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ON ENRICHMENT IN HUNGARY*

The number of families having some wealth has increased in Hungary in the seventies. Such families can be found in every social class and stratum. The majority of families have some real estate. Also incomes deriving from wealth exist to a limited extent. To expand the scope of families having substantial wealth is a major economic and social interest.

In the period immediately following the Second World War the vast majority of Hungary's population possessed no particular riches. Although a restricted stratum were left with their earlier fortunes these were not significant since the capital invested in immovables and means of production were nationalized, while money capital became devalued and disappeared as a result of the rapid pace of inflation. The number of families possessing significant wealth increased especially during the 1970s – enrichment became a mass phenomenon. Simultaneously, social judgement also changed. The endeavour to make a fortune – if it is based on honest work and is not immoderate – is accepted by the majority of people. The process of enrichment cannot be hindered even by the stagnation of the real incomes. Even if at a slower pace, it continues to make progress.

There is no uniform definition of the concept of wealth. All objects representing value and that can be sold in case of need, thus, i. e. durable consumer goods, too, may be considered wealth – in the widest sense of the word. However, it is difficult to handle the concept in such a wide sense. With regard to this survey only those elements, objects of wealth are of significance that considerably influence the financial position or their owner or possessor.

The traditional notion of wealth is based on the concept of ownership. In the modern economy this relationship has loosened, and wealth does not necessarily mean ownership. Under Hungarian conditions, for instance, the tenancy of state-owned flats is also a form of wealth that may be exchanged for either money or a privately owned dwelling.

Current income only determines the financial living conditions together with the property conditions. It is evident that with identical per capita incomes the living standard and way of life of a family that possesses an adequate dwelling, a weekend-

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cottage, a car, etc. are entirely different from those of a family lacking all these provisions. Property differences play a basic role in differences in the financial position of the individual families. Our numerical knowledge of the population's financial situation is extremely scarce, almost lacking. We are in possession of certain data that can be detailed to the family level only concerning real estate and passenger cars, while our information on savings deposits are only of a general character, and those on other elements of wealth, value objects, works of art, etc. are even fewer. This is not a Hungarian speciality. The statistical consideration of family wealth is extremely insufficient in other countries, too, even if not to the extent as in Hungary. "Sensitivity" is also a reason for this. The gathering of such information is considerably resisted to everywhere.

The family property has a treble function: firstly, it is a use-value; secondly, it has a value preserving; and thirdly, a value increasing role. The property functioning as a *use-value* is utilized by its owner (possessor) in natural form, as a use-value: he lives in his flat, spends his holiday in his cottage, uses his car, works with his means of production, decorates his home with his works of art, etc. At the same time, the possession of valuables that also include value objects, is part of the material framework of a higher standard, more contentful manner of living. Under modern conditions a high-level manner of life is unimaginable without these. All value objects also possess a *value preserving, accumulating (hoarding) ability*. If a value object were capable of preserving its value only to a limited extent, it would fulfil the role of wealth only to a limited extent. It is its ability of preserving value that makes it suitable to function as a financial reserve, safety reserve. Functioning as a financial reserve, valuables provide protection against expected and unexpected events of an unfavourable character, processes of financial character, enabling provision for needs that can only be satisfied with the help of savings during a longer period. Under our conditions wealth may also possess a *value increasing function*. A large portion of value objects ensure incomes for their owners, possessors continuously or non-recurrently – realized at the time of their sale. This will be discussed in more detail later on.

The socio-economic significance of family wealth is increasing in Hungary. This is primarily related to two circumstances. On the one hand, to the relatively high rate of increase in the real incomes in the recent period, and within that to the more frequent high incomes, providing a possibility for substantial accumulation. These have established the financial basis for enrichment. (The extension of the so-called secondary economy also played a role in this. The spectacular processes of enrichment during the 1970s were partially based on this.) On the other hand, the demand for acquiring wealth, and in some respects even its necessity was extended, or was established by the fact that it had become evident: the state was incapable of fulfilling the role of providing for everything, of completely fulfilling its citizens' basic financial needs in a societal manner, the role attributed to it by earlier illusions. The families themselves have to solve these problems to a greater extent than it was once imagined.

The system of social provisions (benefits) in Hungary is of a very high standard – when compared to the economic possibilities – but faced with the earlier ideas, it cannot

fulfil many just demands. The most important circumstance here is that the larger portion of the financial burdens of acquiring a dwelling must be borne by those concerned. Under conditions when the state mainly depends on the means of the population in solving the housing problem, the accumulation of family wealth on a sober level is actually socially expected. One who wants to ensure a dwelling for himself or for his children must possess — in the majority of the cases — a certain amount of wealth, and, when compared to the average level of incomes, quite significant wealth. But in other fields, too, financial reserves, wealth play a supplementary role in complementing the system of social provisions. The different commotions that occur to families (deaths, inability to work, a decrease in the ability to work, etc.) also have financial consequences that are balanced only partly, if at all, by our social insurance system. This may be partially complemented by the financial reserves of the family. In addition, the state has at present difficulties in maintaining the actual value of old-age pensions, guaranteeing a compensation for the increase in the price level. Under such conditions an adequate amount of wealth may provide protection against old-age poverty, it may compensate for the devaluation of old-age pensions because of the rise in the price level, and it may play a significant role in an old-age pensioner's ability to maintain his earlier way of life.

