

Júlia Szalai

Two-country theory of Hungary unjustified...?

Social struggle for state (over-) distribution in Hungary after the regime change

OSIRIS PUBLISHERS, 2007

Júlia Szalai has recently been awarded the title of Doctor of the Hungarian Academy of Sciences – this volume issued by Osiris Publishers is her academic doctoral dissertation. The title of the book reflects optimism at first glance. Despite all the political dividedness, there is probably only just one Hungary and the gap between the rightwing and the leftwing exists only in the superficial Hungarian public discourse, it implies. The left wing-right wing gap is actually not discussed in the book at all, however; instead, what is disclosed to the reader is images of a major divide which, although it is wrapped in silence, is of a much more serious significance than conflicts of public life. In the society divided through the active contribution of the welfare system, the division line runs not in politics but between the majority with a secure existence and the minority squeezed into a ghetto.

The economic political and social difficulties of today's Hungary are often blamed on the

constraints of globalisation. Júlia Szalai disputes this stance in the foreword already, drawing attention to the fact that for several problems it is we ourselves who is responsible. If she is right, we have to face the paradox that, although almost everybody is dissatisfied with the operation of the Hungarian state, it always proves unreformable despite the repeated zealous attempts. The various participants tend to blame the failure on one another: “The man in the street puts the blame on the corruptedness of decision-makers, the position jockeying of politicians and the malicious political games of the power elite, while the apparatus responsible for the reforms and their body of experts scold the indolent population, employees fleeing to black employment so as to avoid taxation, families insisting on their habits, good or bad, lethargic teachers of low standards and doctors expecting tips. This is a moral argumentation against a moral argumentation: it is only



through a moral renewal that the reforms can be put on a (more) successful course.” (page 12)

Júlia Szalai disputes the above logic, demonstrating in her book that the welfare services of the Hungarian state today serve unavoidable social demands, compensating for the current uncertainties of the second economy sustained by micro- and small enterprises. And the price of this “new common consent” is paid by the really needy and poor minority, for the provision of whom there remain minimum sources left and even these cost them their civil freedom.

■ In the first chapter, the author presents the theoretical framework in which the problem of the Hungarian state can be interpreted. Based on *G. Esping-Andersen*, she defines the welfare state as a new model of Western development which compensates for the inequalities caused by capitalism, through this making it possible to exercise democratic rights. Thereby it ensures the maintenance of market relations, based on private ownership. If this is so, the examination of the Hungarian welfare state is also about the catch-up with Europe, which was a basic objective of the regime change. The main question of the volume is what effects diminishing the role of the state after the regime change has had on the structure and everyday roles of the welfare system; does it fulfil the integrative function that can serve as a basis for the civic development of Hungarian society?

The basic starting point of the volume is that any change in the welfare system is a result of the struggle between the state, the market and civil society. Based on *T. M. Marshall*, the author interprets the contents of the system as a cultural product, which is a result of the struggle for the extension of the contents of citizenship. In the past decades, as migration increased, acknowledging minority cultures in the above struggle has become a quality criterion of citizenship rights, which means that wel-

fare games also have an ethnic hue. In Hungary, this has decisive significance concerning the situation of the Roma.

It is on the basis of the above that the author formulates the main hypotheses of her book. She is convinced that the current system should be viewed not as a transition but as a ready structure which fulfils rational functions. These rational functions do not only cover material resources, however, but status characteristics as well. The main gap is between contribution-based and means-based entitlement, separating which was formulated among the most important consensus tasks of the regime change. It is means-based entitlement that creates extreme forms of exclusion, for the Roma primarily, against whom the deep-rooted prejudice of Hungarian society was substantiated by the assimilation efforts launched by the Kádár system in 1961.

■ The second chapter surveys the function changes of the welfare redistribution carried out within the framework of “denationalisation” since the regime change. It is revealed at the beginning of the chapter already that the author does not share the excuses according to which the problems of the welfare institutional system like the lack of specification or an over-bureaucratized administration can be considered just infant disorders of the transition. She argues that the system has developed alongside the transition and has become an organic part of the new order, which is so even if it has not been developed by purposeful political action or systematic work.

