



**SOCIAL INEQUALITY AND WHY IT MATTERS FOR  
THE ECONOMIC AND DEMOCRATIC DEVELOPMENT  
OF EUROPE AND ITS CITIZENS: POST-COMMUNIST  
CENTRAL AND EASTERN EUROPE IN  
COMPARATIVE PERSPECTIVE**

**DELIVERABLE 2  
DESK RESEARCH**

**HUNGARY**

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## **SECTION 1. INDICATORS OF SOCIAL INEQUALITIES**

Hungarians have experienced vast changes in all spheres of life in the past 16 years since the collapse of the communist party and the planned economy, although the dismantling of the state socialist system had started a good decade earlier. This report is concerned with some of the social consequences of these changes. While social scientists have been debating all aspects of the so called "transition process", there is general agreement on at least one phenomenon: social stratification was profoundly reorganized and inequalities increased sharply in the first decade after the fall of communism. This report will start out by describing some of the economic and social trends in Hungary before and after 1989, then describe various dimensions of social inequality (class, ethnicity, gender and region), as well as political attitudes and behaviour addressing this phenomenon, ending with governmental measures to address problems raised by the newly emerging stratification system.

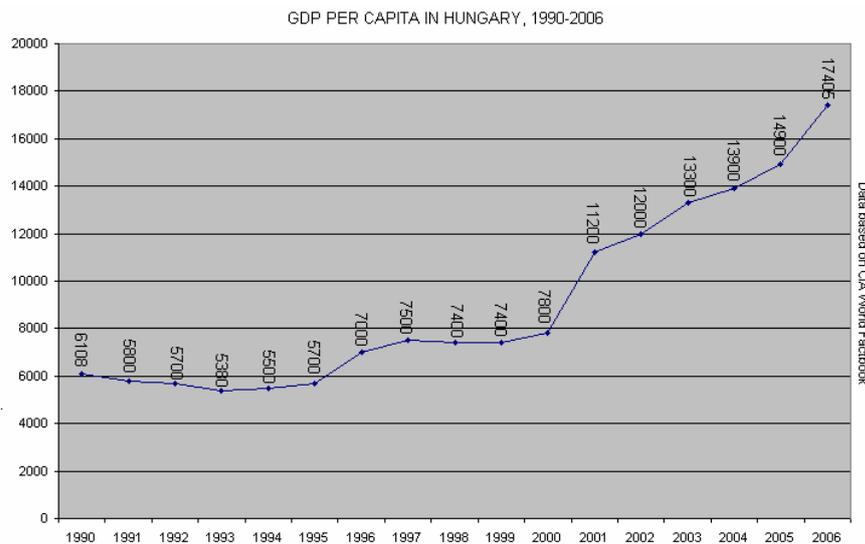
### **1.1. Objective indicators of social change and inequality in Hungary**

After the collapse of the state socialist regime in 1989, Hungary experienced economic decline and stagnation for much of the last decade of the 20th century. As figure 1 below indicates, GDP per capita declined until 1993, then started a slow recovery, only picking up pace after 2000. In the past six years, the Hungarian economy expanded at a rate of over 4% per year, although due to the recent introduction of austerity measures to counter a vast budget deficit accumulated since 2001, this growth rate is expected to slow considerably to under 3% for 2007.

In tables 1 and 2 we introduce a broader range of indicators of economic tendencies. The GDP index, counting 1960 as the base year, shows that economic growth was slow already in the 1980s, and it also supports the point made above about a pronounced decline until the mid 1990s and a rapid growth afterwards. Inflation rates moved up to close to 30% in the early to mid 1990s but declined rapidly afterwards, steadying at less than 4% in 2006. Real wages and household consumption declined also until about 1995 and increased afterwards. Real wages reached their 1980s level by 2003 only. It should be noted again, that in 2007 Hungary is expected to experience lower economic growth, higher inflation rates and a stagnation or decline in real wages, as the government introduced severe austerity measures to pursue structural changes in areas such as education and health, and to

simultaneously cut back on the government deficit. These measures, including tuition at colleges and universities, as well as co-payments when health care services are used, introduced late in 2006 already caused considerable social tension and unrest, and these are likely to continue in at least the following 2 years.

Figure 1. GDP per capita, Hungary, 1990- 2006



Source: [http://en.wikipedia.org/wiki/Economy\\_of\\_Hungary](http://en.wikipedia.org/wiki/Economy_of_Hungary)

Table 1. Indices: Percentage change in certain economic indicators, 1960=100%, unless otherwise indicated

	1980	1985	1990	1995	2000	2005
GDP index	273	290	306	271	330	408
Real wages	158	151	142	118	127	176
Household consumption	318	262	275	296	495	493
CPI (previous year=100%)	-	-	129	128	109	104

Source: Statistical Yearbook of Hungary, KSH, 2006

Just like the indices presented above, the indicators in table 2 depict major decline in living standards and general well-being until 1995, but little recovery afterwards. The next few years, given the decline in real wages, the cutback on social spending and a serious hike in gas and electricity prices, are unlikely to produce much improvement. As an example, meat consumption still has not reached its 1980 level.

Perhaps the most important indicator in this table is the size of the economically active population, which shrank from 5.1 million in 1990 to 4.3 million in 1995. This meant that a vast number of jobs were lost due to privatization and restructuring, and the economic prosperity that characterized the first decade of the

21st century did not recreate these jobs, leaving a large segment of the population unemployed and out of the labour market. Joblessness, described in more detail below, is one of the key determinants of poverty.

*Table 2. Indicators of general well-being/ social crisis*

	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>
Size of labour force (1000s)	5.470	5.373	5.108	4.340	4.349	4.382
Meat consumption (kg/capita/yr)	73.9	79.6	75.8	65.2	73.2	72.2
Life expectancy for men/ women	65.4/ 72.8	65.0/ 73.0	65.1/ 73.7	65.2/ 74.5	67.1/ 75.6	68.6/ 76.9
Total fertility rate	1.92	1.83	1.84	1.57	1.33	1.32

Source: Statistical Yearbook of Hungary, KSH, 2006

\*Source: Marin, Bernd, Hans Stefanits and Geza Tarcall. 2001. Learning from the Partner Hungary: An Austro-European View. World Bank conference paper.

The above numbers indicate distinct cross –societal social tension following the fall of the state socialist regime in Hungarian society, but the burden of the transition was not distributed equally: social inequalities and poverty increased sharply especially in the first decade after 1989.

*Table 3. Indicators of income inequality*

	1987	1992	1996	2000	2003	2005
Income in the highest decile divided by the lowest	4.6	6.0	7.5	7.6	8.1	7.6
Robin Hood index	17.0	18.5	20.7	21.2	21.8	21.4
Poverty rate*	n/d	12.8	17.8	14.6	15.9	15.7

Source: Tables 3 and 4, in Zsuzsa Ferge. „Struktura es Szegenyseg“ p. 495. in Imre Kovacs (ed). 2006. Tarsadalmi Metszetek. Budapest: Napvilag Kiado.

Note: Data from TARKI, Toth 2006.

\* Defined as those with a per capita (adjusted) household income below 50% of the average such incomes

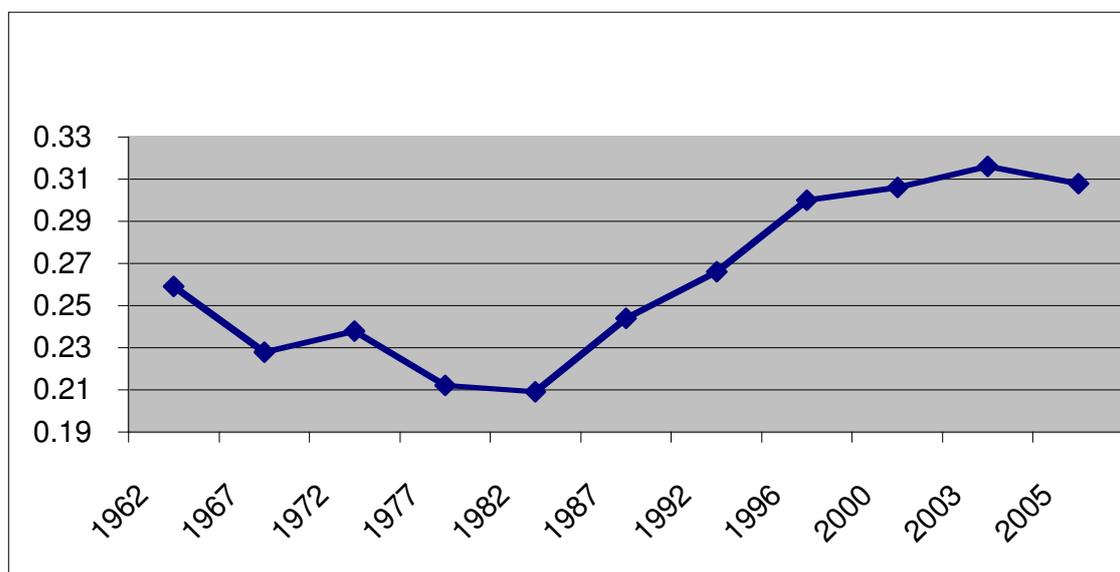
Table 3 uses data collected by TARKI, a Hungarian research and polling agency to calculate two different measures of social inequality in a variety of years before and after 1989. Ferge argues (2006) that social inequalities started to rise in Hungary in the mid 1980s already, but this accelerated significantly in the early 1990s. While the richest 10% of the population made about 5 times as much as the

poorest in 1987, this factor increased to 8 by 2003. In the early 2000s inequalities seem to have stopped growing, although they did not decline significantly. The Robin Hood index, another measure of inequality, calculated by Toth (2006) on the same data describes how much of the total income would have to be redistributed for perfect equality. This measure also indicates a growth in income inequalities until about 2000 and a stagnation or at least a slower rate of increase thereafter. Again, 2003 is the year where inequalities were the highest.

