

The Impact
of Decentralization
on Social Policy
in Hungary

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1. SOCIAL AND ECONOMIC CONSEQUENCES OF THE TRANSITION

1.1 Economic Recession

In Hungary the political transition in 1989 aimed at the creation of a democratic political system, with the rule of law and a (capitalist) market economy.

Table 2.1
Macroeconomic Indicators (1989–1999)

Year	Real GDP	Consumer Price Index	Real Wage per Active Earner	Real Value of Average Pension
1989	100	100	100	100
1990	97	129	96	97
1991	85	174	90	90
1992	83	214	89	86
1993	82	262	86	83
1994	85	311	91	84
1995	86	399	80	76
1996	87	493	76	69
1997	91	584	80	69
1998	96	667	83	73
1999	100	733	85	78

SOURCE: *Civil jelentés* (Civil report). p. 8.

The transformation was accompanied by economic crisis, a heavy drop in GDP, high inflation, decreasing personal incomes, and the emergence and rapid growth of unemployment. The economy started to grow again in 1995, and GDP reached its 1989 level in the year 2000. The most important social indicators—employment, wages, and pensions—are improving much more slowly.

Positive consequences of the change are a healthier economic structure with a potential for growth, the emergence of the rule of law, and the opportunity for civil society to surface. However, the major part of society paid a very heavy price in the first ten years. Moreover, it is uncertain how the increase of resources will “trickle down” to the losers and how the social deficits will be corrected.

1.2 Inflation

Inflation has a great effect on the different strata of the population, though to a varying extent. During the last decade, consumer prices significantly increased, but this varied considerably from product to product.

Table 2.2
Consumer Price Indices by Main Group of Expenditure
1990=100%

Year	Food	Alcohol, Tobacco	Clothing, Footwear	Durable Goods	Electricity, Gas and Other Fuels	Other Goods Incl. Motor Fuels and Lubricants	Services	Total
1991	121.9	125.1	132.1	131.7	181.0	143.4	141.9	135.0
1992	145.6	149.6	162.5	150.5	259.2	182.4	178.8	166.1
1993	188.1	177.5	189.6	167.1	311.8	221.8	221.9	203.4
1994	232.1	206.6	220.1	186.8	348.3	263.9	267.0	241.6
1995	304.3	248.1	264.6	231.6	522.5	335.9	336.4	309.7
1996	356.9	314.1	332.3	276.1	692.3	422.2	425.2	382.8
1997	419.4	373.5	394.4	299.6	899.3	490.2	506.8	452.9
1998	479.8	430.6	450.0	323.9	1,060.3	542.7	588.9	517.7
1999	493.8	480.1	497.7	345.3	1,160.0	622.5	676.1	569.5

SOURCE: *Statistical Yearbook of Hungary 2000*, HCSO, Budapest, 2001. p. 342.

The increase in the prices of basic consumer goods (food, housing, medicine) most seriously affected the more vulnerable strata of the population thereby contributing significantly to the increase of poverty in Hungary.

1.3 Public Finances

It was considered that one of the most effective ways of handling the economic crisis would be to decrease public expenditure. The cuts in the central budget had already been significant as a result of which the proportion of welfare expenditures decreased between 1991 and 1998 by more than 10% within the GDP.

Table 2.3
Public Expenditures as % of GDP, 1990–1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Health	6.5	7.6	7.2	7.6	7.1	6.4	5.3	4.5	4.6	4.4
Education	8.2	9.3	8.5	9.3	9.9	8.5	7.7	4.8	4.8	4.7
Housing subsidies	3.6	2.5	1.2	1.1	0.8	1.2	0.9	1.7	1.6	1.4
Unemployment	0.1	0.7	1.6	1.7	1.2	0.9	0.7	0.5	0.7	0.6
Social provisions	0.2	0.9	1.0	1.8	1.8	1.7	1.6	2.2	2.1	2.3
Social insurance and family benefits	14.9	17.2	15.5	15.6	14.7	12.9	11.8	12.4	12.2	12.0
Total	33.5	38.2	35.0	37.1	35.5	31.6	28.0	26.1	26.0	25.4

SOURCE: *A munkanélküliség ára*, 2001, p. 36.

The unusually sharp cutback of social expenditures has not only been due to diminishing resources. Ideological priorities, the weakness of the actors of the social sector, as well as the lack of democratic procedure played an important role in this process.

1.4 Unemployment

The rapid increase in unemployment was the most serious social problem in Hungary after 1989. Unemployment reached a peak in 1992 when 663,000 people were registered at the labor market offices. This figure gradually declined, to about 400,000 in 1999. Meanwhile the number of people receiving a pension but below the eligible age limit rose from 260,000 in 1990 to 600,000 in 1998, and there are about 500,000 people who withdrew completely from the labor market.

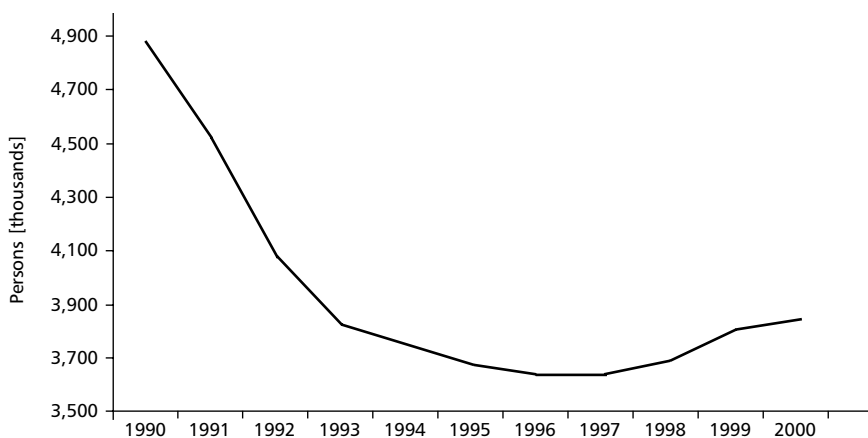
Table 2.4
Rates of Economic Activity, 1990–1998

Year	Economically Active Population [thousands]	Activity Rate Among 15–17-Year-olds [%]	Activity Rate within the Total Population [%]
1990	4,795	62	46
1992	4,083	59	39
1994	3,752	54	37
1996	3,648	52	36
1997	3,646	51	36
1998	3,698	52	36

SOURCE: Time series of labor surveys, 1992–1998. HCSO, 1999.

Many of them lost hope and stopped registering and started to look for other ways of survival, such as in the gray or black economy. The low activity rate means that 3.6 million active earners have to provide for the whole population of some 10 million people. The official unemployment rate is less than 10% today.

Figure 2.1
Number of Employed People in Hungary



SOURCE: *A munkanélküliség ára*, p. 31.

The groups worst hit by unemployment are the young, the old, and unskilled or uneducated people. Those living in underdeveloped areas are at the greatest risk of losing

their jobs. The unemployment rate of Roma is significantly higher than that for other ethnic groups. The rate of the long-term unemployed—those who are unemployed for more than 12 months—has rapidly escalated. It reached 50% in 1995. Since then it has slightly diminished. The decrease is due more to the withdrawal of the long-term unemployed from registration than to re-entry to the labor market.

Table 2.5
Number and Characteristics of the Unemployed

Year	Registered Unemployed [thousands]	Unemployed According to International (LFS) Standards		
		Total Number [thousands]	Women [%]	Long Term Over 12 months [%]
1990	80	—	—	—
1991	406	—	—	—
1992	663	442	40.1	21.0
1993	632	519	39.1	35.2
1994	520	451	39.0	43.2
1995	496	417	37.0	50.6
1996	477	400	39.0	54.4
1997	464	349	38.6	51.3
1998	404	313	39.6	49.8

SOURCE: *Civil jelentés* (Civil report). p. 31.

1.5 The Changing Nature of Poverty

As a result of the economic reform measures prior to the change of the political system in 1989, inequalities in income had already begun to increase in the 1980s.

In 1982 incomes in the highest income decile were 3.8 times higher than in the lowest one; by 1999, however, this value had increased 8-fold. The existential security of a growing number of families was endangered and several groups were facing poverty. The change of the “official” income of households has still not reached the inflation rate; the net income of households has decreased. The growth in income inequalities and of poverty was due to the labor market situation (the radical decrease of the number of those employed, the stabilization and increase of long-term unemployment, etc.), and to the withdrawal of price subsidies, as this was rooted in the system of income redistribution.

Table 2.6
Changes in Poverty Rates [%]

	1992	1993	1994	1995	1996	1997	1998
OBJECTIVE POVERTY							
Relative income poverty (under 50% of mean income)	10.1	10.4	11.6	12.4	14.9	13.4	15.1
Absolute income poverty	10,1	12.5	16.1	19.9	26.6	28.3	—
SUBJECTIVE POVERTY							
Monthly financial crisis	26	26	25	25	28	31	—
No financial crisis at all	29	39	41	41	31	36	—

SOURCE: *Civil jelentés* (Civil report), p. 11.

