MOBILITY WITH JOINT FORCES: THE DECREASING OF DEEP POVERTY WITH CONDITIONAL TRANSFERS

FINAL REPORT

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PRINCIPLES OF ESTABLISHING A NEW SOCIAL POLICY

A country is strong if its citizens are also strong. A strong state can only be upheld by strong citizens. A state's strength must manifest itself not against its own citizens, but in the representation of their common interests. A citizen can only be strong, if his/her livelihood is ensured; if he/she understands what is happening and why; and if he/she is able to come to terms with life's changes, both mentally and emotionally. If he/she is granted the opportunity to fulfill his/her inner potential, and to exercise his/her rights.

The strength of a community of citizens is founded on a common identity and common goals. And if they have jointly articulated values and interests. If they have faith in shared institutions and in one another. The underlying principles of trust in a community are solidarity, fairness, transparency and the efficacy of common institutions.

By solidarity we mean that the community cares for those who for some objective reason are unable to provide for themselves. Fairness refers to taking others' points of view, rights and needs into account in a compassionate manner. With regards to fairness, it is important to point out that social policy must facilitate that people in difficult life circumstances become able to contribute to society in some way, thus serving wider communal interest. Transparency means that citizens' money and taxes should be spent for the purpose they intended. Efficacy refers to the notion that citizens' solidarity (expressed either through their money or in any other form) must result in the most optimal possible social consequences.

The greatest social problems in Hungary nowadays are as follows: the lack of social-political dialogue, the unprocessed nature of our past and the fragmentation of the collective national memory, the low level of employment, a decreasing and ageing population, the ripping of society in three, the permanent fall in mobility, the bleak outlook for the Roma minority, as well as chronic poverty and the lack of acceptance or understanding of its culture.

Social policy in its most literal sense simultaneously serves two major social goals: stability and mobility. Without this, society become rigid, its efficacy and competitiveness decrease, while internal tensions rise to a boiling point. Successful social policy continuously lessens the number of those in need of such solidarity through the effective channels of mobility, self-sustainability and self-fulfillment. Meanwhile, one must accept that this continuous reduction can never be completely successful – social policy must also face the need for supporting those who cannot be involved or integrated. Social solidarity refers in part to everyone's expectations: if he/she gets into trouble, the community will come to his/her aid. Therefore, ensuring the possibility for living a life in dignity is just as much a goal of social polity as creating the channels of mobility.

We need a social policy which results in a substantial and durable shift in Hungarian social trends in the foreseeable future, with the use of active tools of social policy to answer the problems detailed above, and the parallel integration with the programs of other areas of societal policy (such as education, health care, culture, employment). Such tools of social policy are: ensuring prevention instead of treatment; investing in the future; creating more opportunities for children; encouraging greater flexibility; increasing the activity of women; developing a system for higher labor force participation; lifelong learning; mitigating the negative effects of welfare payouts on labor supply, etc.

Twenty years after the systemic change, the Hungarian social policy system must be rethought in light of the above elements. The social structure developed in the decades following the systemic change can only be changed through substantial and consensus-seeking debate, despite possibly emerging conflicts. However, one must keep in mind that statistically palpable, substantial improvements can only be achieved gradually, perhaps requiring even decades to manifest themselves. Several factors need to be taken into account in this debate, such as the amelioration of living standards for those in dire circumstances, ensuring conditions for communities living together, guaranteeing basic public safety and legal standards, protecting rights and minorities, as well as meeting the expectations of the active but disillusioned middle class.

Such a renewed system of social policy is better not only because it treats problems in a more effective and sustainable manner, but because its founding principles, simple existence, tools and motivating factors represent a more comprehensible and acceptable societal vision. This renewed system of social policy does not abandon the poor and the middle class in understanding and coming to terms with common societal goals. It must give a chance for those at the bottom to rise up, and prevent those struck by poverty from chronically falling behind, while simultaneously ensuring that this is satisfactory not only for those affected, but by the majority bearing the costs of such a program. In this way, the Hungarian social system would once again become legitimate and acceptable, and successfully contribute to the resolution of the many other challenges facing our country.

1 SUMMARY

1.1 The Problem of Chronic Poverty – In Short

According to data from the Hungarian Central Statistical Office, around one-fifth of the population between the ages of 20-59, the equivalent of 1 million people, is permanently unemployed, and 3% of the active population lives in deep poverty. The risk of permanent unemployment and deep poverty is higher in smaller towns and in disadvantaged counties; in these places, the spectrum of welfare services is also narrower. Over the past fifteen years, despite the generally steady increase of national income, the proportion of the poor has – with the exception of a few short periods – risen, rather than fallen. The continuous reproduction of poverty is brought about by three channels: the uneven nature of public education, the limited spectrum of services for combating crisis situations on a personal or family level, and the passing on of poverty from one generation to the next.

On the past twenty years, successive governments proved unable to prevent the chronically poor from falling behind. In the 1990s, many saw protection from poverty as the main goal, enacting measures such as earlier retirement or longer maternity benefits. However, this strategy later backfired: economic growth did not bring with it further work opportunities for the unskilled; in fact, the rise of welfare payouts unavoidably led to an increase in the additional costs of labor, thus further worsening the chances of unskilled workers.

Over the past decade and a half, several governmental attempts were made to specifically decrease chronic unemployment and poverty. Stricter regulations of unemployment benefits, coupled with communal work programs, were unable to reintegrate the chronically unemployed into the labor market. Measures taken to ease deep poverty by focusing on the income-related aspects of the problem also proved unsuccessful, in part because of their effect on limiting labor supply, in part due to their political costs. The public education reform started in 2003, and the introduction in 2009 of financial support for preschool day-care were the best and most well-elaborated attempts to date of breaking the cycle of poverty. On the one hand, the public education reform aimed to renew teaching methods; on the other hand, it wished to ensure access to quality education even for disadvantaged children. Financial support for preschool day-care encouraged even the most destitute families to send their children to preschool.

1.2 Obstacles in the Way of Change

The failures of the government in the areas of permanent unemployment and poverty are deeply rooted in the weakness of Hungarian public administration. The age of central planning required very different competencies compared to the fine-tuned, incentive-based system of market economy. A number of tasks were delegated to the local level, where they cannot be carried out, whereas the inherited system of welfare services was designed for complete employment. In certain areas, the professional qualification of the apparatus is lacking, or weak; however, the major obstacle is not this, but the weak cooperation between interlocking areas of government.

The polarized and politicized view of the problem has also impeded progress. Public opinion has adopted two general standpoints. One claims that the state grants too many welfare payouts, and that the unemployed simply do not want to work, whereas the other view holds that the state does not do enough for the poor, while the majority excludes them. These political camps are often inclined to pass judgment based on emotions and political affiliation instead of on facts and knowledge. There is no cooperation between the government and the opposition, which makes it practically impossible to implement programs with a long-term commitment and outlook.

The realization of social policy reform is further hampered by the distortions of Hungarian social structure over the past 100-150 years, the grievances suffered and the fact that the unprocessed nature of these historical offences has weakened our society’s ability to adapt to change. Hungarians wish for a caring welfare state, feel unable to shape their own destinies, are distrustful, uncooperative and intolerant of differences. This is further worsened by the fact that the majority of the disadvantaged population belongs to the Roma minority (and is thus distinguishable based on external features), which raises the chances for discrimination and scapegoating.

1.3 Possible Steps toward a Solution

Given the causes for chronic poverty, it is apparent that the task is much more complicated than could be solved by a single policy tool. In itself, neither the adequately planned cash transfer system, nor would any other measure be able to substantially improve the current situation. We believe that combating chronic deep poverty calls for a comprehensive strategy and the coordinated work of a larger, multi-disciplinary group of experts. To put it simply: the solution should focus on three goals: breaking the cycle of "inherited" poverty through equal educational opportunities, alleviating deep poverty and raising the employment level of the un(der)qualified.

In the first phase of a multi-year, comprehensive strategy, certain tools, which can be easily communicated and which bring about fast results, are needed to assure social support. For this purpose, the cash transfer program proves adequate, as it is founded on the principle of mutual commitments (and is acceptable even to those who reject poverty) and can deliver speedy results, since it contributes to the alleviation of poverty through two channels (cash transfers and services halting the vicious cycle of poverty). We articulated three program recommendations, which could potentially serve as part of a greater strategy to combat deep poverty.

Our first recommendation is the introduction of a type of support that is based on the current subsidy system, but reforms it to some degree. Its purpose is to reduce the poverty of the chronically unemployed by providing both encouragement and aid for their re-entry into the labor market. We propose that the amount of this subsidy should depend on the size and the income of the given household, instead of being available only to the unemployed. For example, in a household comprising two adults and three children, the currently attainable level of support is 106-130 thousand HUF / month, whereas our recommendation would provide an income of 158 thousand HUF / month, even if neither adult is employed.

The condition for this type of subsidy would be for each physically able, active-aged member of the household to cooperate with the local labor office and the family support center. Should anyone fail to comply with the cooperation rules, he/she would lose half the amount for one month. Nevertheless, this type of subsidy would not be tied to unemployment, and 20% of the salary could be subtracted from the base income from which entitlement is calculated. To ensure that the chronically unemployed receive more (and more effective) help in returning to the labor market, each subsidized applicant would be assigned a person responsible for guiding and assisting the individual during the whole process of labor force reintegration. The subsidy could be applied for at the local labor office, and the labor office would be in charge of disbursement.

In order for this proposed subsidy system to be effective, the related services must also be reformed. We suggest raising the period of eligibility for job application grants to at least six months, and the expansion of individually tailored labor market tools. Finally, further steps would be necessary to increase the demand for unskilled laborers (such as cutting back on social security costs, decreasing the minimum wage, the targeted expansion of salary subsidies, complex regional development, etc.).

The second program suggestion aims to improve the access of disadvantaged children to early development facilities, and to therefore prevent and alleviate their subsequent falling behind in the school system. In the case of disadvantaged mothers, the timely recognition of pre-natal defects with regards to premature births, as well as early child development are hampered by the availability of services (a complete lack thereof, or overloaded child nurses, pediatricians, local doctors), their lack of information, and treatment costs (especially travel costs). The proposal would provide transport vouchers (travel passes) for disadvantaged pregnant women and mothers with young children (under five years), with the precondition that they enter into a program offering counseling and early childhood development. This service would be offered in part by nurses, in part by specialized educational or health care institutions, in mothers' homes, facilities located in the vicinity or in specialized institutions for early childhood development.

The third proposal would alter the system of financial support for preschool day-care based on experiences to date, partly to further encourage parents, while simultaneously aiming to improve the availability and quality of services. The recommendation covers reforming preschool financial aid. Instead of 2 x 10 thousand HUF / year, the subsidy would amount to 4 x 6 thousand HUF / year, in cash, with two conditions (instead of the one condition previously in effect): (a) the children must regularly attend preschool, and (b) their parents must regularly take part in parent-child events held every two weeks. Our proposal also includes gradually decreasing the minimum age for preschool to two years, while both the maximum and recommended headcount would be smaller (and the financial support greater), than in the class for three-year-olds. Furthermore, we feel it is vital to do away with the lack of spaces in preschools (for children under the age of three), and to expand the spectrum of services offered by preschools to include services targeting the development of parental skills.

1.4 Welfare Benefits that Encourage Work

Based on the recommendation of the Patriotism and Progress Public Policy Foundation, we carried out a detailed evaluation and action plan with regards to reshaping the system of welfare benefits and aid.

The theoretical basis for the cooperation conditions tied to such benefits is that unemployment benefits decrease the willingness to re-enter the labor market by guaranteeing a livelihood without work. This effect can, however, be counterbalanced by expectations of cooperation and related sanctions. One such expectation is that an offered job must be taken, a condition in force in almost every country. This can be achieved in a number of ways: the regulation can encompass offered trainings as well, or positions granted through the organization providing the benefits. Such cooperation can be realized on different levels: one extreme is brokering publicly listed jobs, the other is communal work.

This proposal is not tailored for communal work, but for other forms of employment: programs similar to communal work, but involving trainings, mentoring (volunteer work), or work-tryout (transit) programs, as well as encouraging demand for publicly listed jobs. Communal work, on the other hand, is unable to affect any of the factors leading to the low employment levels of the unskilled (such as low productivity, high minimum wages, a labor market requiring few trained workers, the demotivating effects of welfare benefits), and merely serves as a temporary increase of labor demand and a short-term motivator. Empirical studies also show that the chances for the labor market reentry of those involved in communal work programs are not heightened, whereas communal work programs are rather expensive compared to other labor market measures.

Employment centers, family support services and non-profit organizations would all take part in the implementation of our proposal. Applications for benefits would be judged by local (town-level) labor offices, while family support centers would treat personal and family problems impeding labor force integration. The current system could only meet these challenges if it were to undergo substantial capacity expansion, the development of policy tools and the improvement of professional quality. For this purpose, we recommend reforming its financing to encourage institutional efficacy, the creation of a national-level professional oversight body, methodological support, as well as the organization of regular, uniform data compilation.

Nowadays, local labor offices run programs which are neither tailored to individual needs or qualifications, nor to the realities of the local labor market, and – as a result – their efficacy is questionable, to say the least. Therefore, the proportion of individually tailored measures must be increased at the expense of traditional, mass trainings, job-creation subsidies and communal work. The professional in charge must be given the necessary freedom to decide which services to buy or recommend to the individual seeking employment, from a spectrum much wider than the one currently in place, including market services as well.

The costs of the recommended system would be approx. 10-15% higher than the expenses for 2012, but this is primarily caused by the continuous austerity measures of the past two years: compared to the expense levels of the previous years, this recommendation would rather entail restructuring and the more effective allocation of resources than greater costs. On the midterm, the effects of the proposal would mitigate expenses, and budgetary revenues would increase. Expenses would further be reduced by the growing proportion of employed (fewer unemployment benefits would be applied for), and the amelioration of the side effects of chronic unemployment (such as low health standards, children’s school failures). Revenues could further be increased by the taxes paid by the newly employed.

We expect this proposal to be met generally positively by those supported, since the new system would serve as an improvement for the vast majority of the unemployed, poor population: their income would increase, and the spectrum of services available for helping them find work would widen. Therefore, most of them are likely to easily accept the new system. The viewpoint drawn up in this recommendation is not alien to the implementing organizations (local labor offices and family support centers) either. In fact, the proposal specifically builds on their work and experiences, and increases the funds available to them, and they could thus be easily convinced. However, the precondition for this would be for the government to credibly communicate its implementation plans, and to highlight that not only the tasks, but the necessary capacities and funding will be expanded.

The political risk associated with the realization of this proposal is that local public opinion does not generally approve of increasing benefits (as was witnessed in such an attempt in 2006). This can be prevented by the fact that even the employed are eligible for benefits, applications must be made away from the home communities (on a regional level), and that the condition of cooperation is much more intensive and extends to all members of the family.

The inherent risks of implementing this proposal are that the institutions tasked with its realization cannot be motivated, that experts are lacking on the local level (especially in disadvantaged regions), that there are not enough funds for trainings, active policy tools, travel reimbursements, or that the number of qualified professionals involved in preparing administrators is insufficient. These risks can be mitigated by the prior assessment of shortcomings**,** the tailored gradual introduction of certain elements, targeted additional funding as well as the development of institutions.

Professional and social consultations are necessary for approving this proposal. Consultations must be held with representatives of the given professions and institutions, with professionals and experts involved in methodological developments. Detailed public information campaigns are also required, which aim to show in a simple yet factual manner that the recommended benefits can simultaneously ease poverty and motivate labor market participation, through the use of both motivating elements as well as sanctions.

Because of the flaws of the current institutional framework and the lack of fundamental empirical studies, the recommended welfare system can only be implemented in various stages. In the first, experimental (pilot) phase, we recommend testing certain welfare elements in six regions, in a way so that their individual effects can be measured. During this stage, program events are accompanied by continuous data collection, which can supply information for subsequent follow-up studies and ongoing monitoring activities. The experimental phase (including both its preparations and the subsequent follow-up studies) would require four years, implying that the national-level expansion of the program would begin only in the next political cycle. That is why it is vital to implement the pilot phase of the system in such a manner that the motivations for expanding it to the national level are sustained even if a change of government takes place.

2 INTRODUCTION

2.1 Background of the Project

There were some shifts in the assessment of welfare states and the redefinition of their tasks already before the economic crisis. One of the manifestations of this new paradigm is the concept of *active social policy* formulated by the OECD, which lays emphasis on prevention and those future oriented investments that may make the citizen fit for adaptation to a changing environment. The concept of the active welfare state is built on the highest possible level of labor market participation; its most important tools include activation policies, the policy of life-long learning, while it aims at reducing the negative incentivisation effect of welfare transfers.

The success of conditional cash transfer (CCT) programs used in the context of developing countries (e.g. Progresa in Mexico, or the Bolsa Escola program in Brazil) reminded analysts and political decision makers about how it is worthwhile to examine whether these tools can be integrated into the toolbox of active social policy. These social policy tools try to provide long-term help to poor households through changing motivations. The point of these subsidies is that households are financially incentivized to use some public services (e.g. school, health care, labor market services).

In May 201, Tárki, in the study „Active Social Policy Measures, Conditional Cash Transfers Globally and in Hungary" prepared under order from the Prime Minister's Office (Tárki 2010), presented the working mechanism and conditions of use of such measures; and reviewed the experience gathered with programs implemented in the field of education (investment into human capital) in developing and developed countries. This project intends to go forward on the basis of that study and attempts to look at whether CCT programs can be used in the areas of long-term unemployment and deep poverty.

2.2 Scope of Research

Haza és Haladás Alapítvány [Patriotism and Progress Foundation] requested the consortium of Társadalomkutatási Intézet Zrt. (Tárki) and Budapest Intézet (BI) to prepare an analysis whether CCT programs can be implemented in the areas of long-term unemployment and deep poverty; and if yes, what institutional and financial conditions could be necessary for the implementation of such programs. This assignment was carried out by Tárki and BI in a consortium, as partners of equal responsibility.

Unemployment became a mass phenomenon quickly in the first years of marker economy transition, and it also became a long-term phenomenon for a substantial layer of people in Hungary. The majority of families concerned by long-term unemployment live in deep poverty, which implies long-term low income and an accumulation of difficulties in sustaining themselves. This social issue is geographically concentrated; the Roma population is concerned by it more than average; and it is a substantial impediment to the live chances of children growing up in such families. So far, social policy in Hungary has not been able to truly facilitate the reintegration of the long-term unemployed into the labor market, and it has not been able to prevent the inheritance of poverty from one generation to the next.

As it is pointed out in the report that summarizes the research findings, the problem of deep poverty[1] is rather complex with many factors having played a role in the evolution of the current cluster of problems; while the way out from the situation also requires the coordinated use of several social policy measures along a well thought-through strategy. This research could not undertake to develop such a complex strategy against deep poverty. The task of this research was to examine whether the tool of conditional cash transfers may have a role in such s strategy, and if yes, then to make a proposal for the use of this form of subsidy, and to examine its institutional and financial requirements.

2.3 Brief Introduction of the Methodology

The first stage of the research project included the assessment of the situation of deep poverty and long-term unemployment in Hungary, and a review of domestic and international experience with CCT programs.

A detailed situation assessment and the precise delineation of the problem are important conditions for the introduction of any social policy measure. Therefore we considered the exploration of an exact picture of the situation to be the first step in the implementation of the project. Using empirical social scientific research and collecting administrative data, we measured the number of people concerned by long-term unemployment and deep poverty in Hungary, and where they are concentrated geographically. We have summarized the main reasons for the current situation, and the impediments that hinder change.

We are convinced that a preliminary impact analysis of measures to be implemented, and the evaluation of the impacts and efficiency of already implemented programs must form a fundamental part of social policy programming. The importance of impact analysis is particularly key in case of programs, such as CCT as well, which are less widely used tools in Hungary. This is the reason why we laid great emphasis on examining the experience with such programs in Hungary, with particular regard to analyzing the outcomes of the kindergarten enrollment subsidy introduced in 2009, and the schooling subsidy introduced in 2010. Studying the already implemented programs is all the more important as they demonstrate those political and economic mechanisms that play a role at the introduction of a social policy measure from when the proposal arises to its concrete implementation.

When introducing the concept of CCT, describing its expected effects, and formulating alternative proposals, we pay special attention to collecting and analyzing information available in international literature, and the consideration of best practices. When working on this research, we primarily considered impact analyses of CCT programs in the field of schooling, with a focus on programs implemented in developed countries.

[1] We use several concepts throughout this study that are somewhat overlapping with each other, and these are not always used in the everyday sense of the words. We use the concepts of income poor, multiple deprived, unemployed and inactive. People living in deep poverty are the ones that have an income less than two-thirds of the usual relative poverty line.

In the second stage of the research we checked how far the conditions for the use of a CCT program are satisfied at people living in deep poverty in case of public services provided in the areas of education, health care, housing and employment. We have formulated our social policy recommendations on this basis, and with regard to domestic and international experience. We make proposals for three possible measures in health care, education and employment respectively, and, based on the Principal's decision, we have worked one in more detail.

Learning about the opinion of stakeholders is important when developing social policy recommendations. Therefore, we laid major emphasis on consultation with stakeholders when collecting the main problems in the areas of long-term unemployment and deep poverty, formulating recommendations for CCT programs, and looking for alternative social policy tools in the course of the project. This assessment of the stakeholders' opinion was done in the form of interviews conducted with them, and the content analysis of news in the media discussing poverty. Also, a focus group, and a survey-based poll were conducted, organized by Patriotism and Progress Foundation, to map out the opinion of the public about subsidy policies. The list of background studies to this research is given in the annex to this study; while their full text is contained in a separate volume.

2.4 Structure of the Report

The following report summarizes the key findings of the research project. The report first analyses the situation of long-term unemployment and deep poverty in Hungary, presenting the extent of long-term unemployment and deep poverty (Chapter 3.1), the main reasons for the evolution of the problem (Chapter 3.2), earlier attempts to treat the problem (Chapter 3.3), and the public discourse concerning poverty and subsidies (Chapter 3.4). Chapter 4 of the report discusses what social policy strategy would be necessary to reduce and prevent the inheritance of deep poverty, and to increase the employment of uneducated people. Chapter 5 presents CCT proposals adjusted to the strategy that is outlined in the previous chapters. Chapter 5.1 describes the details of the proposal concerning subsidy tied to the condition to cooperate; Chapter 5.2 is about the proposal on a subsidy that should facilitate access to early development; while Chapter 5.3 presents the proposal on transforming the kindergarten enrollment subsidy. Chapter 6 contains a detailed analysis of the proposal on reforming the system of subsidies from the aspects of efficiency, feasibility and acceptability. Chapter 7 sums up the feasibility plan of the proposal with suggestions for its monitoring and assessment.

