Factors of inequality in Hungary from an EU perspective

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Abstract: The gap between rich and poor has been widening tremendously in many countries. Several reports have revealed the recent trends of growing inequalities and warned of the negative consequences. Social groups like low-skilled workers and young people might be badly hit, and it is becoming increasingly difficult for those who are lagging behind to catch up. The widening social divide is leading to tensions in society that is shadowing the lives of everyone regardless which social group one belongs to. To support convergence, we need to understand factors of inequality such as employment, unemployment, quality of job, income, gender, family background, belonging to ethnic group, access to education, and living in a disadvantaged location. The study provides an analysis of the Hungarian situation from an EU perspective.
Keywords: inequality, poverty, Hungary, EU comparison

1 Introduction

Strong and prosperous middle class is vital for any successful economy and cohesive society. The middle class sustains consumption, attracts investment in education, health care and housing. By paying taxes, the middle class plays a key role in maintaining the social safety net. In societies with a strong middle class, rate of crimes is declining, satisfaction, political stability, and good governance are more prevalent. When compared with their poorer fellow citizens, members of the middle class assign more importance to democratic institutions, hold more liberal social values and express more concern about the environment. As societies grow increasingly wealthy and people's basic needs are met, public values shift, with more importance attached over time to tolerance or trust. [1]

However, there are various indications that foundation for democracies and economic growth is not as stable as in the past. Over the previous thirty years in most OECD countries median incomes increased a third less than the average income of the richest ten percent. Moreover the cost of essential parts of the middle-class lifestyle increased more rapidly than inflation, for example house prices increased three times faster than household median income. At the same time employees faced the threat of rising job insecurity in fast transforming labour markets. More than one in five middle-income households spent more than their income. Over-indebtedness is more common among middle-class than low- and high-income households. [2]

In developed countries with only few exemptions, the gap between rich and poor has been growing. The average income of the richest ten percent of the population was about nine times that of the poorest ten percent, even though there are big differeences between countries such as United States[1] and the rather egalitarian Germany [3]. The value of Gini coefficient[2] of equivalized disposable income in Hungary increased to the largest extent in the European Union between 2010 and 2015 [4]. To support convergence in a society, we need to understand the underlying factors of inequality. In this paper we consider in EU comparison some factors which might contribute to the inequality in Hungary. The structure of the paper is as follows. We examine the circumstances of labour market, such as unemployment, quality of job, impact of family background and regional differences, paying attention to the situation of women, Roma people and those living in poverty. We consider the distribution of income and the consequences of access to education. Last, we conclude.

2 Labour market conditions

Despite some favourable trends, the gaps in employment in terms of gender, skills groups and vulnerable groups remain wide in Hungary in EU comparison. In 2017 the gender employment gap was 15.3 percent to the detriment of women. Inequality in the labour market between women and men can be rooted in the different level of housework burden. The employment rate of women with children under 6 fell substantially in majority of the EU countries as shown in Figure 1, but to the greatest extent in Hungary. This is due to the unbalance in sharing caring responsibilities between women and men, with its unfavourable impacts concerning women's labour market activity.

The employment rate of women with children under the age of 6 in the European Union was about 8 percentage points lower than the employment rate of childless women, which was exceeded by more than four times in the fall of the Hungarian level. In Hungary the share of children under the age of 3 enrolled in childcare facilities increased to 16.5 percent in 2018, but is much below the EU average of 35.1 percent and even the Barcelona objective[3] of 33 percent. The low

[1] According to the portfolio.hu of June 25, 2021, the wealth of the richest 1 percent in the United States was 16 times that of the lower half of society in the first quarter of 2021.

[2] The Gini coefficient or Gini index is a statistical measure of the distribution of income or wealth. The Gini coefficient ranges from 0 percent to 100 percent, with 0 representing perfect equality and 100 representing perfect inequality. A higher Gini coefficient means greater inequality.

