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# Social Transformation and the Reform of Social Security in Hungary

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**Abstract:** One of the most important developments in the recent history of social policy has been the multiplication of the functions of social security. This process has contributed to both the maintenance and the gradual erosion of the initial roles of social policy during the last period of the state-socialist order. The rapid increase of central expenditures on social security has been in close connection with the dual interests of the central party-state in keeping income distribution under strict central control and, parallel to that, in creating space for a liberalization of access to personal disposable incomes of the households. At the same time, the increasing weight of social security as one "branch" of the central state budget has created serious conflicts in the period of economic crisis, leading to strong claims for cuts. However, the efforts made towards implementing this have sharpened the "competition" among those involved to profit from the unavoidable redefinitions of the existing schemes, while it also contributed to a substantial increase of poverty at the other end of the social scale.

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Some months after the free parliamentary elections of April 1990, the new government announced its comprehensive and ambitious program for the first, three-year long phase of "transition." The introduction presented the following priorities:

"The fundamental and all-embracing endeavor of the government is to carry out systemic changes in the economy. Thus, the program envisages the creation of a new, viable market-regulated economy. It should replace the malfunctioning order of the last forty years, which was based on administrative intervention and the repressive care of the state, and was featured by external isolation. The experiences of successful West European countries should be utilized in the process of creating the new economy, suitably adapting the lessons to the given Hungarian conditions. This new order will be an up-to-date European *social market economy*,<sup>1</sup> based on the

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1) The term is principally identical with the notion of the *Soziale Marktwirtschaft* in German economic literature. It should be noted, however, that the concept beyond the attribute "social" is unclear and much criticized by the liberal opposition. The adjective has several -- partly contrasting -- meanings and connotations in Hungarian: a) It might refer to the notion of the (classical) welfare state, implying universal rights, a wide range of well-developed social services, extended entitlements for a number of decent benefits, a significant share of *public* (neither state, nor private) properties and control, etc. b) It might *equally* mean the opposite, since the term "social" also has a "welfare"-connotation in Hungarian language. In this reading, the "social" market economy program means the drive to create a *free* market (with as little

primacy of private property, and be integrated into the world-market." [*The Rebirth...* 1990]

Given the principal values of the social welfare-side of marketization outlined in several chapters of the above-cited program, and repeatedly mentioned by the new politicians of the governing parties<sup>2</sup> in their public speeches and writings, one wonders why the notion has remained so hazy until now, and why practically no intentions have been shown of going beyond its rhetorical advocacy. In fact, it has been a striking feature of the past few years that the actual steps taken in the name of transformation have been restricted to the narrow concepts of "productivity" and "efficiency," excluding all consideration of the social implications of the process.

The dominance of short-sighted arguments is even more striking in relation to the core issue of transition, namely in the new (though hesitant) introduction of regulations on the conversion of existing *property relations*. The numerous official and semi-official programs published recently on "privatization"<sup>3</sup> have one characteristic in common: when speaking about the necessary transformation of "socialist" ownership, they hardly ever go beyond claims for raising the short-term returns in the strictly defined "productive" spheres of the economy. In this context, the necessary designation of new owners of the capital in public infrastructure turns out to be a secondary issue. Here and there, some vague and unelucidated ideas are set afloat regarding the desired future distribution of wealth represented by the institutions currently in the hands of the local governments or the faceless "state" in health care, education, services for children or the elderly, etc. The lack of comprehensive ideas on their "denationalization" (i.e., on the reduction of the overweight of the state via far-reaching property changes) is all the more problematic, since they represent (according to some estimations) roughly 40-50 per cent of the entire national wealth.

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presence and intervention as possible from any "external" agents); in other words: any help following non-market rules should be solely targeted to the poor, and such help should be offered only on the *fringes* of the system. c) It also might point to the frequently emphasized peaceful character of transition, implying that transformation should not be too rapid, thus some "social"-ism should and could be preserved. In this reading, the message is a compromise between the former and present rulers: although the necessity of reducing the over-weight of the state is unanimously acknowledged, "socialist" responsibilities would be kept in the hands of the state, with all the implications for the relative stability of the given positions in the state bureaucracy and public administration. (The latter interpretation is reinforced by the fact that the former ruling party, i.e. the Hungarian Socialist Party also gives outstanding priority to the "social" aspect of marketization in its program.)

