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### **Accession and social policy - The case of Hungary**

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#### **Abstract:**

The EU started relatively late to inject social considerations in the enlargement process. A vision connected to the European Social Model could have been instrumental in handling the social problems emerging after the transition (massive unemployment, impoverishment, growing inequalities). The model, however, did not play a basic role in shaping Hungarian social policy. Many factors and actors impacted on the changes that took place in social policy procedures and institutions. For instance, the ILO and the EU influenced labour market issues. Family policy was mostly shaped by home-bread ideologies, and to some extent the World Bank. The pension reform was fully steered by the World Bank. The EU had an important role in shaping social and civil dialogue. As the monitoring reports following the progress of the candidate countries show, the concerns of the EU remained economic and political. The reports approved the moves toward the neo-liberal model inspired by the monetarist agencies. According to the authors the European impact in the social sphere is strengthening in the last years, and its main payoff is the growing interest and commitment of politics towards poverty and inclusion, and the widening practice of civil and social dialogue.

Key words: Enlargement, Transition; European Social Model; social benefits; social and civil dialogue

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## **1. Introduction**

The EU recognised the right of the countries of central and Eastern Europe to join the European Union at the Copenhagen European Council in June 1993. The council defined the criteria that have to be fulfilled by the applicant countries. According to the conclusions

"Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and, protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."

Political democracy, a relatively strong market economy, and the incorporation of the Community *acquis* were then the main requirements. Social policy was for long considered by the EU as a subsidiary issue. The major part of the social legislation of the member countries did not form part of the *acquis*. As a consequence, the ideals and practices related to the European Social Model paid an unduly modest role in shaping CEE social policy during the enlargement.

The current situation and trends of social policy arrangements of the country were strongly influenced by path dependencies or inheritances; by the lack of resources forcing difficult resolutions; by the newly emerging profit interests of some groups; by outside, particularly supranational monetarist agencies exercising strong pressure on social spending. In fact, when the "great transformation" started in 1989, the EU was not yet ready to consider a potential enlargement and its requirements. It sort of left the steering role in the transformation of the eastern countries to the monetarist supranational agencies that were already used to deal with the CEE countries. The World Bank, and in a less visible way the IMF have played a major role in the early years in shaping not only the economy, but also the social policy of Central-Eastern Europe. At that time the Washington consensus was not yet called into question (Sapri Report, 2000). The main elements of this consensus relevant for social policy were the strengthening of individual responsibility and the weakening of public responsibility in social matters; the promotion of privatisation and marketisation in all spheres; the emphasis on targeted assistance to the truly needy; the scaling down of social insurance to strengthen private insurance and to decrease public spending; and the abolition of universal benefits as wasteful. The European Union – as shown by the yearly accession reports – by and large condoned changes influenced by this spirit (Ferge 2002).

The European Social Model started to play some role from about the mid-nineties mainly in fields related simultaneously to the social and the political sphere such as gender rights, minority rights, etc., or the issues of civil and social dialogue. From about 2002, it is to a large extent thanks to the Union (and the OMC) that poverty, social exclusion and inclusion have acceded not only to the European, but also to the Hungarian political agenda.

## ***2. Changes in post-socialist social policy in Hungary- An overview of the main trends***

The social policy of the former system assured security – albeit on a relatively low level – to practically the whole population in the field of labour, pensions, health care, education, family benefits, and (to a smaller extent) housing. It hardly had provisions for phenomena connected with poverty the existence of which was not even recognised by politics. After the transition the conditions to be handled by social policy have drastically changed. The economy was in a crisis until the mid-nineties, with a 20 per cent drop in the GDP. The GDP reached the 1989 level in 1999, real wages only in 2002 (Table 1). Employment has become the central problem. With a population of 10 million, the number of jobs sunk from 5 million to 3,8 million. The employment rate within the cohorts in employment age fall from 76 to 60 %. This impacted both on the needs and on the resources. The loss of jobs and open unemployment have become the main factors causing poverty. With growing inequalities, about 60 per cent of the population have become losers. (Ferge et al., 1995) The largest groups most affected by the difficulties include unskilled workers, the population of small localities, families with children, and the Roma population (about 5 per cent) (Szívós-Tóth 2001) The new challenges were answered in ways that were heavily influenced by some home-bread interest groups, and also by the supranational agencies. The answers may or may not have been fully conform to the European social model.

Practically all areas of social policy have been affected by the transition. Missing institutions handling unemployment, poverty, and homelessness have been built up. Social work gained “droit de cité”. Meanwhile labour rights have weakened, joblessness increased, so that labour security has been strongly undermined. The pension system passed from a public system to a three-pillar one, two of them private. Due to the low activity rates future pension entitlements are insecure for many. The universal public health system switched to a health insurance scheme requiring individual contributions. It is affected by strong measures of cost containment and privatisation. The educational system has broadened on the secondary and tertiary level, but its standards have been often lowered, and it has been also affected by privatisation. Housing has been privatised to the extent of 95 per cent, and housing security is strongly affected by the escalation of housing costs and energy prices. Gender rights and anti-discrimination efforts have been strengthened, but the situation of women has become also more unequal. The opportunities increased for some groups, while the position of others – mainly those having low skills and/or large family responsibilities – deteriorated. The institutional arrangements promoting the harmonisation of work and family have weakened. Social exclusion has many signs.