The ratio of those who live under the subsistence minimum calculated for 1990 by the Hungarian Central Statistical Office has tripled: it was around 10% in 1990. By 1993 this figure had increased to 22-25%, and since then it has been around 30%.

Table 2.7
Proportion of the Relatively Poor
(under 50% of the mean equivalent income) in Some Typical Groups

	1992	1997	1998/99
Total	10	14	14
0–2 year-old children	15	35	31
3–6 year-old children	14	28	23
Couple with 3 children	—	—	41
One parent with a child	—	—	33
Roma	46	58	60
Unemployed	17	37	46

SOURCE: *Civil jelentés* (Civil report), p. 27.

In Hungary the economic transition changed the living conditions of all households. It brought improvement for about one third of the population, and significant improvement for a much narrower group. Meanwhile, the situation of the broadest strata has deteriorated to a smaller or larger extent, sometimes to a tragic extent. Poverty has hit several, well definable groups, and has many causes.

The groups most at risk are the following:

- *Unemployed*, first and foremost long-term unemployed, or families where the head of household is unemployed, or where there are no wage earners at all. The situation of seasonal or occasional workers is not much better;
- *Families with children*, particularly those with several children, those who have very small children with the mother on child-care benefit, or single-parent families, headed mostly by women;
- *the elderly*, particularly those living in single households, and among them mainly the oldest women;
- the *Roma*, who are hit simultaneously by many causes of poverty: their unemployment rate is high, their educational level is low, many of them live in dis-advantaged villages or regions, their health status is bad, their number of children is high;
- *the disabled*;
- *the homeless*.

As far as regional differences are concerned, the north-west part of the country is the best off (the rate of poverty is 9%), the north east is worst off (18% poverty). The risk of poverty is twice as high in the villages as in Budapest.

In the redistribution of incomes both cash benefits and taxation play an important role. Although this research project does not cover the effects of the taxation system on poverty it is important to emphasize that one of the major negative characteristic features of the Hungarian personal income tax system is that it makes even the smallest incomes taxable, thereby contributing towards increasing the number of the working poor. The system of tax allowances results in a bottom-up (perverse) redistribution of incomes. These features broaden rather than reduce vertical income inequalities.

2. LEGACY OF THE PAST

2.1 Demographic Indicators Influencing Social Policy

Since 1980 the Hungarian population has been decreasing. The decline is greater among the male population. One of the most serious demographic problems of Hungarian society—and one that strongly affects social policy, especially the social insurance system—is the ageing of the population.

The following trends are the main causes of such demographic problems:

- the number of live births has decreased, while the number of deaths has become stable at a high level;

- fertility, and the willingness of young age-groups to have children continued to decrease in the 1990s; the numbers of first-borns fell as did the number of second children; however, more people are willing to give birth to three and more children;
- since 1980 the tendency of ageing became a stable process though with smaller fluctuation;
- the percentage of the population of economically active age fell;
- the marriage rate is decreasing year by year;
- more and more children are being born out of wedlock.

In Hungary, for the year 1999, the average life expectancy at birth was 66.14 years for males (roughly the same as at the end of 1960); the average life expectancy for females was more favorable, it has reached 75.18 years. From the 1960s until 1989 it showed an increasing trend, and since 1989 it has remained almost constant.

2.2 Institutional Arrangements

In state-socialist Hungary (i.e. prior to the change in the political system) there existed a wide range of social provisions, but they were embedded into a completely different architecture than in the traditional Western welfare states.

The main actors of the socialist social policy were the state-owned companies. As a consequence of the labor-extensive economic and investment strategy, as well as for ideological reasons, there was full and compulsory employment in Hungary. The low level of productivity, of product-quality, and the lack of innovation and effective incentives contributed to the collapse of the command economy giving no chance of maintaining the former level of employment.

The extended system of consumption subsidies and subsidized consumer prices was another important characteristic of socialist welfare policy. Cheap food, housing, heating, energy, public transport, medicine and many other consumer goods were somehow affordable for the vast majority of the population. This system, however, could never work properly, mostly due to the shortages of certain basic necessities, first of all housing. The shortage of subsidized basic goods multiplied the unjust “perversity” of distribution as the better-off groups had access to these consumer goods as well as obtaining the majority of the subsidies.

Occupational welfare (housing, pre-school institutions, cheap meals, recreational facilities, etc.) can be regarded as the third decisive element of the socialist welfare system.

The Hungarian welfare services included:

- almost full coverage in pension, old-age income security;
- broad (but low quality) health care system;

- an efficient and effective family benefit system;
- a relatively developed care system, especially regarding nursing and residential care for elderly people;
- an extended child protection system;
- certain types of social assistance.

Most of the social provisions, however, were provided as a gift from the Communist Party, the state. Thus the social provisions were based on people's rights.

It would not be a huge mistake to state that social problems played a crucial role in the crises of the socialist regime, at least in Hungary. The regime was evidently unable to fulfil its own promises concerning the well being of the citizens. Despite the original desire for the "big leap" to achieve Western standards, the gap became wider and wider between the West and the East. In spite of full employment, significant price subsidies and other social policy measures, poverty existed in state-socialist Hungary, but most of the population were not subjected to the deepest levels of misery from the 1950s onwards. In this period, elderly citizens living on low pensions, disabled people, and the Romany population were mostly hit by existential insecurity and very low income. The standard of living and the quality of life of the population fell short of those of the developed Western societies.

3. THE ADMINISTRATIVE SYSTEM IN HUNGARY¹

Hungary has 10.1 million inhabitants. One fifth of the population lives in Budapest, the capital, and almost half of the country's citizens reside in settlements (cities, towns, and villages) of less than 20,000 inhabitants. The total number of settlements exceeds 3,100.

Hungary has a market-based economy functioning in a parliamentary democracy. The establishment of democratically elected governments and the institution of free and fair elections were the first and most important achievements of the post-1989 transition process. Over the past ten years Hungary has achieved a relatively transparent structure of competing political parties.

The Act on Local Self-Governments sets out in detail the general rights of local governments following the principles defined in the Constitution. A key step in transforming the socialist system was the introduction in 1990 of the system of local self-governments instead of the Soviet-type council system. The Act on Local Self-Governments created two basic types of local self-governments: local community based- and county level municipalities.

Table 2.8
Number of Administrative Units as at 1 January 2000

Counties	19
Capital, towns of county rank	23
Other towns	199
Villages	2,913

A local self-government is entitled to take the responsibility for practicing local public affairs, and for their direction and management, and can take care of meeting local needs. Decisions made by a local self-government can be questioned in court or in the Constitutional Court only by claiming a violation of the law.

At the same time, local self-governments deal with the mandatory tasks defined by law. The financial resources necessary for implementing these tasks need central provision. As it has become necessary to define the mandatory tasks of the various levels of local self-governments in detail, the law stipulates in a differentiated manner the responsibilities of the municipalities (local self-governments of communities, towns, cities, the capital, and its districts) and those of county self-governments.

The law sets forth the legal status, tasks and responsibilities, organization, guarantees for operation, basic rules of business management, election, rights, and obligations of local governments in detail.

The local municipality is one of the basic types of local self-government. The function of a town's local self-government is somewhat broader than that of a village: the institutions of the former have to meet district level needs as well. The council of representatives elects the mayor. Budapest has a special legal status.

The community level local self-governments are obliged to provide pre-school child care, primary education, health and social care, and healthy drinking water, as well as public lighting; they are responsible for the maintenance of local public roads and cemeteries; and they are required to ensure the enforcement of national and ethnic minority rights.

The county municipality is an independent body. The county municipality, a regional government, is obliged to cope with the tasks provided for by the law and which are outside the scope of a community government. County municipalities are responsible for the organization of such public services which are designed to meet the middle level needs of the county's population and which cannot be covered by any of the townships or local government associations effectively and in a democratic way.

County municipalities are entitled to freely manage their income, to make decisions or decrees in which they define surplus allowances beyond the minimum mandatory services and subsidies determined as statutory obligations.

The county municipalities have the following tasks as mandatory functions: secondary level education; collection, preservation and scientific processing of matters relating to county level natural and cultural heritage, and historical documents; county library services; educational consultancy and services; management of county level sports and physical education; children's and young people's rights; education of children under permanent medical treatment in medical institutions, education and care of mentally disabled children; special health care beyond basic health care; children and youth protection special care; regional harmonization of special social services.

County municipalities and the Budapest Municipality arrange those special care services which are beyond the scope of the mandatory tasks of community local governments; the regional co-ordination of special social services.

Community local governments are not subordinate to county level municipalities.

Sometimes county municipalities are nothing more than operators whose responsibility involves the maintenance of social, educational and children's institutions that are beyond the possibilities of community self-governments. When enforcing special standards, many problems arise from this conflict: several county municipalities are not very eager to take this responsibility, for in most cases normative subsidies from the state destined to cover the costs of operating such institutions usually do not make up more than 70% of the actual costs.