2) The new government is set up on the basis of a coalition of three parties: the Hungarian Democratic Forum, the Smallholders' Party and the Christian Democratic Party. It characterizes itself as the trustee of "national" and "universal Christian" values. It occupies a center-right position on the spectrum of political orientation.

3) This inaccurate concept is intended to embrace all property-transforming activities, regardless of whether the potential owner is (or will be) a private person or a collective, and whether the form of ownership can be related to designated individuals at all. The word "privatization" is increasingly used as a synonym for all kinds of changes in property relations.

Does this mean that there have been absolutely no changes in these spheres of "public consumption?"<sup>4</sup> Or, are the actual processes too anarchic, spontaneous, unregulated and chaotic to come up for rational discourse? Or, does the "silence" indicate that there are no social or political forces aspiring to become the ultimate owners of the wealth in question? Or, on the contrary: does the public "neglect" of the issue perhaps show that they have been drawn *more* under state control than ever before?

These questions seem to be crucial, even if they are not raised very frequently these days.

The present paper has the modest aim of introducing a historical outline into their discussion. It will attempt to demonstrate that "denationalization" of the institutions and services in question had already started long before the open collapse of the socialist order. Their quasi-marketization was an organic part of the slow erosion of state socialist rule, making the Hungarian case quite peculiar within the recent history of the East-Central European region. In this sense, the developments of the 1980s can be regarded as straightforward *antecedents* of the transformation of public consumption, having not only decisive impacts on the main socio-political features of the currently ongoing changes, but also determining the scope and future shape of the country's social policy. This is why it is quite difficult to tell precisely *when* Hungarian society actually began its move from "classical" socialism toward a market-regulated socio-economic order. The unclear nature of "transition" is a distinct feature of the process: the so-called "systemic changes" of 1988-90 were rather the *completion* of earlier hidden developments than the revolutionary onset of the radical structural transformations of the future. The slow decomposition of the old rule holds true as much for the macroeconomy (including the institutions and services of social policy), as for the independent and non-state-regulated economic activities of thousands of private households.<sup>5</sup>

The paper will attempt to demonstrate the participation and role of social security in this process of erosion. It will be argued that the most important development in this respect has been the multiplication (and accompanying two-sidedness) of its functions in the last 10-20 years, serving simultaneously the *preservation* of the state-socialist order and its gradual *decomposition*. This peculiar role developed in close relation to the *dual* striving of post-1956 Kadarism to both reconstruct the totalitarian post-Stalinist order after the defeat of the revolution, and to find a viable compromise between the rulers (oppressors) and the ruled (oppressed). The (mis)use of social security services in the interests of central state power, of state-run (though slowly and partially emancipating) firms and of the

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4) The phrases "public infrastructure," "non-productive spheres of the economy," "institutions and services of public consumption" and "funds of social benefits in kind" have been used in the literature up until now to refer to the *same* segment of "socialist" economy. For the sake of convenience, I will adhere to this tradition, and use them as synonyms in the historical analysis below. When any *special* phrase has importance in the given context, I will give a closer description.

5) Pertaining to the latter aspect of the prehistory of the transition and the hidden restructuring in property relations, see Vajda. [1991]

employees in their activities *outside* the direct control of the state will be presented here. The typical conflicts between their partially coinciding and concurrently contrasting interests will be analyzed in the light of the final outcomes that have led to the serious and general crisis of social policy institutions. In the concluding part, I will attempt to outline some of the most dramatic consequences of the current crisis. I will demonstrate that "hidden privatization" has led "logically" to the practical exclusion of the most defenceless social groups and the weakest clients from access to even a limited segment of the services. Thus, the process has had a major contribution to the recent boom of poverty. Without purposeful interventions, the continuation of uncontrolled spontaneous "privatization" ultimately might threaten the success of transition itself: it might lead to an effective disintegration of Hungarian society within a short time.

