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Social Security in Hungary: A Balance Sheet after Twelve Years

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Abstract

The social and political transformation in Hungary contributed to the development of a democratic political system and to the establishment of the rule of law and a market economy. The process was accompanied by a series of economic and social problems. The paper first reviews the social policy orientation of the three free consecutive governments elected since the transition. None of them has had a clear political profile: they have constituted mixed and unclear welfare regimes. None of them has sketched a clear welfare policy except perhaps the current government. In its case central redistribution is consistently biased in favour of the middle and upper strata at the expense of the poor. Instead of a consensual plan defining priorities, decisions and reforms in the last ten years have been motivated by political interests, at hoc ideas, and authoritarian rulings. The paper next shows what reform meant in the case of the different instruments and various fields of social policy, namely unemployment, health, pensions, family benefits and social assistance. It concludes that while both the inherited and the newly created systems had contributed to alleviate the shocks of the transition, yet there never was enough political will to give sufficient or adequate help to those needing it. As a consequence of the "reforms" public expenditures have been significantly reduced. The welfare gap between East and West has thereby grown. The consequence is that the country has become gravely divided, and that poverty is greater and deeper than it might have been under a different set of policies.

Keywords

Welfare policy; Social security; Hungary

Introduction

All over Central–Eastern Europe society has undergone profound changes as a result of the transition. The institutional changes in politics (the rule of law, the construction of a democratic political system) and in the economy (the switch to a market economy) have altered the structure of societies. Weakly regulated privatization of the majority of the assets of each country has resulted in a fundamental redistribution of claims over resources. The

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figures may vary, but the story is by and large the same in all of the countries experiencing transition.

We focus here on Hungary. Twelve years ago the country had moderate income inequalities (on a par with the Scandinavian countries), and very little inequality in wealth. However, by now income inequalities are close to those of the most unequal countries of the EU. About wealth we do not know much. Out of the assets in the economy between 1992 and 1999 state ownership declined from 56 per cent to 10 per cent, that of cooperatives from 7 to 1 per cent, the assets of Hungarian owners increased from 10 to 32 per cent, and foreign ownership went up from 11 to 50 per cent. This last ratio is unusually high. The distribution of assets between households is unknown. The position of the majority who did not (could not) profit from the "spoils" of privatization has become weak. Over and above the lopsided distribution of private wealth the social capital of the have-nots has also declined. Civil organizations (trade unions in the first place) are weak, public goods are being rapidly privatized, the symbolic strength of social insurance as a solidary institution is weakening.

Economic resources were in decline for almost a decade. The increase in poverty was a "natural" outcome of the loss of over 1.2 million jobs out of 5 million, and the plummeting, then the almost stagnating low wage level: in short, of a more unequal distribution of a shrinking cake. The economic crisis which followed the transition is now over in most countries. Hungary recovered to its 1989 GDP level in 1999. Nevertheless, the "trickling down" of increasing economic resources varies country by country. In Hungary social policy has never made sufficient efforts to promote the trickling-down process, or to contain "spontaneously" evolving poverty and inequality.

This paper describes in detail the systems of social protection in Hungary. It first reviews the social policy orientation of the three free consecutive governments. Then it shows what reform meant in the cases of the different instruments and various fields of social policy. It concludes that while both the inherited and the newly created systems had contributed to alleviate the shocks of the transition, yet there never was enough political will to give *sufficient or adequate* help to those needing it. Government efforts did not prevent either the escalation of poverty, or the rapidly growing social divide. This has not been true for all the transition countries. For instance a minimum income guarantee has been fixed for transition countries with the exception of Hungary and Poland. No doubt with the exception of the Czech Republic and Slovenia they do not function adequately, but at least there is a clear commitment (Phare Consensus Programme 1999; OECD 1998).

While resources were declining, an increase in poverty may have been inevitable or understandable. However, over the past three years stricter targeting has gone together with widening "reverse targeting".[1] These steps, together with ongoing marketization and privatization, are creating a society with entrenched inequalities and lasting poverty. We argue here that, in welfare issues, politics matter. Yet in Hungary the interests of the stronger and better-off groups are increasingly better served by politics than are the interests of those—including the 5 per cent Roma minority—who seem to have been designated from the start to be the losers in a free market.

Political Framework: The Role of Governments

Mixed welfare "regimes"

Up until 2001 Hungary has had three free elections. All of them brought to power coalition governments. The governments have had political labels (conservative, liberal, social democratic), but their politics and social policy have been mixed, without any clear political or ideological profile. Conservatives may implement seemingly social democratic as well as neo-liberal measures, and socialists may follow an overtly neo-liberal agenda.

The first government (1990–4) had a conservative-Christian and nationalist character promising a "social market economy". In the wake of the Velvet Revolution it developed (or let develop) in 1990–1 the bases of a democratic structure. The separation of powers has become institutionalized. The Act on Settlements has decentralized the omnipotent central power and given rights and responsibilities back to the localities. The Constitutional Court, the Ombudsman's Office, the Supreme Audit Office, the Council of Interest Reconciliation, the high-level forum of tripartite social dialogue were all established in these first years. This government's main acts of social policy were the introduction of unemployment insurance (1991), the transformation of public health into insurance (1992); the creation of elected boards for the pension and health funds; the "Social Act" on social assistance and institutions (1993); the Act on voluntary insurance (1993); the introduction of new family benefits to increase natality (pregnancy allowance, allowance for mothers with 3 children).

The second government (1994–8) was a socialist-liberal coalition with a socialist majority. Despite its rhetoric—a predominantly social democratic discourse—it became extremely pragmatic. From 1995 on (admittedly under strong economic pressure) it implemented a fully neo-liberal programme curtailing the role of the state. It rapidly privatized public assets, including part of the pension system, introducing a "three-pillar" pension scheme (1997); it abolished universal benefits and transformed them into means-tested schemes (1995); cut most selective benefits, or made their conditions of eligibility more difficult. In the last two years of its existence it introduced some measures designed to broaden social rights. Its main acts broadening rights include legislation on the non-profit sector (1996); the Act on child protection (1998); the Act on the equal opportunities of the handicapped (1998); the Act on patients' rights (1998).