The general assembly of the elected members of local and county self-governments is the main decision-making authority. It can transfer certain responsibilities to its committees and other types of bodies to ensure the management of the affairs. The work of these bodies is assisted by the municipality office in the preparation of the decision-making processes and in the organization as well as the supervision of the implementation of decisions made. The role of the mayor (in the local self-governments) and of the chairperson (in the county self-governments) is primarily political; the head of the office (the notary) exercises the executive power, being responsible for the management of the administration and for the operation of the office of the self-government.

The *public administration offices* in the capital and at the counties are the regional public administration bodies of the government. The main responsibility of these regional public administration offices covers the examination of the legality of the decision-making processes and of the operation of the local self-governments.

4. THE HUNGARIAN SOCIAL SECURITY SYSTEM²

4.1 General Remarks

The transition period can be interpreted not only in political and economic terms, but also as the birth of a new welfare system.

The basic features of the new system are the following:

- social policy or the social sector became an independent sub-system within society;
- with the Social Act (1993), social provisions became, if not rights based, legally based;
- with the appearance of mass unemployment, employment- or social insurance related social provisions have gained a new meaning;
- social policy has had to face real-life situations, resulting from a huge number of people being left with no income and having become dependent on social transfers;
- local self-governments have gained a key role in social provisions;
- different forms of means testing have gained increasing importance in the social protection system;
- a pluralistic welfare system or, in other words, a welfare mix has come into existence: in addition to the public and informal sector, non-profit and market-based participants are also present in the various services.

Social services are financed either from the central state budget and various social insurance funds (pension fund, health care, and labor market funds), or by the local self-governments.

4.2 The Actors of Social Policy

The central and the local state, the market, the non-profit as well as the informal sector take part in providing social services in Hungary.

Table 2.9
Non-profit Organizations Providing Welfare Services [%]
Total NGOs=100%

	1995	1996	1997	1998
Child protection	1.2	1.3	1.4	1.5
Family protection	0.8	0.8	0.8	0.9
Support for disabled persons	1.5	1.7	1.9	2.0
Support for the elderly	0.6	0.6	0.7	0.8
Self-help	0.4	0.3	0.3	0.2
Other support for people in need	0.4	0.6	0.7	0.8
Total NGOs	43,051	45,316	47,365	47,384

SOURCE: *Szociális Statisztikai Évkönyv 1998*. KSH 2000.

Within the central government the Ministry of Welfare (now called the Ministry of Social and Family Affairs) is responsible for social policy. Several people referred to the weak lobbying capacity of the ministry during the interviews carried out in the course of the research work.

The local self-governments form different alliances in Hungary. These actors may express their views in the various public forums, directly lobby the political parties, and participate in the activities of the institutionalized forms of social dialogue. There are seven national alliances in Hungary available to represent the self-governments, however almost half of the local self-governments do not form part of any of these alliances. This fact, the lack of the decision-making power of the council as well as its incompetencies, do not make it possible to deal with social policy issues there. In effect, even though the responsibility for the majority of social policy related problems falls to the local self-governments they have no effective legally guaranteed means of influencing social policy related legislation.

There are three principal institutions for social dialogue: the National Reconciliation Council superseded by the Economic Council, the National Labor Council and its regional branches, and the Social Council.

The National Reconciliation Council was founded in 1990. It was based on a tripartite system with the participation of the representatives of the employers' associations, the trade unions, and the government. It had the right to discuss any piece of legislation before the process of being enacted. Concerning social legislation, this responsibility was exercised primarily by the social committee of the National Reconciliation Council. On several occasions the trade unions expressed their views on social issues and stressed the necessity of a more generous social provision system, but had never threatened with strikes or demonstrations for social policy. As a matter of fact, whenever social policy clashed with labor issues, they took sides against those living on social assistance.

The Economic Council took over some of the National Reconciliation Council's roles when the latter was done away with as one of the first activities of the new government in 1998. The participants of economic life take part in the Economic Council, which acts as a consultative organization of the government though it has no right or power to enforce the priorities of the organizations representing the employers' or employees' interests.

The National Labor Council works with the participation of the representatives of the employers, the employees, and the local self-governments, but its activities are limited to the process of labor-related disputes and agreements; it has no mandate to discuss other types of social issues.

The Ministry of Welfare initiated the establishment of the Social Council at the beginning of the 1990s by voluntarily joining non-profit and interest-representing organizations "to monitor some of the social problems and to elaborate proposals for their solution."³ Neither the objectives, nor the mandate of the Social Council are clear. Principally, it can be characterized as a consultative body for the Minister.

As is apparent, the system of social dialogue is heavily dependent on party politics and those organizations have the chance to influence parliamentary or governmental decision-making processes which are in some way linked with one or some political parties.

All these processes can be interpreted as having a contradictory character: the abolition or weakening of the institutions of social dialogue reflects the intention of the central government to re-centralize certain institutions of social policy, while the increasing role of local self-governments in the social sector is a strong indicator of decentralization, or—it is more correct to say—of over-centralization.

The national government, the most important actor in financing social policy does not know what it buys or gets for its money because of the lack of an appropriate monitoring and evaluating system.

Politically independent civic organizations can appeal only to the public. In a country of scores of NGOs, but without a strong civil society, this means of expressing opinion cannot be too successful.

4.3 Financing Social Policy

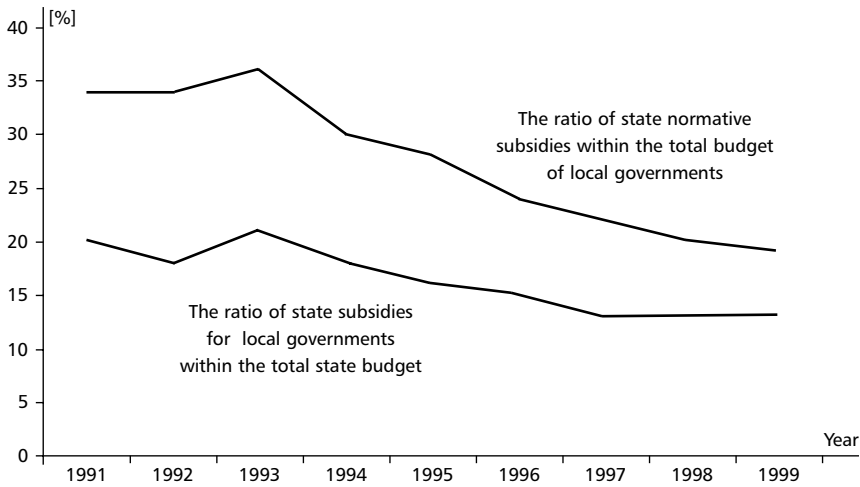
Different normative state subsidies provide the basic financial resources of local social policy in Hungary. According to the recent legal regulations, the state is obliged to ensure these financial resources for the local self-governments, but they are given the right to decide their utilization, even for other purposes.

Local self-governments are entitled to manage their incomes independently, though they are required by law to operate certain services. In practice, free management means that the council of representatives can decide what kind of services they prefer. In several cases the local self-governments, because of the lack of resources, use these resources for other purposes such as financing primary education, developing the local infrastructure, etc.

One of the basic findings of our research was that local self-governments do not have any clear concepts with regard to their social security systems. Frequently they provide the minimum required by law on a residual basis. Other budgetary and fiscal considerations usually overwrite social aspects in defining annual budgets. (We have met a county municipality, for instance, where the *normative state subsidy* dedicated to cover the costs of boarding institutions for mentally disabled people was not used for this purpose but it was “rescheduled” for educational purposes even though the standard of living in the institutions did not meet the standards required by law.)

The majority of the representatives of the local welfare administration would like to have fixed (earmarked) subsidies to protect the welfare expenditure during the local financial bargaining, which may be interpreted as them being in favor of diminishing the scope of financial decentralization.

Figure 2.2
 Role of the State in Local Government Financing
 1991=100%*



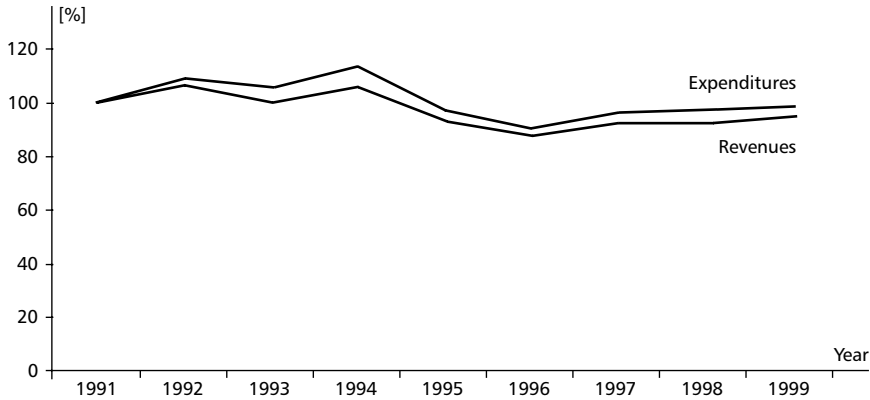
* in real terms

SOURCE: <http://www.b-m.hu/onkormanyzat>

The centrally provided financial resources do not cover the total costs of the services and the poorer settlements meet the local needs on a lower level than the cities with higher revenues. The method of calculating normative subsidies does not realistically reflect the local employment situation or the income inequalities. The consequence is a gap between the regional level and settlement level is widening.