### **The multiplication of functions and the two-sidedness of Kadarist social policy (Some hidden changes in use, power and control)**

As mentioned above, the gradual erosion of the "classical" system of social policy, the slow evolution of new "quasi-owners" of social services *beneath* the unchanged surface and *within* the given framework of "socialism" was closely connected to the political characteristics of the post-1956 era. The continuing attempt of party politics in the Kadarist period (1957-1988) can be summed up as the ongoing search for a delicate compromise between the full rehabilitation of ("human-faced") totalitarian rule, and the society's drive for individual autonomy and freedom. In other words, the basic systemic features of socialism were preserved, while they simultaneously went through a significant reinterpretation during the last three decades. Organization from top to bottom, centralized authority and the direct administration of social and economic life was not changed. Neither were its implications for continued extensive industrialization, compulsory full employment or interventionist economic management modified. What was new about the revised concept of totalitarianism was, however, a gradual introduction of restricted individual freedom within an extremely limited scope of choices. It did not mean more than a few concessions. If individuals successfully conformed to the conditions dictated from the top, they "earned the right" to find back-door ways into educational institutions, to change their jobs, to make (partial) use of their firms' equipment "at home" in their private economies, to move to more urbanized settlements if they could afford it, etc. However, these concessions turned out to play a crucial role in the above-indicated later structural changes. The actual developments in social policy can be understood in relation to them. In order to make the picture of past-1956 gradual departures clearer, let me briefly describe its most important "classical" characteristics.

As is commonly known, during the establishment of the socialist planned economy the new system abolished social policy in general. All its traditional institutions were cast away as the requisites of overthrown capitalism. At the same time -- and this was the essence of its self-contradiction -- the "socialist" planned economy was considered to be the main trustee of social rationality and social good. It followed, then, that each and every segment of the economy and society, of

private and public life, became imbued with "social" considerations as their central intention. In this sense, we can say that the elimination of social policy was accompanied by an "injection of social policy" into the entire system. All this happened not as an ideological mistake or because of the "encroachment" of Stalinist voluntarism, but because it belonged to the very essence of the totalitarian system.

The cessation of social policy and its identification with the centralized planned economy remained an unchanged and inbuilt element of the system also after 1956. Planned economic control, its associated political processes, full employment forced by the devaluation of the labor force, the redefinition of social membership by binding it to employment, quantitatively satisfactory health services (defined as "allowances in addition to wages") and social security's degradation to a "budgetary branch" under direct party-control all meshed as inseparable gears, and served the social transformation program intended and controlled by the central power.

The political aim of forced economic development reduced the satisfaction of social needs to simply a means, i.e. to the means of maintaining the artificially low wage level, which represented the most important and most durable source of centralized surplus. The "principle of residues" of social objectives, accompanying the 40 year history of socialism, arose as a result of this. Following directly from the logic of the centrally controlled planned economy, it seemed sufficient to administratively decree equality of access to social remunerations. Within the system of all-embracing "planned control," the declaration of rights seemed to be identical to an automatic guarantee of their realization. The most important counterpoise to the still artificially depressed wages were the so-called free social benefits in kind and those centrally redistributed social security benefits in cash, which covered the entire "socialist" workforce.

The fundamental function of centralized income redistribution followed, however, from structural determination: the extreme concentration of resources was needed and simultaneously legitimized by referring to economic necessities. Given the daily reiterated central dependency of all the institutions, no other way seemed feasible to operate and finance the economy itself. Thus, nearly 60% of the national budget, concentrated on some 80% of the Gross Domestic Product (GDP) has repeatedly flowed through the economy - in the form of donations, subsidies and supports - all in order to keep it alive. Therefore, it becomes understandable how for more structural reasons the "social budget" (the source of health services, culture, education, etc. defined as "free" statutory benefits and the source of the entire social security system) repeatedly found itself in a hopelessly residual position in a competition with even more pressing needs. In such a situation, the functioning of the social sphere was controlled not by any social principles, but by permanent scarcity: the available money, means, investment and labor force had to be concentrated where they were needed most.

Nevertheless, some important shifts *within* the unchanged structure of residual social policy slowly emerged from the early 1970s onwards, helping the above mentioned drives to find compromises with the society in silent opposition

to its rulers. The direct challenges for some cautious modifications followed from the worsening economic conditions of the late 1960s, which led to the introduction of quite significant (though ambiguous) reforms in the administration of the economy in 1968.<sup>6</sup> As is already well-known from the vast literature on the successes and failures of "new economic management," this reform was aimed at loosening the rigidity of central directives and control by giving more space to the spontaneous drives and diverse motivations of economic actors. The role of "particular" (as opposed to "all-societal") interests was gradually acknowledged, both on the ideological and on more practical levels. The accompanying socio-economic element of the program was the recognition of "individualism" as the main incentive of the producers for increased economic achievement. Thus, the newly introduced measures deliberately sought to give a more pronounced role to material stimuli in the name of "differentiating earnings according to performance."<sup>7</sup> However, the actual rise in earnings was seriously limited by the centrally defined and strictly controlled outflow of wages.