Income and wealth

The formation of wealth primarily depends on the incomes. The most important manner of increasing the population's wealth is through savings from incomes, through giving up the consumption of a part of the income. On a certain level of incomes wealth formation is a natural consequence. A slowing down in the increase of incomes generally results in the slowing down of wealth formation. However, this relationship is not a mechanical one. Wealth formation also depends on the distribution of incomes. With low average living standards significant wealth only comes about when there is a considerable differentiation in incomes. This holds true to a smaller extent in the case of higher living standards when enrichment may be a wide-scale phenomenon even in the case of smaller differences in incomes, when significant wealth, and at the same time, significant differences in wealth may come about. As a result of the stagnation of the real incomes, and its decrease in the case of certain strata, the process of enrichment will probably not extend in the following years. The number of families capable of significantly increasing their wealth will not grow, and may even decrease. (This was already reflected in recent years by the slowing down of the construction of dwellings and holiday-cottages.) At the same time, as a result of the expected intensification in income differentials the wealth of a portion of the population may increase at a faster pace than before. All in all, a slower, but more differentiated increase in wealth may be expected.

The relationship between the size of income and wealth may naturally also be reflected in that the majority of the most wealthy families are among those enjoying a high income, and the other way round. However, here too, the relationship is not

automatic. The same income may be spent in many different proportions on consumption and accumulation, the creation of wealth. On the other hand, wealth as a stock variable is influenced not only by the income of the given period, but also by the financial past of the household, including the values inherited from previous generations. Experience has shown that the relationship between the size of income and wealth also depends on age and occupation. In the case of elderly people, old-age pensioners, it is not rare to find very low incomes and considerable wealth (immovables, jewelry, etc.) simultaneously. In contrast to that situation, young people with high incomes often lack any wealth at all. In the capitalist countries those with independent existence, artisans, tradesmen, smallholders, are typical of possessing a large wealth compared to their incomes. In Hungary this is less typical for the time being, but it may become characteristic as a result of the modernization of small industrial workshops, plants.

Wealth in Hungary today – in a manner similar to the size of incomes – is not attached to classes or the usually defined social strata (agricultural physical labourers, industrial physical labourers, intellectual workers, etc.). There are a large number of families both with and without wealth in all classes and strata. In the following an endeavour is being made to provide a schematic outline of the stratification of the population with regard to their financial situation, with special attention paid to the relationship to the size of the incomes, and within that, to the portion of the freely disposable incomes. (With regard to wealth formation the portion of the incomes that can be freely utilized plays the determining role.)*

– *Families without wealth.* Their possession merely include the durable consumer goods used in their households. They do not possess own dwellings, or only very outdated, run-down ones. Their money savings are small and irregular. Their majority belong to the low income bracket, where the portion of the freely disposable income is merely 10–20 percent. The number of people belonging to this group is approximately 1 million in Hungary, a country with a population of 10.7 million.

– *Families with modest wealth.* They possess an average level dwelling, averagely furnished and well equipped with durable consumer goods. A part of the families in this group also possess a passenger car or a modest holiday plot. Their money savings fluctuate, a few tens of thousands of forints. Their value objects function as use-value, they have a dominating character of directly fulfilling needs. The majority of these families have an average income, and within that the freely disposable portion is 30–40 percent. They are only capable of creating wealth by a way of life characterized by saving. This group includes the vast majority of Hungarian families, nearly 8 million people.

– *Wealthy families.* They possess rather good, higher than average dwellings furnished and equipped with much care. They exchange their durable consumer goods, cars for new ones rather often. Their majority also possess valuable holiday-cottages.

*I depended on Alojzia Falusi's work [5] in my systematization and numerical estimations.

They are capable of fulfilling the following generation's needs for housing. Their money savings are about 100 thousand forints. They also endeavour to ensure the long-term fulfilment of their plans to acquire dwellings, the preservation of the value of their savings for that purpose by acquiring holiday-cottages and by purchasing objects of lasting value. Thus, the objects of value do not merely serve the purpose of fulfilling needs, but also serve value preservation, occasionally the increase of value. The majority of these families have high incomes, and the freely disposable portion of their incomes exceeds 50 percent. They are capable of a continual hoarding of wealth without too much saving. The number of families belonging to this group is estimated to be approximately 300 thousand, that is, about 1 million people.

— *Families with great wealth.** They possess all the forms of value immovables (real estate), value objects and art treasure on a high level. Their money savings run to several hundred thousand forints, and in lack of unfulfilled material needs their utilization often causes problems. With the exception of a few, they belong to the category with high incomes, with a high portion of freely disposable incomes. Occasionally their life-style is characterized by wasteful spending. The number of families in this group is estimated to be approximately 15–20 thousand, that is, about 50–60 thousand people.**

The distribution of wealth in Hungary — as in all other countries — is far more unequal than that of incomes. Of the different forms of wealth the distribution of real estate is relatively the most equal. This is the “most democratic” form of wealth. The majority of the families possess some form of real estate, primarily a family house or a privately owned dwelling which, however — because they live in them — they cannot make money of, or exchange it for another form of wealth. Consequently, this may only be considered wealth to a limited extent. It has been an international experience that as the family wealth grows, the ratio of personal (movable) property also increases, while that of real estates decreases. This probably also holds true for Hungary. The wealth in value object (precious metals, jewelry, etc.) is distributed far more unequally than wealth in real estate, and this is even more so with regard to works of art (paintings, sculptures, antiquities). The collection of these is a form of hoarding for the wealthiest strata. Mainly those purchase jewelry or works of art who already possess the permitted amount of real estate — a dwelling and a holiday home per family. (There are exceptions, of course.)

*The definition of great wealth here is only to be interpreted under Hungarian conditions, it cannot be compared with great wealth in the capitalist countries.

**The number of wealthy families and families with great wealth was estimated on the basis of the number of doctors, artists and private craftsmen in possession of valuable assets, real estate, expensive cars, large savings accounts and outstanding incomes for a presumably longer period of time.