The revenues and the public expenditure of the local self-governments show a negative correlation: the deficit is continuously increasing in the social sector in the weaker settlements—the latter being forced to use developmental resources to avoid bankruptcy. The constant widening of the responsibilities of local self-governments (e.g. the support of the unemployed) may add to the financial difficulties of the local self-governments as a result of which they may apply absurd forms of local discretion. The financial planning procedure of the local self-governments is compelled to adjust to the dysfunctional system of state subsidies, thus planning based on the budget of the previous year will be the dominant approach thereby hindering the spread of social policy innovations.

Figure 2.3
Real Value of the Local Governments' Revenues and Expenditures, 1991–1999
1991=100%



SOURCE: <http://www.b-m.hu/onkormanyzat>

Another major feature of decentralization in Hungary is the wide gap in the level of financing and professional quality. In long-term residential care institutions, funding is dependent on bed-places; in other words the state provides normative subsidies for each of the places. However, it cannot be exactly known what is purchased for this money, what the content is of the services provided. The amount of normative subsidies is subject to political bargaining every year; there is no index attached to it, and since the beginning of the nineties it has continuously lost its real value. The only positive feature in the current funding scheme was its impartiality. This was ended as soon as social services provided by the church became entitled to receive 30% more from the state subsidies than any other type of institution.

However, there are positive features in decentralization as well as negative aspects: communities—at the cost of their own budgets—are entitled to define extra services. There are many examples of this: e.g. in a district school of the capital, a pupil may get free textbooks, or the community government might provide a special allowance to elderly people before Christmas.

4.4 Family Support System⁴

The latest version of the family support system came into force on 1 January 1999. Every citizen who has a child up to a certain age may be entitled to various family benefits. The family provisions are financed from the central budget and operated through the health insurance administration bodies.

The new family support act declares that the objectives of the family support schemes are to increase the equality of opportunity for families with children, to recognize the additional costs of bringing up children and to promote the realization of the government's population policy.

The most important schemes promoting families with children are: the education benefit consisting of a family allowance (paid till school age) and education support, child care allowance (GYES, for parents who are taking care of their children under age 3 and under age 10 for disabled children), child care fee (GYED) and child care support (GYET, for a mother or a father who is bringing up three or more children), birth grant (lump sum payment for those giving birth).

The local self-government has true decision-making power in the case of education support, all the other rights-based provisions are centralized. If a school has indicated a problem relating to a child, the local self-government investigates the situation through the child protection organizations and, if necessary, intervenes. This intervention may take place in different forms. The notary may decide to provide the cash education support in in-kind form.

It is important, however, what the different settlements consider a problematic situation and what kind of interventions are enacted. There is not a clear-cut definition of the situation when a child is endangered.

SOURCE: Interview with the Head of Department of Welfare at a district self-government in Budapest.

In the final years of the state-socialist system, family allowance per child covered about one fifth of the gross average wage for families with two parents and two children. By 2000 this amount had decreased to approximately 6% of the average wage. Nowadays the sum of the child care allowance and child care support is equal with that of the minimum old-age pension; thus these are in principle indexed, but in reality the political decision on the minimum old-age pension is dependent on the "budgetary" preferences of the ruling political elite. When evaluating the adequacy of family provisions one must realize that in spite of the important poverty relief effect of these schemes, a significant loss in the real value of these benefits took place.

Table 2.10

Main Characteristic Features of Child Care Benefits: Child Care Allowance (GYES), Child Care Fee (GYED), Child Care Support (GYET) After 1998⁵

Objectives	GYES–GYET: guarantee subsistence bases; GYED: guarantees previous living standard, but with a ceiling in the sum to be provided
Means	GYES–GYED–GYET: compensation for economic losses
Personal scope	GYES–GYET: as of right; GYED: people in work

Table 2.10 (continued)

Main Characteristic Features of Child Care Benefits: Child Care Allowance (GYES), Child Care Fee (GYED), Child Care Support (GYET) After 1998⁵

Allocation criteria	GYES–GYET: universal; GYED: employment- and earnings-related, selective right
Allocation entity	GYES–GYET: any parent; GYED: mother, father after the child is one-year-old
Criteria for benefit calculation	GYES–GYET: flat rate; GYED: earning-related with a ceiling
Sources of finance	GYES–GYED–GYET: taxes
Administration	Health insurance administration

Table 2.11

Real Value of Some Family Benefits, 1990=100%

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Family allowance/child for families with two children	100.0	91.9	82.1	70.0	57.1	48.1	37.5	39.2	37.1
Child care allowance	100.0	104.5	90.7	84.5	84.5	80.1	71.6	75.5	71.1
Child care fee	100.0	98.9	91.6	90.2	84.2	84.0	78.6	77.0	92.2
Maternity benefit	100.0	81.7	91.4	27.2	22.2	17.8	20.9	66.4	59.3

SOURCE: Garzó, 2000.

All sorts of calculations prove that family allowance can play an important role in reducing poverty. Analysis of household data of the 1980s had already shown that family allowance had been the best-targeted benefit for the truly needy among the more significant social provisions.

Table 2.12

Effectiveness of Poverty Reduction [%] (Poverty threshold: the lowest quintile. The 100% level illustrates the extent of poverty with those incomes elements)

Year	Poverty Reduction Effect of			
	Pre-family Allowance Poverty	Pre-unemployment Benefit Poverty	Pre-pension Poverty	Pre-social Assistance Poverty
1991–92	136	112	203	105
1992–93	130	114	247	104
1993–94	123	112	248	104

Table 2.12 (continued)

Effectiveness of Poverty Reduction [%] (Poverty threshold: the lowest quintile.
The 100% level illustrates the extent of poverty with those incomes elements)

Year	Poverty Reduction Effect of			
	Pre-family Allowance Poverty	Pre-unemployment Benefit Poverty	Pre-pension Poverty	Pre-social Assistance Poverty
1994–95	135	110	217	105
1995–96	128	111	216	102
1996–97	117	106	231	104
1997–98	120	110	227	107

SOURCE: Medgyesi, M., M. Sági, and P. Szívós, 1999. pp. 32–33.

In view of the information provided in Table 2.12, it is all the more remarkable that children, especially those living in families with three or more children, and single parent families, are the hardest hit by the inadequacy of the family support system: neither the welfare provisions nor the family can financially compensate the disadvantages resulting from having children. The results of the Household Panel Surveys of TÁRKI indicate that the child poverty is not a transitory phenomenon. In fact, the last Household Monitor survey of TÁRKI showed a striking risk of poverty of children.

Table 2.13

Number of Registered Children at Risk by Reason

Reason for Registration of Children at Risk	1988 N = 109 909	1992 N = 305 113	1996 N = 331 923	1998 N = 380 341
Financial	32.13	74.57	75.31	82.83
Family circumstances	44.74	15.75	14.62	10.22
Behavioral	21.09	8.51	8.68	5.57
Health	2.02	1.14	1.37	1.38
Total	100.00	100.00	100.00	100.00
Children at risk in the 0–18 years of age population [%]	3.95	11.32	13.46	16.27

SOURCE: *Tájékoztató a család, gyermek- és ifjúságvédelemről*. Népjóléti Minisztérium, 1996.

Summing up:

- the existing family protection system cannot solve the problem of child poverty;
- there are no adequate measures to maintain the real value of the cash benefits for families with children;

- the lack of a steady, well-calculable, rights-based system increases the vulnerability of families with children;
- the freedom of choice for women is restricted due to the labor market processes (unemployment), to the low income of the families, and to the shrinking capacity of cheap day-care services for children;
- means tested social assistance and fiscal welfare measures play an increasing role in the family protection system.

4.5 Social Provisions Offered by Self-governments

The Social Act and the Child Protection Act regulate the statutory welfare obligations of the local self-governments.

Community local self-governments use the standard central budgetary funds defined in the State Budget Act in order to fulfill their statutory obligations in social care and child protection, the normative standard funds are used, however, at the discretion of the local self-governments. In addition local self-governments are entitled to provide additional services out of their own budgets.

Pursuant to the Social Act, coverage for financing public administration tasks are required to be ensured by the state budget. The state contributes to local governmental tasks, which can be regarded as local public affairs through social normative, institutional normative, and earmarked subsidies. (The social normative is differentiated in accordance with the social and demographic situation of the individual settlements, thus it functions as an equalizing mechanism.)

Normative support to non-governmental organizations and to churches organizing social service institutions must be applied for at the licensing body at the time of issuance of the license. Normative subsidies are disbursed by the Public Administration Office.