The two contradictory drives represented a permanent (and irresolvable) clash between "marketism" and "planning." Though economic growth and better productivity were the desired political goals of the regime, the "old" regulations depressing personal incomes could not be given up for the structural reasons outlined above. The day-to-day resolution (or, more accurately, mitigation) of the continuous conflicts and clashes between them was found in two "innovations" of the system: (a) in the gradual acceptance of the second (informal) economy based on people's work over and above their regular participation in the formal, state-controlled sphere of production; and (b) in the opening of the gates of the social security scheme as an additional source of personal disposable income and as an institution to channel social tensions through its "multifunctional" use. Before turning to a more detailed description of the later developments,<sup>8</sup> it should be noted that these innovations also served the search for compromises of a more general political character indicated above. They nicely fit into the ambitious socio-political program of "raising the standard of living," declared subsequently by central Party organs as the fundamental commitment of the socialist regime to its citizens.

As pointed out earlier, however, the achievement of the much emphasized goals did not imply the deliberation of the outflow of cash-incomes. Instead, a marked *shift* between the "targets" of social spending was introduced. In concrete terms, the expenditures from the state budget in in-cash social security benefits

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<sup>6</sup>) The scope of this paper does not permit a detailed analysis of these antecedents. It should be noted, however, that these reforms were the first experiments in the history of the East-Central European socialisms to combine "planning" and the "market."

<sup>7</sup>) Needless to say, the actually increasing differentiation of wages/salaries did not follow the logic of any "measurement" of performance (not to mention that it was even theoretically unrealizable in a number of activities). The declaration of the new principle merely served the ideological goals of squeezing the new policy into the preserved Marxist frames.

<sup>8</sup>) I will not discuss in details the developments of the second (informal) economy here. [on this see Vajda 1991, Harcsa]

were increased,<sup>9</sup> while the *aggregate* share of funds for "public consumption" as a whole remained in the residue position outlined above. It was a logical consequence of reform within an unchanged structure: the necessary prioritization of everyday running of the economy did not cease in the meantime, thus leading to a *constant* yearly ratio that *had* to be devoted to the "productive" spheres, and not permitting *any* rise on the "non-productive" side. In this way, the proportion of *total* spending on social service *and* social security *together* remained much the same throughout the two decades after 1968, representing roughly one-third of the total budget. The result was a relatively (later even absolutely) decreasing share for the in-kind spheres of public consumption: services such as health care, education, personal transport, etc. suffered from the seemingly "technical" shifts in expenditure. The real victims, however, were their users, who had to face all the consequences: increasing inequalities in access, an unstoppable deterioration in the standards and quality of the services, the permanent overcrowding of all the relevant institutions as well as chronic shortages in even basic deliveries and fundamental facilities. In addition, all these negative experiences were compounded by frequent administrative interventions of a paramilitary character, which served as fire-fighting directives intended to cope with the sometimes heated conflicts which the authorities always considered only "temporary" or "transitory."

Although the political decision to increase the available resources for private consumption by simply curtailing those in public services had serious drawbacks, the decision unintentionally facilitated "useful" processes pointing toward a slow marketization of the economy, accompanied by relatively long-lasting improvements in its overall performance.<sup>10</sup> Hidden marketization also concluded with the emergence of quasi-owners of the services in question. Here I will outline some of these developments.

First, the social security-scheme underwent an expansion (both through the introduction of new types of benefits<sup>11</sup> and by extending entitlements<sup>12</sup>), thus

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<sup>9</sup>) Let me present some telling data about these shifts: while spending within the social security "branch" represented 11 percent of the state budget in 1963, its share had already increased to 15 percent by 1980. It is even more informative that the ratio of in-cash benefits within public consumption expenditure grew from 48 percent in 1970 to 60 percent by 1980. Because of this, the contribution of in-cash benefits to the average monthly disposable income of an "average" Hungarian household has also been rapidly increasing: it represented 11 percent of all officially registered earnings in 1967, 20 percent in 1977 and ca. 25 percent in 1987. (See the Statistical Yearbooks and the publications of the subsequent Income Surveys by the Central Statistical Office in 1967, 1977 and 1987.)