In the current welfare redistribution, constancy and deep transformation are both present at the same time: while the outside cover (ownership relations, the control system, supervision) is the same as twenty-thirty years ago, there have been substantial rearrangements in the inner content. So as to demonstrate this, the author surveys the changes in the financial allowances in social security and local govern-

ment subsidies. Another reason justifying the use of the indicator is that the primary goal of the reform plans was to make cuts in the welfare redistribution system and the achievements can only be examined against the targets.

At the time of the regime change there seemed to be a consensus that reforming the welfare system was essential for the success of the transition. There was no dispute on the necessary action, either: there was a need for real insurance companies to assert the contribution principle and this had to be separated from social policy, which latter was to provide subsidies for the needy. Finally, both social justice and financial considerations required the establishment of independent monitoring bodies supervising the system, and strong civil control. As a surprising development, almost the same tasks are on the agenda today. “While there has been little change in the rhetoric, there has been even less in the actual data on the state's presence”, the author points out: today, just like in 1985, GDP 13 per cent is spent on redistribution (page 73).

The denationalisation policy was meant to strengthen the contribution principle primarily, and its failure is apparent from the data of Table 1 already (page 76). Although the principle was implemented on the expenditure side and contribution-based allowances rose from 61.8 per cent in 1990 to 82.8 per cent in 2004, on the other side over the same period, the contribution incomes calculated as a ratio of expenditures on provisions plunged from 75.9 per cent to 46.8 per cent. This created the paradox situation that, while contribution incomes could earlier be reallocated to solidarity allowances, today, only 43.5 per cent of all contribution-based expenditure is financed by tax revenues. At the same time, the rate of state welfare contributions in the total income of the population has risen from 23 to 25 per cent, which indicates that the market and the state have expanded side by side.

■ The next sub-chapter provides a detailed analysis on the above. Júlia Szalai believes the roots of the problem are found in the Kádarian common consent which, through the reforms of 1968, sought to keep the state socialist framework constant, while reducing the restrictions within the framework at the same time. Since the simultaneity of full employment and the liberalised movement of labour raised serious problems, social redistribution was purposefully transformed by widening the access routes of the entitled and by making legal exit easier. New provisions like extending the childcare allowance or classifying social security entitlements as citizenship rights gained immense popularity and the number of beneficiaries multiplied. Authorities in turn benevolently closed their eyes upon the fact that a high number of beneficiaries were active in the second economy at the same time. This arrangement seemed to be favourable for all parties at the time; the costs became apparent only much later.

By the time of the regime change it was obvious that the welfare structure was unfinanceable. The survival of the second economy made its maintenance essential, however, since the state here is an indispensable participant regarding both source needs and the sustainment of the forms of labour division, as is also confirmed by the data of Table 2 (p 97). As is revealed, the population interpreted the growing market opportunities only as something extra and failed to make changes in the multi-pillar lifestyle established by then. Between 1992 and 2005, the rates of household income from both market activities and employment fell, which was compensated by increasing income from the welfare redistribution. This latter rose from 44.3 to 50.1 per cent, in sharp contrast to the policy of the regime change.

■ One of the most shocking parts of the book is the sub-chapter on the reasons of the developments described above, which shows

that the shrinking employment caused a permanent and large-scale correlation imbalance between the forms of employment and social status. In 1989-1996, 1.5 million places of employment closed in Hungary, for which replacement attempts have failed even by today, due to the existence of the dual economic structure. During privatisation, employment aspects typically fell into the background. Companies in foreign ownership are not interested in increasing employment and, despite their excellent export performance, they employ only 15 per cent of all wage earners. 60 per cent of the places of employment are granted by domestic enterprises with up to 10 employees which are, however, prone to hardly preventable danger.

It is the social security structure inherited from the old regime that has been used to compensate for the general uncertainty and loss of status generated by the above processes. Through various changes made in the system, there have been changeovers with millions involved between places of employment and welfare services. As the data of Table 3 prove (page 125), today, 65 per cent of households have members with permanent social security membership, while there are stable employees with a regular income in only 39 per cent. At the time of the regime change, the corresponding rates were 47 and 51 per cent. Júlia Szalai describes this as a hydraulic press in which it has become a self-generating practice that citizens leave the world of employment for the world of welfare services (and the second economy), for preventive purposes.

