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Idiosyncrasies of recent growing inequalities in Hungarian income distribution[i]

Introduction

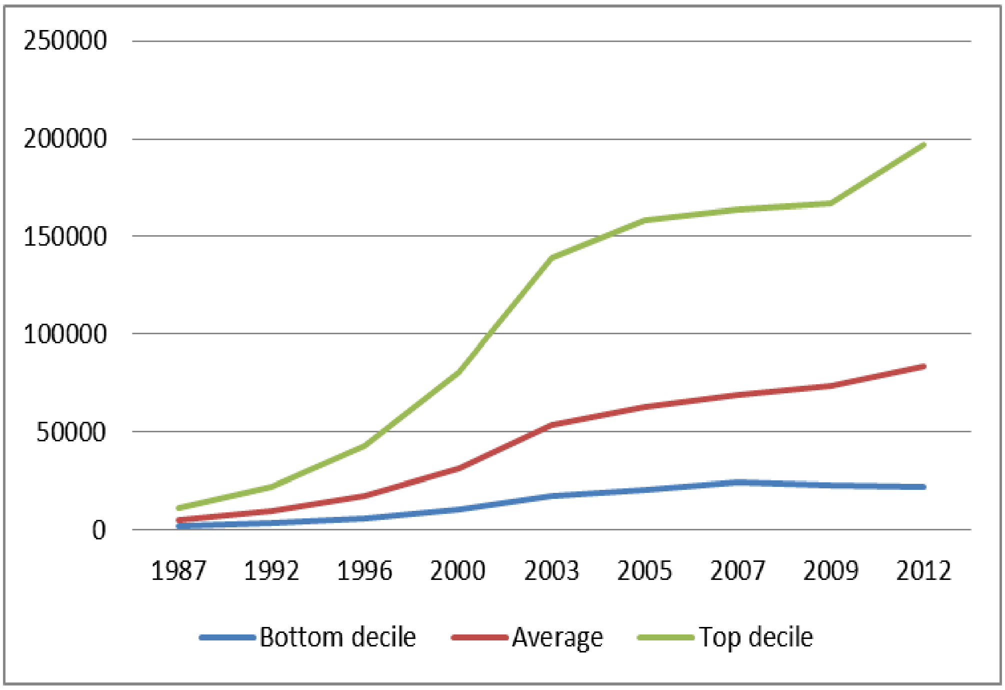
During past years of financial crises and "great recession" most of the European countries have experienced widening income inequalities. These growing disparities are multifactorial, not simply affected by earned incomes in labor markets, social transfers or fiscal policies and revenue regimes, but also by indirect consequences of earlier running indebtedness and amortizing loans.
This paper attempts to take into account various factors of growing income inequalities, and Hungarian biases from international trends. As a conclusion, we will argue that relatively high and rapid growths of Hungarian inequalities cannot seen and interpreted as an unlucky consequence of great recession, rather as an outcome of intended politics of ruling government.

Income inequality trends

Contemporary social discourse has put the subject of inequality into new insights. Social inequality is not simply identical issue with the humanitarian trouble of poverty, any more; it is rather an overall factor of social and economic development.
Wilkinson and Picket (2009) provided evidences that larger inequality not only leads hardships for bottom strata of societies, but also, overall social and well-being indicators are worse in less equal societies, than in more unequal ones. Krugman (2012), Stiglitz (2012) and Piketty (2014) confronted with traditional approaches supposing that more unequal distribution of income and wealth would create more savings, more investments, more job-creation, and finally faster economic growth – and egalitarian fiscal intervention and redistribution by their nature slows down healthy markets and economic developments. The after-crises "new economics" discuss social inequalities as damaging factor of market demands, the "security" of market mechanisms, creates concentration of power that destroys such foundations of markets and capitalism, like free competition and entering new actors into markets.
In the below paper we do not want to contribute into that high-lifted debates on the relevance of inequalities in economics and political economy – we simply accept that social inequality seems to be more important and more general question than it used to be, and I shall try to present Hungarian findings on inequality in that wider context – whatever it means "wider".

Hungarian public opinion and policy narratives look back past decades, as a period of permanent growths of inequalities, more or less as "natural consequence" of capitalist transition. The inequalities expressed by differences of nominal incomes (not corrected by inflation) illustrate and "confirm" that perception.[ii]

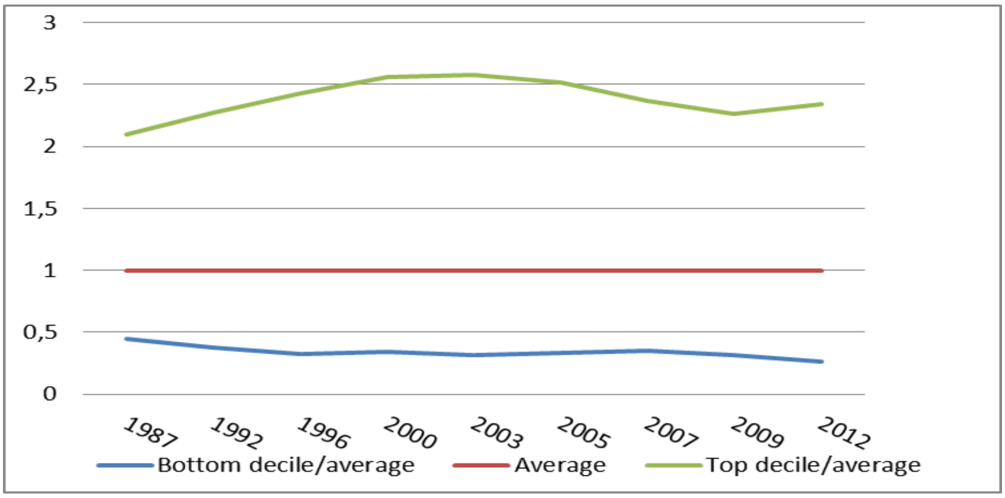
Figure 1.: Nominal income growhts of bottom and top decile and average income (HUF)



Source: Social Research Institute (TÁRKI): Household Monitor Report, 2012

However the above graph seems to prove the popular narratives, it shows also that inequalities started to grow not after the transition, but rather during the late communism (actually from the late '70s). Meanwhile, the curves let us suspicious whether the inequality has been permanently growing. In fact, no, the relative ratios show wavy, and not permanently widening curves.

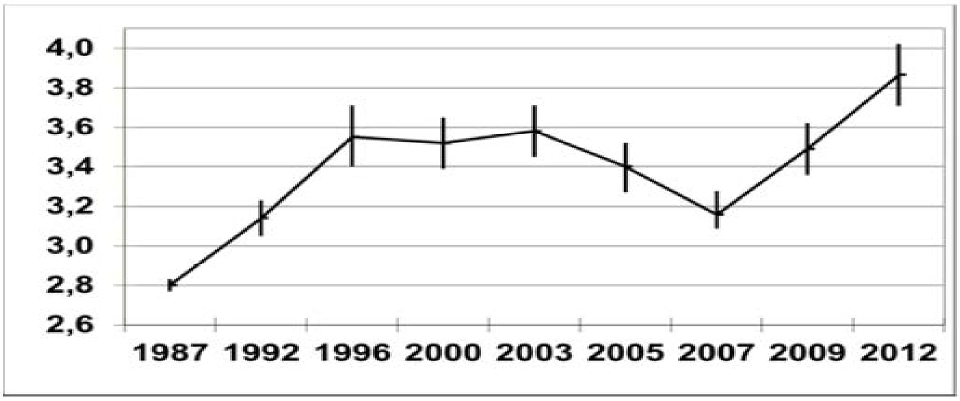
Figure 2.: Relative income of bottom and top decile as ratio to average income



Source: SRI (TÁRKI) op. cit.

Synthetic inequality indicators confirm the wavy character of inequality changes. If we would to avoid the measurement uncertainties and unavoidable mistakes of income figures in bottom and top deciles, and we use the lower breaking point of top and higher breaking point of bottom deciles (P90/P10), we gain the below graph from Tárki 2012 data.

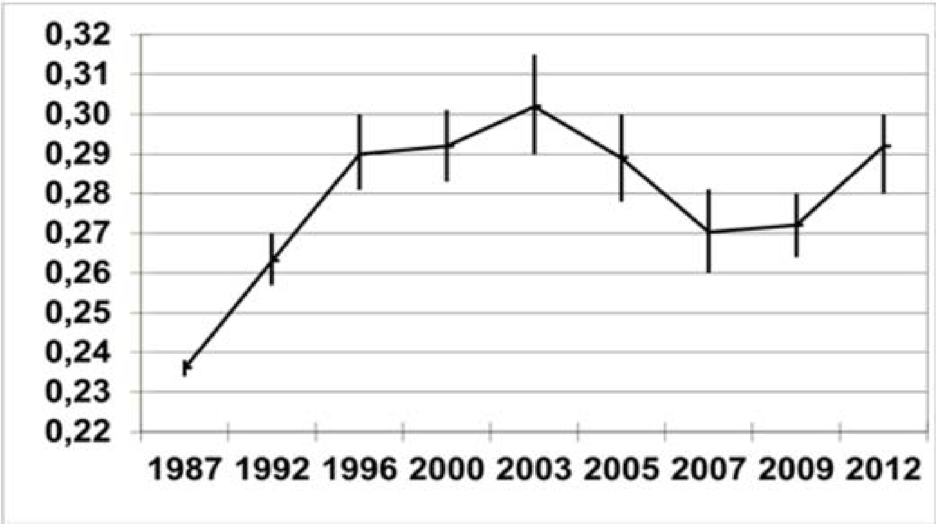
Figure 3.



Source: SRI (TÁRKI) Monitor, 2012

Or applying Gini-coefficients that refer for overall distribution (and not only to the bottom and top tenth):

Figure 4.



Source: SRI (TÁRKI) Monitor, 2012

Giving brief historical and descriptive explanation to the inequality waves illustrated above, we may differentiate four different time-intervals. The first period is the transitional crisis that started during late communism and ended at the beginning of 2000s. Inequalities were growing partly by impoverishment and mass unemployment, since 1,5 million jobs of former socialist economy disappeared by the collapse of Eastern bloc, by restructuring and privatizing former state-owned industrial and agricultural firms, as a consequence of post-industrial transition, and as confronting to low competitiveness accessing to open, globalized economic world. Applying Marxist language, same period was the era of "original accumulation of capital", the birth of new Hungarian bourgeoisie that raised inequalities on the richer side, as well.

The second period started in 2002, when socialist-liberal coalition won the election and socialist Prime Minister opened a "new course" of so called "welfare transition" (indicating that after the democratic and capitalist market-transition there came the time for transition of welfare toward a more generous one giving more to the people). That policy supposed a booming GDP growths right after the accession to EU – that was an unrealistic hope. Expanding welfare expenditures could be financed from depths and deficits – that partly reduced social inequalities, but also brought to dramatic shortages the state budgets.

The third period was very short. From 2008 the socialist government almost "gave up" the political competition for the 2010 election, and their only objective remained a proper crises-management trying to avoid a final collapse of economy. Looking back to that period, it was a properly successful treatment of crises in economic and social sense, as well: they managed the state budget and did not cause as much social pains and hardships, as it had been predicted before. The social inequalities were growing – on a modest range. On the other hand, while government indeed avoided a major imbalance occurring, but the deficit was still well above the Maastrich-level and left the EU with no other choice but to continue the EDP against Hungary; also, the relative balance was financed by increasing government dept, from foreign (mainly IMF) depts.

From 2010 the new right-wing (FIDESZ) government started a new era widely criticized by their autocratic use of political power, cutting back the rules of law and "unorthodox" economic and fiscal policies. From that time the scissors of inequalities permanently opened – that we will analyze in detail.

Following evaluation of Tárki Household Monitor report of 2012 we may summarize the overall past decades' trends of inequalities as follows:

Table 1.

Ratio of income strata within the population (%):	1992	2000	2012
Rich (more than double of median income)	7	9	8
Upper-middle strata (120-200% of median)	25	25	27
Middle strata (80-120% of median)	42	34	30
Lower-middle strata (50-80% of median)	20	23	21
Poor (less than the half of median)	6	9	14
Total	100	100	100

Source: SRI (TÁRKI) Monitor, 2012

We may observe two major shifts, namely the intensive growths of the poor, and the remarkable loss of the middle. Both shifts are unusual from the viewpoint of "middle-classism" that progress is typical in developed countries. (Even if the recession broke that "middle-classist" tendency in many countries and middle classes were narrowed during those hard times. The Hungarian specialty is the twenty years continuity in shrinking middle strata.)

