households, as before). Recipients must be ready to accept an offer of public employment. Since the beginning of 2010 only one ‘stand-by allowance’ has been allowed per household. In 2010 and 2011, the new government placed further emphasis on the incentive element of the assistance in order to increase labour market participation, and public work has become the focus of this social scheme for the able-bodied poor. The name of the ‘stand-by allowance’ was changed in 2011 to ‘wage supplement support’ (bérpótló juttatás) and to ‘employment supply support’ in 2012 (foglalkoztatást helyettesítő támogatás). In 2012 the amount of the benefit was decreased to 80 per cent of the minimum old age pension. Its impact can be seen in Figure 5.14.
Another new programme was launched at the start of 2009 – ‘Road to work’ (Út a munkához). It is designed to assist people on social assistance benefit and the long-term unemployed to earn labour income through special public employment organized by local government (95 per cent of earnings are funded from the central government budget). The target groups are the long-term unemployed and poorly qualified people on social assistance. Their earnings were set at the level of the minimum wage; however, because their working day is usually six hours, actual earnings are less than that. By mid-2009 about 80,000 people were participating in the programme.

Under the current government, public works (közmunka, közfoglalkoztatás) have gained a more prominent role in the welfare system: the minimum wage for them was set at 47,000 HUF/month (which is half of the labour market minimum wage). The number of workers involved reached 106,000 by mid-2012, and they have an average gross wage of 73,000 HUF/month. According to government plans this programme will be extended.

Figure 5.14 Net disposable income relative to national poverty line in families receiving social assistance, able-bodied working-age persons (per cent)

Note: Children aged 7 and 14.
Source: CSB-MIPI.

5.4.3 Services

Here we explore some basic facts about some social services – three in particular: active labour market policies (ALMPs), long-term care (LTC) for the elderly, and childcare services. These differ in terms of magnitude, target group (age or other socio-economic characteristics) and potential
distributional effect. None of them is targeted directly at a particular income group, though they may well have an impact (albeit not measured regularly).

**Active labour market policies**

ALMPs are usually measured as ALMP expenditure as a percentage of GDP. Some researchers (Horváth and Szalai, 2008) have pointed out that, as ALMPs tend to increase and GDP tends to decrease as unemployment increases, there is an in-built upward bias in the ALMP/GDP coefficient; nevertheless we apply this traditional measure here.

Considering the very low employment rate in Hungary, expenditure on active labour market policies is also relatively low (in 2007 about 0.2 per cent of GDP, compared to 0.5 per cent at the EU-27 average). Almost 50 per cent of expenditure goes on employment incentives, followed by training (28 per cent) and direct job creation (22 per cent). The coverage of people who want to work is low: only 8 per cent of those who want to work benefit from regular activation measures (EU-27 average: 36 per cent). Public expenditure on labour market policy services (which cover the cost of providing services for jobseekers, together with all other expenditure by the public employment services, including overheads and benefit administration) makes up 0.08 per cent of GDP (EU-27 average: 0.19 per cent).

ALMPs are still at an early stage in Hungary. Participation is relatively low and, although active measures already take up more than half of total policy expenditure, there is little evidence of these programmes’ efficacy. However, international empirical literature is also ambivalent on this point, and the effectiveness of various ALMPs is questioned by the OECD. It should be a priority for labour market policy, as a well-targeted ALMP system may be able to develop activity from the supply side. It is not just the middle aged and elderly (whose skills depreciated after the transition) who stand to gain; the present education system in Hungary produces young people whose knowledge does not equip them properly; this leads to low employment chances, low employability and inactivity.

The direction of change in active labour market policies during the early crisis years is easily detected in *Table 5.1*: resources were directed from existing schemes to the provision of job retention subsidies and extension of the public works schemes. These programmes involved an additional 110,000 workers in 2009; meanwhile all other programmes were squeezed and the staff of the public employment service was cut by 5 per cent. The government’s efforts were clearly directed at keeping employment as high as possible, even at the cost of reducing active support for the unemployed.

**Table 5.1 Flows to ALMPs and staffing of the PES, 2006–2009**
Long-term care

Approximately 16.5 per cent of the Hungarian population is aged over 65 (OECD average: 15 per cent) and 3.9 per cent is over 80 (same as the OECD average). Therefore demand for long-term care is substantial. Hungary spent 0.6 per cent of its GDP on long-term care in 2007, of which 0.3 per cent was for health-related LTC (Figure 5.15) and 0.3 per cent for long-term social services. As Figure 5.15 shows, fiscal consolidation has hit LTC relatively hard, whether compared to GDP or healthcare expenditure. In 2008, approximately 7–8 per cent of the Hungarian population over the age of 65 received at least one type of basic social services; and 2.91 per cent of people over 65 were recipients of LTC in institutions. In 2008, there were 49.5 permanent places in special ‘homes’ per 1,000 population over the age of 65 (77,400 persons).