The situation is similar in a special, extreme case of social inequalities: poverty. A number of studies have been conducted on poor populations since the mid 1980s and all these show a vast rise in the proportion of the poor. According to Ferge (2006), by 1996, about 18% of Hungarians live on less than half of the average (adjusted) per capita household income, which declined to about 16% by the mid 2000s (more on this in the next section).

A summary measure of social inequalities is the Gini coefficient. Figure 2 describes changes in the distribution of per capita household income in Hungary.

*Figure 2. Gini-index based on the distribution of per capita household income.*



Source: Toth 2006.

A clear decline in income inequality is observable during the communist era until the mid 1980s, when inequalities started to rise and continued to do so until the late 1990s, when we observe stagnation or even a tentative decline after a peak in 2003. The effect of the newly introduced austerity measures and cutbacks in government services is yet to show up in these graphs. The increase in the 1980s, just

like in later years, was due to the liberalization of the economy and the introduction of private enterprises (a “second economy”) in Hungary. This process both balanced out some inequalities (Szelenyi 1988), and created new ones, as the Gini coefficient describes. The rapid increase in inequalities after 1990 was due to vast job losses as a result of restructuring and privatization and the liberalization of prices and wages, as well as a decline in the value of social transfers.

As noted above, the social and economic crisis of the 1990s and rising inequalities, declining income security has led to changes in reproductive behaviour as well as to a number of health problems in Hungary. Not unlike people in many Western European countries, Hungarians are getting married later, less often, have fewer children and choose to have them later in life. Total fertility rate in Hungary (see table 2) is among the lowest in the EU. About a third of all children are born out of wedlock in the first decade of the 21st century, which is an over 3-fold increase since the mid 1980s. Life expectancy is another indicator of social well –being: Hungarians tend to live shorter than what would be expected based on economic development indicators and significantly shorter than people in other EU countries: men’s life expectancy at birth falls 7 years short of the EU average, women’s „only“ 5. Over the past decades, men’s life expectancy rose slower and practically stagnated during the early 1990s. Another indication of the status anxiety and social crisis that emerged in Hungary after 1989 is the extremely high death rate among a particular group, middle aged (39-59 years old) men: about three times higher than the EU average (Vitrai and Mihalicza 2006). This phenomenon, according to researchers, emerged most vehemently after the transition and even though a slight improvement may be observable in the early 2000s, the death rate in this group is still much higher than it was in the 1980s (Kopp 2004). Much of this is explained by stress induced self-destructive behaviour, such as smoking, depression and alcoholism, as well as other partially stress –related illnesses.

In sum, over the past 20 years Hungarians experienced major social changes, which included economic decline and stagnation in the 1990s, growth in the 2000s and erupting social and economic problems after 2006. Social inequalities and poverty increased as some segments of the population were not well equipped to adjust to these changes. Although using the Gini coefficient Hungary is one of the most „equal“ societies in Europe, emerging inequalities, social insecurity, and a decline in living standards is a relatively new experience in many people’s lives and

social adjustment is slow and has had serious costs, manifested in health problems, changes in fertility behaviour, as well as the spread of political tension, extreme right-wing nationalist ideology and anti-Semitism. In the forthcoming section we explore some of the corollaries and manifestations of social inequality in more depths.

## 1.2. Dimensions of social inequality, causes and correlates

In this section we describe a variety of dimensions and determinants of social inequality: class inequalities along the lines of income and occupation, the incidence and determinants of poverty, as well as education, health, age, gender, and regional differences. Most of the latter are both manifestations and determinants of social inequalities.

### 1.2.1 Income and occupational inequality

Below we start by presenting changes in the stratification system of Hungary over the past 20 years, using income as the classificatory criterion. Next we look at the structure of occupations, which complements the explanation of the income distribution below.

*Table 4. Social stratification in Hungary, 1987-2005. Percentages in various income categories*

	1987	1992	1996	2000	2003	2005
“Wealthy” (income > 200 % of median)	6	7	9	9	9	9
“Upper-middle” (income: 120- 200 % of median)	27	25	23	25	25	25
“Middle” (income: 80-120 % of median)	39	42	35	34	34	33
“Lower-middle” (income: 50-80 % of median)	24	20	21	23	22	24
“Poor” (income < 50 % of median)	4	6	12	9	11	10
Total	100	100	100	100	100	100

Source: Tóth 2006, p. 45

The table above shows an increase among the “wealthy”, i.e. those living on over 200% of the median national per capita household income, and a similar increase among the poor (making less than 50% of the national median). A slight

decline in the middle categories is also observable. Importantly, the major change in this direction took place between 1987 and 1995, after which the social stratification system has remained relatively stable.

Kolosi and Dencso (2006) come to a similar conclusion using occupational and educational measures to construct class categories: at the top of the social hierarchy they find roughly 2-4% classified in the group of capitalists and high level professionals, and about 42-33% of those without qualifications at the bottom of the hierarchy. The decline in the latter group is the greatest change they observe, otherwise the class hierarchy, i.e. the proportion of people classified in the middle categories is roughly unchanged after 1995.

*Table 5. Social Stratification in Hungary using occupational classifications (percentages)*

	MEN			WOMEN		
	1983	1992	2002	1983	1992	2002
Managers	4.2	3.5	3.5	1.3	1.9	2.6
High level intellectuals	3.3	3.5	4.1	2.7	3.5	4.5
Lower level intellectuals	11.2	13.8	15.8	17.5	16.9	20.5
Skilled white collar, clerical	6.5	8.9	10.5	27.0	35.1	36.4
Non-agric entrepreneurs	2.4	6.3	10.3	1.5	3.6	5.3
Agricultural entrepreneurs	0.7	1.3	1.9	0.2	0.5	0.7
Skilled blue collar	26.4	24.2	23.0	9.7	8.1	6.1
Semiskilled blue and white collar	35.5	30.9	25.0	22.6	18.7	15.5
Unskilled blue and white	9.9	7.7	5.9	17.5	11.7	8.4

Source: Bukodi (2006)

Most recently, Bukodi (2006: 128-129) used data from a source different from the above, large mobility surveys of the Central Statistical Office of Hungary, to classify people into occupational strata. The table below is notable as it also points to gender differences in occupational status. There is a clear shift towards white collar occupations over the past 20 years: more so among women than men. It is noteworthy that women gained in the high level managerial category since the early

1990s, thus contrary to predictions, they did not lose, but rather improved their positions at the top of the occupational hierarchy (Still, men outnumber women by 35% in the top category). The largest increase is observable in lower white collar occupations. This change in the occupational structure clearly started before the end of state socialism, but accelerated after the early 1990s. Nowadays, almost 57% of women and 26% of men work in lower level white collar, mostly service oriented, jobs. Men are twice as likely to be entrepreneurs as women, and they are also more likely to work in skilled blue collar jobs. We observe a small decline in the semi-skilled and unskilled job categories for both men and women, but there are important subcategories within this larger one, especially those connected to service type jobs, where there is an increase, rather than a decline. This demonstrates, on the one hand, that skills, expertise and qualifications are becoming particularly useful in the post-1990s labour markets. In addition, Bukodi argues that a polarization is observable in the Hungarian labour markets: as elsewhere, the significance of high level, white collar, skilled jobs is accompanied by a rise in low level, service oriented semi-skilled occupations.

