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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

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



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)

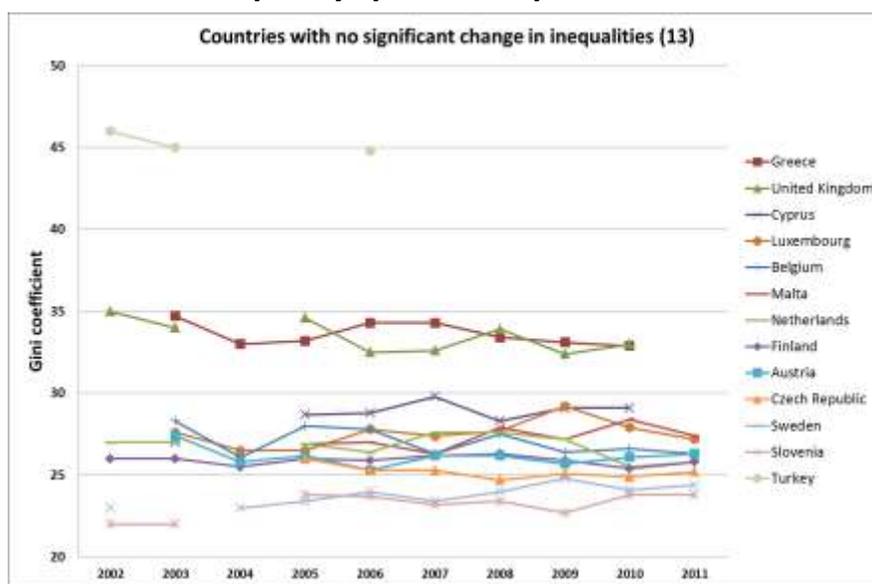
- Some interesting examples of decline:

- 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)



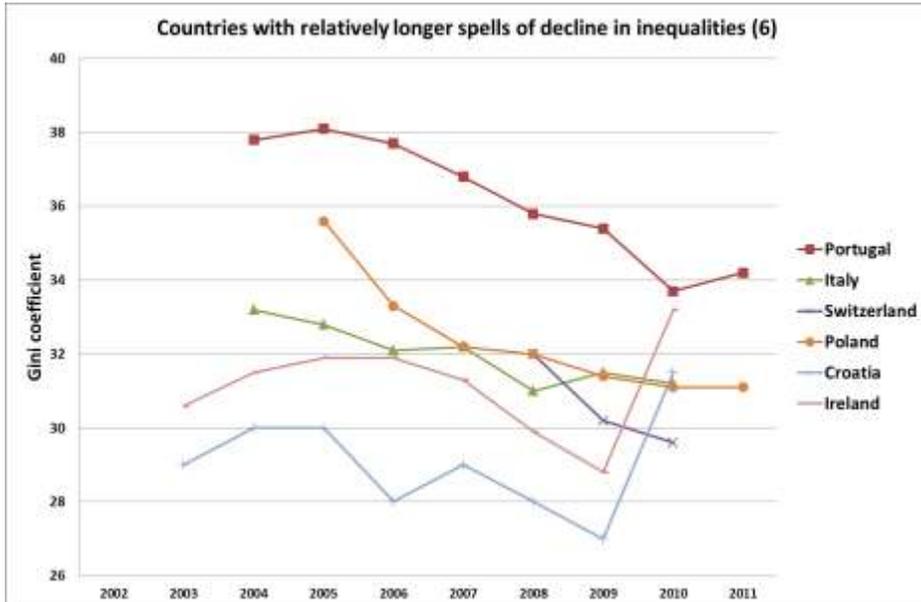
Inequality spells: Europe, 2000's:



Source: Eurostat, EU_SILC data



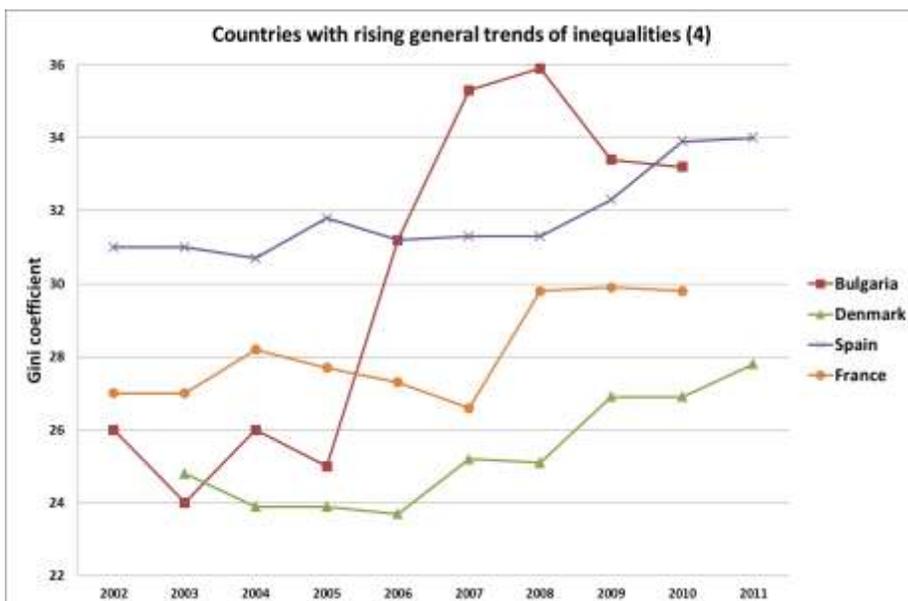
Inequality spells: Europe, 2000's:



Source: Eurostat, EU_SILC data



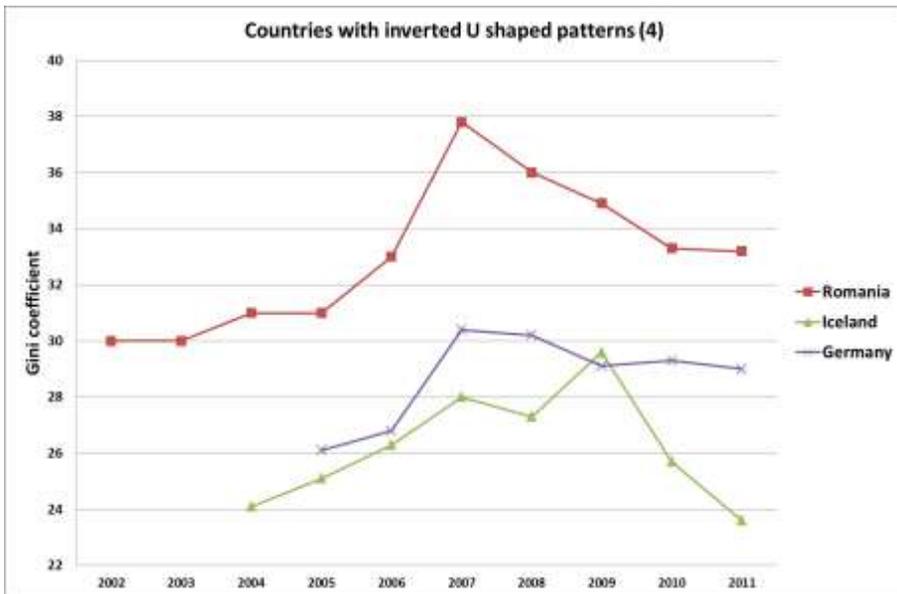
Inequality spells: Europe, 2000's:



Source: Eurostat, EU_SILC data



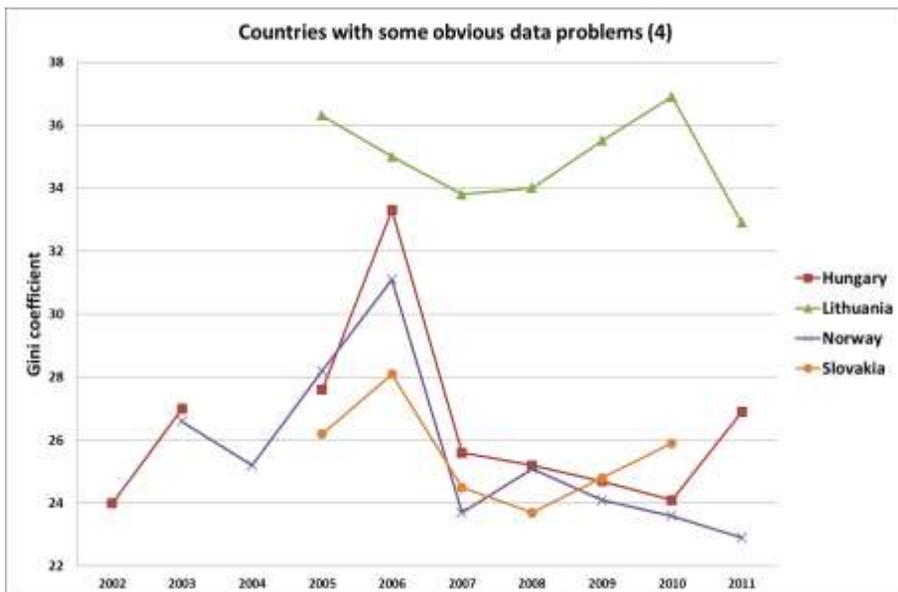
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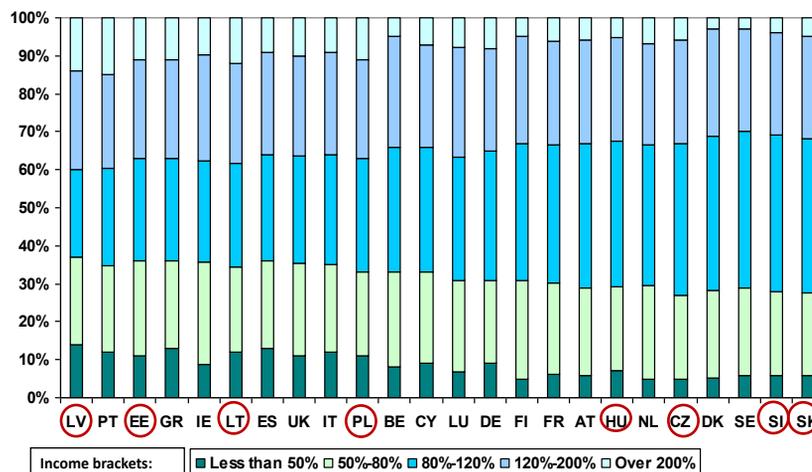
Additional lessons:

- **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 ...

% distribution of the population by income brackets defined relative to national median income



Source: EU-SILC 2007, TARKI calculations in SSO project



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)

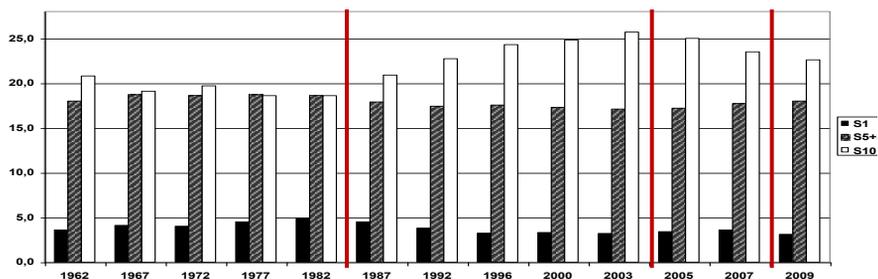
Education expansion

- 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

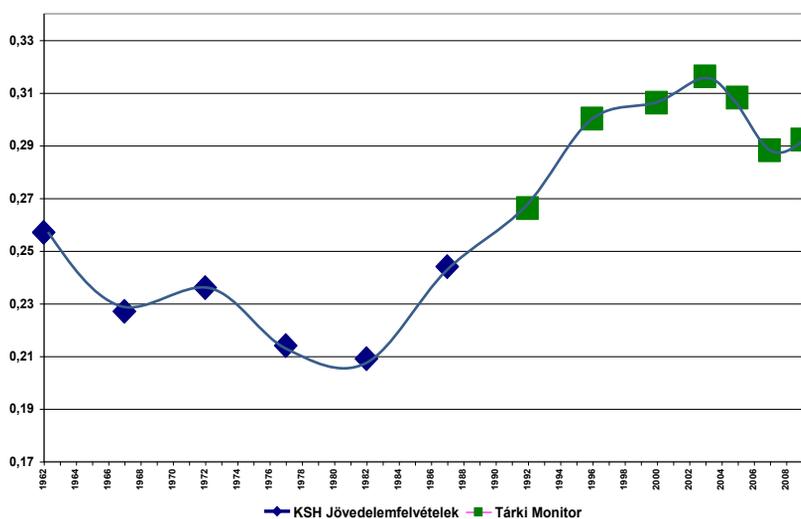
03-07: losses of the top decile, „protected” lower bounds

07-09: losses by the top AND the bottom

Source: 1962–1987: KSH income surveys, Atkinson–Micklewright [1992] Table HI1.; 1992–1996: HHP waves I–VI., 2000–2009: Társi Household Monitor.



