

Invisible income and scattered poverty

While the possession of real estate has become a central element of the Hungarian life strategy, downward mobility has appeared as well. People unable to maintain their homes move to worse and worse dwellings, while poverty grows in the urban periphery and small villages

"I declare a little more than the minimum wage to the tax authorities in order to seem authentic and evade an inspection." "I manage the bigger part of my income, I support my children and will supplement my pension from it" asserted several respondents from the research of the Metropolitan Research Institute, which focuses on the interrelatedness between housing policy, pension system and demographic change. The DEMHOW research, which is supported by the EU's seventh framework, is carried out in eight countries.

After the regime change one million people disappeared overnight from the domestic labor market, but only some of them reappeared at the welfare offices. The others vanished in the informal economy. Many people have a higher income than declared to the tax authority. According to estimates, the amount of invisible income can add up to one-third of the GDP. Optimistic analysts treat the wealth from this income as the fourth pension pillar.

Nevertheless, no one can be sure that the income from tax evasion will be saved. On the contrary, the majority is likely to consume it. Many of whom will reach retirement age in three or four years, but will have practically no pension at all. What will they live from? Some see the solution in the introduction of the basic state pension. However, the amount of money circulating in the informal economy is too high, whereas state income is too low for such a move.

– Part of those choosing tax evasion are consciously preparing themselves for retirement – thinks József Hegedüs, one managing director of Metropolitan Research Institute.

- Many of them have invested their money in real estate. However, there is a fair number of those who have not set aside anything for their old age, since to maintain their consumption level required all their earnings. They primarily expect to work all their lives. But their plans can easily fail as with aging illnesses just as automatically reduced employment opportunities might come - warns Hanna Szemző, the other leader of the research.

According to her there are no real strategies for this situation. Youngsters receiving an income from their own enterprises find retirement to be too far away, so they do not consider any preparation.. The middle generation, which was already in the labor market at the time of the regime change, hopes to maintain its standard of living by supplementing its pension. However, studies show that pensioners begin to disappear from the labor market after three to five years. Tax evaders can find themselves in a real difficult situation as they have to provide their entire income.

Family interdependence has also been strengthened. Buying housing is almost unimaginable without parental help for Hungarian youngsters. This was especially true for the years following the regime change, when the combined savings of more generations was necessary for the purchase of a dwelling. Although the situation has become easier since, only relatively few have managed to enter the housing market

without any family help. According to the research, young wage earning single households face an almost impossible challenge when buying their first home. Many of them live in private rentals for the first decade of their working life. (In the meantime annually 20-25 thousand apartments become vacant due to the death of their owner. But their use is hindered by their bad – usually rural – position.)

In the research there was only one young man, who bought his apartment without family help. But he acknowledged that this was the result of his years as a petrol station employee. The growing importance of the family background preserves social inequalities. At the same time the family also functions as a welfare network: the tripping family member is first upheld by the family members, even at the price of selling their assets.

Ownership of real estates has become a central part of life strategy. Parents hold on to them for the children but often ask for financial support or perhaps physical care in return. Offspring mostly prefer this way as well. A new trend in Europe is the rising mobility of the over 55-year-olds: parents in growing numbers prefer to move close to their children.

A particular Hungarian phenomenon is "downward mobility" - the swap of the dwelling with a cheaper and less costly one, and the consumption of the surplus money. Already in 2003 twenty percent of all dwelling exchanges were characterized as such. At the end of the housing chain the majority of those people pushed out from run-down, inner city ghetto dwellings and housing estates that have high maintenance costs end up in rented shacks in the peripheries or in small villages/farms outside the agglomeration belt. The growing need for sub-standard accommodation is the indication of the widening of this stratum: low cost dwelling can be maintained even from social benefits. Those, who cannot even afford this, will sooner or later end up as modern "slaves" – sums up József Hegedüs, who thinks that poverty has scattered.