

**Hungary:**

**fiscal pressures and a rising resentment against the (idle) poor**

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Introduction

Hungarian labour market processes were dominated by the economic transition for most part of the 1990s, which involved rapid restructuring and the establishment of adequate institutions to assist the unemployed and respond to other, newly emerging needs. This chapter briefly reviews this first stage of institution building before moving on to examine the hypotheses of triple integration, as outlined in the introductory chapter of this volume. Sections follow the same outline as in other country chapters. The results are mixed. We find some indication of the unemployment benefit system moving towards integration in all three dimensions, being strongest in the homogenisation of insured benefit and unemployment assistance. In terms of risk-recategorisation and the administrative merger of unemployment and social benefits, changes so far appear to have affected goal setting and rethorics, and not much of that has trickled down to the daily practice in local job centres.

## 2. Economic and Policy Context

### 2.1. The Transitional Recession

In Hungary, labour market processes had been dominated by the transition from planned to market economy throughout the early 1990s. Political changes in Central and East European countries were followed by dramatic changes in their economies over the early 1990s. Output fell by 15-25% and there were large shifts in the ownership structure, in the sectoral composition of GDP, and in firm size distribution. In the gloomiest three years between 1990 and 1993, the cumulative fall in real GDP amounted to 18% (EBRD, 2000: 4).

As some early commentators and the retrospective analyses of microdata have convincingly shown, this was due to the loss of export markets (an aggregate demand shock), followed by disruptions in supply caused by shifts in relative costs and relative demand in response to price liberalisation and the removal of subsidies (Blanchard et al., 1995; Blanchard, 1998; Gomulka, 1998; Kornai, 1993; Carlin and Landesmann, 1997). In this sense the recession was far more Schumpeterian than Keynesian,<sup>1</sup> and the only effect of macroeconomic policy was to hasten or delay the fall in output and the start of recovery.

In Hungary, the variation in output decline across sectors was rather large and the correlation between relative sector price and output change was high already in 1990,

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<sup>1</sup> A Schumpeterian explanation of the recession would stress the importance of structural changes (shifting relative costs and relative demand) and view it as a mix of creation and destruction, while a Keynesian explanation would put the emphasis on falling aggregate demand.

which may indicate an earlier start in restructuring than in other Central and Eastern European countries. The shift was, in rough terms, away from industry and especially heavy industry and towards services. Between 1990 and 1994, the share of industry in total employment fell from 36 to 33%, and services grew from 54 to 58% (Ehrlich et al., 1994). Restructuring also entailed a change of ownership structure. The share of the private sector in producing the GDP as well as in total employment grew at a modest pace during the 1980s, and quickly gathered speed in the first years of the transition.<sup>2</sup> Foreign direct investment was large and accounted for most of this growth from the second half of the 1990s.

<<figure 12.1 about here>>

Prior to 1989, labour force participation and employment were rather high in Hungary. Female participation was close to 75% and male participation exceeded 80% of the population aged 15-54/59 in 1985. During the transition unemployment shot up in 1991, peaked in 1993, from when on was very slowly decreasing, while employment dropped from over 71% in 1990 to below 55% by 1993 and continued to decline until 1997 (see Figure 12.1).

The overall decline in economic activity had a strong impact on certain groups of workers, such as low skilled workers employed in manufacturing and traditional industries, women, the elderly, the Roma and young labor market entrants. At the time of the mass layoffs, the low qualified were most at risk of losing their job. In 1992,

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<sup>2</sup> Reforms in the early 1980s introduced enterprise contract work associations allowing private economic activity outside the planning mechanism. For more detail see Marer (1986: 251-252) or Kornai (1992: 435-444).

almost half the ILO-defined unemployed only had primary qualifications, and about one third of them had lower secondary education. Those closer to retirement age constituted most of the long-term unemployed: their chances of re-employment were very small (Micklewright and Nagy, 1998).

The contraction of demand discussed above naturally led to cuts in employment. The subsequent rise in unemployment could have been temporary, lasting until aggregate demand picked up again. However, with considerable restructuring also taking place, structural unemployment emerged as well. Much of the reallocation of the labour force took place through differential increases in rates of unemployment across sectors, while few new jobs were created (Jackman and Pauna ,1997).

## 2.2. The Policy Response: reducing labour supply

The adjustment of labour supply to the decline in labour demand followed two channels. Beside the rise in unemployment, which was especially sharp for men, labour force participation fell significantly during the 1990s, especially among women. Government-supported pension policies intended to mitigate the effects of declining labour demand appear to account for most of the decrease in participation. Most people leaving the labour market became eligible to some social provision, such as old age pension, disability pension, or maternity allowance. By 1995, the share of benefit recipients among the working age population reached 31% (see Table 12.1).

<<table 12.1 about here>>

The use of pension schemes for the reduction of open unemployment started in the mid 1980s, when the mild reforms of the planned economy threatened to increase open unemployment. The government decided to tackle this on several fronts: offering state subsidies on early pension schemes and introducing unemployment insurance (see section 3). Coming into office in 1990, the new democratic government continued and expanded this practice, fearing that the transitional recession would lead to unmanageable levels of unemployment and along with it misery and social unrest (Vanhuyse, 2004).

In order of importance there were four main early-pension programmes: a disability pension, a disability benefit, an early retirement benefit and a pre-pension. In 1990, these four schemes accounted for 51% of all entries into pensions, while the share of old-age pensions was 40%. By 1992, the share of early pension schemes increased to 65 %, and that of old-age pensions dropped to 26 % (see also Figure 12.2). The share of these four schemes slightly declined after 1997, when the pre-pension was abolished and eventually dropped to pre-transition levels by around 2005.

<<figure 12.2 about here>>

Disability pensions had been available since before the second world war,<sup>3</sup> while disability benefit<sup>4</sup> in its current form was introduced in 1983. Their eligibility rules

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<sup>3</sup> Compulsory funded old age and disability pension insurance was introduced in 1928 and was replaced by a pay-as-you-go system in 1951, which was gradually extended to cover the total population (including agricultural workers) by 1975.