Enrichment and the increase in price level

Family wealth is not merely increased through savings from incomes, but also changes through the modification (increase or decrease) in the value of the individual forms (elements) of wealth. The value (exchange value) of the individual elements of wealth increases or decreases according to how their price is related to the average price level. Intensification of the increase in the price level increases these differences. In Hungary the real value of savings deposits decreased during the 1970s – since the increase in the interest rates did not keep pace with the rise in the price level – on the other hand, the price of real estate increased approximately threefold, the price of precious metals and works of art to an even larger extent, while all in all the consumer price level increased approximately one and a half times. As a result, the value (exchange value, real value) of the individual families' wealth has changed to considerably varying extents – sometimes even in different directions as well. Those who maintained their wealth in the forms of real estate, precious metals or works of art gained as a result of the increase in the price level, while those whose wealth was in the form of savings deposits lost a certain value. (Especially, if we take into consideration the extent to which the price of those their savings were aimed at had increased.)

In its natural form, wealth may be financial (providing the right to a definite value), real estate, or personal (movable) property. In the following the influence of the increase in the price level on the exchange value of the individual forms of wealth will be reviewed on the basis of this classification.

Financial wealth

Under our conditions the main form of financial wealth is the savings deposit. Whether, and to what extent, savings deposits are capable of fulfilling the role of wealth depends on their value-preserving ability, and within that, primarily on the relationship between the interest rates and the increase in the price level. If interest does not cover the increase in prices, if the nominal interest rate is lower than the increase in the consumer price index, the real interest will become negative. And this was the case in Hungary during the past few years. Up to 1968 the nominal and real interest rates were approximately identical. Later on the increase in the consumer price level became faster, while the real interest rate began to decrease, and in 1978 – regarding all savings – it became negative. As of that time the unchanged interest conditions could not maintain the real value of the savings. In 1979 and 1980 the increase in the price level exceeded the average nominal interest rate regarding all savings by 4.5 and 4.6 percent, respectively, while regarding long-term deposits (deposited for 1–3 years) by 3.8 and 4.0 percent. (The nominal interest rate of short-term deposits was 2 percent, that of long-term deposits was 5 and 6 percent in that period.) Simultaneously with the stagnation of the real incomes and the nearly 4 percent decrease in real wages during those two years, this resulted in a

Table 1

The real interest rate of the population's savings deposits in percentage

Year	Change in consumer price index (%)	Average interest rate of all deposits	Real interest rate of all deposits	Average interest rate of long-term deposits	Real interest rate of long-term deposits
1968	-0.3	4.1	4.4		
1969	1.4	4.1	2.7		
1970	1.3	4.1	2.8		
1971	2.0	4.1	2.1	5.0	3.0
1972	2.9	4.2	1.3	5.0	2.1
1973	3.3	4.2	0.9	5.0	1.7
1974	1.8	4.3	2.5	5.0	3.2
1975	3.8	4.3	0.5	5.0	1.2
1976	5.0	4.4	-0.6	5.0	0.0
1977	3.9	4.4	0.5	5.0	1.1
1978	4.6	4.4	-0.2	5.1	0.5
1979	8.9	4.4	-4.5	5.1	-3.8
1980	9.1	4.5	-4.6	5.1	-4.0

Source: Falusi [5] p. 32, and Dr. Fogaras-Dr. Kalocsay: [8] p. 29, and individual calculations.

drastic decrease in savings deposits. (In 1981 the increase in the price level and in the nominal interest rate reached a nearly identical level, and there was an increase in new savings deposits.)

All in all, the real interest rates of the population's deposits in the period between 1976 and 1980, that is, during the fifth five-year plan period, made up -2.5 percent with regard to all deposits.

In the vast majority of the cases the opening of savings deposits serves a definite purpose. In the case of nearly 28-30 percent of the deposits the aim is to build or purchase a dwelling. However, the increase in their prices is considerably higher than the average increase in the consumer price level. As a result, in the eyes of those who intend to build or purchase a dwelling, the real value of the savings deposits decreased to a considerably greater extent. "If someone in 1970 deposited 100 thousand forints in long-term savings with an annual 5 percent interest with the intention to save up for the purchase of building materials for building a dwelling or a house (and so far could not have realized the construction) in 1979 he could purchase for the deposit supplemented with the nominal interests only 90 percent of the originally (1970) purchasable amount of goods, and at the end of 1979 only 84 percent of that." (Falusi [5] p. 38.) Taking into consideration not only the increase in the price of building materials, but also that of all the expenses involved with residential building, this value would have further decreased to 76 percent in 1979, and to even less by the end of 1979 [5]. This rate of decrease

in the real value of savings deposits inspires money-holders to seek other forms of accumulation (real estate, jewelry, works of art, etc.). This process cannot be halted even by the considerably significant special advantages of the savings deposits (absolute liquidity, anonymity, the possibility of transfer without duty). The question arises whether or not it would be reasonable under such conditions to raise the rate of interest so as to inspire deposits that are held back anyway as a result of the stagnation of real incomes and real wages. This issue will be discussed in more detail following a survey of the role played by credits.

Table 2
The real interest rates of long-term credits (1971–1980)

Year	Interests, expenses and commissions in percentage of all credits	Consumer price index (%)	Annual real interest rates (%)
1971	3.1	2.0	1.1
1972	3.2	2.9	0.3
1973	3.2	3.3	-0.1
1974	3.3	1.8	1.5
1975	3.2	3.8	-0.6
1976	3.3	5.0	-1.7
1977	3.2	3.9	-0.7
1978	3.2	4.6	-1.4
1979	3.1	8.9	-5.8
1980	3.1	9.1	-6.0

Source: Dr. Fogaras–Dr. Kalocsay: [7], p. 73.

