

The perception of the recession due to the effects of the economic crisis in view of the questionnaire-based research results

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The economic and financial crisis had a deep impact on all countries of the world, among them Hungary, which was hit harder than expected. Three years after the explosion of the crisis, we feel its effects very directly nowadays. This crisis perceived by our seed is not an usual crisis, because it trembled the basics of the classical economics. About the nature of bust, the reasons and the responsables are the bones of contention today. At the same time in this discussion we often forget the very serious fact, that the actual aggrieved party in this occurrence are not the “economic books”, but the real men day after day. The aim of this study is to present the perceptions of the crisis based on a questionnaire research

Keywords: economic crisis, recession, Gross Domestic Product, welfare

1 Theoretical background

Following the eruption of the greatest crisis in the new millennium, the crisis has spread worldwide at a record pace including every economy, region and has left all of them ruined. The crisis, thanks to the global money markets, has reached the whole world, each of its sectors and players.

Many studies were born in the last few years, which specially examined the effect of the crisis in macroeconomic, consumer and on service provider side (Fodor-Katona-Morvay, 2011).

The beginning of the crisis is commonly connected with the bankruptcy of Lehman Brothers' Investment Bank; however the first signs of the problem had appeared long before in the American economy.

The subprime credits are not newfound products in the global money markets for they were already popular at the end of the last millennium and a couple of years later in 2004 they flourished. The attractiveness of the bank credit grew also by the never-seen-before records of the real estate market which made the prices soar and opened the way for speculative investments. The bank base rate kept artificially low (1-2%) in the United States intensified these processes and further made the residents and the corporations to obtain credits. The financial institutions did not intend the enormous bank credit demands to be decreased with the shortage of supply thus the most innovative types of bank credit were launched supported by the most complex mathematical calculations – as it was found out later (Almási, 2009). Due to the unexpensive and abundant bank credit supply everybody was keen on obtaining credit including the potential so-called subprime debtors who otherwise could not have been given the credit. These debtors consisted of the low-income employees, the retired but also the unemployed (Fischer-Kóczán, 2008) who could not have been regarded as potential customers because of their insufficient income or the lack of stable income.

This appetite for credits have spread over every regions of the world and Hungary was not exempt of it. The appetite for credits was partly increased by the credit products offered by the banks since through their investments huge amount of money was obtained then offered to the players of macroeconomics for the purpose of increasing consumption and fixed assets. At the turn of the millennium the banks already covered the great credit demand with new financial products and mortgage bonds packed into portfolios comprising of various mathematical formulas. Because the mathematical calculations were extremely complex and practically unclear but at the same time regarded as an excellent investment opportunity by the credit qualifiers therefore they proved to be as an attractive investment by every regions in the world. Consequently almost every players of the money market bought some of these mathematical calculations, merely 39% was purchased by the Europeans (Király – Nagy – Szabó, 2008). These resources enlarged the money supply and artificially increased the demand for credits demand worldwide.

The credits were given abundantly both to the creditworthy and not so credit worthy debtors. However it appears as if the system has forgotten the risk of subprime debtors for a moment! These credits are considered as good investment until the coverage behind is stable, however as the crisis began in 2006 and the housing market shrank, the interests soared which resulted in the great increase of the credit charges.

By 2007 it was obvious that the impending, first crisis of the new millennium was unprecedented in its sizes and affects. However we cannot declare that the signs of the crisis resulted from the events causing problems globally surprised us at all. It is enough to take Hymen Minsky's book off the shelf and find the theory of the

three well-separated steps of a crisis which Minsky discovered while investigating the crises. If these steps are correctly recognized then the crisis outbreaks can be turned about. Minsky named the following steps (based on Shostak, 2007)