<sup>10</sup>) The key to the full understanding of these surprising achievements can be found in the deeply-rooted socio-historical drives of Hungarian society to complete the interrupted embourgeoisement process via the re-opened pathways after the mid-1960s. [See Szalai 1989]

<sup>11</sup>) The most important of these was the introduction of the child care grant in 1967. Initially, the grant was a job-protected, flat-rate benefit helping mothers to stay at home with their babies until the latter turned the age of three. The scheme was modified in 1985 by introducing an earnings-related child-care fee that can be received for the first two years after childbirth. Meanwhile, the original grant was preserved to extend the mother's (or the father's) temporary exit from employment for a third year.

creating a significant field of play for "socialist" enterprises both to increase their independence from the rigid regulations of the dictated wage and employment policies and to build lasting "buffers" in their daily operations that protected them against direct state intervention. In this respect, the sick-leave scheme and disability pension turned out to be the most usable means in their hands. Since the costs were covered by social security, the enterprises could "play" with the financial consequences. Central wage regulations permitted them to hide the wages of those either on sick leave or in the process of applying for a disability pension. In this way, they could create considerable temporary "savings" in their wages by reporting these people as being among their actual employees. The sums remained with the firm, and could be freely used to increase the earnings of those really working, without breaking the rules based on *aggregate* wage expenditures and stricken by heavy taxation and related sanctions in cases of excess. As time passed, the deliberate "planning" of the average yearly number of those on social security (on maternity leave, on child-care grants, on sick-leave, etc.) became an organic part of the employment and income policies of *all* the "socialist" workplaces. "Local" incentives (premiums, even temporary wage increases) were covered by those planned savings, initiating both, better productivity and employees' loyalty.

Second, social security not only helped and financed local incentives, but also offered utilizable channels for the more adaptable and flexible use of the workforce. Since all the components of production were at the mercy of uncontrollable external conditions (ultimately driven by unforeseeable central political decisions), the simultaneous adaptation to supply and demand often meant facing insurmountable difficulties. The oscillation between shortages and sudden overflows of raw materials, equipment, unmarketable products etc. was among the fundamental features of socialist economies that had to be mitigated, even if not somehow resolved. The "classical" method of self-protection for the firms was to store all components (including workforce). This led to tremendous waste and could no longer be financed without facing the threat of bankruptcy amid the new circumstances of the reform. Manpower, however, was an exceptional component, since the firms had to meet the preserved "socialist" requirements of compulsory employment. Social security helped here as a way out of the trap. The local costs of employment obligation could be reduced and better productivity attained on the enterprise level by sending temporarily superfluous employees on sick leave, or negotiating their early retirement through the disability pension scheme. When they were needed again, part-time employment (permitted only for those on social security, but strictly prohibited for "ordinary" employees) could be offered to them. They often got back to the same place, to the same position, doing the same job, (though with some lightening of the time-schedule, conditions and duration). In this way, flexibility and increased adaptation to the market could be achieved.

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<sup>12)</sup> The number of those entitled to various benefits was automatically raised in part by the steady extension of employment. However, modifications to the regulations in the 1970s to embrace formerly excluded groups (e.g. the self-employed or free-lance professionals) also worked in this direction.

Third, all the employers' ambiguous measures described above often matched the drives of employees. As has been pointed out in several analyses [Kolosi 1989; Farkas, Vajda 1988; Szalai 1993], there was a wide range of motives at work in their attempts to reduce their contribution in the workplace, while simultaneously expanding it in the second (informal) economy. A mere "material" or "consumerist" explanation would be too simplistic here. True, the informal economy (based mainly on the cooperation of the extended family) provided an opportunity for an increase in household income, flexibly adjusted to meet its varying needs. However, the silent struggle for autonomy, the slow elaboration of alternative paths for promotion and even for market-based entrepreneurial routes of social mobility, the search for self-respect to counterbalance the humiliation that people experienced through the harsh exploitation and overt "dictatorship" practiced in their "official" workplaces etc. were equally important factors in the massive participation in informal production.

