RESEARCH HIGHLIGHTS № 35

FINANCING THE LIFECYCLE OR MITIGATING POVERTY: REDISTRIBUTION IN THE HUNGARIAN WELFARE SYSTEM BY AGE AND INCOME

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A general consent is found in the expert community that Hungarian social policy provides poorly targeted benefits and services that are prone to Matthew-effects. Although our results confirm this observation, we also find that the data offer an alternative interpretation of what the Hungarian welfare state is actually doing: it reallocates resources from the working age population to children and elderly people. It functions as an intermediary between overlapping generations that seek to finance their lifecycle by exploiting the opportunity offered by the very overlap, the fact that contemporaries are of different age. The two horizontal axes of the figure are age groups and income categories. The latter are quintiles from 1, the poorest, to 5, the richest, based on equivalent household income. The vertical axis is per capita values of benefits including all public spending measured. For better visibility the graph is rotated. Accordingly, the richest income group is the closest to the viewer and age grows from right to left.

As the figure shows, welfare spending reflects the dominance of age over income. The eyeball analysis is supported by a regression model in which we include reallocations by age and income simultaneously and assess their respective relative importance in explaining the access to public benefits. We analyse both causal importance (comparing coefficients) and dispersion importance of the variables (using Shapley-value decomposition). We find that income is irrelevant in explaining access to benefits and services but age is important.

The risks managed by the welfare system are mostly of demographic nature.

Figure 1. Benefits in the Hungarian welfare system by age group (0–9 to 75+) and income quintile (1 to 5 from poorest to richest), 2010 (per capita values in thousand Forint)