Income is closely tied to occupational status. Kolosi (1982) pointed to the phenomenon of status inconsistency in Hungary: when observed in a multi-dimensional context, most people occupied positions with ambiguous status markers. This was explained by the unevenness of social policy: on the one hand, efforts to equalize income did not match other aspect of social status, such as educational level, quality of residence or consumption. More recent studies (Robert 2000) showed a decline in status inconsistency and an increased correlation between income group and consumption status. Similarly, Ferge (2002) observed a close connection between occupational status and income. Bukodi in her most recent study (2006), argues that consistency is observable especially at the two extremes of the distribution: among the highest level managers and intellectuals (about 17%) and among the impoverished (about 30%). There is less consistency in the middle categories (about 26% of people who belong to the middle class and 27% to the lower middle class).

Doubtlessly, one of the most obvious causes of increasing social strain at the bottom of the hierarchy in Hungary since 1989 has been the disappearance of over 20% of jobs, and the fact that the country moved from practically full employment, to one of the countries with the lowest rate of employment, lowest activity and highest

inactivity rates in the EU. Job loss and joblessness have significant consequences for the system of stratification and the emergence of poverty, so we address it here.

*Table 6. Activity, employment and unemployment rates, 15-74 year olds, 2005*

	<b>Activity rate</b>	<b>Unemployment rate</b>	<b>Employment rate</b>
Men	61.7	7.6	57.0
Women	48.0	7.8	44.2
Total	54.5	7.2	50.5

Source: KSH Stadat, [www.ksh.hu](http://www.ksh.hu).

Table 6 describes activity, employment and unemployment rates in Hungary in 2005. Most job loss occurred in the early 1990s, and the economic growth after 2001 brought only very moderate recovery in this area (see also table 2). Less than 45% of all women and only 57% of men in the designated age group have paid jobs, overall almost half of the Hungarian population between 15-74 are jobless. Most people, however, do not register as unemployed, but rather classify themselves as "inactive". The large size of the group of those outside the (formal) labour market is partially due to the legacy of a low, albeit rising, pension age threshold (pension age used to be 60 for men and 55 for women during the state socialist era and is rising but hasn't reached the EU average yet), the lengthy and increasing time young people spend in full time education and a roughly 10% of women who are on long, paid parental leave and "count" as having dropped out of the labour force. However, there is a significant number of people who fall in none of these groups but do not have paid jobs: these people subsist on a combination of income from informal sources as well as social transfers. Unemployment rates have always been quite low in Hungary.

Joblessness is not distributed evenly in the population. Those in the youngest and oldest age groups are the least likely to work for pay. In fact, youth unemployment is becoming a serious problem in Hungary especially in economically depressed regions. In a study on youth, for example, 48% of young people between 25-29 claimed to have had experienced unemployment, but while only 31% of those living in Budapest did, 57-61% of those from the Northern, North-Eastern part of Hungary did. The unemployment rate among the 20-24 year old age group is around 15%, twice the national average.

Regional differences are not only characteristic of the youth: the western part of Hungary consistently exhibits higher employment rates than the central or eastern

parts and those living in larger cities have a better chance of finding paid work. Those without skills and low levels of educational attainment are much more likely to have lost their jobs, in fact, according to researchers, this is the single factor that accounts for most of the differences in employment rates between Hungary and western developed societies (Girasek and Sik 2006). The high risk of unemployment among the Roma population is related to both of these factors coupled with rising discrimination (see more on this later).

There have been significant changes in the structure of workplaces by ownership type, which affects income and social inequalities. While in 1992, a few years after the transition, 60% of those with paid jobs worked for state owned companies, by 2005 this number declined to 31%. Simultaneously, the proportion of those employed in privately owned companies reached 65% in 2005, from a little over 30% in 1992 (Girasek and Sik 2006). The income of those employed in the state sector is, on average, higher than those employed in the private sector in 2005 (83,592 HUF compared to 71,494 HUF, see Girasek and Sik 2006, p. 69). Income inequalities, especially in the highest job grade, however, are larger in the private sector: here managers earn 164% of the average wages, while they make only 130% in the state sector. In addition, within the private sector, average wages are higher in companies which are foreign owned than in those owned solely by Hungarians.

Income derived from the black or grey markets are quite high but declining in Hungary. Most typically those at the bottom and at the high end of the income distribution engage in informal market activities, and the proportion of the former has increased over the past years.

In sum, major changes occurred in the labour market in Hungary over the past 20 years: the labour market shrank by about 20%, privatization resulted in less state control over prices, wages and regulations on hiring and firing. This differentiation is one of the major factors contributing to occupational stratification, income inequalities and the emergence of poverty. Other factors, such as gender, regional, educational and ethnic differences, as well as an increase in open discrimination on the basis of ethnicity also shaped social inequalities- some of these will be discussed later.

Income based social inequality peaked in 2003 in Hungary. Toth argues (2006) that consistent economic growth in the past half decade may have contributed to the decline observed after 2003, along with a small increase in employment rates

even in the context of a reduction in welfare spending targeting the poorest strata and an overall devaluation of income from state transfers.

### 1. 2.2. Poverty

Relative poverty increased sharply in the 1990s in Hungary until around 1995, when the growth slowed and started to stagnate (see table 3 above). These data are based on a series of income surveys of households conducted by TARKI. Further indicators, such as using the median rather than the average income suggest similar trends (see also Speder 2002). Finally, the depth of poverty experienced by the poor (the average difference between the income of the poor and the poverty threshold) was also calculated, which ranged from 25-33% over the years, but this is one indicator which exhibited growth over the past 5 years. In other words, while there hasn't been an increase in the size of the poor population, those in poverty have become poorer, i.e., more distanced from the national average.

Nevertheless, in a comparative study of six different East European countries (see below in table 7), conducted in 2000, Szelenyi and his collaborators found that Hungary had the lowest relative poverty rate among the countries included in the project. Similar results were found in terms of rates of absolute poverty: in Hungary less than 4% of people reported that they “could not afford to buy enough food to feed their families” in the weeks prior to the survey, while in Poland about 10%, and at the highest end in Bulgaria almost 27% of people did.

*Table 7. Percent poor- based on adjusted per capita household income: less than 50% of national median.*

	Bulgaria	Hungary	Poland	Romania	Russia
Men	10.5	8.8	16.5	15.6	13.2
Women	15.4	9.4	15.9	22.0	15.8
All	13.6	9.2	16.2	18.9	14.9
N	934	872	903	1025	2224

Source: Author's own calculations from dataset “Poverty, Ethnicity and Gender in Eastern Europe”.

There are social groups which suffer disproportionately from poverty, among these the Roma is the most obvious. The risk of poverty among the Roma subpopulation is 3-5 times larger than in the general population in Hungary: almost a quarter of all Roma interviewees claimed that they had recently experienced hunger, for example.

In addition, the risk of poverty among single parent families and large families is especially great, around 3 times the risk of the general population (Ferge 2006). Age is also a crucial factor: younger households are more likely to experience poverty, especially compared to older, pensioner headed households. As the table above shows, unlike in many other countries (such as in Bulgaria, Romania or Russia) women are not overrepresented among the poor in Hungary. This is because single mother households are rare and households headed by elderly women are, on average, not doing as badly as large families comprising of a husband with unstable employment, a woman receiving transfers for childcaring and 3 or more children. In addition to these demographic factors, as elsewhere, low levels of education as well as joblessness contribute most notably to people's increased risk of poverty.

### **1.2.3. Education**

Inequalities in the field of education both contribute to and are manifestations of growing inequalities. A vivid debate took place among social scientists in the early 1990s, which addressed the significance of education in the newly emerging stratification process in China and CEE. Some researchers argued that the significance of educational attainment (human capital) has increased in the stratification process in post state socialist countries to the expense of other types of resources, particularly political capital in the shape of party membership (Nee 1989). Others found the sustained importance of political connections and little increase in the usefulness of human capital in at least some of the countries in the region (e.g., Szelenyi and Kostello 1996).

Nevertheless, in Hungary, after 1989 as noted above, people with low skills and low levels of formal education are less likely to have formal jobs and a higher chance of sinking into unemployment and poverty than those with higher levels of education. In addition, those with low levels of education are likely to suffer from more health and mental problems, are less likely to participate in political decision making and overall are likely to have lower living standards than those with more marketable skills.

It is not surprising that the newly emerging class inequalities after 1989 also manifest themselves in newly formed inequalities in access to education even in a context of rapidly expanding educational opportunities at the secondary and tertiary levels which has been noted in Hungary since the mid 1990s. Following similar

points made by other researchers, most recently Gazso (2006) argues that the current educational system is more likely to reproduce these inequalities, rather than ameliorate them.