If the population, as the owner of savings deposits, had to suffer losses during the past few years, as debtors, as recipients of credits – on the contrary – they enjoyed gains. Through the utilization of long-term credits (for building and purchasing dwellings and homes) the wealth of the families increased considerably. As a result of the rise in the price level they had to repay their credits in money of decreasing purchasing power, while at the same time, the value of the real estate purchased with the help of the credits increased at a rapid pace. This is not a specifically Hungarian phenomenon, this is also the case the world over. The specific feature is the extremely advantageous credit conditions, their very long-term character and the extremely low rates of interest, which are far smaller than those paid on deposits, and which did not keep pace with the rise in prices at all. (The interests on the majority of the long-term credits are around 1–3 percent.) The real interest rates (the average of interests, expenses and commissions, minus the price index) of long-term credits between 1971 and 1974 were positive to a smaller extent, however, by 1975 they became negative, and in 1979 and 1980 they already were up to – 5.8 and – 6.0 percent, respectively.

The extremely advantageous conditions make creditors interested in obtaining the possible largest and longest-term credits. The ratio of the credit surplus (the difference between all credit raised and repayments) within the total sum of money available to the population increased at a rapid pace. While in 1970 it only amounted to 2.3 percent, in 1975 it was 3.1 percent, and in 1980 it was already 4 percent. All in all, the citizens obtaining credits for residential building and purchasing received nearly 36.4 thousand million forints of concealed state assistance in the 10 year period between 1971 and 1980 (Dr. Fogaras – Dr. Kalocsay: [7], p. 76). This was the sum with which their wealth increased as a result of obtaining credits. The wealth in possession of the population in the form of immovables was not only increased by credits, but also by the different forms of non-repayable state and company grants. These are not subjects of this survey.

The approach from the side of wealth formation reflects two unwanted consequences of the Hungarian interest policy. Compared to the increase in the price level the low interest on deposits slows down the formation of deposits, thus, the inclination to save, while compared to the increase in the price level the low interest on credits results in an extensive utilization of credits as compared to all the deposits. It is almost a natural suggestion that interest rates on both credits and deposits should be raised. It is all the more evident because the one could cover the other, the increase in the interest on credit could cover the increase in the interests on deposits. No doubt, a number of counter-arguments exist to underline the contrary. The most often raised argument against raising the interests on deposits is that it is completely superfluous since – because of the lack of a choice for investment – money holders in Hungary will deposit their savings in the savings bank despite the low rate of interest. This is becoming untrue to an increasing extent. On the one hand, the field of opportunities for other investments is increasing, while on the other hand, if there is not enough stimulation for savings, waste and the danger of a prodigal spending of incomes will inevitably increase. The main reasoning in the “defense” of the extremely low rate of interest on residential building and purchasing loans is that they serve social policy purposes. However, it is doubtful whether this was the best way to implement this social policy aspect really of basic significance, when in fact everyone – regardless of income and/or need – can obtain this extremely large sum of state assistance. The social policy aspect should be implemented in a differentiated manner, separated from the rate of interest. In addition, one must also realize that the depositors and those receiving credits are not two separate castes, but are generally the same people or families. The depositors will later on apply for credit. It may also be explained in a way that those granted credits today will partly become richer at the expense of the depositors, and also as a result of this, a considerable portion of the depositors will have increasing difficulty in reaching a financial situation where they would swing to the “other side” and become one of those acquiring their houses with the help of receiving credits. This is also a social problem, and a very serious one. The issue of the increase of interest rates on both credits and deposits requires further thorough analysis. There is a need for the establishment of financial solutions that, in addition to the slowing down of the increase in the price level and other financial, balance aspects,

also take into consideration the financial load-bearing capacity of the home builders and purchasers. (As for instance, instead of equal repayment sums it would seem more expedient to set smaller repayment sums for a start that would gradually be increased. It may also be reasonable to establish special deposits for home builders that would be attached to different facilities.)

Wealth in real estate

The basic and most important form of wealth in Hungary is wealth in real estate, and within that, a dwelling, a family house, a holiday-home, or an auxiliary farm plot. The number of privately owned dwelling and family homes is approaching two and a half million, while that of holiday-cottages well exceeds a hundred thousand. These primarily represent use-value for their owners. The majority of owners of dwellings merely became the owners of immovables in the lack of a more favourable opportunity, of state-owned and rented flats, because of compulsion.* The owners cannot assert the wealth nature, the value-preserving or value-increasing nature of their immovables because they live in them, and their size does not exceed the owners' or their families' needs. This is only possible under special circumstances (if the dwelling becomes vacant, or if it becomes large compared to the number of family members, etc.).

In the majority of cases the reason for the acquisition of immovables is fulfilment of the corresponding natural needs. However, a role is also played by endeavours aimed at hoarding. Whoever has the opportunity, endeavours to invest the largest possible portion of his money saved up in immovables. This is advantageous with regard to the national economy insofar as it increases the overall social fund of dwellings and holiday-homes. It is disadvantageous insofar as the distribution and utilization of the immovables established in this manner are not always satisfactory. As for instance, it would be evidently more advantageous to have dwellings built instead of some of those holiday-homes that had been built to serve boarding alone. (It has already been mentioned that the construction of holiday-homes often merely serves as the financial background to a future dwelling for the children.) In addition – also for reasons of hoarding – quite a number of people build family homes whose size well exceeds their current needs, as well as their requirements for the near future, and they do not utilize the superfluous portions of their immovables through leasing them.

Throughout the country the annual average increase in the price of real estate was 10 percent during the past decade. However, within that the differences were extremely

*According to the experiences gained through different surveys no significant relationship exists between the per capita income and the ownership of a dwelling or a family house. Those living in dwellings or family houses of their own do not have higher incomes than those living in rented flats.