3 CHRONIC POVERTY: THE DIAGNOSIS

3.1 THE EXTENT OF CHRONIC POVERTY

Following a steep increase after the early nineties, inequality and poverty indices showed stagnation and slow improvement from 1996 up to the financial crisis (Tóth 2010, Gábos and Szivós 2008). Income poverty (calculated at a poverty threshold at 60% of the median income) was around 13-15% in the 2000's, however, this includes both the long-term and temporary poor.

No continuous historical data are available for chronic poverty because it can be examined with the help of panel data only. Various calculations estimate the rate of chronically poor people on income basis at 3 to 9% in the years following the political transition. Differences result partly from source data used, and partly from the definition of poverty and chronic poverty (Ferge 2007).[2] According to Kapitány and Molnár (2005) average income mobility still deteriorated in Hungary between 1996 and 2001, with particular regard to those in the lowest income decile. Chronic poverty (calculated at a high poverty threshold of 60%) was 7.1% in the years between 1992 and 1996 (Spéder, 2002). The rate of the poor was always somewhat lower, around 5% in the years between 2004 and 2006 (Lelkes and Zólyomi, 2009).[3]

Other forms of income poverty and deprivation (housing poverty, there is not enough money for food, heating or overheads) are usually concurrent. According to various estimations made with different methodologies, multiple deprivations can be found in 7-11% of all households (Havasi 2008, Kapitány and Spéder 2004, Ladányi and Szelényi 2002, Medgyesi 2004, Bass et al 2007). According to Bass et al. (2007), the rate of the group concerned by multiple deprivation and low education in addition to income poverty increased within the group of long-term or temporary poor between 2001 and 2006 (21% and 27% in 2001 and 2006 respectively).

The number of long-term unemployed population can be estimated at relatively high precision from several data polls made with the general public. According to the labor poll of the Central Statistical Office [KSH] in 2010, 19% of the 20-59-age bracket (1.1 million persons), while according to the micro-census done in 2005 22%, i.e. 1.2 million persons belonged in this group. The number of people living in deep poverty within this group can only be estimated with some degree of certainty. According to Havasi (2008), we include in this group persons who live under poor housing conditions under some categorization (no water pipeline, no flush toilet, incomplete amenities in the apartment), and where nobody works in the household. Using this categorization, 12% of the long-term unemployed and 2.7% of the total population in the 20-59-age bracket qualify as deep poor.

[2] Usually, persons in a household that is poor for three consecutive years are considered chronically poor; while poor are persons for whom the per capita or equivalent income does not reach 40-60% of the median or average income. Although these are groups that strongly overlap, deep poverty is a separate category: it includes people with especially low income (less than 40% of the median/average).

[3] The two estimates calculate with more or less the same methodology, Spéder (2002) on the basis of the KSH HKF dataset, while Lelkes and Zólyomi (2009) on the basis of the EU-SILC dataset.

The long-term ebbing of work opportunities strikes groups that are easy to define: The majority of people who became unemployed in the first years after the political transition were older and unskilled, and the working perspectives of these groups have not improved significantly since then (Köllő 2009). The work opportunities of the Roma are particularly poor, partly due to their lack of education, partly due to the fact that there is a bigger proportion of them living in disadvantaged areas, and, finally, also because they are discriminated against (Kertesi 2005).

However, unemployment and an intersectional backward situation is by far not only a problem of the Roma. One quarter to one third of the long-term unemployed (Köllő 2009) and approximately one third to half of the deep poor (Ladányi and Szelényi 2002, Havas 2008) come from Roma families. Nevertheless it is also true that poverty is spread much wider within the Roma as within the non-Roma population. Relative income poverty measured at a poverty threshold of 60% of the median income was 50.2% for the Roma against 10.6% for the non-Roma in 2007 (Gábos and Szivós 2008). Impaired access to services and the lower quality of available services make the handicaps of children in Roma families living in deep poverty even more severe.

The risk of long-term deep poverty is higher in smaller settlements and counties that are in an underprivileged situation: It is the highest in villages in Borsod and Szabolcs that are gradually left behind (see Table 1). Half of the population living in long-term deep poverty lives in the two underprivileged counties and in villages with less than two thousand inhabitants.

1. Table Rate of active age population living in deep poverty while being long-term unemployed broken down to settlement size in different counties (lower estimate, %)

County*	Big town	Small town/ Big village	Small village	Total population concerned (thousand people)
Good status	1	2	2	33
Medium	2	3	7	41
Poor	3	6	8	37
Underprivileged	3	8	11	43
Total population concerned (thousand people)	59	44	52	155

Explanation: The two „underprivileged” counties are Borsod and Szabolcs. Big town: more than 6750 inhabitants, small village: less than 600 inhabitants. The first threshold was drawn, on the basis of detailed analysis of settlement-level T-STAR data, where we could find a gap at several indices. The second was adjusted to the normative eligibility limit of village caretakers. Source: BI calculation on the basis of the 2005 micro-census of KSH.

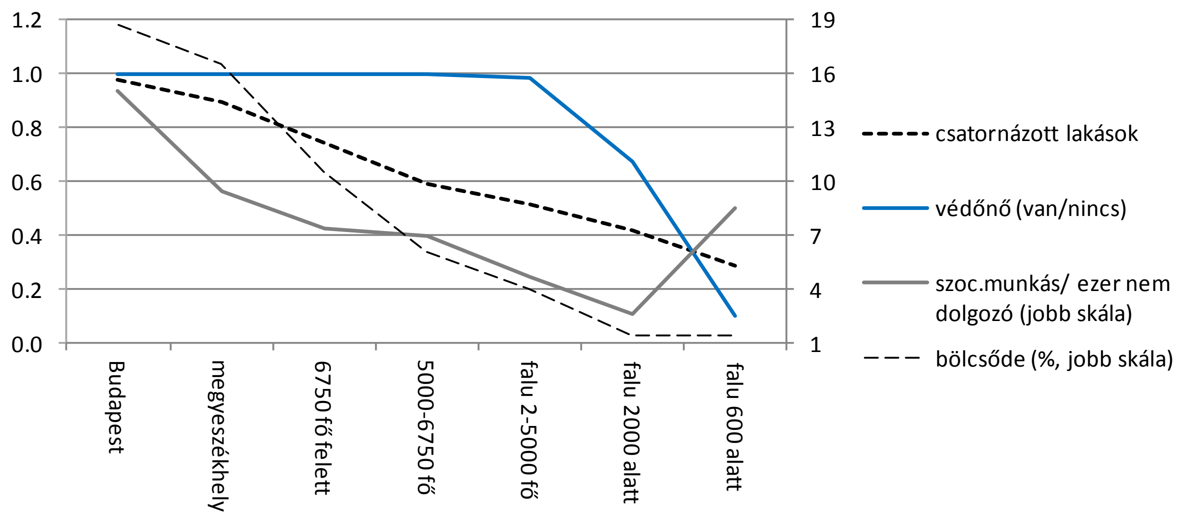
The situation is even more difficult for a smaller group of the poor: those who lack even the most fundamental living conditions and live in deep poverty. The relative situation of those living in deep poverty has deteriorated according to several field research results. These research findings suggest that poverty has become gradually deeper and more enduring over the past twenty years for a smaller but still substantial group of those living in regions that became impoverished at the early phase of the political transition, and also lack capital and infrastructure. People who become part of this group can almost never come out of it again, and their children will also end up in the same group (Váradi 2004, Virág 2010).

3.1.1 REGIONAL DIFFERENCES IN THE AVAILABILITY OF SERVICES

Not only the extent of poverty, but also access to welfare services show great differences according to the county and the size of settlements. For several, and not unrelated, reasons the offer of services is smaller in smaller settlements. On the one hand, the legal obligation to provide basic services also depends on the number of inhabitants: six basic services must be provided everywhere, the rest only in settlements with more than 2 or 10 thousand inhabitants. On the other hand, most of the services cannot be operated economically under a certain number of inhabitants (demand), due to fixed costs. And finally, the majority of smaller settlements have fewer opportunities to generate own income and to top up central normative funding that does not always cover the costs of services.

There are substantial shortcomings in the accessibility of all four services that include the possibility for regenerating poverty (Chart 1).

1. Chart Accessibility of certain welfare services according to settlement size



Source: BI calculation based on settlement-level TSTAR data. See note under Table 2 for precise definition of indices.

The accessibility of services that facilitate reintegration is usually worse also along the settlement or regional „slope", but this does not apply to all services equally. For example there are no major differences among counties with regard to the district nurse service: the accessibility of this service is worse only in the smallest settlements, while the accessibility of nurseries is bad everywhere, irrespective of the county (see Chart 1). Differences according to settlement size are big for almost all services, and it is always small villages that come short. The singular important difference is at the number of social helpers: the village caretaker service increases this index in the smallest settlements.

The availability of services is even worse than reasonable in proportion to their size in case of small settlements in counties that are in an underprivileged position. For example, the rate of apartments not connected to the sewer network is higher than average also in small village near Sopron, but the same rate is double in a small village in Borsod. Table 2 shows these differences: the less the index than one, the bigger the disadvantage of underprivileged counties in within the given settlement type.

2. Table Differences between the availability of services in good and bad position (the quotient of the averages of counties in good and bad position for the given index)

	Apartments with sewer connection	District nurse	Social worker/thousand non-working	Nursery, family daycare	Employment of unskilled people
County capita	1.00	1.00	0.89	0.94	0.89
Town 6750+	1.03	1.00	0.89	1.02	0.86
Settlement with 5000-6750 inhabitants	0.92	1.00	0.60	1.49	0.75
Village 2-5 th.	0.92	1.01	1.67	0.70	0.71
Village under 2 th.	0.64	1.11	0.98	0.73	0.71
Village under 600	0.53	0.98	0.65	0.84	0.65
Bk.: village under 1000	0.58	0.26	0.32	0.00	0.41

Own calculations on the basis of the 2009 data of the KSH TSTAR database (except for the employment of unskilled people, based on micro-census).

Explanation: Quotients of the average values of individual indices, where the indices are: apartment with sewer connection = sewer connection / total apartments; district nurse = there is a district nurse job in the settlement that is filled; social worker / non-working = average number of staff employed by the municipality in basic social care / (active age population – number of taxpayers), data from 2008; nursery, family daycare = number of places in nurseries and family daycare institutions / the number of children aged 0-2 years. Bk = Bodrogköz small region.

The last line (used here as an example) shows how Bodrogköz, the worse of bad small regions within an underprivileged county is left behind: Although there is a bigger number of small children here (the rate of children under 3 years of age is almost one point five times bigger than in similar settlements in counties in a good position), there is not a single village where there would be a family daycare unit, and only 2 of the 11 district nurse positions are filled; while there is a district nurse in every fourth settlement in similar settlements located in counties in a good position. We could find a similar degree of being left behind in four small regions in the country: Bodrogköz, Encs, Edelény (all three in Borsod county), and Tiszafüred (Szolnok county). According to the 2001 census data, the rate of the self-admitted Roma population was around 25-30% in the three small regions in Borsod (six times the national average). The rate of the Roma was only slightly bigger than the national average in the Tiszafüred small region in 2001.

3.2 Processes Creating and Sustaining Chronic poverty

3.2.1 THE PAST, AND THE SCHOCK OF POLITICAL TRANSITION

The reasons for today's poverty are rooted mainly in the structure of the economy before the political transition. The plan economy offered many simple jobs where one could earn well even with an elementary school certificate, and schools tried to focus more on lexical knowledge than on skills. The needs of socialist economy were not much higher than that: If someone learned a job, he or she could live from that for a lifetime, and it was not necessary for them to learn a new job or about new machines. There was a series of jobs where one could get by with just manual work and weak reading or writing skills.

The political transition wiped out these jobs in a matter of a few years: Industrial and agricultural businesses that used to produce with obsolete technologies for the COMECON market were closed or privatized; foreign capital pouring quickly into the economy built factories operating with high technology in the light industries and engineering; the rapidly developing financial services sector, and even trade were built on computerized systems. Therefore, expectations were much higher in the new jobs: It was not enough just to be literate, but it would have been necessary to be good at reading, calculus, and problem solving (Köllő 2009). However, it is not the market economy's fault that workforce with lower education was cornered out, but rather the legacy of the plan economy that there were no small businesses where unskilled people could have worked, and also that the economic policy pursued after the political transition did not facilitate the expansion of that sector.[4]

There was poverty also before the political transition, but the proportion of the poor showed more of a declining trend for a while (Kemény 1972). As a result of timid steps towards liberalization, inequalities in income started to increase already in the 1980's, however, by far not at the rate seen after 1989. Long-term unemployment[5] was practically unknown until the political transition, but it soon turned into a mass phenomenon in the first years of the nineties. At the nadir in 1996, 52% of the active age population worked, 6% were unemployed, and more than half of the unemployed could not find a job for more than a year.

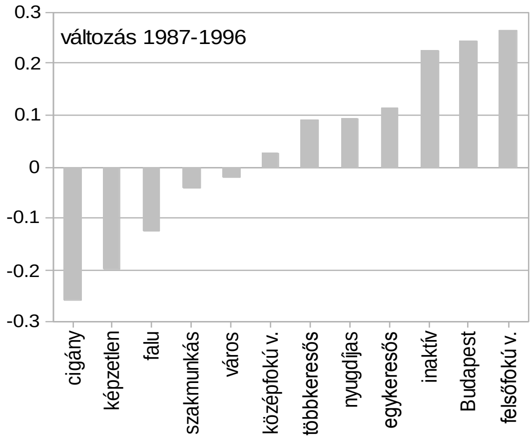
The changes that occurred in the years after the political transition were not only extremely fast but also very selective in the sense that certain groups of the society suddenly found themselves in much better or worse situations according to their age, schooling and place of residence (essentially human capital, and local economic potential measured according to new market relations) (see Chart 2).[6]

[4] Unskilled people work at nearly the same rate in West-Europe as graduates, because small businesses provide them with work. Jobs that require little education are usually available in the services sector, both in the west and more developed regions of Hungary. For example in Budapest and Pest county the employment rate of the population in the 25-59 age bracket with maximum eight classes of school completed (app. 180 thousand persons) is over 50%, and most of them (45-50%) work in the services sector, with another 23-25% in industry, 8-9% in construction, 18% in communal work, and only 2.4% in agriculture (KSH MEF 2010 Q1, own calculations on the basis of KSH Workforce dataset 2010 Q1).

[5] We consider persons who don't work and have been seeking work for at least one year to be long-term unemployed. Unemployed are persons who don't work but has been actively seeking work, and could start work within two weeks.

[6] For the regional distribution of economic potential/development, and the changes of these see e.g. Fazekas (1993), Ábrahám and Kertesi (1996) or Németh (2008).

2. Chart Changes in the relative income of households between 1987 and 1996, according to the status of the household provider



Source: Calculation by Scharle (2010) on the basis of Tóth I. (2008). (Gypsy = self-assessment by respondent). How did the average equivalent income of individual groups change, measured at the average of the entire population in both years.

The rate of unemployment and poverty grew the fastest in the eastern and northeastern regions. The intensification of regional disadvantages was mainly the result of how individual regions were unequally concerned by the above process: heavy industrial regions that had previously been developed under central decisions, and traditional agricultural regions were hit harder. The loss of markets and the impact of import competition cast the biggest blow in these regions, and this was also where education was the lowest as it had not been necessary earlier.

Theoretically, the backwardness of regions could have been mitigated by the mobility of employees, but there is equally little mobility across industries, vocations and regions (Balogh and Róbert 2008, Berde and Scharle 2004, Cseres-Gergely 2004). Moreover, even that little mobility that was there just strengthened disparity: for one those who migrate away are more educated, and also those who migrate to the regions are often families or groups who were discriminated against elsewhere (Kertesi 2005, Virág 2010).

3.2.2 ENDURANCE AND INHERITANCE OF POVERTY

What is the explanation for the fact that poverty that emerged at the time of the political transition hardly reduced later? Although the national income grew almost continuously over the past fifteen years, the rate of the poor tended to increase rather than the opposite, except for a few periods in time. If only those people were poor who became poor at the time of the political transition, or only those families where the per capita income reduces only temporarily, for example due to the arrival of a new baby, then we ought to have seen some improvement over the last fifteen years. However, the rate of the poor is more or less constant – as soon as someone can leave poverty behind, somebody else take their place.

This continuous replenishment of poverty is secured through three channels: the educational system that reinforces disadvantages; individual and familial crisis situations; and, finally, the inheritance of poverty (that we shall come back to later). The school plays a defining role because poverty – nut unlike at the time of the political transition – is largely related to chances on the labor market, while these are related, in turn, to schooling. Income and mobility surveys in Hungary show, without exception, strong correlation between poverty (or, in a wider sense, social status) and employment status (e.g. Gábos and Szivós 2008, Kolosi and Róbert 2004, Tóth 2005). Although employment provides no protection against short-term poverty, it does almost completely exclude that poverty becomes long-term (World Bank 2001). Now labor market chances are – just like at the time of the political transition – fundamentally defined by education (e.g. Köllő 2009). He who is unschooled will not find any work, and will become impoverished sooner or later.

The Hungarian educational system sustained its structure almost unchanged until 2003, which released to the labor market 15% of each class with elementary school graduation at the age of 18-23 years. If we look at the skills rather than the certificates, then the situation is even worse: almost one third of each class is released without the reading, writing, and calculus skills that would be fundamentally necessary for their employment (Köllő 2009).

This weak performance of public education is mainly attributable to missed investments: The obsoleteness of pedagogical methods and low wages that have caused the prestige of the teaching profession to deteriorate strongly. The problem is caused not by the volume but the efficiency of investments.[7] The problem is not that there are not enough schools, or teachers in the schools, but rather the skills of the teacher, and the quality of teaching.[8]

The weak performance of public education is also related to the fact that schools were transferred to local municipalities parallel to the elimination of the former system of school inspectors at the time of the political transition. Almost fifteen years have passed without any control of the performance of schools; or if there was control, then those underperforming did not receive any technical assistance for the improvement of their operation. There is no national inspection and mentoring system that could identify schools that are being left behind, and could provide technical assistance to them.[9] Finally, the rules on mobility across schools are also harmful as they reinforce the general shortcomings of the educational system in case of children in a disadvantaged situation (or those who are slower to mature) – we shall come back to these later.

Another important feeding channel of poverty can be individual or familial crisis situations; or more precisely the fact that the welfare system is unable to handle these. Relations of trust are strong only within the closest family (compare Kopasz et al 2008, Messing 2006), and our tools for conflict man-

[7] On average, Member States of the European Union spend 3-4% of the gross domestic product (GDP) education. Spending at 3.2% in Hungary counts as a value in the middle.

[8] The majority of teachers consider the teaching of knowledge, data and formulae required for the baccalaureate exam to be their task, and they pay less attention to the development of basic skills such as understanding texts, calculus, problem recognition, learning and social skills. More often than not they also lack the necessary tools for that: they don't possess the methodological knowledge necessary for teaching skills. This is not only true for older teachers but also for young graduates, the majority of whom have weaker skills than older teachers, and also receive weaker preparation for this work (Fehérvári 2007, Kárpáti 2008, Varga (2009)). While further training programs launched from 2003 have improved the situation slightly, the continuation of these is now questionable, and new methodologies have not yet been integrated into the curricula of teacher training (Reszkető et al 2009).

[9] The national competence measurement program launched in 2001 improved the situation only to the extent that the performance of children is now measured regularly and with standardized tools, which allows schools to compare their performance with other schools.

agement are very limited, so that even a relatively everyday trauma (illness, accident, divorce, loss of employment) can easily lead to personal crisis (depression, suicide, alcoholism), the solution of which would require help from an expert – and such help is difficult to access or of not good enough quality for most of these persons. Often not even the family assistance center works in the smallest settlements, and specialized services (debt management, psychiatry, drug ambulance etc.) are mostly available in larger towns. The rate of professionals with a higher degree in social work is under 50% in child welfare services, only 25% of staff has an academic degree in regional child protection services, and this rate is even worse in the specialized service for child protection (Pataki and Somorjai 2007). The efficiency of existing services is reduced by the lack of cooperation across related professional areas and institutions: It happens only very rarely that the family assistance center, the child welfare worker, the physicist and the labor office worker would solve the client's problem together, or would at least transfer information to each other that could help the solution of the case (Pataki and Somorjai 2007, Ráczné 2007).

The most important from among the three processes that regenerate poverty is the inheritance of disadvantages, which can also be traced back to several reasons. The majority of parents have low education, which bars them not only from jobs but also from further education, and often from services (physicist, family assistance center, housing) that could help them in preserving their working ability and health. Access to services is limited by the place of residence (towns offering such services are difficult to reach from villages) and, in addition to the lack of funds, discrimination against the poor, particularly against the Roma (Vokó et al 2008, Bódis et al 2008, Pataki and Somorjai 2007).

Children's fate is sealed even before they are born: Their mothers cannot eat enough or healthy, children are born with a low weight, thus susceptible to all kinds of illnesses.[10] Infant mortality and illnesses are attributable to the disadvantaged situation of parents in 30-50% of the cases (NCsGyP 2005). If the child is ill or fall behind in development, his uneducated parents and the overworked district nurse will have a lesser chance to notice this, and treatment often lacks due to the lack of money/doctors. Partly because the mother of the child in disadvantaged situation is at home, the child will not get into a nursery. They will go to the kindergarten even if it is unavoidable, so that these children will receive professional development late and for a shorter time period (Havas 2004, Kertesi and Kézdi 2009b). The child will start school with this disadvantage, where the majority of teachers lack the tools necessary for helping this child in catching up, and where ethnicity-based selection starts very early. Slow progressing children first get into a special needs group, followed by a separate special needs school, where they rarely receive any actual development (Havas 2008). Richer and poorer families live in separation from each other in larger settlements; the children of poor or uneducated parents often learn in a separate setup on class or school level; and it also happened that an entire settlements became a ghetto for disadvantaged population (Havas 2008, Kertesi and Kézdi 2009a, b).[11] Anyone who is not able to read nice and do math quickly by the eight form will almost definitely end up in a vocational school where these skills will no longer be developed (Gerő et al 2006, Liskó 2005, Kertesi-Kézdi, 2009b). By the age of 17 years, these children will find themselves on the labor market where, without these skills, they are not needed by anyone, and they will

[10] A more detailed review, based on international literature, of the direct and indirect channels of inherited poverty is given, for example, by Kertesi and Kézdi (2005). For the processes of early childhood development, and the possibilities for early developmental intervention see the thorough summary of Danis et al (2011).

[11] Children with better backgrounds either get into better schools from the start, or wealthier parents relocate children who progress more quickly in a weaker school to a stronger school – something that poorer families can do only rarely.

not get a second chance in adult education as the baccalaureate level is a precondition in such training programs.