Differences in the quality of education, as well as the success of finishing school vary by class, region, ethnicity and gender. Grade schools are less and less able to make up for the disadvantages students bring with themselves when they enter their gates: about 15-30 % of students coming from low socio-economic backgrounds and almost 50% of Roma students do not finish this level of education, or suffer failures that make it impossible for them to move along in the educational system. Grade school degrees alone, however, do not prepare students for the labour market: only about 11% of students with this level of education get jobs after leaving school (Gazso 2006). At the other end of the hierarchy, it is obvious that parents with high levels of education manage to get their children into grade schools which specialize in more marketable skills, such as languages or computer skills. Such unequal distribution of access to the basic level of education is primarily due to the fact that local governments finance schools according to the level of their own resources, and this reproduces patterns of regional inequalities as well as inequalities between urban and rural areas, and ethnically segregated vs. integrated communities.

A vast expansion of schooling at the secondary and tertiary level took place in Hungary after 1989, which significantly improved the educational attainment options of children who grow up in better off families. In 1990, 37% of students, in 1999 already 54% of students finished high school (Lannert 2000). Yet, because of the differences in the types of schooling available at this level and the vast variation in quality, social inequalities are reproduced in the distribution of students in the various tracks of secondary education as well. As mentioned above, settlement type and region and family background explain much of the differences (Lannert 2000). For example, while 29% of students who live in larger cities continue their education in academic high schools, which prepare students to attend colleges and universities, only 17% of students who live in small villages do.

The expansion of the tertiary educational level was also significant after 1989 in Hungary: about three times as many students are enrolled in tertiary educational institutions in the mid 2000s than in 1990 (Harcza et al 2006), and twice as many students in the relevant 18-22 year age range attend colleges or universities. Researchers have found a lower significance of family background at application and

admission to colleges and universities than at admission to high schools, which they argue is explained by the selection mechanisms operating at lower levels (Lannert 2000). With the increasing costs of tertiary education, however, and the introduction of tuition in 2007, the importance of family background and wealth may increase at this level also.

In sum, attaining high levels of education was a useful resource in Hungary before the transition process and it remained similarly essential in finding stable, well paid employment afterwards. Several studies have shown sizeable social inequalities in access to education at all levels of the educational system, which contribute to the reproduction of the stratification system.

#### 1.2.4 Health

Class and educational inequalities manifest themselves in unequal access to a long, healthy life as well. As table 8 shows, total expenditure on health has remained fairly stable in Hungary over the past 16 years, but public spending decreased and is gradually replaced by private, out-of-pocket spending. The table below does not account for the out-of-pocket payments made to doctors as a form of “gratitude”, which is very popular in Hungary.

*Table 8. Health expenditure in Hungary as percent of GDP*

	<b>1992</b>	<b>1995</b>	<b>2000</b>	<b>2004</b>
Total	7.7	7.5	7.1	8.0
Public (as % of total)	88	84	71	71
Private (as % of total)	12	16	26	26

Source: OECD Health Data, OECD website

It is not surprising that the above led to distinct inequalities in health status: those in lower class positions and living in disadvantaged regions cannot afford to pay the same out-of-pocket expenses, which creates distinct disadvantages in access to good quality health care. Indeed, researchers found a strong correlation between men’s low class/educational level and high mortality risk (but not women’s) (Albert 2006).

Historically, Hungary exhibits one of the highest suicide and alcoholism rates in Europe, and the transition exacerbated mental health problems which lead to ill

health or mortality. Smoking is rapidly becoming another huge public health issue: Hungary's lung cancer rate for both men and women is the highest in the world, and this is closely related to the fact that 3.5 million of Hungary's population of about 10 million smoke, with rates of smoking increasing sharply since the mid 1980s, especially among the youth and women.

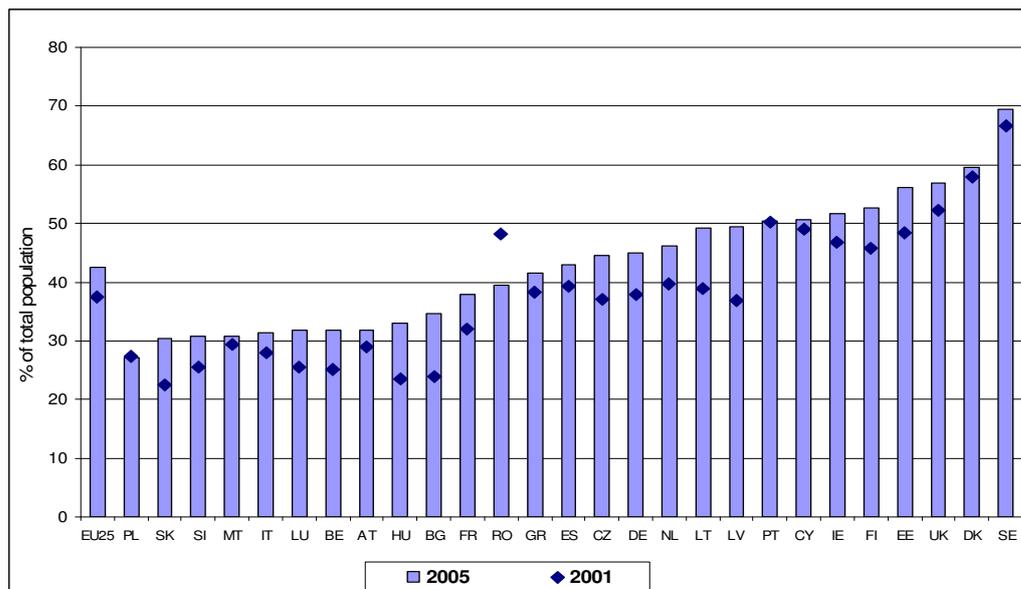
*Ascribed determinants of position in the system of inequalities*

**1.2.5 Age**

In the section on unemployment, we have already described the disadvantages young people face in the Hungarian labour market. This trend is not unique, similar tendencies have been observed in other EU and non-EU countries as well, but the emergence of this phenomenon is still novel for the Hungarian post-state socialist generation.

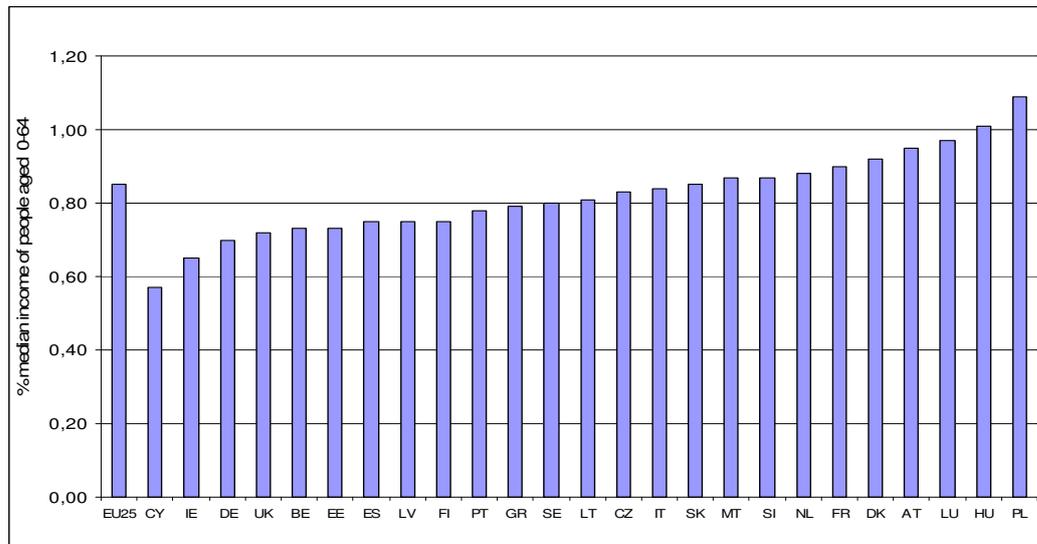
Here, however, we review the situation of the elderly in Hungary. As figure 3 demonstrates, labour force participation for the elderly is quite low in Hungary although it has increased over the past few years. This is the result of the gradual increase in the pension age threshold. In 2005 a little over 30% of this age group worked for wages.

*Figure 3: Employment rate of older workers (age 55-64)*



Source: Eurostat, Labour Force Survey in Joint Report (2007)

Figure 4. Median equivalized income of people age 65, as a ratio of income of people 0-64, in 2004.



Source: Eurostat, Labour Force Survey in Joint Report (2007).

At the same time, the income of elderly people is not at all lower than that of the general population (figure 4), and is overall one of the highest – in relative terms – in the EU. This is due to the high replacement rate of the old age pension, which has not significantly declined since the mid 1990s. Hungary introduced a 2-tier pension system in 1997, and kept the real value of pensions at a relatively high level, which led to the fact that unlike in other CEE countries, except for Poland, the elderly, on average, have a lower poverty rate than the general population. This, of course, is an average, and there are significant regional differences in the wellbeing of the elderly, as well as inequalities related to settlement type and educational level.