1. Shift: a disturbance, an unusual event (turn in economic policy, decrease in interest rate) which sets the process in motion.
2. Price increase: hardly perceptible at the start compared to the prices typical in the given sector, but later it will be remarkable and the speculators will pay attention
3. Credit boom: the financial sector recognizes the great demand and escalates the process by offering inexpensive credits and herewith attracting players outside of the sector who put their money in this sector in the hope of a greater profit¹.
4. Excess demand: because of the inexpensive bank credits the markets grow greatly, so thus the suppliers gain enormous profits which further attract the third parties. At this point the prices become uncontrollable and the bubble becomes visible carrying real danger.
5. Euphoria: the bubble has reached its maximum size and is not able to expand any more. The experts see the trouble and give a warning but the people remain aloof from bad news. The prices soar sky-high and by now the business professionals recognize the crisis and the minute that the stability is shaken they all leave the “sinking ship”, leaving behind those less competent.
6. Profit realization: during the time that the bubble is formed some gain huge profit but others fail badly and that is the beginning of the end.
7. Panic: the profit rate in this sector starts declining drastically, bad news comes unexpectedly, the sector is “on fire” and everybody is on the run. Panic sets in, everybody wants to flee but there is nowhere to run.

According to Soros the crisis, already obvious in 2007², can be traced back to the bursting of a super-bubble which has basically 3 faulty steps (Soros, 2009, page 130-131):

1. dynamic credit expansion which has been going on for a long time,
2. globalized financial markets which are markets without borders,
3. unregulated financial markets opening the way to new financial calculations.

¹ Without inexpensive bank credits the sector would get back to normal.

² Which is the fifth steps of Minsky theory.

Soros is quoted as saying that in 2008 due to the global financial markets and having a great deal of mortgage bonds Europe also witnessed the first signs of the crisis. The financial players lost great amount of money because of their portfolio and to top it off the countries, corporations and the households had to be faced with the problem of huge foreign currency debts. (Muraközy – Muraközy, 2008).

These processes can be realized in Hungary as well. The way to the crisis is clearly seen in the indebtedness process including all macroeconomic participants. The amount of bank credits obviously increased in around 2005 which is also demonstrated in the diagram below. The amount of bank credits would not be a problem in itself if the coverage necessary for the repayment is available to which the economic growth can contribute significantly. Several schools and theories deal with the factors affecting growth (Elekes, 2011). The economic growth depends basically on the available factors of production and the efficiency of these factors is significantly influenced also by the institution system, the culture and the financial openness in the given region. After the turn of the millennium, prior to the increase in the amount of bank credits it appeared that all the conditions necessary for the growth are available which made it reasonable to flood the economy with capital (Pappné, 2010).

However the world economic crisis has fundamentally shaken the tendencies and the dominant economics trends of the time. The economies have been in deep recession again and economic growth has sunk deeply with the exception of a few economies. While the economic growth is able to improve every convergence indicators remarkably, the recession works the other way round, resulting in serious economic problems. Fears of recession have become reality in Hungary just as in any other regions of the world. The slowdown in economic performance started already in 2005 in Hungary, however a notable decline was only observed in 2009.

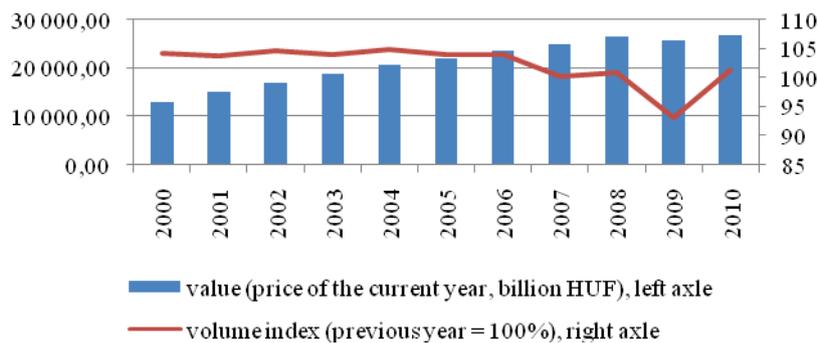


Figure 1.:
 GDP of Hungary 2000 - 2010

Source: Based on data from the Hungarian Central Statistical Office (2011a), own compilation

Due to the above there has been a huge increase in unemployment, a decrease in real incomes and an increase in the fees of credit repayments. Nevertheless, these problems have emerged in certain social groups to different extent.