<sup>4</sup> Various benefits (labelled disability benefits in table 3) are paid to claimants not satisfying either the service years or the loss of work capacity condition of the disability pension. The benefit is flat rate if service years are insufficient and wage related if the claimant has sufficient work history but only between 40-67 % loss in their work capacity.

remained unchanged during the transition, but the evaluation of claims was rather generous until 1998, when the government finally decided to tighten both the rules and the practice of evaluation committees.

An early retirement pension was introduced in 1988 and extended in 1991.<sup>5</sup> It was available for persons no more than five years below retirement age, with at least 30 years of service time for men and 25 years for women (Scharle, 2002). Until reaching the retirement age, the state financed Employment Fund covered up to 50% of pension expenditure, while the employer covered the rest. This subsidy was only available if the firm was shutting down, was making a loss or carried out mass layoffs. It was typically used by firms undergoing privatisation (Széman, 1994). Finally, between 1991 and 1997 the pre-pension was available to long term unemployed people with less than three years to reach retirement age, and having the required service time.<sup>6</sup>

Excluding disability benefits, the level of all three pension schemes was calculated according to the general rules of old-age pensions, making them much more generous than unemployment transfers. Also, early retirees enjoyed an advantage over others in their age cohort as the years they still had to go until retirement age were ignored in the calculation of their pensions. This was partially eliminated in 1998, when the pre-pension scheme was replaced by a flat rate pre-retirement unemployment benefit. This benefit was set at 80 % of the minimum pension and was conditional on cooperating with the local job centre. It was available to those who expired their eligibility to all

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<sup>5</sup> Initial rules required 35 years of service for men, and stricter rules applied for the state funded part.

<sup>6</sup> It was also available to persons who had received unemployment insurance benefits for at least 180 days, had no more than four years before reaching retirement age when the benefits expired, and were not legally entitled to any other form of jobless assistance.

other types of unemployment benefit and had only five years or less to reach retirement age (Scharle, 2002). This benefit was eliminated in 2005.

At a much smaller scale, parental leave was also extended to keep mothers at home and out of the workforce. In 1990, parental leave was available until the 3rd birthday of the child and was conditional on prior employment. It had two phases: an earnings-related allowance in the first two years, and a flat-rate benefit in the third. An extended paid leave was introduced in 1993 for mothers with three or more children, paying a flat rate benefit until the 8th birthday of the youngest child. Initially, both flat rate benefits were conditional on prior employment, but were made universal in 1999.<sup>7</sup> Bálint and Köllő (2008) show that parental leave benefits increasingly became an alternative to social assistance for uneducated young women with little or no employment history.

To summarise, both early pensions and parental leave benefits seem to have served as functional equivalents to unemployment benefits during the transition years. From the perspective of the triple integration framework (see introductory chapter 1), this may be interpreted as an attempt to narrow down the risk category of unemployment as much as possible – almost exclusively to the able bodied prime age male breadwinner.

Allison and Ringold (1996) report a similar preference for soft measures to cut the workforce in other Central European countries. During the early 1990s, the number of persons on disability pension increased significantly in Slovakia, Poland, and the

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<sup>7</sup> There was an interlude in 1996, when the earnings related benefit was abolished, but the prior employment condition of the general flat rate benefit was lifted as part of an austerity package. The extended paid leave for mothers of three children was left unchanged until 1999, and the earnings related benefit was reintroduced in 2000 (Bálint and Köllő 2008).

Czech Republic (see chapter 13) and old age pension receipt also shows a marked rise in Slovakia and Poland. In Hungary, there seems to have been a wide political consensus about the aim to build a market economy at a minimum social cost in terms of job loss, rise in inequality and social tensions (Vanhuysse, 2004). This translated into opening access to all types of provision that facilitated exits from the labour market, ignoring long term costs.

Though this policy may be rightly questioned in view of the long term consequences for the balance of the pension fund, there was some justification for it. The transition entailed considerable technological change and it could be argued that this made much of the human capital of older workers obsolete and their retraining did not seem viable given that labour demand was expected to be declining further.<sup>8</sup> However, Balla et al. (2008) show that the preference for benefits over wage subsidies and active labour market measures to facilitate the reemployment of low-productivity workers was an important factor contributing to the persistence of high unemployment. The political gain however was clearly positive. As Vanhuysse (2006) argued, early pension policies successfully divided and pacified the large group of workers threatened by unemployment, thereby preventing any serious opposition to emerge against the transition into a fully functioning market economy.

The prevailing growth-oriented mind-set of socialist central planners may have also played a role. Successive governments have focused their efforts and attention primarily on macroeconomic growth incentives and regarded employment as a

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<sup>8</sup> Older people were overrepresented among the registered long-term unemployed and, as Galasi-Nagy (1999) demonstrated, between 1992 and 1996 the reemployment probability close to retirement was only 10%-15% of the reemployment probability for those aged 21-25.

residual issue in the sense that the level of employment depends on the level of output and hence, on growth. While the institutional foundations of competition in the goods market (such as price liberalisation, protection of private property, or a public agency to monitor free competition) were laid with much care during the early 1990s, the role of labour market institutions, social policy and active labour market programmes had been neglected. As we show in section 4, this would only change towards the year 2000, when politicians began to notice that employment had grown at a much slower pace than GDP.

### 2.3 Reestablishing Public Administration

Since unemployment was virtually non-existent in the socialist era, in the early years of the transition employment policy was dominated by building new institutions to provide unemployment protection. This coincided with a decentralisation of government functions in 1990, mostly in response to the political demands of increasing self governance and to prevent the resurgence of the old regime, which resulted in small and weak local municipalities. While the employment service remained under the control of central government, the management of schools, local infrastructure and social assistance were devolved to local councils.