Public social expenditures somehow summarise the overall trends. Their rate decreased gradually from over 30 per cent of the GDP in the early nineties to 27 per cent in 2001. This ratio is close to the EU average. It is also by and large in line with the accepted beliefs about “economic sustainability”. There are some problems with it, though. First, instead of an almost general, albeit slow tendency of the increase of social expenditures in real terms that characterised the EU in the same period, there was in Hungary a gradual decrease both in relative and in real terms. (Welfare expenditure rates were slowly increasing, at worst stagnating after 1990 in all member states. Since the GDP increased in each and every country, the real value of welfare expenditures had to rise. ) Second, the needs have strongly increased after 1990. Thus more instead of less resources would have been strongly needed, particularly in case of the poor.

### ***3. The impact – if any - of the European Union on some fields of social policy***

#### **3.1 Procedural changes**

The preparations for the accession had a significant impact on the democratisation of the whole policy-making process. The Council of Europe played a major role from the very beginning of the transformation process by establishing special programmes to help the set up of democratic institutions in post-communist countries. These changes formed the prerequisite to apply to Union membership: the Copenhagen Criteria did not add any other political requirement. Consequently, transformation of the political system followed general “Western-European” rather than special EU patterns. ‘Cognitive Europeanisation’ in the social field was supported by procedures developed in the framework of CoE, particularly the ratification of the European Social Charter and by EU-sponsored students’ and teachers’ exchange programmes (TEMPUS and ERASMUS).

Over and above the prerequisites, we should take the specialities of European policy-making into consideration and measure the impacts of the accession process by the correspondence to them. These specialities are: the institutionalisation of consultations with affected interest groups, the creation of administrative bodies in order to implement policies that have a crucial importance at European level, and the incorporation of the European model of law-making into the legislative process. As to the first characteristic, we shall treat in some detail the institutionalisation of social and civil dialogue in Hungary. We shall deal only in a summary way with the second and the third aspects, discussing briefly the development of government agencies aiming at the co-ordination of policies serving gender equalities and equal opportunities, and the openness of social policy-making to nation-wide debates.

#### ***Social dialogue***

*(Social dialogue in the European Union).* Since the initiation of the ‘Val Duchesse’ process social dialogue has been evolved into a major issue of the Communities social policy. The Single European Act institutionalised social dialogue. As part of the Maastricht Treaty the Agreement on Social Policy increased the impact of social partners on the making of EU social policy by giving them a right to ‘a priori’ consultation in the social field. The Amsterdam Treaty empowered the social partners to conclude European-wide framework agreements and make requests to transform such agreements into community legislation, i.e. Community law invited the social partners to participate in the law making process.<sup>i</sup>

*(Unionisation: a prerequisite to social dialogue)* Social dialogue at a European level is deeply rooted in a culture of collective bargaining in most Member States what compensates for the decline of union membership to some extent. It has different levels, one building up on the other. Social dialogue in the European Union is based on effective tripartite consultation at a national level and that is based on bipartite sectoral consultations. At the very end of this chain there should be a well-functioning mechanism of collective bargaining at the workplaces. Since the collective interest of employees is represented most effectively by the trade unions, unionisation level has a crucial importance in this process. Member States having problems with the functioning of

tripartite social dialogue are characterised by low levels of unionisation (Visser 2001). We can predict that Hungary (and other CEE countries) where trade unions lack the experience with collective bargaining with profit-oriented employers will have serious problems in this field. Trade union membership – often associated with the old regime – has fallen dramatically since 1990 from almost 100 percent to about 15-20 percent. (Statistics differ, the current membership may be between 600 and 800 thousand.) There are structural, economic and political factors behind the decline of membership figures. Among the structural and economic factors privatisation, restructuring of large enterprises, a shift to self-employment in the service sector, an increase in the number of small-size enterprises and foreign-owned firms, unemployment, the growth of the informal sector, and an expanded use of fixed-term labour contract could be mentioned (Avdagic 2001).

*(The ability of the social partners to enter into negotiations).* Using newly acquired freedoms like the right to organise, independent trade unions were formed in the early 1990s. While this was certainly a welcome development, the new structure became over-fragmented and raised questions about the effectiveness of representation as a whole (Avdagic 2001). In addition, the relationship between the trade unions were rather strenuous in the first half of the decade fuelled by debates over representativeness and the redistribution of the former communist trade union's assets. By the mid-1990s these debates have been settled and the strive of the conservative government to limit the power of the trade unions through the restructuring of the tripartite bodies and abolishing the Social Security Boards forced the six major trade unions to join their efforts to defend their interests. As a result, they signed a co-operation agreement in May 2000. In April 2002 the biggest trade union (MSZOSZ) signed a co-operation agreement with the Socialist Party winning the elections a month later. Coming to power, the new social-liberal coalition changed the government's rhetoric and declared its openness to consultation with the social partners and appointed former trade union leaders to senior officials of the government.

The employers' side seems to be even more fragmented than the employees' side has ever been. Most employers are simply not interested in joining employers' associations. (Avdagic p.9) Private sector employees, especially small-size enterprises are underrepresented in employers' associations. Yet, the employers are rather successful in making their interests prevail.

*(The framework of social dialogue in Hungary)* The framework of the tripartite social dialogue had been set up well before institutionalising the contacts between Hungary and the EU. A National Interest Reconciliation Council was founded in 1988 and was restructured and renamed as Interest Reconciliation Council in 1990. This body consisted of representatives of employers, of employees, and of the government. Despite of its role in reducing social tensions, IRC could not make a decisive impact on the making of social and economic policy mainly because of the divide between trade unions. After the introduction of an austerity package in 1995 the Parliament narrowed the functions of IRC from the formulation of general social policy to public sector employment. The conservative dominated Parliament abolished IRC in 1998 and settled its functions to two newly established bodies: the National Labour Council retaining its tripartite structure and the Economic Council not having a tripartite nature due to the involvement of additional actors (economic chambers, representatives of the financial sector, foreign investors etc.). This restructuring narrowed the scope of activity of the predecessor

bodies: instead of using them as a forum for consultation, the government treated the Council meetings as an opportunity to transfer information on its decisions (Fóti 2002). In 2002 the Socialist Party came to power in coalition with the liberals. The governments' attitude to social partners has been immediately changed: IRC was re-established and is used as a consultative forum concerning social and economic policy.