2 Sources and method

The quantitative research was carried out after the effects of crisis became obvious during the fall and winter 2010. The research was made with the help of a pretested standardized questionnaire edited on our own and based on questions prepared for answers in writing. The questionnaire included only closed questions in order to avoid the diversification of the answers. In addition we were careful to exclude the questions which could make the respondents less likely to answer or not answer at all, as well as those questions which would violate the personality rights of the respondents. The sample was segmented by age, occupation, qualification, workplace and residence. In the first part of the questionnaire the general and macroeconomic affects related to the crisis were analysed and in the second part the affects made on institutional catering were studied.

The current study presents the research results of the first part of the questionnaire. The final results and consequences were determined with the help of analyzing basic statistics and cross tables. In order to evaluate the questionnaire we used SPSS 14.0 (Statistical Package for Social Sciences) and Microsoft Office Excel 2007 software. A total of 400 questionnaires were handed out; of these 61 were not returned and 48 were sent back incomplete so these could not be assessed.

The purpose of this research is to get acquainted with the affects analyzed in the first part of the study³.

3 Results

In this study some results of the questionnaire are presented in which we wanted to know how the recession - due to the crisis - has affected the employees. From the employee's point of view the recession means that the workplace safety is lost and the income and fringe benefits decrease. Because of the crisis the unemployment rate has soared and in line with this the employment rate has decreased but there has been an increase in the activity rate which can also be seen in the following diagram:

³ Studies prepared on the basis of some other results of the research: Csiszárík-Kocsir (2011a), Csiszárík-Kocsir (2011b), and Csiszárík-Kocsir (2011c).

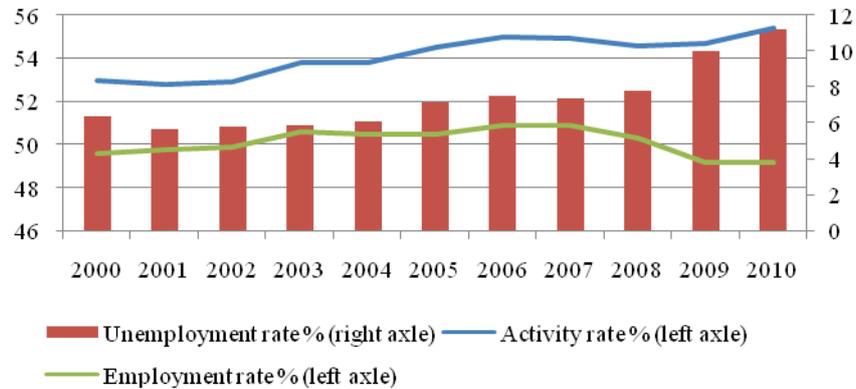


Figure 2.:
 The unemployment, activity and employment rates in Hungary 2000-2010
 Source: Based on data from the Hungarian Central Statistical Office (2011b), own compilation

In spite of the fact that the recession of the Hungarian economy in regard to every macroeconomic data has been obviously proven during the years of the crisis, the respondents taking part in the research have not identified beyond question the affects of the recession which is demonstrated in figure 3:

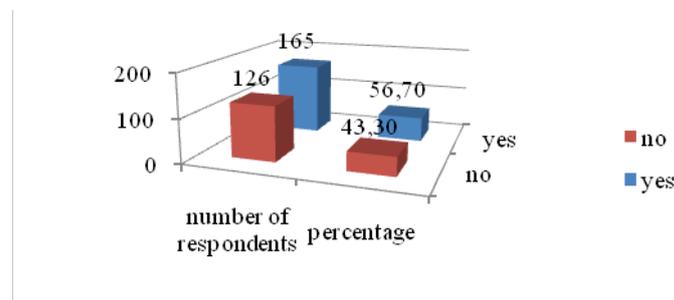


Figure 3.:
 Experiencing the recession in the individual's life due to the economic crisis based on the answers of those participating in the research
 Source: own research, 2010-2011, N = 291

When dividing the sample it can be stated that everybody experiences the recession differently depending on gender, age and education. Generally it is true that more men have experienced the economic crisis than women.

