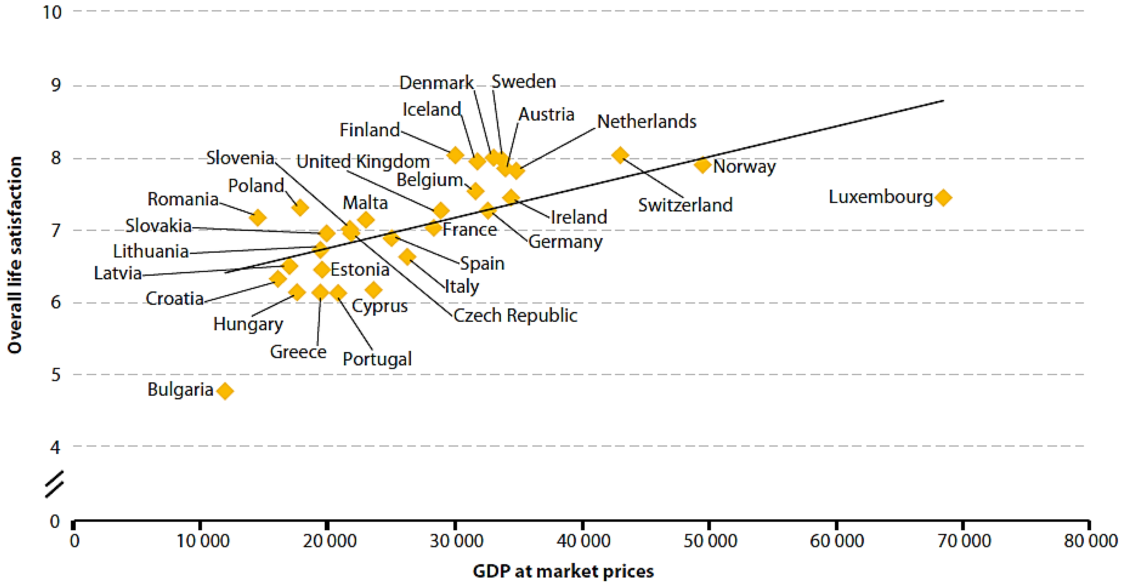
Quality of life improved, but Hungarians still work too long for too little

Eurostat has recently published the latest "Quality of life" survey which collects empirical evidence on and studies nine key aspects of life quality: material living conditions, employment, education, health, leisure and social relations, economic and physical safety, governance, environment and overall life satisfaction. According to the paper, in Hungary – similarly to the majority of European countries -- satisfaction with personal quality of life is lower than it would normally be justified by the country's gross national product. As the current economic model based on underpaid and overworked labour force will in the long term inevitably cause insufficient productivity in the entire European Union, a structural paradigm shift is unavoidable. This will have to create solid economic foundations in new member states. Accordingly, the Government has prioritized the improvement of the quality of existing jobs, which in the coming years will be subsidized by EU funds as part of the re-industrialization policy drive. Eurostat data also confirm the necessity of the Government's pro-family policy.

In light of the latest Hungarian GDP data, which show year-on-year growth of 3.5 percent in Q1 2015, it is but reasonable for Hungarians to expect imminent improvement in their everyday life: therefore, the issue is especially pressing.

Each and every quantitative life quality indicator signals low satisfaction among Hungarians compared to the level of the country's gross domestic product.

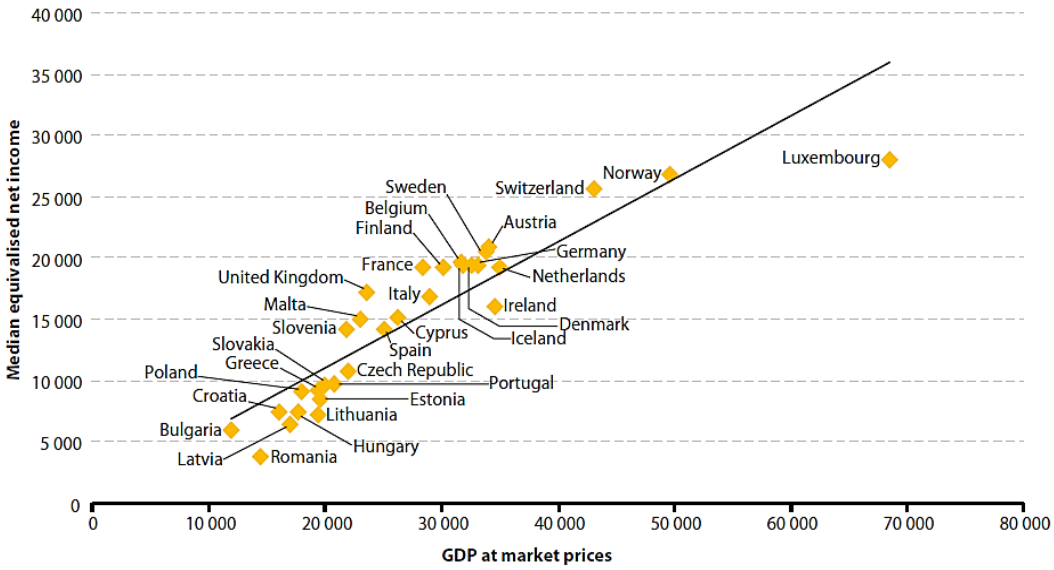
Fig 1: Overall life satisfaction vs. GDP at market prices (2015)