*(Support from the EU to promote the quality of social dialogue in Hungary)* The EU strategy to help improving the quality of social dialogue in the applicant countries is based on four pillars. First, the Commission assisted the European social partners in establishing co-operation with their Central-Eastern European counterparts at a sectoral level and second; it also put pressure on the governments of applicant countries to involve the social partners in the accession process. Third, the Commission invited the social partners from CEE countries to participate on the European forum of civil dialogue. Finally, the financial help programmes were designed in a way to support the development of social dialogue in Hungary as well as other CEE countries (COM (98) 322).

The EU made available community funds to improve social dialogue in the applicant countries at an early stage of the co-operation. Hungary was the beneficiary of two PHARE programmes encouraging the development of social dialogue. The Employment and Social Development Program assigned 1 million ECU to the promotion of social dialogue between 1992-94.(Avdagic p. 15). At the second stage of the PHARE (from 1995-2001) social dialogue was not at the focus. A new initiative was launched in 2002 to support the improvement of sectoral social dialogue with 2.5 million Euro.

The annual reports on the achievements in the transposition of the *acquis* concentrated on the very existence of the legal grounds of social dialogue. They rarely produced a critical assessment on the implementation of the legislation. Even in 2000 when the quality of social dialogue had been seriously damaged by institutional changes, the relevant Report did not discuss these developments in details.

All in all, the impact of the EU on the quality of social dialogue has remained restricted in Hungary. Lacking the obligatory nature of the rules governing this field, the efforts of EU agents proved insufficient to overcome the impediments to establish effective social dialogue. EU initiatives could not address the core of the problems: the fragmentation and the representative deficit of the social partners. There has not been an organic development of industrial relations: social dialogue is organised at a national level and its quality is determined by the policy of the respective government. Dialogue between the social partners at a sectoral level is sporadic: collective agreements cover some 40 percent of the employees (Fóti 2002). The relative underdevelopment of industrial relations raises serious questions whether Hungarian social partners would be able to participate effectively in the process of European social dialogue.

### ***Civil dialogue***

There has been a long tradition of consulting interested parties in the European decision making process. The Commission has a legal obligation to 'consult widely before proposing legislation and, wherever appropriate, publish consultation documents'.<sup>ii</sup> Consultations with the Economic and Social Committee and the Committee of Regions (each having representatives of civil society) is institutionalised by the Treaties.

Moreover, each department of the Commission developed its own mechanisms of consultations. Regarding the divergent nature of them, the Commission initiated to lay down the general principles and minimum standards for consultations in 2001. These developments were clear signs of the growing importance of civil dialogue at a community level.

The special attention paid by the European agencies to civil dialogue effectively helped the development of civil partnership in Hungary. The newly guaranteed freedoms (the right to association among them) and the advantageous regulations of financial law also created a climate favourable to the mushrooming of civil organisations. Hungarian governments realised quite early the potential of civil actors, but not so much in the realm of civil dialogue as in the field of welfare provisions where civil organisations could substitute the state. Like in many other European countries, the financial independence of civil actors is often questionable. Hungarian civil society lacks the resources to support civil organisations at an adequate level. Thus, the state has become the greatest donor of civil organisations. In the absence of strict financing rules and controls political biases may have distorted fair distribution practices favouring political or ideological allies of the government. Until 2004 for instance only 16 per cent of the total support to the civil sector was distributed and controlled by the parliament, and 62 per cent was allotted to the organisations by the government (Kuti 2003, p.60).

The European Union provided substantial support to the development of civil organisations in general and social dialogue in particular. The PHARE programme helped partnership building with 5.5 million Euro in Hungary and civil organisations were always welcome to participate in PHARE projects. This help contributed to strengthen civil organisations in general, and to familiarise them with the management of EU funded projects. Months before Hungary's accession, civil organisations (especially those having been involved in previous PHARE projects) seem to be better prepared to apply for projects financed from the Structural Funds than local governments.

Act 50 of 2003 may help to build up stronger control and fairer distribution practices. It seems to be a path-breaking piece of legislation attempting to create genuine political legitimation for civil participation. According to the new dispositions the budget transfers money to a "civil fund" directed by a bi-partite national council. The distribution of this fund is decided by elected commissions, and the operation of the commissions is overseen by a national council. The council has 2 members delegated by a commission of the Parliament, 3 designed by the minister of equal opportunities, and 12 members are elected by the civil organisations. The fund assured by the budget is equal to the sum that tax-payers offer to civil organisations by assigning 1 per cent of their taxes to one organisation. The first elections took place in January 2004.

Civil dialogue concerning social policy has been institutionalised by the first freely elected government in 1990. The regulations remained rather loose, though. The government invited indiscriminately the co-operation of all social organisations having an interest in social policy to create a Social Council. The government did not regulate the mandate of the Council what made its work formal. It did not have a genuine consultative right, and even less a veto right. The communication of the Commission announcing the Interactive Policy-Making Initiative in 2001 (COM(2001) 1014) influenced the social-liberal coalition two years later to accept a similar approach at a national level in policy-making in Hungary. The present government is making efforts to improve the quality of civil dialogue. It suggests to transform the Social Council into a new forum that should be called Council on Social Policy and should have stronger mandates. The open method of

co-ordination also gave impetus to civil dialogue: civil organisations exercised serious pressure on the government to take action against poverty and social exclusion (Szociális Szakmai Szövetség 2003).