Institutional reforms of the central public administration focused on strengthening the executive power of the government (against parliament) and within that the prime minister (Goetz and Wollmann, 2001; Brusis, 2006). This has improved the efficiency of executing government decisions, but not the quality of those decisions. Despite

early legislative efforts and some degree of professionalisation in key policy areas,<sup>9</sup> successive governments have so far failed to establish a non-partisan professional civil service (Meyer-Sahling, 2009). Coordination across related policy areas, such as social policy and employment policy has been weak, and clear goal setting, impact evaluation and adjustment of policies are often missing (Verheijen, 2006; OECD, 2007b).

#### 2.4. Changes since the 1990s

The transitional recession and a brief episode of an austerity package in 1996 were followed by steady and relatively high growth in output, but very little increase in employment after 1999 (see figure 12.1). Before the global crisis in late 2008, the employment rate stood at 57% (age 15-64), which was 7 points below the EU average and lowest among the former socialist new member states. Over a quarter of the working-age population lived on some kind of social benefit; the majority of recipients were inactive and most of them absent from the labour market for extended periods or permanently.

<<table 12.2 about here>>

The above simple facts suggest that the initial choice of a policy mix dominated by passive (rather than active) labour market measures has proved difficult to reverse,<sup>10</sup> and has become a hindrance to growth. Welfare payments, in combination with the

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<sup>9</sup> Notably those affected by EU accession or other international commitments, such as fiscal policy (Goetz and Wollmann, 2001). Even in these areas, Meyer-Sahling (2009) recorded a large gap between civil servants' attitudes and personnel practices (examined in the framework of the European Principles of Administration).

<sup>10</sup> Vanhuysse (2006) argues that this is partly due to a feedback mechanism whereby the initial expansion of the group of early pensioners makes it politically costly to cut spending on pensions.

wider system of redistribution, contribute greatly to the persistence of a low equilibrium characterized by low employment and a high burden of taxes and contributions. High tax rates curb economic performance and thus impede economic growth. Long-term unemployment or inactivity among the working-age population in turn leads to long-term poverty, the propagation of poverty from generation to generation, and social exclusion (World Bank, 2001.) And thus the vicious circle closes, in as much as these social disadvantages generate the need for further welfare spending.

The above described 'welfare trap' is especially deep for the less educated who make up over 20 % of the population aged 25-64. Less than half of them are in employment, a fifth receives some form of pension-like support and a tenth is unemployed (see Table 12.3).

<<table 12.3 about here>>

### 3. Unemployment Protection in 1990 and in 2010

In the socialist regime, social provisions were supplied primarily through in-kind benefits, price subsidies, full employment and a compressed wage distribution that was to a large extent controlled by the state. Some social assistance was available to the needy but was meant primarily for the elderly, as working age adults were expected to be earning their keep through work.<sup>11</sup> There was no provision specifically

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<sup>11</sup> Three such schemes existed before 1990: the regular social assistance, the one-off social assistance and the regular or one-off assistance for parents. All were means tested and administered by the local municipality. The first of the three was used primarily to aid old people who had no pension. This scheme was merged with UA in 2000 and thus became a means tested assistance conditional on work test. This also meant that the working poor were no longer eligible for it and no assistance was put in

designed for unemployment or in work poverty, as such problems were considered to be treated at the root, by full employment and decent wages.

The need for introducing such provisions was first recognised in the mid 1980s, when the government decided to increase the autonomy of state owned firms in managing production and allowed the establishment of small private firms. It was understood that these measures would allow market forces to start operating and this would inevitably lead to some open unemployment. An unemployment insurance benefit scheme was introduced in 1986. In this scheme, the firm paid the benefit for the first few months, then the central government, and finally the local municipality.

This scheme however, was never used by a large number of workers, as it was replaced by another in 1989, well before unemployment increased considerably. The new scheme was also based on the insurance principle (contributory record required), but benefits were paid out of the central budget (ie. there was no dedicated contribution to UI until 1991). The benefit rate was proportional to previous earnings and decreased gradually from 70 to 45% during a spell of unemployment (for more detail, see Table A12.3 and A12.4 in the Appendix). As the final step to complete the establishment of a two tier benefit system, a means tested flat rate unemployment assistance was introduced in 1992 for claimants who had exhausted eligibility for the insurance benefit (Nagy, 2002). Initially, UI was paid for a maximum of 2 years, while UA was open-ended until 1995, when it was limited to 2 years. UA was granted to claimants who exhausted UI if their per capita family income was below 80 % of the minimum pension; the benefit rate was set equal to this threshold.

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place for them. (Note also that there is a housing benefit, but its amount is very small compared to the regular social assistance.)

Both UI and UA were regulated by the central government and as of 1991, financed by compulsory contributions from employers and employees to a separate fund which was managed by the government (Keune, 2002). The public employment service was set up in 1986, but at the time it was primarily intended to facilitate job exchange, since unemployment was well below 1%. The PES network was subsequently strengthened considerably, when registered unemployment grew from below one to over 10% within two years after 1991.

<<table 12.4 about here>>

Other welfare programmes for the working age population, such as disability pensions, maternity or parental leave benefits were less affected by the transition to a market economy, as they had already been important parts of the socialist welfare regime. In 1989, the main welfare programmes were all insurance based, as typical of a Bismarckian system. Universal and means tested schemes introduced during the past 20 years include the above mentioned UA and a flat rate maternity allowance introduced in 1996, which was changed from means tested to universal in 1999. Lastly, a new insurance based rehabilitation allowance was introduced in 2008. It is granted to new claimants of the disability pension or disability benefit whose work capacity can be partially or fully rehabilitated. The benefit rate is roughly the same as the disability pension<sup>12</sup> and it is granted for the duration of the rehabilitation programme but only up to a maximum of three years. The current welfare regulations are summarised in Table 12.5.

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<sup>12</sup> It is set at 120 % of the disability pension, given the service years and degree of lost work capacity, but is subject to compulsory pension contribution, so that the net amount is roughly the same as the pension.