Early retirement was an option used to escape unemployment, along with going on disability leave. In this sense, government expenditure on social security (pension) income may be seen as a poverty reduction strategy, which had special significance in the early years of the transition.

### 1.2.6 Gender

The general finding about labour market gender inequality is that women managed to retain their labour market positions reasonably successfully during the first decade after 1989 (Fodor 1997, Ghodsee 2004), but structural changes in the workplace, cutbacks in social provisions and an overall conservative ideology

concerning women's role in society resulted in more losses for women, especially for women with small children, after about 2000 (Glass, forthcoming).

Table 6 above describes activity and employment rates for women in 2005. Before 1989 almost all women of working age (then defined as between 15 and 55 years old, the retirement age for women) were active in the labour force and had paid work. A sharp decline in women's labour force participation took place between 1989 and 1992: many women lost their jobs and became unemployed or "inactive". Only very modest gains have been made in expanding women's labour market participation ever since. This is particularly problematic given the fact that Hungary now has one of the lowest female participation rates in the European Union and almost no steps have been taken towards achieving the so called "Lisabon targets" in this area. This is not seen as an important political question by any of the parties in Parliament.

Until 2004 the unemployment rate for women was lower than that of men, only since 2004 has this changed to women's disadvantage. This, however, is primarily a classification problem: women are more likely to consider themselves as "homemakers" rather than unemployed when registering (or self-classification in response to surveys) as unemployed is unlikely to bring significant, or long term benefits, as payments are quite low and limited in time. In addition, lengthy, if very modestly paid maternity leaves and the lack of childcare for the under 3-year olds is another factor why women may not be classified as "immediately available for work", i.e. may not satisfy the official criteria for the unemployment category (KSH 2006).

In addition to lengthy, state supported periods out of the labour force to look after children, the second factor influencing women's low labour force participation rates is the very early retirement age, which is a legacy of the state socialist era. Labour force participation for women in the group beyond 55 years of age is very low, especially compared to that of men and compared to EU averages. In the longer run, gradual increases in the retirement age threshold will eliminate this difference, although to some extent, women's early retirement serves as a way to avoid open unemployment in social groups (women over 40) who are known to suffer significant discrimination in the labour market (see above).

Even though relatively few women work for wages in Hungary, those who do work, are likely to work full time. Part time labour is rarely an option currently: less than 4% of women work fewer than regular hours (Bukodi 2005). The government

has taken modest steps towards encouraging part time options, but given the fact that only women are encouraged to work part time, and there is little protection offered to make sure that these are not mommy –track, low prestige occupational choices, they are likely to increase, rather than decrease labour market discrimination.

Women, rather than men, are primarily responsible for child care and domestic work in Hungary. Time budget studies consistently show little change in this: women spend about twice as much time a day on domestic work, and men end up with more leisure time than women, even though they do work longer hours for pay on average (Csurgo and Megyesi 2006). Such a division of labour is supported by public opinion surveys, in which both men and women argue that women's real calling is at home, while men should be primarily the provider in the family. In this respect, Hungarians, men and women alike, exhibit the most conservative attitudes of many European countries, according to recent surveys (Bukodi 2005).

Other than a drop in labour force participation (which, by the way, was comparable to the setback suffered by men), there is little evidence that gender inequality has become exacerbated since 1989. Women's chances to achieve managerial positions are quite low, but still above the EU average (Nagy 2005) and this has not changed significantly since 1989. Job segregation, segregation of educational choices remain strong, but not significantly changed. The wage gap has shrunk in the past years (KSH 2006), women in blue collar jobs now make about 84% of men's wages, while women in white collar occupations about 73%. This, however, is not necessarily caused by lessening discrimination, rather it could be due to a selection bias: only the most educated, best trained and most ambitious women remain in the labour market, whereas selection among men is less strong.

In sum, while gender inequality may not have increased, it is nevertheless detectable in Hungary in many areas in and outside the labour market: women are less likely to have paid work, more likely to be unemployed, spend more time working, are segregated into a small number of industries and positions, face the glass ceiling when advancing in a corporate hierarchy and make less money than men. In addition, given the austerity packages that is being put in place, a cutback in social services coupled with the existing conservative gender ideology, as well as a lack of political will and external political lobbying (lack of a strong feminist movement and NGO's, lobbying groups, etc) gender inequality is unlikely to improve in the near future.

### **1.2.7 Ethnicity**

The proportion of the Roma (Gypsy) minority in Hungary is estimated to number around 520-650 thousand, or around 5-8% of the population (Kemeny and Janky 2003). This ethnic minority suffers from severe disadvantages in Hungary in all walks of life, in educational attainment, access to jobs, social services, etc. Discrimination has increased significantly since 1989: while during the state socialist era, centralized efforts were made to reduce at least open and officially sanctioned discrimination, nowadays no such measures are available. As a result, the Roma suffer from the experience of ongoing daily institutional and personal discrimination in all areas of life.

The residential segregation of the Roma has increased in the past 15 years in Hungary, and this both contributed to and was one of the consequences of their growing level of poverty. This has lead researchers to argue that they now form an “underclass” with little to no chance of reintegration into the mainstream of society (Ladanyi and Szelenyi 2004). As pointed out above, the Roma’s risk of poverty is 3-5 times the size of the non-Roma. In addition, in 2003, 72 percent of Gypsies lived in a more or less segregated living environments. The most typical form of segregation was that Gypsy families lived on the edge of a settlement (42 percent) or in a settlement inhabited exclusively or overwhelmingly by Roma people. Residential segregation usually means a less healthy environment, and social isolation, which is difficult to overcome. Such levels of isolation were unheard of during the state socialist era when even little villages were better integrated than they are nowadays (Ladanyi and Szelenyi 2004).

The Roma in every age group have an educational disadvantage compared to the non-Roma population. While on average 88 percent of non-Roma population aged 3 -5 attend kindergarten, this figure is 42 percent among the Roma. Twenty percent of Roma primary school age children are sent to special schools or remedial classes as they are considered mentally backward by teachers ill-prepared to deal with the language and other types of disadvantages Roma children bring to the classroom. In 2002 only five percent of Roma youth aged between 20 and 24 completed secondary education. And in the same age group only 1 percent of Gypsy youth attends colleges or universities.

The low educational level of the Gypsy minority causes an enormous disadvantage at access to the labour market. In the 1970s the proportion of Gypsy men who had paid work did not differ from that of similar non-Gypsy men. The state socialist government's political goal was to integrate the Roma into paid work in industry and agriculture. Most Roma, however, worked in low skilled, or unskilled jobs in heavy industry plants, stable and reasonably paid though these employment options were until 1989. After 1989, however, these were the first jobs to disappear and thus Roma men lost their paid employment options in disproportionate numbers and had almost no chance of regaining them as the structure of industry changed permanently in a direction where fewer and fewer unskilled workers were needed. This led to disproportionate levels of joblessness, destitution as well as the spread of related social ills, such as growing residential segregation, teenage pregnancy, alcoholism etc, in many Roma communities. This process demonstrates both the limited nature of state socialist policies aimed at integration as well as the unfortunate consequences of the transition process for those at the bottom of the social hierarchy. In 2003, only 21 percent of Roma males in working age were employed, compared to almost 60% of non-Roma men and this tendency is unlikely to change significantly in the near future.

Because of the low employment rate and the demographic composition of Roma families (more minor children than in the non-Gypsy families, lower employment among women and a higher number of dependent family members without regular income), 65 percent of Gypsy population belong to the lowest income deciles according to data from Istvan Kemeny's Gypsy Survey of 2003. Regional differences are sizeable, however: the Gypsy population living in the capital or in the western regions of the country is in a much better income situation than others who are living in small villages and in the eastern region of the country.

### **1.2.8. Regional inequalities**

Before 1989, state socialist policy makers selected a number of regions for accelerated economic and social development. This process was primarily built on the development of mining and heavy industry plants especially in the northern, north eastern part of the country and along the Danube (Dunaujvaros). These areas attracted people from all over Hungary to work in the newly built factories, and to live in large "modern" housing developments in the area. With the collapse of heavy

industrial production and mining soon after 1989 these areas experienced severe economic depression, and large scale unemployment, poverty and related social problems, from which recovery is slow and difficult. Many of those whose family had moved to the city in search of employment in the late 1970s now moved back to the surrounding villages, where living costs were cheaper, but where work opportunities were scarce. The increase in the size of poor rural population at the expense of city dwellers is one of the interesting (and depressing) phenomena that followed the social transition (Kovach and Nagy 2006).