Concentrating onto past years and ongoing developments the trend has become craggy and definite: inequality has been strongly grown. (Tárki, Household Monitor, 2012)

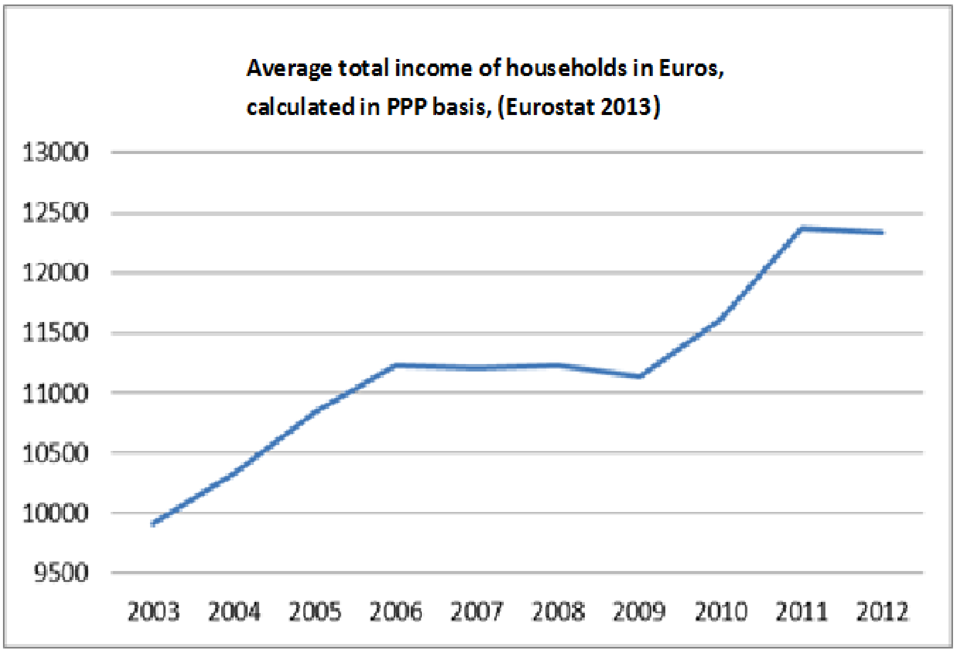
Table 2.

	2009	2012
Gini	27,2	29,3
P90/P10	3,53	3,87
P90/P50	1,81	1,84
P10/P50	0,51	0,46

Source: SRI (TÁRKI) Monitor, 2012

Thus, the profile of income structure behind the overall growing inequality is very special.

Figure 5.: Average total income of households in Euros, calculated in PPP basis

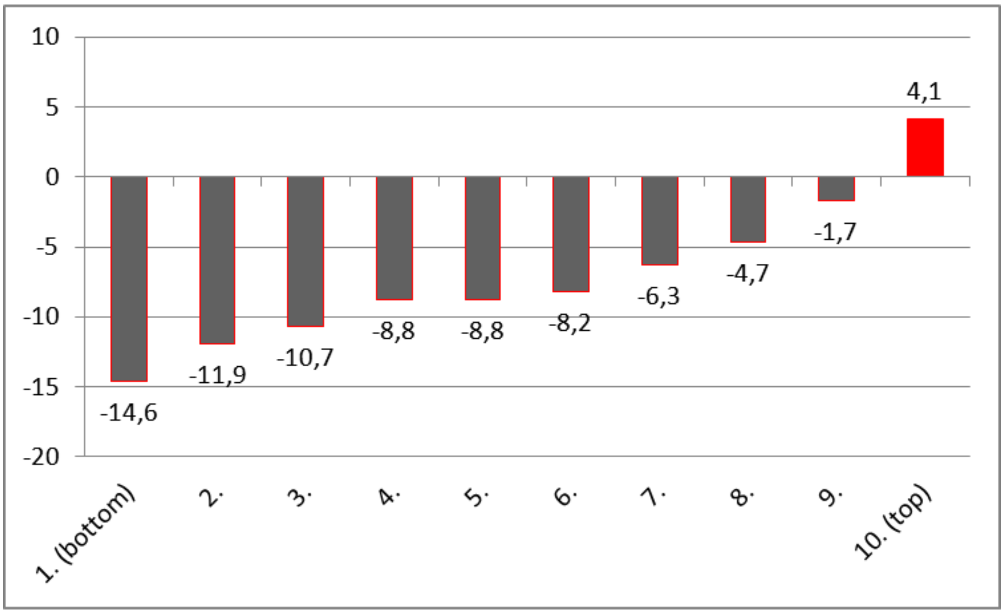


Source: Eurostat, SILC, 2013

One special character is the falling income of the poor: stepping back to the first graph (Figure 1), it is unique since contradicts to basic principle of justice by John Rawls that the nominal income of the poor has fallen in past years.

Despite of falling income of the poor the real breaking point is not at the lower income segments, it is rather at the top. In a period when the average income increased, the income distribution has shifted roughly in a simple manner: the loss of the lower deciles became a gain of the richest.

Figure 6.: Real income change calculated on HUF basis 2009-2013

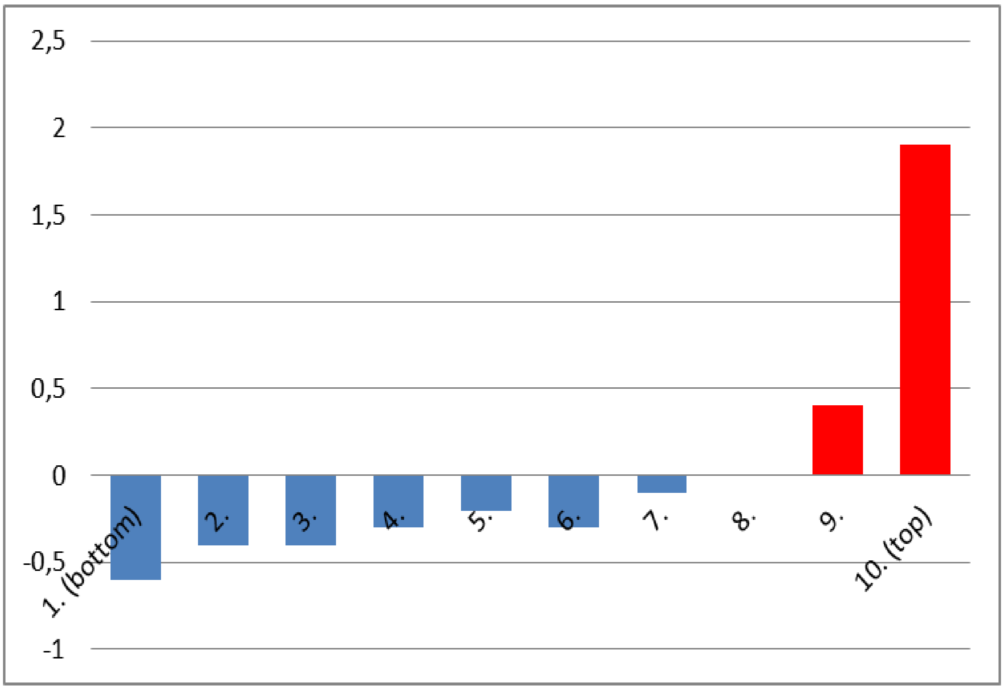


Source: Eurostat SILC 2014

Compared to above two graphs it shows that only the top deciles realized average income growths of the whole society; and, the gains on the top is much higher than the loss on the remedy of population.

Looking at pure distributional effects during past years we may observe that 9.-10. deciles have gained a growing proportion from total incomes, while 1.-8. deciles lost from total incomes.

Figure 7.: Changes in% as gained or lost shares of deciles from total income (2009 to2013)



Source: Eurostat SILC 2014.

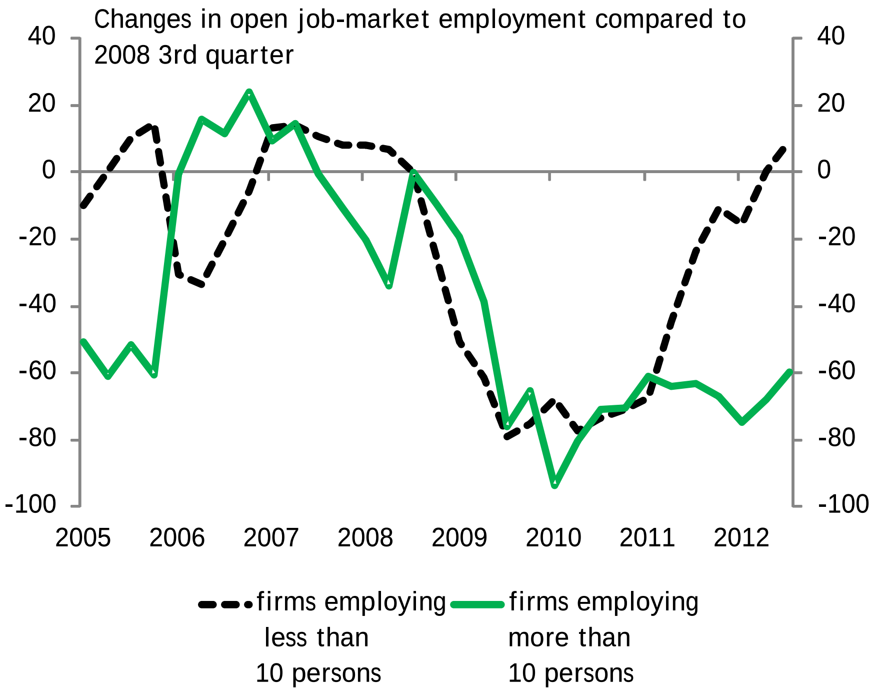
As we said earlier, the poorest are suffered by biggest loss of income, but also the lower three quarter has experienced definite income declines.

Searching causes why households have less money they had had before, we should draw the attentions onto following factors.

First, the government cut down the levels of welfare benefits, also the duration of unemployment insurance to 3 months and restricted eligibilities to disability pensions and benefits that reduced the income of poorest, social transfer recipients.

Second, while employment rates remained, or slightly increased caused by the extension public work programs (employing people in very poor conditions for very low wages) and the rapidly growing emigration and foreign job-placements – these employment-growing tendencies did not compensate the loss of "standard-employment" in public private sector, and the relative higher wages earned in business enterprises and open job-markets.

Figure 8.: Changes in open job market employment compared to 2008 3rd quarter



Source: Hungarian National Bank, Report on Employment, 2012

Third, the FIDESZ government introduced and implemented flat rate tax (and other fiscal policies, analyzed later in that paper) reduced fundamentally the revenues paid by the rich, and at the same time, abolishing tax deductions for low wages that put heavier tax burden onto the poorer and middle strata that reduced the net income in these segments.

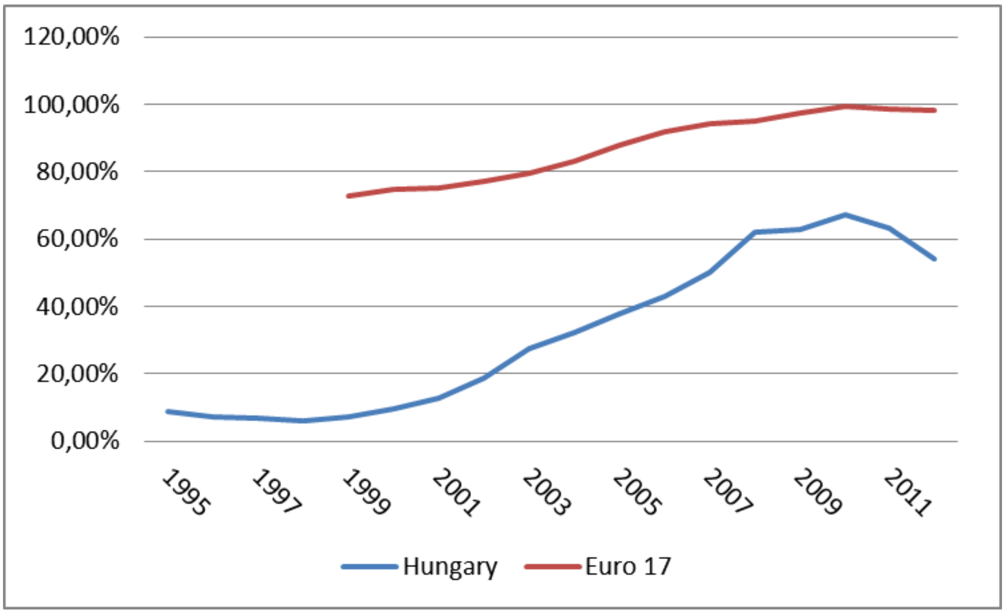
"Almost incomes" – impacts of consumer credits to household incomes

Inequality literature probably underestimates the impacts of depths and credits onto social income structure. Analyzes often characterize ongoing recession as "credit-crises", or, at least as rooted in credit crises, but analyzes focus onto transition of political-economic systems and fiscal implications, and less to social consequences.

