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Inequalities and social cohesion in Hungary: a birds eye view on developments in the last three decades

Outline

• Cohesion and inequalities: some definitions

• Income inequalities
  • Lessons from international comparisons: some myths and ungrounded popular wisdoms about developments in income inequalities
  • Hungarian inequalities in historical perspectives: overall trends

• Social cohesion: trends and signs of cohesion problems in Hungary

• Questions about interrelationships and topics for further research
The meaning of social cohesion and how does it relate to income differentials?

Potential meanings/definitions

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<tr>
<th>Interpretation dimensions</th>
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<td>Socio-economic structure (differences in material income/wealth)</td>
<td>Economic distances, income distribution</td>
<td>Legitimacy of differentials, mobility, transparency, acceptance of the rules of the game</td>
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<td>Culture (tastes, values, opinions)</td>
<td>Value homogeneity</td>
<td>Group identification, general norm obedience, tolerance,</td>
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<td>Relationship to (public) institutions (civic activity)</td>
<td>Subordination</td>
<td>Partnership, active participation</td>
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<td>Relationships to other citizens</td>
<td>Personal links across hierarchical levels (nepotism, favouritism, etc)</td>
<td>Dense networks (horizontal links, active societal embeddedness)</td>
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Kuznets on the empirical foundation of his seminal article on income distribution:

„The paper is perhaps 5 per cent empirical information and 95 per cent speculation, some of it possibly tainted by wishful thinking. The excuse for building an elaborate structure on such a shaky foundation is a deep interest in the subject and a wish to share it with members of the Association“. (S. Kuznets 1955, Economic Growth and Income Inequality, AER, 45:1, p 26)
Since then... the world has changed a lot:

- **large datasets** (LIS, WIID, Penn tables, OECD surveys, Eurostat-SILC collections, etc.
- **research institutes**, researcher associations (WB, OECD, Universities, IARIW, LIS, Tárki and many others)
- **large scale research projects** (GINI, LOWER, EQUALSOC, IMPROVE, etc)
- A wide array of serious, comprehensive **publications** (complete library of articles, Handbooks, series by international organizations and research centers, etc)

So now, perhaps, there are analyses available based on **30-40 percent data** and it is only the rest which is awaiting firmer evidence („speculation“/“theory”, if you like..)

In what follows, some **simple lessons** will be summarized – intentionally, in a straightforward (simplistic?) way.

**Caveats:**

- **Only on income distribution** (household concepts, disposable incomes, survey based measurements, etc)
- Mostly on **within country distributions** (very few mention to global inequalities)
- Selected analyzes/messages only
Lesson 1: the picture of a world with ever growing inequalities is a false one: inequalities sometimes increase, sometimes decline

There are (sometimes fairly long) episodes with declines, followed by increase or stagnations (see Atkinson, Piketty, Saez on historic trends for US, UK and other countries with available data)

- Some interesting examples of decline:

  - significant overall decline of inequalities in South America (not only in Brazil) in the last two decades or so (see Cornia 2012 for details of drivers)

  - declining between country inequalities (China catching up)

- However, there are many inequality rise spells as well.: so we need to understand the dynamics and structure (to learn for planning engineered declines as well)

Inequality spells: Europe, 2000’s:

Countries with no significant change in inequalities (13)

Source: Eurostat, EU_SILC data
Inequality spells: Europe, 2000’s:

Countries with relatively longer spells of decline in inequalities (6)

Source: Eurostat, EU_SILC data

Inequality spells: Europe, 2000’s:

Countries with rising general trends of inequalities (4)

Source: Eurostat, EU_SILC data
Inequality spells: Europe, 2000’s:

Countries with inverted U shaped patterns (4)

Source: Eurostat, EU_SILC data

Inequality spells: Europe, 2000’s:

Countries with some obvious data problems (4)

Source: Eurostat, EU_SILC data
Additional lessons:

- **Lesson 2:** Cross country variance always seem to be larger than intertemporal variance ... except for some drastic shocks in certain countries (some of the transition country experiences, German unification, Greece today)

- **Lesson 3:** However, same shocks may lead to very different results: the most obvious example being the experience of the transition countries: having a communist past does not – in itself – predict the level of inequalities decades later.