[3] In 2002, the Barcelona European Council recognised that availability of high quality childcare facilities is crucial for enabling women and men, with caring responsibilities, to participate in the labour market and also an important tool to tackle possible social disadvantages of children. Two targets were set: 90 percent of children from age 3 until mandatory school age and 33 percent of children under 3 should be

employment rate of older women (aged 54-64) may also reflect that women are more likely than men to undertake the care of elderly or dependent family members, thus they are more likely to reduce their working hours or terminates the employment. Employment rate of women of 55-64 years old was about 20 percent lower than men's in Hungary in 2016. Among Roma people, the gender employment gap was even larger. [5]

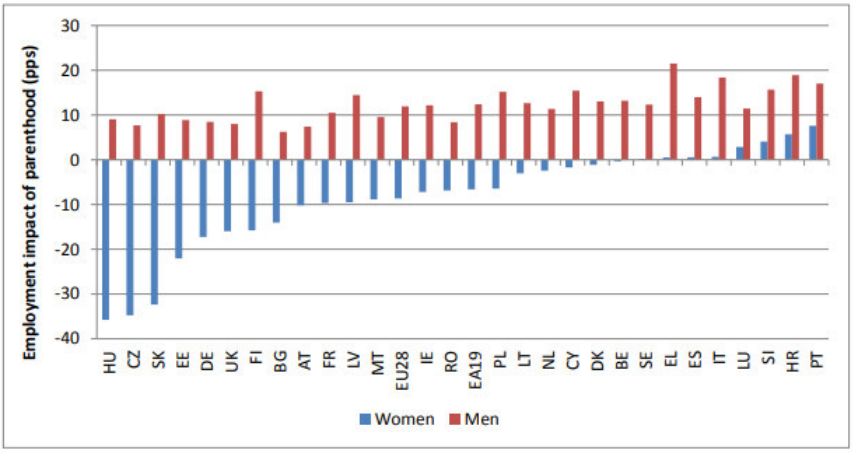

Figure 1

Employment impact of parenthood in 2015 (Data refer to women and men aged 20-49.)

Source: EC, 2017

In Hungary wages were low in regional comparison, and only wages in Bulgaria were lower in the European Union, moreover the dynamism of Bulgarian wage increase is higher. Many workers are not protected by adequate minimum wages. A survey on mostly Hungarian companies employing more than five workers revealed significant differences between the regions. In the more developed parts of the country, which are Central Hungary, Central and Western Transdanubia, the proportion of those employed on the minimum wage was 2-3 percent, and the proportion of those employed on the guaranteed minimum wage was between 2-10 percent. The proportion of minimum wage earners was typically 10-13 percent in the less developed regions, but reached a maximum of 16 percent in the Southern Great Plain. In the poorer regions the proportion of those working on the guaranteed minimum wage was 7-11 percent, but was the extreme of 17 percent in

ensured high quality and affordable childcare facilities. To increase the employment rate significantly and sustainably depends on, among other things, the opportunities men and women have to achieve a work-life balance. The availability of quality childcare facilities is crucial in this respect.

the Southern Great Plain [6]. The minimum wage was below 40 percent of the average wage in 2019.

There was a significant improvement in the level of employment after the crisis of 2008. However, unemployment among young people aged 15-24 remained a concern, and the rate among them was 10.2 percent in 2018. (The overall figure was 3.7 percent.) Unemployment rates varied to a great extent across regions and skill groups. The difference between the best and least performing regions was more than threefold, with a rate of 2 percent in Western Transdanubia versus 6.6 percent in the Northern Great Plain. The unemployment rate was about three times higher among the low-skilled than the medium-skilled workers. And it was just 1.3 percent among the tertiary graduates [7]. The duration of unemployment benefits is maximum 3 months, one of the shortest in the European Union, and substantially shorter than the average time (about 1 year) needed to find a job.

The quality of employment was relatively good in several respects. The ratio of people forced to make a living from multiple jobs was very low, and the proportion of those working more than 48 hours a week was just few percent. The ratio of people having atypical working hours was only 21.8 percent, the lowest in the Eurpean Union. The number of persons neither in employment nor in education and training (NEETs) declined and their ratio was 16.5 percent in 2018. Hungarian employees, however, are among those with the longest working hours per week and their relative position worsened in the last decade (39.6 hours is the sixth longest in the EU) [8]. According to the provision of the Hungarian Labour Code, which entered into force in 2019, employees may be required to work a maximum of 400 hours of overtime (instead of the previous 250 hours per year). Their income situation deteriorated, and their vulnerability considerably increased because the deadline for the payment of overtime was extended from one year to three years.