Colin Crouch (2009) introduces the phenomenon of „privatized Keynesianism" drawing attention to the household credit as financial means replacing earlier welfare transfers targeting middle income strata. Also he smoothly criticized the hidden attitude of people could be observed in that period losing their strict awareness about paying back any time these credits and redemptions could be financed from newer depths. Monica Prasad (2010) goes even farer by setting up a thesis of public policy trade-off between consumer's credits and welfare provisions. In his paper, Akos Rona-Tas (2012) emphasizes that in CEE post-socialist countries the global trend in booming household credits had been even strengthened by the multiplicative impacts of emerging new banking services, such as credit cards and other banking services and products.

Our viewpoint is very simple with regards of credits: even if in a longer run credits do not affect income positions since any has to pay back credits, but when you get the credit (during early 2000s), this amount will raise your income; and when you must pay back loans (during the recession), that will reduce your disposable income and /or your savings. In that primitive scheme "almost-income-increasing" indebtedness is a major character of the before-crises period, and the burden of paying redemption dominates past years household economies. Of course, that burden is even heavier for those earning less, and it is easy for those realizing much higher net income than earlier.

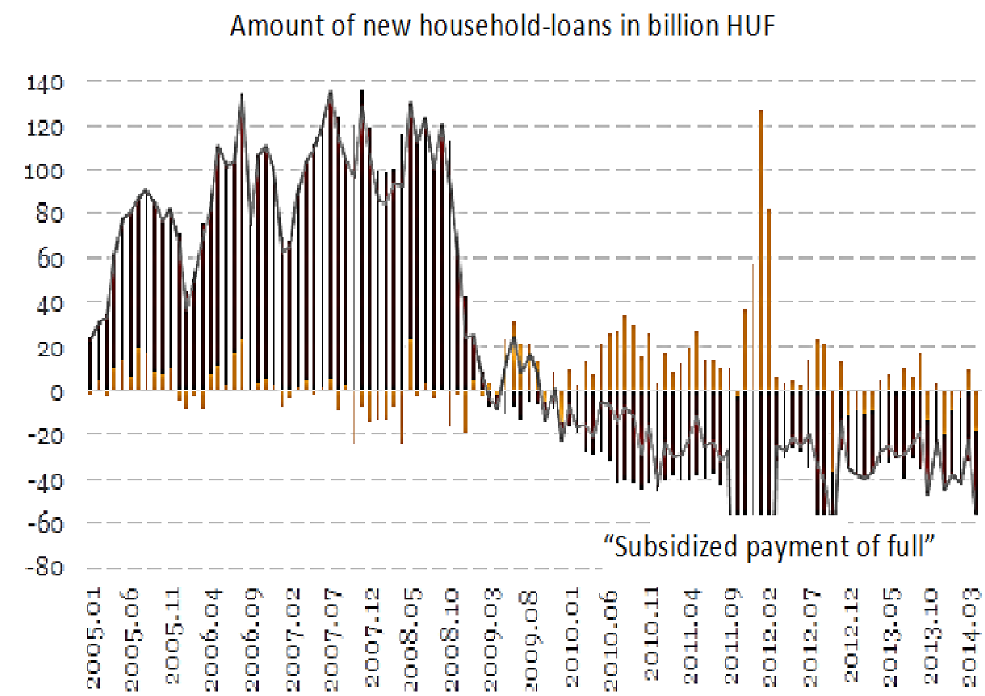
Figure 9.: Gross dept- to income ratio (calculated in %as: loans, liebilities/gross disposable income



Source: Eurostat 2013.

The reason why the total amount of households' dept felt was not the fact that people paid back their loans, rather they did not, could not received new loans. The only peak of new loans occurred when government adopted a new law offered an opportunity of payment of full depts on an artificially low exchange rate (policy statements justified the regulation by the worsening exchange rates that put extra-burdens to those indebted in foreign currencies, sharing that extra-burdens among banks, state budgets and those were ready to utilize the "subsidized payment of full at once now before the date of expiration" scheme), and people applied for loans in HUF for paying back loans in foreign currency, dominantly in Swiss francs.
Government programs that aimed – at least by their rhetoric - at easing financial burdens generally, they were designed and implemented to make profits for those having high income and savings comparable with the amount of they went on tick as an exchange of depts calculated in an artificially low price with savings they owned. Government schemes for easing dept-burdens did not make benefits at all for poorer people in dept or arrears having no reserves and savings could've been exchanged on a good price of foreign currency credits.

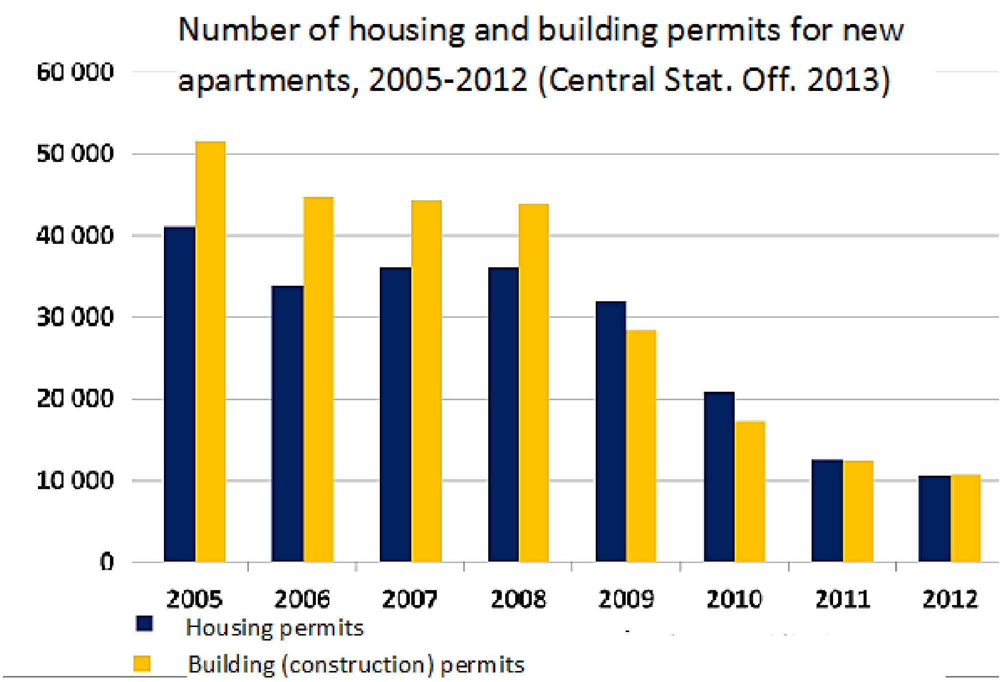
Figure 10.: Amount of new household-loans in billion HUF



Source: Hungarian Central Bank, Portfolio.hu

Largest proportion, roughly the half of household credits are spent for buying and building new houses and apartments, and the rest is used for cars, household equipments and other durable utilities. Trends in newly built and newly legally used apartments clearly visible illustrate the fall of household credits. Figures also show the housing and construction crises, while earlier the number of built houses was higher, and housing permits (administrative permission to move into the newly built apartment, issued by local authorities after checking all regulation was fulfilled during the construction) followed in time the amount of newly constructed flats. In past years the newly built houses are less, than new housing permits, showing that just earlier built houses can be sold, and are taken into use.

Figure 11.: Number of housing and building permits for new apartments, 2005-2012 (Central Stat. Off. 2013)

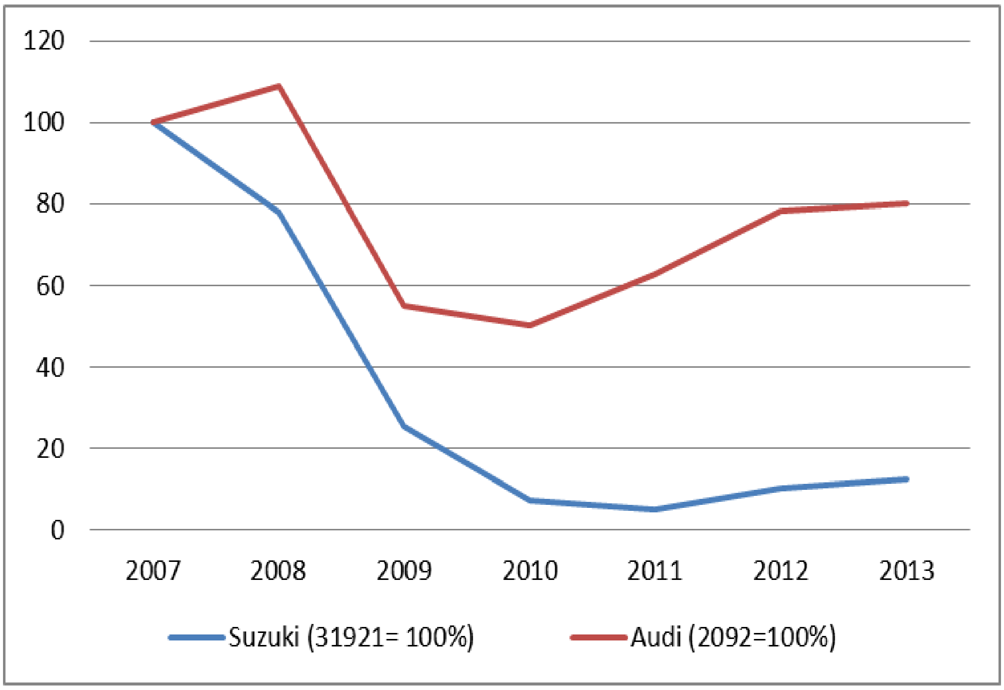


Source: CSO, 2013, Home Centrum website, 2014

Macro-level figures and general trends on how the stock of overall depts changed do not points to the facts of distribution or allocation of depts. Unfortunately, we do not have access to any source would show directly how different social and income strata were and are involved in indebtedness, that is the reason we should use indirect information.

We may earn indirect information from trading data of another good typically bought from loans: the different categories of cars. Below charts, compare partly two "typical" brands both manufactured in Hungary, as well, - Suzuki, producing Swift of small category (that was advertised in Hungary by the slogan: "this is our car"), and Audi selling cars on premium prices. Before crises, Suzuki sold more than 30 000 new cars in a year (basically to middle and lower middle income-strata), felt down to less than 2000 to the year 2010, and climbing up slowly to slightly above 2000 per a year. Audi – aiming at consumers from upper strata - started from a much lower baseline, but the diminishing of salesmanship was relatively modest, and the recovery seems to be faster.[iii]

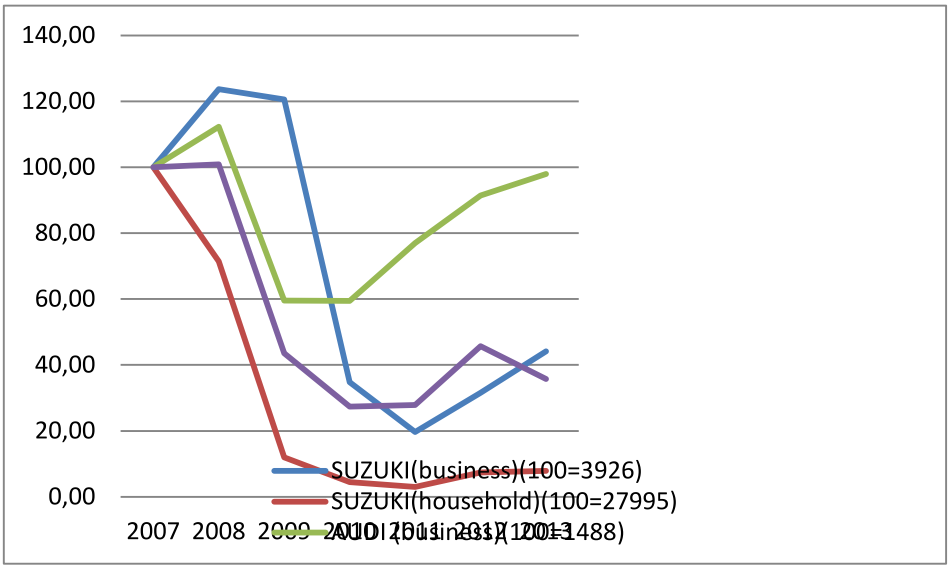
Figure 12.: Newly sold Audi and Suzuki cars as % of realization in 2007



Source: DATAHOUSE complete data collection on car-markets, 2013

If we split figures by the owner of the new cars, we find over the above trends that the loss of company bought cars want back more than private persons and household car purchases in case of both brands. Since most of the company bought cars can be seen as an in-kind extra earnings of high positioned business personals – the trends in car realization show additional effects on opening income-scissor.