The third government (1998–) is again conservative-Christian and nationalist, but all of these features are much more pronounced and more right-wing than under the first government. Its main, explicit social policy objectives have been the strengthening of the "middle class" in general, and the strengthening of the (middle- and upper-class) traditional family. Its main acts of legislation present a mixed record. Some have positive impacts on living conditions, with usually some bias. The reintroduction of universal family benefits (1998) is (according to us) a step in the right direction. Yet their potential impact has been weak because its standards were lowered. The rapid increase in the minimum wage in 2001 and 2002 is an important step forwards, yet it is also controversial. It was imposed in a one-sided way without the consent of the employers' and employees' organizations. They resisted because the measure increases inordinately the tax burden of small firms, that of the low-paid workers, and increases mainly budget incomes. The (re)introduction in 1998 of increasingly generous tax allowances for families with children excludes from this benefit the low-income groups, particularly large families. The heavily subsidized vouchers for students will mean a long-term and expensive budgetary commitment for those who reach higher education.[2] Other measures belong more clearly to the neo-conservative trend. The government abolished the health and pension boards and renationalized the funds in 1998–9, eliminating all public control over the operation of the pension and health system. It continued the privatization of the practice of general practitioners, and is planning in 2001 the privatization of hospitals. (Incidentally this is the first issue against which some resistance is building up among the doctors.) It slashed unemployment benefits and compensations radically, and made unemployment assistance conditional on public work (1999). The government went a long way to weaken the institutions of decentralization and of democratic control over the government. For instance since 1998 the Parliament has sat only every third week. The mandate of the Council of Interest Reconciliation was curtailed, the Council became an advisory body. The state budget is prepared for two years. The windfall government incomes due to inflation, or to the extra intake accruing to the budget in the wake of the increase of the minimum wage are distributed by the government without Parliament's consent. They mainly serve the preparation of the elections in 2002. There are no consensual priorities in spending the extra money, particularly none that would help the poor or the impoverished public institutions.

The upside-down redistribution means not only that the middle and upper strata get more from the budget, but also that there is less money for the poor. The difficulties of the Roma minority deserve particular attention. For at least the last four decades there have been impressive government programmes to improve the lot of the Gypsies. There has never been enough money and real will to implement the programmes. Since the transition the deterioration of the situation of the Roma minority, who form about 5 per cent of the population, is spectacular. The ratio of those in poverty (under 50 per cent of the mean equivalent income) was in 1999 14 per cent among the whole population, and 65 per cent *among the Roma* (Szívós-Tóth 2000: 56). The unemployment rate of Gypsies went up from around 10 per cent in 1990 to 70 or 80 per cent, most of it being long-term unemployment. The current government renewed the commitment, introduced some positive programmes, but did not undertake any major project, and does not give overall accounts of how the funds are spent.

Meanwhile the prejudice and intolerance against the Roma is strengthening. In the EU accession reports[3] about Hungary one of the strongest criticisms about the country and the most urgent call for action were formulated in connection with the Roma both in 1999 and in 2000. The government makes only scant efforts to fight the prejudices, and sometimes it may well strengthen them.

In short, none of the three governments elected since the transition has evinced a clear welfare policy. Instead of a consensual plan defining priorities, decisions and reforms were motivated by political interests, *ad hoc* ideas, and authoritarian rulings. All of these added to the already prevalent feelings of insecurity. Lately social policy has become divisive and sometimes stigmatizing. While the first two governments were operating under severe economic strains, explaining some shortcomings, the third government could have opted for a more integrative policy.

The role of the state: public spending

The role of the state was never clarified. The first government administration was not too unfriendly towards the state as the depository of public responsibilities. The second explicitly adopted a programme decreasing the role of the state. The third has a mixed record. Its rhetoric is often that of a "caring state" and some new social programmes (housing loans, scholarships for Roma children) have been started in 2000 or 2001. The funds for these programmes are usually little more than symbolic, though. Meanwhile, all items in the welfare budget have been shrinking continuously. Even if in real terms the decline slowed down or stopped, it is not foreseen that standards should be restored to their former, admittedly already low level. Expenditure on health and education has dropped to about 4 per cent of GDP. The new welfare ratios are mostly below the OECD average. As a consequence of this gradual deterioration, the *East–West gap in social provisions continues to widen* (see table 1).

Table 1

Main groups of welfare expenditures of the consolidated state budget as % of GDP, 1991–2002

	1991	1995	1998	1999	2000, law	2002 (forecast)
Education	5.6	5.2	4.8	4.7	4.5	4.4
Health	5.5	4.4	4.6	4.4	4.1	3.9
Social insurance, social and care services	20.7	17.4	15.2	14.9	13.9	13.5
Of these: Pensions	10.5	8.7	8.3	8.2	7.6	7.4
Child benefits	3.4	2.3	1.7	1.6	1.7	1.7
Housing, regions	4.0	1.9	1.4	1.4	1.2	1.1
Leisure, culture	1.7	1.7	1.2	1.2	1.2	1.1
Total welfare expenditure	37.5	30.4	27.1	26.7	24.8	24.0

Source: 1991–1998: Ministry of Finance AHIR database, main functional categories, based on consolidated data. 1999–2002: Budget 2000–2002.

Instruments of social protection: the pluralization of welfare

Budget cuts have been achieved by changing the instruments of social protection. These changes have affected universal, insurance-type and assistance-type benefits differently.

Universalism was seldom embraced under the old system because most benefits were tied to employment. However, because employment was almost full, a form of near-universalism (e.g. child benefits) or full universalism (public health service from 1975 on) had existed. Following the transition, universal benefits were subject to change in five different ways:

1. some of them became means-tested (for instance family allowance from 1995 to 1998);
2. some were changed to forms of insurance (the public health system was transformed into insurance in 1991);
3. user's fees or "co-payments" have been introduced to curb demand or to lower public costs (from school activities to pharmaceuticals);
4. the benefit survives, yet its real value is eroded (e.g. the restored family allowance since 1998);
5. one-time universal services have been privatized and opened up to market provision (e.g. educational or medical activities).

Social insurance—with the exception of unemployment insurance—has existed in Hungary (as everywhere in the region) for pensions (including funerals), work accidents and sickness benefits since long before the Second World War. Unemployment insurance was introduced for the first time by the Act on Employment adopted in 1991. Pension insurance was expanded in the first years of the transition to cater for the masses suddenly becoming unemployed. Meanwhile, the reforms have endeavoured to change the principles of the scheme. The objective has been to "cleanse" public insurance of its solidaristic elements such as the funeral allowance, and to make it conform more to the demands of the market. The reform of the pension system in 1997 introduced a mandatory private pillar. The individualizing reform of the PAYG public scheme seems to have come on the agenda in 2001. The government proposes to replace the current scheme by contribution-defined individual savings accounts managed by the state bureaucracy. This entails, for instance, the abolition of survivor's benefits. Details—for instance the handling of the difference of life expectancy between genders—are not subject to public debates.