Early selection, free school choice, school maintenance left to a fragmented system of municipalities, and the selfish interests of the middle class have together created a strongly segregated school system that will magnify rather than reduce home-generated disadvantages, so that it can hardly ever offer any paths of mobility, or can offer them at very low efficiency (Havas 2008). Launched in 2003, educational reforms improving the equality of chances have undoubtedly yielded substantial results[12], but have not (yet) brought about any breakthrough. The continuation of programs is also questionable, and their results attained in the pedagogical practice will not be durable without further support (Reszkető et al 2010a).

Finally, a child living in deep poverty will not receive any help from his or her family and environment: the parents will fear that he or she goes a different way than they did, and the majority environment also suggests that backwardness is hopeless: he or she will never make it. It may happen in families in a long-term hopeless situation that parents, unmotivated by their own failures, will underestimate the chances of their children for breakthrough; they will not encourage them to learn, and do not pay attention to sustaining their health. According to a research done in Hungary, children of 12-14 years of age living under poor financial conditions think that further education is less important or accessible that their peers living under better financial conditions, and one quarter of this age group agrees with the statement that children growing up in poor families will most likely end up as poor adults (Darvas and Tausz 2004). They can hardly see any positive examples around them that could contradict this experience, for example a successful fellow citizen with a university degree from the village.

3.2.3 HELPLESS GOVERNMENTS AND IMPATIENT POLITICAL CAMPS

What is the explanation why successive governments in the last twenty years have been unable to stop the falling behind of groups living in deep poverty? They did not even notice the problem in the first years: They thought in the nineties that economic growth would pick up after the first bumps, and then we grow out poverty as well. Until then the main task should have been to protect everybody from poverty as far as possible: early retirement, longer child-care leave, long period of unemployment benefits (Vanhuysse 2004, Váradi 2011). The period between 1990 and 1995 saw an increase from 22,5% to 31,3% of people receiving some form of welfare benefit in the active age population, while there was a radical drop in the rate of persons working while being in retirement or on child-care leave (Duman and Scharle 2011).

However, this strategy backfired later: Not even economic growth created any work opportunities for untrained people; moreover social costs on salaries had to be increased due to a growth in welfare spending, which further deteriorated the chances of the uneducated (as workforce became more expensive). Politics understood by the early 2000's that employment will not reach its former

[12] According to an extremely thorough impact study following the programs, the backlog of Roma pupils reduced as a result of the methodological development efforts, while the results of non-Roma pupils did not deteriorate either (Kézdi and Surányi 2008).

level by itself, but the problem became so massive by that time that it would have posed a major challenge even to a prepared and efficient public administration system in Scandinavia, let alone the much weaker Hungarian system (Váradi 2011).

Although even the majority of intellectuals started to understand the problem at that time only, they held governments accountable backwards, for ten years of inactivity.[13] And, seeing the failures of attempts by the government, impatience has been growing in the last ten years. Two approaches have emerged: One says the problem is that the government is not rigorous enough, it just distributes subsidies, while the unemployed don't want to work (usually because they are Gypsies and prefer to live off others, stealing and robbing), or at least they are not sufficiently motivated for work. The other approach sees the problem in the insufficient sacrifices by the government (money and services) to reduce poverty, while the majority is racist and discriminatory against Gypsies and the poor. The debate between these two views has more or less covered up the fruitless talking between the political camps of the left and the right. This renders a solution even more difficult as it diverts attention from the facts. We look at proposed solutions emotionally instead of looking at the facts, so that there is no cooperation; moreover the other will demolish whatever is built by one camp.[14]

A more general and deeper reason for the government's failures is in the difficulty of the problem and the weakness of public administration in Hungary. The plan economy required different skills than the market economy that can be influenced through fine regulations and incentives. Many tasks were delegated to the level of settlements that cannot be delivered on that level, while the legacy system of welfare services was tailored to full employment. The professional skills of the administrative staff are lacking or weak in some areas. However, the strongest barrier is not that but the weak cooperation across related areas of government: the objectives and functioning of employment, housing and tax policies, rural development, social policy and the judiciary are not coordinated. Consistent, long-term strategies are missing in most areas; or even if there is one, the next government will develop another one, or if not, then the detailed action plan for implementation is missing.

There is a weak interest in good operation in case of institutions working in the preparation and implementation of decisions: there is no control, or it only looks at compliance with accounting and legal norms, these institutions are not autonomous enough, and there are no financial incentives to motivate them for quality improvements. The welfare system is funded on an institutional or input basis; quality and success are not encouraged. There is no regular output measurement; no impact studies are made. Although there is regular data collection about the measures, but the primary objective of that is to document authority tasks instead of laying the foundations for evaluation. This means that it is only fit for generating some raw indices that will make visible only the largest functional deficiencies. There is some evaluation, but it is not regular, systematic or concrete, and it does not receive sufficient publicity. The set objectives are also rarely concrete enough to reach precise evaluation. While there is some feedback, it is often slow, so that problems will have grown already

[13] Several Hungarian and international organizations have warned about the high rate of welfare spending that is unsustainable on longer term (e.g. OECD 1994, Ehrlich et al 1994, World Bank 1995, Tóth 1996). However, these warnings also said that it would be difficult to cut benefits any further without burdening the poor (and this gave a reason for procrastination), and they also rarely ever made proposals for remedies beyond more rigor that would touch the roots of the problem (e.g. improving the quality of public education, renewal of teaching methods, or increasing the demand for unskilled labor.)

[14] It is less and less true for opinions about subsidies or communal work, and more and more true for family subsidies and public education.

very big when a reaction is needed. The only signal functioning reliably is when spending jumps: the system will hardly ever react to non-pecuniary or not immediately visible effects. The usual time horizon of decisions is short, and the administrative apparatus is tied up with putting out fires; there is no time for longer-term thinking or preparations. And finally, stakeholders are mostly involved in the development of policy decisions formally only (OECD 2007, Hajnal 2008, Meyer-Sahling 2009, Váradi 2011).

The welfare services system inherited from the time of socialism is mostly unsuitable to handle new challenges. Services (education, labor market programs, family assistance) should all be transformed, so that they are able to adapt to the changing needs of the market (Sziszik 2004, Fazekas et al 2008, Scharle 2007, Tausz 2007). This is complemented by the fact that the political risks associated with the solution are large: money has to be spent on groups in the present, the votes of which is not worth much, while the effects of these investments are indirect and emerge over a longer period of time only. Nothing in a your democracy favors that politics takes such a risk: Any government can plan for four years only, and independent institutions, the media and the civil sector are too weak to enforce decisions that could increase welfare on longer term but are costly. We could also say that the Hungarian political elite has not only been unable to tackle this problem, but they have not even tried so far.

The problem was diverted for long by delegating, to the level of municipalities, not only the issue of subsidies but, in general, the treatment of poverty and local conflicts arising from poverty.[15] However, this was good, at best, for concealing increasing tensions, and even that for a short time only. Should it not be clear by now, then local conflicts undeniably indicate that local governments would not be able to take care of this task, even if they received more help from central government, due to their fragmentation, limited range of movement attributable to their size, and the prejudices of the local median voter.

Budgetary constraints and short-term political aspects almost exclusively motivated the efforts of central government – where the already referenced educational reform is an important exception. Relatively large funding supported labor market programs, albeit poorly constructed and badly targeted, so that they could not increase employment at any significant rate. Program beneficiaries were usually not those most in need; the range of services intended to support working ability is narrow, their quality is uneven; and individual job creation or wage support schemes often finance jobs that would have been created without the subsidy as well (O'Leary et al 1998, Bódis et al 2005, Bódis and Nagy 2008). Social and labor market services that could provide personalized support for the return to the labor market or community life, or the overcoming of poverty have either not been constructed, or operate sporadically and with constrained capacities. The capacity of the public labor support apparatus and social services by municipalities is limited in terms of both staffing and professional preparedness (Cseres-Gergely and Scharle 2010), which is particularly true for settlements in areas suffering from high unemployment and backwardness (Fazekas 2001, Nagy 2008, Kozma et al 2010). The state has not acted decidedly against ethnic discrimination either on the labor market, or in public services. The bulk of housing subsidies do not serve mobility and the mitigation of poverty, but rather the accumulation of property at the middle class (Hegedüs and Somogyi, 2007). The elimi-

[15] We do not discuss here the reasons for the decision on strong local municipalities taken in 1990. For a summary of the rather diverse debate on this see e.g. Szűcs (2006).

nation of segregated ghettos that lack even the most basic infrastructure progresses so slowly, even when plans are already there, that it is unable to put a halt on the regeneration of poverty – while the implementation work is even slower. Even if public health measures were worked out by the profession, there has not been a government so far that would have made durable and serious efforts to implement these.

None of the post-socialist countries has been able to fund a truly working solution for the unemployment of the uneducated population, but the situation in Hungary is even more difficult than the average for several reasons. Our outgoing situation was worse: the rate of uneducated population is bigger, and the strategy chosen for transition to the market economy (combined with the system of local municipalities) is more in support of inequalities than similar indices in neighboring countries that can be seen as our competitors. Rapid privatization quickly pushed up unemployment, and the welfare system provided subsidies that mainly supported inactivity[16]. While this reduced poverty on long term, the lack of services facilitating return to the labor market increased long-term unemployment and poverty (Köllő 2009). The situation is aggravated by the fact that exactly because of low employment – unstable economic policy resulting from the unsolved issues of large redistribution systems and other reasons – no substantial and stabile growth rate could be attained that could have counterbalanced the above processes that worked towards falling behind.

One hundred to one hundred and fifty year-old distortions of the structure of Hungarian society, the traumas suffered and the lack of processing of these weakens our adaptive ability, both in case of the elites, and lower status population (Bibó 1990 (1986), Hankiss 1986 (1977)). We long for paternalism; we do not believe in our ability to shape our own future; we don't trust each other; we don't cooperate; and we don't tolerate diversity in any form or shape (Tóth 2010). On top of it all, the majority of the disadvantaged population is of Roma origin, thus easy to identify on the basis of external appearance, which increases their chances for suffering discrimination and scapegoating.

Finally, coordinated, joint action is gravely impeded by the fact that the political arena has been becoming increasingly polarized from 1998[17] onwards, and, instead of policy debates, the competition of parties is dominated by emotionally based communication aiming at bolstering the „us" vs. „them" thinking, which happens virtually in all segments and on all sides of the political spectrum.

3.3 Problem Management Efforts in the Last Decades

There have been several attempts by the governments in the last one and a half decades targeted specifically at reducing long-term unemployment and poverty, or at least one part of the problem,

[16] By inactive we consider persons who are in a working age (15-64 years of age) but do not work or seek work.

[17] While the fact and detrimental effects of polarization are questioned by few, the opinions of analysts are divergent about how far one should blame certain elements of the political system (e.g. the rule on constructive confidence votes that makes it more difficult to oust a prime minister), and historical processes (Körösényi 2009), or even the conservative turn of Fidesz (Lakner 2007, Tóth 2001, Tóka 2005). It is nevertheless a documented fact that the anti-communist rhetoric and the concurrent mentioning of the adversary and the crimes of the previous political system got a role in the communication of Fidesz, to which MSZP responded by accusing them of being against democracy (cf. Horváth 2006, Lakner 2007, Szabó 2004).

for example child poverty. Table 3 presents the interpretation of the problem, tools and outcomes of the most important experiments. The list starts in 1994: We believe that this was the time when politics first (could have) confronted the problem of long-term deep poverty that was emerging at the time.[18]

Although some of the experiments listed here yielded some partial successes, no breakthrough or long-term and sustainable solutions were achieved. The majority of these started out from the assumption that the problem is rooted either in too small subsidies, which are not enough to overcome poverty, or in too generous subsidies, which reduce the motivation of workers to seek employment. The amount and duration of unemployment benefit was cut, and the eligibility conditions were made more stringent in order to alleviate counter-incentives. However, this approach could also easily coexist with the general assumption that there is no demand for the work of uneducated people, so that they can only be motivated (forced) into work through public employment programs. However, it became clear already after the first attempt that this combination does not yield success: rigor does not increase supply (but it does increase poverty), while communal work does not lead back into the open labor market, and it costs too much for operation on a larger scale for long (Köllő and Scharle 2011). The impact studies of serial restrictions all came to the same conclusions (see Bódis et al 2005, Balás et al 2011).

Attempts to mitigate deep poverty with a focus on the income side (merging the regular child protection subsidy into the family subsidy, family based subsidization) lacked success because – among others – opposing opinions that were predictable and partly justified (e.g. because of negative impact on the work offering) were not managed (by communication and other related methods).[19] This was the reason why these steps were either taken back during the goven government term, or were largely neutralized in the next following term.

[18] Although sometimes much more successful than government attempts, the initiatives of civil organizations are not presented here because – due to their size – they could have had a national impact only if their methods had become part of the government's toolkit, for which there is no established way, and there have been very few examples for this in the last twenty years (the introduction of the village caretaker system is an important exception). For similar reasons, the table does not include numerous pilot programs and experiments launched from government funding that never got to the phase of national rollout – irrespective of whether or not they were successful in the pilot stage.

[19] For the impacts of the reform of the regular child protection subsidy and the family subsidy see Benedek and Scharle 2006, for the general impact on poverty see e.g. Gábos and Szívós 2008. For the impact on targeting of the reform of regular social subsidies see Nagy 2008. A For the political context of subsidy austerity see Duman and Scharle 2011.

3. Table Attempts to reduce chronic poverty and unemployment

Political term	Year	What is the problem?	Measures	Outcomes
1994-1998 MSZP-SZDSZ	1995-1996	offer and demand (and budget)	income substitution period of long-term unemployed is cut to two years, national communal work programs	none, or circulation between public employment and subsidy emerges
1998-2002 Fidesz	1999	motivation	family subsidy is tied to school attendance	none, implemented sporadically
	2000-2002	offer: incentive is needed	cutting the amount of unemployment benefit, more rigorous working ability test, doubling the minimum wage	no increase in the offer of work, reduced employment of unskilled persons due to minimum wage (despite reduced contributions)
2002-2006 MSZP-SZDSZ	from 2003	multiple disadvantages	complex local development programs	exhausted halfway due to the lack of money, will and perseverance
	2003	weak services	educational reform: renewal of teaching methods, reducing segregation	good results were teachers could be involved, but a breakthrough is questionable
	2005	targeting (underpayment)	integration of regular child protection support into the family subsidy, differentiation of family subsidy	access improved, child poverty dropped, but questionable (cf. proposals for in-kind distribution of family subsidy)
	2005	multiple disadvantages	launch of the Decade of Roma Integration Program	we don't know / modest (maybe improved involvement of stakeholders and problem awareness)
	2006	level: subsidies must be increased	social benefit similar to minimum wage	child poverty reduced, but sharply debated, limited to minimum wage at the end of 2006
	2008	offer: incentive is needed	more rigorous conditions for access to insurance services, stricter cooperation rules for social and disability benefits	we don't know, activity and employment may have increased, especially in case of the more educated
	2009	offer: incentive is needed	Road to Work Program: stricter conditions on social benefits (amount and working ability test), doubling communal work	we don't know, no increase in supply and employment on the basis of earlier experiments, costs are unsustainable
	2009	demand	social contributions cut	demand for workforce increased
	2009	motivation	support of kindergarten enrollment	take-up increased
FIDESZ-KDNP	2010	deviance	subsidy is conditional on a clean yard	we don't know, theoretically access to subsidy may have worsened
	2011	targeting (underpayment)	gas price subsidy is also integrated into housing subsidies	targeting improves, may reduce deep poverty

The first step to facilitate the demand for work for untrained people (extending the START card scheme with an allowance on contribution to long-term unemployed) happened in 2007 only, however, no thorough impact study has been made yet. The structure of the program can be successful theoretically, but the level of cost efficiency can only be judged on the basis of a detailed impact study. Preliminary impact studies say that the targeted contribution cut done in 2009 (elimination of the itemized health care contribution) was successful[20] (Elek and Scharle 2010).

The reform of public education started in 2003, and, in this context, the introduction of the kindergarten enrollment subsidy in 2009 was, so far, the most thoroughly worked-out attempt to break the cycle of inherited poverty. The reform exercise aimed, on the one hand, at a renewal of teaching methods (introduction of methods requisite for skills development and the joint, integrated education of children with different abilities), and at making sure that children in disadvantaged situation can also access good quality education. The essence of the kindergarten enrollment subsidy is the earliest possible compensation for disadvantages from home, and ensuring early development to disadvantaged children. Both programs were successful, but also brought about a lot of conflict due to shortcomings in their preparation and the fast pace of introduction. Also, both harm the (perceived or real) interests of the middle class, so that their sustenance requires strong political commitment (Kézdi and Surányi 2008, Reszkető et al 2009, Kertesi and Kézdi 2011).

3.4 The Public Opinion about Poverty And Conditional Subsidies

The public opinion about poverty changed to a large extent as a result of our transition to market economy. We can observe that views that attribute poverty to a result of individual reasons come to the foreground in periods of economic booms; while social reasons are more in the focus when the economy is in downturn. In 1988, views that were strongly supported that said that people who spend all their money on drinking and recklessness, or don't like to work will become poor (Tóth 1990). However, shortly after the political transition, under the circumstances of economic restructuring and downfall, almost half of society attributed poverty to external reasons (the economic system, inequality of chances) (Csepeli et al 1992), and considered difficulties with life sustenance to be one of the most severe societal problems (Bernát 2002). With the improvement of the economic situation in the early 2000's, views came to the fore again that saw the source of poverty in individual features. The latest international comparative data collected under the circumstances of the economic crisis show once again that views emphasizing the societal reasons for poverty have become more dominant throughout Europe (Keller, 2011).

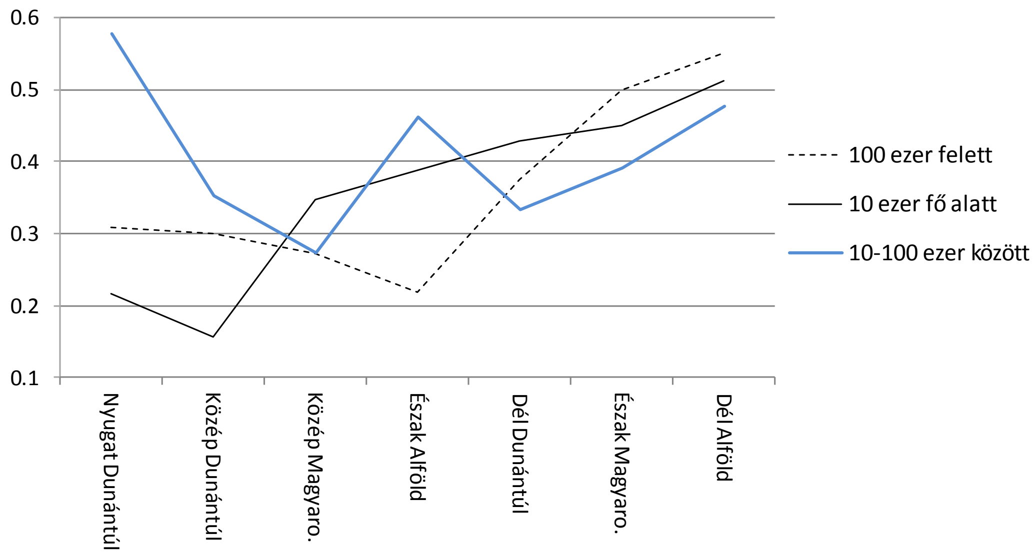
Opinions attributing poverty to individual reasons can have multiple explanations, as shown by research done in Hungary so far. The *first case* contains people who meet people living in deprivation on a daily basis, or perhaps even have direct contact with them, or at least live in the same place and this have first-hand negative experience. In the *second case*, the reason for rejection may be psychological: those who feel more threatened by the risk of impoverishment and falling behind may want to preserve their sense of security through rejecting or underestimating the external reasons for poverty that are independent from individual efforts (Hankiss 1977). This makes them more susceptible to seeing laziness and the lack of will to work as the reasons for poverty. These two groups are largely overlapping. The *third case* is that of urban intellectuals. This group may have a negative atti-

[20] However, there is one limitation, namely that it cannot be repeated; i.e. the current tax and contribution system does not allow for another so well and clearly targeted and relatively cheap measure.

tude because they have little direct contact with the poor, are distant from the problem and unaware of its details or reasons. This is reinforced by the fact that usual information channels convey a strongly distorted, stereotypical image of the poor (Hammer 2001, 2004). Of course, there also cases when support programs related to the poor or ethnic groups backfire into a negative effect. This *fourth case* can reinforce the basic experience of any of the societal groups above. All four motivations appear to be represented in Hungarian society.

In a survey prepared by Tárki in 2009, more than one third (37%) of the respondents think that the poor are impoverished mainly because they are not diligent enough and don't work hard enough.[21] If we use this opinion as an indicator for rejecting solidarity with the poor, then – according to the analysis – coexistence with the poor reduces solidarity (contact is gauged at the typical rate of unemployment in the region, and settlement size). Controlling for the effects of schooling, settlement type and Roma descent[22], an increase of one percentage point in the unemployment rate of any given region will increase the likelihood of self-attribution of poverty by the respondent by 6-7% on average. Higher unemployment will incur higher levels of negative attitude even if a much narrower, more extreme definition of rejection is used instead of self-attribution.[23]

3. Chart Rate of respondents attributing poverty to self, according to settlement size and region



Source: BI calculation based on the individual level data of the value survey of TÁRKI in 2009.

People with academic degree or baccalaureate are more inclined to show negative attitude than those with less education even if we consider the effect of descent, labor market position and feelings of individual insecurity. This correlation is much stronger in towns with less than 100 thousand

[21] TÁRKI Economic Culture questionnaire, 2009, question 16. Other respondents attribute impoverishment to external reasons, bad luck, the lack of the right connections or bad family background.

[22] Roma descent will result in significantly more forgiving attitudes in all model specifications, while gender, age and labor market status (active/unemployed/pupil/pensioner) do not have an influence.