Table 3

*The increase in the price of dwellings and housing plots in Budapest
in the period between 1970 and 1979*

(Based on data obtained from the Municipal Real Estate Mediating Enterprise)

	1970	1973	1979	1979/1970 %
Flat (Ft/m ²)	2971	4770	9206	310
Housing plot (Ft/sq. fathom)	335	382	1008	301

Source: Csúcs [3], p. 765.

significant. In the capital, for example, the price per square metre and square-fathom* of flats and housing plots increased approximately three-fold in the period between 1970 and 1979.

In accordance with international trends the price of favourably situated, valuable immovables increased at a faster pace than that of less valuable ones, the specific increase in value was generally the higher the more valuable the real estate was. In the more favourably situated places of Buda** there are plots with prices occasionally up to 7–10 thousand Ft/sq. fathom today. Immovables in unfavourably situated areas, of poor quality, without public utilities, and with a low degree of comfort increased their values to a far smaller extent.

The main reason for the rapid rise in the price of immovables was mainly the shortage of well situated plots supplied with public utilities. However, there is no question about its close relationship with the general increase in prices. A special interrelation exists here. Since the price of real estate is increasing at a faster pace than the average increase in the price level, the immovables possess a value-preserving, and even a value-increasing nature that increases demand for them during a period of lasting increase in the price level, which on the other hand, affects the price of real estate by increasing it to an even greater extent. The price of real estate increases at a faster pace than the general price level, but the rise in the price of immovables – in consequence of the above explanation – depends considerably on the rise in the price level on the whole. With the slowing down of the increase in the price level the rise in the price of real estate also slows down. But the increase in interests on deposits or the establishment of other attractive opportunities for investment may have the same influence. These curb the flight of financial savings into immovables.

In Hungary during the 1970s the rapid increase in the price of real estate and construction costs leads to a point where, following a considerable upswing during the

*In Hungary 1 square-fathom = 3,59 m².

**The hilly, green district in Western Budapest.

initial period, private home building slowed down, as of 1976 its volume decreased, and in 1980 it did not reach the level of 1972. (The construction of holiday-homes also decreased considerably.) The majority of those with an intention to build are incapable of keeping pace with the increase in costs (prices), their financial means did not increase accordingly, and it became increasingly difficult to acquire flats or family houses that correspond to the needs.

Under our conditions the possession of state-owned rented flats is also of a nature of wealth, a "quasi-wealth" that may be exchanged for money, or other assets through different channels. (Generally through an exchange of the flat for a privately owned-apartment. The free market price of state-owned rented flats is today approximately half of that of a privately owned dwelling of an identical level of comfort and situation.) Its value nature results from the extremely low level of housing rents when compared to the actual costs, it depends to a great extent on the size of rents. Depending on the extent to which rents are increased the value nature of rented flats decreases. Under the present conditions the possession of rented flats is also connected to enrichment in a manner that the financial means saved up as a result provide an opportunity for acquiring other value objects (holiday-homes, cars, etc.). It is also related to this fact, that 62 percent of the holiday-homes are in the possession of those who live in rented flats. Another strata in such an advantageous position is that possessing a privately owned dwelling that has already been fully paid for. Every sixth family in possession of a privately owned dwelling without any financial burden in the capital also possesses a holiday home. Surveys have also reflected that the most valuable holiday-homes are owned by those in this strata and by those who possess family homes of their own but are still repaying their credits.

Wealth in personal (movable) property

The most typical form of personal property is that of valuables. The collection of valuables, precious metals, jewelry has always served not only delight, but also the accumulation of wealth, the preservation of value. As a result of the acceleration of the increase in the price level, this function has gained a special significance. Also because of the limitation in Hungary of acquiring immovables, the demand for "valuable things" has increased. The price of valuables has increased considerably faster than the average price level. With a certain time lag, the world market prices of gold and silver were also followed by the prices in Hungary.

All in all, despite the fluctuation of prices in recent years, those who accumulated valuables in Hungary — as in most countries of the world — during the past period, were fortunate, and if they did so in large quantities, they became rich. The collection of valuables, as has already been mentioned, is a form of hoarding for the most well-off strata. Thus, the profit gained from the outstanding increase in the price of valuables primarily made the already wealthy strata even wealthier. Especially those were fortunate who purchased or continued to possess considerable amounts of gold valuables before

Table 4
The purchasing price of gold and silver in Hungary
(Ft/gramme)

Year	14-carat broken gold	Broken silver
1970	38	2.60
1973	59	2.60
1974	100	5.00
1975	130	5.00
1978	130	5.00
1979, July	150	8.70
1979, November	200	
1980, February	358	29.00
1981	305.50	12.10
1982, April	306	9.80

Source: Records of the Watch and Jewelry Company, and the Commission Shops Company.

Note: The price of gold jewelry increased to a somewhat smaller extent than that of broken gold, approximately six-fold between 1970 and 1982.

1970 despite the restrictive regulations.* Those who purchased gold later on, especially after 1975, enjoyed a smaller gain in value. The future, expected price of valuables will mainly be influenced by the world market tendencies and the domestic purchasing-power of money, but it will also be affected — just as the price of real estate — by the level of interests on deposits and the possibility for investment. In case the opportunity for other investments will be extended (i.e. that of investment in different enterprises) the demand for valuables, and thus, the increase in their price may be moderated.

Works of art (paintings, sculptures, antiquities, etc.) are also significant valuables. Their price has also increased at a rapid pace — even if not to the extent of precious metals. Because of the extreme diversity, the price of individual pieces is a very uncertain indicator, but since there is no other way of measurement, this will have to be applied for basis. According to the data obtained from the fine arts auctions of the Commission Shops Company, the price of paintings has doubled on the average, that of other works of art, china, antiquities, etc. has trebled in the period between 1970 and 1980. That is, the increase in their price was also considerably higher than the increase in the price level on the whole.

*Up to 1974 a Hungarian citizen was allowed to possess not more than 500 grammes of gold. In the meantime, this limitation has been abolished.