Selective social assistance was the most underdeveloped subsystem under the former regime. The existence of most situations calling for assistance was denied (unemployment, poverty, etc.). Also, individual distress was never a concern for the totalitarian power. Since the transition, new, laws and new regulations have been created to answer new needs. Yet unfortunately, the social assistance system has remained largely inadequate. Levels of benefit are usually low, their administration defective and access often discretionary. Statutory workfare is spreading, and the "safety net" has holes. The main gainer in this field of poverty relief has been social work, which became institutionalized in Hungary as well as all over Central–Eastern Europe.

Alongside these changes the "pluralization" of the welfare system is taking place. Pluralization has several components. The actors are changing and multiplying. The role of the (central) *state* in social policy is deliberately reduced in respect of all its former functions, as owner, service-provider and funding agent. The wide-ranging former welfare activities of the *firms*—whether state, or newly emerging private, enterprises—are shrinking, and new forms are emerging (for instance firms might offer private health or pension insurance mainly to the more stable employees). The *local authorities* have gained back their relative independence, and they have become responsible for the well-being of their citizens. This recovery of autonomy on the part of local authorities has proved to be a great asset. Nevertheless, some drawbacks are also visible. Their "freedom" to issue local regulations has resulted in more than 3,000 different local welfare systems. Locally exercised discretion or discrimination also occurs and is hard to control.

The re-emergence of the *voluntary and NGO* sector is also a major gain even if its role is not always clear and funding remains a problem. In 2000 there were 50,000 civil organizations, about 60 per cent of them working in the fields of education, culture and social policy. Most of them are small, related to just one school or neighbourhood community. They are mostly delivering services. A few of them represent the interests of some specific disadvantaged group (such as families with many children, handicapped people, pensioners, the unemployed, the homeless), or of the poor and the excluded in general (organizations for civil rights, for those living under the subsistence minimum, or for the Roma). The government increasingly favours the churches as service providers. They got back their former institutions. If they run social services, they get higher fees from the public budget than other civil organizations. Government funding of the third sector is increasingly dependent on the political orientation of the organization. Foreign and home funding sources are as yet scarce.

Many functions hitherto performed by collective (central or local) institutions have had to fall back on the family or on the "community". While theoretically this may improve the quality of the service, in reality it usually overburdens the old-new actors.

Reforms in the Main Fields of Social protection

The handling of unemployment

Loss of jobs and open unemployment constitute the main factors causing poverty. Between 1990 and 1993 one-quarter of all jobs disappeared. The employment rate of those of working age fell from 76 to 60 per cent. This decrease stopped in 1997, and from 1998 a slow improvement started. Nevertheless, a still-low activity rate means that, in 2001, 3.9 million active earners have to provide for the whole population of 10 million. The grey or black economy helps many to survive. According to various estimates, its size has been slowly decreasing, yet by 2000 it still amounted to about 20 to 25 per cent of GDP. While working in the black economy is a means of survival, it is harmful to society as a whole and to the individuals concerned. Those working in the black economy pay no contributions, thus they do not acquire insurance rights and often lack social protection.

The Employment Act was enacted by the first Parliament in 1991. It consolidated and regulated the network of labour offices. The new offices were quite effective at registering the numbers of job losers, apart from those who managed to find protection in the pension scheme. The highest number of job losers, 663,000, was registered in the year 1992. The figure gradually declined to 370,000 by 2000. The official unemployment rate dropped during this period from a high of 13 per cent to 7 per cent. About 340,000 of the job losers who were not registered joined the early retirement or the disability pension scheme. About 400,000 to 500,000 people had withdrawn completely from the labour market.

In line with international experience, the unemployment rate tends to be highest amongst the youngest and the oldest, amongst the low-skilled or least-educated, and in the least developed parts of the country. The unemployment rate for women is slightly lower than that for men—women make up about 40 per cent of the total unemployed. The labour market is rigid; hence rates of long-term unemployment—people unemployed for more than 12 months—have rapidly escalated. The rate reached 50 per cent of the total unemployed by 1995; since then it has slightly diminished (table 2).

The Employment Act defined also the "passive" and "active" measures of handling unemployment. The insurance-based unemployment benefits were at the start in line with relatively generous European standards (two years, 70 per cent of more of former income, etc.). Another "passive" measure was introduced by the Social Act adopted in 1993 in the form of the "income

Table 2

Number and characteristics of the unemployed

	Registered unemployed (000), according to Hungarian definition	Unemployed according to international (LFS) standards (000)	Rate of unemployment LFS definition	Women out of the unemployed, LFS definition	Long-term (over 12 months) unemployed LFS definition
1990	80	n.d.	n.d.	n.d.	n.d.
1991	406	n.d.	n.d.	n.d.	n.d.
1992	663	442	9.8	40.1	21.0
1993	632	519	11.9	39.1	35.2
1994	520	451	10.7	39.0	43.2
1995	496	417	10.2	37.0	45.6
1996	477	400	9.9	39.0	49.8
1997	464	349	8.7	38.6	46.5
1998	404	313	7.8	39.6	44.3
1999	404	285	7.0	40.0	44.9

Source: Yearbooks of the Central Statistical Office, CSO (1998, 1999).

compensation allowance". This allowance provided a flat-rate benefit, 80 per cent of the minimum pension, from the end of the insured period. It was originally available without a time limit.

The second government rendered the terms of unemployment provisions stricter. The replacement rate of the insurance benefit was lowered, and the "income compensation allowance" period was reduced to two years. To fill this new gap, a regular social assistance allowance, amounting to a maximum of 70 per cent of the minimum pension, was introduced in 1997 as a last element in unemployment provision. Thus the three types of provision—insurance, allowance and assistance—constituted a sort of hierarchy as regards standards and eligibility conditions.

The third government has been inclined, increasingly, to see unemployment as the fault of the unemployed. In late 1999 an amendment reduced the unemployment benefit period from 12 to 9 months. The income-replacement compensation allowance (offered for 2 years) was abolished from 1 May 2000. (However, those already on the rolls will continue to get it until their entitlement expires.) The unemployed may continue to receive the assistance from the local authority, but with an additional condition. They have to accomplish at least 30 days per year of public work (workfare)—if there is any such available. In 2000 only about 9,000 persons participated in such programmes (Szociális Minisztérium 2001).

A wide scale of "active measures" have been defined in the Employment Act, such as job creation, training, retraining, subsidized jobs, and the like. The Hungarian government often claimed to give precedence to active over passive labour market interventions. This commitment was not taken very seriously: the "passive" measures amounted regularly to about three-fourths of all direct labour market outlays.