<<table 12.5 about here>>

Only the unemployment schemes and the new rehabilitation allowance require registration and cooperation with the PES. As a result, the coverage of registered unemployment has been very low: though the majority of the non-employed working age population receive some benefit, only 13-16% are registered with the PES. The large majority of the registered unemployed are receiving some form of benefit or allowance, but many of them – about 40% according to labour force surveys – are not actively looking for work (Fazekas et al., 2008: 198). At the same time, about a third of the genuine job seekers are not registered with the PES. This suggests that the PES are not very effective at activating the unemployed and that the services they offer (beyond administering benefit claims) are poor, or at least perceived to be of poor quality by job seekers.

The eligibility conditions of all types of unemployment benefit are relatively undemanding in terms of behavioural requirements (OECD, 2001, 2007a; Koltayné, 2002), and their enforcement varies greatly across local job centres (Bódis et al 2008). For example, individual job search efforts do not need to be documented, and participants in ALMPs are exempt from continuing job search and attending interviews with the PES. Personal attendance at the job centre for verifying unemployed status is usually required every 1-3 months in Hungary, which is much less frequent than in many other countries (OECD, 2007a).

## 4. Analysing Major Reforms

This section reviews the five major episodes of welfare reform in the past twenty years and their political context, with a focus on the divergence or integration of unemployment benefits (for a summary, see Table A12.7 in the Appendix).

### 4.1. Transition Years (1989-1992)

Unemployment insurance was established in anticipation of growing unemployment as a result of structural reforms in the mid 1980s, preceding the collapse of socialism and the planned economy. The first major step in employment policy after 1990 was the adoption of the Act on Job Assistance and Unemployment Benefits in 1991, which established a single tier unemployment benefit system with additional provisions for older workers. It introduced a two-phase UI scheme, the pre-pension, and the assistance for school leavers (the latter was abolished in 1996). As discussed in section 3 above, a second tier was added in 1992. The Act was viewed as a necessity to handle the high levels of unemployment emerging at the beginning of the transition – a challenge that the socialist administration had never experienced and hence was not equipped to face. Due to this consensus, there was no opposition to the reforms proposed and all political parties supported the Act.

### 4.2. Reducing Generosity (1991-2000)

Unemployment insurance was adjusted frequently during the first half of 1990s, and most of the reforms were aimed at reducing the generosity of the system. As shown in

tables A3-4, the prior employment condition was the only element of the UI scheme that was not tightened during this period. Between 1991 and 2000, the maximum duration was cut from two years to 270 days, the replacement rate from 70 to 65% of gross earnings (with a temporary rise to 75% between 1993 and 1997), the maximum UI benefit from 3 times to twice the minimum wage (1992), and the benefit floor and ceiling not adjusted for inflation between 1993 and 1996, at a time when price levels rose by around 20 % a year (Nagy, 2002). The eligibility conditions of the UI scheme did not change until 2000.

With the increase of long term unemployment, the share of UA claimants reached 45% of all unemployment benefit recipients and has ranged between 50-60 % since then (IE, 2009). At the same time, UI and UA converged in terms of average payments. When the UA scheme was introduced in 1992, on average benefits amounted to less than half the average UI benefit, but reached 64% by 1997. The average UI benefit dropped from 56% to 36% of the average net wage (Nagy, 2002). This was mostly a result of the above mentioned drop in the real value of the benefit floor and ceiling. Nagy (2002) shows that the benefit amount was determined by the ceiling in 35% of UI benefit claims in 2000, as opposed to 2% in 1992, while the floor was applied in ever fewer cases (7% in 2000 vs 43% in 1992).

The gradual retrenchment in unemployment protection was met with little resistance. Part of the explanation for this may lie in the early divide-and-pacify policies, which provided other, often more generous types of support (early pension, disability pension, maternity leave) to claimants who had a sufficiently long enough employment history, thereby helping to prevent the emergence of discontent among

social groups with a significant bargaining power. Trade unions were also too weak to raise their voice. They had been weakened by the dismantling of large state-owned firms and lost their former powers to influence government decisions via the communist party. In the new legislative framework social partners are solely involved in pre-legislation discussions about unemployment support, rather than implementation or administration (Neumann, 2007).<sup>13</sup>

The deep and abrupt welfare cuts of the so called Bokros package in 1996-97 were not so easily accepted. For the UI scheme, the replacement rate was reduced from 75 to 65%, its two phases merged into one and the ceiling was further reduced in real value (there was a small nominal rise, but not enough to make up for the lack of adjustment in the preceding five years). The pre-pension was replaced by the considerably less generous pre-retirement unemployment benefit, the earnings-related paid parental leave was abolished and the insured flat rate paid parental leave was replaced by a means tested assistance (with no prior contribution required). In response, the unions went on strike, the minister for welfare resigned and MPs of both the ruling coalition and the opposition parties raised their voice against the welfare cuts but the austerity package was nevertheless passed amid the looming financial crisis (Antal, 2000; Kelen, 1996).<sup>14</sup>

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<sup>13</sup> An exception is the administration of active labour market policies in which social partners have special committees and significantly influence the work and expenditure of public institutions.

<sup>14</sup> The welfare cuts of the austerity package were criticised mostly on the grounds that they were disproportionate, their fiscal gains small, and their targetting ill-defined, which would hurt the poor and not only wealthier families, as was propagated.

#### 4.3. The Supply Incentive Experiment (2000-2002)

With a conservative coalition (Fidesz – Hungarian Civic Union, joined by the Smallholders Party) coming into power, a comprehensive ‘welfare to work’ reform was adopted in 1999. The government’s programme for 1998-2002 underlined the need to reduce state redistribution and costly means tested welfare systems, and support self-help (Fidesz, 1998: 5). According to official rhetoric, the programme was justified by the need to support people who are willing to help themselves and the government’s responsibility to safeguard the interests of the tax paying citizen (Fidesz, 1998: 3; Lakner, 2005). The main goal was to increase incentives for the unemployed to actively seek employment. Measures included the introduction of activation plans, cutting the maximum duration of UI, the merger of UA with the regular social assistance and doubling the minimum wage in two years.