Wealth in the means of production comprises personal (movable) property, but often includes elements of financial nature and immovables as well. Under our conditions the population's wealth in means of production is closely related to occupation. It includes those means of production in individual or family possession with the help of which the owners can practice their occupation in their private plots, workshops, stores, etc. Their significance is increasing. A discussion of the manifold problems involved exceeds the framework of this article.

Incomes originating from wealth

In all the socialist countries – including Hungary – in the spirit of socialist principles the concept prevails that family wealth should primarily function as the source of fulfilment of personal needs, as use-value, and not as a source of incomes. Accordingly, incomes originating from wealth are being limited, yet they do exist in all the socialist countries to a limited extent and in limited forms. The right to receive interest on savings deposits, as an award for delayed consumption has, for instance, been acknowledged by all the socialist countries. In certain periods and in certain countries it meant positive real interests, actual incomes. In Hungary, for example, during the eight years between 1960 and 1968 price increases made up a total of 5 percent, while during the same period the compound interest on deposits tied down for a year increased by nearly 50 percent. However, incomes gained from many other different forms of wealth are also permitted.

The vast majority of incomes originating from wealth are non-recurring incomes realized in the selling price of the valuable object. In different manners, through duty, tax, etc. the state endeavours to draw away a certain portion of this non-recurring income. The sale of real estate with an intention of profit earning is not banned in Hungary, but in case a real estate is sold within 10 years after its purchase, a considerably progressive tax on the increase in value has to be paid.

The continuous incomes originating from wealth are most often gained by subletting real estates, holiday-homes, dwellings, fully or in part. The number of privately owned dwellings rented out was 263 thousand throughout the country in 1979, which was not insignificant. However, their majority were in old houses with very low, fixed rents. This does not bring any income for the owner, so much so, that it does not even cover his expenses. This is not the case with dwellings built and rented more recently. Since their rents are freely contracted, they provide considerable incomes for the owners. The figures on leased holiday-homes or part of them are not available. No doubt, there are quite a number of families who earn additional incomes in this manner. The net income generally is not more than the interest on the sales value would be, and often it is even less. The real profit of the owner is generally not this, but the increase in the value of his asset, although that is only realized when it is sold. All in all, the number of families earning incomes from subletting their dwellings or holiday-homes is estimated to

be nearly 300 thousand. However, at least half of these only earn less than 1000 forints a month in this manner. There are merely a few tens of thousands of families whose annual earnings gained from subletting of their real estate exceeds 50 000 forints, and who pay progressive tax on this income.

A continuous income originating from wealth is obtained by a part of private craftsmen, tradesmen and small plot owners. Their income originates not only from their work, but also from the ownership of the means of production connected to their occupation, the size of their income also depends – to a considerably varying degree – on their invested capital. The existence of this rent-like income is reflected, among others, by the fact that the shop or workshop may bring income for its owner when he stops his work activity (i.e. when he leases his shop). The size of this rent probably exceeds the official interest rate. "The size of the rent enjoyed by small craftsmen as a result of their investment – because of the risk involved in the returns on the investment in consequence of the instable position of the private sector – is necessarily higher than the official interest rate." (*Gábor – Galasi* [9], p. 193.) Nevertheless, the incomes of the vast majority of small craftsmen, small tradesmen and even more so of small plot owners in Hungary are earned primarily through personal work, physical or intellectual activity, and do not originate from their ownership of the means of production.

Finally, there are also illegal incomes originating from wealth, i.e. the illegal interest received on loans provided by one citizen to another,* the profit gained through the sale of precious metals and jewelry by circumventing the official authorities, etc. Incomes are also often earned from illegally let real estates, when tax payment is evaded.

It is well known that incomes originating from wealth are very differentiated in the capitalist countries, increasing financial differences to a large extent. In France, for example, in the mid-1970s the income originating from wealth of the households of those in leading positions was 23-times larger than that of workers' households (*Villeneuve* [21], p. 113). Naturally, there is no such an extent of dispersion in Hungary in this field. The picture is rather complex. Non-recurring income originating from the increase in value of valuables, works of art – in case they are sold – is dispersed considerably in Hungary, too, generally it is enjoyed by those best off. The situation is different with the incomes originating from subletting real estate. Their dispersion is determined by the principle of "one family, one dwelling, one holiday-home". Under such conditions, the leasers are not necessarily the richest families. On the contrary. The latter rarely bother with the discomfort that goes with it. Although they often possess dwellings or holiday-homes that exceed their needs, it rather plays a role of reserve for them, they are not in need of leasing it. This richest stratum primarily obtains a large profit from the increase in value of their real estate, when it is sold; they count on this as a source of continuous income to a smaller extent. (Of course, there are exceptions, i.e. in the case of long-term foreign

*"For the seasonal-type activities of small craftsmen and even those without production permits . . . capital may be obtained here and there for 25–30 percent interest. The interest rate is so high because of the high risk involved." (*G. Havas* [10], p. 23.)

service, etc.) The income earned through the leasing of a part of the dwelling or holiday-home is often a supplement to the modest old-age pensions of the elderly. In these cases, this rather has a decreasing and not an increasing influence on income inequality. Naturally, the incomes earned from the ownership of the means of production are distributed very unequally, but because of the considerably limited extent of this ownership they have very little influence on the overall social distribution of incomes.

Income gained from wealth is a natural consequence of the existence of wealth. Wherever wealth exists, it generally also creates income. This issue, too, requires a prudent approach. One cannot automatically reject in a dogmatic manner all the incomes originating from wealth. (Fortunately, this is not the case in every-day practice.) After all, this would have a very limiting, damaging effect on the system of financial stimulation in general. Incomes connected to work also include many unequal, "easily gained" and great amounts that merely originate from someone else's mercy, while at the same time, a part of the incomes originating from wealth is the result of hard work in the past, of an extremely parsimonious manner of life. Of course, this is often not the case, and even if so, it is not without problems, its consequences are also of a contradictory character. (As for example, the wealth earned with hard work is later generally inherited by the descendents who did nothing to earn it, etc.)

