

Is the Hungarian Non-Observed Economy Rooted in Socialism?

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Before the transition the second economy was widespread in Hungary. These economic activities meant complementary production to state-owned enterprises, or were their suppliers. During the transition the collapsing state-owned economy left room for market activities. On the other hand, the resulting significant decrease in income motivated tax evasion and illegal activities as well.

The share of non-observed economy has decreased with the consolidation of the economy, but still has a significant proportion within the Hungarian GDP.

The influence of the government throughout these processes can be followed up, because the government supported the development of second economy informally, and had to “give way” to tax evasion and illegal employment in the chaotic situation after the transition, otherwise many people’s livelihood would have been questioned. However, the non-observed activities did not decrease to the level measured in the Western European countries by the consolidation of the new economic regime, although the state declared its intention to do so.

The paper analyses the non-observed economy’s development and its structural changes. It examines, how the second economy can be considered as the cause of current non-observed economy and what factors elucidate the still significant non-observed economy in Hungary.