A characteristic of the European model of policy-making is the relative openness of the process: documents and draft legislation are available to the citizens and open to public debate. In theory it is the same in Hungary. However, the openness of policy-making was formal due to problems with social and civil dialogue. No Hungarian government published Green or White Papers on its planned actions. This practice is planned to be shortly changed. For instance a Green Paper is under preparation on the pending reform of the social assistance system.

### **3.2 Institutional and administrative changes**

*(Institutions)* The institutional framework of social policy went through major restructuring in the 1990s due to the transformation of the political and economic system accompanied with societal changes. Addressing new, unprecedented social problems such as unemployment, homelessness and impoverishment required the establishment of new institutions and administrative bodies like job centres, employment fund, shelters etc. The gradual development of welfare pluralism led to the creation of voluntary health and pension funds, private pension funds and their supervisory authorities. However, we can hardly say that the accession process was a major factor behind these changes. In our view there were two reasons for this. Firstly, the institutional and administrative framework of the provision of welfare was fairly developed in state socialist Hungary and the new challenges had to be answered prior to the start of the accession process. Secondly, the requirements for accession were not concrete enough to have a major impact on institution building in Hungarian social policy. Thus, EU requirements could not have a path-breaking impact on the set up of already existing institutions. However, their functioning had to be gradually accommodated to EU standards. There were two exceptions to this general pattern. There was a need to create new management, monitoring and control bodies of the national authorities of the European Social Fund, and to establish previously non-existing equality bodies due to the latest developments of European social law.

As regards labour law, 80/987/EEC requires to set up a guarantee institution that ensures the payment of employee's outstanding claims in case of the employer's insolvency. Problems relating to the employers' insolvency manifested from the very beginning of the transformation process which led to the set up a guarantee institution in 1994 (Act 65 of 1994). This legislation originally did not reflect the community requirements and it had to be amended at different stages of the accession process. Concerning health and safety at work, the Hungarian legislation created in 1993 a National Authority for Labour and Safety at Work in 1993, and it gradually got the tasks to implement labour regulations harmonised with the EU law.

As concerns public health, the duties relating to the enforcement of EU law could be delegated to the National Public Health and Medical Officers Service created in 1991.

In the field of equal treatment for men and women and equal treatment in general, the accession process had clear-cut effects on institution building. Realising the importance of this field in European social policy, in 1996 the Hungarian government created a special unit inside the Ministry of Welfare in order to improve policies concerning gender equalities. Although the conservative government of 1998-2002 restructured the unit, it has never been liquidated. A surveillance of Hungarian legislation showed that legal instruments lack to implement the laws declaring the prohibition of discrimination on different grounds (sex, age, race etc.) and equal opportunities. The Commission echoed this fact in its annual report even in 2003. For these reasons a new government position of a Minister without portfolio in charge of equal opportunities was created in May 2003.

Legislation concerning anti-discrimination is a fairly new field of European law but it requires “the Member States to designate a body or bodies for the promotion of equal treatment”.<sup>iii</sup> Act 125 of 2003 passed by the Hungarian Parliament in December 2003 intends to transpose the *acquis* and create the Authority of Equal Opportunities.

### **3.3 Substantive changes in the system of social protection**

We repeatedly mentioned that as long as social policy was considered by the European Union as a subsidiary issue “European” practices and the European Social Model did not play a major role in shaping the changes. The different fields of social policy were influenced by different actors and different factors. We shall illustrate this allegation by the example of the changes in the state budget, in unemployment provisions, family benefits, the pension system, and social assistance.

#### ***Public spending***

The role of the state was never clarified after the transition: different governments had different public policies. The conservative government of 1990-94 was not too unfriendly towards the state. The social-liberal coalition of 1994-98 explicitly adopted a program decreasing the role of the state. The conservative Orbán cabinet had a mixed record between 1998-2002. Its rhetoric was often that of a “caring state” and some new social programs have been started. Meanwhile it introduced liberal tax allowances for the middle and upper strata, penalised the poor, and recentralised some state functions. The social-liberal coalition in office since 2002 did not as yet developed a consistent policy. It started with the correction or improvement of some welfare measures. From 2004 on – partly because of serious budget imbalances – it tries to cut back state expenditures, and introduce more selectivity in provisions.

Independently of the rhetoric and ideology of the various governments the welfare budget has been shrinking from 1990 in terms of the GDP. The other state functions (administration, policing, economic functions such as public transport subsidies) have lost less of their relative importance, or may even have increased. In real terms most social provisions and services lost 30 to 40 per cent of their value between 1989 and 1998. Since then they have been by and large stagnating with some improvement in the election year 2002. (Table 2). In 12 years the rate of health and education dropped from over 5 or 6 per cent in the 1989 to about 4 to 5 per cent of the GDP. These ratios are

mostly below the OECD average. The standards of services have deteriorated in these fields, and gradual privatisation both in health and in education seems to be detrimental from the perspective of social inclusion (Orosz, 2001).

