

Title: *Tolerance for inequalities in measured and perceived income distribution: tunnel effect, reference group shifts, skill biased transition in Hungary, 1987-2005*

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Measured and perceived shifts in income distribution do not always move in the same direction. The account for differences may include measurement problems, cognitive mechanisms and structural trends within the income distribution. The paper attempts to make this account on Hungarian data for the period between 1987 (the last pre-transition year in terms of tax/transfer regimes) and 2005 (the year following the joining of the EU in 2004).

While the growth of inequalities was highest in the first period of the transition (1987-1992) followed by a slowing down of inequality increase (1992-1996) and later a levelling off of the process (1996-2000 and 2000-2005), surveys in the latter periods measured a continued tension in inequality perceptions. People perceive “too high” and growing inequalities, together with continued feelings of frustration and dissatisfaction with their incomes and living standards. This gloomy mode is escorted by an increasing demand for redistribution to a level clearly unsustainable.

In search for a reconciliation of these phenomena, several explanations (data problems, reference group shifts, “tunnel effect” and perceived slowdown of income mobility, restructuring of age/income profiles of households) are shown in the paper. As for income inequality trends, an MLD decomposition analysis of aggregate income inequalities by population subgroups shows how structural changes might have continued “under the surface”. It is shown that although the aggregate inequality growth seem to have stopped for a while, this was an outcome of significant internal restructuring, due to within group and between group inequality changes. The second half of the nineties can be characterised by differential changes in age/income profiles of households, driven mostly by skill biased technological change, education expansion and differential relative returns to human capital investments. This might have easily caused feelings of inequality increases. In addition to that, a shift in reference groups might also have contributed to the ongoing dissatisfaction with income levels and inequalities. However, multivariate analysis show the prominent role of subjective mobility and perceptions of changes in relative positions.

The paper is based on HCSO income survey of 1987 and TARKI household surveys of 1992-2005.