2.1 Distribution of income

In the first half of 2018, median income was HUF 240,000 gross in Hungary, so half of those living on wages and salaries that is about two million people earned less or more per month. Meanwhile, the average wage was HUF 324,000 gross in the same period [12]. However, the salary of 70 percent of Hungarian employees was below this amount. Between 2005 and 2010 the share of the bottom nine income deciles increased and that of the top decicle decreased. The situation was reversed after 2010. Since then, the income of the top two deciles, but, most of all, that of the the richest 10 percent has increased. (Figure 2) Increasing inequalities also characterize the pension system, because after 2016 wages increased 3 times faster than pensions. [8]

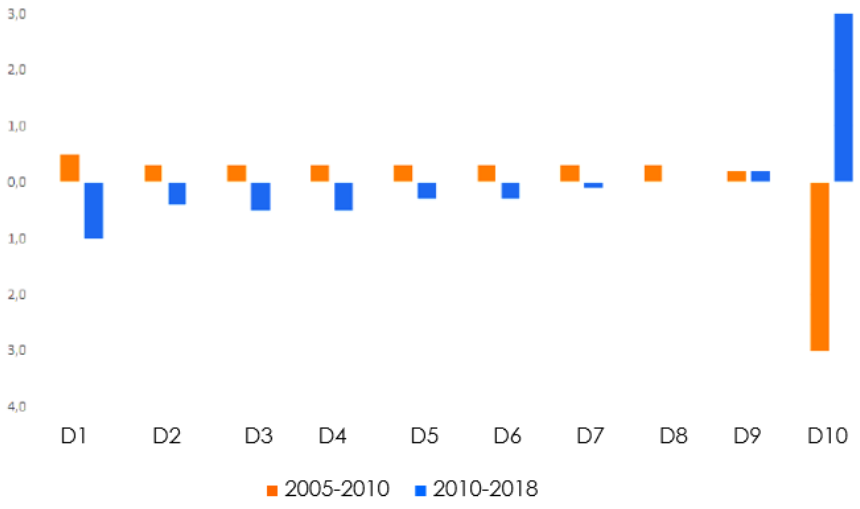

Figure 2

Change in the share of income deciles from national income

Source: Artner (2020)

Wealth growth from 2014 till 2017 was significant in all household groups. At the same time, the increase in wealth was significantly higher than the average in Central Hungary and the Great Plain, in the 66-75 age group, and, in terms of the size of wealth, in the upper 10 percentage of households. The share of the bottom 50 percent of households in total net wealth remained essentially unchanged (about 9 percent), with net indebtedness declining significantly in the lowest decile.[4] In the top 50 percent, the share of total net worth increased only in the top decile during the three years studied. The amount of net wealth per household (average value) was HUF 27 million, the median value was HUF 12 million and the richest 400,000 households each had HUF 153 million at the end of 2017. But the richest ten % of the population had 61 thousand billion forints, that it alone raised the average, whatever happened in the other nine deciles. The richest one-tenth of the population had 56.4 percent of Hungary's total net wealth. There were few super-rich people: the richest 1 percent of the country owned 25 percent of the total wealth. [9]

4 If we divide the data of the net wealth of the poorest 10 percent by 400 thousand (number of households in each decile), we get that in addition to the assets of HUF 4.4 million, a household has loans and other debts of HUF 5.6 million, ie. the balance sheet is negative overall.