The shrinking budget may be considered as a “natural” consequence of the economic crisis in the early nineties, and of the slow economic recovery. However, it is in our view also a political matter. First the monetarist agencies, then the European Union in its yearly report were much more concerned with the balance of the budget than with the substantive issues of public spending. As a combined consequence of the economic crisis and the budget policy, instead of convergence, the *east-west gap in social provisions seems to have widened in most fields.*

### ***Labour market policies***

The rapid loss of jobs after 1989 called for new measures. The former system did not recognise unemployment as a social problem, hence there were no provisions for the unemployed. The Employment Act was enacted in 1991. ILO standards and good European practices helped to shape it mainly through cognitive Europeanisation. The Act consolidated and regulated the network of labour offices, defined “active” and “passive” measures, among them the unemployment insurance scheme. It defined an insurance-based unemployment benefit in line with relatively generous European standards (two years, 70% of more of former income etc.). A three-tier system was gradually built up, the first based on insurance, the second a means-tested, but guaranteed ‘income compensation allowance’, and the third means-tested social assistance. Having free hands in designing unemployment benefit schemes and being under financial pressures, successive governments made stricter the terms of the benefits, introduced work-tests and other limiting conditions (Table 3). The total sum spent on the labour market decreased. Its real value dropped by about 60% since 1992. In 1992 2,8% of the GDP were spent on these tasks, in 1999, when the GDP was of about the same size, only 1 per cent was devoted to unemployment. This is the main reason of the deterioration of the standards of unemployment provisions, and the lack of provision of about one third of the registered unemployed. (Laky, et al, 2003). Since rules of the European law covers only the co-ordination of unemployment benefit schemes, the national regulations in this field are almost irrelevant from the community’s perspective.

The case is different with active and passive measures. All Hungarian governments declared to give precedence to active over passive labour market interventions, fully in line with (later) European requirements of the European Employment Strategy (EES) or the Joint Assessment of the Employment Policy (JAP). Yet, the funds spent on active measures (job creation, training and retraining, and such like) did not enjoy particular favour. Unemployment provisions played always a dominant role.,

On the whole, the institutions of the labour market, and the handling of unemployment follow “European” norms. The deterioration of the standards of unemployment provisions is a well-known problem also in the EU member countries. However, it seems to be unusual in the EU to go altogether without benefits. In Hungary about 400 to 500 thousand people who do not have a job and are not registered have no social provisions either.

## *Family benefits*

Hungary developed from the sixties on a relatively decent system of family provisions and childcare institutions. Benefits in cash amounted to about 4% of the GDP towards the end of the eighties. Since then the main structure remained the same, but the regulations and the standards of the benefits have changed several times.

In 2004 children give access to three main cash benefits: the universal family allowance (dating back to the former system); the income tested child protection assistance (legislated about in 1993); and the family tax allowance (introduced in 1998, offered only to those who have enough tax to deduct it). There are also several maternity benefits, offering different benefits during pregnancy, at birth, and in early parenthood. GYES (a flat-rate, universal allowance dating back to 1967) and GYED (employment- and wage related benefit introduced in 1982) allow mothers or fathers to stay home with the child until its third birthday, or longer, if there are three children under 10. These benefits seem to be exceptionally generous by European standards as far as their length is concerned. They support child care at home rather than to encourage parental paid work.

Over and above the benefits in cash there used to be a wide network of creches for the under-three, and of kindergartens for preschool children. The capacity of the day-care institutions for the under-three has shrunked significantly, the coverage for the preschool cohort has been by and large maintained.

Family policy and family benefits are not a major concern in European social policy: co-ordination regulations are applied to family benefits inasmuch only as they concern migrant workers and their families. In absence of European guidelines, the IMF and the World Bank could request the slashing of family benefits to a level “customary in Europe”, that is 1 to 2 per cent of the GDP. This requirement was duly implemented. (Table 4). The gradual erosion of the real value of Hungarian family cash benefits in the 1990s was formally in line with the ‘Europeanisation’ of the system. Substantively the changes contributed to the impoverishment of large groups with no earner or only one low paid earner. Thus they did not promote the fight against poverty, particularly against child poverty.

The structure of Hungarian family benefits is not fully in line with the Union’s emphasis on the accommodation of family life with work, an element of the social inclusion strategy. The EU strongly encourages instruments that allow parents (particularly women) to return to the labour market after child birth. In Hungarian family policy there is too much emphasis on offering parents the alternative of staying home for long periods of childcare, while the extended network of day care institutions has been neglected. The first sign of the rediscovery of the importance of child day care as a means to combine family and work appeared at the end of 2003 in the Population Program of the government. The EU certainly influenced this rediscovery.

## *Pensions*

The Hungarian public pension system – legislated about in 1928 –covered about one third of the labour force before 1945. The scheme was funded and governed by a tripartite

board. Because of war losses and the will to quickly broaden eligibility it was transformed into a pay-as-you-go system soon after the war. The scheme broadened and matured. In 1989 it covered practically the whole labour force and reached relatively acceptable levels. At least formally its standards were comparable to well developed European schemes. The system worked well enough to protect pensioners relatively well in the years of crisis after the transition. It also accommodated about half a million job losers with early retirement or invalidity pensions on grounds of solidarity. The price was the strong increase of contributions and the decrease of the real value of pensions. (Table 5)

Yet the system needed some reform. Incremental and haphazard changes blurred the transparency of the scheme. Ageing increased the demographic dependency ratio. Since the early 1990's less than 1,5 active earners have to cover the average pension. The contribution rates have been increased accordingly. The sustainability was jeopardised. One may distinguish two periods of the reform.