It should be emphasized that probably the most significant and lasting outcome of these processes is that through the gradual expansion of informal production, people started to build their lives on two pillars: one in the formal and the other in the informal segment of the economy. As a result of this, a new way of life crept into Hungarian society, and two distinct clusters of motivations dominated people's daily activities. In other words, people's lives were determined by the simultaneous involvement in two contrasting sets of relationships. Their *formal social membership* was dictated by the acceptance of subordination and "wage-worker" behavior, while their *success and promotion* depended on the strength of their self-protective *citoyen* values, entrepreneurial activities and "private" aspirations within informal networks and non-institutionalized formations. In the combination and co-existence of the two pillars, these contrasting sets of relationships were helped and supported by the "innovative" use of social security.

The case of rapidly expanding retirement constitutes a clear example: in accordance with international trends (though for markedly different reasons), people in Hungary tend to give up their employment (i.e. their participation on a full-time basis in the state-controlled spheres of the economy) some years earlier than present regulations on retirement would suggest. In recent years, 19 percent of all male pensioners retired below the age of 60, i.e. under the formal age. However, the increasing rate of early *retirement* does not cover the increasing rate of early *withdrawal from work*. On the contrary: the overwhelming majority of pensioners (both, those who have retired early and those who retired at the "ordinary" retirement age) usually work either in various "branches" of the informal economy or take up part-time employment to supplement their pensions, but usually (as already mentioned) with much more flexibility and much better working conditions than they had before. Therefore, when speaking about the geared or conflicting interests surrounding retirement, the two concepts of *employment* and *work* should be strictly separated. It is important to note that people's participation in *employment* has been reduced *for the sake of* expanding their participation in *work*. This statement is clearly demonstrated by Table 1 below. Even the most

comprehensive data<sup>13</sup> show that the performance of the inactive population (overwhelmingly composed of pensioners) has dramatically increased, which is perhaps the most important change that has taken place during the period in question. The table reveals very impressively how families have started to "build" the stable existence and wide acceptance of the second economy into their long-term strategies, and to plan and economize the work and participation of their members, tending to follow an optimal division between the two economies. This "optimalization" was heavily supported, even *subsidized*, by the extensive take-up of accessible social security benefits.<sup>14</sup>

Table 1. Workfund of the society  
(yearly, in millions of hours)

	1977	1986	Rate of increase between 1977 and 1986 (1977 = 100)
Time spent in workplaces of the first economy	9984.5	9296.3	-7
Small scale agricultural production of			
- active earners	1737.5	1896.6	+9
- inactive population	632.0	1137.0	+80
- dependants	384.8	375.7	-2
House-building activities (in informal economy) of			
- active earners	266.9	374.7	+40
- inactive population	33.7	79.6	+136
- dependants	21.0	17.2	-18
Total	13060.4	13177.1	+1

Source: Time-Budget; Changes in the Way of Life of the Hungarian Society According to the Time-Budget Surveys of Spring, 1977 and Spring, 1986. CSO, Budapest, 1987.

One can conclude that the "reinterpretations" of the functions of social security outlined above point in the same direction. Given the two-sidedness of "socialist" political and economic frameworks, actors have gradually tended to utilize the services as their *own*, thus developing behaviors, attitudes and mechanisms necessary for a potential *overt* change in existing property relations. The hidden

<sup>13</sup> The calculations are based on the findings of the latest countrywide representative time-budget survey of 1987. This also gives us an opportunity to follow long-term changes by comparing information on participation rates and durations with the data of a similar survey run by the CSO in 1977. [See several publications on the two time-budget surveys, especially *Time-Budget 1987* and *Changes 1990*]

<sup>14</sup> Corresponding conclusions can be drawn from a detailed analysis of the changing (and fluctuating) utilization of child-care and sickness benefits.

long-term decomposition and erosion of the scheme has to be taken into account as an explanatory factor in understanding the heated contemporary conflicts surrounding the future of social security.