2.2 Population at risk of in-work poverty

People are at risk of in-work poverty (IWP) if they are employed and live in a household that is at risk of poverty. A household is "at risk of poverty" if its equivalised disposable income is below 60 percent of the national equivalised disposable household median income. In 2017, 10.2 percent of the employed population aged 18-64 was at risk of in-work poverty. Although this rate is only slightly higher than the EU value, it rose by 78.9 percent between 2012 and 2017, which was by far the fastest in the European Union. The rate was higher for women because its increase was more than twice that of men. [10] Despite growing employment and wages, the rate of low-skilled workers in the labour market rose to over 55 percent in 2018. Wage dispersion increased from an already high level. Families with many children can receive huge tax allowance, the tax wedge for low-income single persons earning half of the average wage was 45 percent in 2018, 15 percentage points above the EU average. Although there has been a significant minimum wage increase, its level is low in EU comparison. The public work allowances amounted to about 50 percent of the minimum wage. As shown by Figure 3, in-work poverty increased for workers with temporary contracts and for lone parents.

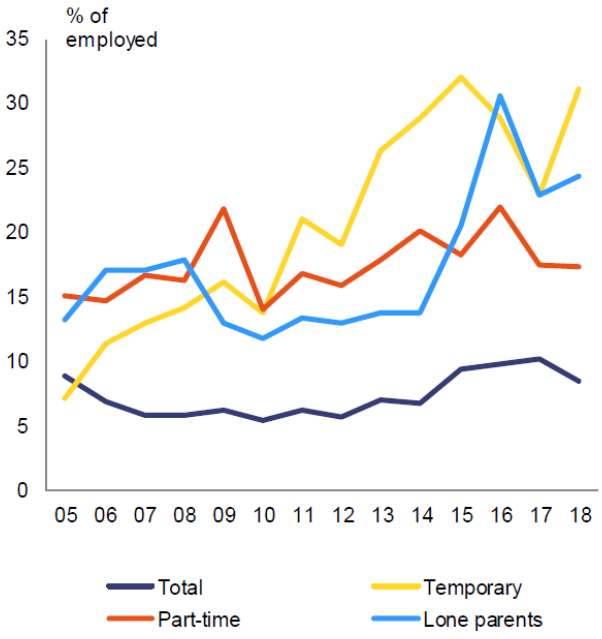

Figure 3

In-work poverty rate (2005-2018)

Source: EC, 2020

The IWP rate for those with upper secondary and post-secondary education was higher than for those with tertiary education. Compared to 2012, however, the intensity of the deterioration of their IWP rate was 88.5% and 338.9% respectively, which might be explained by that the income of public servants in a number of sectors, such as health care and education, did not increase significantly. Ratio of those in low-paying jobs drastically increased from 2009 to 2016 and proportion of workers in mid-paid occupations declined. There is an increasing demand for highly educated workers even in low-paid jobs, which may explain the dynamic growth of the in-work poverty rate among people with tertiary education [10].

2.3 Impact of family background

Participation in the labour market can greatly be hindered by family contraints. Reconciliation of work and family responsibilities is affected by a number of factors. It is particularly difficult for parents with small children and caregivers of sick, disabled or elderly family members and relatives to create a balance. 63 percent of women were ever in permanent absence due to childcare. Long-term absences from work due to childcare were used by women in 98 percent, although fathers are also entitled to childcare fee. This type of absences has ever been used by 63 percent of women aged 18-64 (1,929,000), one third of whom were away from work for more than 5 years. It is very unusual for women to return to work after maternity leave. Only 1.7 percent of them went back within six months, and the proportion of those absent for up to a year was only 4.8 percent [11]. (Figure 4)

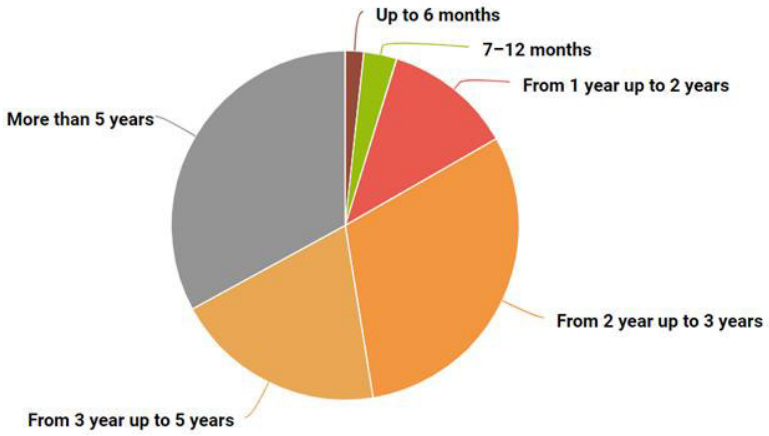

Figure 4

Distribution of women aged 18-64 by length of absence (at least one month) due to previous and current childcare (percent)