The stimulation and limitation of wealth formation

One tends to merely think of the limitations when the policy of the state concerning wealth is mentioned. This is a mistaken intervention. Basically, wealth formation has to be supported, stimulated. Only its overgrowth, degeneration, negative consequences should be limited, halted. The extension of the circle of families with significant wealth, the enrichment of wide strata of the population is a first-rate economic and social interest. There cannot be financial prosperity, and it is becoming increasingly impossible, without family fortunes. But the possibility for enrichment is also indispensable for stimulation. One must not only rely on the pulling force of direct consumer needs, but also on the "inclination to acquire". Very often this is not based on some sort of hazardous phenomenon, it is not a harmful remnant of the past, but merely aims at financial security and at providing for the descendants. One should not "re-educate" people to eradicate their inclination to acquire – this would be impossible anyway – but rather it should be utilized by keeping it in the desired channel, in harmony with the aims of socialist society. Where there is no possibility for accumulation, enrichment, waste will necessarily take hold among certain strata. This is not only economically dangerous. It has been experienced both in Hungary and abroad that enrichment in a sober form, the not very spectacular financial differences are better tolerated by public opinion than the life styles characterized by outstanding waste and spending. As a result of the fear of the devaluation of money there is a greater danger of such a wasteful life style in a period of intensified price increases.

Wealth formation is primarily stimulated by the attractive possibilities for capital investment. These are limited in Hungary today. It would be a mistake to think that this merely affects a narrow stratum in a special position. The problem of "what to invest in" may emerge for everyone in the case of relatively rapid price rises, or of prices increasing at a faster pace than the interests on deposits, for all who are saving for a dwelling or holiday-home, and who do not want their savings to lose their value, or those who inherit some form of real estate but who already possess one — and this also occurs often — etc. At the same time, there is not only a need for the general stimulation of wealth formation, because its form is also of significance. Although the family wealth, valuables, works of art that have become a treasure, or even an unutilized real estate that only serves accumulation is part of the national wealth, it is barren. It neither improves living conditions, nor does it promote the raising of the national income. It would be desirable to have the largest possible share of the population's savings utilized in a productive manner, to channel it back into the circulation of the economy. After all, this is what happens when the owner deposits his money in savings accounts. However, it seems to be desirable to extend the circle of direct capital investment possibilities. This might inspire saving even in those who otherwise consider savings deposits to be unattractive, who are willing to take risks in the hope of incomes higher than the interest rate, and who are ready to "involve" their enterprising abilities. These possibilities for capital investment have been extended recently with the widening of the private sector and the establishment of small enterprises. However, these forms provide — at least legal — opportunities only for those who also take part in the activity of the enterprise personally. The vast majority of those in possession of the necessary financial means have neither the capacity nor the wish to do so. There are only a minimum of possibilities today for investment without the need to cooperate. In extremely small numbers these are practically limited to the purchase of cooperative target shares and the membership in holiday-home cooperatives. In reality, the financial means of the population would have plenty of place elsewhere, too. For instance, in the financing of small enterprises. This problem is unsolved. It can be observed that small enterprises in Hungary have so far only been established in fields that hardly require financial means, that have been formed to utilize only "intellectual capital". In addition to caution and being unexperienced in taking financial risks, this is evidently also related to the fact that those in possession of the "professional capital" do not, or only to a considerably limited extent possess the financial means; the two do not coincide. Several proposals have already been put forward to overcome the problem. They include the establishment of the so-called investment companies that under the auspices of the state authorities cater for the financing of different companies from the population's means, as well as the renewal of the mortgage institutions for this purpose, etc. These first steps require a thorough analysis, the cautious evaluation of the arguments both pro and con. Also ideological issues arise in this analysis. Primarily the question how far we can go in extending the field of incomes earned from wealth, not directly linked to work.

Providing the possibility for and inspiring enrichment must be coupled with its limitation, a halt to its overgrowth. The Hungarian regulations limit the extent, size of certain value objects. It has already been mentioned, for example, that according to the regulations one family may only possess one dwelling and one holiday-home, and that the newly built dwelling or holiday-home cannot exceed a certain size. In the case of other forms of wealth formation – the accumulation of money, valuables, works of art, etc. – such limitations do not exist. (In practical terms it would be impossible.)

The expediency of the current limitations acquiring ownership in real estate is being debated. *According to one view* it would not be correct to provide a greater field for private home building than existing today. An adequate dwelling is a basic need of every individual and family, its fulfilment should be ensured by society. The easing of the limitations on ownership in real estate would widen the circle of unearned incomes. Another argument is that if those financially well off and who already possess a dwelling would appear on the real estate market as purchasers they would raise prices through increasing the demand, and thus, would make the situation of those without dwellings even more difficult. *According to the other view* the limitation on acquiring real estate should be eased. Currently, the financial means necessary for housing are mainly in the possession of those who already have a satisfactory dwelling of their own, and not in the possession of those who are really in need of a dwelling. This endangers the implementation of the plans for private home building, and thus, the overall housing plans in Hungary. The drawing in of the means of those already in possession of dwellings into housing – which can only be implemented through the easing of the limitations on acquiring possessions – would increase the supply of flats, and after all, this is the most important issue. This would moderate the rents on the free market.*

Another manner of restricting wealth is through taxation of property. Explicit taxation of property in Hungary only concerns real estate (houses, plots) and water-craft. (The taxation of vehicles has been abolished recently.) But in its context the transfer duty on real estate and the duties payable in the case of the sale of valuables and works of art are also a form of taxation of wealth. There have been many debates and much controversy over the taxation of real estate purchased for the purpose of a home in the form of taxation of wealth. The dwelling in which one lives is actually a very limited wealth. Public opinion is more or less justified in disapproving the high transfer duty on real estate. (By the way, this has been moderated recently.) This is the more striking since the transfer of the right to the lease of state-owned flats to other members of the family is duty-free. The Hungarian system of taxation does not take it into consideration to a sufficient extent that wealth is not always identical with ownership.

