

Inequalities and Mobility in Hungary, 1993-98

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Abstract

We investigate the trends of inequalities and mobility of income, expenditure and stock of durables between 1993 and 1998 in Hungary. In 1996-8 the stagnating level of inequalities is coupled with relatively low and decreasing mobility. The relationship between inequalities and mobility fastens the relative positions of households, increasing the share of households unable to improve their positions on the short term. The impacts of the stabilisation shock in 1995 are shown with the help of the Hungarian Rotation Household Panel, a new dataset based on Household Budget Surveys.

Methods

We intended to create a set of tools to enable us to accurately describe the impacts of such short term but drastic and complex phenomena as a stabilisation program. That is why, focusing on Hungary, we examined the inequalities and mobility together, analysing the development of the mobility in a way that is somewhat different from the usual approach by

modifying the method of transition matrices. Another new element of our approach is that we investigated inequalities and mobility also for the stock of durables.

Database

The studies analysing inequalities and mobility generally pay more attention to the income side and less or no attention to expenditures. We aimed to strike a balance between the two sides, an effort to which the database provided excellent conditions. The Household Budget Survey conducted by the Central Statistical Office is based partly on monthly household records, and partly on post-facto annual interviews, and contains very detailed information on expenditures. One third of the households rotate annually, thus about one third/quarter of households spend 3 years in the survey.

There have been serious attempts at extracting a panel from the HBS and analysing it, using the HBS data generated in the late 80s as well as in the early 90s. From 1993 it has been possible to extract, from the HBS survey data, the panel database never used previously as no serious structural changes took place during that period in the surveying system. Between 1995 and 1996 unfortunately the entire sample was replaced, and so in 1996 a new panel cycle began. The 1993-5 panel contains 3,507 households, and the 1996-8 one 1,863. We are planning to continue the Rotation Panel in the future.

Findings

The analyses carried out with the Rotation Panel indicate that the situation changed substantially following the initial years of the transition. In 1996-8 the income inequalities of Hungarian households stabilised rather than further rising. The gentle rise and the subsequent stabilisation of inequality took place besides a major and universal shrinking of real incomes and real expenditures.

An investigation of the trends of inequalities of both incomes and expenditures reflects that the 1995 stabilisation shock was over by 1997 concerning the households' incomes and expenditures. The behaviour of inequalities make the fact likely that there are persistent differences in income and expenditure positions.

The change of inequalities, and the social effect of that change are closely related to the trends of relative income and expenditure positions. The question is whether the gentle rise of income inequality between 1993-5 also meant rising inequality year on year between the same groups of households. Another question, no less important, is whether the stagnation of income inequality in 1996-8 results from the fact that positions more or less froze, and

chances of the individual households to move higher on the income/expenditure social ladder shrank to a minimum.

Summing up our results, we can conclude that relative mobility decreased on aggregate. The significant reduction in incomes experienced between 1993-6 along with the gentle rise of the inequalities appeared simultaneously to higher mobility. However, the beginning of the growth together with the stagnation of inequalities resulted in sinking mobility, especially in the case of the most affluent. There are certain indications that between 1997 and 1998 relative mobility rises among the poorest.

Taking the upper income limit of the first quintile in 1993 as an absolute poverty line for the next years, in 1997 nearly half of the population could be said to be poor. Between 1996 and 1998 there is a much higher share of those who have always been below this poverty line than those whose income remained below it in 1993.

The analysis of the stock of durables may be considered as a proxy for reviewing the asset positions of households and the examination of the changes in durables is suitable for analysing the development of inequalities and mobility, for confirming or questioning our previous findings based on income and expenditure data. The stock of durables changes more slowly than the income or expenditure, and savings do not manifest solely in the household durables. Taking into account all these aspects, we can establish that our computations concerning the inequalities of stock of durables confirm our previous findings: in the second panel cycle investigated, the growth of income inequalities halted and inequalities stabilised.

We can establish that the mobility of stock of durables definitely decreased during the periods under review. The fall in the income and expenditure and the continuous decrease in asset inequalities experienced between 1993 and 1996 were coupled with relatively high mobility. The commencement of growth and the further decrease in the inequalities of assets were accompanied with reduced asset mobility, particularly with those coping with a significant downturn in real expenditure. The relationship between inequalities and mobility, however, fastens asset positions which renders some households unable to improve their positions on the short term. Hence the short term income and expenditure shocks occurring in 1995 and 1996 had a multiplier effect on the long term.

The stagnation of inequalities is coupled with decreasing mobility, which may also account for the stabilisation of inequalities. This process may be observed in every income and expenditure decile. Immobility is particularly strong at the ends of the income and expenditure

scales. The poor have less chance to improve their positions, and even the commencement of economic growth failed to increase their mobility. Further analysis is required to determine whether or not a longer term growth can increase the upward mobility of the poor. It is obvious that the richest families were able to stabilise their positions permanently.

With relatively low and decreasing mobility measures, we cannot expect a decrease in inequalities in the future. Hence this process may result in the stabilisation of the income/expenditure and the asset positions of the households. Our results suggest that while there was a general and accelerating restructuring of the income and expenditure of households in the early phase of the transition, this process slowed down during the period under review and was coming to a halt at the end of the 1990s.

Policy-relevant conclusions

The main policy conclusion is an empirical understanding and description of the way how the relative income and expenditure changes influence the expenditure and asset positions of households during the later period of the transition in Hungary. The dynamics of inequalities of incomes, expenditures and stock of durables reflect that the 1995 stabilisation shock was over by 1997, but had deep and long-lived impact on income, expenditure and asset positions of households: there are persistent differences in these positions. The relationship between inequalities and mobility fastens these positions which renders some households unable to improve their positions on the short term.

The income changes have been driven by revisions to public policy on taxes and transfers but the impact of these measures are quite constrained. We suggest, empirically, that the stagnating inequality and the decreasing mobility can have a negative impact on growth. In this situation the role of future public policy and transfers is very important in dampening the underlying tendencies.