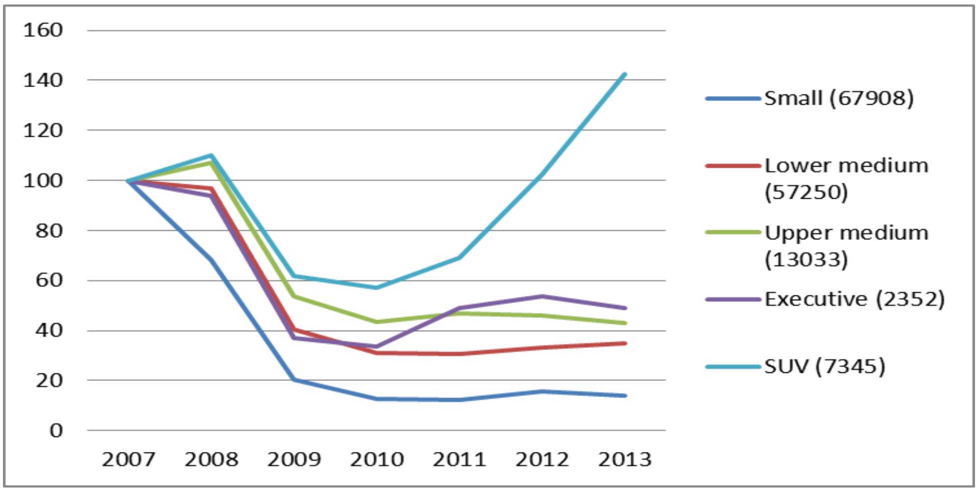
Figure 13.: Newly sold Audi and Suzuki cars as % of realization in 2007 / owner



Source: DATAHOUSE complete data collection on car-markets, 2013

General selling statistics of major car categories show similar tendencies.

Figure 14.: Realization of cars in different categories, in Hungary, as % of 2007 figures



Source: DATAHOUSE complete data collection on car-markets, 2013 (Numbers of cars sold in different categories in 2007 (=100%) are shown on the right)

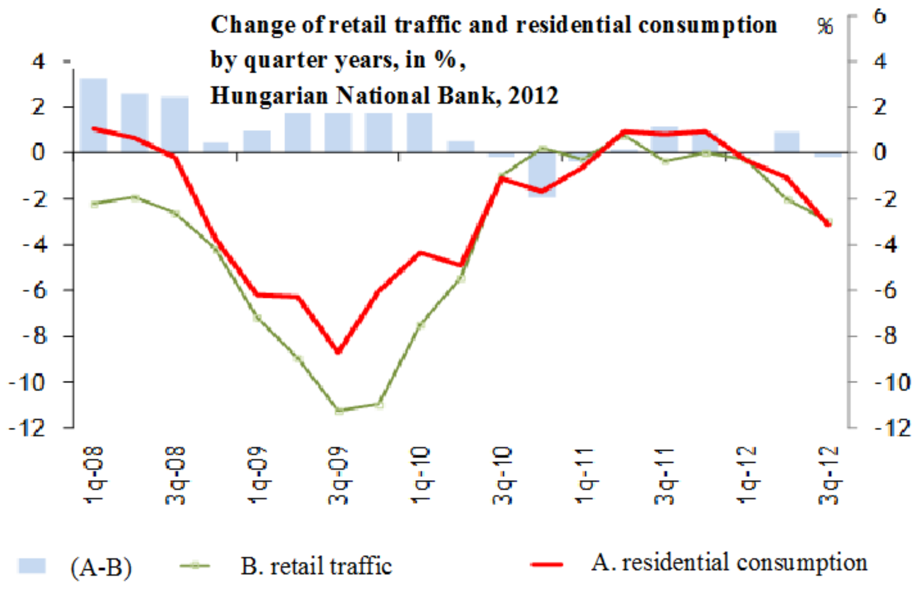
If we suppose that unequal loss of selling (and buying) new cars are indicators of unequal access to “almost income” credits and loans; meaning also lower income groups could get less credits and loans than before – we might conclude that unequal access to “almost incomes” is an added factor to growing inequalities.

The value of money – trends of consumption

Sociologists are usually interested about how people get by, and what are the major social inequalities among groups get by on a different level and different mood. To measure and to compare living conditions by in kind measures is extremely difficult, this is the reason why we prefer to measure income in money – supposing that the amount of the money different people and household own is an appropriate synthetic indicator of what they can buy and how they can get buy. For doing so, we should also suppose that the value of money is stable in time, the exchange rate between money and the needed goods and products are unchanging. If above presumption is well founded, monetarist measures are fairly correct and sufficient to express living conditions and social inequalities.

When people using their money to pay or buy something – they exchange money to in kind goods. In favor of having an overview on what people buy for their money, we can take a look onto the figures on what people buy from merchandises, small traders (retail traffic), and what they spend together with other expanses, like housing costs and others (consumption of residents). Chart below shows quarterly shifts of retail and consumption. Varying values are mostly in negative range (showing decline of consumption).

Figure 15.: Change of retail traffic and residential consumption by quarter years, in %



Source: HNB report on GDP trends, 2012

Losses expressed in kind make us suspect that trends "in kind well being" of people might be even worse than shrinking amounts of incomes.

As an indicator of in-kind well being we may profit from EU deprivation data, showing the ratio of population missing, being deprived from goods and services are seen as standard and normal needed prerequisites of life. Eurostat defines factors of indicators, as follows:[iv]

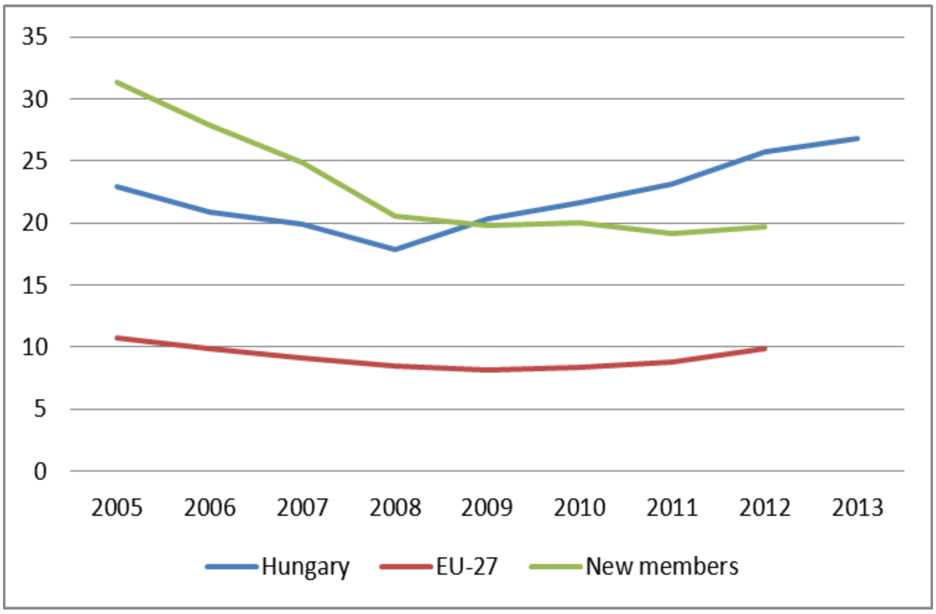
"Based on the limited information available from the EU Statistics on Income and Living Conditions (EU-SILC) data-set, the EU MD rate is currently defined as the proportion of people living in households who cannot afford at least 3 of the following 9 items:

- coping with unexpected expenses;
- one week annual holiday away from home;
- avoiding arrears (in mortgage or rent, utility bills or hire purchase instalments);
- a meal with meat, chicken, fish or vegetarian equivalent every second day; keeping the home adequately warm;
- a washing machine;
- a colour TV;
- a telephone;

- a personal car."

Similarly, Eurostat defines as "severely deprived" households those who cannot afford 4, or more items of above list. The Hungarian figures on ratio of severely deprived population show worse situation, than in the "old" member states; but the dynamics of declining living condition is much faster worsening data compared to both, "old" and "new" member states.

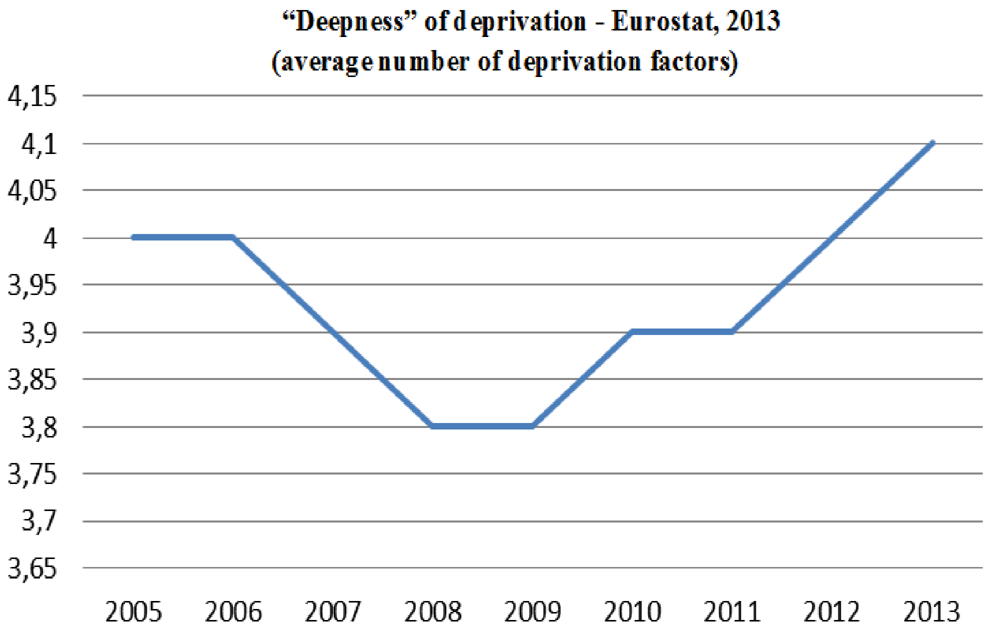
Figure 16.: Ratio of severely deprived (4+ deprivation factors) population



Source: Eurostat SILC 2014

Meanwhile, not only the ratio of severely deprived household had grown, but also the "deepness" of deprivation had worsened at the same time in Hungary.