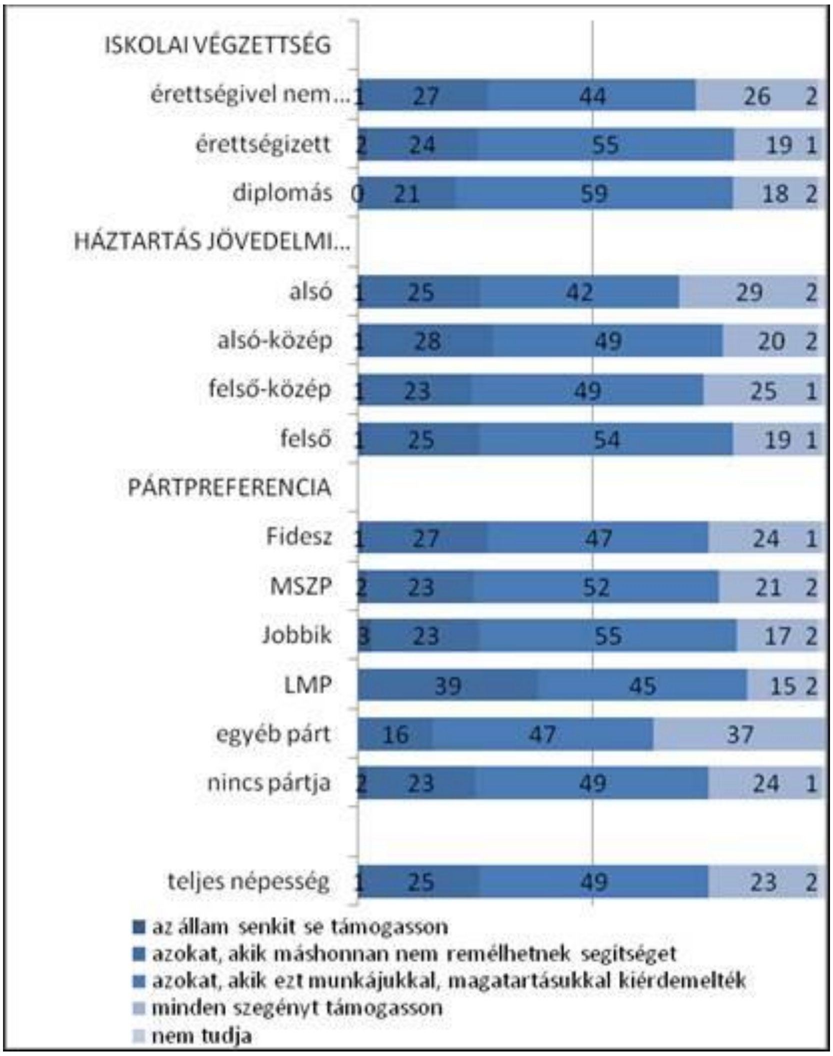
[23] Strongly rejected by those who, at the same time, see poverty self-attributed and think that individual efforts are important, while rejecting the concept of a patronizing state over the disadvantaged, and who would rather give less support to the disadvantaged. We can find weak positive correlation between the different forms of rejection in the TÁRKI data, which is in line with former research findings (cf. Albert and Dávid, 2009: 45).

inhabitants than in larger towns (which can also explain why our readers – typically professionals living in large towns – will not recognize themselves in this description). Generally speaking, people living in smaller settlements are more accepting, people living in larger settlements are more negative about the poor, but these differences also vary according to the level of development of the given regions. Rejection is massive in the two underprivileged regions irrespective of settlement size, while rejection is significant only in medium-sized towns in regions that are in a better situation (Chart 3).

Finally, prejudice is also high with people who face the potential danger of falling back[24]: controlling for the effect of other personality traits, it is 58% more likely that they will see the poor as lazy people who don't work than do people who don't face this risk. This effect is similar to what Köllő (2001) found, namely that people exposed to the risk of unemployment are more inclined to support tying benefits to communal work, if we control for the individual effect of local unemployment, and actual experience with unemployment (the first increases, the second decreases support for more rigorous measures).

4. Chart Who do you think the state should support from the poor?
(according to societal-demographic groups, percent)

[24] The at-risk group includes persons in rural areas who have maximum of eight completed classes of elementary school, live in a high-unemployment region but are currently not unemployed.



According to a survey of opinions on conditional subsidies performed with a representative sample of the adult population in 2011[25], 49% of the respondents agreed that the state should support those of the poor who have deserved it through their work and behavior (Chart 4). All in all, there is an almost equal proportion of those who would focus on social aspects: according to one quarter of the respondents those should be supported who cannot expect help from anywhere else, while another 23% say that everybody who is poor should receive support. Merits-based subsidies are urged most by those with a university degree and who are in the top quarter according to household income (59% and 54% respectively), while the rate of those who agree with this slightly exceeds the average (55%) for Jobbik voters if we look at party preferences.

Looking at this popularity of the merits-based subsidy principle it is not surprising that the majority of the population agrees with granting subsidies not automatically but against some form of activity[26]. What people support the most is that the beneficiary should enroll their child to the kindergarten, and should cooperate with social institutions in exchange for the subsidy (90% of the respondents

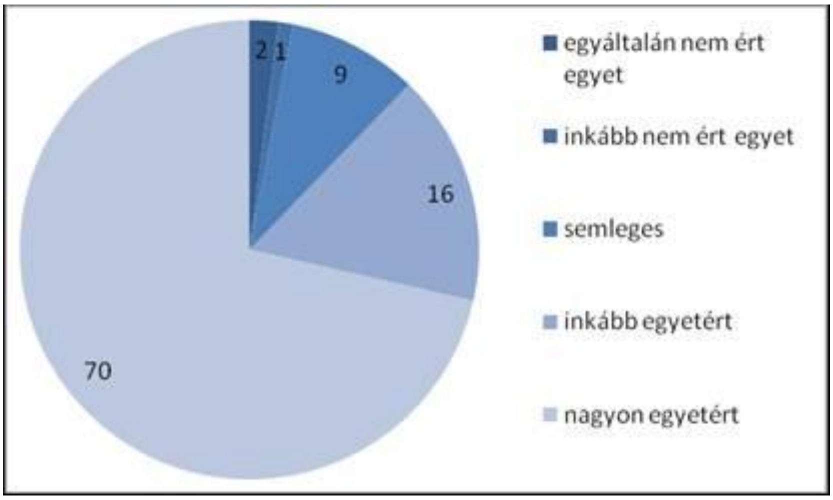
[25] Medián Public Polling and Market Research Institute conducted 1200 personal interviews between 6 and 11 October 2011 with a population of 18 years of age and older, amongst others about opinions concerning subsidies and benefits on social basis.

[26] The question asked about agreement with the following activities: keeps his/her apartment, yard tidy; sends his/her children to kindergarten/school; cooperates with the labor center or other social institutions; performs communal work.

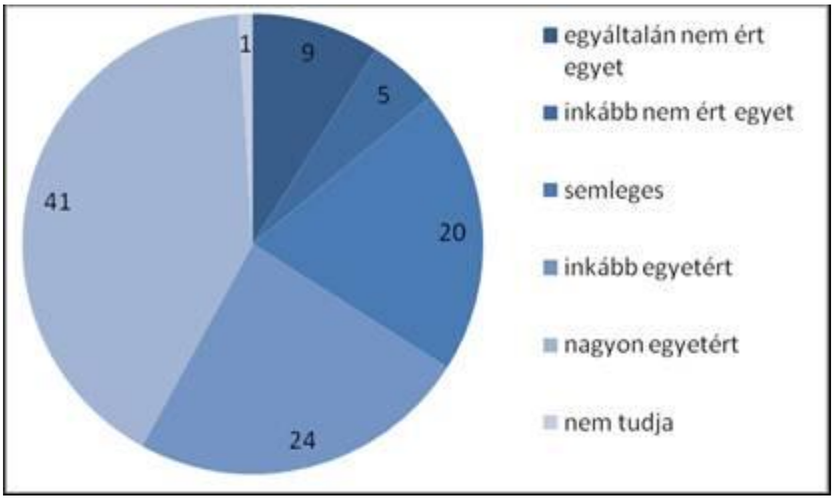
agreed more than the middle value with the former, and 88% with the latter statement). A decisive majority of the population also supports the principle of communal work in exchange for subsidy, although this is also the question where rate of those who reject this more than the middle value is the highest (10%).

The popularity of conditional subsidies is also reflected be the fact that seven out of ten respondents fully agrees with the statement that the payment of the family subsidy should be tied to the school attendance of children. The rate of those who agree with this is slightly higher than average in case of those raising children (75%), and even in case of those who raise children but are in a worse than average income status (72%). The idea of kindergarten enrollment subsidy also seems to be quite popular: 65% of the respondents agree more than the average with this form of subsidy for parents with eight completed classes of school, including 41% who agree fully. At the same time, the majority of people think that the kindergarten enrollment subsidy is a subsidy form for the Gypsy population: According to 70% of the respondents, this form of help concerns mostly Roma families. There is strong disagreement in the opinions about whether or not this form of subsidy actually helps the preparation of Roma children for school, but the majority of respondents (51%) still rather agree with that statement, too.

5. Chart What do you think about the concept that the family subsidy is paid out only if the child goes to school on a regular basis? (percent)



6. Chart A parent with maximum eight completed classes of school can receive kindergarten enrollment subsidy if they send their child of 3-4 years of age to the kindergarten on a regular basis, thus facilitating the child's preparation for school. How strongly do you agree with this form of kindergarten subsidy? (percent)



We also looked at opinions about subsidies through a focus group based methodology[27] among people who have experienced, or are threatened by poverty. In case of respondents who have already experienced poverty there is a preference for needs-based subsidies, while conditional subsidies are acceptable in certain cases. However, attitudes are very insecure and change a lot in the course of the conversation. What does not change is the emphasis on social aspects (i.e. the rich should not get any subsidy) and the guarding to the status quo (i.e. there should be no change in what they already receive). The short summary of the standpoint of falling behind groups is that the current system should not be messed with. Although there is a certain degree of injustice in it, but at least every-

[27] Conness KFt conducted the focus group survey in November 2011. 4 groups were organized at two sites: in Miskolc and Nagykanizsa. General screening criteria: 30-50 years of age, mixed single or living in family, mixed men and women. A group of „*falling behind*" and „*at-risk"* was formed at both sites. The first group included those who have already had experience with poverty for a longer period or temporarily, and qualify as poor in Hungary today on the basis of their income status and lifestyle.

body who is in need gets something. This is equally a reflection of skepticism against the state, and fear from new things.

Members of the at-risk group have surprisingly much information about the different forms of „benefits”. They are strongly critical about the absurdities, injustice and bad targeting of the subsidy system. In this context they mention several examples of subsidies and benefits allocated to those who don't need it. They believe that subsidies should be based on needs – although some suggest that it would be easier if everybody received e.g. family subsidy and other benefits after their children, because *„it would then not be necessary to constantly lie about the income situation”*. Conditionality is accepted by the majority provided schooling subsidy (family subsidy) is tied to the obligation to attend school. In case of the housing overheads subsidy, the minority of respondents rigidly rejects the concept that it should be tied to the modernization of heating systems or better heat insulation (*„That's a good idea, but who will pay for the renovation?”*), but the majority convinces themselves that this is a desirable concept. However, the picture becomes murky as the discussion progresses. Universal subsidies are clearly rejected at both research sites, and they stand for conditionality. (*„Thank God I don't know how much the subsidy is – but I would not give any to those who don't do anything to deserve it.”*)

Mature opinions about subsidies were formulated in structured interviews that were conducted in relation to the proposals contained in this Report.[28] The main opinion was that the toolkit of an active social policy offering perspectives, breakthrough possibilities and related responsibilities might be effective but mainly not with regard to those living in deep poverty. The majority of respondents think that the primary objective of social policy should be securing the minimum living conditions for those living in destitution, and the mitigation of the regeneration and inheritance over generations of poverty.

Needs are the dominant and unquestionable criterion for the eligibility to subsidy for these respondents, while the basis for its determination should be the income status. However, there is strong representation of the view that cooperation is an indispensable condition for receiving subsidies. We can confidently say that conditionality is an essential element for subsidies in case of these respondents. The majority does not think that communal work programs motivate to work. The dominant opinion is that it has a positive impact primarily on the community, which receives useful activity in return for the benefit given. Several respondents mention a pedagogical role of communal work that allows the acquisition of certain work ethics, i.e. the acquisition of skills that people living in deep poverty for several generations don't possess because they could not learn them from their parents. In general we can say that communal work is not, or only to a very limited extent, suitable for one purpose: to ease the way of beneficiaries back to the world of labor.

[28] This survey was performed by Conness KFt in January and February 2012. 21 stakeholders involved in subsidies were asked in structured interviews (mayors, social policy experts, town clerks, heads of social institutions) mainly in North- and East-Hungary.

4 HOW CAN CHRONIC POVERTY BE REDUCED?

4.1 A Complex Strategy Is Needed

More or less well-developed concepts have already been devised in the areas of education, employment, public health care, child poverty, and housing in order to manage problems that create and inherit deep poverty. Also, these are rather coordinated in the description of the problem, and the direction towards a solution. It is also clear that the task is much more complex than what could be solved with a single measure. Therefore we believe that the task does not comprise of finding a singular tool, but rather of building a strategy that progresses step by step: It identifies easy-to-implement, cheaper but highly effective programs; slowly convinces certain groups of opponents and skeptics to support these; tries to control expenses with good targeting; and, through continuous reconciliation and monitoring, improves the efficiency of tools; and finally convinces even more skeptics to support the strategy through presenting programs with documented success.

Putting it in a very simplified way, the solution should focus on three objectives: interrupting the cycle of inheritance through improving equal opportunities in education; mitigating deep poverty through emergency measures; and finally ensuring long-term improvement through improving the employment of the unskilled.

The success of a long-term solution depends mainly, but not exclusively, on whether or not we can be successful in improving the employment opportunities of the unskilled population. The majority of measures launched in other areas (family assistance, education, health care) cannot be successful unless this works. And, the improvement of employment opportunities requires that steps be taken simultaneously and in a coordinated way to improve the supply and demand of workforce. An effective strategy can also be outlined by saying that it has employment policy in its focus: All other policies will, on one hand, contribute to the improvement of employment opportunities in different ways, and, on the other hand, growing employment is a precondition for the implementation, or at least maintenance, of other policy objectives (reduction of child poverty, improved living standards etc.). Table 4 presents the most important policy steps serving the long-term reduction of poverty in this framework. In the last row of the table we refer to a few plans and concepts that explain the tasks at hand in more or less detail, which can be relied on for the working out of an overarching strategy.

4. Key elements of a strategy to reduce chronic poverty

Employment	Education	Social policy	Family policy	Health care	Housing	Economy
Supply of labor						
extending cooperation conditions to the services provided to all people in active age, development of rehabilitation services: quality, choice, capacity, targeted, personalized active measures, raising the retirement age	quality, improving educational methods, reducing the selectiveness of public education, career orientation, reducing dropout rates, second chances, schools, development of competences also strong in vocational training in adult education: choice, quality	reducing regional inequalities in services, guaranteed minimum wage also rolled out to the working poor, improvement of crisis management services: accessibility, quality, professional cooperation	reducing regional inequalities of services, nursery, family daycare, kindergarten: improving capacities and quality, „safe start", children's houses, shortening of maternal leave	reducing regional inequalities of services, preventing health deterioration: lifestyle education, screening programs, improving medical rehabilitation, linking it with employment rehabilitation	facilitating mobility: supporting housing maintenance instead of housing access, elimination of ghettos	development of the road network, capacity extension in community transport, flexibility
Demand for labor						
the rate of persons coming from disadvantaged families should be increased in public employment (especially in social support professions)	tolerance development in basic and further training (e.g. HR and public services)	community development in complex local crisis management programs	reducing the salary costs of mothers with small children, flexible/part-time employment support (e.g. flexible maternal leave)	supporting physical accessibility, the rehabilitation subsidy should be proportionate to the risk and the volume of salary	(resisting the temptation that we increase demand for unskilled labor through subsidizing the construction industry)	stabile macro environment, improved business environment, reducing administrative burdens, reducing costs on minimum wage, in complex local crisis management programs: infrastructure, micro-credit
Details						
Tárki (1998) Köllő (2009) Cseres-Gergely et al (2009)	Fazekas et al. (2008)	Győri and Mózer (2006) Firle and Szabó (2007) Marozsán and Lantos (2010) NSZK (2011)	LJGY (2007) Biztos Kezdet (2009) Cseres-Gergely et al. (2009) Pulay (2010) Reszkető et al (2010)	NEP (2005, 2010) ST (2011)	Hegedüs and Somogyi (2007) Bényei (2011)	Mike and Szalai (2010) ÚSZT (2011) Reszkető et al. (2011) Scharle and Váradi (2009)

A look at the reasons of chronic poverty allows the clear conclusion that, by itself, neither a CCT, however well planned, nor any other measure can achieve substantial improvement in the current situation. A complex strategy as described above, and the joint, coordinated work of a larger, multi-disciplinary expert group are needed for this. While the majority of the concepts introduced above contain more or less detailed calculations about the expected impacts, but these studies were done at different times, and – partly because of that, partly because of the different approaches by the different professional areas – they are based on different assumptions. Just coordinating these and making them comparable could already provide the framework for this project. Nevertheless, there are two important points that we can make about the impact even without doing that, which also has an effect on the feasibility of the project.

On the one hand: The demand for unskilled labor can definitely not be increased by several orders of magnitude within a period of one to two years, so that more generous bridging programs will be needed than today to mitigate poverty on short term, which can compensate for the lack of income from work on a solidarity basis. According to current estimates on the wage flexibility of the demand for unskilled labor, and assuming that, on the supply side, proper incentives are attached to the reduction of wage costs, the gradual reduction of the wage costs of the minimum wage by a total of 20%[29] may increase the employment of the total population by app. 5 percentage points over four years.[30] However, the sustainability of the welfare services system (and the achievement of European Union objectives) requires more than that: an increase of 10-15 percentage points of employment. It is possible that if a predictable economic environment can be created that is advantageous for small businesses as well, and if the regeneration of unskilled labor can be slowed down through improving the quality of education, then employment growth will also speed up. But what it means is only that perhaps 8-10 years instead of 12 will be sufficient for catching up.

On the other hand: Although some elements of the strategy generate incremental costs, other elements bring savings – these can be combined in such a way that no major central budget spending is needed in the first few years. The tightening of early retirement possibilities (through finer measures, the adjustment of *bonus-malus* rules), tying the services provided to the active-age population to certain cooperation conditions, or further tightening of housing purchase support all bring savings (for more details see Cseres-Gergely et al. 2009). Although funding cannot be withdrawn in other areas, but funds can be reallocated from poorly efficient programs to more efficient ones. This may include, for example, the development of rehabilitation services, which would be sufficiently covered from the 20% cut of the subsidy provided to the protected organizations that employ people with altered working abilities (BI 2011). Also, some other measures have a rapid impact and become self-sustaining already after the first one or two years: for example the support of nurseries and family daycare units will yield a return form the tax and contributions payments of mothers who return to work (Fazekas et al 2008).

The implementation of the strategy described above may face impediments primarily not because of budget funding, but in the area of the technical capacities of the government apparatus, and due to political costs. The first barrier may be lowered through the involvement of (Hungarian and international) experts from outside the government; the latter may be treated through consistent negotiations – based on the prior and as thorough as possible assessment of costs and benefits, winners and losers –, as a result of which main opponents might, sooner or later, be convinced, or at least pacified. At the end of the day, what is at stake with these discussions is whether individual interest

[29] This may be achieved, for example, through freezing the minimum wage and a 5 percentage point cut of employer contributions, which would cost 200-250 bn HUF at current prices. Other solutions, such as the regional differentiation of the minimum wage, would bring smaller revenue losses, but then the working poor should be compensated in some way (those from minimum wage earners who live in poor households) – see the proposal in chapter 6.3.

[30] This means 250-300 thousand new jobs net. If all of these are filled with employees without a baccalaureate exam, that would increase the employment rate of the unskilled by 10 percentage points (to app. 64% in case of the population in the 20-61 age bracket), which would already be close to the West-European average. These calculations are based on the flexibility estimates of Kertesi and Köllő (2003) and simulations performed by Péter Elek on the macro-model of the Ministry of Finance in 2008.

groups can be convinced that the welfare of the entire country can only grow through reforms; and that this particular reform can compensate possible losers on long term, while they may also lose their existing benefits if no reform is done.

Except for the already implemented kindergarten enrolment subsidy, the above concepts did not include any classic CCT measures.[31] However, such a program may play an important role in the convincing work. Today, the social and political environment clearly renders it more difficult to implement strategies that have been planned for a longer term and require the cooperation of several stakeholders – not only because of the resistance of certain interest groups, but also because of general disenchantment, and impatience felt over the incapacity or impatience of governments. It is not quite feasible to say in this situation that „only the first seven years will be difficult", and then results will start happening. This means that measures are needed to obtain support from social and political stakeholders that have an easy-to-comprehend operation that can be communicated well, which make it understandable to the average people how they contribute to improving the situation, don't contradict string and widespread stereotypes, and yield measurable results within one or two years. A well-constructed CCT program can be suitable for this purpose for several reasons.

Selection criteria for CCT programs that match the situation in Hungary

The demand conditions for CCT programs are there in the areas of education, health care, housing and employment (at least we are not aware of anything that would contradict that), however, supply conditions are secured, or are on the level that allows their securing through not too large efforts only in the areas of education and health care.

In order to secure support from the public for a multiannual, complex strategy, certain measures are needed that can be communicated well and bring quick results. A CCT program can respond to that purpose very well, as it is, due to its nature, based on the principle of mutual obligations (which is acceptable also to the majority of those who have a negative attitude to the poor), and it can bring fast results because it contributes to the reduction of poverty through two channels (cash subsidy, and services that hinder the inheritance of poverty).

Table 5 contains a brief summary of those existing institutions in education, health care, housing and employment that allow that a CCT program be built on their services. We focus primarily on services that are relatively easily accessible and offer good quality, or can be made that way with relatively little development or extension. The improvement of existing services would be necessary in all areas, but in most cases there is a possibility that the government finances these from EU funds, at least in the pilot stage.

5. Table Effectiveness requirements for conditional cash transfer programs in three areas

[31] Tying the pecuniary benefits provided to persons in active age to the condition to cooperate can also be seen as a CCT program; however, this is certainly not a classic scheme as it does not introduce a new subsidy but ties conditions to an existing form of subsidy.

	Education	Health care	Housing and employment
	nursery, family daycare/ kindergarten	district nurse, doctors, screening	family assistance center*
Impact			
quick and easy to measure	substantial impact (school achievement, finding a job, salary) and well measurable, but only after several years	substantial impacts, some well measurable and present within 1-2 years	family assistance center: substantial impact, but less well measurable, but it works within 1-2 years; branch office: works within 1-2 years as well, the extent is modest but well measurable
not wasted if no improvement in other areas	questionable (e.g. a poor quality school may ruin the impact of the kindergarten)	maybe	questionable (e.g. improving supply without larger demand for work is not worth much)
Stakeholder behavior			
the implementer may also be made interested	yes, usually motivated	yes, but overburdened / it must be paid	yes, but may become overburdened and burnt-out
targeting condition cannot be manipulated	usually doable, ethnic targeting needs special attention	usually doable, ethnic targeting needs special attention	not always, unemployment needs special attention
the majority understands, accepts (prejudice)	usually yes (depends on program)	yes / depends on program, may also feed existing prejudice!	to a lesser extent: the contents of job finding subsidy are not known
Gradual implementation			
can be started as a pilot	yes (and it is worth the while in the difficult places!)	yes (and it is worth the while in the difficult places!)	yes (but only with income incentives in the difficult places!)
can be rolled out into a national program	typically yes (but the nursery may be expensive)	typically yes	yes, but the professional capacity is limited
Cost			
the existing infrastructure and expertise is sufficient	nursery: not, but enlargement is costly (but EU funding is available), family daycare: not, but relatively cheap to enlarge, kindergarten: largely and relatively cheap to enlarge, professional monitoring works relatively well	doctor: largely, but enlargement is relatively costly, strong financial incentives needed at difficult locations, professional monitoring exists, but more of a guild than state nature, district nurse: largely, and enlargement is relatively cheap, professional monitoring is available, centralized	family assistance center: singular, and the enlargement / preparation of experts is relatively costly, there is no strong professional monitoring, labor offices: singular, but there are professional monitoring and successful development experience
requires substantial modification of the law	typically no	typically no	typically no

** including the village caretaker and child protection services that are partly overlapping with the family assistance center.*

The following five CCT programs can, for example, become important elements of a larger, overarching strategy to eliminate chronic poverty – although none of these alone can achieve that objective.