In 2000, means-tested unemployment assistance was merged with the more general social assistance scheme (see footnote 11) and made available regardless of prior work history.<sup>15</sup> The benefit level was cut from 80 to 70% of the minimum old-age pension. The new scheme maintained the character of an unemployment assistance (UA) support in that eligibility was conditional on cooperation with the job centre or the local welfare agency. In addition, the work test was considerably strengthened in an effort to focus more on activation and workfare (Frey, 2001). Most notably, eligibility to the new scheme was dependent on claimants engaging in 30 days of public works (prior to accessing benefit) which was paid at a rate no lower than the

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<sup>15</sup> Except that the claimant had to prove that they had cooperated with the local job centre or municipality for at least 12 months within the past two years (as proof of their long term unemployment).

minimum wage.<sup>16</sup> This development made UI and UA more similar in terms of job search criteria, but more distinct in all other respects and particularly in terms of generosity. Between 1997 and 2006, the average amount of the UI and UA schemes diverged, mostly because the UA had not been fully adjusted to inflation and wage increases. While UI transfers were typically around 40% of the average net wage, the average UA dropped from 26% to 16 % of the average wage during the period (IE, 2008).

The administration of the new UA was devolved to local governments in 2000, who were reimbursed by the central government for most of their expenditure on unemployment assistance. The fact that dedicated grants could not be used for other purposes (Semjén, 1996) created a disincentive for the local governments to strictly enforce job search regulations for UA. In addition, many municipalities (especially in villages) merely paid out benefits, lacking the adequate expertise for the provision of genuine employment oriented assistance to the long term unemployed. One year after the introduction of the new work test, half of all municipalities had not organised public works at all, which was mostly due to the lack of administrative and managerial capacity (Fazekas, 2001). On the other hand, larger municipalities benefited from the reform as it provided a new source of funding for public works and extended the eligible types of work to any activity that 'served the public interest.'

As a whole, the 'welfare-to-work' reform resulted in a divergence between UI on the one hand and UA on the other in terms of eligibility and in administering support. There was little or no integration of risk categories either, since the reform focused

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<sup>16</sup> This rule applied to all abled bodied working age claimants.

rather narrowly on the registered unemployed. Other than implementing the gradual increase of the standard retirement age as set out in the pension reform of 1997 (drafted by the previous government), there was no attempt to extend labour market integration efforts to a wider group of benefit claimants.

Another element of the 'welfare-to-work' reform was a rise of the minimum wage in 2001-2002. The prime minister promoted this as an incentive for people to seek employment via increasing the gap between wages and welfare (Kertesi and Köllő, 2003). In political debates over the plan, politicians also referred to the moral obligation to grant decent wages for all workers, the need to approximate local wages to western levels and to suppress informal employment (Cserpes and Papp, 2008; Orbán, 2001). The government tended to downplay the potential labour demand effect noted by economists and also the European Commission (JAP, 2001), but introduced some measures to compensate employers.<sup>17</sup> Beside the genuine belief that it would raise employment, the minimum wage hikes may have been intended to appeal to middle class voters and perhaps also to increase public revenues (Kaufman, 2007).

Reactions to the workfare measures were rather mixed. Employers, experts and opposition parties stressed the potentially negative effects of the increase in minimum wage on labour demand. The Socialist Party accused the government that the minimum wage rise was intended mainly to boost government revenues (Kovács, 2001). The largest trade union federation of socialist orientation (MSZOSZ) worried about potentially adverse employment effects (Kertesi and Köllő, 2003; Cserpes and

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<sup>17</sup> These included a 4% cut in social security contributions (implemented over two years) and a temporary relief fund for low-wage sectors.

Papp, 2008),<sup>18</sup> while public employees protested because the rise removed much of the wage advantage of skilled workers and professionals in public healthcare and education. The new UA conditions also attracted fierce criticism by the socialist and liberal opposition, stating that the proposal was based on prejudice against the poor (and the roma), ineffective and would thus hurt the long-term unemployed especially in underdeveloped regions where there were few opportunities to work (Parliament, 1999). However, public opinion strongly approved of compulsory public works for UA recipients though not of the benefit cuts. The support for the new work test was so strong, that the overall acceptance of the reform was positive (Köllő, 2002).<sup>19</sup>

Subsequent impact analyses of the reform identified few favourable results. A simulation of budgetary impacts showed that the minimum wage increases were unlikely to reduce unregistered employment and their net effect on the budget was expected to be negative. The employment effect was proved definitely negative by detailed empirical analyses (Kertesi and Köllő, 2003).<sup>20</sup> Galasi and Nagy (2002) also showed that the tightening of UA did not significantly increase re-employment probabilities, while it substantially reduced the income of the long term unemployed.

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<sup>18</sup> Unions were also alienated by the tactics of the government in introducing the minimum wage rise. In November 2000, the Parliament adopted an amendment to the Labour Code authorising the Government to set the minimum wage where the process of negotiations with the social partners did not yield agreement. Social partners feared that the new rule would weaken the social dialogue in this area. Indeed, the first rise in 2001 was passed by government decision, without the consent of the social partners (JAP, 2001; Cserpes and Papp, 2008).

<sup>19</sup> International attitude surveys suggest that – as in most post socialist countries – disapproval of income inequalities and support for publicly financed welfare provisions is much stronger in Hungary than in the old EU member states (Murthi és Thiongsom, 2008). However, most people would prefer to allocate benefits on the basis of merit, rather than needs (TÁRKI, 2002).

<sup>20</sup> For an overview of the impact analyses and the ensuing debate over further increases in the minimum wage, see Benedek et al. (2006).