At the same time, post state socialist regional development started in new regions- along the Budapest-Vienna and Budapest- Belgrade line, and close to the Austrian border in the western part of Hungary, with multinationals and domestic companies attracting workers for their newly established companies. These are the areas which experience disproportionately low levels of unemployment and poverty and the highest level of overall economic prosperity.

In sum, state socialist regional arrangements were incompatible with the demands of a globalized market economy and large scale reorganization started at the expense of the eastern and north eastern part of the country and to the advantage of the western sections. Regional inequalities are observable primarily in the number of the unemployed and active populations, as well as in access to different quality schooling and infrastructure. The fact that an increasing number of families escape to the villages surrounding industrial cities is problematic, as these villages are becoming more and more isolated from the cities, public transportation is becoming unaffordable and rare, which exacerbates already existing lines of class and ethnic segregation.

### **1.3 Data availability**

There is plenty of data on social inequalities available in Hungary. The major source of information on income and employment trends is the Central Statistical Office ([www.ksh.hu](http://www.ksh.hu)), which runs and publishes the results of a variety of yearly and quarterly surveys both in Hungarian and English. Some of the data and the resulting publications are available online. Special publications, eg. the booklet “The Situation of Women and Men in Hungary 2005” address special subgroups. Less data are available on social mobility, because in 1992 the Statistical Office stopped running its ten –yearly survey on social mobility which had been conducted since 1962.

Private agencies also run surveys which may be relevant for a study of social inequalities. Most notably, TARKI, a Hungarian research and polling agency has a longitudinal survey (“Magyar Haztartas Panel” 1992-97, then “Haztartas Monitor” 1998-) which allows for a longitudinal study of social mobility, poverty, changes in stratification, etc. TARKI is also the Hungarian partner in the ISSP and the European Social Survey.

However, few datasets are available that address specific social problems, and address them in a comparative setting, such as, for example, the survey on “Poverty, Ethnicity and Gender”, run by Ivan Szelenyi and his research group in six East European societies. Lack of funding makes the collection of such specially targeted and/or comparative datasets difficult. In most cases other than the Central Statistical Office, data collection is driven by funding availability from EU or other sources.

## **SECTION 2. POLITICAL CULTURE**

### **2.1 Social inequality and national political culture**

Social inequalities manifest themselves in the differences between a variety of social positions: income, wealth, working or living conditions, education, or the amount of leisure time, and the way this is spent. Historically, class has been used in a neutral, categorical sense, but the term moved into political usage, and it is now highly politicized in Hungary as well as in other Central and Eastern European countries. For example, in Hungary, the term “middle class” was coined during the interwar period to be used against Marxists and to give semantic legitimacy to an anti-Marxist coalition. The strong political element is a great disadvantage in the assessment of subjective class identification and when asking people questions aimed at trying to understand their perception of their place in the stratification hierarchy, or how that perception shaped their social structural location, and whether this perception links structural location to class consciousness or political ideology (Evans et al. 1992).

Perceptions of the class composition of society and the amount of inequality vary. According to “reference group theory”, individuals assess their location in light of the distribution of education, occupation and income among people around them. As a result, even high status people see many more above them, and low status people

see many even lower. Since one's social network will be based on similar individuals, on more or less equal status, there is a tendency for people to see themselves in the middle of the hierarchy. People also over-estimate the size of their own group and the higher their social status, the more egalitarian society will be seen (Evans et al 1992). This argument works well in Hungary. Sagi (2002) found that 63% of the Hungarian population consider their economic situation similar to "that of others" (or average), while only 11% consider it better and the rest (26%) worse. The loose correlation between actual income level and subjective position is demonstrated by the fact that about half of those belonging to the poorest strata claim that they are like the middle categories, and only about 4 out of 10 people who belong to the highest income groups admit to having a social status above the average (ibid, p. 79).

Overall, Hungarians are not particularly happy with their class status and living standards after 1989. When individuals in six East European countries were asked in 1999 if "life in general is better or worse now than under communism," more people said "worse" than "better" in all countries. Poland and Hungary were the only two where the percentage saying "worse" decreased compared to a similar poll in 1992. However, by 2006 the trend reversed, Hungarians were the most dissatisfied with their financial standing of all the Visegrád countries. Similarly by 2007, while the Czechs and Poles witnessed no change, Hungarians feared the future more than previously (TARKI 2007). In a longitudinal study of a representative sample of Hungarians, Sagi (2002) found almost no change between 1992 and 2002 in the percentage of people dissatisfied with their income level (about 17%), although there was variation by age (younger people were more satisfied) and by occupational/educational status (those in higher positions were happier).

Most people feel freer but poorer in Eastern Europe and the former Soviet Union, although their perceptions with respect to the latter are probably not correct in objective terms, given the broader availability and possession of consumer goods and the general and steady increase in the volume of consumption (Mason 2004). In addition, people seem to have a strong individualist stand on determinants of social status. According to an October 2000 opinion poll, Hungarians trace the main determinants of poverty back to personal, inner characteristics (such as lack of ambition or diligence) and to the lack of acquired ability. Respondents assigned far less importance to social structural and demographic characteristics (Gal 2003).

While poverty has always existed, its size or level and its social judgement has varied constantly. Pre-war Hungarian society was highly elitist, with well-defined social categories that offered little social mobility to its members. Half of society still made its living in agriculture as Hungary was in the middle of the industrialization era, only one fifth of the population was middle-class, and great social inequalities distanced the different groups in society. This radically changed in 1945 with the establishment of communism, where it was impossible to speak of inequality. The system seemed to perform well since its egalitarian thrust led to decreasing levels of perceived social inequality. By 1987 this culminated in the majority of the population, unaware of the economic problems of the time, to think of Hungary as egalitarian to a larger extent than Australian citizens thought of their country at the same time (Evans et al 1992).

Yet, experts disagreed. With the easing of the authoritarian nature of the communist regime, work to assess people's imagery of the social stratification of Hungary began in the 1970s. These studies led to the reformulation of 'New Class Theory' to the state socialist context. The classic piece here is Konrad and Szelenyi's samizdat book, "Intellectuals on the Road to Class Power", which identified intellectuals as the "new would-be -class" under state socialism (Konrad and Szelenyi 1974). Others, like Ferge (1985) also found that while by the 1980s centralized party-government successfully decreased social inequalities, the problem was far from solved. She argued that the socialist system had a number of hidden mechanisms that further privileged the already privileged group and further deprived the already disadvantaged: the gap between the technocratic political elite and the rest of society had increased.

While, as we described in the previous section, social inequalities grew at an unprecedented rate in the early 1990s, for several years after the fall of the communist party this did not become a central issue for politicians (and for the majority of liberal, west-leaning leaning social scientists either, see Haney 2003) because it was widely accepted that a neo-liberal type market transition was necessary, and that under a major economic transition process widening income inequality and growing poverty were natural, if temporary, consequences. More important political issues overshadowed this topic and interest representation was weak as trade unions were seen as institutions of the old regime and thus discredited. NGO's were just gathering speed in Hungary, and their financing came from western

sources, concerned more with establishing “democracy” than guaranteeing economic well-being.

The fact that the social protection system remained unchanged for the first 4 years after 1989 also contributed to the relative invisibility of social inequalities by absorbing the cost of transition for some, while other entered the growing informal sector to maintain their former income positions (Gal 2003). Also, while inequality in earnings increased greatly in Hungary over the early transition years, in 1995 the distribution of earnings across households was still lower in Hungary than in most other western European countries, which served as the reference point for, at least the political elites. Indeed, because of its geographic location, difference in starting point and debt structure, Hungary never experienced the kind of extreme income inequality and poverty than many countries in Latin America did when undergoing similar structural adjustment processes.

International and domestic understandings of the macroeconomic situation of Hungary in early 1990s did not permit any populist or social democratic deviation for political parties from the stabilization and structural adjustment policies encouraged by international financial institutions and adopted enthusiastically by Hungarian technocratic intellectuals (Haney 2003), therefore issues of social inequality received little attention on the national political agenda. In contrast to its weak representation in national politics, however, poverty occupies a rather decisive place at the local level. In a survey looking at the formation of local social policies in 75 communities, Szalai (1995) identified clear commitments of local administration to develop anti-poverty programmes. She argued the tendency was to opt for one of the two major alternatives: *either* to prevent the impoverishing lower middle class from dropping into deep poverty, *or* to focus attention and spending on the most needy, and the two strategies were rarely combined.