An important consequence of the change-over between places of work and welfare services has been the transformation of family roles. Adapting to the system, the family patterns of before the war have reincarnated and hundreds of thousands of women stay at home today so as to help their male partners in formal employment, while receiving social provi-

sions themselves. In the long run, this generates a vicious circle since, as work places for women are made superfluous, women have significantly decreasing chances to find jobs. The worst dangers of the press are its immediate consequences, however. The reallocation of sources from the subsidisation system of the needy and poor to the pension fund, for the protection of the middle layers of society with fragile positions, means that minimum amounts are left for the supply of the most needy.

■ The third and probably most important chapter of the book reveals what consequences transforming the welfare system has had for the most needy and what steps will take us to a “No” answer to the question asked in the title of the book, i.e. whether the two-country theory of Hungary is unjustified.

As has been mentioned above, despite the consensus policy of the regime change, the reform of the welfare system was taken off the agenda very soon. This did not mean, however, that there were no spontaneous profound changes, which meant to serve the implementation of three main principles: diminishing the role of the central state, increasing the role of local communities and adjusting the system to the market. The goal was to achieve that, by separating social security and welfare policy, really the most needy should be given state subsidies, for the allocation of which elected local governments were believed to be most suitable. Table 4 shows (page 142) that these aspects seemed to be implemented indeed: the rates of both social security payments and local government subsidies increased, while centrally financed family subsidies and unemployment benefits drastically decreased in value. In the meantime, redistribution as a ratio of GDP hardly changed at all in real value.

The comforting macro data conceal serious micro level anomalies, however. The preservation of the value of social security allowances

was in no way a result of market automatism but that of reallocating tax revenues, however. Considering the two end points of the period between 1991 and 2004, in social security revenues the rate of the so-called state funds and complementary subsidies re-channeled from the budget rose from 10 to 24 per cent. There is no explanation for the latter from demographic aspects since, over the same period, the population of retirement age shrank by almost 400 thousand. At the same time, means-based subsidies plunged in real value: family allowances by almost 50 per cent, for instance. In 2004, the local government subsidies meant for the genuinely poorest layer of society reached only 18 per cent of the 1991 levels in real value: although the rate of such expenditure rose 2.5 times compared to 1991, there were 22.5 million cases registered in contrast to the 1.5 million cases in 1991. This does not only mean that the eligibility of the beneficiaries remained unchanged but also that, through the state-financed raising of the allowances for the middle layers of society, the welfare system has actively contributed to tearing society into two.

■ The rest of the book focuses on the institutionalised social exclusion of poor, primarily Roma layers of society. The most important means of this has been the subsidisation industry established since the regime change which handles the 22 million cases annually and on which almost HUF 300 billion are spent from taxpayers' money every year. Since it obviously does not contribute to liquidating poverty, Júlia Szalai explains the existence of the subsidisation industry with other functions. The most important of these is creating employment opportunities, for women with low qualifications primarily. Today, the number of employees in this sphere equals the number of tourism and catering employees together. Beyond the creation of employment opportunities, the differentiation of bureaus in determining eligibility for subsidies creates an official basis for the

social and labour market selection to be accepted and the institutionalised social procedure order of the discrimination to be justified. How does the system work?

The depreciating means-based payments have automatically generated a line-up for local government subsidies. Today, not fewer than 1.3 million households receive such allowances, while only 335 thousand families live under the eligibility income threshold. Local government subsidies thus continue to serve meeting general needs more or less, while the implementation of the eligibility concept is most imprecise. By softening the eligibility principle, generated by the continuous refinement of the rules of entitlement, the amount allocated for subsidisation grows year by year and is shared by the needy and the not needy in a ratio of 1/3 to 2/3.

The basic difference in the allocation of subsidies is between the applicants for one-time subsidies and those permanently in need. While the former can be arranged through impersonal correspondence, the latter requires personal contact. In this circle, the employees of social bureaus, fearing dismissal and following social expectations, make precisely sure not to assist misuse.

The main category of entitlement is that of 'own fault', which has two categories with strong ethnic content: reckless family planning and a bad attitude to work. The data of Table 9 (p 178) reveal that there are more applications for subsidies rejected and the rate of the subsidies paid is reciprocally proportional to the rate of poverty where there are more children. This is especially apparent in the case of Gypsy families, where 53 per cent of the applications of families with three or more children are rejected despite the fact that, in this circle, the monthly income per head is under HUF 12 thousand. The judgement of a bad attitude to work is interesting from another point of view. Here, there are two reasons why applications for subsidy can be rejected: if the applicants are

employed or if they are not. The reason in the first case is black employment, while in the second it is unwillingness to work; the refusal of the public work offered, for example. It is hereby that the bureau becomes a satisfier of the local demand for the worst jobs, while at the same time the subsidizees accept anything black, earning maximally HUF 10–12 thousand a month. The invisibility of these jobs is the elemental interest of all participants since the subsidies are indispensable for subsistence. The ghetto is thereby created: the subsidies guarantee, on the one hand, “the continuous flourishing of black employment adjusted to demand, concealed by the subsidisation, and guarantee, on the other hand, that the deal made could stay the internal affair of the exposed and the even more exposed” (page 186).