6. Table Examples for CCT programs feasible under the current circumstances in Hungary

Measure	How does it serve reduction of poverty?	Strengths, opportunities	Weaknesses, risks
1. extending kindergarten enrolment subsidy by sinking the lower enrolment age limit to two years of age	multiple disadvantaged children are left behind less at school	supported also by a thorough impact study in Hungary	generates tension without enlarged capacities
2. supporting pathways of mobility: travel cost reimbursement for pupils in sports clubs, music schools etc, career orientation mentoring	multiple disadvantaged children have better school enrolment, there will be role models	it improves social mobility in a well-targeted and cheap way	requires cooperation by several stakeholders, implementation responsibility is difficult to allocate
3. counseling and early development for women in disadvantaged situations and their prematurely born children	the health status and early development of multiple disadvantaged children improve, they are left behind less at school	professional knowledge, implementation infrastructure (district nurses)	may deteriorate the impact of other services without enlarged capacities
4. extending the cooperation conditions with the family assistance center to a larger circle of cash services provided to people in active age	the job seeking activity and working ability of the uneducated population improves	it improves the employment chances of the target group in a well-targeted and cheap way	generates tension without enlarged capacities, no real impact on employment in difficult regions unless there are related measures
5. subsidy tied to rigorous cooperation conditions, but not only for the unemployed, the amount is proportionate to the level of need	the job seeking activity and working ability of the uneducated population improves	improves the employment chances of the target group well, reduces poverty directly	generates tension without enlarged capacities, no real impact on employment in difficult regions unless there are related measures

5 PROPOSALS FOR CCT PROGRAMS TO BE USED AS PART OF THE STRATEGY

Based on the proposal of the Patriotism and Progress Foundation, only three of the programs listed in Table 6 at the end of the previous chapter were described in more detail. The kindergarten enrolment subsidy program, the early development of disadvantaged children and the proposal for a subsidy tied to strong cooperation conditions. This chapter describes these programs. As proposed by the Foundation we prepared a detailed evaluation and implementation plan for the proposed subsidies, which are contained in the last two chapters of the study (6 and 7).

5.1 Proposal for a Subsidy Tied to Strong Cooperation Conditions

We propose introducing a subsidy that is based on and transforms the existing subsidy system. The objective is to reduce the poverty of the long-term unemployed by also providing them incentives to find jobs. In the existing support system the long-term unemployed receive very little assistance in returning to the open labor market and the incentives for it are also weak. The employment offices, appointed for this task do not have enough capacity or tools to provide relevant assistance and in general they do not cooperate with other family assistance services (which occasionally would have service capacities). The benefit (especially when alternated with communal work or combined with black employment) is low, yet provides definite income contrary to uncertain and often short job opportunities, therefore there is very little incentive to find a job. The benefit amount is not proportionate to the household needs and at least 40% of those in need cannot have access to it (partly because of the unemployment conditions, and partly because of the low eligibility threshold, see Firle and Szabó 2007). The majority of the long-term unemployed are uneducated, with low productivity. Without any preparation or training very few of them can return to the labor market using their own resources, due to the high minimum wages.

According to the previous experiences, the increase of the gap between the minimum wages and the benefit did not improve successfully the job-seeking intensity of the unemployment benefit users, which indicates that other, non-financial incentives are needed (Bódis et al 2005). The incentives needed must encourage activities helping unemployed to return to the open labor market (job search, training), or develop the skills required for it (writing, reading, self-confidence, orientation, time management, etc.). Community work or cleaning yards and similar expectations are not fit for that purpose, while they also provide opportunities for arbitrary actions (Szalai 2007). The high cost of community work, which has been becoming increasingly popular in the last few years, is another factor why it needs to be reduced, because it has led to the reduction of other more effective programs.

Details of the proposed subsidy system

We recommend introducing a subsidy that is based on, and transforms the existing subsidy system. The objective is to reduce the poverty of the long-term unemployed by also providing them incentives to find jobs. As a direct impact of the proposed system, deep poverty and especially child poverty will be eased and access to subsidies will become fairer and more predictable. Its indirect impact is the reduction of long-term unemployment and chronic poverty as a result of incentives for employment and intensification of services assisting employment.

Rules of the proposed subsidy system

To resolve the problems outlined above, we recommend introducing a need-based subsidy that is subject to job search, which would be similar to the family-based regular social subsidy introduced temporarily in 2006 but would also be completed with a strong service component and cooperation condition. In this solution, in line with the international practice and having learned from the failed Hungarian attempts, the income supplementing function of the subsidy and incentives for employment would be connected primarily by regulating the cooperation conditions of the subsidy and not by calibrating the subsidy amount (see e.g., World Bank 2006, OECD 2007a,b, Roed and Westlie, 2007, Scharle 2001).

In order to ensure that the subsidy reaches the people in need and that its amount is proportionate to the actual needs:

- subsidy amount supplements the household income per consumption unit to 150% of the minimum old age pension, which is more or less the limit of the lower income decile (it is more favorable than the current figure: the unemployment benefit is a fixed amount even now, whereby a mother with three children can receive no more than HUF 22,800);
- the eligibility limit would be 150% of the old age pension minimum (it is more favorable than the current figure, as these days the limit is 90 % of the pension minimum, i.e. HUF 25,700);
- the old age pension minimum should also be increased simultaneously by at least 10 % from HUF 28,500 to HUF 31,000) in order to offset the indexation, which has not taken place since 2009;
- the consumption unit must be calculated according to the amended OECD1 standard (weight assigned to the head of family 1, second adult and first child 0.7, further children and adults 0.5), which is more vigorous than the current method, and according to empirical research, is also closer to the actual expense ratios (i.e. the increase in the family budget resulting from additional 1 person);[32]

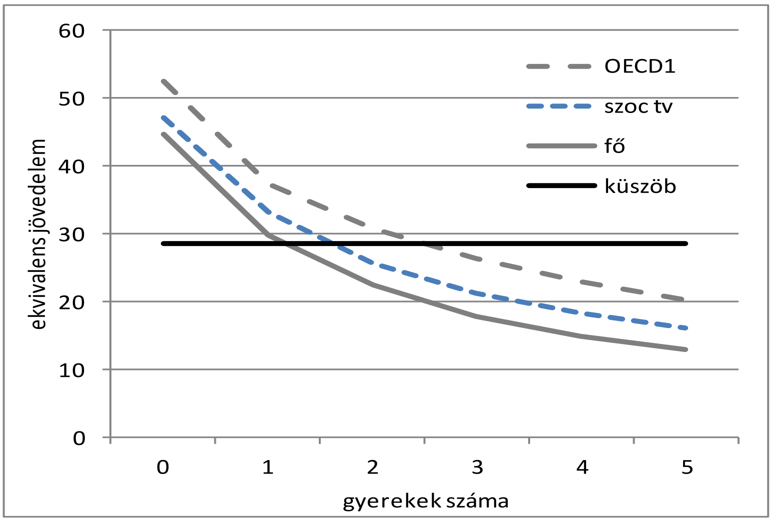
As Figure 7 illustrates it well, the currently effective Hungarian regulations are more accurate than the per capita income, but it shows the so-called equivalent income (weighted by the number of people in the household) than the OECD1 scale, if the wages are identical. This means that the current regulation calibrates the services provided based on equivalent income higher than necessary: in the case of the threshold included in the example no subsidy is payable for two children according to the OECD1 scale, but subsidy is payable according to the currently effective rules (the calculated income is below the threshold). If the subsidy supplements the equivalent income to the threshold,

[32] When per capita income is calculated, then the weight assigned to each family member is 1. For more sophisticated weights applied in the equivalence scales see Cseres-Gergely and Molnár (2008), Éltető and Havasi (2002), Gál (2007). Based on the Hungarian research, we have modified the OECD1 scale at one point: the weight assigned to the first child is 0.7 instead of 0.5.

then its amount will also be higher according to the current regulations than according to the OECD1 scale.

- The total household income must be calculated by taking also into account the welfare services (e.g., family allowance and child raising benefit), with the exception of subsidies received based on illness or disability, the purpose of which is to cover expenses higher than the ordinary expenses.
- It is a prerequisite of eligibility to subsidy that the applicant's spouse does not have assets or rights or titles worth more than one hundred times (approximately HUF 3 million) of the pension minimum (apart from his/her home) (based on the total assets).
- At employment offices always the same administrator (case manager) maintains contact with the beneficiary, but the benefit is approved by colleagues specialized in that field and not by the case manager.

Figure 7. Difference in the equivalent income calculated according to the OECD1 scale and the Act on Social Benefits based on two adults + children, one minimum wage earner and child raising subsidy



In order to provide more and more efficient assistance to long-term unemployed in finding jobs:

- A case manager is assigned to each beneficiary job seeker who is either the administrator of the employment office or the family assistance service and accompanies and assists the job seeker during the whole process of job seeking services.
- The unemployment benefit may be requested at and is disbursed by, the unemployment offices. Mobile offices are open for customer services on a weekly basis in settlements, which are difficult to access.
- At settlements that are difficult to access, employees of the family assistance services are also available for customers on a regular basis.

- The interest of employment offices in supporting employment on the open labor market should be increased. Their performance oriented operation needs to be strengthened with financial and institutional incentives based on detailed and regular monitoring.

In order to provider greater incentives for employment:

- It must be a prerequisite of the benefit that each member of the household who is of active employment age and is capable of work should cooperate with the employment office and the family assistance center. They should report to the case manager on a fortnightly basis, and agree with him/her on the tasks required for employment, as well as report on all actions taken for finding a job.

- Anyone who does not comply with the cooperation rules (does not appear at the agreed time, does not take the jointly planned action, does not accept the offered job or training opportunity that is in line with their qualifications) must be deprived of half of the benefit for one month.

- Unemployment is not a prerequisite of the subsidy and 20% of the income from employment may be deducted from the total income calculated for the establishment of eligibility (disregard). If the eligibility threshold is exceeded because any member of the household find a job, the total amount of the subsidy must still be disbursed in the first month, followed by 50% of the subsidy disbursed on the second month, and eligibility will not be terminated: within six months the subsidy could be renewed without any new application, if the individual loses his job in the meantime.

The majority of the long-term unemployed live alone or in a household of a few members. For them the above conditions could result in an increase of their subsidy by HUF 20,000-24,000 a month and some mitigation of the risk of employment (the subsidy will not be terminated immediately and it can be renewed easily, if the individual loses his job). The changes are more significant in larger households. For example, in a household of two adults and 3 children the proposal would provide HUF 158,000 income compared to the current available HUF 106,000-130,000 a month, if neither adult works. Thus, the income of poor families could get closer to the maximum of the poorest decile, i.e. deep poverty can be eased with that measure.

7. Table: Variation in the subsidy of chronically poor * households consisting of 3 children+2 adults

	Financial benefits, HUF th/month		Income/consumption unit (current)	Income/consumption unit (cor)	Beneficiary's obligations	Available services / active instruments
	Subsidy/ wages from community work	Other subsidies *				
At present without community work	22.8	83.1	25.2	31.1	Visit of the employment office in each 2-3 months, acceptance of the offered community	Job database, family assistance (to a limited extent)

At present with community work	47.0	83.1	31.0	38.3	work or training	Family assistance (to a limited extent)
At present, if takes an ordinary job	0	83.1	34.2	42.3	Immediate reporting of employment	Family assistance (to a limited extent
According to the proposal, if there is no job	72.5	85.6	37.6	46.5	Visit of the employment office at every 2-3 weeks, participation in the personally tailored program agreed with the family assistance officer/employment office	Job database, family, mobile office, transit employment, rehabilitation, second chance training, wage subsidy, family assistance
According to the proposal, if takes an ordinary job	10.1	85.6	41.4	51.1	Immediate reporting of employment, cooperation with the family assistance officer	Family assistance

** Let us assume that one of the parents is a long-term unemployed individual, and the other is on child raising subsidy. The adult taking employment will earn the currently effective minimum wages. **family allowance, maternity subsidy, home maintenance subsidy*

In the current system there are practically only financial incentives for employment: the difference between the benefit and the income available in community work (HUF 6,000) is greater than the difference between community work and an ordinary job (HUF 3,000 in the equivalent income). According to the proposal, community work would not be a mass option, long-term unemployed could typically decide between the benefit and employment (if it depends on them, and not on the labor demand). Employment is encouraged financially (the available equivalent income will increase by HUF 5,000) and partly by filling the time of the beneficiary (more frequent visits to the employment office or the family assistance center, obligatory participation in the programs improving working capacity, agreed with them.

Transformation of the related services

Other parts of the existing services should also be transformed, so that the requirement of cooperation should not be a nominal requirement, but employment offices and family assistance centers should be able to provide relevant assistance to job seekers with actual job offers and effective services (see Chapter 9.2.1 of the Annex for the summary table).

Intensive activities with job seekers are costly, which should also be reflected when the subsidy is targeted. Costs can be kept low, if those have access to services, who actually need them and those who are able find jobs based on their own resources should be provided primarily job information and money for the period of their job search. The groups of people in need of assistance and job seekers requiring information only should be identified and managed differently already in the first phase of unemployment.

In the first step the term of the unemployment allowance (higher amount) provided on insurance basis should be adjusted to the average period required for finding a new job. This average period can be calculated accurately with the help of a HCSO Employment Survey, but the calculations could also be based on a former unemployment register. Both data sources indicate that the currently applied 3-month period is too short, as in most cases the job seekers do not find a job in that period. It entails two types of risks: on the one hand, if they have other assets, then after the expiry date of the benefit they are not entitled to any other services, which occasionally imposes a disproportionately huge burden on families (e.g., they are unable to make repayments, they must sell their assets below their market price) and, on the other hand, it may also compel job seekers to accept jobs that are not in line with their qualifications or experience. This latter factor does not only reduce personal income, but also the GDP, because the human resources are not use ideally.

Consequently, the insurance-based unemployment benefit period should be increased to at least 6 months, and from then on, the regulations should state that when the long-term unemployment (i.e. the time required for finding a new job) is increasing, the period of the benefit should also be extended temporarily by a few months (according to expert calculations and based on the decision of the competent ministry).

To make sure that the benefit provided for the job search period should be close to actual needs, the currently effective housing subsidy should also be transformed slightly. The eligibility threshold is falling to twice the minimum pension, i.e. HUF 57,000 (currently it is 2.5 times the pension minimum), and the equivalent income should be calculated according to the OECD 1 scale in that case too, yet households are entitled to maximum subsidy (30 %) up to the pension minimum (nowadays up to 50%). The recognized housing costs (based on which the subsidy is calculated) is the same all over the country at the moment, but it needs to be differentiated at least regional level in order to reflect the differences in the actual expenditures.

The number of available job opportunities should be increased with instruments that are in line with the local labor market specificities. The limit available for wage subsidy needs to be raised in each region (similar to start card, but in a targeted manner), minimum wages need to be differentiated and contributions must be reduced by region. Young/non-family keepers and job seekers close to retirement (for whom it is a temporary solution) voluntary work should be offered in local non-profit organizations, where they do not only get a job, but can also develop. Transit employment should be offered to discriminate groups in public and non-profit institutions (hospitals, schools, etc.) (they provide development and work experience). There are already pilot programs in Hungary, which tie the disbursement of the subsidy to work, similar to community work, yet, contrary to the above, the work resembles more to work performed in jobs on the open market and the employer or the NGO cooperating with the employer provides also additional services that assist in finding a job later. The OFA (National Employment Fund) ÖTLET program is a good example in which (mainly young) unemployed perform voluntary work and receive development in non-governmental organization. There is another program, the TRANZIT employment program launched by OFA, in which the unemployed received training and can work in public institutions, e.g., as trainee hospital nurses.

The capacities of employment offices available for job search need to be enhanced. Job creation has to be promoted with special contribution benefits (see: start region) in regions in worse positions, and with complex regional development programs (infrastructure, public services, human resources, local enterprise development) in the worst 4-5 sub-regions.

The unemployment offices currently operate programs that are not in line with the needs of individuals or the local specificities, or the local labor market and therefore their success is at least doubtful. Consequently, the ratio of personalized instruments should be increased at the expense of traditional mass training, job creation support and community work. Within a particular framework, case managers should be able to freely purchase services or recommend services to job seekers from a much wider selection, including also market services.[33]

The supply and quality of training also needs to be improved in order to increase the employment of unskilled labor, especially young people. On the one hand, at least one training center should be established in each sub-region, where the basic skills of young adults dropped out from formal education are developed with effective teaching methods applied also in second chance schools, thus enabling them to complete the primary school or successfully pass GCSE exam. The quality of training needs to be measured (based on employment and wages after the training) and this information must be collected in an easily manageable database and made available also for the employment agency and job seekers.

If the local municipalities are responsible for the task, it is impossible to make family assistance available in all settlements with more or less identical good quality services. The professional management of family assistance centers must be controlled in sub-regional associations, whereby each association supplies no more than 25,000 residents. The sub-regional family assistance centers are professionally supervised by the methodology institution with nationwide competence, reporting to the competent ministry, they perform their work according to the methodology (which is not always consistent) approved by the supervisory agency and they regularly document their results. The professional supervision involves occasional on-site monitoring and intervention as required: the supervisory agency may assign mentors and coaches to the experts with low performance and if there is no improvement, then the managers can also propose the dismissal of such experts.

The experts of employment offices and family assistance centers may and should be trained to be able to provide services to the majority of job seekers. The supplementary services that are required for the employment of a small number of employee groups with special needs (e.g., people living with disabilities or addicts), (e.g., sign language interpretation at job interview), should be purchased from non-profit service providers specialized in them, as it is a more effective option. This is why employment offices and family assistance centers should also be allowed to enter into contracts with such civil/non-profit services providers under adequate quality assurance terms and conditions. Some of the non-profit service providers already work for employment offices, generally based on tenders on specific occasions. In order to enable them to increase their capacities and improve the quality of their services, more predictable and longer-term master agreements are needed and their financing should also be based at least partially on results. The organization of such institutions into a

[33] It is a classic example that if necessary the unemployment office can provide subsidy even for a dental treatment or for the purchase of a suit if, according to the case manager's decision they could significantly improve the chances of the job seeker to find a job and otherwise the job seeker would not have enough money to cover the costs.

network should be especially supported and their internal quality assurance instruments need to be strengthened. The institutional development required in employment offices and family assistance centers are described in detail in Sections 9.2.3 and 9.2.4 of the Annex.

Target group

The proposed new subsidy aims at job seekers of active employment age who have been unemployed for not more than six months and at employed poor people. Unemployed, who have been unemployed for a shorter period, are fundamentally assisted by the unemployment benefit. The number of directly affected individuals may vary between 200,000 and 300,000 individuals depending on the unemployment figures, while together with the family members affected by the conditions of cooperation their total could vary between 230,000-350,000.[34]

Existing implementation capacities and required development

Based on the number of the target group and the increased contact requirements, the staff of employment agencies should be increased to more or less 150% of the 4,000-member staff reported in 2008 (the relevant costs are indicated below).

It is impossible to define the cooperation and eligibility conditions and the sanctions of violation purely on theoretical basis. The conditions specified above (e.g., fortnightly visits and no withdrawal of the subsidy, if someone fails to make such visits) must be tested in advance to see when the biggest incentive can be achieved with the least deterioration of the income position. It can be achieved, if the transformation begins in pilot projects with different conditions and the efficiency of those projects is measured.

The employment offices and family assistance centers must be trained for the new tasks, e.g., to be able to accurately assess the needs of job seekers and to select those who would not be able to find a job without any assistance. The family assistance institutions should also be transformed: the organization needs to be structured at sub-regional level, the relevant legal regulations and financing conditions must be put in place and their capacities also have to be increased: on average, as well as especially by covering the currently uncovered areas (parallel with the establishment of the above quality assurance system). Information flow needs to be development between the employment agencies and family assistance centers (the existing infrastructure already supports it) and the information interfaces supporting the activities of administrators need to be made more user friendly. Finally, quality assurance should be elaborated for the work of employment offices, family assistance centers and non-profit service providers contracted by them, and methodology supervision is required for measuring results and making interventions whenever they are required.[35]

Budgetary impacts

[34] The number of directly affected long-term unemployed was calculated based on the HCSO MEF 2009 Q2 data and, assuming the ratio of long-term unemployed a specific ratio, the number of long-term unemployed during a crisis and in better periods was estimated based on the statistics published for 2007 and 2011. The number of family members was calculated based on the individual data of the HCSO MEF 2009 Q2 survey, and spouses, aged 15-61, not retired, not studying on daily courses and not receiving child raising benefit or child raising subsidy were considered to be relevant. This more or less leads to the same result as the calculations made by Firle and Szabó (2007), according to which in 2003 close to 150,000 people received social aid and further 90,000 households in needs did not have access to it either due to the too low income threshold or due to the unemployment condition.

[35] Such a plan has already been prepared for services offered to job seekers with altered work capacity, see Scharle 2009.

The extension of eligibility itself could increase the number of beneficiaries by 50,000-100,000 people, while the increase of the subsidy could raise the subsidy amount by HUF 21,000 a month also for single-person households, eligible also for home maintenance subsidy. However, the stricter consumption unit scale and the fact that transfers are also included in the family income reduce the expenses. The overall impact of those can be estimated more accurately with a micro simulation model, which we do not have. Our volume estimate was based on the most costly outcome[36]: accordingly, the extension of the subsidy will entail HUF 75-90 billion additional expenditure in the short-term (at the time of introduction).

The number of subsidized households will not necessarily decrease in the mid term, if the eligibility threshold is defined with a relative measurement, e.g., by making always the poorest decile eligible. In the medium-term the government expenditure can be reduced by two factors: on the one hand, subsidy beneficiaries can work under more flexible eligibility regulations, and therefore the average subsidy amount can decline and, on the other hand, the subsidy-related services can successfully reduce long-term unemployment and chronic poverty, as well as their additional social expenses (health services related to more frequent illnesses, failure of children at schools, etc.).