Source: Eurostat (2015)

In comparison to 2008, the year of the onset of the crisis, in 2015 Hungarians are earning more in terms purchasing power parity. However, the share of population that is admittedly more satisfied with their life is much lower than the EU 28 average and it is rather on a par with the level of the 2004 EU enlargement participants. This phenomenon is typical of countries in which GDP exceeds the individual disposable income level normally associated with that particular grade of productivity.

Fig 2: Median equivalised net income vs. GDP at market prices within the EU 28 (2013)



Source: Eurostat (2015)

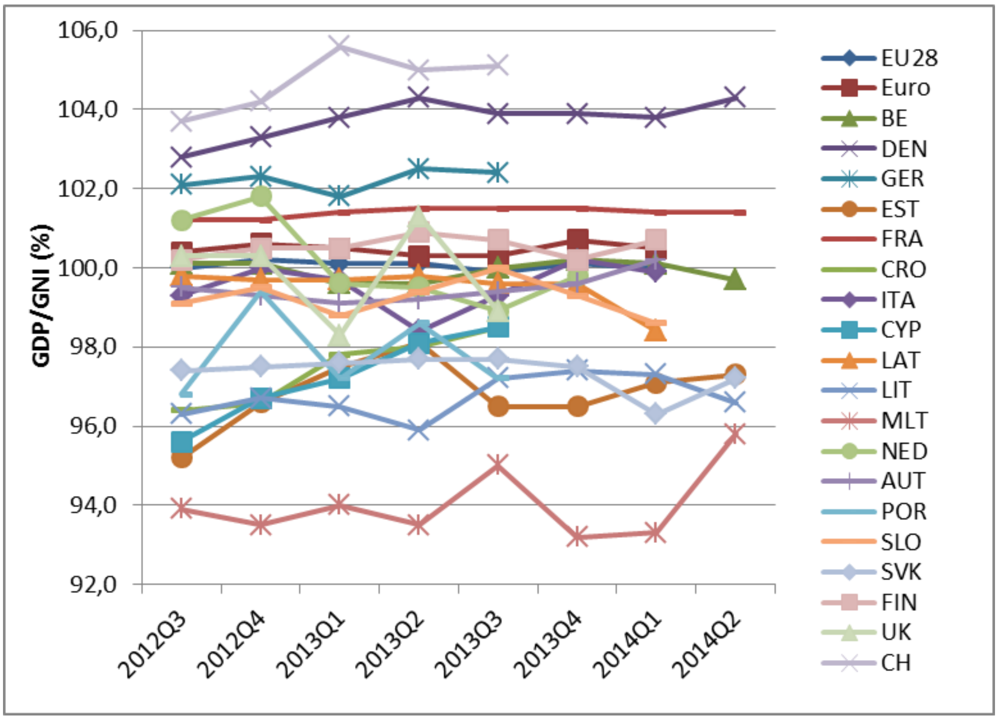
The above chart aptly demonstrates that in some countries GDP levels would warrant higher household incomes. Especially in new member states, nonetheless, some percentage of incomes is channelled to other end-points. In the following, a short analysis is devoted to this issue using national accounts.

By definition, GDP is the aggregate measure of production equal to the sum of the gross values added of all residents and institutional units engaged in production within one year. Out of the three existing methods of determining GDP – the output approach (produced income + taxes – subsidies), the expenditure approach or the income approach – the last one will be used.[1]

[1] The income approach calculates production only at current prices, as in case of current expenditures it would be too complicated to reversely calculate deflation. Labour income, gross corporate profits and miscellaneous investment income constitute the largest factors, to which indirect taxes minus subsidies and imports are added. The major drawback of this model is that it fails to differentiate between domestic and foreign corporate ownership. Therefore, it is necessary to factor in another indicator that shows the amount of real post-tax capital that stays in the country. The GNI, or Gross National Income, indicator is the right measure. GNI adds to GDP incomes earned by foreign residents, minus income earned in the domestic economy by non-residents. Consequently, in case the GNI of a country is below the GDP, the country loses some income; in the opposite case it has some extra gains.