The ghetto is consolidated by the extreme dependence on the bureau of subsidies. A person who once becomes a subsidizee is very likely to stay one all their lives. This in fact means constantly being monitored, from the way of child rearing to the frequency of visiting the bar. The bureau watches all segments of the lives of subsidizees, and the more willing somebody is to give up their personal freedom, the more likely they are to get the subsidies. As data reveal, subsidisation is reciprocally proportional to eligibility and directly proportional to frequenting the bureau. The rewarding motif is thus the main differentiating principle.

Infantilisation is justified by both the responsibility of spending public money and the self-unsparing irresponsibility of the poor. The bureau often transfers the subsidies directly to public utility companies so as to balance debts or purposefully donates food, clothes or school equipment instead of money. The result of such practice very often is that the subsidy is given not to the subsidizees themselves but to a typically state owned public utility company. The local government thus acts as a keeper of social peace: while the outstanding receiveables

of billions are reduced on one side, evictions can be avoided on the other side. Numerically this means that about one third of social subsidies, i.e. HUF 100 billion annually, serve the concealed subsidisation of public utilities since these companies would otherwise have to recognise their outstanding receiveables as losses.

■ On the whole, subsidisation in Hungary has helped the establishment of a well-developed ghetto, which serves the interests of the majority primarily and from which there is no breakout for anyone. In her epilogue, Júlia Szalai refers to the thoughts of *István Bibó* who, during his trial in 1956 said that welfare given at the price of human and political freedom was the most delusive means of subjection – at a time of deprivation of political freedom, it made no sense to talk about any other freedom. Political freedom seems not to be granted even twenty years after the regime change, however – against a weak state, there is a bickering civil society, and the duel of the two sides erodes the newly declared principle of legal equality. The social exclusion of the poor through the welfare system seems a permanent feature today, which strongly questions Hungary's catch-up with Europe. The events of autumn 2006 forecast a situation when the tension between the “two countries” would break to surface, the author maintains.

The unbiased technical language used at the beginning of the book turns into a hardly suppressed, passionate voice reflecting deep indignation by the closing chapter – and it would be surprising indeed for the reader if, considering what has been revealed, the author felt a different way. Yet, the passionate voice never becomes biased and the analysis stays objective all through the end, relying on numerical data everywhere. In the unfolding story, the behaviour of the characters is formed not by prejudice but by rational motivation and constraints and the shocking end

result is not the fault of the individual but that of the system established.

The question of blurred responsibility in the structuralist analysis creates a little feeling of want in the reader. It is not the defenceless employees of the subsidisation bureaus but the majority society who enjoy the advantages of the current system and who have contributed to raising the dividing walls that are responsible for the situation, the author maintains (page 200). Accepting this opinion, can we say that disability pensioners collecting their 13th month salary share the same responsibility as the political class that have made this possible? The potential responsibility of this circle is important because, although the correlations outlined in the book imply that the transformation of the inner structure of the welfare system was the result of a linear process dominated by various constraints, the data of Table 1 show that the reallocation of tax revenues for the financing of contribution-based allowances intensified in the period after 2000. This raises

the chance that what we have witnessed is not a linear process but one with a strengthening tendency. The composition of the current fiscal correction also supports this chance since the strategy based on raising taxes and pursuing the black economy both strengthens the inclination to avoid taxation and increases the pressure for invisibility, i.e. it significantly promotes consolidating the walls of the ghetto.

The questions raised about the responsibility certainly do not invalidate the honest acknowledgement the author deserves for revealing the preposterousness of the current welfare system. Her book is a shocking reading, in which even the footnotes provide indispensable information. Her message will hopefully reach, beyond sociologists, also decision-makers of economic policy, contributing to the formation of a long-term employment policy that could be a way out of the current situation.

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LITERATURE

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