The real problem is that the total sum spent on the labour market decreased. Its sum amounted to 2.8 per cent of GDP in 1992. Since then *its real value has dropped by about 60 per cent.* In 1999, when the GDP was of about the same size as in 1992, only 1 per cent was devoted to unemployment. This is the main reason for the weakness of active labour market measures and for the deterioration in standards of unemployment provision (see table 3).

Health reform

Health[4] had remained a low-priority area in the former system. The long-lasting crisis of the socialist health care system had been characterized by four fundamental problems, which together had ensured the poor performance of this sector: decades of low economic growth, ineffective, highly-centralized systems of management, internal inefficiencies, the low pay of the health personnel entailing the unacceptable and unjust practice of "under-the-table" payments. The advantages of the system were that it offered universal access and many widespread public health services (e.g. inoculation of all children, screenings, visiting nurses for families with children). But the system was top-heavy. The number of hospital beds (10.2 per thousand inhabitants in 1990), and of doctors (3.7 per thousand inhabitants in 1990) seemed to be too high. On the other hand, the number of nurses was much

Table 3

Level of unemployment benefits

Year	Total number of unemployed getting provision	Per capita monthly sum, in HUF	Total budget outlay, billion HUF	Per capita provision	Total outlay
				In real terms, 1992 = 100	
1992	518	8,828	62.6	100	100
1993	468	8,466	75.9	78	99
1994	399	8,438	58.9	66	65
1995	392	9,128	55.5	55	48
1996	351	9,928	57.3	49	40
1997	332	11,641	62.4	48	36
1998	300	13,752	71.3	50	37

Source: Garzó, L. (ed.) (2001), *A munkanélküliség ára* (*The price of unemployment*), Budapest: Szociális Szakmai Szövetség.

lower than is usual in Western Europe (4.5 per thousand inhabitants). It was in the 1980s that the multi-dimensional crisis of the Hungarian health care system became increasingly apparent. Yet, because of the many conflicts of interest, reform was slow to materialize.

In the reforms started from 1989, the main goals have been: stable, viable financing; the development of mixed ownership; performance-based financing; the restructuring of service delivery towards more emphasis on primary care and less on the hospital sector; the reorganization of systems of professional supervision; increasing autonomy for institutional management; the introduction of supplementary insurance; and enhancement of patients' rights. However, while successive steps in the reform process have ostensibly adhered to this script, the reality has been that, despite formal changes in financing, ownership, and so on, the system remains in trouble.

In the first period (1991–2) the public health service was rather mechanically transformed into a so-called social insurance scheme. Access remained almost universal, but the costs of some interventions and of medication grew. The ownership of health facilities had been transferred to local governments in 1990. This paved the way for later privatization. The churches got back most of their hospitals. Services or hospitals could also be owned and run by private or non-profit agencies. New high-quality private services were diverting funds from other purposes. (For instance, expensive and profitable services such as laboratories or dialysis stations were privatized.) The Health Fund finances these services at the expense of its other obligations.

The reform of the primary health care system took place in 1992. The incentive for doctors was the number of registered patients (the number of insurance cards). The privatization of practices was also embarked on from 1992. By 1998 the majority of family doctors (5,675 out of 6,890) had acquired their practices free and had become self-employed. Unfortunately, the incentives did not prove full effective: the capitation fee had been decreased, so that the under-the-table payments had to continue.

All in all, the funding system was gradually changed. General practitioners receive the per capita fee. In outpatient care there is (at least in theory) a fee-for-service payment. A performance-based (DRG, diagnosis related groups) financing system was introduced into the hospitals. Yet underfunding by the Health Fund is still widespread; most hospitals have accumulated huge debts; hospital beds (hitherto relatively numerous by EU standards) were closed down, but were not replaced by adequate nursing home or shelter facilities. Indeed, one consequence of the closing of psychiatric beds was an increase in homelessness. Also, the indebtedness of the hospitals is currently used as an argument for their privatization.

Meanwhile, the contributory system has become less equitable. The level of the progressive insurance contribution has been gradually reduced, but an additional flat-rate contribution has been added. The significance of private expenditures is growing. Growing co-payments for pharmaceuticals and the "under-the-table" payments are making the health care financing system increasingly inequitable.

The future of the health system is thus uncertain. The idea of competing health insurance funds is strongly supported by a majority in the present government, has supporters in most other parties (whether liberal or socialist), and is strongly advocated by the private insurance sector. However, it is resolutely opposed by medical groups and by left-wing political forces. The World Bank switches back and forth between the two scenarios (stronger public insurance or stronger private ownership and insurance).

Hungarian mortality and morbidity rates are amongst the worst in Europe. Yet the interests of patients and the importance of restructuring care in the direction of more prevention has never been accorded priority in the health reform discourse.

Pension reform

The Hungarian public pension system took off in 1912 with a scheme for civil servants, followed in 1928 by a more general scheme. Before 1945 it covered about one-third of the labour force. The scheme was funded and governed by a tripartite board consisting of employers, employees and the state. Because of war losses and the will to broaden eligibility quickly it was transformed into a pay-as-you-go system soon after the war. After 1950 the former governing board was abolished, and the social insurance fund became part of the state budget. Yet the scheme continued to broaden and mature. By 1989 it covered practically the whole labour force and had reached relatively acceptable levels. Certainly the system worked well enough to protect pensioners relatively adequately in the years of crisis after the transition.

However, incremental and haphazard changes served to blur the transparency of the scheme. Its sustainability was jeopardized by both demographic and labour market reasons. One important reason for unsustainability was the swelling rolls of early retirement and disability pensions. The ratio of pensioners to contributors was 50 in 1990, and 70 in 1994. In other words whereas, until 1990, the average pension had been "paid for" by 2 to 3 active earners, fewer than 1.5 active earners were having to cover each average pension after 1990. In 1992 a law introduced (for the first time in Hungary) the compulsory yearly indexation of pensions—originally to wages. This further weakened the sustainability of the pension scheme. Contribution rates were increased accordingly. Reform was inevitable. One may distinguish two periods of the reform.

In the first period (1990–1995/6) the objective was to reform and complete the pay-as-you-go (PAYG) scheme. The first Parliament adopted (1991) a proposal to determine the orientation of a would-be pension reform. This projected a three-tier system, namely a basic flat-rate scheme, a compulsory public earnings-related scheme, and a voluntary, private tier (later to be called "pillar"). The citizen's (basic flat-rate) pension was meant to assure basic security, and the second tier relative security.

In response to the movement for more transparency and civil control the Social Insurance Fund was separated from the state budget in 1989. A law in 1991 reconstituted the relatively independent Governing Board in a way different from the prewar solution. In fact two boards were elected in 1991, one for the Pension Fund and one for the Health Fund. They consisted only of elected representatives of the trade unions, and of the delegates of the employers' organizations. The state was not directly represented. This was resented by all three governments, and ultimately led to the abolition of the boards.