In the table below, the weighted answers of those participating in the research can be seen. In regard to the whole sample it is obvious that the majority of the respondents have personally experienced the destructive affects of the economic crisis either directly or indirectly.

	Man (N=105)	Woman (N=186)	Total
Experiencing the recession (yes)	22,68	34,02	56,70
Not experiencing the recession (no)	13,40	29,90	43,30
Total	36,08	63,92	100,00

Table 1:

Experiencing the recession in the individual’s life due to the economic crisis based on the gender of those participating in the research, weighted

Source: own research, 2010-2011, N = 291

Based on the education of the respondents, it is proven that the most vulnerable group of the labour market – the employees possessing Primary School Leaving Certificate – has experienced the recession the most. A few members of this group have participated in the research but all of them personally experienced the decrease in welfare. The group regarded as the most “fortunate one” has degree obtained at university or college. Of all the respondents experiencing the recession this group takes up little more than 27% and the most people are in this group who have not experienced the recession at all (54,55%). Respondents with secondary qualifications take up nearly two-third of the total respondents experiencing the economic fall and within this group 61% have experienced the consequences of the crisis.

The below table presents the education of the respondents based on their importance in the research. The weighted values also prove that the most vulnerable group is the one having secondary qualification whose work is less specialized and their income is - compared to those having degree – relatively lower therefore they are much more prone to the economic fluctuation.

	Primary education (N=9)	Secondary education (N=183)	Tertiary education (N=99)	Total
Experiencing the recession (yes)	3,09	38,14	15,46	56,70
Not experiencing the recession (no)	0,00	24,74	18,56	43,30
Total	3,09	62,89	34,02	100,00

Table 2:

Experiencing the recession in the individual’s life due to the economic crisis based on the education of those participating in the research, weighted

Source: own research, 2010-2011, N = 291

The last group was segmented on the basis of the respondents' age. No evaluable questionnaires have been received from respondents aged 56 or more, so only three groups are in this segment: the first is under the age of 25, the second is aged 25-39 and the third aged 40-55. As it can be seen in diagram number 6 the most "secured" group, those experiencing the recession the least are those under the age of 25. Within the other group (aged 25-39) there are more people experiencing the negative affects of the crisis compared to the previous one but out of the total respondents they in fact experienced it the most. Compared to the other two groups, the oldest group (aged 40+) of the respondents has had the biggest proportion (85%) within their own group experiencing the negative affects of the crisis. However among all the respondents they have come second, only after the group aged 25-39 (32,73%).

Finally it is worth having a look at the weighted values in table 3. The data in the table confirms the conclusions drawn above and emphasises even more the role of the segment which is exposed to decrease in welfare due to the recession. This decrease can be clearly seen in the values of the group aged 40+.

	under the age of 25 (N=114)	aged 25-39 (N=114)	aged 40-55 (N=63)	Total
Experiencing the recession (yes)	17,53	20,62	18,56	56,70
Not experiencing the recession (no)	21,65	18,56	3,09	43,30
Total	39,18	39,18	21,65	100,00

Table 3:

Experiencing the recession in the individual's life due to the economic crisis based on the age of those participating in the research, weighted

Source: own research, 2010-2011, N = 291

4 Summary, conclusions

Based on the above it can be stated that together with the macroeconomic data the population equally experienced the affects of recession due to the crisis in 2008. However the affects are experienced differently depending on gender, age and education. One can say that on the basis of the research results the most vulnerable segment is with primary school leaving certificate. These people are greatly exposed to the changes in economic cycles due to their lack of expertise and they cannot accumulate savings because of their low income. The other group

deserving our attention is aged 40-55 who have difficulty either finding a new job after losing a previous one or succeed only after a long time, based on the current labour market tendencies. Due to the time spent out of work they are forced to use up their savings and this can result in severe decrease in their well-being even on medium term. The economic policy and their different units, in case similar crisis occur, should focus on these segments and operate with instruments which able to improve the status of these two critical segments either automatically or with the help of discretionary instruments.

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