Universal coverage, based on the principle of social equity, is an avowed policy goal of the Hungarian LTC system. Until 2008, age was the only prerequisite for entitlement: anybody who reached the age of 62, the retirement age, was eligible. No means test was required and the extent of lost physical or mental capacity was not checked. Personal insurance history was not controlled until 2006. Although the National Health Insurance Fund (NHIF) introduced personal health accounts from 2007, this was not meant to restrict entitlement but to increase revenue from the active-aged population. As a major change, in 2008 an eligibility test was introduced; this evaluates the physical and social conditions of applicants (Czibere and Gál, 2010).
Figure 5.15 Healthcare expenditure on long-term care, percentage of GDP

![Graph showing healthcare expenditure on long-term care as a percentage of GDP from 2003 to 2009.]

Figure 5.16 Healthcare expenditure on long-term care, share of total current healthcare expenditure, per cent

![Graph showing healthcare expenditure on long-term care as a share of total current expenditure from 2003 to 2009.]

Source: Eurostat.

**Childcare**

In providing childcare services, governments have a complex set of objectives. In welfare states they could pursue:

- public investment in human capital formation of future generations, acknowledging that better-educated and healthier children benefit society as a whole;
• higher levels of fertility, by providing material incentives for parental decisions;

• child well-being (and well-becoming);

• labour market participation of women, gender equality and reduced work–family conflict.

In Hungary, government spending on childcare and pre-primary education together is around 0.7 per cent of GDP (2008); however, the distribution between these two services is quite uneven (0.1 per cent for childcare and 0.6 per cent for pre-primary education). Spending is lower than in the Nordic countries and Bulgaria, but higher than in other European countries. Those countries that spend a lot tend to devote a higher fiscal share to childcare – e.g. in Denmark, childcare represents 0.7 per cent of GDP and pre-primary 0.5 per cent.

Because Hungary finances maternity and childcare cash allowances more generously than most other countries (e.g. ESSPROS shows that 13 per cent of social benefits went on the Family/Children function in 2009, whereas in the EU-27 generally it was only 8 per cent), there is a strong incentive for mothers to stay at home with their child for three years. This is also reflected in enrolment rates: only 8.8 per cent of under-2s make use of formal care services. In Denmark it is 65.7 per cent; Slovenia and Estonia also have higher rates of 33.8 per cent and 17.5 per cent, respectively. The enrolment rate leaps up among 3–5-year-olds to 87.1 per cent, which is in line with other European countries.

TÁRKI/Applica (2010) analysed childcare facilities on the basis of data for 2007, using EU-SILC. They distinguished three groups of countries in terms of the use of childcare among households with children aged under 3:

Group 1 consists of countries where over 45 per cent of households with a child aged under 3 use formal childcare facilities. It includes Belgium, Denmark, Germany, the Netherlands and Sweden.

Group 2 gathers together Spain, France, Luxembourg, Portugal, Slovenia and the United Kingdom, where between 30 per cent and 45 per cent of households with a child below the age of 3 use formal childcare.

Group 3 includes the remaining 13 countries (Hungary among them), where less than 25 per cent of households with a child under 3 use formal childcare. Within this group, only in Cyprus, Estonia, Italy, Ireland and Hungary do more than 40 per cent of households use either formal or informal childcare (in the last two countries, only marginally more). In Hungary and Austria, in particular, most households using childcare do so for less than 30 hours a week. Although almost a third of households make use of informal care in Greece and Hungary, and just over a quarter in the Czech Republic, in these countries (and even more in the others) a substantial majority of households with low income and with a child in this age group do not use childcare at all.
5.5 Education

In 2008, total expenditure on public education was 5.1 per cent of GDP (similar to the EU-27 average). In 1992, when the Eurostat time-series started, it was far higher at 6.5 per cent, but by 1998 it was down to 4.6 per cent. Spending peaked in 2003 at 5.9 per cent, but then there again followed a contraction. If levels of education are differentiated (Figure 5.17), we see a fall in the highest-spending secondary level. The other three levels of education have been financed at a fairly even level relative to GDP.

Figure 5.17 Expenditure on education, per cent of GDP

About 61 per cent of adults have a medium level of education (EU-27 average: 47 per cent), while the proportion of adults with a low level (21 per cent) or a high level (18 per cent) of education are considerably lower (EU-27 average: 29 per cent and 24 per cent, respectively). The share of early school leavers (young people with at most lower secondary education and not in further education or training) is 12 per cent (EU-27 average: 15 per cent). In terms of human capital development, Hungary scores relatively poorly, implying relatively low employability of workers and poor adoption of new technologies (harmful for productivity growth).
Participation in lifelong learning in Hungary is among the lowest in the EU (3.6 per cent; EU-27 average in 2007: 10 per cent) and is considerably below the best performers (Sweden – 33 per cent; Denmark – 29 per cent; and the UK – 27 per cent). In recent years there has been a further decline, as Figure 5.18. shows. Participation in lifelong learning is low regardless of economic activity, age or educational attainment: among those with a high level of education it is about 7 per cent (EU-27 average: 19 per cent), and among those with a low level of education it is below 1 per cent (EU-27 average: 4 per cent).