## **2.2. Social Inequality and the National Party System**

The history of Hungarian party competition between 1990 and 2006 can be characterized as one dominated by the role of institutions. At the beginning of the transition period a relatively fragmented party system evolved based on a number of cross-cutting or just weakly correlated cleavage dimensions. By the end of the period, the Hungarian political scene evolved into something very close to a two-party

system, where the multiple cleavages that characterized the immediate post-1990 politics were absorbed into the opposition of the two major parties (Toka 2004).

In the 1990 first elections, the anti-communism factor was the main dividing line between contenders, and the divide between the pro-market and the social protectionist parties ran mostly parallel to this first dimension. Parties' attitudes towards class interests were hard to infer, and while no party was ready to commit itself to increases in welfare spending with inflation in the range of 25 to 30 per cent, all major contenders promised to divert more public spending to the poor, and to struggling wage-earners as a remedy of social problems (Korosenyi 1991). By 1994, however, Hungarian parties were divided over a strong polarizing cultural dimension that cuts across the less important and less polarizing economic left-right cleavage, unlike their counterparts in Poland and the Czech Republic, where economic issues played a much greater role (Kitschelt 1999).

Economic and social welfare issues did appear on the political agenda between 1994-98. The 1995 austerity measures, foreign ownership of the land, and privatization were among the most decisive issues. While the governing parties defined themselves as champions of sound economic policies, the opposition parties accused the government of betraying national interests and of impoverishing the middle class. Thus, while some of the main issues on the agenda had changed, but the major divisions remained rooted in the conflicting cultural dimensions between technocratic (often heavily neo-liberal) pragmatism on the part of, ironically, the Socialist Party and the Christian-nationalist ideology (Toka 2004). The major parties were extremely wary of political instability and mass mobilization on socio-economic issues, and political stability in Hungary probably benefited from the fact that the major social problems connected with the economic transformation became a matter of partisan controversy only to a limited extent. Economic conditions did have an impact on the popularity of governmental parties, but performance evaluations remained unrelated to preferences with respect to policy issues and social group identities (Markowski and Toka 1995).

After winning the elections in 1998, Fidesz (The Alliance of Young Democrats, by 1998 a right wing, conservative party in social issues) dominated the right's ideological identity and became rooted primarily in anti-communism and assertive foreign policy of national interest. Some welfare related and economic issues were added to this rightwing identity, when subsidies and tax-cuts for middle to

high-income families raising children as well as the reintroduction of tuition-free education were introduced. These measures strengthened the economic position of the middle classes, but this never appeared openly on the political agenda.

In 2002, MSZP, the Hungarian Socialist Party, in coalition with the liberal SZDSZ (Alliance of Free Democrats) toppled the Fidesz government. By this time, economic preferences and social class played a minor role in party competition and non-economic issues defined party positions and electoral behaviour. This led to a simplification of relevant ideological divisions into a single left-right dimension, where elite consensus excluded economic left-right issues from being persistently linked to this emerging divide (Toka 2004). By 2002, nearly 90 percent of all legislative seats were in the hands of the two major parties. Parties that receive close to half of the votes are unlikely to be specific in many of their social or attitudinal characteristics, thus confirming the drastic simplification of the party system since 1990, where differences within the emerging two blocs of parties were harder to interpret in ideological terms due to increasing attitudinal similarity on both sides (Enyedi 2005). This trend only continued for the 2006 elections, when yet again non-economic issues defined party positions.

Hungarian parties are autonomous, they are not related to some pre-existing social group or organization. Obvious sponsors, such as the trade unions for the Socialist or the Catholic Church in the case of Christian Democrats, were unable to alter the party line or to keep the parties under control. This autonomy is further underlined by the fact that party leaders emerge within the party organization. While parties depend on the state for funding, this dependence does not have any impact on their behaviour. Cultural, professional associations, civic organizations or pressure groups have little impact also, and the phenomenon of collective membership is entirely missing from the Hungarian party statutes (Enyedi and Toka 2006). Centralization characterized every Hungarian party, and party leaders have a high degree of control over all internal factions.

Social movements and interest groups do have the ability to initiate referendums on policies of their interest, but so far they have not managed to overcome all the obstacles to reduce the role of parties. The preference for a party dominated parliament vis-à-vis social movements was enhanced further in 1997 by increasing the number of signatures required to call a referendum to 200,000. Only the 2004 referendum on extending citizenship rights to Hungarians in neighbouring

countries seemed to be the exception to the rule, but even this remained legally non-binding due to the low turnout.

The most important lesson of the past sixteen years of Hungarian politics is that parties can restructure social and attitudinal characteristics of a party system, and the transformation of the Hungarian political scene can be attributed to elite interactions and rational calculations. Hungarian party politics emphasize cultural issues, and by their preferences parties reassert the primacy of these issues. Consequently these issues and not economic ones differentiate the electorate, although citizens may name economic issues as the most important determinant of their choice.

Hungary seems to be an intermediate case in the post-communist world in terms of programmatic crystallization (Kitschelt 1999) and electoral volatility (Toka 1998). It is the radical reduction of party system fragmentation, due to highly polarized politics and the majoritarian elements of its institutional setup, which set the country apart from its neighbours. As a result, the political, cultural, and media elite has a largely bipolar structure. The high degree of political polarization might have a number of positive effects – helps in developing clear political identities and generates support for individual parties – but in case of Hungary minor differences between contenders on major socio-economic issues resulted in a war between left and right that might affect the democratic system as a whole.

In the period immediately after the transition, all parties kept endorsing and supporting democracy, even though they were not entirely certain that other parties will comply with the democratic rules of the game. No major challenge to democratic institutions occurred, and a broad commitment to market, military and legal reform, EU and NATO integration was shared by all parties and business, media and academic establishments. By 1998, Fidesz distinguished itself by excluding any cooperation with the left. The aim of this emotionally charged confrontation was to establish the party as a coherent force, with a solid right-wing identity. As Fidesz established itself on the right, party preferences re-crystallized, while politization of society reached unprecedented highs and volatility of party preferences declined (Enyedi 2005).

As a result, the above noted society-wide consensus in support of democratic institutions of the Hungarian state came to a halt by 2002, when Fidesz questioned the election results, declared the constitutionally elected government illegitimate, and

claimed a special mandate to rule based on its large mass of supporters. 2006 only brought the exacerbation of the conflict that became violent for the first time since the regime change. Today, a coalition between right-wing and left-wing parties even less conceivable today than it was fifteen years ago because while originally mobilization and politicization of society was low, now society sees politics as a struggle between mutually exclusive camps.

### **SECTION 3. MECHANISMS FOR THE AMELIORATION OF SOCIAL INEQUALITIES**

#### **3.1 How does the government address the issue of social inequalities?**

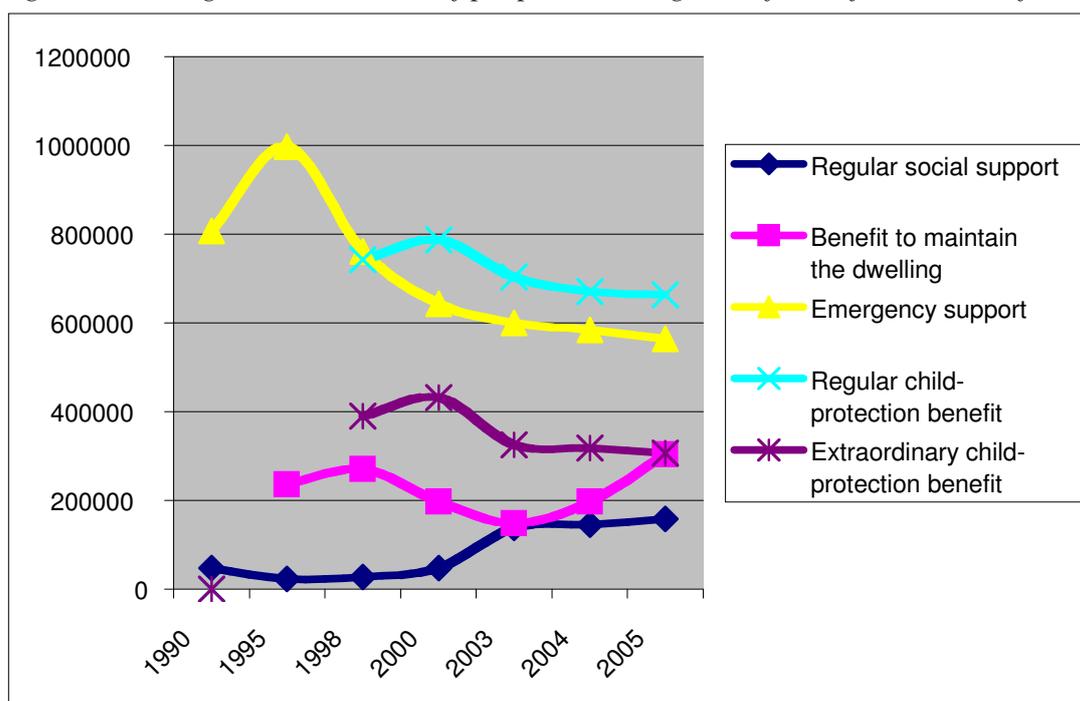
Hungarian governments of the past 16 years, in the spirit of international neo-liberalism and lacking outside political push, have not been overly concerned with the notion of social inequalities. Since the early 2000s both minimum and average wages have been on the rise, but the redistribution of income is not seen as quite legitimate in the post-state socialist political system. As a result, the proportion of income redistributed remained quite low compared to EU averages. In 2001 the total social protection expenditure was 19.8% of the GDP in Hungary, barely rising by to 21.4% in 2003 (with the EU average at 28.3%). In terms of per capita expenditure the difference between the EU (6,925€ per capita) and Hungary (1,590€ per capita) is much larger. In addition, between 1999 and 2003, social expenditure increased in the field of health care and old age pension (the two largest areas, together amounting to over 64% of total expenditure), but decreased for unemployment, housing, social exclusion costs and stagnated in the area of family benefits (TARKI – World Bank, 2006)