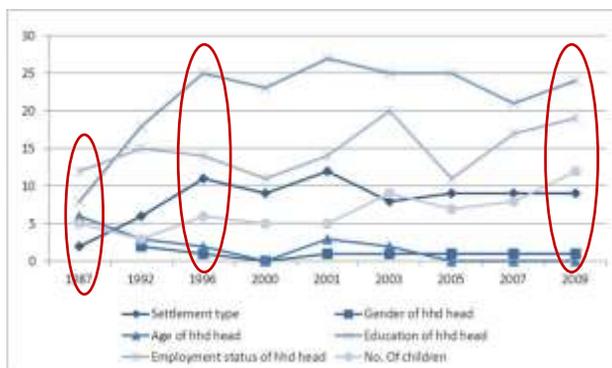
Gini coefficient of per capita net disposable incomes: Hungary, 1962-2009



Source: 1962–1987: KSH income surveys, Atkinson–Micklewright [1992] Table HI1.; 1992–1996: HHP waves I–VI., 2000–2009: Társi Household Monitor.



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



Source: data from Tóth (2009)
Note: % of between-group inequalities were calculated by univariate decompositions of the MLD index, so between-group %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)

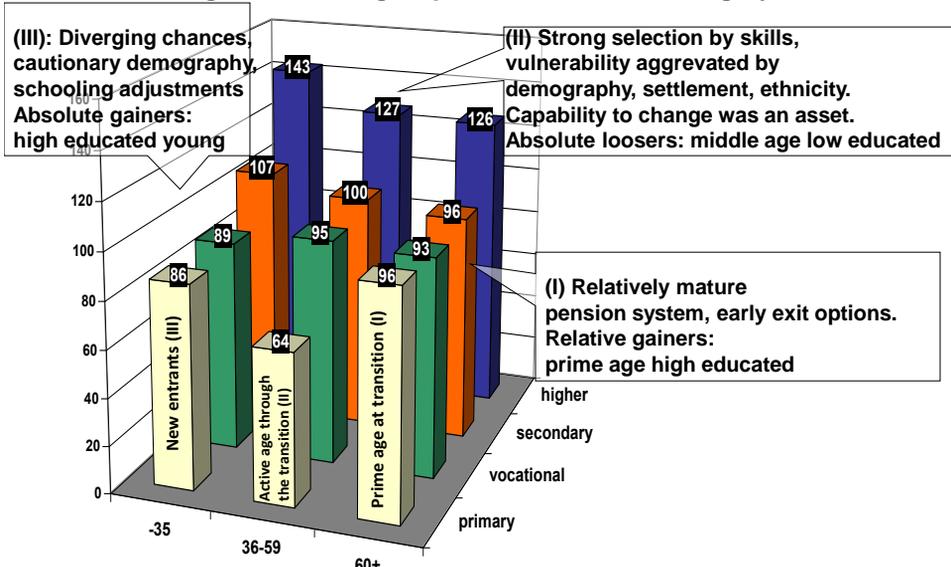
(2008-2009: the crisis and its management) losers: lower strata and (to smaller extent) the top decile



2010 - : austerity, recession, stagflation



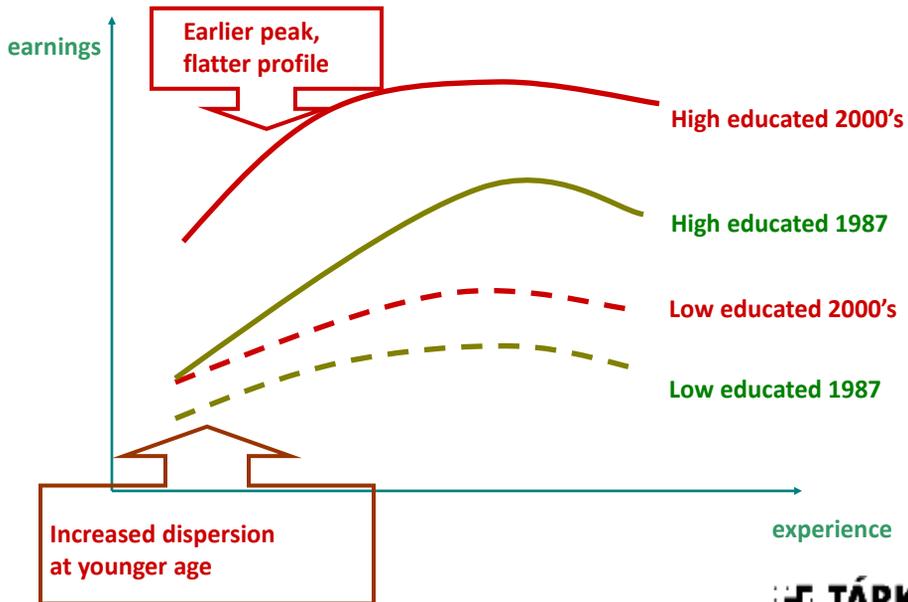
Percentage change in relative income positions of various age/education groups of households: Hungary, 2003/1987