It was proposed in the Parliament to ease funding difficulties by the transfer of some state assets into the pension (and health) funds. The proposal was accepted, but was not properly implemented. Another solution proposed already in 1991 was the increase of the very low pensionable age (60 and 55 years for men and women respectively). Yet because of parliamentary and trade union opposition, this proposal was enacted only in 1996. According to the new regulation the age limit will gradually be increased until 2009, when it will stabilize at 62 years for both sexes.

In the second period of reform, from c. 1995, the World Bank's "*multi-pillar*" *system* including a mandatory private pillar was forced on to the pension reform agenda (World Bank 1994). The "new pension orthodoxy" (Müller *et al.* 1999) was resisted by experts, the pension board and the trade unions—on the grounds of its costs, poor professional preparation, and the increased uncertainties it would generate. Yet this resistance proved to be ineffective. The Pension Board had no right of veto. The PR campaign in favour of the private scheme (financed by the Budget and the private sector) was extremely effective. It gave one-sided messages, leaving the public misinformed about the respective advantages and risks of the public and private schemes. It made the private system attractive and undermined trust in the public pillar. People therefore remained passive. They did not defend (as was the case in the Czech Republic, for instance) the public system. As will be shown later, many more people joined the private funds than was foreseen or mandatory. Thus the three-pillar scheme was accepted by the Parliament.

The laws were enacted in July 1997 without the votes of the then opposition (the current government). The ensuing system has four pillars. The *zero* pillar is a means-tested benefit for those who never acquired sufficient pension rights. The *first* pillar is a slightly reformed, compressed, state-managed PAYG scheme. The *second* pillar is a privately funded, defined contribution scheme which is mandatory for first entrants to the labour market, and optional for everybody else. The *third* pillar is the voluntary private pension.

The *zero* pillar was designed as the provision for those unable to fulfil the eligibility criteria. The number of beneficiaries has remained under 30,000 up to 2000. In the future—as argued elsewhere—the provision will become more important.

The *first* pillar was meant to be a slightly reformed social security PAYG pension scheme. The rules of calculating the pensions are destined to be changed several times up until 2013. According to the law, eligibility conditions are scheduled to become somewhat harsher, pensions will not be fully indexed to wages, and regressive elements will continue to be applied in the calculation of the pensions so that their scale will be increasingly compressed. The regression rules are meant to be abandoned after 2013, but the ceiling under which the wages is taken into account when calculating the pension will be reduced.

The *second* pillar was designed as a compulsory, funded private saving scheme. First entrants were requested by the law to join a private pension fund. Everybody else could choose for two years between the old and the new system. The funds operate under strict state control. The campaign was so successful that some 2 million individuals joined the new funds, 7 per cent mandatory (the new entrants), and 93 per cent optional. Because of this, the deficit of the public fund increased more than expected. This deficit is partly funded by state loans, and partly compensated for by reducing pensions through inadequate indexation.

The *third* pillar consists of the voluntary pension funds, which were regulated by law in 1993. By now these funds have approximately 1 million members. One of their attractions used to be the quite considerable tax exemption offered, and, for the employer, the possibility of increasing wages without increasing tax and social insurance costs.

The government elected in 1998 has been changing, practically in a single-handed way, without any public involvement, the rules of the all the pension pillars. Apparently its objective is to strengthen the public pillar under strong government rule. Accordingly, it is weakening control over the public fund (abolition of the Board), and lessening the attraction of the two other pillars.

The attractiveness of the *public scheme* is meant to be increased by a new government proposal that would transform the current scheme into an individualized, inheritable saving scheme which is contribution-defined. This implies the abolition of survivors' benefits and other "solidaristic" or public insurance elements. The public remains again uninformed about such details as the valorization of the individual contributions, the future indexation of pensions, the handling of the employer's contribution, and so on.

The voluntary (third) pillar lost some of its attraction when the current government reduced the tax allowance attached to it. The *mandatory private pillar* is also in disfavour. The government took several measures in order

Table 4

Pensioners and pensions, 1990–9

	Total number of pensioners		Total outlay on pensions in billion HUF, nominal terms	Nominal sum per beneficiary, in thousand HUF	Average pension		Real value of the minimum pension
	In thousand	1990 = 100			Real value, 1990 = 100	as % of average wage	1990 = 100
1990	2,556	100	202.1	6.6	100	66	100
1995	3,027	118	582.2	16.0	78	62	59
1996	3,082	121	669.8	18.1	71	59	55
1997	3,123	122	804.8	21.5	71	56	55
1998	3,157	124	989.0	26.1	75	58	58
1999	3,141	123	1,117.2	29.6	78	59	59
2000	3,103	121	2,228.5	33.0	79	59	59

Source: Yearbooks of the Central Statistical Office.

to reduce the budget loss due to the high number of entrants. According to the 1997 law the compulsory private contribution rates had to increase from 6 per cent in the first year to 8 per cent from the second year on. The government froze the rate at 6 per cent. It lengthened the period of choice between the pillars. It proposes currently to abolish the mandatory membership of first entrants to the labour market, and to abolish state guarantees. Those who—willingly or unwillingly—chose the private scheme are now suffering some losses because the government has changed, in a one-sided way, the terms of a private contract.

Up to now the entire process of pension reform has had no genuine impact: the number of pensioners and the outlays on their pensions continued to increase up until 2000. The pensions remained low. By 2000, whereas GDP had reached 105 per cent of its 1991 level, real wages were at only 86 per cent of their 1991 level and the average pension was even lower, at 77 per cent. Even so, pensioners are not to be seen as the main losers in the transition. Unlike those without a job, they do have a regular income (table 4).

Family benefits

Hungary developed from the 1960s on a relatively acceptable system of family provisions and childcare institutions. By the late 1980s, cash benefits amounted to about 4 per cent of GDP. However, the IMF and the World Bank requested the slashing of these benefits to a level "customary in Europe", that is, to around 1 to 2 per cent of GDP. This request was implemented.

Child benefits The system of family provisions has become increasingly varied and fragmented. Children give access to three, sometimes four, benefits:

The *family allowance* has remained the biggest item among family benefits. Its amount varies according to the number of children: the sum per child increases up to the third child. Its value varies currently between 3 and 7 per cent of the average gross wage. Single parents have a higher allowance than couples, and the sum is increased for handicapped children. The allowance was employment-related until 1990, universal until 1995, means-tested between 1995 and 1998, and again universal since 1998. However, the real value of the family allowance fell between 1990 and 1994 by 30–35 per cent, fell again by about 20 per cent between 1994 and 1998, and has fallen by a further 30 per cent over the last 3 years. By 2001 its real value had dropped to about one-third of its original value in 1990. Meanwhile, the rules were changed in 1998. Schoolchildren now get the allowance as a form of education benefit, so their regular school attendance has to be monitored. Unfortunately, the child protection agencies mandated by the Law on Child Protection of 1997 are not up to this task.