#### 4.4. Combining Welfare and Activation (2002-2008)

After the 2002 elections, the new socialist-liberal government was mainly concerned with correcting relative wages in the public sector (as the wage distribution had been distorted by the minimum wage rise). One of their first measures was a 50% wage rise for persons employed in the public health care and education sectors, while the minimum wage was only raised by the level of inflation. Beside a minor alteration of the UI scheme in 2003,<sup>21</sup> there was no change to the unemployment benefits until late 2005. Learning the lesson of the unsuccessful supply-side measures of the previous government, the Socialist administration reestablished the Ministry of Labour and concentrated more on demand-side policies, such as targeted wage subsidies. In 2005 the reelected coalition – possibly inspired by EU recommendations – redesigned the benefit system with an aim to provide strong incentives for job search, but at the same time adequate levels of income support. UI was renamed as ‘job search’ provision, and behavioural conditions were further tightened (Frey, 2006: 208). To encourage early exit from benefit receipt, the new UI was made heavily front loaded in 2006 (see Table A12.4) and a reemployment bonus was introduced.<sup>22</sup> The new UI had three phases: a wage-related first phase and a flat rate second and a third phase with declining rates of support. The maximum duration was reduced by 90 days but the average benefit amount increased considerably in the first phase as both the floor and the ceiling of UI were raised, which compensated for the drop in the replacement rate from 65 to 60 %. Opposition parties mainly supported the expansion of active labour

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<sup>21</sup> To ‘correct the negative effects of the 1999 amendment’, the government reintroduced the second phase of the UI, with special, more favourable conditions for those with less than five years before retirement age (see Tables A12.3 and A12.4, also Frey, 2003: 176)

<sup>22</sup> Those getting back to work before exhausting benefit would receive 50% of the benefit amount which would have been due for the rest of the benefit duration.

market policies but challenged the government to make the activation measures more concrete.

In April 2006, the UA became a minimum income scheme, and the benefit amount dependent on equivalent family income (rather than per capita income). As intended, the redesigned allowance was more effective in reducing poverty, and especially child poverty, but also raised concerns about widening the unemployment trap, as there was no phasing out or disregard for those entering a job. It also generated tensions in some municipalities, where officials considered the provision too generous, in some cases based on prejudice against large Roma families. In response, the allowance was capped in December 2006, fixing its maximum level equal to the minimum wage (Firle and Szabó, 2007).

Aided by EU support under the Phare and HRD programmes the PES was reorganised into a regional system (as opposed to the former network of county headquarters) and gradually started to introduce new, client-oriented services designed to support individual job search. To support job exchange and monitoring, a national information system was established, accessible by all local PES offices and PES staff received training to implement internal quality assurance and evaluation (Galasi, 2004).

The strengthening of activation has been on the agenda of the PES since the late 1990s and especially since Hungary joined the European Union in 2004. Activation plans as a tool to increase motivation for job search were introduced in 2003, which had a positive effect on job search efforts (Galasi and Nagy, 2009). There is some evidence however that such activation efforts have mainly affected UI recipients.

Bódis et al. (2008) find that the drafting and enforcement of activation plans have remained a largely formal exercise, and especially so in the case of UA recipients. In the labour force survey, one in two UI recipients report to have visited the local job centre within a month, compared to one in four UA recipients.<sup>23</sup> This apparent difference in the implementation of behavioural requirements for the two groups suggests there is no clear tendency towards the administrative integration of unemployment benefits.

Finally, activation was gradually extended to claimants of other working-age support. Wage subsidies and training programmes were gradually extended to cover disabled persons, low qualified workers, older workers, and mothers re-entering the labour market. The boldest of such measures was the introduction of a rehabilitation allowance in 2008. As already mentioned in section 2, this was granted to new claimants of the disability pension or disability benefit whose work capacity can be partially or fully rehabilitated (as assessed by a committee of health and employment experts). Recipients of the allowance must cooperate with the PES and participate in trainings or other rehabilitation services as required by the PES. The impact of the new measure has been limited so far, partly because the supply of personalised rehabilitation services is scarce and partly because the global crisis has reduced employment prospects.

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<sup>23</sup> By law, both UI and UA recipients should visit the local job centre at least once in three months. The National Employment Office recommends that UI recipients are called in more frequently: at least once a month. The LFS data suggest that in practice, the average frequency of visits is two months for UI and 4 months for UA recipients (Calculation by Ágota Scharle based on the second quarter of the Hungarian Labour Force Survey of 2005).

#### 4.5 Responding to the Global Crisis (2009-2010)

The global financial crisis reached Hungary in late 2008. Within a year, unemployment rose from 8 to 10%, and employment (in the population aged 15-64) dropped from 57 to 55%. The government responded by cutting employers' social security contributions, increasing subsidies for job retention schemes and further tightening the UA benefit (see below, and for more details Cseres-Gergely and Scharle, 2010). The crisis weakened the Hungarian currency, also because it coincided with political turmoil erupting in early 2009. The political crisis ended with the resignation of the prime minister and the announcement of an austerity package in April 2009, designed to regain foreign investors' confidence. The package included some long overdue, but politically difficult measures, such as abolishing the so-called '13th month pension', raising the retirement age to 65 and reducing the maximum duration of paid parental leave to 2 years. It also included a general 10% reduction in government staff, which was applied to the PES as well, not considering the obvious increase in the demand for their services.

Changes made to UA were similar to those in 2000, except more severe. Recipients of the old UA were divided into two groups: those considered able to work, and those too frail to do so. For the latter group, the benefit amount remained unchanged and the work test was removed. For the former, the benefit amount was flattened and considerably reduced and the work test extended to 90 days of public works a year, paid at least at a rate equivalent to the minimum wage. Long term unemployed aged over 55 were automatically put in the 'frail' category, thereby narrowing the risk category of the unemployed. The cut in the UA benefit amount widened the gap

between UI and UA recipients further, particularly since many of the newly unemployed were better paid skilled workers laid off from crisis ridden manufacturing firms. The two groups converged however in terms of job search requirements and also in benefit administration as able bodied UA recipients are now served by the PES instead of the municipalities. Public works remained a municipal responsibility and available funds were considerably increased.