Table 2.14

Revenues of Non-profit Organizations by Source and Field, 1998 [%]

Field	State	Private	Revenue from			Total Revenue [%]	Total Revenue [HUF million]
	Support		Basic	Enterprise	Other		
			Activities				
Social welfare	46.5	23.7	11.8	16.2	1.8	100.0	336,440.0
Total NGO	22.2	16.5	37.5	21.0	2.8	100.0	358,689.5

SOURCE: *Szociális Statisztikai Évkönyv 1998*. KSH 2000.

The legality of the use of normative state subsidies is checked by the Public Administration Office once a year. Supervision and checking take place at the same time as the annual accounts are prepared but not later than 31 March of the following year. When sending the accounts, the Office is required to inform the Ministry of Social and Family Affairs about the scope of institutions receiving subsidies during the current year, indicating the name, address, and activity of the institution in question.

Non-governmental organizations and church-operated social institutions are obliged to handle the use of normative state subsidies and contribution fees separately—in a breakdown by tasks—in their books.

Both the Home Office and the Public Administration Office debit any excess subsidy disbursed and credits any unpaid and valid claims arising during the ongoing accounting periods for the subsequent period.

4.6 Personal Social Services⁶

Personal social services can be categorized into two main groups: child protection and care services in the form of basic and special services, and “adult care” services in the form of basic and special services.

Basic services include:

- catering;
- home help;
- family assistance service;
- child welfare service;
- day care services for children (nursery, family day-care service, home child-care);
- temporary care of children (replacement/foster parent, temporary home for children, temporary family homes).

Special services include:

- institutions providing care and nursing (old people’s club, homes for the disabled and for psychiatric patients, addictive patients, the homeless and children);
- rehabilitation institutions (giving psychiatric and rehabilitation care to the disabled, the homeless and addicts);
- day-care institutions (old people’s club, daytime institution for handicapped people, daytime shelter, day-care institutions for addicts, day-care institution for psychiatric patients);
- institutions providing temporary shelter (old people’s home, home for handicapped people, temporary home for psychiatric patients and addicts, night shelter and night accommodation for homeless people);

- nursing homes (for psychiatric patients, and the handicapped);
- foster parents;
- regional child protection service.

Adult users of the personal care services are required to contribute towards the service utilized, based on the regular monthly income of the service user. Anybody who is unable to pay or who has no relative to pay for him or her is entitled to use the service free of charge.

Local self-governments are obliged to provide basic adult care and child welfare services, and they are required to organize the day care and temporary care services for children.

Homes and nursing homes providing care and nursing services, and rehabilitation and daytime services and institutions offering temporary shelter are organized by local self-governments on whose territory:

- there are more than 2,000 permanent residents—in addition to the basic care services, provision of day-care institutional services;
- there are more than 10,000 permanent residents—provision of basic care services, day-care services, and the operation of an institution offering a temporary home for the elderly;
- there are more than 20,000 permanent residents—provision of basic care services, day-care services, operation of an institution offering temporary home for old people, and day-care institutions;
- there are more than 30,000 permanent residents—provision of basic care services, day-care services, operation of an institution offering temporary home for old people, day-care institutions, institutions providing temporary shelter.

County and Budapest local governments are responsible for providing services in care and nursing institutions, rehabilitation institutions and nursing homes as well as specialized child protection services.

There is not enough money to operate and develop the necessary facilities. But other reasons also contribute to the deficiencies. In a focus group discussion, local politicians mentioned as an example the services for homeless people. It has been impossible to solve the reconstruction and buying of the rented building used as a temporary shelter. The inhabitants opposed all the plans. Some of the local politicians do not want to go against the “mood” of the public and sometimes they themselves excite it.

SOURCE: Interview with a representative of the local self-government in Székesfehérvár.

The social services system “inherited” the socialist network of large and closed social homes. The system has since been opened up but sometimes the operation of homes with 200 or more residents poses great problems, and the constant improvement of the quality of life of those living in them results in considerable expense. When the responsi-

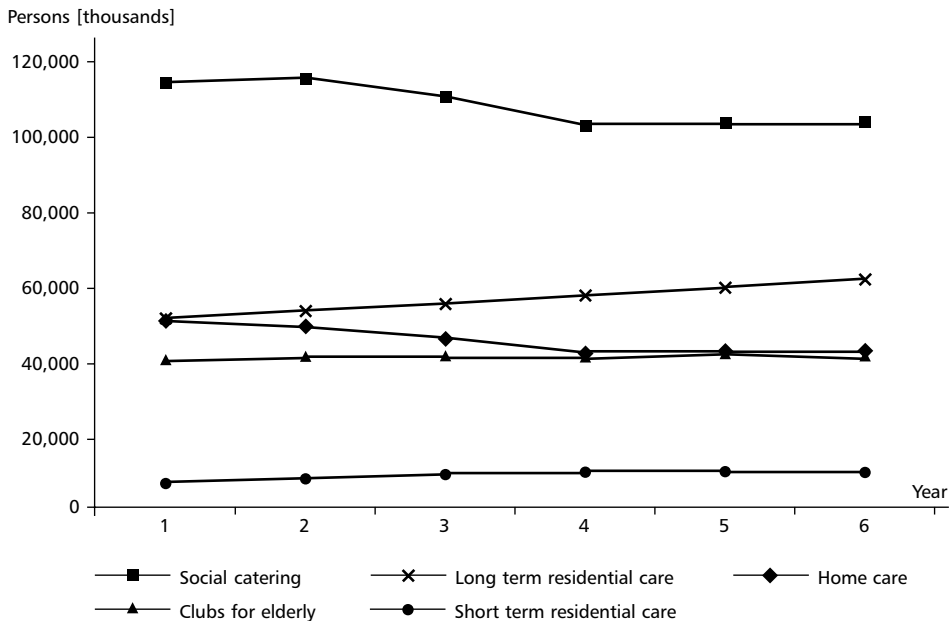
bilities and roles of local and county self-governments were identified, community governments were given the choice whether they would maintain those institutions situated on their territory or not. If the answer was no, which was frequently the case, county municipalities were obliged to maintain the service as a mandatory task. (The Social Act still provides for the county municipalities to take care of service recipients if a social service provider goes bankrupt.)

The Social Act also authorizes local self-governments to formulate decrees concerning social services in a wide range. Local self-government decrees regulate among others the different forms of personal social care, the conditions for termination of social care, and rules in relation to the extent, discount of and exemption from contribution charges. Local governments can also lay down in their decrees what range of a person's social care should be provided without any administrative procedure.

It is difficult to get any detailed information on social issues beyond the compulsory data gathering. Social assistance is quite well administered, the services, however, are not transparent. We managed to get an annual report from the family care center and the child welfare service only. It may be partly due to the fact that computers and IT skills are lacking at the majority of the institutions.

SOURCE: Interview with the representative of the Department of Welfare at a district self-government in Budapest.

Figure 2.4
Number of People Provided with Some Social Services



SOURCE: *Szociális Statisztikai Évkönyv 1998*. KSH 2000.

The Act provides the possibility for the service providers to offer the services in the range of personal social care by contracting another local self-government, or non-profit or private organizations.

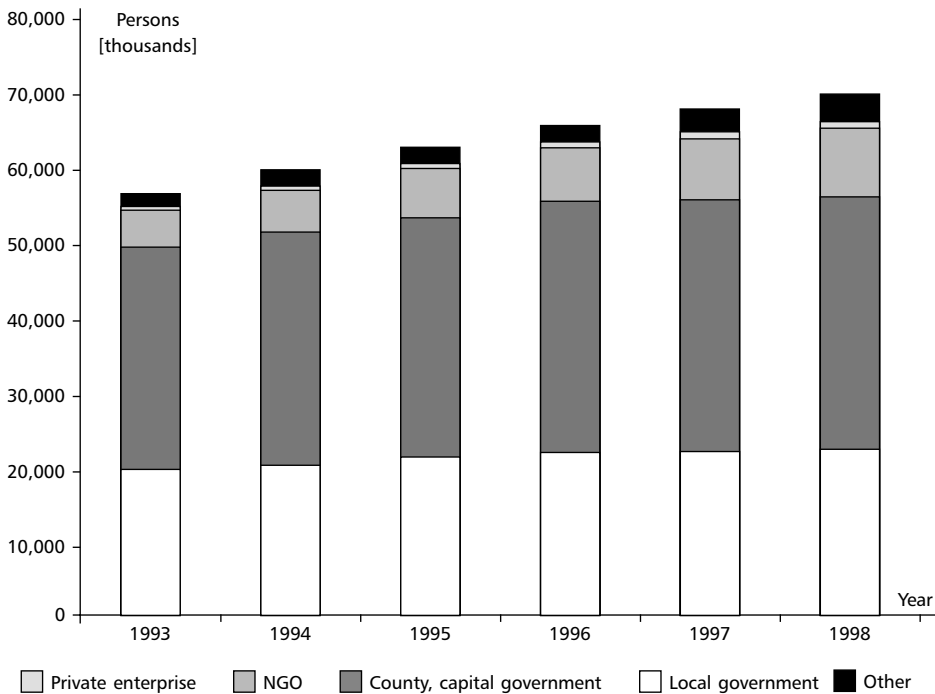
The law does not provide a guarantee for everything. One can fulfill the requirements of the law by contracting out a service to another local self-government, knowing that they will not be able to provide the service. To give an example: I make a contract with the temporary home for children of another local self-government: I buy two places, but I am aware of the fact that our district is more hit by social problems and the two places will not solve the problem.