*In the first period* (1990-until about 1995 or 1996) the objective was to reform and complete the PAYG scheme. These measures served the democratisation of the system, and its better transparency. The Parliament adopted in 1991 a decision determining the orientation of the would-be pension reform. It projected a three-tier system, namely a basic flat-rate scheme, a compulsory public earning-related scheme, and a voluntary, private tier (called later pillar). The citizen's pension was meant to assure basic security, and the second tier relative security. Some elements of this decision – such as the compulsory yearly indexation of pensions – was implemented, but important elements, for instance the introduction of a basic flat-rate scheme were forgotten.

*In the second period, from about 1995 on* the World Bank forced its 'multipillar' system on the agenda (World Bank 1994). This consisted of a mandatory pay-as-you-go public pension system or assistance scheme designed to provide an income floor for all elderly persons; a mandatory funded and privately managed pension system based on personal individual savings accounts; and a voluntary system (also funded and privately managed). The "new pension orthodoxy" (Müller 1999) was resisted in Hungary by experts, by the then existing pension board, by the trade unions, and different other bodies. They argued for instance that solidarity within the system may become of increasing importance in a globalising world, thus the strict individualisation of rights may be detrimental for many. The flexibility of public schemes was opposed to the rigidity of private funds. The costs of the switch and the loss of the public scheme seemed too great. Many other aspects of the private pension schemes were also criticised (Orszag and Stiglitz, 1999). A grave cause for concern was the rapidity of the planned changes, and the short time allotted to democratic consensus building. Yet, the new laws were enacted in July 1997 without the votes of the then opposition.

The new pension system has four pillars, because the World Bank proposal was only partially followed, and the public scheme retained a greater importance than originally proposed. The "zero" pillar is a means-tested old-age provision for those who cannot fulfil the eligibility criteria. The *first* pillar is a slightly reformed social security pay-as-you-go pension scheme. The rules of calculating the pensions are to become gradually stricter than heretofore. For instance the eligibility conditions are becoming harsher, or the pensions are not fully indexed to wages, The *second* pillar is the compulsory funded private pension. It is mandatory for first entrants to join a private pension fund

while the others may choose for two years between the old and the new system. The funds operate under strict state control. The cost of the switch (the deficit of the public fund, the increased operational costs of the private funds) was partly funded by state loans, by a World Bank loan, and partly by reducing pensions (ILO-CEET 2000). The *third* pillar consists of the voluntary pension funds, which were regulated by law in 1993. These funds have by now 1 million members. One of their attractions is the tax exemption, and for the employer, the possibility to increase wages without increasing tax and social insurance costs.

Pension policy has never been in the focus of European politics, and national pension systems are still regarded as domains of national sovereignty. Competencies of the European agents have been limited to the co-ordination of *national* pension systems. The challenges of population ageing and its implications for maintaining the adequacy and sustainability of pensions were put on the European agenda in 2000 at the Lisbon European Council. Thus the EU could not influence the Hungarian transformation process that ended in 1997. More recently the EU set as objectives (through the open method of co-ordination) the maintenance of the adequacy of pensions and the sustainability of pension systems. The Hungarian reform also endorsed these objectives, but sustainability got much more emphasis than the adequacy of the provisions. This may explain that the reform measures recommended by the EU are much more modest in scope than those applied in Hungary.

### ***Social Assistance***

*Selective social assistance* was the most underdeveloped subsystem under state socialism. It was accepted only in a half-hearted and haphazard way. It remained a sort of illegitimate offspring of the system. The few forms of social assistance that existed – for poor children, for old people having no pension – showed all the defects of pre-war assistance schemes. They were highly discretionary, often stigmatising, and the level of the benefits was excessively low. Entitlement or claims did not exist.

After 1990, new laws and new regulations have been created to answer new needs. The World Bank strongly urged the development of assistance schemes. The two most important acts defining social assistance are the Social Act (1993, severally updated since), and the Child Protection Act (1997). Both defined not only benefits in cash, but also institutional care and many forms of social work. Both Acts have many details close to “European” practices. Yet, social assistance has remained a sort of “step-child” of social policy. It is hard to say whether there is so much reluctance about social assistance because of a very long path dependency reaching back to hundred years ago; because of the lack of (good) traditions; because there is a too strong work-fare ethics around that emphasises, in case of the poor at least, the balance between rights and duties; or whether there are too strong prejudices against the poor (all the more because about 20 per cent of the poor are Roma). The lack of funds is of course an obstacle to improvement, but not the most important one: the sums needed to upgrade social assistance are relatively small.

The consequences of the still reluctant endorsement of assistance are negative. Currently between 15 and 20 per cent of the population have some kind of assistance in cash, a very high rate in a comparative perspective. (Table 6.) The adequacy of the levels is not assured, though. The majority of the assistees remain under the the semi-official

subsistence minimum (Ferge et al. 2002) . Rights do exist since 1993, but they are weak and there is no possibility for legal redress. Because of the weakness of rights the take-up rate or the non-take-up rate are not monitored. The information offered to people about their social rights is scarce. There is a continuous pressure particularly from the local authorities to increase discretion. Workfare has a great attraction for the administrators. Law does not properly define indexation. The total value of all assistance decreased between 1998 and 2002 from 0,8 to 0,6 per cent of the GDP. Despite persistent needs, about 200000 persons were squeezed out from the assistance system in these years because of harsher rules. Despite economic growth, poverty has deepened under the third (conservative) government.

The government in office – certainly influenced by the EU’s recent interest in poverty and exclusion – took some steps to help with housing costs, and to increase child benefits. It also decided to modernise the assistance system. The reform is now under way, and promises to bring the country closer to “best practices” within the EU.