Source: KSH, 2018

In the second quarter of 2018, 277 thousand persons aged 18-64 cared for patients aged 15 or older and elderly family members and relatives. The caregivers mainly cared for an older family member or relative. This is indicated by that their share of the population over the age of 50 increases exponentially, reaching 8 percent among those aged 55-64. As shown in Figure 5, in terms of regional proportions, those living in Northern Hungary are the most exposed to these burdens, and the lowest extreme is represented by Budapest. Due to the declining number of people in smaller villages, the proportion of those in need of care is more common among the remaining aging population, so the proportion of caretakers for the sick and elderly is significantly higher in villages than in cities.

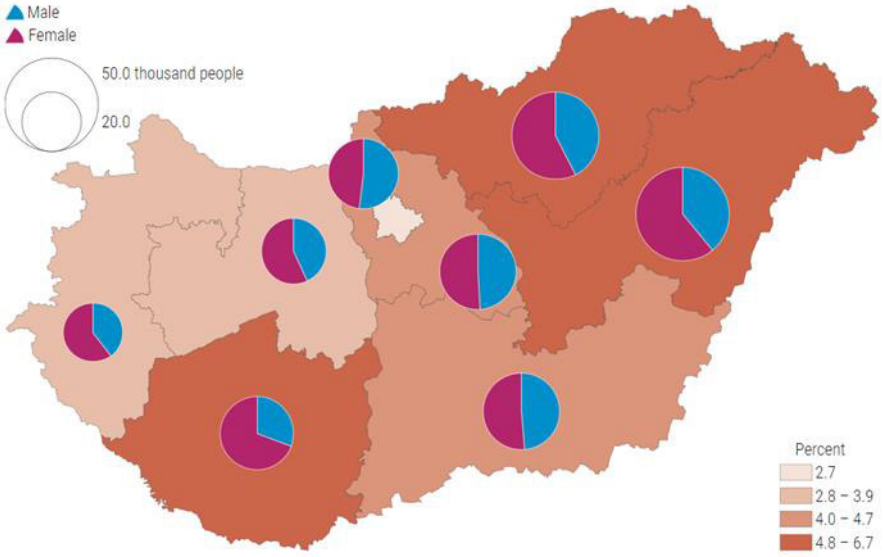

Figure 5

Share of people aged 18–64 with a patient or elderly care constraint in population by sex and region (percent)

Source: KSH, 2018

About one-fifth of 18-64-year-olds caring for the sick or elderly receive an old-age pension or some form of health care benefit, and 13 percent of them are entitled to a care allowance after a sick family member. 15 percent of women caregivers were old-age pensioners. 38 percent of the population aged 18-64 currently or ever working that means 2,113,000 people have ever had a caring or patient care obligation. **Hiba! A hivatkozási forrás nem található.** Measures and incentives on the part of both state decision-makers and employers taking into account the changing needs would be able to ease the difficulties of such groups of people.

3 People at risk of poverty or social exclusion

The social situation is usually characterized by the absolute and relative level of income and consumption, as well as by the degree of social integration. These are approximated by a series of indicators, of which relative income poverty, severe material deprivation and people living in households with very low work intensity are the most important. Relative income poverty refers to less than 60 percent of median income, including government transfers. Severe material deprivation means that at least four of the following nine characteristics occur as enforced inability: to pay unexpected expenses, afford a one-week annual holiday away from home, to avoid arrears, to afford a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, durable goods like a car, washing machine, colour television and telephone. People living in households with very low work intensity are those persons who live in a household where the members of working age worked less than 20 percent of their total potential during the previous 12 months.