SOURCE: Head of the family care center in one of the districts of Budapest.

As a strict rule however, these agreements have to be incorporated into service providers' contracts. The Social Act also defines the mandatory contents of the service provider's contract. A similarly strict rule says that the authority of conclusion, amendment and termination of such contracts cannot be transferred by local governments' councils of representatives. The Social Act aims at creating a guarantee in order to prevent a vacuum in social care.

Figure 2.5

Number of Residents in Long- and Short-term Residential Institutions by Maintainer



SOURCE: *Információs évkönyv 1999*. Nemzeti Család- és Szociálpolitikai Intézet, 2001.

Non-profit organizations play an increasing role in providing social services in our city. Our analyses show, however, that the level of autonomy and of professional skills is rather low. The forms of co-operation between the local self-government and the NGOs are functioning, but their evaluation and reform is still lacking.

SOURCE: Case study, Nyíregyháza.

The city or capital district notary issues operational licenses. Non-governmental, church-operated social service institutions are inspected at least once a year by the licensing body—in conjunction with the county, capital or church methodological institution as a consultant—to determine whether the institution is operated appropriately. Institutions must comply with the obligations relating to separation, use of one-bullet allowances and contribution fees as specified in the law, the competent preparation of internal regulations, specific competence requirements of the services are enforced, liability insurance covering damages caused in the process of special service provision and in the case of accommodation institutions, the pre-care tasks prior to permanent placement were correctly carried out.

Civic organizations provided with subsidies are obliged to make annual reports on their activities. On this basis was the subsidy withdrawn from the Drug-Free Foundation in our district. The criteria concerning the content of these reports are not elaborated in a detailed form. Thus it depends on the organizations what they put into the reports.

SOURCE: Interview with the head of a family care center in Budapest.

In the case of institutions operated by the state or not receiving state normative subsidies, the licensing body—in conjunction with the county, capital or church methodological institution as a consultant—inspects at least once every two years to see whether the institutions are operated in accordance with the regulations.

The subsidies generally do not cover the cost of operation of the social service institutions. The local self-government has to contribute to the costs. The only exception is the family care and child welfare center in our city: it covers its costs from the state subsidies and 7% of their annual budget is utilized in other areas.

SOURCE: Interview with the representative of the local self-government in Székesfehérvár.

If the license provider identifies deficiencies in relation to the operation of a given social service institution, the operator of the institution shall be called upon to provide a remedy within 120 days. If the operator does not take any measure to restore lawful operation by the deadline specified in the order, the license provider shall either repeal the operating license (and in the event that the operation is necessary or justified from the viewpoint of service providing interests, the authority will issue a preliminary license under new conditions), or shall permanently repeal the license to operate.

Data on welfare issues, including figures in the budget and the statistical data sheets, is contradictory in the different data sources in Mór. Tables, data collection, and reports indicate different data relating to the same matter.

SOURCE: Case study, Mór.

As a rule, the use of services in the range of personal social care is on an optional basis.

The Social Act also deals with the protection of rights and interests of those receiving personal care; therefore the obligation of the head of the institution on informing the residents and their relatives is stipulated there. Also, a fixed rule is the requirement of approval of the house rules by the operator of the institution and these rules have to be made accessible to all those being cared for. In order to establish more efficient protection of the interests of those who are eligible, the Social Act provides for the creation of an interest representation forum in all of the institutions. This forum is responsible for examining the claims and complaints of both residents and their relatives and for taking measures to eliminate the causes. In that a forum cannot be dedicated to settling all the problems appearing in the life of such an institution, the act also requires the head of the institution to examine the complaint.

4.7 Social Assistance

One of the most important events in formulating the post-socialist welfare system was the drafting and approval of the Social Act.⁷ This act expresses that, on the basis of the principle of subsidiarity, the local community takes responsibility for meeting the basic needs of the citizens. The act specifies—among other matters—the individual types of financial and in-kind social benefits, and the eligibility criteria.⁸ Act XXXI/1997 on the protection of children and trusteeship administration extended the role of local governments in child protection.

In addition to the obvious political considerations, the allocation of power as well as responsibility to local governments in the area of welfare services can also be justified by the fact that the local needs and the actual living conditions of the potential beneficiaries are known best at this level. However, by now the disadvantages of decentralization have also become obvious. For example, the “freedom” to issue local regulations could result in more than 3,000 different local welfare systems.⁹

The social assistance system is partly financed by the central budget and partly by the local self-governments’ own budget.

The recent social assistance system in Hungary consists of various benefits. This system, however, does not make the social protection system better targeted, as there is a serious leakage in the self-government managed cash benefits.

In the wording of the legal regulations and even in the rhetoric of the professionals, services for adults and children are differentiated. For instance, the network of child welfare services is responsible for child-related issues whereas the family care centers deal with the problems of families and adults. This kind of approach leads to a lack of harmonization of the two types of provisions. Families as units ought to be supported, not the different parts of them.

SOURCE: Case study in district self-government in Budapest.

The most important types of social assistance benefits are the following:

- Old-age allowance (social assistance for senior citizens),
- Occasional or crisis assistance (one-off and urgent payment),
- Care benefit,
- Child protection benefit,
- Income supplement benefit,
- Regular social assistance for unemployed people,
- Housing allowance,
- Death grant.

Only the professionals have appropriate information on all the forms of social assistance. The citizens generally do not know the eligibility criteria or the provisions, nor do they know their own situation in this respect.

SOURCE: Representative of a local-self government in one of the districts in Budapest.

Social assistance for senior citizens is provided for those elderly who are not entitled to an old-age pension.

Table 2.15
Number of Recipients of the Most Frequent Types of Benefit [thousand]

	1990	1997	1998
Regular social assistance	46	27	28
Income replacement of unemployed	—	186	175
Housing allowance in cash	—	206	167
In-kind housing allowance	—	95	103
Occasional cash assistance	807	742	537
Occasional in-kind assistance		370	223
Public health assistance	—	468	481
Regular assistance for raising children	101	656	806

SOURCE: *Yearbook of CSO*, 1988, p. 168; CSO 1997, 1998; articles.

The introduction of the flat-rate, regular *child protection benefit* provided as of right for every needy child was one of the major features of the reform measures of the social assistance system in Hungary in 1997. Although the legally formulated objective of the benefit is to guarantee the subsistence level and the upbringing of children in their families, this benefit is hardly sufficient to prevent the impoverishment of children or to impede the child protection authorities from taking away children from their families because of financial reasons without basic changes in the family support system. Even though the benefit is based on national eligibility criteria, because of the income and property-tested character of the benefit, the local self-governments have a broad space for applying different considerations as a result of home-visits. In order to ensure the “good use of public money” a municipality may decide to give this benefit in in-kind forms. As opposed to the preliminary calculations (500-550,000 children) more than 800,000 children proved to be eligible for child protection benefit in 1999.

Although two separate acts regulate the field of social policy, the responsibilities of our local self-government were comprised in one regulation. It was a political decision in our district to help the citizens to understand the possibilities. It is another question, however, that we neglected the numerous new pieces of legislation, as a consequence of which the local regulations have to be continually modified.

SOURCE: Head of the department of Welfare at a district self-government of Budapest.

In the case of *crisis assistance* (one-off and urgent payment), local self-governments have the right to elaborate the detailed regulation concerning the allocation criteria. Although by definition this benefit is provided in exceptional crisis situations, since 1995 it can be provided monthly, indicating the holes in the social safety net.

It is a general feature of social provisions for unemployed people that entitlement criteria has become gradually tighter over the last ten years. The *income supplement benefit*, for unemployed people no longer entitled to unemployment benefit, was introduced in the Social Act and will gradually be abolished from 2000 onwards. This was a means-tested benefit with an obligation to co-operate with the labor market organization and, from 1996 onwards, to accept public work. The maximum amount of the benefit was equal to 80% of the minimum old-age pension. The income and property tested *regular social assistance for unemployed people* amounts to 70% of the minimum old-age pension only and compulsory public work as well as co-operation with a social work organization are also included in the allocation criteria.

The government intention to strengthen the role of public work as a precondition for regular social assistance gave new tasks to the local self-governments. Some people interpret it as the withdrawal of the state from this responsibility and its laying new burdens on the localities.

SOURCE: Representative of a local self-government.