Educational assistance (introduced on a discretionary basis in 1974) was re-regulated in 1997 Act, and renamed allowance for child protection. From a highly discretionary item it has become a right, though income-tested. If the conditions are fulfilled, a flat-rate sum (20 per cent of the minimum pension) is assured for each child. Unlike the family allowance, it is uniform; that is, it does not increase with the number of children and is not higher for single parents or for handicapped children. The level of the assistance has remained low, but the right to assistance made the new scheme more accessible. The number of recipients rose from about 500,000 to about 800,000 from 1997 until 2000. That means that over one-third of all children get it. The third government and many local authorities considered this number too high. In order to control alleged cheating, an asset-test and home visits were added to the income test in 1999. The name of the benefit changed again in 2000. It has been redefined by the government as a "complementary family allowance". It is now considered as a means to compensate low-income families for the tax credit they cannot use because they do not have enough taxable income. (As table 5 shows, the amount of the assistance, i.e. the complementary family allowance, is lower than the tax credit.)

Table 5

Child benefits in 2001, in HUF (Hungarian forints)

	Family allowance —universal, for everybody	Child protection benefit—means-tested, largely for the poorest 40%	Tax allowance for those who can use it—better-off 60- to 80%
1 child + 2 parents	3,800	4,000	3,000
1 child + 1 parent	4,500	4,000	3,000
2 children + 2 parents	4,700	4,000	4,000
2 children + 1 parent	5,400	4,000	4,000
3 and more children + 2 parents	5,900	4,000	10,000
3 and more children + 1 parent	6,300	4,000	10,000

The *tax allowance* for children, first introduced under the first government, was abolished in 1995 and reintroduced in 1999. This is (in theory) an unconditional benefit differentiated by the number of children. As shown in table 5, it increases more rapidly for the second and third child than the family allowance. In practice its use depends on whether tax liabilities are high enough to make the full allowance deductible. About 80 per cent of smaller families, and about two-thirds of families with three or more children do not pay enough tax to make full use of it. (The tax of both partners counts but only if they are legally married. In the case of the other benefits there is no such condition.) This is the only child benefit that was radically increased under the third government.

The *pregnancy benefit* was introduced in 1992, as a universal benefit, equivalent to the family allowance from the third month of the pregnancy. It was phased out in 1995 and reintroduced from 2001 on, but *only as a tax allowance*. So poor mothers do not get it.

Maternity benefits There are several maternity benefits, most of them inherited from the former system. The *one-time birth allowance* is offered to all those who had 4 medical visits during pregnancy. It was phased out between 1992 and 1995, and the pregnancy allowance replaced it.

The *pregnancy-maternity benefit* is 24 weeks of paid leave for those having 180 days of employment. It is insurance-funded. It is 70 per cent of the former wage. Currently only 25 per cent of mothers use it because of the low employment rate of young women.

The *child care grant* (GYES) is a flat-rate grant for mothers or fathers to stay at home with the child until its third birthday. From 2000, it is available for grandparents, too, if they give up their pension (or have none). It was introduced in 1967. It was originally universal, then means-tested between 1995 and 1998, and then again universal. The flat-rate sum is currently equal to the minimum pension. It has lost about 15–20 per cent of its real value since 1990. The minimum pension is currently equal to about 31 per cent of the average wage. That explains why young mothers on GYES form one of the poorest groups.

The *child support grant* (GYET; created in 1993) is a flat-rate grant for mothers to stay at home if they have 3 or more children under 10. Its amount is equal to GYES. It was also rendered universal in 1998.

The earnings-related child care fee (GYED) was first introduced in 1982 as an earnings-related alternative to GYES for mothers who have a job. It used to be an insurance-related benefit. It was phased out in 1995 as one of the stringency meansures. It was reintroduced in 2000 as an earnings-related, but tax-funded, benefit. Its conditions of access consist only of 180 days of paid employment before giving birth, but no contribution is paid for it, which is a questionable disposition. In 1990 40 per cent of mothers were on the flat-rate GYES, 60 per cent on the earnings-related GYED. By 2000 the proportions had been reversed (63 per cent as against 37 per cent). Meanwhile, the gap between the two benefits has increased. The upper limit of the GYED is gradually being lifted, while the value of GYES is related to the minimum pension, which is increasing more slowly than wages (table 6).

Table 6

Maternity provisions, GYES and GYED—flat-rate and earnings-related child care grant, 1990–2002[a]

	1990	1998	2002 (forecast)	1990	1998	2002 (forecast)
	Flat-rate grant (GYES)			Earnings-related grant (GYED)		
Recipients (000)	95	234	155[a]	155	10	90[a]
Total expenditure, billion HUF	3.8	38.5	34.8	9.7	1.1	44.3
Sum per recipient, HUF/month	3,303	13,725	18,720	5,198	28,027	41,000[a]
Total expenditure, real value, 1990 = 100*	100	196	137	100	2	68
Real value of sum per recipient, 1990 = 100*	100	80	**85**	100	104	**118**
% of GDP	0.18	0.38	0.22	0.47	0.01	0.29

Source: for 1990 and 1998: Statistical Yearbooks, Hungarian Central Statistical Office; for 2002: Summary of some indicators used in planning government budget income and expenditures 2000.
* Price index: 1990–8 = 517.7%, 1990–2002 = 670.
[a] GYED was stopped between 1995 and 1998, the last payment was due in April 1998.

To sum up, despite the rhetoric of the third government about being family- and child-centred, the system was delivering less in 2000 than at the end of the 1980s or even in 1994, for all that the actual decrease stopped in 1998. The system is becoming divisive, in that benefits for middle and upper classes are better and improving faster than are benefits for the poor.

Social assistance

Escalating poverty in the wake of the transition required the development of social assistance. The first legal regulation was offered by the Social Act adopted in 1993. According to the principle of subsidiarity, responsibility for meeting the basic needs of the citizens was delegated to the local community. Therefore, most types of social assistance are currently managed (paid) by the local authority, albeit the state refunds partly or fully some important benefits. This Act specified the statutory benefits in cash, in kind, and in the form of personal social services that local authorities have to assure. It also regulated the main aspects of the legal relationship between the service providers and the users of the services. It did not specify the rules of indexation. It was apparently assumed that indexation was taken care of automatically, since most types of assistance were tied to the pension minimum, which itself was indexed. The rules of legal redress were spelt out. Individual rulings could not be taken to an independent court, only procedural claims.