The austerity measures were clearly a response to the financial crisis and the structural disfunctions of the Hungarian economy which had caused a slowdown even before the global crisis. The tightening of UA however had been on the agenda since its controversial redesign as a minimum income scheme in 2006. In one interpretation, the amendment in 2009 was a political deal with the powerful lobby of mayors (Kis, 2010).<sup>24</sup> In return for their consent to the austerity measures, mayors were allowed to use the UA for regulating the (idle) poor and especially the Roma, and for filling gaps in their budgets via public works funds, which were not closely scrutinised by the central government. The tightening may have also served to appease the growing public discontent over the inefficiency of Roma integration policies (and a gloomy economic prospect) and to prevent the further growth of support for the far-right.<sup>25</sup>

## 5. Conclusions

In terms of the triple integration hypothesis (see chapter 1), we may summarise the changes of the unemployment benefit system as follows. There was some

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<sup>24</sup> The 3000 mayors who are elected directly in each village, town and city may hold a seat in Parliament as well, and many of them do, which clearly increases the power of their lobby.

<sup>25</sup> Established in 2003, Jobbik ('The Movement for a Better Hungary'), burst onto the political scene by winning 3 of the 22 Hungarian seats at the EU elections in 2009.

homogenisation of unemployment benefit support caused mainly by the gradual cuts in the generosity of the UI scheme. However, the reform of late 2005 was rather mixed in this respect since it reduced entitlement while increased the replacement rate in the UI scheme, which may be interpreted as moving back towards the traditional separation between insurance based and means tested support. This is also underlined by the fact that neither scheme has become dominant in terms of coverage.<sup>26</sup> At the same time, the generosity and entitlement to the means tested scheme were increased, which brought the average level of payments closer to the insured benefit. The latest reforms of 2008/9 reversed this trend, so the gap between UI and UA widened again.

A need for risk re-categorisation, i.e. making parallel programmes for working-age claimants more like unemployment support, or making labour market exit routes less attractive, has been propagated by international experts since the mid 1990s, but Hungarian governments have been very slow or inconsistent in taking such advice. Early measures merely aimed to reduce the generosity of working-age benefits in 1996-7, while easing access (to early pension, parental leave) at the same time. This was later reversed by curbing access to pre-pension and disability schemes in 1998. Efforts of broadening unemployment as a risk category also included parental leave recipients who became eligible (but not required) to participate in some active labour market programmes but the extension of a work test requirement to the incapacity benefit was only introduced in 2008. Registration at the local job centre has been kept as a condition of claiming UA, though it is often merely an administrative formality. The latest rearrangement of the UA however has again narrowed the focus of the PES by removing older workers from the unemployment register.

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<sup>26</sup> At the time there were about 160 thousand people on UA and 100 thousand on UI.

The idea of an administrative merger of distinct support systems for working age benefit recipients has been widely discussed in the past few years but most of these plans are still waiting to be implemented. The new rehabilitation scheme with a work test introduced in 2008 was a first major step in this direction since it moved the main responsibility of dealing with this client group from the health and pension insurance agencies to the public employment service. The ministries of welfare and labour were merged in 2006, and the national headquarters of the PES have assumed some new roles related to social provisions. However, at the local level no merging of welfare and PES functions have taken place so far. Indeed, there are signs of diminished integration, as indicated by the strengthened responsibility of local governments in managing public works programmes for UA recipients.

In summary, the suggestion of integrating working age benefits or their administration has been a frequent element in policy debates, but has not materialised yet in the actual design and implementation of employment policy. Rather than responding to structural changes or distortions in the labour market, policy making has been largely dictated by the politically determined cycle of overspending and fiscal squeeze, and more specific short term political aims, such as the recent attempt to appease public discontent by regulating the 'idle poor'. Most labour market reforms would necessitate complex deals and potential gains can often be reaped only by the next government. This reduces governments' intrinsic motivation to initiate reforms, while civil society, the media and fiscal watchdogs are still too weak to hold them accountable. Even when a hard-fought political decision is made, implementation may fail on the restricted or uneven ability of public administration to adequately design a new policy and ensure its proper implementation.

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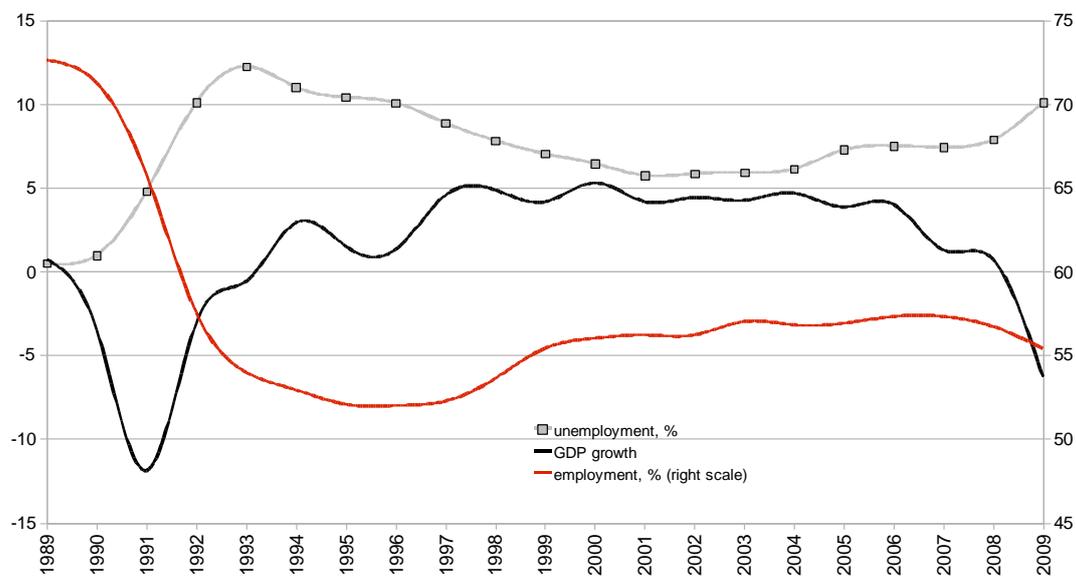
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Figure 1. Economic growth, level of employment and the unemployment rate, 1989-2009