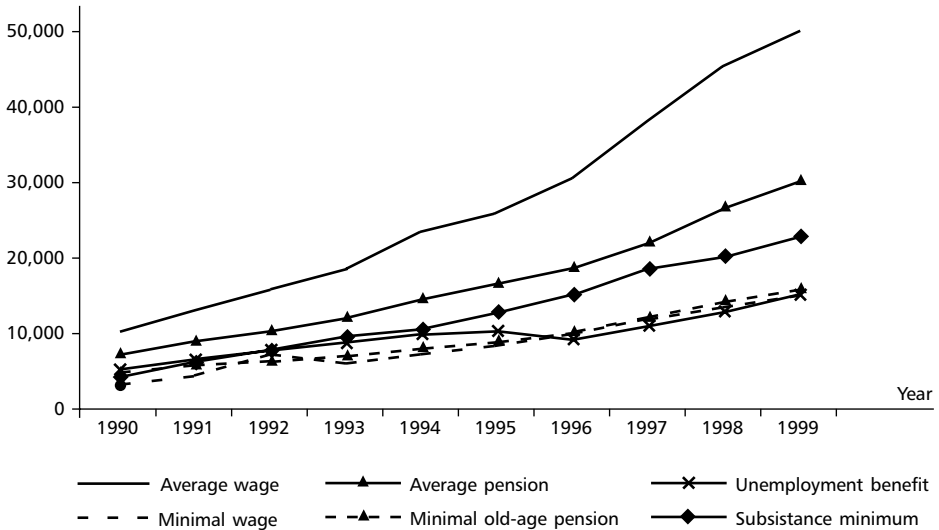
In Hungary—as in many of the CEE countries—housing costs have increased considerably, resulting in payment problems for a significant portion of the population. Several government measures have been created to promote debt management, including *housing allowances*.

There are two main causes for the arrears of the utility companies: (i) the gradual decrease of the real value of the income of households, (ii) the withdrawal of price subsidies. The proportion of arrears in the eastern part of the country is double that of the national average. The estimates indicate that some 8,000-10,000 families ran into debt in our city. The situation of the families living in flats rented from the local self-government (social housing) is especially worrying as 65% of them ran into debt with the rents and rates.

SOURCE: Case study, Nyíregyháza.

In Hungary, although the Social Act defines the framework of the eligibility criteria (means-tested benefits for families if housing costs exceed 35% of the household’s income), local governments are entitled to set the housing “norms” on the basis of the standard housing stock within their constituencies. In most cases the benefits are paid directly to the communal service companies.

Figure 2.6
Changes in the Average Income, Minimum Wage, Average Old-age Pension, Minimum Old-age Pension, Subsistence Minimum, and Unemployment Benefit, 1990–1999 [HUF]



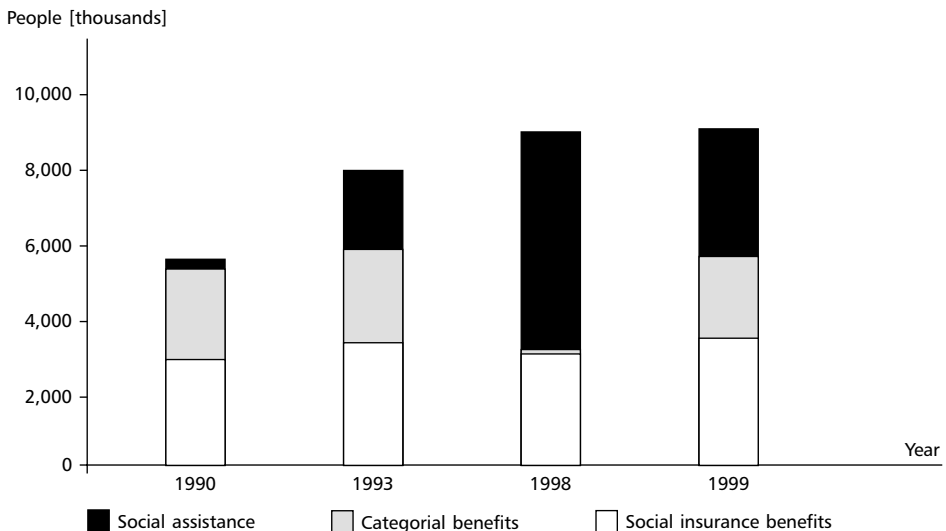
SOURCE: Garzó, 2001.

“Although there are no reliable data about the adequacy of benefits, their level and the average sums disbursed are known. From this information it suggests that they can hardly be adequate. The subsistence minimum was around HUF 22,000 per person in 1998. It was close to HUF 60,000 for a family of three, and around HUF 75,000 for a family of four members. The average amount of regular assistance was around HUF 10,000, that of housing benefit or crisis assistance around HUF 1 to 2,000 per month. These sums are insufficient to cover even the most basic needs.”¹⁰

Most forms of social assistance are based on means testing. The result of income testing is quite dubious due to the problems related to the gray and/or black economy. Selection based on *property tests* plays a role in the regular social assistance of unemployed people and in providing regular child protection benefit. *Work tests* play an increasing role in the social assistance of unemployed people not entitled to unemployment benefits. *Behavior or character tests* check the reliability of the applicants who are legally acceptable in the case of regular child protection benefits, educational benefits (family allowance during the compulsory education period), and child care support. Local self-governments, however, use home-visits in a far wider range thereby endangering the autonomy and privacy of the potential beneficiaries. Moreover, such practises often lead to paternalistic and discriminatory practices. The application of such tests is not only extremely stigmatizing, but may discriminate against the most needy; furthermore, the more preconditions that have to be met in order to gain entitlement, the more vulnerable low income families and individuals are.

Figure 2.7

Composition of Beneficiaries of Different Types of Benefits



SOURCE: *A munkanélküliség ára*, p. 40.

On the basis of the decisions of the local governments, some financial services may also be extended in the form of fully or partly *in-kind* social services, thereby seriously limiting the freedom of choice of the beneficiaries.

The purpose of means-testing is partly to relate the recipient's income to a certain "official" standard—the administrative poverty line. Even though the objective formulated in the Act of most of the benefits comprises phrases like "guarantee the subsistence level of..." there is no enacted subsistence minimum in Hungary; rather the minimum old-age pension is the relating point or yardstick when calculating the benefits. The per capita household income is used as the "basic measuring unit" of income when deciding on social assistance entitlements.

Table 2.16

Some Statutory Minima and Some Yardsticks in Hungary, Monthly Sums [HUF]¹¹

	1989	1990	1994	1996	1997	1998	1999
Subsistence minimum	4,380	5,391	13,300	14,083	16,481	20,700	22,800
Minimum pension	3,340	4,300	7,480	9,600	11,500	13,700	15,350
Minimum wage	3,700	4,800	10,500	14,500	17,000	19,500	22,500
Gross average wage	10,571	13,446	33,939	46,837	57,270	67,760	77,200
Net average wage	8,165	10,108	23,424	30,544	38,145	45,000	50,100

SOURCE: *Civiljelenés* (Civil report). p. 28.

Table 2.17

Social Provisions Related to the Subsistence Minimum, 1991–1999
Subsistence Minimum=100%

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Unemployment benefit	87	87	77	94	80	77	77	81	86
Income replacement benefit	—	—	37	55	53	49	50	53	67
Regular social assistance	—	—	—	—	—	—	45	46	49
Crisis assistance	—	—	—	—	40	36	32	29	29
Care benefit	—	—	48	59	56	49	50	51	53
Average old-age pension	116	107	104	134	132	128	125	136	143
Minimum old-age pension	73	64	57	72	67	63	62	66	70
Net minimum wage	83	80	71	89	86	83	81	83	82

SOURCE: Garzó, 2001.

When evaluating systems of social assistance the *maintenance of the real value* of benefits is a key issue. The indexing of benefits of social assistance type is not based on legal regulations, it depends on the will of the political elite in Hungary.

In Hungary, the legal basis for social assistance is established through various acts; local self-governments have the right or the duty to adopt these acts in local regulations. Legal regulations, however, only create—in principle—the conditions for social support.

Originally decisions on social assistance issues fell within the competence of the council of representatives of the local self-government. In a larger settlement, however, this body is unable to deal with individual cases, and this duty is delegated to the mayor, the social committee, or to the minority self-government. But the mayor has other things to do than deciding on the various applications made by individuals. In cities of any size it is impossible for the mayor even to sign every resolution, in view of which the Department of Welfare carries out the procedure. As a beginning of the process, a Welfare Officer meets the applicant whereupon the Welfare Officer formulates an opinion, obtains the proofs and outlines a proposal for a decision. The problem will be discussed with the head of the department, who then signs it. The applicant is then given the decision. If he/she has a reason and the possibility to appeal against it, the case goes back to the Welfare Officer, who will check the documentation and pass it to the head of department. Then a legal expert from the notary's office will supervise the decision and only after this will the council of representatives deal with it. What can the council of representatives do at this stage? To use the right of exercising discretion to ensure the possibility of equity.

SOURCE: Head of Department of Welfare, Nyíregyháza.

In order to make any schemes *rights-based*, an additional precondition has to be fulfilled: appropriate legal mechanisms are needed to appeal against decisions made by the authorities.

In Hungary the first level of the appeals process is the same organizational unit that decides on the requests of the applicants: in other words, the council of the local self-government.

It is necessary to differentiate between the locally regulated forms of social assistance and those regulated in an Act. In the latter case, the refusal of an application may be contested in court, while only administrative-legal control may be requested from the office of the Public Administration Office with respect to the former case. This practice reflects one of the most important controversies of decentralized governance, where the principle of legal security faces the requirement of local autonomy.