Fig 3: GDP/GNI in Hungary (left) and certain EU member states (right) (2014)

ÉV	GDP/GNI (HU)
1995	97%
1996	96%
1997	95%
1998	95%
1999	94%
2000	95%
2001	95%
2002	95%
2003	96%
2004	95%
2005	95%
2006	95%
2007	93%
2008	94%
2009	95%
2010	95%
2011	95%
2012	96%
2013	97%

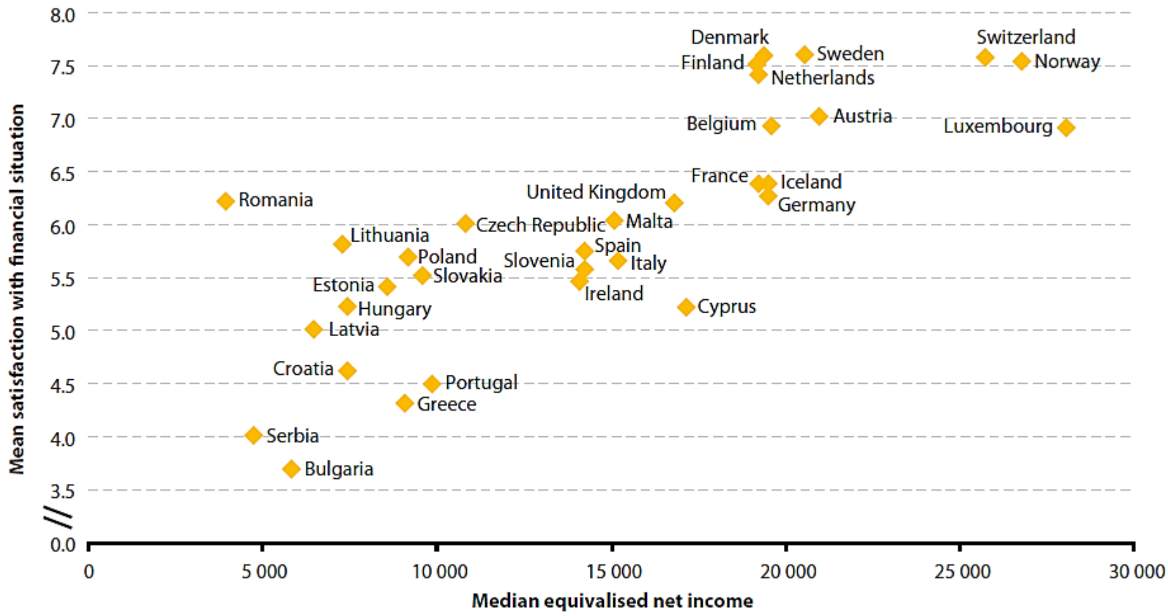


Source: Hungarian Central Statistical Office (KSH, 2015), Eurostat data as available (2015)

The finding of the Eurostat paper is also reflected by national accounts. **Europe has been split in two parts**: one group is comprised by countries that have managed to relocate production abroad and thus generate more overall income than it is produced domestically. Situation in the other group of countries is just the opposite: **in final reckoning they retain less income than they actually do produce domestically. To this group belongs Hungary,** which had had GDP/GNI shortfalls of 5 percent in crisis years and which has only recently narrowed the gap to 3 percent. This has been a negative factor reflected in salaries and subsequently in the perception of life quality. EU member states that fall below the Eurostat median satisfaction levels – the majority of which joined the EU after 2004 or some of the PIGS countries – are, with a few exceptions, on the wrong side of the GDP/GNI indicator divide. This discrepancy understandably adversely affects the residents of these countries, as they earn relatively too little and work too long for a living, while the economy is also more sensitive to external shocks.

On the other hand, quantitative data are not in every case in accordance with the personal perception of the grade of development. The perception of the financial situation versus median equalized net income is one of the aspects that shows inconsistency. While the median income, for example, of a Cypriot is double the Hungarian average, his level of satisfaction with the financial situation is only as high as a Hungarian's. A general trend nonetheless is hard to spot: Romanian citizens who earn on average much less than Hungarians are in general more satisfied with their financial situation.