The Social Act had the ambition to cover all the benefits that do not belong to social insurance. This ambition was not fulfilled. The assistance of children—one of the most important elements—was regulated by the Children Protection Act of 1997, already referred to.

The most important types of social assistance for adults are partly inherited and partly reshaped, as follows:

- *Old age assistance* (social assistance for senior citizens) has always existed, but its importance varies. It was more in demand when pension insurance had a smaller coverage. Currently it is marginal, but it may gain in importance. One reason is that the eligibility criteria for pensions are tightening. The other, more important reason is that because of the low inactivity rate many people will not acquire a pension in their own right.
- *Occasional or crisis assistance* (one-off and urgent payments or assistance in kind) is provided in exceptional crisis situations. From 1995 it could be provided with almost monthly regularity. This was due to a tacit acknowledgement of the inadequacy of the regular benefits. In recent years crisis assistance has become more strictly regulated, and the number of cases has fallen.
- *Care allowance* is also an inherited provision. It is offered to those caring for sick or disabled family members. Its level is 60–100 per cent of the pension minimum. About 25,000 people are in yearly receipt of this allowance.

The new benefits are meant to handle "new risks". They are settling slowly; their rules are often changing.

- The *income supplement benefit* discussed in the section on unemployment, above, was meant to complete insurance-based unemployment benefit. It was introduced in 1993, its rules changed in 1995, and it was phased out in 2000. It was replaced by a lower *regular social assistance for unemployed people*. From 2000, access to it is—in theory—tied to 30 days' communal work.
- *Housing allowance* was to compensate for escalating housing costs. As defined by the Social Act in 1993 it is a means-tested benefit that may be claimed if housing costs exceed 35 per cent of the household's income—provided the household is not yet indebted, and the home conforms to "normal" standards. Local governments have a wide margin of freedom in defining what "normal" standards mean. Housing allowances are often paid directly to the communal service companies. The level of this benefit has been so low that it could not become an efficient protection against the accumulation of debts.
- The *public health voucher* was introduced because the costs of medication have also escalated. It may be claimed by aged or very sick people. In some cases it is a right (young people leaving state foster care), in some others it is means- and sickness-tested, and it may be awarded by the LA on a discretionary basis. It covers the costs of a list of medications that has been continuously cut back.

To sum up: social assistance has become a dynamic branch of social policy. It has had to cover new needs, and to compensate for the deterioration in other benefits. The number of those on assistance grew rapidly until 1998, and it has apparently stabilized since then (table 7). According to recent data,

Table 7

Number of recipients of the most frequent types of means-tested benefits (000) between 1990 and 2000

	1990	1998	1999	2000
Regular social assistance	46	28	34	47
Income replacement of the unemployed	—	175	146	115
Regular assistance for children	101	743	804	786
Housing assistance in cash	—	167	134	126
In-kind housing assistance	—	103	83	72
Occasional cash assistance	807	537	475	448
Occasional in-kind assistance		223	217	204
Single (occasional) assistance payments for children, cash	n.d.	278	384	432
Single (occasional) assistance payments for children, in kind	n.d.	126		
Public health assistance (voucher)	—	481	472	489

Source: Statistical Yearbooks, Hungarian Central Statistical Office.
— the benefit did not exist.

Table 8

Average monthly per capita amount of the most frequent types of means-tested benefits between 1990 and 2000

	1990	1998	1999	2000
Monthly average per recipient (Regular benefits) (HUF)				
Regular social benefit	3,209	9,444	10,588	11,056
Income replacement benefit for unemployed	—	11,005	14,703	16,131
Regular child protection allowance	n.d.	2,777	3,119	3,436
Occasional assistance, sum per month per recipient (HUF)				
Housing assistance in cash	—	933	1,104	1,349
In-kind housing assistance	—	1,216	1,313	1,450
Occasional cash assistance	180	496	542	603
Occasional in-kind assistance	180	430	338	358
Occasional child protection allowance	n.d.	n.d.	481	474

Source: Statistical Yearbooks, Hungarian Central Statistical Office.
— the benefit did not exist.
The price index between 1990 and 2000 was 614%. The average monthly gross wage in 2000 was HUF 87,645.

social assistance is relatively well targeted. It reaches the large majority of those in need who conform to the conditions. There are, however, shortcomings that make the system defective. Thus the conditions are so strict that many in the greatest need do not fulfil them. (Even minor debts may exclude the household from housing assistance.) Further, the level of assistance is so inadequate that the families remain poor even after getting assistance.

The Social Outcome

The smaller or greater success of social policy is best measured by outcomes. Some data have already been presented. The labour market situation is still bad. It is characterized by low activity rates, low wages, and a high rate of long-term unemployment. The situation of pensioners is better than expected after the economic crisis. However, the majority have great difficulties in making ends meet: the average pension is still 20 per cent lower than in 1990. The position of families with children, particularly with many children, has deteriorated in the last ten years. The new family benefit system is helping the upper two-thirds at the expense of the poorer families.

Inequality and poverty have grown in a spectacular way. The multiplier between the lowest and the highest income decile increased between 1989 and 2000 from around 4 to around 8. The percentage of the poor living below a level considered as a socially tolerable subsistence minimum grew during this time from about 10 to over 30.

There are two recent surveys[5] that allow us to have some insight into the operation and impact of the social protection system. The importance of social incomes is large: 77 per cent of the households in the national sample (ILO-PSS) were in receipt of some social benefit. This rate was over 90 per cent in the case of the poor sample, ILO-POV (covering by and large the bottom income third of the population). Market incomes may be complemented or fully replaced by social incomes. Yet social incomes, particularly means-tested benefits, are low. Table 9 shows the rate of those getting market income, social transfers in general, and means-tested benefits in particular. The average per capita income is presented for each group. Clearly, means-tested transfers may leave people in deep poverty. (The minimum pension that serves in many cases as an income threshold for assistance is HUF 18,000, and the subsistence minimum as calculated by the Statistical Office is HUF 26,000 in 2001).

Despite the frequency of assistance, there are holes in the safety net. Some 40 per cent of the poor sample did not get any means-tested benefit. Over half of them, 23 per cent of all the respondents of the poor sample, may have been entitled to it: their per capita income is far below the pension minimum. On this basis we may assume that on the national level around 8 per cent of the adult population and their families live below the threshold of assistance and do not get public help.