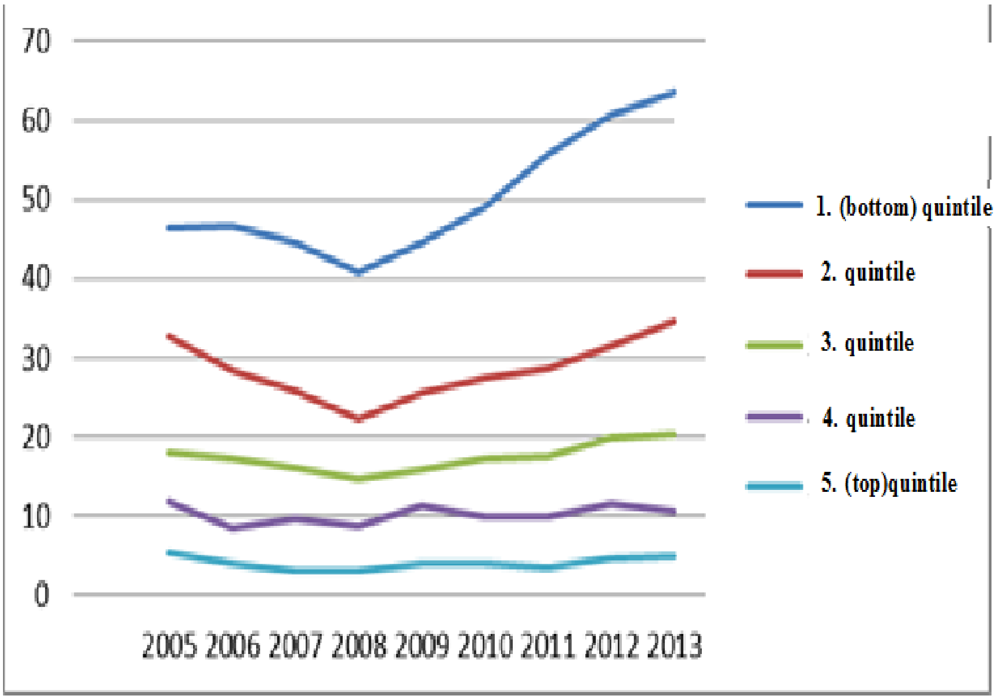
Figure 17.: „Deepness" of deprivation – Eurostat, 2013 (average number of deprivation factors)



Source: Eurostat SILC, 2013, Hungarian data

Deprivation is not identical with poverty with regard to the fact that not only the poor miss basic prerequisites for "normal life". Of course, poor people and families are suffered more often from shortages in everyday life, but other strata miss also certain goods and services regarded as standard and normal elements of consumption. Also it is true, that dynamics of deprivation indicators show more rapid decline in case of lower income-groups, but ratio of deprived households has grown in every income level.

Figure 18.: Ratio of severely (4+) deprived within in come quintiles, Hungary



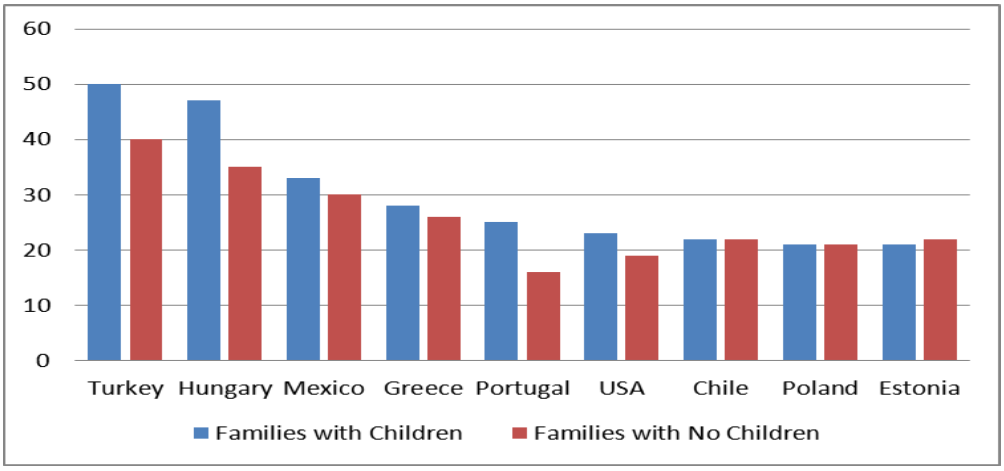
Source: Eurostat, SILC, 2013

If we want to illustrate declining living standards by less sophisticated figures than deprivation and severe deprivation index, we should take a look onto data provided by Gallup Group in collaboration with OECD on how people are frustrated for not to be able feeding properly their family.[v]

As explanation of below charts we must draw the attention onto the subjective nature of data: data do not show the proportion of population experiencing or living permanently in hunger, data shows the ratio of those reporting hardships to afford appropriate food. Many and often criticize subjective well-being data as showing uncertain realities beyond subjective perceptions, but longitudinal data prevent this turbulence, since basics of perception on what is proper and what is not – do not change overnight. Following that concern, increasing ratio of those who are unable to afford appropriate meals – is a clear and valid indicator of declining living standards.

Also we should add that developed countries regard nutrition as evidentially fulfilled need within their population, inadequate nutrition is basically a trouble in the developing world. Data confront as with said reality: a large, and rapidly growing strata of people suffered by being incapable for insuring appropriate food, with special regards to kids.

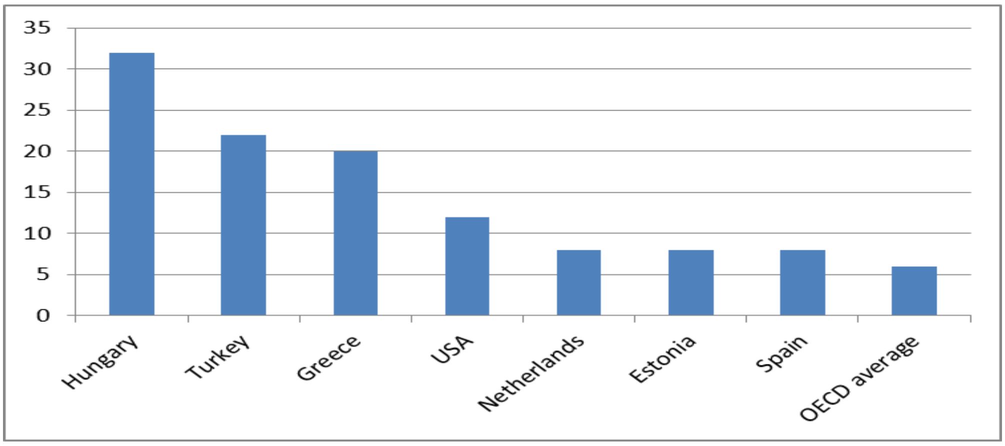
Figure 19.: Top 9 OECD countries with highest incidence of families struggling to afford foods 2013



Source: Gallup report in co-operation with OECD (2014)

In international comparison we may observe that the fastest and deepest decline of adequately feed families and children can be observed – in Hungary.

Figure 20.: Families with children reporting difficulties affording foods, in OECD countries with largest increase between 2007-2013



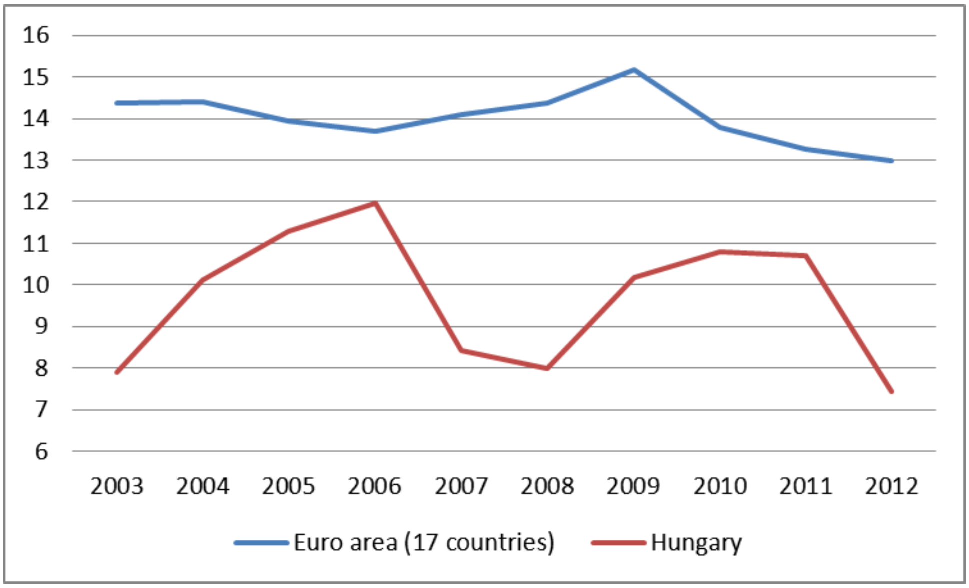
Source: Gallup report in co-operation with OECD (2014)

Applying in-kind measures for indicating trends of living standards, we may evaluate a worse decline in Hungary, than in monetarist indicators. By other words, the "exchange rate from money to products and services" of shrinking income of Hungarians has been also devaluated during past years.
Changing character of revenue and tax policies would found casual explanations for above observations. The flat-rate income tax-reform (by abolishing earlier tax-deductions and rising revenues on low, and reducing burdens on high wages) decreased the overall direct burdens on wages and personal incomes, and various consumption-related taxes (e.g. lifting VAT to 27%) compensated shortages of state budget. This means also to pay higher taxes in gross prices and less net counter-value for purchased goods. Less income of lower 80% of population, makes pay even less in terms of consumption and living standards.

Household savings and investments – the lost security

Savings and investments are not so exciting issues for sociologists dealing with social inequality. It is rather a classical topic for economists analyzing savings – with special regards to savings of households – as resource for investments, basically for company investments. Monetarist and banking services are interesting issues as technical ones: how efficiently they may implement that trade off, how efficiently they channel private-individual savings to job-creating and development-gearing investments. For us household savings have different, probably less sophisticated meanings. Roughly, if someone owns any forms of savings or investments, he/she keeps in store some reserve that may serve survival in hard times; that might serve as startup capital, if something must be changed, something new must start. In contrast, having no reserve means having no choice, no change and no power to change – show must go on, how it goes.
Below figures will illustrate how Hungarians lost their previous savings that ever used to be smaller in international comparisons – but for us that means also a process of losing security and freedom, as well.

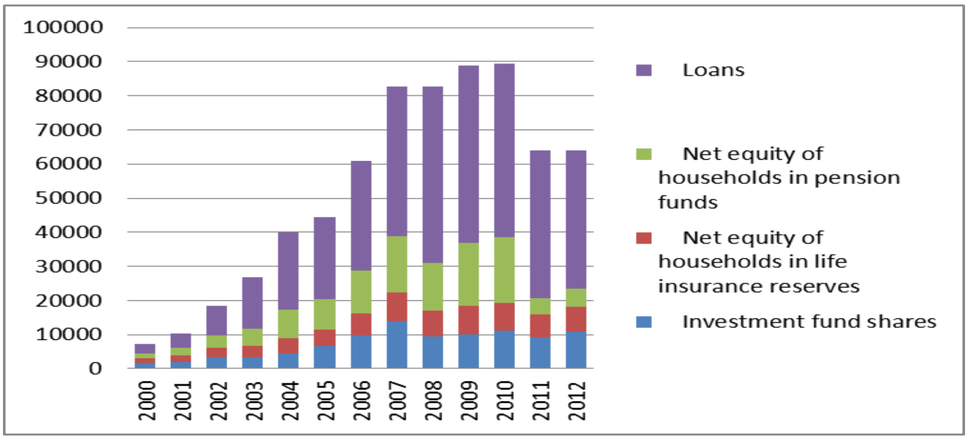
Figure 21.: Gross household saving rates (as % of household incomes) 2003-2012



Source: Eurostat, 2013.

Generally speaking, the overall value of households' financial assets had grown until 2009, and after 2010, they have fallen back to the level of 2006.