Out of the fields examined here ‘cognitive’ Europeanisation could be perceived the most clearly in the field of social assistance. Until recently the Union did not influence directly social assistance schemes, but the study of the social assistance systems of the Member States had some impact also in Hungary. This learning process remained superficial, though: some pre-war traditions (for instance parsimony, discretion, etc.) have continued to weigh heavily on the practices of social assistance. The direct European influence started in 2002. The accession countries had been requested to prepare a Joint Inclusion Memorandum on the main challenges and policy answers related to social inclusion. The JIM was signed on the 18 December 2003. Based on it each accession country has to prepare in 2004 its first two-year National Action Plan for social inclusion in order to significantly reduce poverty until 2010. For the first time in post-war history poverty and social exclusion have become early in 2004 a major topic in public political discourse.

#### ***4. The monitoring and evaluation of the EU of the Hungarian developments during the preparation for enlargement***

##### **4.1. The role of the European Social Model**

The “European social model” is defined nowhere yet quite often referred to in professional and political debates. Its underlying values and constitutive elements are repeatedly spelt out in various documents. It seemed to us that the Model had to be valid for the new member countries, too. However, because of the subsidiarity principle the evaluation processes did not cover the Model in its entirety. Let us recapitulate in a condensed way some of the core values and some of the instruments or building blocks of the Model.

- *There are basic social values that are never contested. They include the “trinity” of enlightenment and some related values. The Comité des Sages (mandated by the Commission) prepared a major position paper on the situation of social policy in the Union implicitly or explicitly referring to Freedom, Equality and Fraternity (European Commission, 1996, p.5.). The report recognised the importance of a *minimum income**

and strongly advocated it. It also repeatedly emphasised the dangers of increasing inequality. Solidarity and social cohesion seem to remain key values even under the pressures for modernisation: “The challenge is to align social protection to the new situation without abandoning its core values of *solidarity* and *cohesion*” (CEC 1997, fn.2).

- *A highly developed social protection system is one of the instruments promoting the core values.* The Commission affirmed in 1997 that the European social model “is valued and should be consolidated. This model is based both on common values and the understanding that social policy and economic performance are not contradictory but mutually reinforcing. Highly developed social protection systems are a major component of this social model” (CEC 1997, p.1). In the *Report on Social Protection in Europe 1999* (European Commission, 2000), and in the official comment on the Report it is affirmed that “social protection is, more than ever, at the heart of the Community agenda”.<sup>iv</sup>

- *Social rights appear to be the foundation of the social protection system.* The Chair of the *Comité des Sages* affirmed the equal importance of civic rights and social rights: “Civic rights and social rights are becoming interdependent. In the European tradition they are inseparable.” Since then the status of social rights may have become somewhat weaker. The Charter of Fundamental Rights adopted at the Nice European Council did not assure all desirable guarantees to social, economic and trade union rights. Yet social rights form part of all European agendas.

- *The fight against social exclusion has become a priority issue on the EU social policy agenda.* The European Union together with the Council of Europe put the fight against poverty on the agenda in the mid-seventies, and social exclusion in the eighties. From the end of the nineties social exclusion has become a primary concern on the Union level, translated into practical action plans from 2001 on.

- *The importance of the participation of civil society and of civil dialogue is widely accepted in EU politics.* The EU is firmly committed to an institutionalised social dialogue between autonomous partners of the two sides of industry and the state, as well as to a broad dialog with the representatives of „civil society” in the largest sense. A democratic, participative civil society is seen as instrumental in shaping social policy.

Out of these building blocks only some elements were used to gauge the progress of candidate countries.

#### **4.2 The instruments of evaluation**

The yardstick for measuring the progress of the candidate countries was defined in terms of the “Copenhagen Criteria” and the implementation of the *Acquis*. The Copenhagen Criteria did not include social matters. The social legislation to be adopted was originally defined only by the Chapter on social policy of a White Paper issued by the Commission in 1995. It had to cover health and safety at work, labour law and working conditions, equal opportunities for men and women, and co-ordination of social security schemes for migrant workers. Most of these dispositions had already been in place in Hungary, so formally no major changes were required in these fields.

The Social Policy Agenda adopted in 2000 elaborated some of these points. The central goal of economic competitiveness was sort of mildened down by the emphasis on more and better jobs, on greater social cohesion, and on the importance of interaction between economic, social and employment policies. It also stressed the need for an annual follow-

up to the Social Agenda on the basis of a scoreboard drawn up by the Commission European agencies were thus expected to monitor the implementation of the social and employment *acquis* by the candidate countries, to give support to the strengthening of social dialogue, to contribute to the development of non-governmental organisations, to prepare a joint analysis in the field of social protection, to mainstream gender equality in the pre-accession strategy, and to ensure the participation of the candidate countries in the Community action programmes in the social area (Social Policy Agenda, p. 24).

There was no universal mechanism to promote these activities. The Regular Reports on Hungary's progress towards accession, and later (in 2001 and 2003) the JAP (Joint Assessment of the Employment Policy), and the JIM (Joint Inclusion Memoranda) dealt with different aspects of these issues.

The Regular Reports have remained during the whole enlargement process the main instruments of evaluation. All candidate countries have been evaluated on an annual basis on their progress towards accession. A detailed analysis of the 1999 and the 2000 reports (Ferge 2002) revealed that indeed social policy did not have a major place in the four main chapters of the Reports (political criteria, economic criteria, ability to assume the obligations of membership, and Administrative capacity to apply the *acquis*). Social policy or its synonyms usually occurred only in the sub-chapter "Employment and social affairs". Some aspects related to social policy have been touched upon in different contexts.