The social situation in Hungary improved in the last 4-5 years that also characterized the European Union, including Central and Eastern Europe. Therefore, we just managed to maintain our regional position in terms of the various indicators. The content of the three indicators is expressed jointly by the so-called "people at risk of poverty or social exclusion". This is not a simple summary. If it were, almost 2.6 million people in Hungary, or 27.1 percent of the population, would have been at risk of poverty or social exclusion in 2018. However, by eliminating the overlaps, the figure was 1 million 887 000 people, which corresponded to 19.3 percent of the population, the fifth highest among EU members [8]. The severe material deprivation rate (10.1 percent) and the material and social deprivation rate[5] (20.1 percent) were still significantly above the EU averages (5.9 percent and 12.8 percent respectively). While the number of people at risk of poverty or social exclusion decreased, the poverty gap widened from 17 percent in 2017 to 24 percent in 2018. Children face higher deprivation rates than the rest of the population. The severe material deprivation rate among children (15.2 percent) and families with three or more children (22.0 percent) was among the highest in the European Union. The EU average rates were 6.4 percent and 6.7 percent. About half of the Hungarian Roma faced severe material deprivation.

[5] The indicator is based on 13 items. Seven items relate to the persons' household and six to the persons themselves. The seven household deprivations consist of six items already included in the "severe material deprivation" indicator and one new item (inability to replace worn-out furniture). The six personal deprivations are the inability for the person to replace worn-out clothes, to have two pairs of proper shoes, to have "pocket money" each week, to have regular leisure activities, to go out with friends at least once per month, and to have an internet connection. The deprivation rate is defined as the weighted proportion of people lacking at least five items in the whole population.

Poverty and social exclusion vary considerably by region. A quarter of the population in Southern Transdanubia, Northern Great Plain and Northern Hungary was at risk of poverty or social exclusion. In the least developed regions Roma communities are isolated to a great extent, which is one of the highest in the EU countries. In 2019, the Hungarian government announced a long-term programme, targeting 300 of the least developed municipalities (with about 3 percent of the population). The programme has already some results in providing intensive social work and improving access to services. [7]

4 Segregation in schools

Disadvantaged pupils are increasingly concentrated in certain schools characterised by the similar socio-economic background of their pupils. According to EC (2020) the share of schools with over 50 percent of Roma students increased to about 14 percent in 2018. The relationship between the socio-economic background and the learning outcome was the strongest in Hungary among the developed countries in 2017. By the age of 15, basic skills are not only much below the EU and regional averages, but also decreased over the last decade. Underachievement gap in reading between the bottom and top quarter of the socio-economic index[6] was the third largest in the European Union. (Figure 6) The school system might preserve and even reinforce inequalities. However, the two most important tasks of education would be effectiveness and providing equal opportunities at the social level. Effective education for all would be a tool towards inclusive social development and higher economic competitiveness. According to education researchers, the poor performance of Hungarian students compared to other countries is not so problematic, as taking one of the worst places in terms of how strongly the family background determines the school results. In higher education the share of disadvantaged students was very low, 1.4 percent, and the Roma's share was just 0.8 percent in 2017 [7]. The gender segregation of students is outstanding: girls are less motivated than boys to perform well in mathematics or science. Although the gender differences in comprehension skills decreased, this was not due to the improvment of boys' performance, but to the deterioration of girls' performance [13].

6 The index of economic, social and cultural status (ESCS) is a measure of students' access to family resources (financial, social, cultural and human capital), which determine the social position of the student's family/household.