Source: Tóth, 2005, based on CSO income survey 1987 and TáRKI Monitor, 2003



Stylised age-earning profiles, before and after the transition



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 Fábán)



Changes in measures of social cohesion (2)

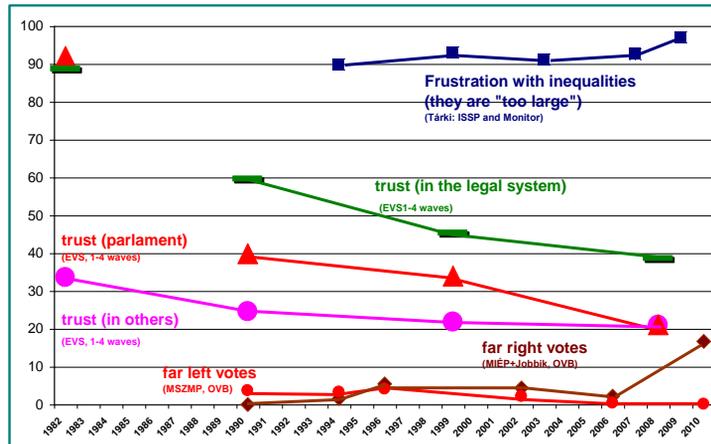
- Institutional **trust and satisfaction declined** sharply after 2002
- **Increasing discontent** with the actual level of inequalities and increasing demand for redistribution during the nineties.
- **Stronger extremists**: rise of the far-right (Jobbik to parliament, utilising and heating anti-roma attitudes)

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



Changes in measures of social cohesion (3)

Some measures of social cohesion, Hungary, 1982-2010



Source: Tárki, Gini-project



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 Ritzen, 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 multipliers 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.

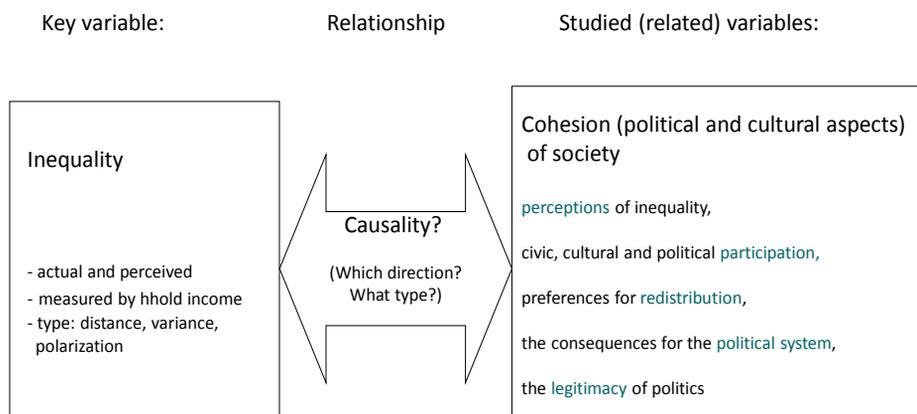


Summary

- 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.

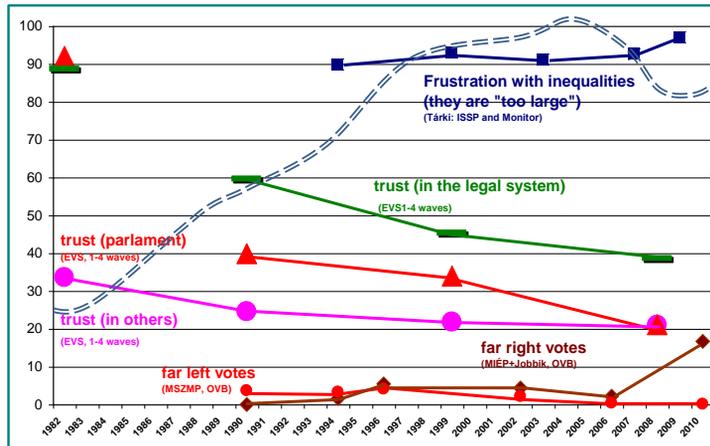


A research agenda for further investigations



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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