**INCOME INEQUALITY AND INCENTIVES: THE QUASI-NATURAL EXPERIMENT OF HUNGARY, 1914-2008**

**IENĀKUMU NEVIENLĪDZĪBA UN STIMULI: UNGĀRIJAS KVAZINATURĀLS EKSPERIMENTS, 1914-2008**

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We construct the first top income share series of a formerly socialist economy before, during, and after socialism in order to exploit the quasi-natural experiment of the absence of markets on incentives and income inequality. We investigate top income shares dynamics and the sources of income at the upper tail of the income distribution. Within this setup, we study the effect of capital markets and liberalized wage settings on top income shares. Our estimates show that the introduction of wage-setting decentralization had a role in increasing the skill premium and income inequality in years prior the transition.

**Key words:** *Incentives, income distribution, skill premium, transition, wage setting*