Participation in lifelong learning is very similar for employed, unemployed and inactive people – about 3.5 per cent, which is considerably less than 11 per cent, 9 per cent and 7 per cent, respectively, at the EU-27 level. Finally, the employability of older workers tends to be low, as less than 1 per cent of them participate in lifelong learning (EU-27 average: 5 per cent). Continuous vocational training courses are provided by about 35 per cent of firms (EU-27 average: almost 50 per cent; more than 80 per cent in Denmark and around 70 per cent in Sweden, France, the Netherlands and Finland). However, firms spend on average 1.9 per cent of total labour costs on continuous vocational training (EU-27 average: 1.6 per cent). About 16 per cent of workers participate in continuous vocational training courses (EU-27 average: a third) and in 2005 they spent on average 6 hours on continuous vocational training courses (EU-27 average: 9 hours). Beyond the generally low level of participation in lifelong learning, the analysis of the Hungarian data revealed few facts about the reasons for this. The probability of someone returning to education is particularly dependent on
age and is independent of the time spent out of education after leaving the school system for the first time. Combining study and childbearing is a definite obstacle: having a small child in the household significantly decreases the odds of a return to education. Both initial education and labour market integration affect lifelong learning. Attitudes towards education and its role in a person’s success or in managing life also contribute to the decision on whether to continue with education (Róbert, 2011).

The Hungarian labour market is characterized by human capital deficiencies and problems of persistent skill mismatches. In general, the higher the educational achievement, the lower the risk of unemployment. For example, in 2004 the unemployment rate of men with primary education was 14.3 per cent, whereas the rate of men with tertiary education was only 1.7 per cent. There is a shortage of well-trained university graduates. During the economic transition, particularly many low-skilled jobs were lost and there has been constant skills upgrading in all sectors of the economy.

5.6 Concluding remarks

It is not an easy task to assess the effectiveness of government policies to tackle inequality. One possible approach, regularly applied by the EUROMOD team (Sutherland et al., 2011), is to compare the inequality measures of different income concepts. Figure 5.19 shows Gini measures of market income, market income and pension, and disposable income. The distance between the plots represents the force of the given income component in inequality reduction. Hungary has one of the highest market-income inequalities, but one of the lowest disposable-income inequalities. This means that the tax/benefit system has a significant role in shaping income inequality of the population.
However, there is another valid point of view, which is related to the incentive structure of the tax/benefit system. As such, taking into account Hungary’s low (and stagnant) labour market participation (and another field: fertility) the performance of the system can be deemed rather poor.

If we broaden the scope of well-being to take into account benefits in kind and/or services, again we find unpromising conditions in Hungary. All of the schemes analysed above were underfinanced, had coverage problems and suffered from low efficiency.
Log table Chapter 3

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<td>→ ↗</td>
<td>→</td>
<td>↓ ↘</td>
<td>→</td>
<td>n.i.</td>
<td>3.26</td>
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<tr>
<td>Number of offenders</td>
<td>→</td>
<td>↑</td>
<td>→</td>
<td>→</td>
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<tr>
<td>Prison population</td>
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<td>↓ ↘</td>
<td>↑</td>
<td>↓</td>
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<tr>
<td>Life satisfaction - mean</td>
<td>n.i.</td>
<td>n.i.</td>
<td>n.i.</td>
<td>→</td>
<td>n.i.</td>
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<td>Happiness - mean</td>
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<td>n.i.</td>
<td>n.i.</td>
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<td>n.i.</td>
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<tr>
<td>Suicide rate</td>
<td>↗</td>
<td>↓</td>
<td>↓</td>
<td>↓</td>
<td>→</td>
<td>3.35</td>
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n.i. – no information
## Log table Chapter 4.

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<td>Gini</td>
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<td>→</td>
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<td>Trust in others</td>
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<td>n.i.</td>
<td>→</td>
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<td>Trust in legal system</td>
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<td>Share of political right identification</td>
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<td>n.i.</td>
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<td>Percentage of those who think that their country has benefited from EU membership</td>
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<td>n.i.</td>
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<td>→</td>
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<td>Proportion of those who ‘strongly agree’ that ‘income differences are too high’, selected countries, 1987–2009</td>
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<td>Proportion of those who ‘strongly agree’ that ‘government should reduce income differences’, selected countries, 1987–2009</td>
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n.i. – no information
References


Spéder, Zs. 2006. Párkapcsolatok és gyermekorsok [Partnerships and children’s chances], KorFa 1.


Sutherland, Holly, with Silvia Avram, Paola De Agostini, Francesco Figari, Tina Haux, Jussi Laitila, Horacio Levy, Alari Paulus, Olga Rastrigina, Andrea Salvatori, Iva Tasseva and Alberto Tumino.