Illustration: former socialist countries turn up across the whole spectrum of European social structures ...
Some regularities of good explanatory power for explaining inequalities

- **Skill biased technology change** does have an inequality increasing effect – depending upon how the education system responds to rising demand for higher skills

- **Larger redistribution** may have some equalizing effect – however, much depends on design (targeting) elements of the tax-benefit systems

- There is **no straightforward relationship between economic growth and inequalities** (neither the Kuznets curve works empirically ...). Again, much depends on institutional contexts and on how job-rich or job-poor the growth is..

- **Liberalization** – as such – may have positive and negative effects on inequalities, as well as globalization also have equalizing and disequalizing effects.

.. and what happened in Hungary?

**Structural changes in the background:**

**Demographic change** between 1989 and 2010:

- 1/3 died, 1/3 newly born. The rest is the same, but 20 years older...

- There is a larger number of households – in a slightly smaller population, living shorter periods in family (start later, divorce earlier)
  = on average, a smaller household size

**Labour markets**

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

**Education expansion**

- The average Hungarian is significantly higher higher educated but less connected to the labour market than before
Hungarian income inequalities on the long run

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

62-82: levelling down (and up)
82-03: strong growth of upper decile shares, some losses at the bottom
03-07: losses of the top decile, „protected” lower bounds
07-09: losses by the top AND the bottom


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

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

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

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

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

1987-1992: structural change, employment losses, polarization

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

2001-2009: (social)politics and crisis management

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

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

losers: lower strata
and (to smaller extent) the top decile

2010 - : austerity, recession, stagflation
Stylised age-earning profiles, before and after the transition

- **Earlier peak, flatter profile**
  - High educated 2000's
  - High educated 1987
  - Low educated 2000's
  - Low educated 1987

- **Increased dispersion at younger age**
Changes in measures of social cohesion (1)

- Generalised trust declined from a low level and remains stable (low) in the last decade

- Low participation in voluntary organisations (clubs, trade unions) and even informal ties to family members and friends become weaker during transition.

- Political identification and participation is relatively high due to special characteristics of the party system

Source of data: GINI HU country Study (Zoltán Fábián)

Changes in measures of social cohesion (2)

- Institutional trust and satisfaction declined sharply after 2002

- Increasing discontent with the actual level of inequalities and increasing demand for redistribution during the nineties.

- Stronger extremists: rise of the far-right (Jobbik to parliament, utilising and heating anti-roma attitudes)

Source of data: GINI HU country Study (Zoltán Fábián)
Changes in measures of social cohesion (3)

Some measures of social cohesion, Hungary, 1982-2010

Why social cohesion malfunctions are bad?

Some theoretical predictions from the economics literature

(Rodrik, 1999) Lack of social cohesion (latent and manifest social conflicts) cause **losses in growth potentials** of societies

(Easterly, Woolcock and Riten, 2006): cohesion is important for the **proper functioning of institutions**, what, in turn will be crucial for economic growth (taking all other factors constant)

(Akerlof és Shiller 2009) **Economic cycles** are influenced by factors related to perceptions, interpretations, preference changes, etc. They mention: trust and its multiplicators fairness, corruption and bad faith, money illusion, learning and cognitive development by „stories”

(Hirschman, 1973) „Tunnel effect”: inequality growth in its first phase may not immediately lead to the **frustration of those lagging behind**. Rather, frustration comes when relative stagnation persist.
Summary

- Bad treatment of the early transition employment shocks created hostages (large groups of inactives and marginalized), waiting for subsequent state protection for them.
- This contributed to further decline of the otherwise low initial social capital, to erosion of norms and, partly consequently, to shrinking of the tax base, etc.

A research agenda for further investigations

Key variable: Inequality  
- actual and perceived  
- measured by household income  
- type: distance, variance, polarization

Relationship: Causality?  
(Which direction? What type?)

Studied (related) variables:
- Cohesion (political and cultural aspects) of society  
- perceptions of inequality, civic, cultural and political participation, preferences for redistribution, the consequences for the political system, the legitimacy of politics
Changes in measures of social cohesion: an agenda for further research

Some measures of social cohesion, Hungary, 1982-2010

Source: Tárki, Gini-project

Thank you for your attention

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