With cautious assumptions, a stronger cooperation obligation can reduce the consumption of subsidies by 3-7% in the short term (through an increase in employment and reduction of abuse), which, as an annual average, could reduce the number of long-term unemployed requiring subsidy by 7,000-16,000 individuals. Calculating with HUF 30,000 average subsidy, it would generate HUF 3-6 billion savings a year. If 50% of the individuals leaving behind the subsidy could find jobs with minimum wages, they would generate further HUF 1-2 billion revenues for the budget. The costs of more frequent visits should be deducted from that figure: calculating with HUF 250,000 gross administrator wages and 350,000 customers, as well as the cost of the fortnightly 30-minute meetings, it would not be more than 9 billion a year. The total cost of the initial investments (training of administrators, methodology development, enhancement of customer service premises) would be no more than HUF 1-2 billion[37] which could be financed also from EU resources.

The total cost of the new subsidy system in the fourth year of the nationwide implementation is estimated at net HUF 47 billion without any impact on conduct yet the majority of the additional expenses can be financed from the full or partial termination of the less effective traditional active instruments. In the 2012 budget it would involve approximately 13% increase compared to the approximately HUF 320 billion expenditure projected for such purposes.[38] It would be supplemented by steps aimed at the enhancement of labor demand, the annual direct cost of which is estimated at

[36] At that time compared to 2007, (when 200,000 people received on average HUF 26,000 subsidy each month) the number of beneficiary households will increase to 235,000, i.e. we could also reach those who did not apply for the subsidy earlier due to lack of information or due to a stigma, or they were not eligible fro it according to their income conditions. If we disregard the rigorousness applied on the equivalence scale, then the average subsidy amount will increase by HUF 21,000. The average subsidy increases more for families with many children, but there are few such households, and in such cases it is partly offset by the application of a stricter consumption unit scale and the inclusion of the transfer incomes.

[37] The total headcount figure of the employment service network is approximately 3,500-4,000 employee., If it is raised by one-and-a-half times and HUF 100,000 is spent on the training of each administrator (with which the cost of a few-day training is overestimated) the total would still be lower than HUF 1 billion. The managers of employment offices and the national office (approximately 200 people) and the methodology experts could require somewhat more costly trainings, but as there are few of them, the training would not cost much either.

[38] The calculation includes benefits, job seekers' allowance, cost of operation of employment centers and active labor market instruments financed from Hungarian resources.

HUF 187 billion (calculated in HUF in 2012).[39] The background calculations related to the expenses are described in the annex.

The risks of the proposal and the recommendations for the required professional consultations are summarized in Chapter 6, which evaluates in more detail the proposed subsidy system.

5.2 Proposal for a Benefit Improving Access to Early Child Development

The purpose of the proposal is to improve access of disadvantaged children to early development and to prevent and reduce their consequential setbacks at school. Premature birth is more frequent among mothers with low education (nutrition habits, lifestyle, housing conditions).[40] Most frequently it involves low weight, disorders in the locomotive or sensory organs, which problems can be managed well if detected early, otherwise the children may lag behind in cognitive development. For disadvantaged mothers, early detection and development are limited also by the inadequacies of the locally available services (there is no district nurse, pediatrician or local practitioner at all, or they have an excessive workload), lack of information and the costs of treatment (especially the travel expenses).

According to the proposal, travel vouchers (pass) would be provided to disadvantaged pregnant women and mothers with small children (aged less than 5) under the condition that they use a package of services containing advice and early development. The services would be provided partly by duly trained district nurses and partly by specialized education or health institutions, in the homes of mothers, or in close institutions (e.g., community center, Safe Start children's house, nursery, communal space established next to the doctor's surgery, etc.) and in regional specialized institutions providing early development services.[41] The voucher would be provided monthly or weekly, in line with the tariff conditions of the local public transport companies, in the form of passes required to have access to institutions providing development services. The passes could be purchased by the local family assistance or child welfare services based on a certificate issued by the district nurse, for the period of development required for the child.

Any mother is considered disadvantaged who did not complete more than eight classes of primary school. Low-educated women giving birth in perinatal intensive centers[42] or transferred there would be eligible for the benefit; the district nurse operating in their residential area would be notified about it by the perinatal center.

Supplementary measures

[39] We made the calculations disregarding that the reduction of contributions will reduce also the wage cost of the public sector, which could reduce the total burden of the proposal on public finances.

[40] Apart from premature births, slower development within the uterus (so-called atrophy) is also classified in the same category in the medical practice.

[41] If required, the settlements that are difficult to access would be visited by developers themselves (see the mobile service: http://www.barcziiskola.hu/egyseges_gyogypedagogiai_modszertani_intezmeny/utazo_szakemberhalozat).

[42] Perinatal Intensive Center (PIC), or Neo-natal Intensive Center (NIC), for more details see Lannert (2009).

The district nurses and other experts providing practical advice to parents (nursery, family day-care centers, and pediatrician) receive preparatory training about the early development methods and instruments for involving parents.[43]

In order to ease the excessive workload and increase the motivation of district nurses operating in disadvantaged districts, district nurses should be allocated on a differentiated basis by making sure that the maximum number of children to be served in disadvantaged districts cannot be higher than 70% of the nationally effective maximum (it is 250 children at present). At least the average normative subsidy should be payable also for smaller districts.

In order to improve access, we propose a separate normative subsidy supporting the transportation of district nurses in disadvantaged regions and supplementary resources also to fund vacant district nurse positions (with the support of the relevant municipalities, or in a centrally managed way, similarly to the practice program).

Target group

The neonatal intensive departments treat 6,000-6,200 ill premature and newborn babies each year.[44] In relation to one-fifth of the live births, the mother completed no more than eight classes of the primary school,[45] so by assuming that premature birth is twice as frequent as average among uneducated mothers, then mothers are disadvantaged in 40 % of the premature births.[46] As a rough estimate, each year 2,400 women and newborn babies could join the program in the country each year. Some children require development for five years, others can catch up with their contemporaries in 1-2 years. Considering that, the total number of the target group would be approximately 5,000 by the time the gradually implemented program reaches its peak.

Existing implementation capacities and required development

District nurses deal with children, aged 0-3 years and aged 3-6 years, not attending kindergartens, and they also visit families; in general they perform preventive services, not only with regard to children but also with their families; they provide advice and support in healthy nutrition, a loving and safe family background, the organization of everyday life, distribution of work within families and raising children.

According to the 2009 year end figures of the National Public Health and Medical Officers' Service there were 3,990 district nurses in Hungary, and according to the HCSO regional database, including also the senior district nurses (111 district nurses in 116 senior position) in total 4,881 district nurses worked in Hungary, while there were 250 vacant positions, primarily in smaller villages. In total 8% of the children aged 0-5 years live in the districts without services, in which the regions in worse situ-

[43] For the accredited training see: http://www.koraifejleszto.hu/index.php?ln=hu&p=text&id=32&m=14

[44] http://gendiagnosztika.hu/koraszules

[45] HCSO 2010 data, total number of live births 90,335, in relation to which the mother did not have a GCSE: 30,679, mothers with no more than eight classes of primary school: 17,887. http://portal.ksh.hu/pls/ksh/docs/hun/xftp/stattukor/hazaitermekenysegt.pdf

[46] We could not find any national statistics, according to László Szerafin, János Jakó (2010) in Szabolcs county the number of premature births was higher than twice the national average among women who gave birth in 2008.

ations are underrepresented.[47] The accessibility of district nurses is somewhat better in underdeveloped counties, but it is worse in smaller settlements where unemployment is high.

Even according to the currently effective regulations, district nurses perform numerous screening examinations and prepare measurements forming the basis of early development, but the information collected by them does not constitute a single database and it is not sent automatically to institutions specialized in development (Herczog 2008). However, the performance of their mandatory tasks entails considerable administration. Effective data management and transfer and administration reduction could all be achieved by establishing a single district nurse information system. This nationwide single free user friendly software and database with online access could assist district nurses in the documentation of their tasks and could potentially replace at least half of their paper-based administration.[48]

Cooperation between the experts concerned should also be improved. In order to achieve that, we propose elaborating/developing and introducing a reporting protocol for all actors involved in health preservation and early development and measuring and controlling practical operation. We also recommend actions encouraging cooperation between district nurses, local practitioners (district pediatrician) and family assistance/child welfare services, which could involve shared further training and methods of discussing cases, or communication skill development trainings.

Budgetary impacts

According to the official educational statistics in the 2010/2011 academic year nearly 2,000 children aged 0-5 years benefited from early development.[49] It can be considered a low estimate, as based on other sources Lannert (2009) estimated the number of children benefiting from institutionalized services at 5,000-6,000 already in 2008. According to the data of the Office of Education in 2011 in total 184 non-educational institutions provided early development services, of which 38 operated in Budapest. Based on that we assume that there is at least one development institution in the majority of the 174 sub-regions, but in some counties there could also be a need for such development of the existing institutions or, temporarily, also for the transportation of developing teachers.[50] According to a rough estimate, the cost of operation of the program nationwide would be HUF 1.5 billion in the first year and HUF 2 billion in the fourth year. The investments required in the first 1-2 years (training, capacity increase, IT developments) would cost further HUF 0.5-0.7 billion.

[47] According to the information received from the chief district nurse, in 2011, 101 of the 250 vacant positions were in disadvantaged sub-regions.

[48] Herczog (2008) already made a proposal for the required development and they are included among the objectives of the SROP 6.4.1 priority project, which will be launched in 2012.

[49] Source: Educational Statistics Annual Book, page 159.
http://www.kormany.hu/download/4/45/50000/Oktat%C3%A1si%20%C3%89vk%C3%B6nyv-2010.pdf

[50] If we take the number of infant deaths/ one live birth as the indicator of the local development capacities, then according to the 2009 annual data capacity development is most urgently needed in seven sub-regional centers, where this indicator is outstandingly bad.

8. Table: Estimated costs of the program at 2012 prices

	First year	Second	Third	Fourth	Fifth
Children requiring early development (number)	6000	9000	10500	11250	11625
Of which: target group (number)	2400	3840	4704	5222	5533
Operation, HUF million*					
Passes	478	765	937	1040	1102
Smaller district nurse districts	281	449	551	611	648
Transport support to district nurses	59	59	59	59	59
Separate funds for vacant positions	54	54	54	54	54
Development capacity	53	53	53	53	53
Capital investment, HUF million					
Training of district nurses, nursery development teachers	200	100	100	100	100
IT system	400				
Quality assurance system development	20				
Total, HUF billion	1.5	1.5	1.8	1.9	2.0

*Cost of passes: assuming that the majority of the participants live on average 15 km away from the regional development institution, and that the minority (20%) live on average 40 km away. The figures were estimated based on the currently effective Volán pass prices without VAT. For *smaller district nurse districts*, we calculated 1 additional day of work each month to supply the target group, while the wages of district nurses were calculated at gross HUF 160,000. The *transportation subsidy of district nurses* would provide subsidy covering the cost of a Volán pass for 15 km in the worst 10% of the districts. In the *vacant positions* the 110 districts in disadvantaged sub-regions would receive 20% of the district nurse wages. The extension of *development capacities* refers to the wages of additional two experts in seven sub-regions (based on gross HUF 250,000 wages).

Risks of the proposal

In regions where there is a large number of disadvantaged mothers, there are relatively many vacant district nurse positions, or district nurses substitute each other in performing their tasks. The increase of early development tasks in those districts would impose a relatively greater burden and could easily lead to burnouts.

The administration burden of district nurses is already large, and therefore any additional task could be resisted, which would deteriorate the quality of implementation.

The development of communication skills is missing from the basic training of district nurses: the majority of district nurses are not prepared for passing on information or developing parent skills with a facilitating approach. Without that, the advisory and information supply activities will be less effective, especially in the case of uneducated women.

The current workload of institutions engaged in early development is uneven, and therefore the quality of services could deteriorate and/or the waiting period could increase, if the estimated additional workload is not reviewed in advance, or if the additional tasks are implemented but the targeted development of the capacities will not rely on them (Lannert 2009).

Without detailed information about the logic of the proposed intervention, a large number of institutions (especially municipalities and transport companies) could have doubts about the program. As in many case early developments does not take place at the children's place of residence, the direct environment will only be able to detect the "free pass" component of the program. Therefore, those who already think that the benefits provided to the poor are excessive could easily include those among the unnecessary public expenditures, which could undermine the political support of the program.

Proposal for technical consultations

Consultations are required between the professionals and institutions affected by the measure (district nurses, pediatricians, early development institutions, family assistants and municipalities), as well as with active experts involved in methodology development.

5.3 PROPOSAL FOR THE EXTENSION OF THE KINDERGARTEN ENROLMENT SUBSIDY IN LINE WITH THE REDUCTION OF THE LOWER AGE LIMIT OF KINDERGARTEN ADMISSION TO TWO YEARS

The purpose of the proposal is to prevent the inheritance of poverty with early development of disadvantaged children, which can also have them improve their performance at school and subsequent employment opportunities.

Children of undereducated parents attend the nursery or kindergarten in a much lower number and in a much shorter period than the national average, yet they would need most early development compensating for their disadvantages at home. According to the calculation made by Kézi and Kertesi (2011), more than two-thirds of the 3-year-old children and almost 50% of the 4-year-old children of mothers who did not even complete eight classes of primary school do not attend kindergartens. If there is a shortage of capacity, the children of higher status families win the limited number of available kindergarten places against children coming from lower status families. This is the result of partly the lack of information available for the parents, partly the social distance between parents and the kindergarten (which cannot be bridged by teachers), and partly due to the lack of places in nurseries and kindergartens. The rigid separation between the nursery and kindergarten by age is not supported by professional arguments, yet occasionally this borderline limits the utilisation of capacities. It is slightly eased by the fact that as a result of the modifications of the Public Education Act made in 2009 2.5-year-old children can be enrolled into kindergartens from 1 September 2010 if there is no shortage of places and from 1 September 2011 normative subsidy can also be requested for them. The last amendment of the law, which makes kindergarten attendance mandatory from the age of 3 also eases, but will not resolve the problem, because this measure itself will not reduce the shortage of places and will not improve the relationship between parents and kindergartens.

The proposal would modify the kindergarten subsidy introduced in 2009 based on previous experiences, partly in order to provider greater incentives to parents and partly to improve access to, and quality of, the service, which is set as a condition.

- Transformation of the kindergarten subsidy: 4 x HUF 6,000 p.a. in cash instead of 2 x HUF 10,000 p.a., under two conditions: (a) children should regularly attend kindergarten, and (b) their parents should also regularly attend the parent-children activities organized in the kindergarten fortnightly;

- Gradual reduction of the lower age limit of kindergartens to 2 years (not as a mandatory, only as a permissive age limit); the maximum and recommended group size is also smaller in the group of 2-year olds, while the normative subsidy is higher than in the group of 3-year olds;

- Elimination of the shortage of kindergarten places in three years with general incentives (increased normative subsidies to smaller settlements operating in disadvantaged regions, preference to expansion instead of refurbishment in the applications for EU support available for construction and preferences to sub-regions with capacity shortages, increase of the maximum parent contribution, accompanies with automatic exemption for disadvantaged parents) and with targeted interventions (survey of settlements with acute capacity shortages, legal or financial incentives for expansion in line with local characteristics);

- extension of kindergarten services: kindergartens provide also services that develop parental skills (organization of birth groups, and parent-children activities, regular visits to the homes of families developing parental skills, etc.)

The targeted improvement of access to early development proposed above would ease the severe dysfunctions of the Hungarian public education (the inability to offset the disadvantages stemming from home), and would also help prevent the inheritance of poverty, it would comply with good international practices (see Kertesi and Kézdi 2011), achieving all that on the basis existing capacities at a low cost.

In order to improve the quality of kindergarten education we propose supplementing the above with an increase in the competence of the office of education, by extending its functions to the professional control of kindergartens and the related data collection. Occasionally professional control would also include on-site monitoring and interventions as required: the office could send mentors and coaches to underperforming kindergartens and if there is no improvement, the office could also propose the dismissal of the manager.

Target group

The proposal would improve the position of primarily parents with no more than primary school qualifications and their children aged 2-4 years. Based on the 2005 annual HCSO Micro Census data, the total proposal would affect more or less 100,000-120,000 mothers who do not have GCSE-s and whose children are aged between 2 and 4 years. In addition, the kindergarten subsidy payable to mothers with no more than eight classes of primary school qualifications would related to no more than 9,000-10,000 families.

Existing implementation capacities and required development

The experts and expertise required for training are available, although some of the capacities of the office of education (or other suitable agency) should be developed for organization, data collection and the measurement of impacts. A 10-12-member staff should be established for that, who would operate as supervisors of mentors recruited from local experts in each region and would coordinate nationwide methodology development and reviews.

We recommend preparing a single kindergarten register as proposed by Kertesi and Kézdi (2011), to survey the physical condition, budgetary position and staff of kindergartens. The subsidies for expansion can be planned on the basis of those data.

We also recommend further steps in order to develop the pedagogical and early development activities of kindergartens, and especially the quality of their contact with parents. Early development related skills should be taught in the basic education of nursery and kindergarten teachers as a mandatory subject (detection of underdevelopment, training opportunities, adequate period of involvement of adequate experts). Practicing kindergarten teachers must be trained for new tasks related to early development, for maintaining contact with disadvantaged parents and for ways involving parents into their activities. Better quality assurance is required in the early development activities of kindergartens, improvement is needed also in the measurement of results and in the capacities of the Office of Education conducting methodology inspections and intervening accordingly.

Cooperation with local experts requires improvement (primarily with district nurses, family practitioners, schools and child protection services). It requires a single, common information system, with the help of which experts responsible for children can share with each other the data of children and expert evaluation of their development, as well as the documentation of the development activities. The student ID-s should be allocated *from the potential lower age limit* of kindergarten attendance, i.e. 2 years, instead of at the time of admission into the first year of the primary school.

Budgetary impacts

According to the calculations of Kertesi and Kézdi (2011), if the kindergarten attendance ratio of children aged 3-4 corresponded with the lower middle class ratio in the intersectionally disadvantaged groups, then there would be 9,000-10,000 more kindergarten pupils. The kindergarten attendance program introduced in 2009 was able to reach 15 % of those children. Nonetheless, the cost of the program is only HUF 250 million p.a. The costs of further expansion would not reach HUF 1 billion a year, even including the methodology development.

Risks of the proposal

Without the expansion of kindergarten capacities and methodology training promoting the relationship between parents and kindergartens, any further expansion of the program could lead to tensions and increase congestion in kindergartens, thereby imposing a threat also to the original objectives.

An information campaign, describing the logic and details of the services is required in order to make the majority environment accept the cash subsidy, during which the focus must be on opportunities and child poverty (or some other positive widely accepted values). This is how the risk can be reduced that the general public would reject the change merely based on the amount and form of the subsidy (it is provided for something, which is “an obligation of a parent ”).

Proposal for professional / social consultation

Consultations are required with the representatives of the occupations and institutions affected by the proposed measure (nursery, kindergarten, family assistance centers, municipalities), with experts active in methodology development (NCSSZI, BDDSZ, Non-profit Association of Hungarian Family Day Care Centers, Wonder Family Association, etc.), and experts quoted in the used technical literature.

Detailed information must be provided to the residents, describing the problems and presenting, in a simple way, supported with facts, the advantages observed in children of uneducated parents at the beginning of their school education and how it may lead to subsequent failures could ruin their chances on the labor market and how that can all be prevented with a small investment with the help of pre-school development.

6 EVALUATION OF THE PROPOSED SUBSIDY SYSTEM

6.1 IS THE PROPOSED SOLUTION EFFECTIVE AND EFFICIENT?

Apart from eligibility for subsidy, the disbursement of the unemployment benefit is subject to other conditions in the majority of the advanced welfare states. Those conditions ensure that only those individuals can receive benefits who are actually unemployed (or actively look forward and are capable of taking employment), and who are willing to cooperate with the employment agencies in order to find a job.

The theory of the conditions of justification is based on the fact that unemployment benefit reduces the willingness to look for a job because it provides a living without work. However, this impact can be offset with cooperation requirements and related sanctions (OECD 2000, quoted by Scharle 2001). This can be applied in several ways:

(1) Narrowing effect: individuals are excluded from the subsidy who are in fact unable to work (e.g., they are ill or they care for family members);

(2) Direct behavioral impacts: conduct and activities increasing the chance of finding a job (e.g., availability, individual job search, acceptance of the offered job, participation in re-training, etc.) directly increase the probability of finding a job;

(3) Indirect behavioral impacts: the rigorous requirements (e.g., frequent visit to the employment center, detailed documentation of the job search activity) may lead to such a degree of discomfort that encourages the beneficiaries to leave the unemployment status and to find a job as early as possible, and deter those even from applying from the benefit, who do not wish to comply with the requirements of active job search.

The encouragement entailed in stricter regulations is also confirmed by empirical researches (OECD 2007a). Micklewright–Nagy (2006) reviewed that issue on Hungarian data resulting from an experiment conducted in employment offices of six counties. In that experiment, unemployed individuals, eligible for the unemployment benefit, were randomly divided into two groups: the members of the experimental group were controlled more rigorously by the employment offices than the members of the control group. A greater employment probability was detected in the "managed" group, although the difference was significant only among women aged 30 or more, and the advantage observed in employment decreased significantly parallel with a rise in the unemployment ratio. According to research by Galasi and Nagy (2008b) the job search agreement, introduced in 2003 (first on a voluntary basis, then as a mandatory agreement from 2005) significantly increased the job search intensity of individuals. While in 2004 slightly more than 50%, in 2007 nearly two-thirds of the registered unemployed were actively looking for jobs.

On of the rules of justification is the acceptance of the offered job, which is applied in almost all countries. There are several solutions for that: the rule may extend also to the offered training, and to jobs, in the creation of which the subsidizing organization was also involved in some way. There are several degrees in that contribution: one extreme is the mediation of jobs on the open market, and the other extreme is community work.

The transformation series of the Hungarian unemployment services affected primarily financial subsidies and, to a lesser extent, employability or the services improving job searching skills. The services offered to the long-term unemployed remained especially inadequate: they are either missing or are accessible only in a few employment offices to few customers (Nagy 2008, Ráczné 2007). The unemployed receiving benefit have little chance for being picked for active labor market programs – in most cases community employment is their only opportunity (Galasi and Nagy 2005, 2008a).

Over the last three years the number of people working in community employment and the resources allocated to it grew record high and doubled compared to the amount before 2008 and increased by almost tenfold compared to 1995 despite the fact that the efficiency of community employment was not certified either by international or Hungarian experiences.

Several factors contribute to the long-term low employment of the uneducated population: low productivity, yet high minimum wages, structure of the Hungarian economy, which requires much less simple trained work than before and the de-motivating impact of subsidies and other welfare services. Community employment is unable to influence any of those factors in the long run or on a mass basis, and even in the short-term it is suitable for no more than a temporary increase in the labor demand and better motivation.