5. DECENTRALIZATION AND SOCIAL POLICY: CONCLUSIONS

In social policy, decentralization ought to mean the clear distinction of the responsibilities of the different actors and functions (legislation, financing, service provision, legal and financial control, professional supervision). In this respect, many instances of deficiencies in the Hungarian regulations can be identified.

5.1 Legislation

- One may experience quite contradictory views concerning the legislative power of the local self-governments in the social sector. Some of the professionals emphasize that local self-governments have strong regulatory and decision-making power concerning social assistance benefits. The local self-governments have to formulate, on the basis of the Social Act or other laws, their own local regulations and they exercise a strong discretionary right when deciding on the criteria of entitlements. Thus, the current social assistance system does not ensure even the minimum existential security of the citizens. Consequently, some kind of centrally organized and guaranteed minimum income support scheme would be needed. According to other opinions there are too many normative benefits, and the local self-government is unable to enforce its concepts in social policy as the centrally regulated (e.g. in government Acts) eligibility criteria cannot take into consideration the local situation and the specific local needs.
- One way of interpreting the exercise of discretion is to consider it a special form of decentralization. In theory, the requirement of exercising discretion can be interpreted as a way to increase the decision-making power of local governments. In this understanding on the basis of the principle of subsidiarity the locally assessed needs may most effectively be met by locally adapted or outlined measures. However, especially when resources are scarce, this may lead to decisions based on discrimination or on the subjective judgment of the decision-makers. The elaboration of the local social support system is not preceded by needs assessment at the majority of the local self-governments. Those social support schemes that are not centrally defined are heavily dependent on local power relations and financial resources; the professional quality of the local regulations is strongly determined by the professional skills of the representatives of the local administration.

Quite often formulation of the acts and local regulations is based on trial and error: something is enacted, experiences are collected, and then legal regulations are modified. In most cases, either the preconditions of the implementation are missing or the deadlines prove to be unrealistic.

5.2 Social Provisions

The political transition brought about a wide-ranging change in social policy. Local self-governments were formed and this, in conjunction with the principle of regulating the social assistance and service functions at local level, resulted in a rarefied and diverse social service care system. The proponents of decentralization efforts argued that it

would provide more flexible services, more efficient compliance with local needs, and would mean an economically more efficient and transparent operation. These can indeed be noticed in minute traces, yet the system possesses significant problems and distortions.

The main deficiencies of the social support system are the following:

Benefits in cash and in kind tend to:

- preserve poverty;
- apply corrective measures rather than prevent the sliding down of certain social groups;
- function in a confused, frequently bureaucratic and non-effective way;
- be unjust as it is impossible to test the real income of households;
- lack harmony with the big re-distributive systems.

The main characteristic features of the social services are that:

- the level of quality of the services is frequently unsatisfactory;
- in several cases the institutions have high operational costs due first of all to the high maintenance cost of the buildings they are situated in;
- the necessary financial resources to operate and develop these services are missing;
- several institutions do not meet even the obligatory legal requirements.

Problems arise from the situation that no serious consequences can be felt when a local government violates legal requirements (such as not operating mandatory day-care institutions). Statistical data clearly shows that only a fraction of local governments operate all the services stipulated by law.

On one hand, the Social Act reacts realistically on the Hungarian settlement structure and that of the financial capacity of the municipalities when it differentiates the services according to the size of the settlements. This solution, however, assumes that the consumers would “travel” to obtain the services provided in other settlements, which—as a result of the problems of the clients and their financial difficulties—is often not the case. Thus the actual practice unintentionally violates the principle of equal access to services.

One of the most striking consequences of decentralization is the non-uniform quality of services provided: characteristically, the situation is worst in large institutions operated by the county (as confirmed by reports of the Ombudsman), while in most of the privately run homes and in certain cases in old-age homes operated by community governments the level of services is appropriate.

Currently the number of different social assistance schemes might equal the number of local governments. Their social policy activities can be seen only through very indirect

ways, such as through the annual statistical data. Moreover, there is usually a year's delay before the statistical data is processed and evaluated and, due to the structure of data gathering, it is highly unlikely that the data will cast any light on all the possible service forms. Such data is also not suitable to demonstrate such features (individual evaluation, special conditions, tests), which in practice bear real significance. Targeting of social assistance is not ensured: it cannot be said for sure that the service and the care are given to the most needy.

Decentralization of social assistance has resulted in such low level benefits that they are most definitely inappropriate as a means of raising the income of a household to the subsistence minimum. Administration of benefits is so complicated and frequently humiliating that a substantial part of those in need probably give up applying from the very start. Only a minute part of the benefits can be obtained by legal action in court; in the case of the rest of the benefits there is no such possibility available. All this means that existential security cannot be ensured in the current cash-benefit system.

It is a professional problem as well as diminishing the quality of the services that the institutions have no clear profile. In several cases young alcoholics lived in homes for senior citizens, or people suffering from mental illness live together with disabled people thereby causing severe tensions in these institutions.

Decentralization ought to mean an effort to solve the social problems in the framework of the compulsory basic services. As a result of the scarce financial and human resources and the lack of capacity, local self-governments tend to be motivated to pass on both the "problem" and the costs of provision to a higher level of governance, i.e. to the county self-governments.

Decentralization has resulted in a stronger role gained by the church and non-governmental organizations. Non-governmental organizations are generally more flexible in several respects and more innovative than the state sector. The pioneering role of the third sector is obvious and indisputable; the introduction of some compulsory new types of services became necessary just because of their activities.

The picture is more diverse in the case of services provided for senior citizens: non-governmental organizations appeared here in a more business-like manner, meaning the differences in quality levels are felt more intensively. Many of the typically boarding-type institutions of non-governmental organizations react on demand since there is a willingness to pay market prices for appropriate levels of services.

Interviews with the representatives of non-governmental organizations demonstrated that the rigidity of relations as well as the difficulties in communication with the local self-governments are recurring problems. In practice, only after many difficulties are non-governmental service providers accepted. We did not find a single example of a settlement which would have been inclined from the very start to comply with its obligation to provide social care and services in the framework of a contract to be concluded with a non-governmental organization.

The local self-governments responsible for service provision do not have a long-term concept or vision of who is going to provide what kind of services and to what extent. Frequently, a local self-government appears as a contracting party in service contracts, while at the same time it maintains and operates the same services.

The range of means and “skills” by which local government officers would be able to ensure transparency, efficiency and effectiveness of the various organizations providing social services is generally missing. Currently, local governments are bad “customers” or “clients”: they are not fully aware of what they really want in return for their support. They are traditionally inclined to maintain such a system in which they can intervene, and do so whenever they consider it appropriate. Indirect regulation and a horizon for one are still unknown to local government officials despite the latter factors being important conditions for the stable and reliable operation of the non-governmental sector.

Problems of communication with non-governmental organizations are explained by local government decision-makers by their mistrust such organizations: local governments find the means too weak for controlling activities so they would rather ensure services within their own local government systems.

In the case of services, however, decentralization brought about real results: flexibility, new types of services, and institutions more sensitive to the perceived needs of the users.

NOTES

- ¹ Kukorelli István (ed.) (1993): *Alkotmánytan*, Budapest, Századvég; The Hungarian Constitution and the Act on the Local Governments (1990/ LXV).
- ² This part of the study is partly based on a paper prepared by Katalin Tausz within the project Comparative Institutional Reform in Social Policy. East-Central Europe in a European Context (1989-2001). IWM (Vienna), 2000.
- ³ 1960/1990. (XII.20.) Kormány Határozat. Szociális Tanács létrehozásának kezdeményezéséről.
- ⁴ Ideas on family benefits are based on: Ágnes Darvas: *Utak vagy tévutak? Család-támogatások Közép-Kelet-Európában a rendszerváltás óta*, 2000, Manuscript.
- ⁵ GYES is a cash benefit to provide financial support for a parent staying at home with a child aged under three. The sum of the benefit is equal to that of the minimum old-age pension.
GYED is a cash benefit to provide financial support for a parent staying at home with a child aged under two. It is equal to 70% of the daily average earnings but not more than the minimum wage.
GYET is a cash benefit to ensure a sufficient (minimum) living standard of the parent who raises three or more children in his/her house, if the youngest child is at least three years old but has not yet reached the age of eight years. The monthly amount of GYET is—irrespective of the number of children—equivalent to the current minimum old-age pension.
- ⁶ Based on the Home page of the Ministry of Social and Family Affairs:
<http://www.szcsm.gov.hu>
- ⁷ Act III./1993. on social administration and social services.
- ⁸ Act III./1993. on social administration and social services 3.§ (3).
- ⁹ Several studies deal with these issues in the volume of Denationalisation dilemmas: social policy constraints and choices. ATA 1995.
- ¹⁰ Ferge, Zs. et al (2000a) p. 19.
- ¹¹ Ferge, Zs. et al (2000a) p. 21.

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