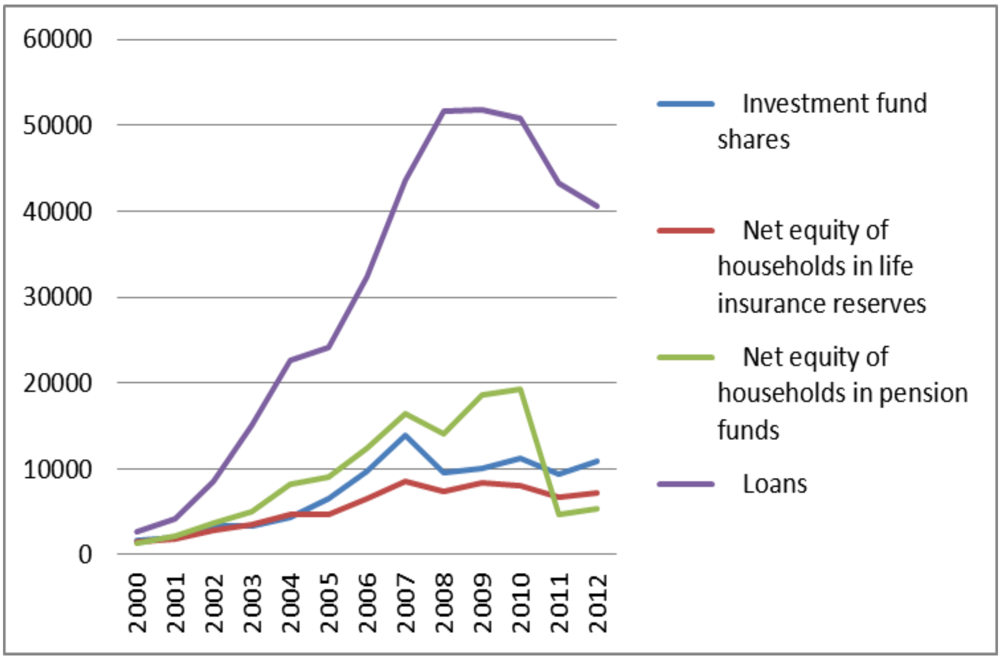
Figure 22.: Fiancial assets of households, in USD, Hungary



Source: OECD Statistics, 2013

Looking at the major factors of assets, investments and life insurance reserves stagnated with minor increase, loans fallen as illustrated above, and also pension fund equities fallen dramatically, since the government abolished privately managed mandatory funded pension schemes by converting equities to eligibility in pay-as-you-go pension system.

Figure 23.: Trends of different financials assets in USD, Hungary

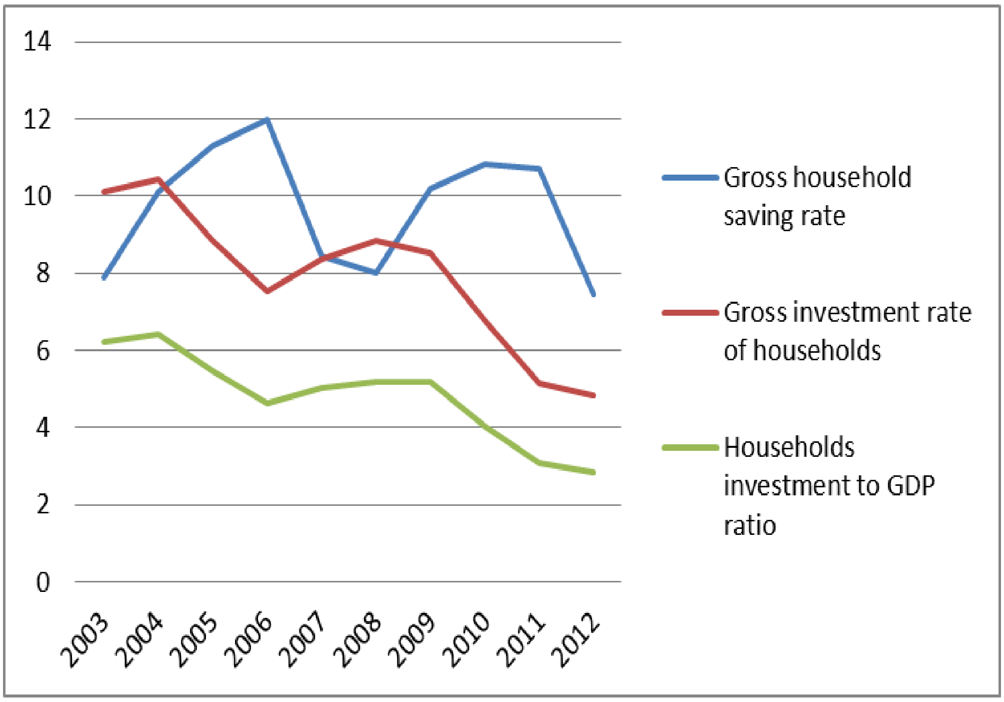


Source: OECD Statistics, 2013

The overall ratio of households' investments is almost the half of same ratio in Euro era, and the trend of changes is slightly positive in time, despite of the crises.

As we mentioned earlier, government programs like "exchange rate embankment" and, "subsidized payment of full" generated trade-offs between savings-investments and loans, but above turbulences caused by government regulations the trends of declines are explicit.

Figure 24.: Saving and investments rates of households, Hungary

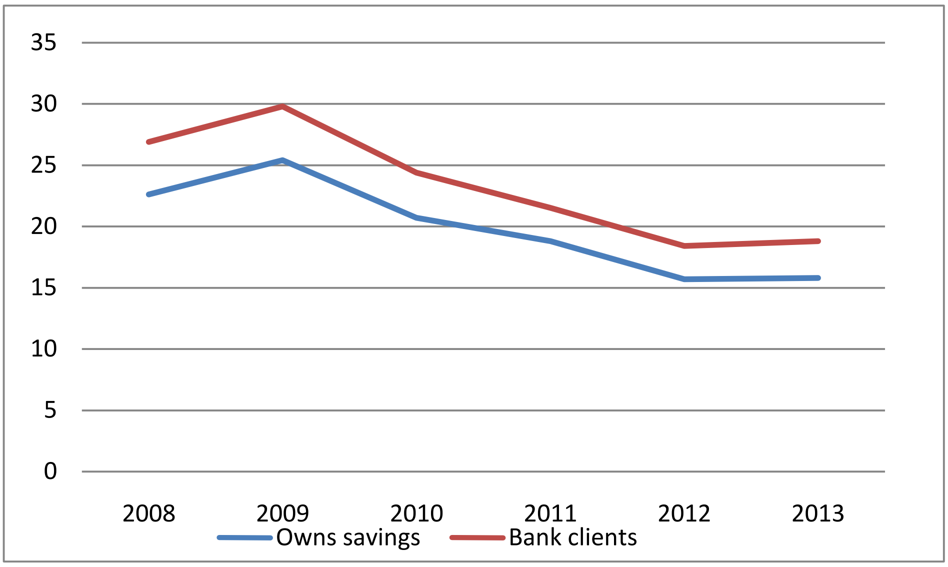


Source: Eurostat, 2013

Overall rates do not inform on allocation and distribution of shrinking household savings and investments. The only accessible help to know more on that is the relative small-simple, but representative survey made run by Gfk Ltd. By our assumption Gfk data cannot seen as punctual, partly because 40% of survey-interviewed persons did not answer at all about their savings, partly because self-reported data on wealth are even more uncertain than income data. Meanwhile, cleaned data (without non-answers and later no savings) seem to be accurate in a sense that they correlate strongly with data from external sources on same topic.

The loss of savings rooted basically in loss of savers. Since less people have savings, parallel fewer people consider making pay to maintain their client-relation with banks. Ratio of savers and bank-clients were all the time smaller than international standards, both ratio fallen during the crisis even deeper from that relative low baseline, as well.[vi]

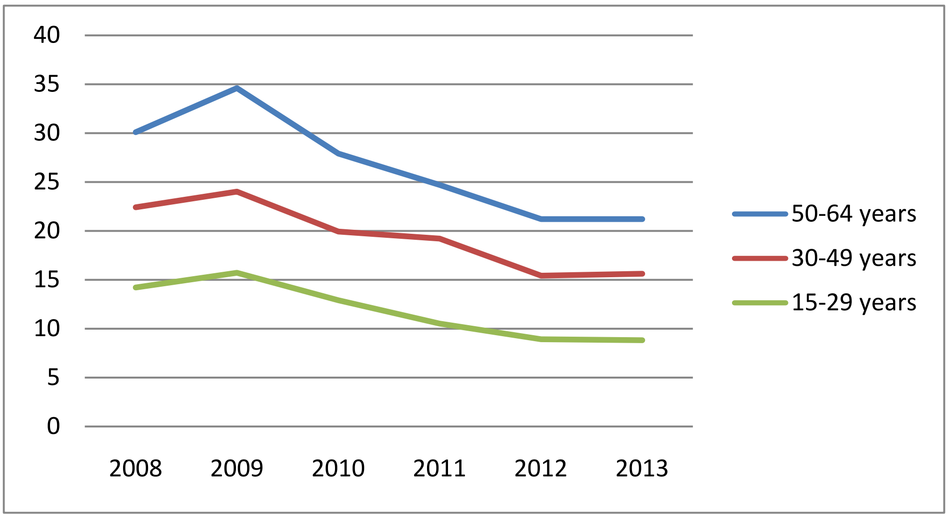
Figure 25. Ratio of those owning savings and being bank clients within 16-64 population



Source: Gfk Ltd, 2013 (ratio of persons reported they own savings among those were answered to relevant question of inquiry, in the representative survey of RBM research program)

The loss of savers are proportional in all of the cohorts, meaning also that older generation's readiness and advantage to save remained proportional in lower levels, too. In absolute terms, this means also a weakening material security for younger generations.

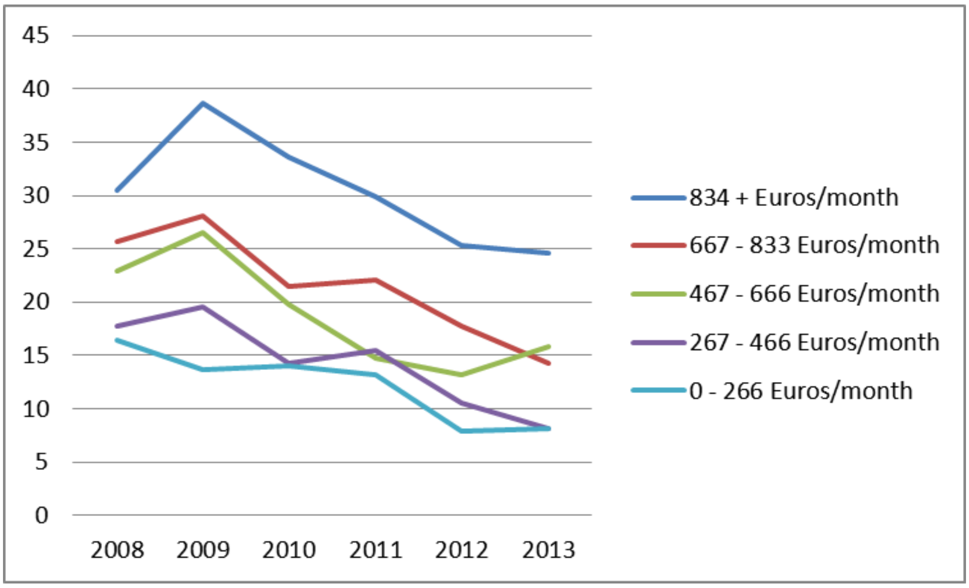
Figure 26.: Ratio of savers in different cohorts, Hungary



Source: Gfk Ltd, 2013.

Ratio of savers declined proportionally among different income categories as well: higher income people maintained their proportional advantages during overall decline of savers.

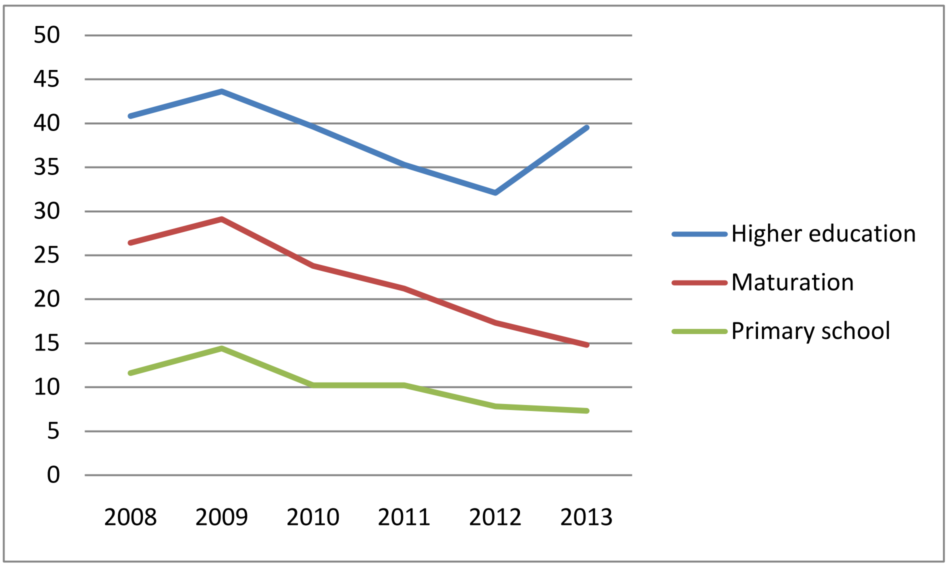
Figure 27.: Ratio of savers in different income groups (individuals, Euros/month) Hungary



Source: Gfk Ltd. 2013 (incomes are calculated by Euro/HUF exchange rate in 2013. September)

At the same crises period, among higher educated persons more reacted to raise their savings, in contrast of lower educated ones, ratio of savers declined permanently in these social groups.