The system of family benefits is possibly the most developed area of social assistance and this is where Hungarian expenditure exceeds the EU-25, in percentage of GDP terms. State transfers to families are seen as a way to encourage child bearing, but the reduction of poverty, especially child poverty, is also significant. The family welfare system has changed somewhat over the past 16 years, as governments targeted different social groups through a variety of measures. In 2006, the key elements of this system were a universal family allowance meant to provide state support for the upbringing of children (the amount is about 50 Euros per child/month) and two levels of parental allowance, a more generous one connected to

employment (guaranteeing 70% of previous wages with a maximum for 2 years) and a flat-rate universal benefit (paying the amount of the minimum old age pension, or about 80 Euros per month for 3 years). The real value of the payments declined significantly over the years. The one significant change with respect to social inequalities was the introduction of tax credit for families with children, which was most useful for middle class families who had enough income to be able to utilize the full value of the tax reduction (Ferge-Juhász 2004). In 2006, the Socialist government increased the universal aspect of the family benefit system and abolished some of the tax credits targeting middle class families.

In addition to the expansive system of family benefits, other types of social protection payments also exist, for example regular and irregular child protection support used by the most impoverished families. Disability benefits is also a way to alleviate poverty as many people close to retirement age used this option- with the help of complicit doctors- to escape unemployment and secure some life time benefits. This use of disability pensions was particularly significant for the first decade after 1989. Figure 5 shows the average of number of people receiving some type of social benefit. Emergency support increased during the immediate aftermath of the austerity package introduced in 1995, but the number of recipients of most other services declined or stabilized after 2003.

Figure 5. Changes in the number of people receiving some form of social transfer



Source: Statistical Yearbooks of Hungary 1990-2005.

The number of those receiving disability pension due to a loss of earnings ability has also remained stable over the past few years. The number of people entitled to receive regular and emergency child protection benefits show that poverty of children is a problem that afflicts a large part of Hungarian society. Nowadays more than 660 thousand children are entitled for regular child-care benefit. The number of people who receive social transfers benefit to support the overhead costs of their apartment is increasing. Most of these people live in housing developments, built in the 1970s and 1980s and they used to have blue collar jobs in neighbouring factories. Because of its flimsy structure and wasteful heating system, these apartments are extremely expensive to maintain while the owners often became unemployed or have only access to low wage, unstable employment.

Overall, Hungary spends relatively little (as a percentage of GDP and in absolute terms) on social protection, and thus poverty reduction is the most important impact achieved. According to Gabos and Szivos (2006) child poverty is at around 16% in Hungary, but it would grow to up to 40% should families be deprived of all social transfers (and especially family benefits, which has by far the largest impact.)

### **3.2. Data on tax revenue and welfare**

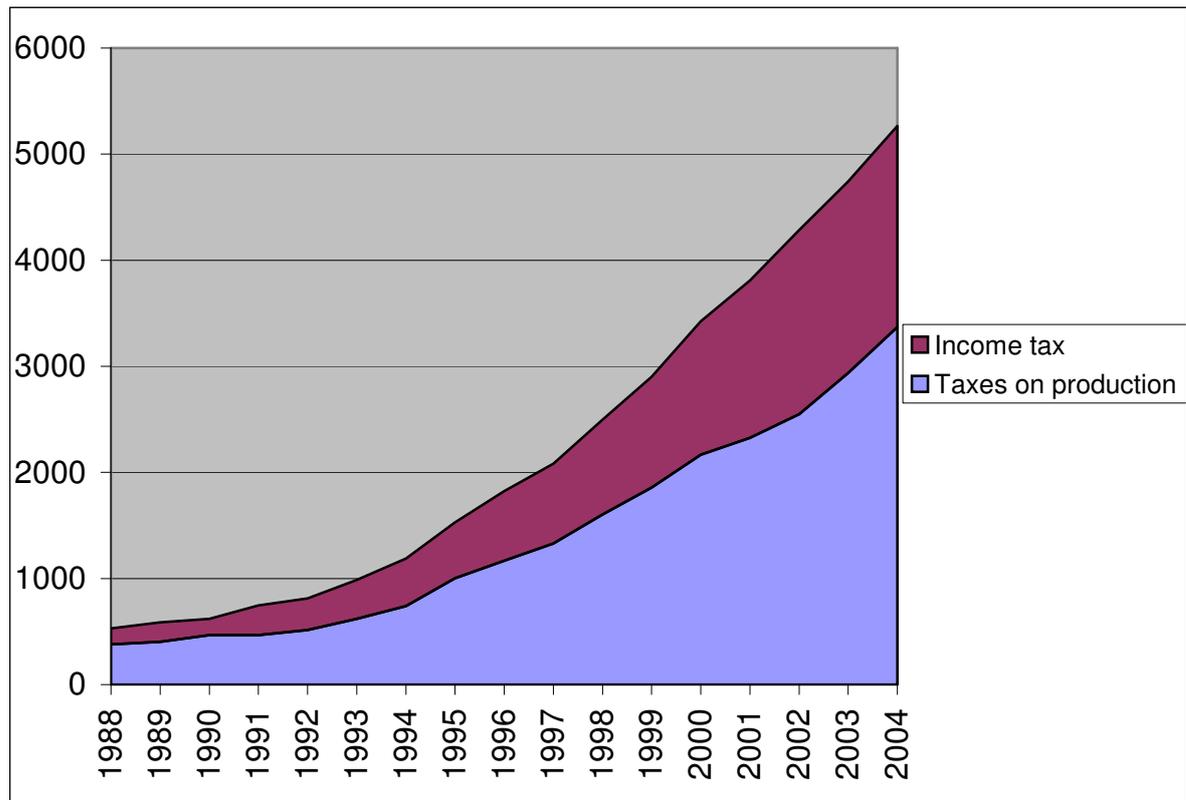
Figure 6 shows the data and dynamics of tax revenues from the change of the regime until 2004. The total amount of taxes paid in 2004 are ten times higher than in 1988, partially explained by rising inflation as well as economic growth which generated higher incomes especially among the wealthiest segments of the population.

### **3.3. Alternative non-governmental mechanism for amelioration of social inequality**

In Hungary alternative non-governmental political forces are quite weak. Trade unions have lost most of their members and their activity focuses primarily on wage negotiations but are unable to effectively lobby for other types of measures. Because of their historical association with the state socialist governments, Hungarians do not trust trade unions.

Churches maintain a few social institutions (elderly care homes, care homes for disabled persons) and schools but their activities are limited and does not contribute significantly to a reduction of poverty or destitution in any consistent manner.

Figure 6. Tax revenue in Hungary 1988-2004



Source: Statistical Yearbooks of Hungary, 1990-2005, KSH

Prior to 1989, grass-roots attempts at founding even a most innocent civil organization were perceived as dissident political acts. Hence, NGOs were practically non-existent, and the “civil sphere” was largely made up of a few thousand local sports-associations. After the collapse of the state socialist regime the situation quickly changed. Within a decade, the number of the registered foundations grew from 400 to nearly 20,000, and the number of associations from 8,400 to 28,400 (Szalai 2005). Unfortunately, many of these organizations have a strong connection to one or another political party or are more or less dependent on the state. In the year 2000, the provisions NGO’s received in the form of direct state subsidies amounted to no less than 3.5 percent of the central budget, and this amount made up no less than 28.4 percent of their total revenue. In other words, these NGOs are not real alternative organizations and do not contribute to the reduction of social inequalities in any consistent or alternative fashion.

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