According to the previous research, community employment clearly reduces the chance to find employment, which may be related to several factors (Firle and Szabó 2006, Csoba and Nagy 2011, Köllő and Scharle 2011). On the one hand, community employment generally involves simple tasks without any development of the working capacity, and generally those are sent to community employment whose chances of finding a job are deemed low by the employment agency. It could also become a self-implementing prediction, if employers also know that the productivity of community workers is weaker than average and therefore they are less willing to give a job to those who worked as community workers before. On the other hand, the possibility of community work reduces incentives for looking for a job because alternating with the unemployment benefit it provides a low but predictable income and it also reduces the time available for job search: parallel with community work there is less time to look for job opportunities.

Firle ands Szabó (2007) used the individual penal data of the HCSO Employment Survey 2001-2004 to examine the chances of the unemployed receiving benefit and community workers to find a job. After the elimination of the observed individual attributes (age, family status, sex, education) according to their results, community workers have 6-9% less chance to find a job (not subsidized) in the subsequent quarter than the other long-term unemployed. Csoba and Nagy (2011) analyzed the subsequent status on the labor market of the participants taking part in labor market programs in a survey conducted in August-September 2010 based on individually completed questionnaires. According to their results compared to the control group (registered unemployed not participating in any program) community workers had less chance to find a job on the open labor market, and therefore the more time spent in community work, the less chance they will have to find a job. Köllő and Scharle (2011) analyzed the influence on long-term unemployment of community employment organized by the municipalities between 2003 and 2008. According to their estimates made on the basis of settlement level administrative data, the impact was small but positive, i.e. the more a municipality spent on community employment, the less long-term unemployment decreased.

The State Audit Office looked at the effect of the cost of community employment twice, in 2002 and in 2007, based on the data of on-site inspection and the unemployment register. According to their conclusions, the employment plans taking people back to the primary labor market were not important, the municipalities' short-term financial interests and labor demand were the dominant factors. There are no incentives for that, because efficiency is not one of the criteria in the valuation of applications and practically all applications are accepted as long as they fit within the available framework.

Compared to other labor market programs, community employment is rather expensive, and therefore any increase in community employment can be financed only at the expense of other more effective programs according to the experiences found in Hungary. Between 1995 and the recent years all community employment was financed from the Labor Market Fund, to a lesser extent from the reduction of subsidies and to a greater extent by taking resources from other programs.

Consequently, the proposal builds the incentives on other types of employment: on programs, similar to community employment, but supplemented with training and mentoring (voluntary work), or work testing type (transit) programs, or incentives for looking for jobs on the open labor market.

6.2 Feasibility of the proposal

Suitability of the implementing institutions

The proposed subsidy system would be operated primarily by the employment offices and the family assistance services cooperating with them, while the employment agency (new name: National Employment Office), supervising the offices in terms of methodology, would be responsible for establishing the new system. The customers of the employment offices already include long-term unemployed and the employment offices also decide upon eligibility of the individuals entitled to job search allowance. The proposal may represent a challenge to the existing institutions by requiring more activity and personal attention from administrators in services provided to the long-term unemployed. This requirement is in line with the modernization of the employment office services, which started in 2002, which tried to shift the daily operation of the employment offices from a regulatory approach towards a service provider approach. According to the external evaluation of the modernization program, development brought numerous significant results: implementation of a single integrated information system supporting both administration and developments and their analyses, elaboration of a self-assessment system enhancing organizational awareness and customer friendly transformation of the interior of the modernized employment offices. According to the multi-variable analysis of the employment office level data, the developments also significantly improved the chance of registered unemployed to enter the open market. Based on the approximately 440,000 average registered unemployed in 2008, this means that each month approximately 5 % of the total number, 19,000 registered unemployed will become employees working on the open market, and approximately 1,440 of them are able to find a job, owing to the measures of the program (Cseres-Gergely and Scharle 2010).

There is also some history behind the cooperation of employment offices and family assistance centers. Between 2004 and 2008 the municipalities were responsible for services provided to the long-term unemployed, the employment offices (generally parallel with the local family assistance center) were responsible for controlling cooperation and organizing community work. The increasing attention towards disadvantaged employee groups (mostly long-term unemployed or groups using other welfare services) and the new active instruments launched for them made cooperation between the two institutions more intensive. The common information platform, specifying the administrative tasks with regard to the shared customers was established within the framework of the Road to Employment Program, launched in 2009. Municipalities and the employment agencies operate this platform jointly.

Accountability of results

The most important output indicator of the proposed system is long-term unemployment and employment on the open labor market of the long-term unemployed. Both indicators can be measured and therefore accounted. The added value of the implementing institutions can be established based on the individual characteristics of the customers and the local labor market conditions.

Costs of the proposal

The costs of the system are higher than the 2012 expenditure, but it is explained primarily with the series of restrictions applied over the last two years: compared to the level of expenditure observed in the previous years, the proposal requires primarily re-allocation, more effective distribution of resources and not a higher expenditure. In the medium term the impacts expected from the proposal could contribute to the reduction of expenses and could also enhance the revenues of the budget. The expenses can be cut parallel with an increase in the ratio of people finding jobs (lower demand for benefits) and the easement of the longer-term additional consequences of long-term unemployment (deteriorating health condition, children's failures at school). The revenues can be increased with the contribution payments made by the new employees.

Risks of the proposal

The political and implementation risks of the proposal can be clearly distinguished.

It is a political risk that, similarly to the previous attempt made in 2006, the local public will not approve an increase in the amount of the subsidy and, e.g., with regard to Roma families with many children it may even lead to such a degree of dissatisfaction that may compel the withdrawal of the measure. In order to prevent that, employed poor people should also be made eligible for the subsidy, which must be applied for at sub-regional level, away from their local communities and the cooperation obligation is a lot more intensive and will be extended to all family members. There is also a need for a campaign describing the logic and details of the new subsidy, focusing on opportunities and reduction of child poverty (or on other positive and widely accepted values). This is how the risk can be mitigated that the public rejects the change purely based on the amount of the subsidy.

It is a risk inherent in implementation that the institution responsible for implementation cannot be motivated, that there are not enough experts locally (especially in disadvantaged sub-regions), there are not enough funds for training, active instruments, travel subsidies and that there are no qualified experts to train the administrators. Such risks can be mitigated by prior assessment of the inadequacies and gradual implementation adjusted to them[51] with targeted additional resources and related development described above.

The following table summarises the risks related to the individual components of the proposal and the potential management thereof.

9. Table: Main steps of the proposal and the risks associated with them

Goals and instruments	Risks	Management
1.Encouragement of job search		
Reduction of the social security by 2 percentage points	Shortage of funding	PIT or wealth tax increase and impact study (recovered)
Targeted increase of wage subsidy	Shortage of funding	impact study (recovered))
Differentiated reduction of minimum wages to 30% of average wages	Trade union resistance	To “sell” in a package: the benefit period increases from 3 to 6 months, subsidy may be requested also in employment
Complex regional development	The implementing institutions do not learn from former failures	Involvement of NGO-s, thorough preparation, flexible financing framework with thorough monitoring
2.Development of institutional capacities and instruments		
Family assistance centers and employment offices: training, capacity increase	Shortage of funding Lack of adequate experts (trainers) at the time of nationwide introduction The other tasks will be pushed into the background during the development of the family assistance centers (child and youth protection, caring for old people)	Re-allocation from mass active instruments, perhaps by reducing the partly replaceable administrative burden, impact study (recovered) Preparations: the training of trainers should start during the pilot Involvement of NCsSZI
Development of personalized active instruments: voluntary work, transit employment, rehabilitation	Limited NGO capacities	Involvement of OFA and civil experiences, preparations: NGO development should start already during the pilot
Development, testing and training of a profiling tool	Resistance of employment office administrators: they fear for their autonomy	Involvement of administrators from the start of development, impact study (it works), to sell in a package: greater freedom will be given to them in the use of active instruments
Second chance schools network	The competitors (those teaching	Transition planning (see below), im-

[51] The British system is a good example for gradual implementation, where the services of the employment offices were extended similarlyx in several years (job center plus). In the first few years the program was tested in the worst sub-regions, the results were measured on a continuous basis and wherever it was necessary, the instruments were modified.

Goals and instruments	Risks	Management
	with other methods) are against it	pact study (the second chance methods are effective)
Quality assurance of adult training	The trainers resist it , it violates their interests	Transition planning, temporary and partial compensation of losers, involvement of stakeholders (employment offices, students, good quality trainers), impact studies (uneven quality, the state subsidy will not be covered)
Family assistance in sub-regional level	The municipalities resist it (their powers reduce, they are concerned that quality will deteriorate)	To convince them that quality will improve by increasing capacities and putting in place a mobile service (see also 3B)
3.Needs proportionate yet accessible, and motivating subsidy		
A More frequent application, available also for family members	Administrators resist it: psychological costs	Involvement of the family assistance centers: they have more information and tools
B The subsidy is assessed by the sub-regional employment office, and its amount depends on the needs	Municipalities resist it (their powers will decrease)	To sell in a package: responsibility will also be lower, to involve them in the complex development in the transit program, to promise them a share from the yield
C Personalized assistance for finding employment	There are not enough experts for providing services	Preparation: training of trainers and capacity development of non-profit service providers should start during the pilot
Increase of the period of job search allowance to 6 months	Shortage of funding	Convincing: according to international experiences, the 3 months is an unusually short and ineffective period
Initial situation, regular measurement of inputs and outputs, impact study	Employment office may be against detailed measurement, others can see their work and they can become accountable	Convincing: if there are no measurements / impact study, there is no evidence that capacity increase will be recovered, and the next government will take it away

6.3 Acceptability of the proposal

The approach outlined in this proposal is not alien to the implementing institutions (employment offices and family assistance centers). According to the experiences of the former sporadic studies and interviews related to former projects of the Budapest Institute there is greater commitment, professional openness and internal motivation in both organizations than in an average public administrative agency (Bódis 2012, Cseres-Gergely and Scharle 2010, Balás et al 2011).

The proposal does not only recognize the importance of the activities of the two organizations, but it also specifically builds on it and increases the resources allocated for such purposes, and therefore it is unlikely that the stakeholders would find it difficult to approve it. However, it is a prerequisite that the government should be able to credibly communicate its plan for the introduction of the system and to increase the resources and capacities required for the tasks. It may still happen that in some family assistance centers operating in certain sub-regions (primarily in disadvantaged regions), it will be difficult to gain unmotivated and burnt-out experts, working with a huge workload for a long time to support the change. These potential hindrances must be assessed during the benchmark survey and remedy needs to be provided with supplementary training, coaching or, as an ultimate resource, by replacing the experts, and offering other less demanding jobs.

The proposed new system brings improvement for the target group in most cases: their income position will improve and the number of services assisting them in their job search activities will increase. This is why it is likely that the majority will easily accept the new system. Occasionally, resistance may be expected where community work has not been widely used to activate unemployed people on benefit in the last few years either (typically in large towns) and where a lot of people work on the black market, which becomes more difficult with the more frequent visits.

According to the former Hungarian experiences more doubts could occur in relation to the acceptance by the public. According to the latest research by Medián, approximately half of the population agree with general unconditional support provided to people in need and further approximately 20% accept that those who deserve it should be supported (see Section 3.4). The development of a resistance wave, similar to the one that followed the 2006 reform could be prevented on that basis, by stressing the stricter cooperation conditions.

It may be necessarily primarily in smaller settlements, where mayors have traditionally supported the regulation of people living on benefits, primarily in the form of community employment, which provided additional resources for the community (Balás et al 2011).

Table 10 summarises the strengths and weaknesses of the proposed instrument in terms of its suitability for introducing a larger scale strategy and providing indication about its political costs in support of decision-making.

10. Table: Professional and political advantages and risks of the proposed subsidy system

What are the results, how does it serve the long-term objectives?	Strengths, opportunities (professional)	Strengths, threats (professional)	Choice of values	Acceptance: “natural alliance” – who should be convinced?	Acceptance: “opposition” – who would prove to be the most difficult?
The degree of poverty decreases, the activity of uneducated population increases and their working capacity improves	It reduces deep poverty, and encourages employment	It generates tension without any capacity increase, it may deteriorate the impact of other services in bad regions, there is no relevant impact without relating tools	Balance of rights and obligations	The leftwing politicians and social workers and social trade support the increase in the subsidy amount	With Jobbik, and far-right policy makers and even rightwing politicians: “will they get money to look for a job?”

If there is a change of government after the 2014 elections, there may be strong pressure for increasing subsidies immediately, especially if leftwing parties dominate the new government. In such a situation it is difficult to argue for the phased introduction of the proposal, but by referring to budgetary limits (or perhaps to the failure of the subsidy reform in 2006), it would be worth trying to cool down the tension by increasing the term of unemployment benefit to 6 months. This could give time to begin the increase of the subsidy only in phases, as proposed, by requiring strong cooperation and intensifying labor demand.

A further risk of implementation is that, as indicated also in the subsequent chapter, the time intensive pilot phase does always fit in one political cycle. Consequently, we should also think about how to ensure the continuation of the project in case the government changes again: we shall make proposals for that in the next part.

Incentives for the stabilization of operation of a particular instrument

One of the prerequisites of the success of any policy aiming at the mitigation of durable poverty is stable operation for years, because only then is there a chance to influence the processes creating and sustaining poverty. The chances on the labor market of a child originating from a poor family cannot be improved sustainably with a 1-2-year program. The instruments offsetting the disadvantages brought from home must be applied on a continuous basis from early childhood until at least the secondary school, i.e. for 10-15 years.

Over the last 10-15 years the Hungarian political climate has been less favorable for such special long-term policies, therefore we must think of sustainability already in the phase of selection of its instruments. On the basis of examples of a few instruments that turned out to be stable despite harsh conditions we have identified some factors that can contribute to the survival of particular instruments, even beyond several government changes.

What: factors arising from the nature of the instrument

- Directly favors groups that are important for politics: the median voters, groups with large political influence, and (“loud”) group able to attract public attention (e.g., family allowance, 1% PIT, or wage subsidy of protected organizations).
- Wide support within society, because it related to generally accepted values creating strong emotions (e.g., central subsidy of children meals in the summer).
- It does not cost too much for the country, as it is insignificant within the total central budget.
- It does not closely relate to the image of the governing party, or especially to the negative attributes highlighted by the opposition (the liberal economic policy of SZDSZ and the introduction of health private insurance are counter examples).
- It fundamentally relies on existing actors, and does not create any new clientele, potentially attracted to the governing party (sub-regional coordinators are contrary examples).

All of our above proposals satisfy the majority of those criteria.

How: factors related to the implementation of the instrument

- During the preparations the experts and “loud” / well-organized stakeholders involved in implementation, as well as their representation organizations (e.g., family practitioners, family day care centers) should be involved and convinced also from groups attracted to the opposition.

- The communication strategy promoting access to social subsidy should be based on the objective and not on the instrument (e.g., instead of “the number of district nurses will be doubled” “we shall cut long-term unemployment by half”). This may mitigate the risk of a close correlation between the instrument and the image of the governing party.

- During implementation the second line, local politicians and municipality leaders of opposition parties should also be involved and be made committed and their success needs to be recognized.

- To find influential supporters with large relational network within the European Union, to convince them of the success of the instrument, and to make sure that they publicly and durably commit themselves to its promotion.

- To associate the pilot program with international projects (if it is feasible that it will not general hurdles for continuous financing).

A particular instrument can survive a change of government in several ways. In terms of effects, the best potential outcome is, if it is kept in silence: this allows the committed and competent parties implementing the program to continue their work without any hiccups. The second option is that the new government changes the title and renames the program, yet provides the resources required for it. This will not affect the impacts of the program, only if it is mostly independent from the expertise and commitments of the parties operating it or if the operators are not replaced simultaneously (e.g., because the program is based on an existing set of institutions).

Finally, a program may also survive, if it is not terminated, but is only gradually weakened and the new government provides its own new solution at the same time. An example for that is the cash subsidy to the families, where first the family allowance was complemented with a family tax credit, which the subsequent government partly reduced and partly integrated into the family allowance, which the subsequent government did not revoke, but re-introduced the tax credit with the increased family allowance. However, this method of survival involved a continuous increase in the stakes, which deteriorates the efficiency of the whole policy. For example, in the case of family assistance it led to a situation that nowadays we spend more on cash support as a percentage of GDP than any other EU Member State, while we have no resources for in-kind benefits (primarily nurseries) that have a much better effect in many aspects.

Proposal for professional and social consultation

Consultations must be held with representatives of the occupations and institutions affected by the proposed measure (employment offices, family assistance centers, municipalities), experts active in methodology development (Employment Office, NRSZH, NCSSZI, BMSZKI, Social Professional Association, etc.), and at least with the experts referred in the technical literature.

Detailed information must be provided to the population describing the problem and presenting, simply but supported with facts, that the chance of long-term unemployed to find a job is very little and they do not receive assistance and that larger families (including both Roma and non-Roma families) cannot satisfy their basic needs from minimum wages (which is the highest income for an unemployed person in community employment), and also how with the help of incentives and sanctions the new subsidy can both ease poverty and provide encouragement to find employment.

7 STEPS OF IMPLEMENTATION OF THE PROPOSED SUBSIDY SYSTEM

7.1 IMPLEMENTATION PLAN

The proposed subsidy system can be implemented only in several steps due to the inadequacies of the existing institutional network and the lack of underlying empirical research. In the first pilot phase we propose for testing the components of the subsidy system in six sub-regions, in different combinations, in order to make their separate impacts measurable. The pilot phase, including the preparations and the impact studies, will take four years, i.e. the nationwide expansion can be launched only in the subsequent political cycle. Consequently, even the pilot phase should be implemented by ensuring that in case there is a change of government, the new actors are also motivated for the continuation of the project (proposals have already been made for it in the previous part).

In the pilot phase the new subsidy will appear as a supplementary subsidy besides the existing lump sum subsidy, which is available for residents of the sub-region participating in the project and are willing to fulfill stricter cooperation conditions in order to have access to the supplementary subsidy. It does not entail any additional cost: during the pilot the new subsidy must be established by deducting the existing lump sum subsidy from it. By the end of the nationwide implementation the currently available lump sum subsidy will be terminated and replaced by the new one, which by then will be granted in the same way in each sub-region.

The nationwide implementation repeats the steps of the pilot and may take 4-6 years according to its experiences. Its period may be increased partly because of the potential resistance of its actors and partly due to the limited available expert capacities. Generally, there is always a shift between the quality and speed of implementation.

The following table summarizes the main steps and timing of implementation, the responsible parties and the main actors concerned.

11. Table: Tasks, schedule and responsible parties

Objectives and tools	Timing (months)	1	2	3 (years)	4	5+	Responsible party	Stakeholders
PILOT PHASE								
1.Encouragement of job search								
Reduction of the social security by 2 percentage points	H0-12						PM	SZM
Targeted increase of wage subsidy	H0-12						MM	PM, NFÜ
Differentiated reduction of minimum wages to 30% of average wages	H0-12						MM	PM, chambers, trade unions
Complex regional development	H0-48						SZM	MM, NFÜ
2.Development of institutional capacities and instruments								
Survey of existing capacities	H0-6						FH	SZMI, MM, SZM
Employment office training, staff and infra capacity increase	H6-18						FH	SZMI, PM
Family assistance centers, training, staff and infra capacity increase	H6-18						FH	SZMI, PM
Preparations for the assessment of eligi-bility of subsidy, procedures	H12-24						FH, SZM	SZMI
Development of personalized active instruments: voluntary work, transit employment, rehabilitation	H12-24						FH	OFA, SZMI, NGO
Development, testing and training of a profiling tool	H0-24						FH	
Capacity development of non-profit service providers (nationwide)	H0-						MM	FH, OFA, SZMI, PM
Second chance schools network	H0-36						OM	FH
Quality assurance of adult training	H0-36						OM	Trainers, FH
Family assistance in sub-regional level	H12-48						ÖM, SZM	SZMI
3. Needs proportionate yet accessi-ble, and motivating subsidy								
A More frequent application, availa-ble also for family members	H25-43						FH	SZMI
B The subsidy is assessed by the sub-regional employment office, and its amount depends on the needs	H25-43						FH	
C Personalized assistance for finding employment	H25-43						FH	SZMI
Increase of the period of job search allowance to 6 months	H25-43						MM, PM	FH, trade unions
4.Measurement, evaluation, correction, decision								
Initial situation, regular measure-ment of inputs and outputs, impact study	H0-48						MM+ külsős	FH, SZMI
Corrections based on the impact study	H36-48						MM, FH	SZMI, SZM
National survey of capacities	H36-48						FH	
Decision on nationwide introduction	H42-48						MM	PM

Objectives and tools	Timing (months)	1	2	3 (years)	4	5+	Responsible party	Stakeholders
NATIONWIDE INTRODUCTION	H49-97						MM, FH	ÖM, SZM, SZMI, NFÜ, PM, NGOs

Abbreviations: FH (Employment Office) = national supervision of the network of employment offices, SZMI = national profession supervision of family assistance services, MM = Ministry of Labor, PM = Ministry of Finance, OM = Ministry of Education, ÖM = Ministry of Municipalities, SZM = Ministry of Social Affairs, NFÜ = EU Development Agency

The costs of building of the system occur on a gradual basis. In the first year the encouragement of labor demand, (primarily employer contribution reduction) will require significant expenses, in the second year there may be savings from the reduction of the currently mass-based active labor market programs, while in the third year, the expenses will be driven up primarily because of the introduction of the subsidy. Assuming average size sub-regions, the annual expenditure will be HUF 8 billion in the last year of the pilot phase.

12. Table: Timing of the direct additional expenses of the proposal assuming a four-year nationwide introduction process (without any behavioral impact)

Annual expenditure	1	2	3	4
Encouragement of labor demand	187	187	187	187
Development of institutions and instruments	2	-80	-80	-80
New subsidy and 6-month benefit			116	116
Activation			11	11
Total	189	107	234	234

Monitoring regulations

In the pilot phase the project events will be accompanies with data collection on a continuous basis, providing data both for subsequent impact study and continuous monitoring. Apart from the six pilot regions, three other sub-regions must also be selected for the impact study, which are similar to the six involved sub-regions, but do not take part in the pilot. No intervention will take place in them, but the same data can be collected as for the involved sub-regions.

13. Table: Intervention in the pilot and control sub-regions

AB Pilot (2 sub-regions)	AC Pilot (2 sub-regions)	ABC Pilot (2 sub-regions)	Control (3 sub-regions)
A More frequent visits, also for family members	A More frequent visits, also for family members	A More frequent visits, also for family members	No intervention
B The subsidy is assessed by the sub-regional employment office and its amount depends on the needs	C Personalized assistance in finding employment	B The subsidy is assessed by the sub-regional employment office and its amount depends on the needs	
		C Personalized assistance in finding employment	

The following table summarizes the data collected during the pilot and subsequent operation. The base values must be established during the first benchmark measurement, because there are no good quality recent data about them at sub-regional level. The data collection must be planned by independent experts and must be implemented by the Employment Agency. Certain HCSO surveys should also be used for control purposes.