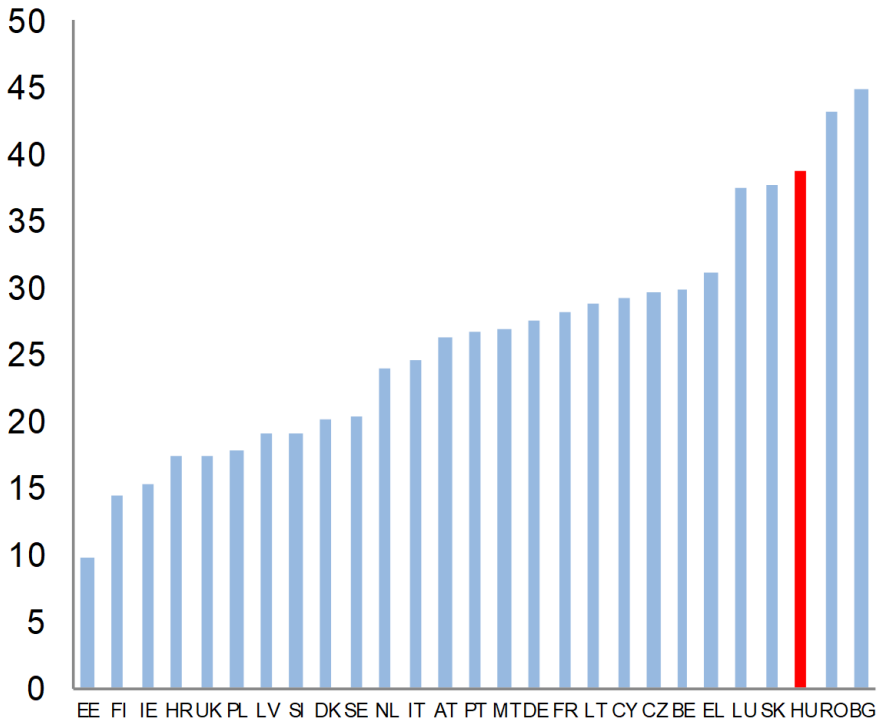

Figure 6

Underachievement gap in reading by socio-economic status, percentage points
Source: EC, 2020

The rate of early leavers from education and training remained stable at 12.5 percent (above the EU average of 10.6 percent) in 2018, despite the decreasing trend at EU level The rate is particularly high among Roma (65.3 percent) and in the least developed regions. Participation of 17 and 18 year-olds in secondary education dropped sharply by 2016 to 85 percent, due to that the age of compulsory education was lowered to 16 in 2012. The education system faced enormous challenges with the sudden onset of the pandemic. The reason was that most educational facilities are at odds with the digital revolution and keep well away from information technology. The Hungarian school system is geared toward catering for an old-fashioned model, despite the 2016 adoption of a Digital Education Strategy. The pandemic revealed that teachers as well as students are lacking technological tools and equipment. The effects of regional differences also were strong. In terms of digital access and device use Hungary lagged behind the European average and the proportion of households with internet was 76 percent in 2015, 7 percentage points lower than the union average.[7] There was a

[7] The DESI (The Digital Economy and Society Index) also measures the digital socio-economic development of the EU countries along five main dimensions: access,

significant regional difference in digital access. The advantage of Central Hungary was clear, Central and Western Transdanubia were similarly equiped, followed by Southern Transdanubia, while the Great Plain and Northern Hungary alike had the lowest access. [16] Thus, for most cases, the educational shift was not so much toward digital as distance-learning, with assignments e-mailed in PDF format, and parents obliged to scan answers. According to estimates, about 20 percent of Hungarian children were not successfully involved in education during the pandemic; and most of them are multiply disadvantaged children [14]. It is also clear that adapting rapidly to the new hybrid education model placed huge extra workload on most teachers during the pandemic. The teacher workforce is ageing, and about half were aged 50 or over. It was especially burdensome for working women to homeschool their own children, as well as manage the family.

Conclusions

This paper has provided insight into some of the most important factors of inequality in Hungary from an EU perspective. Compared to the other member countries, employment impact of parenthood is extremely negative for Hungarian women, while men benefit a lot from having a child. Care giving also keeps mostly women away from jobs. The unemployment rate is higher among Roma people, and in the less developed regions of the country. Romas are also hit by the consequences of segregation in schools.

The increase in income inequality has been driven by the relative rise of the top household income decile and the decline in the lower deciles. In-work poverty hits mostly temporary workers and lone parents, with single mothers in majority, which has a very detrimental effect on the society. Changes in the education system even widen the gap between the lower and upper social groups. Reducing the growing divide between rich and poor would require a policy shift in employment and education policy, and tax and transfer system. Also, society should be shifted towards a more balanced share of family responsibilities.

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including broadband access, internet use and its types, human resources (level of digital capabilities), digital technology integration (business sphere), and level of digital public services. The EU average of the index was 0.51 and the Hungarian value was 0.47 in 2016.

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