The Reports had a positive impact on some social issues. The EU was always concerned by the rate of *unemployment*, and often encouraged active and "passive" measures. *Minority rights* have been handled in an exemplary way in the annual Reports. Social rights as rights of minorities – gender equality, the rights of children, of disabled, of ethnic minorities (the Roma in Hungary) – have been taken indeed very seriously. *Social dialogue* as a bipartite or tri-partite issue was assigned due importance in the Reports. The overall issue of civil participation and control was attributed somewhat less importance.

However, there are some important elements of the Social Model that were altogether missing from the Reports, or the Reports formulated requirements not necessarily in line with the Model.

The momentous importance attributed to *social values* such as solidarity and social cohesion in the European model was not on the agenda during the preparation of the enlargement. These issues did not figure explicitly among the topics of the Reports except the reminder to some vulnerable groups.

The Reports were duly concerned with the budget or the economy more broadly. The main concerns with social protection have been financial stability, the too high level of public expenditures, and the too slow deregulation of prices. The main instrument proposed to assure economic growth and financial stability was budget stringency, including suggestions to *reduce the level of social protection*. Also, the Reports often hinted to the necessity of changing the structure of social protection through privatisation or marketisation of assets or services, including former public services.

*Social rights* other than minority rights – such as the right to health or to a modicum of welfare – that are not legislated about on the Union level did not figure in the Reports.

*Poverty* as a general problem, or social exclusion was mentioned up to 2000 only in a few countries, and mainly in connection with the affliction of the Roma. In a similar vein income (and other) inequalities rapidly escalating in most accession countries were not mentioned in the reports. This last omission as already mentioned has been corrected from 2000 on.

### ***Conclusion***

The main historical significance of the accession to the Union is for Hungary a genuine safeguard for the rule of law, democratic institutions and human rights. The enlargement process has impacted very positively on democratic proceedings, and on the status of social rights. More free access to the global market is essentially good news because it may promote economic growth, but it may also exacerbate market failures. A major achievement is to have put the issue of poverty and social exclusion on the political agenda. Whether, however, the "social model" of the EU will be considered a model for the poorer and more recent member countries is as yet an open question.

It seems as if the accession to the European Union had affected in an opposite way the social policy of the relatively poor South-European countries and the CEE countries. Spain, or Portugal, or Greece had a relatively underdeveloped social protection system as compared to the EU mainstream. The European model had a great attraction for many in those countries, and the accession encouraged changes towards more and better social protection. The accounts of the recent past of the Southern rim of Europe show that EU direct help, the appeal of the European welfare state model, as well as cognitive Europeanisation all contributed to a significant Europeanisation of social policy institutions, procedures and practices. As Guillén and Alvarez put it: "For the Spanish population becoming Europeans meant, among other aspects, attaining 'European levels of social protection' – an objective that was to a large extent attained (Sotiropoulos 2004, Guillén and Alvarez 2004).

In many of the CEE accession countries the formal social policy arrangements and relative rates of social expenditures were very close to EU standards long before the transition. The missing institutions to handle the new challenges (unemployment, poverty) were rapidly built up after 1990. Substantive convergence could then have been achieved by democratising and "humanising" the social protection system, by strengthening rights, and by paying genuine attention to individual situations and needs. The institutions of social protection – supported by the majority of citizens – could have been altered without major destruction. However the changes preceding the accession took mostly a different turn.

Path dependency was often rejected by the new elites as representing vestiges of a despicable past characterised by "socialist paternalism" and "learned helplessness" (Marody 1992). A new paradigm was offered to the citizens by supranational agencies and the home-bread market-friendly elite. It is based on individual self-reliance, the

withdrawal of the state, and the spread of the market. Many elements of the new paradigm have been already implemented, or their implementation is under preparation. On the whole social policy has moved quite a long way towards residualisation.

The situation is paradoxical. The EU seems to attach increasing importance to social policy even if the priority goes to social policies that promote employment and competitiveness (Taylor-Gooby 2003). It also seems to encourage between-country convergence towards the European social model. It put on the agenda the issue of social exclusion and inclusion. Meanwhile it has approved the changes in the accession countries that promoted the “Americanisation” rather than the Europeanisation of social policy (Kovács 2002). Maybe the EU applied different considerations to the accession countries because it considered them too far removed from a market economy, and accepted the idea that “too much” welfare expenditure would conflict with the strengthening of “market-conform” attitudes and practices. If this be the case we think that the potential consequences, and the irreversibility of the shifts were not reflected upon.

The forces promoting an ever more unrestrained market are strong both within the EU and the accession countries. Civil society and the state are stronger in the member states than in former state-socialist countries, and resist better the new endeavours. If the present trends continue the welfare gap is therefore likely to increase further after the accession. This would be an unlucky development from the perspective of a harmoniously evolving European Union.

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<sup>i</sup> This procedure was introduced by Article 4 of the Agreement on Social Policy and was incorporated in the Treaty of Rome in 1997. (Now it is Article 139, section 2 of the consolidated text of the Treaty of Rome). Council Directive 96/34/EC on the framework agreement on parental leave and Council Directive 97/81/EC on the framework agreement on part-time work had been passed on this ground.

<sup>ii</sup> Protocol (No. 7) on the application of subsidiarity and proportionality, annexed to the Amsterdam Treaty.

<sup>iii</sup> Article 13 of Council Directive 2000/43/EC of 29 June 2000

<sup>iv</sup> [//europa.eu.int/comm/employment\\_social/soc-prot/social/news/report\\_en.htm](http://europa.eu.int/comm/employment_social/soc-prot/social/news/report_en.htm)