Fig. 4: Satisfaction with financial situation by income (2015)



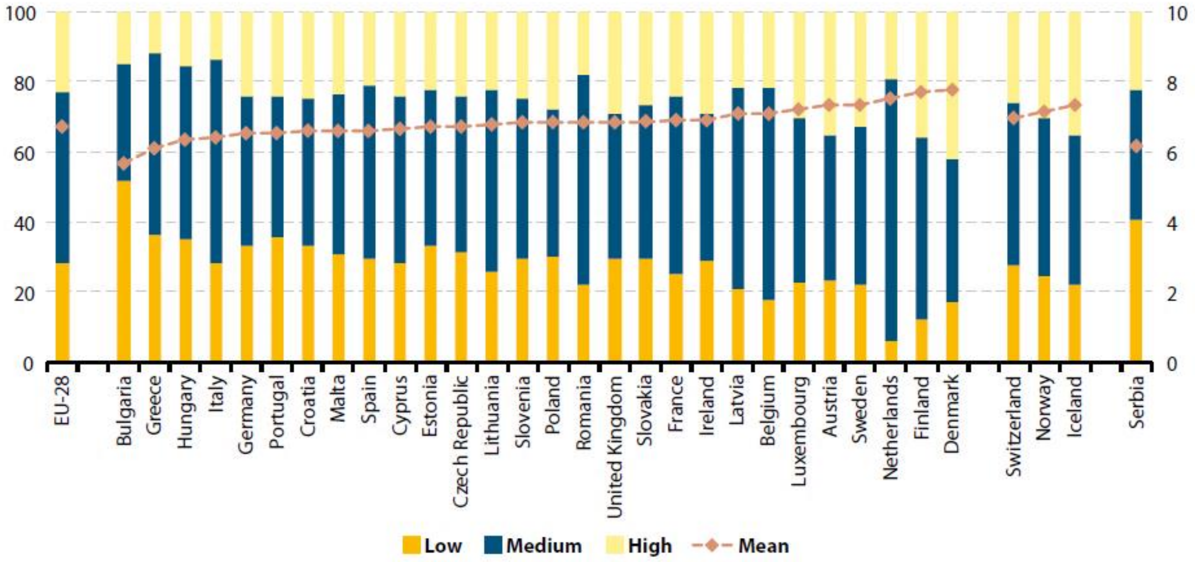
Source: Eurostat (2015)

When the relative proportion of poverty-stricken social groups is examined within the overall society, certain countries appear more pessimistic than it seems deserved. Hungary, Cyprus, Slovakia, Ireland and Slovenia display some common tendencies in terms of low satisfaction with the personal financial situation relative to the number of poor people. **Eurostat data confirm the urgency of the Government's pro-family policy: the survey reveals that in Hungary a large share of families is partially or wholly unable to cope with unexpected financial expenses.** This had necessitated Government-mandated public utility price cuts and the increase of family tax allowances which have helped ease the financial burden of families and boost domestic consumption. From this aspect, households in Cyprus and Serbia -- along with tail-enders Bulgaria and Greece -- have been the worst affected, lagging far behind the EU average. This highlights the need for reducing burdens on households, as this is a basic prerequisite of economic growth.

Satisfaction with work shows a much more mixed picture, as in this regard Hungary belongs to the same group comprised by France, the United Kingdom and Cyprus. The fact that in Bulgaria and Hungary only a few people speak foreign languages is posing a challenge for the labour market recovery in both countries. State interference in obtaining digital competencies is also required; to this end, the Government has formulated measures in the **Digital Generation Development Programme.**

With regard to the countries that joined the EU after 2014 there is also a clear trend in the life satisfaction gap between those with and without tertiary education attainment. This tendency validates Government's efforts for creating a robust vocational and adult training system as that could narrow the gap between the level of school attainment and personal satisfaction perceptions. This requires an increase in the number of jobs, and to this end **the Government is to disburse 60 percent of EU funds available in 2014-2020 for economic development.**

Fig. 5: Working time vs. satisfaction with time use, by country (2015)



Source: Eurostat (2015)

An average Hungarian works two-and-a-half hours longer than the EU average, 4 hours longer than a Swiss and 6 hours longer than a Danish citizen. In light of these facts, it is not surprising that Hungarians are among the most dissatisfied nations when it comes to workload. It is also interesting that while Hungarians are displeased with the length of working time, they spend more than average on recreation, and this is just the other way round in most of EU member states. Households in Lithuania, France and Belgium are more positive on their life-work balance and spend less on recreational activities.

Hungarians depend over-proportionately on **fixed monthly wages**: getting laid off leads in almost every case to a severe cash squeeze. Hungary's indicator with above 90 percent is the worst figure within Europe and this is one of the reasons for the Government to do as much as it can in the coming years to increase the number and improve the quality of jobs.

Sentiment indices can often expose lots of information on a country's deep-seated troubles. Eurostat data signalled that although Hungarians are less satisfied with their life in comparison to the European average, **the levels of trust in the political system, the legal system and the police are either above or near the EU average**. The survey showed close correlation between satisfaction with life and trust in the political system.

Hungary did not fare poorly in the field of social progress and sustainability: while the majority of Hungarians have sufficient relations to fall back on in case of difficulties, in countries like Luxembourg and Italy only 15 percent of people can rely on help from friends or family.