Several interest groups claim that Hungary should give up the idea of comprehensive and compulsory social security and should substitute for it with a regulated network of enterprise-based insurance schemes.<sup>15</sup> They argue that the present system is extremely expensive and wasteful; it works as a disincentive for vibrant capital investments benefiting the new entrepreneurs, while failing to help the services' clients. Firm-based insurance schemes would be much cheaper and, in their view, express the mutual interests of employers and employees. (As far as the non-employed part of the society is concerned, they argue for "targeted" welfare assistance and services for the poor, which would be financed by taxes and be run by the state.) Another proposal (pointing to the opposite direction) is to convert the currently state-dominated scheme to meaningful *public* ownership: social security should be run and controlled on a tripartite basis, representing employers, employees and the state.<sup>16</sup> With regard to the financing of the system, these programs argue for a more just distribution of contributions, and claim that the social-security scheme of the *future* should be a Western-type public investment fund. It should, therefore, get a share of the still "frozen" wealth of the society, i.e. it should be delivered by utilizable *properties* in the "privatization" process. [see Kopatsy 1990 for detailed arguments]

The proposal of the present "owner" (i.e. the government) is rooted in its primary interest of reducing state expenditures and divesting itself of a number of responsibilities. The publicized ideas represent a typical compromise: the present scheme of social security should be "cleared" of its (confused) functions, while "classical" contribution-based tasks should be visibly separated from "social policy." The former should be met by the "new" scheme, while the latter should be the obligation of separate special authorities. In concrete terms, the scheme should be converted into a national pension fund and a health insurance fund, while all other services (i.e. support for families with children, aid for the handicapped and disabled, services for the elderly, etc.) should be delivered by decentralized, community-based schemes, financed both by local and central taxation and complemented by a greater variety of activities on the part of charity organization and voluntary non-profit agencies, associations, etc.

While the *future* outcome of these struggles is as yet unclear, the *actual* latest developments in social security point toward potential lasting compromises between the strong interest groups at the expense of the most defenceless layers in society. All the drastic changes in the structure of social expenditures -- justified by the necessary restrictions on spending from the state budget -- have similar impacts

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<sup>15</sup>) The claim is very popular among the "new" entrepreneurs, and it is widely propagated by their chambers, associations and by the Party of Entrepreneurs.

<sup>16</sup>) This idea is supported by the new free trade unions and is also outlined in the programs of some of the new parties. (For the most detailed version, see the Program of the Federation of Free Democrats.)

in this regard. Due to an "economizing" of the resources of central redistribution, pensions, child benefits, sickness payments, etc., have not been adjusted according to the rate of inflation: while consumer prices rose on the average by 29 percent during the twelve months between June 1989 and June 1990, the average value of the child care grant per child was only 24 percent, that of the child care fee only 20 percent and that of the family allowance only 14 percent (!) higher in 1990 than the had been a year earlier. [*Statistical...* 1991] This loss in value has become an important factor in accelerating the impoverishment of those living mainly from in-cash benefits: pensioners, families with dependent children, people who are chronically ill, etc.

These recent drastic cuts in the name of the withdrawal of the once omnipresent state have been accompanied by a new ideology: "targeting." The argument is well known from the history of social policy: since universal benefits do not diminish inequalities in take-up and access, there should be more concentration of the (scarce) resources on those really in need. Thus, there has been a significant shift in the structure of public spending: universal schemes have been replaced by a number of means-tested programs in attempting to establish "more just" distribution. However, the actual outcome has not justified the technocratic expectations: instead of a decrease in income differentials, the intensified "competition" for the limited resources has brought about a substantial growth of inequalities in take-up and in the per capita value of assistance, while many of the most needy among the poor have been effectively squeezed out of all forms of financial support.

These developments are by no means the "inseparable" and automatic by-products of marketization, rather they follow from a certain -- dogmatically neoliberal and shortsighted -- interpretation of it.

As the paper attempted to demonstrate earlier, it was the very process of a slow and gradual "liberalization" of the market which helped great masses of Hungarian society gain some distance from and some self-protection against the actual crisis of the state-controlled, formal economy in the last phase of socialism. It was their participation in the market-related production of the informal economy which enabled them to build up (at least partly) alternative pillars of everyday livelihood. The dual arrangements then assisted not only in compensation for the accompanying unavoidable financial losses of the economic crisis, but even promoted the conversion of previously acquired skills and experiences into measurable material advantages amid the post-1989 process of systemic transformation.