*There are concepts that, e.g., dwellings should be allowed to be built or purchased for underage children, but without state support, or maybe on condition that the dwelling has to be utilized in the form of lease until the child leaves the family. Or the establishment of home building and leasing enterprises operating in an organized form should be permitted, etc.

Another form of property taxation is the duty on inheritance and gifts. Its basic function is to limit the concentration of wealth, to reduce the influence of differences in wealth on the descendants. This purpose would probably be better fulfilled by a system of duties that would not only take into consideration the size of the inheritance or gift, but also the financial situation of the inheritor, whereby a financially better off, wealthier inheritor would be subject to a larger duty, while the inheritor without wealth should be subject to a smaller duty. Another very important issue is that the majority of the personal (movable) properties evade taxation. (In principle, all inherited personal (movable) property over the value of 100 000 forints is liable to inheritance duty.) As already mentioned, a high ratio of personal (movable) property, valuables, works of art within the whole of wealth is most characteristic in the case of those best off financially. However, there is no realistic possibility for the recording and checking of personal property.

A worth-while endeavour, in addition to the direct limitation of wealth, also emphasizes the limitation of high incomes that provide a basis for speedy enrichment. In contrast to the limitation of wealth, its advantage is that it does not "penalize" saving, but it may slow down the endeavours aimed at greater economic performance. This is a separate subject that cannot be discussed in detail here. The majority of the really high incomes are accumulated outside the state and cooperative sectors, or on their peripheries, and are therefore difficult to control. The outstandingly high incomes in the private sector may be slowed down primarily by the development of competition, in addition to the strengthening of the tax morale. In this respect the sphere of invisible incomes is a "difficult task". It is worth considering whether certain forms of invisible incomes ("thank you" money, tips) should be taxed. The often voiced anxiety that this way these incomes would be legalized is not very reasonable. In Hungary today they are already fully legalized, and there can be no hope for their elimination. A prudent system of taxation – which e.g. with the possibility of inclusion of these incomes in old-age pension, sick-pay, etc. may also provide some advantage for the tax payers – may create an economically and politically more unambiguous situation in this field.

Inequalities in wealth may not only be reduced through restrictions. Social and political tensions may also be decreased by providing an opportunity for as many individuals as possible to become one of those in possession of wealth as a result of diligent work, initiative and enterprising spirit. But in connection with this, the other side of the coin is also of extreme significance: by improving the circumstances of those in unfavourable position with a strong, expedient social policy – in the widest sense of the term – they can be assisted in utilizing their own capabilities to emerge from this situation.

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О РОСТЕ ЛИЧНОГО ИМУЩЕСТВА В ВЕНГРИИ

К. ФАЛУШ—СИКРА

В Венгрии в 1970-е годы возросло количество семей, имеющих значительное имущество, рост личных состояний стал массовым явлением. Материальной основой этого явления послужило относительно быстрое повышение реальных доходов, а его необходимость определяется тем, что система социального обеспечения не в состоянии удовлетворить многие обоснованные потребности. В условиях, когда в решении жилищной проблемы государство в основном опирается на средства населения, накопление семейного достояния представляет собой реальную социальную потребность. Кроме того, личное состояние может оградить от обеднения в старости.

В сегодняшней Венгрии владение имуществом связано не с классами или общественными слоями. В каждом классе и слое общества имеется много семей как обладающих, так и не обладающих состоянием. Количество состоятельных семей составляет около 300 тысяч, а численность населения, входящего в эти семьи, около 1 миллиона человек. Из различных форм имущества наиболее равномерно распределено недвижимое имущество. Большинство семей имеет какой-либо вид недвижимого имущества. Такое же имущество, как благородные металлы, драгоценности, предметы искусства, распределяется гораздо более неравномерно. Ускорение роста уровня цен в 1970-е годы по-разному повлияло на ценность отдельных видов имущества. Реальная стоимость денежных вкладов в сберегательных кассах — поскольку повышение процентных ставок отставало от роста уровня цен — сократилась, в противоположность же этому цены на пользующиеся спросом виды недвижимости возросли примерно в три раза, а на благородные металлы и предметы искусства — в еще большей степени, в то время как уровень розничных цен в целом повысился приблизительно в полтора раза. Вследствие этого ценность имущества отдельных семей изменилась в весьма различной степени и, вероятно, в разном направлении.

В Венгрии возможности получения доходов от имущества весьма ограничены, однако в ограниченной степени и в ограниченных формах такие доходы существуют (проценты на денежные вклады, разовый доход от реализации различных видов имущества, доходы от сдачи недвижимого имущества внаем, доходы мелких ремесленников, мелких торговцев от владения средствами производства и т. д.). Часть доходов, получаемых от владения имуществом, является результатом упорного труда в прошлом и весьма экономного образа жизни.

Расширение круга семей, обладающих значительным имуществом, рост личного достояния широких народных слоев является первоочередным экономическим и общественным интересом, поэтому этот процесс необходимо поддерживать и стимулировать. Однако следует препятствовать чрезмерному обогащению и различного рода извращениям, смягчать негативные последствия. С этой точки зрения весьма важным является улучшение жизненных условий слоев, находящихся в неблагоприятном положении, проведением широкой и целенаправленной социальной политики.