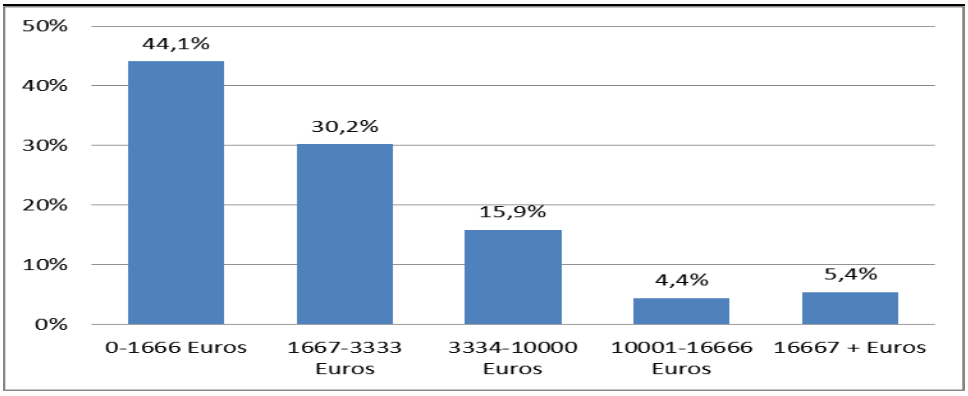
Figure 28.: Savers by educational level, Hungary



Source: Gfk Ltd. 2013.

Taking into account the amount of savings, we will see surprisingly low data. Below charts show the distribution of that 16% of population which has any savings – by the amount of how much they have laid by.

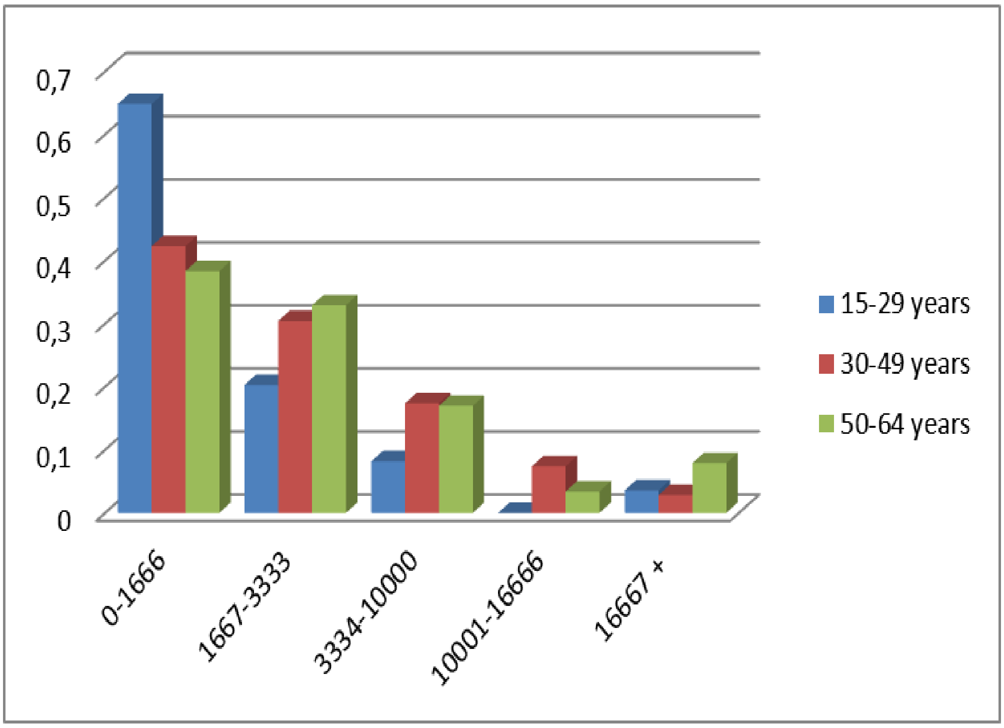
Figure 29.: Ratio of saving individuals (within 15,8% of savers in total population), by saved amounts, Hungary



Source: Gfk Ltd. 2013.

Structure of the amounts of savings reflects back the composition of savers. Younger savers have typically low amount of savings, and just only among older cohorts – accumulating longer their sparing -we find relatively higher amounts of stocks:

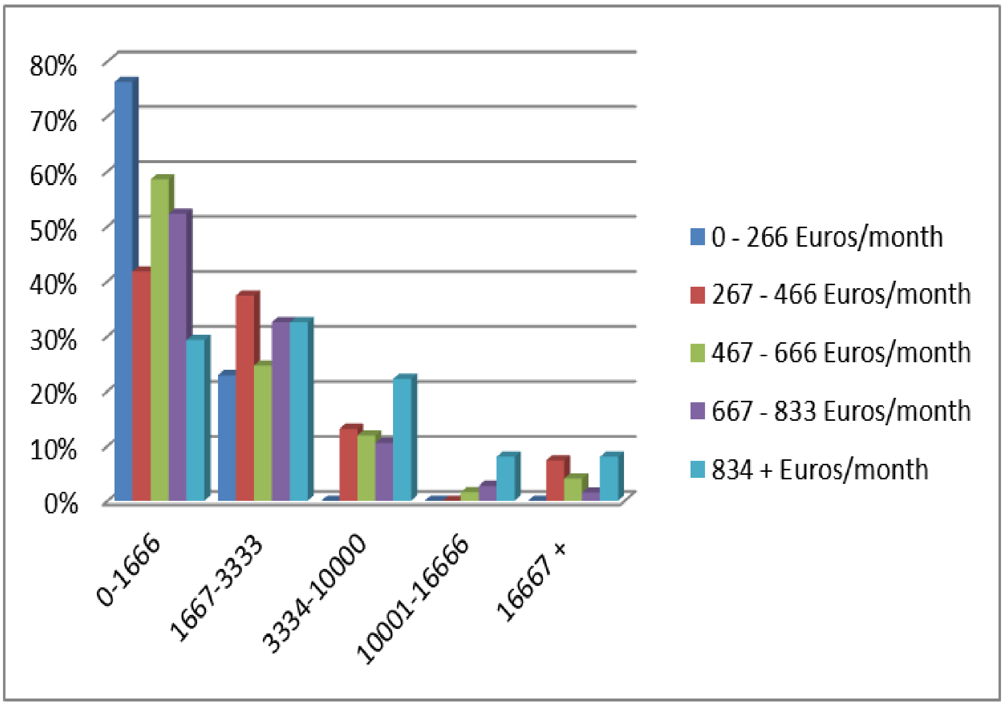
Figure 30.: Ratio of saving individuals in different cohorts, by saved amounts (in Euros), Hungary



Source: Gfk Ltd. 2013.

Distribution of saved amounts mirrors back the structure of savers by their monthly income, as well. Roughly speaking, mainly relatively high-income persons do economize, and only they could accumulate relatively higher amounts of savings.

Figure 31.: Saved amounts (in Euros) among savers in different monthly income rates, Hungary



Source: Gfk Ltd. 2013.

What we may see from saving data is a dramatically decline both, persons who save and the amount of reserves they own. Decreasing savings seem to be an overall relative trend in society, but in absolute terms, this leads to a kind of "evaporation of reserves" in case of younger generation and lower income population. These figures correlate strongly not only with Eurostat figures on household savings and financial assets, but also with deprivation indicator showing an increase the ratio to three quarter of population to whom covering an unexpected expanse would be hardly or not affordable.

If we give a rough estimation that a yearly average net income, by large an equivalent amount of HUF with 10000 Euros may insure resources for a yearly get by in case of getting unemployed, or starting a new small-business or starting a new job by geographical mobility, etc. – we assume that just only less than 2% of population (a bit more than 10% of 16% of population owning any savings) is in a secured financial situation in that sense. The remedy has no savings at all, or the saving they own is not satisfactory to bridge over typical financial hardships may occur during crises periods.

Concerning inequality issues, we may give an estimation based on combining above quoted Gfk survey data with the “official” report of National Bank on household savings at the end of calendar year of 2013. Calculation result an amount more than 90 000 Euros as average savings of top savers, (5,4% of 15,8% all savers above 16667 Euros) the 0,85% of total active aged population. Since the simple of Gfk survey was an individual, and not a household based simple, the concentration of savings might be even higher on a household level. Calculating all together savings and investments of households, the concentration might be even higher. (Questionnaire of Gfk asked about savings, but we do not know how people calculated with shares, bones, equities they own, and they calculate with them simply as reserve, as saving, as a “technical” alternative of bank accounts. About the distribution of definite household investments – we did not find any data-resources; this is why we could not calculate with them.)

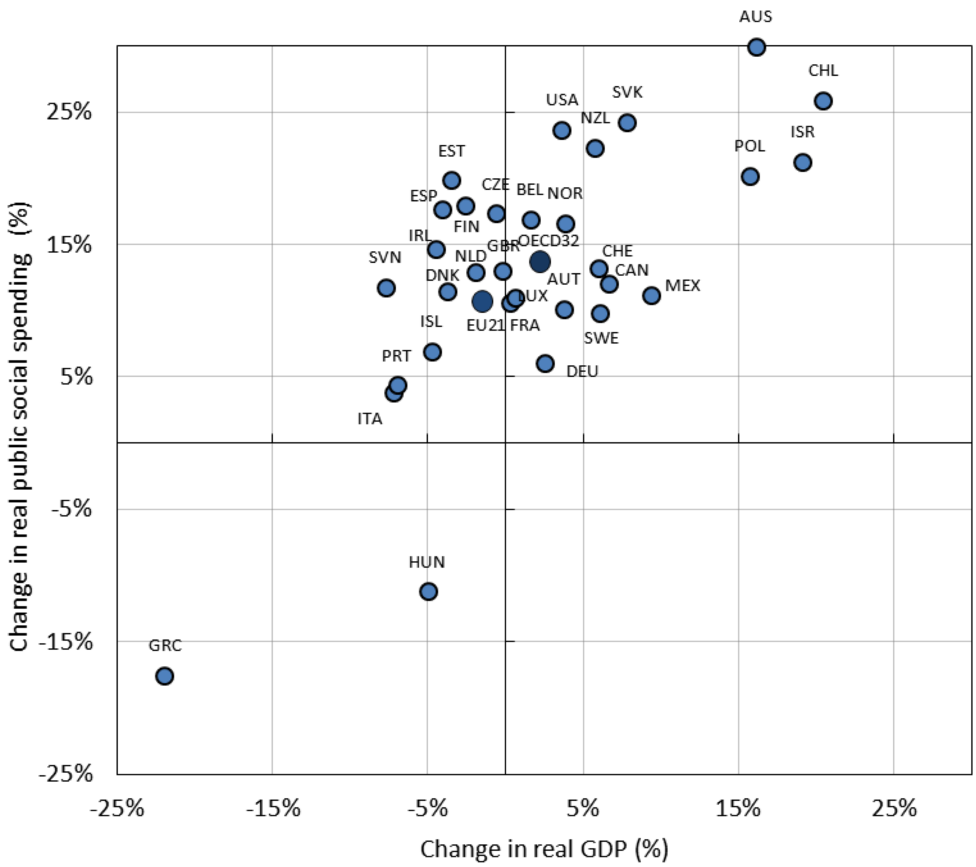
The unique nature of Hungarian genre by raising social inequalities

In above chapters – hopefully - we gave evidences that income and financial structure of Hungarian society became much more unequal during past years, how it used to be before. Readers may react that yes, this is the very nature of free markets and capitalism, especially during recession and crises: the poor get poorer and the rich get richer.

In that paper we do not want to justify above statement, but definitely we want to argue that growing inequality was not a “spontaneous” consequence of the recession, inequality gaps were widened by the policies implemented by the Hungarian government.

International comparison that may make suspicious us shows, how social expenditures and GDP figures interlinks during the period of crises.