14. Table: Input, interim and outcome indicators

Collected by	Employment office	Family assistance center	Non-profit service providers specialized in particular problems	HCSO
Input indicators	Number of administrators / case managers Number of training participants Education, age, health conditions and working capacity of customers	Number of administrators / case managers Number of training participants Education, age, health conditions and working capacity of customers	Number of administrators / case managers Number of training participants Education, age, health conditions and working capacity of customers	Education and age of the long-term unemployed
Interim indicators	Average frequency and duration of visits to employment offices by customer type Number of accepted individual development plans / customers Ratio of long-term unemployed in the personalized active instrument programs	Registered/not working population of active employment age Average frequency and duration of visits to family assistance services by customer type Number of accepted individual development plans / customers	Duration of the time spent with each customer, by customer type	Did you visit an employment office over the last month? / registered long-term unemployed (MEF)*
Result indicators	Ratio of employees returning to the open labor market, ratio of long-term unemployed, ratio of durably poor people	Population suitable for employment/not employed, deviations, early school leaving	Ratio of people durably returning to the open labor market	Long-term unemployment (MEF) and poverty (HKF)

**This question was included in HCSO's quarterly Employment Survey questionnaire until 2005; currently it is not used, but basically it can be re-introduced without any additional cost. For more details about the indicator, see Budapest Institute (2011).*

7.2 Change management plan

There are several uncertainties in the implementation of the proposal for various reasons. On the one hand, the empirical research results based on which the specific parameters of the proposed subsidy system could be calibrated accurately are missing at some points. On the other hand, the existing institutions are also being transformed and the details of the applicable government plans are not known everywhere. Consequently, we propose testing the proposal on a smaller scale first, primarily as a pilot project.

The testing gives an opportunity for elaborating the details and to analyze the causes of the lower than ideal utilization: the limitations in the accessibility to the service, weak quality or low motivation of the parties concerned. It is important because good quality and accessibility are not fully available in any of the service areas and we have very sporadic information about the motivation limitations. If the low degree of utilization is primarily due to accessibility, it can be remedied at a much lower cost: it is enough to make good quality services available and there is no need to encourage motivation with any special financial service. What is needed for deciding on the issue is the opportunity to test various versions in the test phase: in one version only the service capacity (accessibility) increases, in the other version quality also improves, while in the third one both improve and are accompanied also with a cash transfer.

In the first step of phased implementation, the proposed programs could be launched as an experiment in six sub-regions. The sub-regions need to be selected on the basis of the local labor market specificities, the existing service infrastructure, and especially the capacities of the NGO-s providing supplementary services (the development of the latter is time intensive). The selected sub-region should have bad characteristics on the labor markets, based on which the potential implementation problems and external limits can be widely identified and any future criticism can be prevented that the program is feasible only under special favorable circumstances.

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9 ANNEXES

9.1 List of Background Studies Completed during the Study

Budapest Intézet: A tartós szegénység csökkentésének lehetséges eszközei Magyarországon. Background study edited by: Ágota Scharle. 2011.

Conness Kft.: Segélyek, szegények, romák. Szegénységgel kapcsolatos attitűdök, Fókuszcsoportos kutatás összefoglalója. 3 December 2011

Kertesi Gábor-Kézdi Gábor: Az óvodáztatási támogatásról. Egy feltételekhez kötött készpénz-támogatási program értékelése. MTA KTI, 2011.

Medgyesi Márton-Temesváry Zsolt: FKT: Elméleti szempontok és nemzetközi tapasztalatok. TÁRKI, 2011.

MEDIÁN: A közvélemény a segélyekről, különös tekintettel a feltételekhez kötött segélyekre. 2011.

TÁRKI-TUDOK Zrt.: Elemzés az iskoláztatási támogatás bevezetésének tapasztalatairól. The closing study edited by: Judit Lannert. 2011.

These background studies are published in a separate *Volume of Annexes*.

9.2 Additional Information to the Analysis of a Subsidy System

9.2.1 Review and Argumentation of the Elements of a Proposed System of Subsidies

1. Table Justification of individual elements of the proposed system of subsidies

Proposed subsidy	Existing system	Justification of change
The amount of subsidy depends on needs	in one sum	Underpayment
The subsidy is decided by the sub-regional labor office	decided by local municipality	Access is not unified
More stringent and consequently implemented cooperation conditions	weak and erratically enforced conditions	Weak motivation for work
Personalized help for starting a job	missing or mass programs	Low chances for starting a job, low efficiency, costly programs
Related measures		
Increasing the term of the job finding payment to 6 months	cut to 3 months from the earlier 9 months	
Reducing the social security contribution by 2 percentage points	social security contribution 27%	The high level of contributions makes workforce too expensive and reduces demand for it
Targeted extension of salary support	Start card is given after 3 months	Targeting is weak
Differentiated cut of minimum wage to 30% of average salary	minimum wage reaches 40-60% of the average wage in some small regions	High minimum wage reduces demand for unskilled labor
Extension of personalized active measures: voluntary work, transit employment, rehabilitation	narrow choice of personalized programs	Personalized programs are more efficient and successful (according to international empirical research)
Reduction/elimination of mass programs	mass programs are dominant	Mass programs are not successful, especially communal work is not
Complex regional development	missing	Community development and the mitigation of multiple disadvantages are also needed in the most disadvantaged small regions
Related institutional development		
Enlargement of branch office capacities, training	insufficient also in international context	The implementation of cooperation conditions and personal help cannot be secured with the existing capacities
Enlargement of family assistance capacities, training	uneven	Personal help and equal access cannot be secured with the existing capacities
Elevating the family assistance center to sub-regional level	operates on the level of settlements	No even quality can be secured on the settlement level
Second chance schools on county level	missing	The basic skills also need to be developed for increased job finding chances
Quality assurance of adult training	missing	The quality of training offer is uneven, the consumer does not pay, neither the consumer nor the funding agent have any information about quality

9.2.2 INSTITUTIONS TO OPERATE THE PROPOSED SYSTEM

The existing network of labor offices and family assistance centers operates the proposed system of subsidies, and it is financed mainly from the central budget. The professional nature of deciding on subsidies, the equality of access, and the quality of connecting services are controlled by a professional organization coordinated on national level, for example the National Labor Office, or the National Institute for Family and Social Policy.

Employment related services are also operated by the employment offices of the national labor service, the family assistance centers of local municipalities, and also civil organizations. Employment offices operate in sub-regional centers, and they serve all inhabitants in the settlements that belong to them. According to 2009 data, 3500 persons worked in these branch offices, however, the staff there spends the bulk of their working time with the administration of cash benefits – therefore there definitely must be less attention spent on clients. All of the branch offices provide traditional labor market services (job mediation, counseling, offering training or subsidized jobs), and even personalized services are used at some of the sites, which are offered by staff of the branch office with special training, or external experts or organizations employed under a separate contract from funding won in tenders.

Family assistance centers must be operated mandatorily in all settlements with more than two thousand inhabitants – 32 of the municipalities where it would be mandatory don't have one, while there are another 180 villages where this services is provided (alone or as intercommunal cooperation) even though it would not be mandatory.[52] Family assistance centers work not only with the unemployed but with all families, however, almost one third of their clients approach them with questions related to job finding (KSH 2008).

Unemployed entitled to insurance-based services are served by labor offices; the services provided to the long-term unemployed have been allocated by the government to the branch offices, and then again to the family assistance center. Neither solution is perfect, as the characteristics of these organizations are complementary: the employment office branches know the supply of jobs and have funds for training and subsidized jobs, while family assistance centers can help more with the solution of individual or family problems that hinder job finding (self-confidence, psychological problems, alcoholism, family member in need of care etc.).

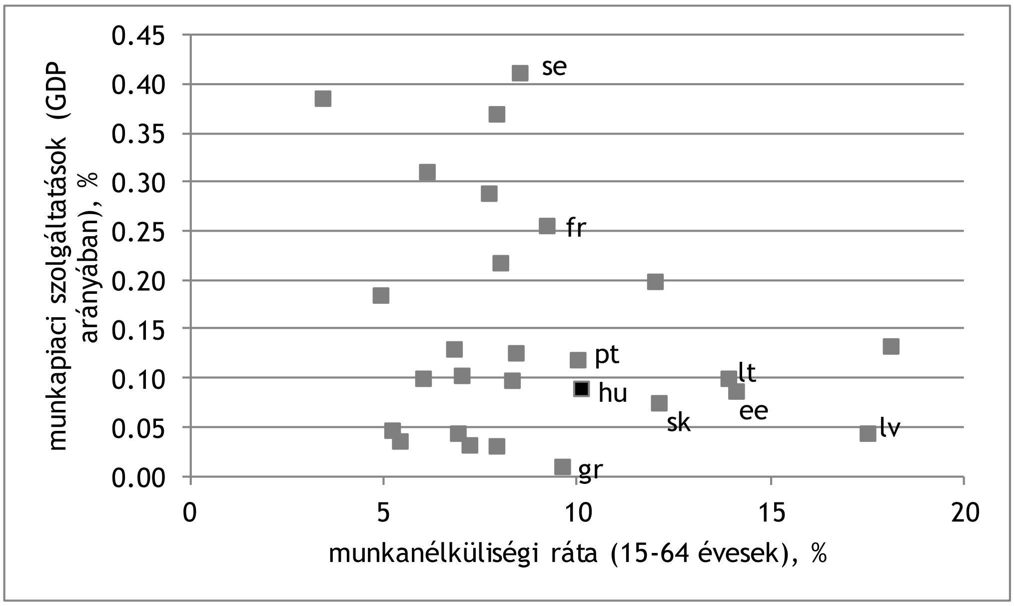
Typically, non-profit (civil) organizations provide services to certain underprivileged groups of employees (job seekers without school education, with altered working ability, elderly, of Roma descent, women with small babies). Some of them operate as a network, according to standard methodologies adopted from abroad, while others use their own tools developed by their own resources. There is no uniform methodology or quality assurance, therefore the offering and quality of the services are uneven. However, innovative service formats that have been successfully used in other countries are typically first used at non-profit service providers, and it happens through their efforts that such services become part of state funded services (eligible for normative subsidy), or become part of the practice of public service providers (Csongor and Rész 2008).

[52] This latter figure from the social yearbook of KSH for the year 2008, while the first one from the 2009 dataset of VÁTI.

The proposed subsidy system and related services can be effectively managed by a network operating on sub-regional (district) level, in which organizations providing labor and social services cooperate with each other, and other relevant service providers, too. The quality of services can be secured by a professional supervision of national authority.

The capacity of the labor apparatus is limited in terms of both staffing and professional preparedness. We spend relatively little on the employment service: We spent 0.1% of the GDP on it in 2009, while France, with a similar unemployment rate of 9-10%, spent 0.3%, and Sweden 0.4% on the same purpose. Denmark and the Netherlands spend 0.3-0.4% of their GDP on the system of employment organizations even at a lower unemployment rate of 4.6%.[53] The capacities are even more constrained in case of local governments. One third of them operate in settlements with less than 1000 inhabitants, where it is not only difficult but also inefficient to secure funding and specialized staff for the activation of long-term unemployed; nevertheless the necessary staff and expertise are not always available in larger settlements either. (Fazekas 2001, Csák 2007, Nagy 2008).

1. Chart Labor market services and unemployment in EU Member States, 2009



Source: Eurostat on-line database. Countries providing proportionately even less services than in Hungary are located in the bottom right corner.

According to Ráczné (2007), the employment support organization is currently not prepared for special tasks that should be provided to the long-term unemployed, and it even lacks the capacity necessary for that. For example, interviews with job seekers are not complemented by a methodical status assessment by a physician, psychologist or other special experts – despite the fact that it would be particularly necessary in case of the long-term unemployed in order to achieve a successful placement program. Not even existing professional capacities are used from the aspect that cooperation is weak between professionals who meet clients, and the administrative staff. Ráczné (2007) reports that staff working at the labor office branches, and staff working at the family assistance center of

[53] However, the distribution of staff in branch offices is relatively efficient: it tries to map the regional differences in the numbers of unemployed (Cseres-Gergely and Scharle 2010).

the municipality often don't even know each other – while they both work to help the same client into work.

There has been no impact assessment made on the services provided by family assistance. A qualitative research done on a few smaller samples suggests that the offering and quality of these services are very uneven, and they are typically weaker in smaller settlements of disadvantaged regions – partly due to the larger workload of staff, and partly due to their weaker professional preparedness and/or commitment. Family assistance centers usually follow procedures that are similar to the branch office structure, however, the method of documentation is less unified, and there is no IT support (Bódis and Nagy 2008). The closing report of the interview-based research done by ÁFSZ in 2007 points out that the toolkits of local municipalities are underdeveloped or incomplete (Ráczné 2007). Theoretically, the assessment of needs is done in a standardized way, following the elements set forth also in the interviewing rules that prepares the job finding agreement. Still, unity and accurateness practically lag behind what would be possible or desirable. The regulation binds branch offices to use the interview elements – however, it depends on the municipalities whether or not their institutions actually apply the system. Although interview elements are bound, in practice it depends on the attitude of the responsible desk officer which element is taken seriously to what extent: namely, there is no professional control or incentive beyond personal commitment that would motivate for unified and successful use. There is not even a professional protocol (methodological manual) that would give guidance to the desk officer on how life situations that arise in an interview can be classified into a typical group of problems, and what support or services can be offered for that particular situation. From the settlements in the sample of the Bódis-Nagy (2008) survey, 40% organize communal work on a voluntary basis, 25% usually on a voluntary but sometimes on a mandatory basis, while 25% oblige all beneficiaries to communal work.

Professional supervision of branch offices is currently done by the National Labor Office, while the supervision of family assistance centers is provided by the National Family and Social Policy Institute, although it lacks sufficient capacity or strong-enough authorities to take care of this task. Neither organization performs any regular assessment of the success and quality of locally provided services, even the necessary data capturing is missing in case of the latter (cf. Cseres-Gergely and Scharle 2010).

This means that while the foundations of the existing institutional system could be made fit for the task, it would only be able to operate the proposed system of subsidies after substantial capacity enlargement, the development of available measures, and the improvement of professional quality. Necessary developments are described in the next section in detail.

9.2.3 WHAT COULD SECURE THE EFFECTIVENESS OF THE SYSTEM?

The proposed subsidy system is operated by three types of service providers (institutions). Their tasks, objectives and funding are summed up in the following table.

2. Table Tasks, objectives and funding

	Labor office branch	Family assistance center	Non-profit service providers specializing on particular problems
main task	Job mediation, development of working abilities, decision on and payment of subsidies	Management of personal and family problems that hinder job finding	Work mediation, management of special individual disadvantages (e.g. disabilities)
success indicators	Rate of persons getting back onto the open labor market, rate of long-term unemployed, rate of chronically poor	Rate of population able to work (within the unemployed), deviance (divorce, alcohol, abuse etc.), rate of early school dropouts	Persons finding their way back to the open labor market on long term
funding	Central budget	Central and local budget	Miscellaneous: may accept also non-state funding, and provide services to public stakeholders
professional supervision	National Labor Office	National Family and Social Policy Institute	National Labor Office (of the National Rehabilitation and Social Office)

The central government can motivate for success in the funding of local services essentially through two models: one is a single sum grant depending on the outcome (block grant), the other is through bonuses depending on the outcome of client based funding. The first is reasonable to apply if the service provider is interested in increasing the public good (for example in case of a sound functional local democracy, if the municipality operates the service), so that it can be assumed that it can save some of the block grant and use it for the good of the local community. If there is no such external incentive (e.g. in case of a branch office network under state control), then the second model will perform better. Labor office branches can be motivated in this model, for example, through professional esteem (performance measurement, publication and comparison across branches), and increased autonomy in decision taking (e.g. additional funding for locally developed measures).

Theoretically, the Hungarian system already includes the management system based on agreed performance targets, measurement and evaluation (MEV) that serves the performance enhancement of branches, and the common assessment framework (CAF) to support the self-assessment of branches has also been introduced. In case of certain active programs financed from EU funds, plans have been devised for performance-based funding (Cseres-Gergely and Scharle 2010). However, these operate partly only formally, they are not linked to funding, and don't constitute a unified system.

There is input funding in case of branches, which means that it depends on the number of staff working there (subject to bargaining on an annual basis) instead of the number of clients. The situation is different in case of the family assistance service: the normative funding available to the municipality currently depends on the number of potential inhabitants that may turn up as clients.

The efficient implementation of the subsidy system proposed here is related to possible changes in the system of local governments. If political legitimacy (local elections) remain on the level of settlements, then it is reasonable for family assistance centers and labor office branches to apply a unified client-based funding methodology and achievement-based bonuses, because the levels of accountability and implementation will grow further apart with the elevation of the family assistance service to the sub-regional level. If local elections and, in general, the political and funding frameworks of local public services are shifted to the level of districts, then the operation of the labor office branch network by the district government and should also be considered, with funding provided by the central budget in one sum for both services.

If the two institutions cannot be moved to a politically legitimate level and merged, then motivating their cooperation would be of particular importance, which could be secured best in a program based budgetary framework. The point of that is that line ministries and the organizations under their control would receive funding for tasks derived from government objectives, so that they become interested in *solving the task* (which, in this case, is reducing unemployment) instead of proving the *importance of their own institutions*.

Professional supervision, methodological support and regular, standardized data capturing organized on a national level are needed in both cases. Methodological recommendations describe, in detail, service protocols and the way in which cooperation conditions need to be complied with. The procedures for deciding on subsidies must also be set forth in a piece of legislation in order to ascertain their unified application. It is reasonable to leave some room for deviations in case of services, provided that this does not lead to any harm to equal opportunities (which can be secured through regular professional controls). Service providers are obliged to regular data disclosure on their performance in a structure defined by the professional supervisory organization. The assessment of their successful operation requires individual level data, which are fit for differentiation according to the above output indices (rate of persons finding a job, rate of unemployment and poverty etc.), and breaking out according to circumstances (especially the growth of the local economy), the composition of clients and the performance of the service provider.

Non-profit service providers are currently mostly paid by labor office branches on the basis of tenders, and while they control implementation costs, they do not, or don’t sufficiently measure performance success. This needs to be replaced, partly, by service contracts with performance-based funding, which motivates service providers to efficiency, and gives them free hand in terms of the method of implementation (thereby also reducing administrative burdens). However, professional supervision also extends to non-profit service providers that operate under a contract with the state.

Performance indices calculated for service providers individually can be compared, on the one hand, to outcomes undertaken by mutual agreement, and to the performance of other service providers as well. The first considers the own assessment of the service provider about the potential outcome of the service, but does not allow for any consideration of external circumstances. The second considers that external circumstances (mainly the situation on the labor market) may also change, and it also motivates for the use of good practices. We recommend the simultaneous use of both, so that sanctions need to be deployed against the service provider if:

- indices undertaken in the agreement are underperformed by more than 20%, and
- the service provider ranks in the bottom 20-30% of the table if service providers are ranked according to their performance, or
- the service provider ranks in the bottom 10-20% of the table for at least one third of indices on longer term (in two consecutive assessments) if service providers are ranked according to performance indices.

Possible sanctions:

- appropriate reduction of the remuneration if the funding depends on the performance
- mandatory professional screening and counseling/training from professional supervision staff.
- temporary curtailing of professional autonomy.

We propose the rewarding of service providers that achieve outstanding results if:

- indices undertaken in the agreement are overshot by at least 20%, and
- the service provider ranks in the top 30-40% of the table if service providers are ranked according to their performance indices, or
- the service provider ranks in the top 5-10% of the table for at least one third of indices on longer term (in two consecutive assessments) if service providers are ranked according to performance indices.

If there is a joint agreement with the funder on the performance indices (i.e. these indices are not centrally defined), then the ranking should definitely be considered in addition to the rate of overshooting the target: otherwise the service providers will be strongly motivated to propose much lower than possible indices in the performance agreement. In order to prevent this, it is also reasonable to set out that nobody may undertake weaker outcomes than, for example, the results of the best service provider in the bottom one fifth (bottom quintile) of the preceding year's ranking.

The definition of error notices and outstanding achievements is not symmetrical: underperforming gets a bigger weight than outperformance, which strengthens internal improvement processes. Ranking gets lower weight in case of outperformance, which makes it possible for service providers operating in a weak labor market environment to also become successful. It needs to be checked in the course of testing how far the parameters suggested here work well: whether winning and losing service providers turn out to be under or over the average respectively, when a detailed assessment is done.

9.3 DETAILED COSTS OF THE PROPOSAL

	On medium term (2-4 years), Budgetary effects at 2012 prices in bn HUF (incremental costs/savings)			
	annual direct effect		behavioral effect	
	lower estimate	higher estimate	lower estimate	higher estimate
Subsidization				
amount increases, scope of beneficiaries grows	75	93		
application in the branch offices	9	9		
family members also cooperate	1	1	-4	-8
mobile offices – branch	1	1		
mobile offices – family assistance	1	1		
Related measures				
increasing the max. of unemployment benefit from 3 to 6 months	25	30		
job seeking subsidy before retirement is phased out	-2	-2		
home maintenance subsidy needs better targeting	-5	-5		
wage subsidy for long-term unemployed	0	2	n.a.	
differentiated cut of the minimum wage (to 30% of ave. wage)	0	0		
cutting salary costs: soc. sec. by 2 p.p.	160	160		
voluntary work (work experience) at NGOs	3	3	n.a.	
transit employment	6	6	n.a.	
rehabilitation services	9	9		
reduction of mass AMP (training, communal work)	-181	-129		
training voucher (or individual training programs)	20	20	n.a.	
complex regional development programs	20	25	n.a.	
Institutional development				
increasing the number of staff at the labor office branch = see soliciting applications				
(further) training of desk officers at branches	1	1		
increasing the staffing at family assistance centers	6	6		

	On medium term (2-4 years), Budgetary effects at 2012 prices in bn HUF (incremental costs/savings)				
		annual direct effect		behavioral effect	
		lower estimate	higher estimate	lower estimate	higher estimate
(further) training of family assistance centers		1	1		
family assistance centers in sub-regions		1	1		
quality assurance of family assistance centers		0	0		
flow of information between family assistance center and labor office branch		0	0		
quality assurance under agreement between branch/family assist. and service providers		0	0		
sub-regional adult training network		1	1		
quality assurance of adult training		1	1		
monitoring and impact study		+0	+0		
balance		**151**	**234**		
compared to the 2012 budget	2012 (estimate)	proposed	change (%)		
subsidy	59	153	157		
unemployment benefit and pre-retirement benefit	59	87	47		
branch network	20	31	57		
traditional active measures	181	90	-50		
contribution allowance and contribution cut	6	168	2700		