

Markets, Redistribution and Rents: the Hungarian Transition Story in Retrospect

Istvan G. Tóth

Tárki Social Research Institute Budapest

toth@tarki.hu

The paper to be presented will show how markets (first under transitional structural adjustment, followed by supply and demand trends for skills and labor) and state (direct redistribution on the one hand and rent-creation on the other) may have interplayed in shaping the Hungarian income distribution over the past 30 years. The country, once pioneering institutional transformation to liberal democracy and to social market economy, has recently shown tendencies of sliding into authoritarianism and of re-strengthening of the economic and social activism of the state. Both shifts and the events in-between has left their footprint on income distribution trends. The paper, presenting re-analyses of previous studies based on empirical datasets (Hungarian Household Panel, Tárki Household Monitor Survey and EU-SILC) aims to add together elements of this story and reinterpret the dynamics of income distribution change in the post-communist period.

Benchmarked against OECD and EU member countries, Hungary always finds itself in the middle (though benchmarks themselves may have been on the move). The period which is considered to be post-transition in Central and East European countries has also witnessed differentiation between country groupings of the West (English speaking liberal regimes showing larger increase, in Nordic countries a gradual but monotonous rise, while most of Continental European change was shown to be marginal only). Some post-communist countries like the Baltics, Bulgaria and Romania shifted from the bottom to the top of the European inequality league while some Central European countries (Czech Republic, Slovenia) managed to remain in the low inequality range (Tóth, 2014, OECD 2015).

The transition in Hungary started earlier than in most other communist countries and it has shown spells of increase and decline at certain periods (Tóth, 2008, Fábíán et al, 2014). Major drivers were structural and labor market adjustment between 1987 and 1993, followed by a period (until the end of the decade) perhaps best characterized by the race between technological change (mostly due to exceptionally large FDI inflow into the country) and higher education expansion (enrolment in tertiary education dramatically increased during the nineties). The period between 2000 and 2010 has witnessed political budget cycles (massive budgetary expansion waves followed by austerity measures to somehow keep budget deficits under control), with an overall declining effect on

inequality, until the breakout of the Great Recession, which prompted inequality and poverty increase, mostly due to an upsurge of unemployment in the years 2008-2011. In 2010, when a new right-wing government stepped into power the political context, the social policy regime and the role of the state has changed. The emerging two thirds parliamentary majority was used to curtail democratic checks and balances and develop an increasingly authoritarian regime. Social policy was shifted to strengthen the voter base (mostly in lower middle classes) while other tax transfer schemes were very drastically turned into instruments to improve the relative position of the upper middle class (introduction of a linear tax regime, concessions and support for larger middle class families and the like). All in all, the classical redistribution measures (tax and transfer schemes) were increasingly complemented/replaced by rent creation and (crony) wealth transfers, making the assessment of the role of the state in shaping income distribution really complex.

The paper collects and re-interprets available data sources on this process. The databases include the annual household panel study in the mid-nineties (1992-1997), to which a follow-up was completed in 2007. The biennial a cross-sectional longitudinal survey entitled the TARKI Household Monitor will be used for the rest of the period, accompanied by various international income distribution reviews (most importantly, the Eu-SILC).

References

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