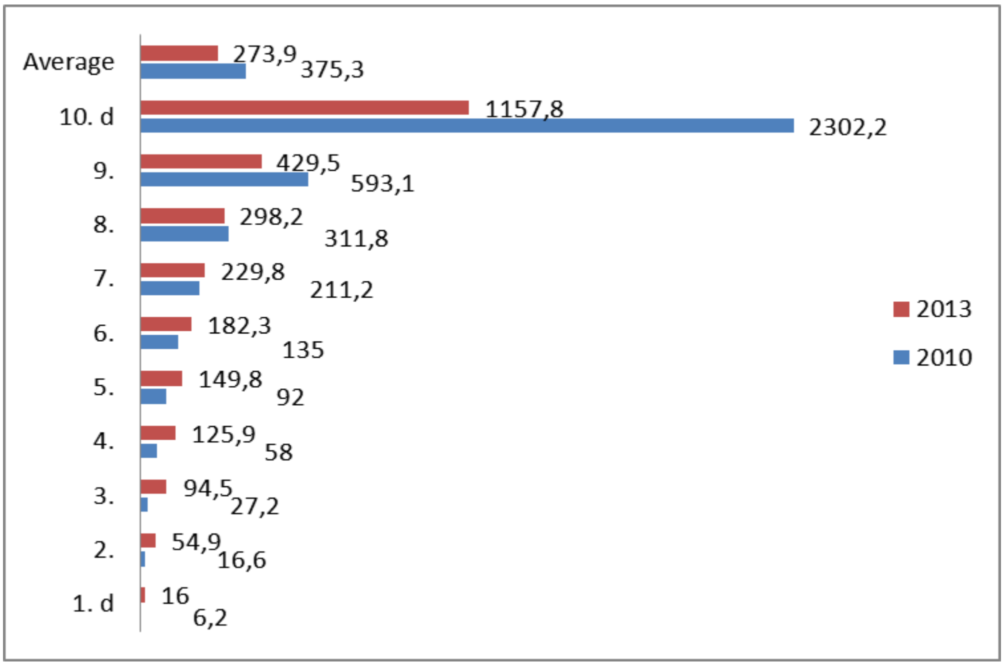
Figure 32.: Social spending increased least in countries most affected by the crisis (percentage changes in real public social spending and real GDP, 2007/08 to 2012/13)



Note: Estimates for 2007-08 and 2012-13 are averaged over two-year periods to allow for the different years in which the crisis began across countries and to limit the effect of year-on-year fluctuations. Source: OECD (2013), OECD Social Expenditure Database (SOCX), preliminary data (www.oecd.org/social/expenditure.htm).

Regardless Greece (experiencing an extreme GDP loss), Hungary is the only exception by not increasing (definitely reducing) social expenditures during the crises. That cannot be explained by extra high ratio of welfare expenditures (Hungarian ratio to GDP is on the middle rank in EU), and also the ratio of recession does not explain, why the Hungarian government did not want to ease the hardships of lower strata by strengthening welfare schemes, and why we can observe a solidly shrinking social expenditures. In fact, government cut back the amount of social benefits by more than 25%, shortened the duration of unemployment insurance to 3 months (from 9 months), cut back dramatically disability pensions and benefits – that resulted a definite loss of income of welfare recipients.
Meanwhile, if we talk how government made actively social inequalities grow, the major impact is not how the poor became poorer, but rather how government benefited the rich to be richer.
In 2013 State Audit Office published a report (Tóth G. Cs. – Virovácz, P. 2013) on its' website, analyzing the impacts of fiscal programs implemented by the government from 2010 to 2013, applying micro-simulation methods on administrative (tax-reports) data. By that report, the income taxes paid by different income deciles were as follows:

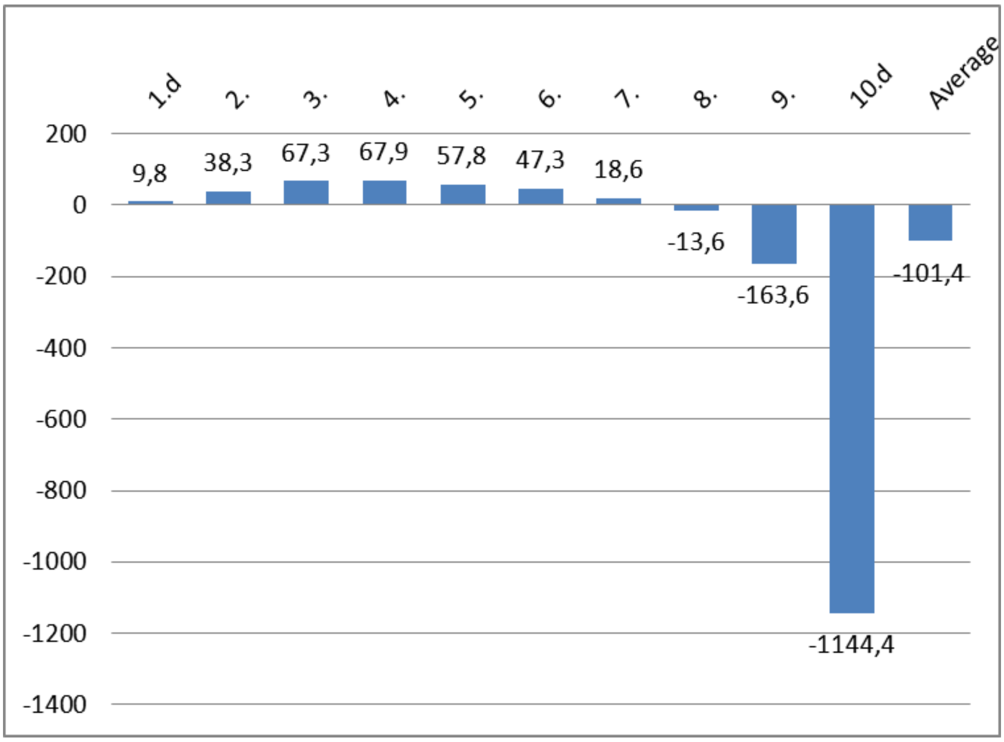
Figure 33.: Average income tax paid by income deciles (thousands HUF), Hungary



Source: Tóth G. Cs. – Virovácz P. op. cit. micro-simulations on SAO data, 2013

The difference between taxes paid in 2013 compared to 2010 (presented in the above chart) shows extreme gap between lower 7 deciles to which tax burdens were growing, and the top 3 deciles, especially the top (10.) deciles, where taxes were reduced to less than half.

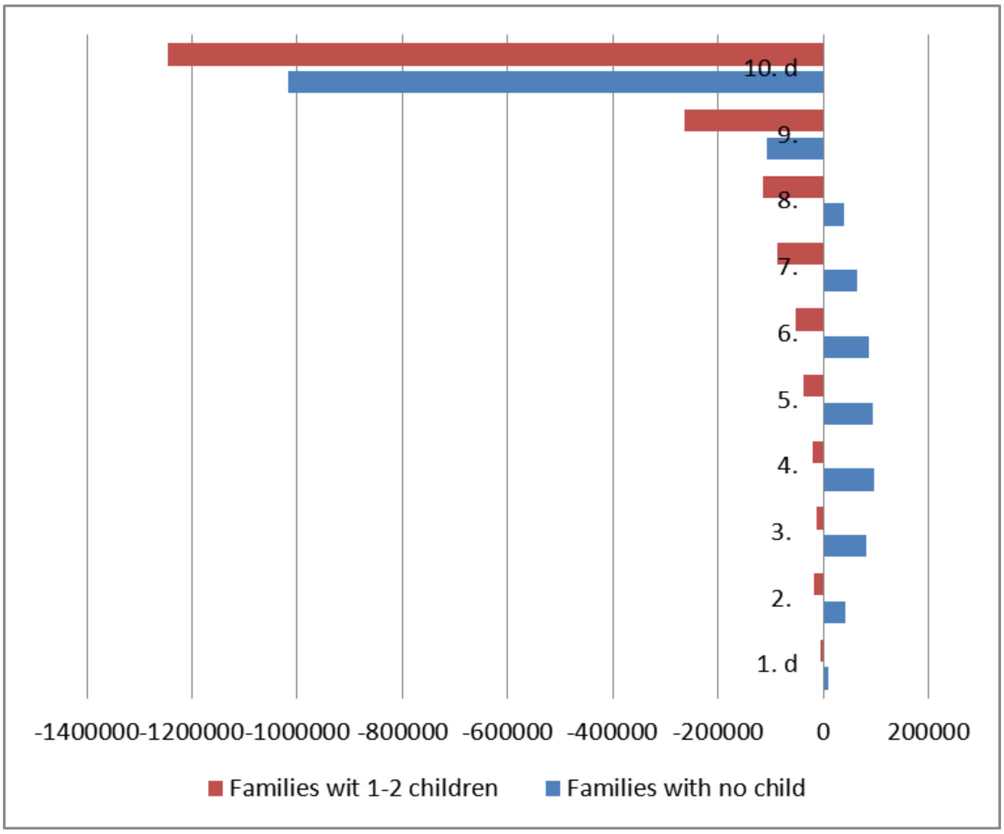
Figure 34.: Difference of average income tax paid by income deciles (thousands HUF), 2013-2010



Source: Tóth G. Cs. – Virovácz P. op. cit. micro-simulations on SAO data, 2013

Government rhetoric argued tax reforms by pro-natalist objectives giving incentives to better-off, working "middle-class" via family-related tax-deduction schemes – replacing and converting partly the universal family-allowance scheme. Not reflecting to the policies and realistic projections how states may "buy" children from middle strata by tax reliefs (no evidence on that would result positive shifts in fertility rates…), data show that natalist impact is minor, almost symbolic, compared to widened gaps between poor and rich.

Figure 35.: Difference in income taxes (HUF) paid in 2013 to 2010, by deciles and different types of families



Source: Tóth G. Cs. – Virovácz P. op. cit. micro-simulations on SAO data, 2013

Summing up we conclude that different sources, survey and administrative data are converging and correlate strongly about the profile of widening gaps in living standards, also we demonstrated the very special nature of Hungarian genre by growing inequalities is, that not the markets, not the crises – but the government and fiscal policies raised inequalities in income and material well-being.

Conclusion

Income distributions become globally more unequal in 2000s, especially during the "great recession" almost everywhere on the Earth. Social sciences, especially affected by Th. Picketty's popular concepts exerted in his book explain global trends of opening income-scissors by strong concentration of wealth and capital incomes of the richest. In contrast of global trends the growing income-inequalities in Hungary cannot be explained by capital-concentration, or, the impacts of economic crises. As we demonstrated above, growing income-inequalities, and overall weakening material insecurity of Hungarian population can be seen rather as a consequence of government fiscal policies. It is unique – at least in Europe – that government decreased social expenditures during the crises, and even more unique that beneficiaries of fiscal reforms are exclusively the top income-strata of society. While mean income of total population increased – just only the top decile realized growing incomes, and the income position of the "rest", the 1-8 income deciles lost from their income position, mainly as an effect of government fiscal, revenue and redistributive policies.

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Hungarian Flat-rate (single rate) Tax-reform with Micro-simulation Methods) http://www.asz.hu/penzugyi-szemle-cikkek/2013/nyertesek-es-vesztesek-a-magyar-egykulcsos-adoreform-vizsgalata-mikroszimulacios-modszerrel/toth-virvacz-2013-4.pdf

Notes

[i] This paper is a shortened and modified version of the chapter: Krémer, B.: How mafia-state spoiled the society? In: Magyar, B. (ed.): The Hungarian Octopus – The Post-Communist Maffia-State 2.tome, 2014 Noran Libri, Budapest

[ii] Source of Tárki Data: Szívós, P. - Tóth, I. Gy. (ed.): Egyenlőtlenség és polarizálódás a magyar társadalomban, (Inequality and polarization int he Hungarian Society) TÁRKI MONITOR JELENTÉSEK 2012, http://www.tarki.hu/hu/research/hm/monitor2012_teljes.pdf

[iii] I am deeply indebted to DATAHOUSE for providing me unpublished data on new car selling.

[iv] Measuring material deprivation in the EU, Indicators for the whole population and child-specific indicators, Eurostat, 2012 Edition, p.1.

[v] Dugan, A.- Wendt N.: Families Struggling to Afford Food in OECD Countries, More than one in five individuals with children had trouble in 2013, http://www.gallup.com/poll/170795/families-struggling-afford-food-oecd-countries.aspx

[vi] I am deeply indebted to Gfk Hungary Ltd. for providing me unpublished, or partially published data on savers and savings.