Many of the restrictive recent interventions adopted in the name of marketization have led, however, to the creation of a "secondary class" of Hungarian citizenry. On the grounds of a number of sociological investigations, one can give a historically rooted description of the evolvement of their current situations.

The most defenceless dominant groups can be found among the late successors of the once proudly elevated and mobilized landless peasantry, which

provided the foundation for early socialist industrialization. They are those whose preceding generations had based their lives and aspirations on the incentives, orientations and regulations of the 40 years of "socialism." Responding to the challenge of industrialization, they moved to urban settlements; they helped their children acquire qualifications which seemed to be favorably applicable in a "socialist" economy; they gave up their peasant roots and traditions even in their ways of life by occupying the large, closed housing estates built "for them," etc.

In the period of chronic economic decline (throughout the 1980s), they also turned to more "private" solutions in their attempts to cope. As can be seen from Table 2 (a presentation of some comprehensive data on trends in income distribution between the first and second half of the decade), many of them tried to mobilize the "general" protective methods of the majority. They also intensified their work in the second economy (though they probably had access to the worst jobs within it), and tightened the informal family network by a more regulated and "targeted" internal redistribution of the increasingly insufficient resources. The table demonstrates these efforts and their failures. It clearly indicates that "individual" techniques could not prevent the acceleration of impoverishment anymore: more and more among the disadvantaged families fell back into extreme poverty by the end of the decade.

The political turn in 1989-90 ultimately questioned all their previous efforts at their most fundamental level. The late grandchildren of the once elevated peasant-workers suddenly found themselves on the side of the hopeless losers. Instead of getting support and assistance to a successful adaptation amid the radically changed conditions, they became the betrayed symbols of earlier failures and the incurable remittances of a dead-end past. The greater majority of them lost the very foundation of living -- employment -- from one day to the next, and besides facing unresolvable financial crises, they became also confronted with the psychological burdens of all-around degradation.

If these broad layers of the once "new" urban working class had been gradually "forgotten" in the late decades of socialism, then they started to suffer full "disenfranchisement" in the new democracy. The formerly marked inequalities within Hungarian society have developed to apparent disintegration during the past few years.

In the light of its historically rooted character, any arguments about the "automatic" dissolution of this kind of massive disintegration through the spontaneous momentum of economic growth seem to be ill rooted and illusory. The (hopefully near) end of the country's current economic crisis might lead to a rise in incomes, and thus the majority will certainly regain the material stability of everyday life.

However, economic growth in itself will be insufficient to halt those processes by which the current Hungary is falling apart. Although the material side of poverty might also be eased by a turn to economic prosperity, nonetheless, the irreversible consequences of the lasting degradation of the poor would thus require deliberately designed and well-established programs of societal policy. Such

programs should start with the rehabilitation of social membership in the full sense of the term, and should adjust all their measures to a serious recognition of human dignity.

Table 2. Changes in the composition of personal disposable incomes in poor and in better-off active households in 1982 and 1987

A. Percentage ratio of household incomes

		Below the subsistence minimum (poor households)	Above average (better-off households)
First economy	1982	58.6	70.7
	1987	57.4	63.0
Second economy	1982	9.3	16.5
	1987	10.7	24.7
In-cash public benefits	1982	31.0	12.2
	1987	30.6	11.4
Family transfers	1982	1.1	0.9
	1987	1.3	0.6
Together	1982	100.0	100.0
	1987	100.0	100.0
Percentage ratio of persons in households	1982	10.3	31.0
	1987	13.5	47.3

B. Increase in monthly incomes between 1982 and 1987 from various sources  
(1982 = 100)

	First economy	Second economy	In-cash public benefits	Family transfers	Together
poor households	132	155	133	160	135
better-off households	149	250	156	251	167

C. Monthly earnings of "better off" households as a percentage of earnings in poor households from various sectors

	First economy	Second economy	In-cash public benefits	Family transfers	Together
1982	207	305	68	93	172
1987	233	491	79	146	313

Source: Calculations based on data from the 1982 and 1987 CSO Income Surveys

Otherwise, even in the longer run, poverty and social disintegration will remain. Without purposeful intervention, the legacy of the socialist past and its harmful recent accentuation will not conclude in the much hoped-for eloquent development, but in a Third World-type reproduction of the conflictious co-existence of affluence and dramatic misery.

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