Poverty implies insecurity and unsatisfied needs. Just to give some examples, 21 per cent of the poor sample (by and large the bottom third of the population) has no inside toilet; 29 per cent have housing debts; 17 per cent live three or more in one room; 36 per cent have not enough money to

Table 9

Ratio of households having market income, all types of transfer income, and means-tested income, and per capita income in the different groups

The household	Total population (respondent between 18 and 60), ILO-PSS		Poor population (*c.* bottom income third, respondent between 18 and 60), ILO-POV	
	% of households	Per capita monthly income in thousand HUF, approximation	% of households	Per capita monthly income in thousand HUF, approximation
Has market income	83	30.9	72	16.4
No market income	27	21.1	28	13.1
Has social transfer income (insurance and assistance)	77	25.6	93	15.3
No social transfer income	23	40.8	7	16.9
Has means-tested transfer income (only assistance)	20	17.9	61	14.7
No means-tested transfer income	80	32.1	39	16.6
Total sample	100 (*n* = 800)	29.2	100 (n = 1030)	15.4

Source: ILO-PSS and ILO-POV surveys (see note 5).

pay for medical prescriptions; 50 per cent of the adults have meat only every second day or less; only 6 per cent of the adults can afford a week's holiday a year. The tragedy of the poor is compounded by the fact that for about 20 years they had more security and less destitution. The Roma minority is among the main losers from the above changes. The few steps they made between 1960 and 1990 on the difficult road of social integration have proved almost in vain. Prejudice and intolerance make their lot harder. Table 10 shows that the Roma are among the poorest of the poor. It also suggests that the danger of the reproduction of poverty and Roma poverty looms large.

Against this background a new comparison with poverty in the EU seems plausible. Table 11 presents two series relating to the accession countries. The first column shows the per capita GDP[6] of the countries in purchasing power parity, the second their rate of poverty assessed against a Western yardstick. The definition of poverty is of course controversial. In this case a relative definition is applied, considering poor those who live under half of the per-capita average consumption level. This level is calculated for all the EU countries, then applied to the individual EU and CEE countries. The rate of those who live under half of the EU average consumption is 17 per cent in the EU, ranging from 9 per cent in Denmark to 33 per cent in Portugal. Out of the ten CEE "accession" countries only Slovenia is within the EU range, with 30 per cent of people living under the EU average. The Czech figure is 55 per cent. In all the other countries the rate is over 70 per

Table 10

Percentage of households in which the adults or the children have (can afford) some items

	In the poor sample, total	If there are Roma in the household
The adults or the whole household have		
Warm meal at least once a day	*97*	92
Refrigerator	*90*	76
Home heated in winter	*82*	69
Money for main transport needs	*63*	47
Credit card	*51*	28
Meat at least every second day	*49*	34
Passport	*29*	9
At least one week holiday	*6*	2
All children have		
Warm winter clothes	*96*	88
3 meals a day (incl. school meals)	94	95
Fruit at least once a day	*81*	71
At least one bicycle	*73*	48
2 newly bought pairs of shoes	*59*	44
At least one week holiday	*22*	10
All school children have		
Regular sport activity	*37*	23
Access to a computer	*29*	12

Source: ILO-POV (see note 5).

Table 11

Per capita GDP and relative poverty in the CEE countries

Country	Per capita GDP in 2000, in PPP	% of people with under half of the EU average consumption
Slovenia	12,000	30
Czech Republic	12,900	55
Hungary	11,200	73
Poland	8,500	74
Estonia	10,000	79
Romania	5,900	80
Lithuania	7,300	81
Slovakia	7,200	82
Bulgaria	6,200	90
Latvia	7,200	92

Source: for GDP: *www.worldbank.org*, The World Factbook 2001, for poverty rates: OECD data quoted by D. Piachaud, Poor relations, *Guardian*, 1 December 2000.
PPP = Purchasing Power Parity.

cent. In Hungary it is 73 per cent. It is usually affirmed that economic growth is trickling down. These figures suggest that this assumption is partly correct: economy helps. But it is hard to explain in economic terms the huge breach between the first two countries in the table and Hungard (table 11).

Conclusion

Hungary has inherited a non-democratic, yet wide system of social protection. Unfortunately this has not been seen by successive governments as an inheritance that should be built upon. It has rather been seen as a burden which has to be eased.

The pressures of globalization, a "rudderless" politics, the newly liberated and unregulated market forces, and unregulated human, selfishness, compounded by powerful supranational agencies and outside experts, produced an apparently viable economy, and a society with at least as many losers as winners.

All these forces have contributed to the reduction of public expenditures, to the "success" of lightening the public burden. More recently the conservative right-wing forces have weakened the bases of the newly won freedoms and of democratic institutions. The consequence is that the country has become gravely divided, and that poverty is greater and deeper than it might have been under a different set of policies.

We conclude that while democracy is not necessarily conducive to the reduction of human sufferings, yet the main condition of reducing poverty and social exclusion in Hungary would be a more active democracy. A vigorous civil society would be needed to influence political action. The political neglect of the misery of many, the Roma among them, should be forced on the public agenda. Divisive social policies that set the better-off against the worse-off should also be rejected. The enlargement, and the new emphasis of the European Union on social inclusion make urgent a shift of Hungary in this direction.

Notes

1. This expression and its synonyms, the invisible welfare state, perverse or negative redistribution are researched in depth by A. Sinfield (Kvist and Sinfield 1997).
2. It may be noted that N. Barr and I. Crawford resigned from their posts as advisors at the Hungarian Ministry of Education when the government chose to ignore their advice on the organization of the student loan.
3. Regular Report from the Commission on Hungary's Progress Towards Accession.
4. In this section we have relied heavily on the work of E. Orosz (2001).
5. Two surveys carried out in 2001 are at our disposal, both commissioned by the International Labour Office. One of them is about basic and work securities, and it is part of the InFocus Programme on Socio-Economic Security. It is referred to as ILO-PSS. The second survey is about social security, poverty and exclusion. It is part of a project of the Central–Eastern European Team of the ILO. We thank Guy Standing, director of the InFocus Programm, and M. J.-P. Laviec, director of the Hungarian Office, for permission to use these as-yet unpublished data. (Both projects were directed by Z. Ferge, and they were carried out for ILO-PSS

with the participation of I. Dogei and A. Simony, and for ILO-POV by A. Darvas and K. Tausz.) In both cases the results are preliminary.

6. The GDP data are taken from the World Bank's website. The levels are higher in PPP than in "normal" dollars. Also, the difference between the Western and Eastern countries is smaller. The GDP in PPP is between US$ 17,000 and 30,000 in the EU countries.

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