Figure 12.1 Economic Growth, Level of Employment and the Unemployment Rate, 1989-2009



Source: Central Statistical Office (Labour Force Survey for the employment and unemployment rates, population aged 15-64)

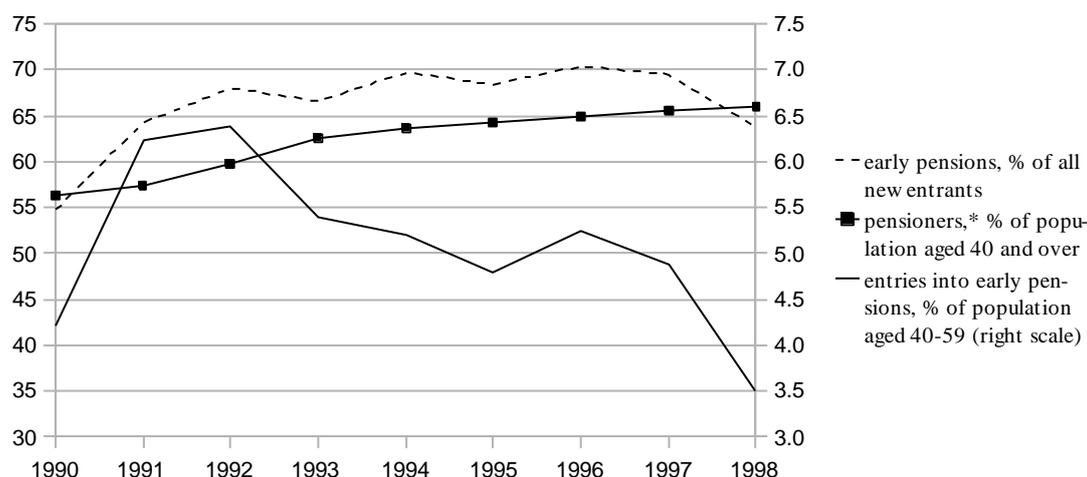
Table 12.1 Percentage Receiving Benefit in Population Aged 15-64

	UI	UA	Pensions (below 64)	Disability benefits	Parental leave	Total
1990	0.4	0.7	17.7	1.8	3.6	22.5
1995	2.3	3.7	20.5	3.2	4.4	30.9
2000	1.8	2.4	21.7	3.5	4.4	30.3
2005	1.5	2.3	21.4	3.6	4.3	29.5

Sources: Authors' calculations based on data from the National Statistical Office, the National Employment Office and the Pension Fund.

Notes: UA includes career starters allowance (pályakezdők segélye), and two types of unemployment assistance (jövedelem pótló támogatás, rendszeres szociális segély), as reported by local councils. Pension includes disability pensions. UI (Unemployment Insurance) includes insurance type unemployment benefits (járadék)

Figure 12.2 Change in Non-standard Pension Claims 1990-1998



Sources: Authors' calculations based on data from the National Statistical Office and the Pension Fund.

Notes: \* includes all types of pension and benefit granted on the basis of pension insurance (old age and disability pension, disability benefit, see footnote 6 for further details). For women, the standard retirement age was 55 until 1997, when it was raised to 57 years (and then gradually raised to 62 by 2009). For men, it was 60 until 1998 when it was raised to 61, and to 62 in 2000.

Table 12.2 Population Aged 25 to 64 Years According to Transfer and Labour Market Status, 2006 (%)

	<i>Employed</i>	<i>Unemployed</i>	<i>Inactive</i>	<i>Total</i>
No transfer	62.4	2.5	5.2	70.1
Unemployment Insurance (UI)	0.0	1.0	0.5	1.6
Unemployment Assistance (UA)	0.0	0.7	0.6	1.3
Parental leave benefits (gyed, gyes, gyet)	0.3	0.1	4.0	4.5
Pension	2.5	0.2	19.3	22.0
Other transfer	0.1	0.0	0.4	0.5
<b>Total</b>	<b>65.3</b>	<b>4.5</b>	<b>30.1</b>	<b>100.0</b>

Notes: A person is classified here, and in what follows, as unemployed with reference to the ILO definition: if he or she actively seeks employment and is available to start work within the next two weeks. The three main parental leave benefits include an insurance based benefit (gyed), a flat rate benefit (gyes) and an extended paid leave (gyet). Source: Cseres-Gergely and Scharle (2008), based on data provided by the CSO labour force survey.

Table 12.3 Activity and Transfer Status by Level of Education for People Aged 25-64, 2006 (%)

Education	Activity and transfer status							Total
	Working	Unemployed	Inactive + UA	Inactive + PLB	Inactive + Pension	Inactive, other transfer	Inactive, no transfer	
Primary or less	47.7	8.9	2.3	6.5	21.0	1.0	12.5	100.0
Lower secondary	73.9	5.9	0.5	4.0	10.0	0.5	5.2	100.0
Upper secondary	77.9	4.0	0.2	5.1	6.4	0.3	6.1	100.0
Higher education	87.5	2.0	0.0	5.0	2.4	0.0	3.0	100.0
Total	72.7	5.2	0.7	5.0	9.6	0.4	6.4	100.0

UA = Unemployment assistance, PLB = Parental leave benefits (GYED, GYES and GYET)  
Source: Cseres-Gergely and Scharle (2008) based on the CSO labour force survey.

Table 12.4 The Main Criteria of UI and UA in 1990 and 2010

	<b>1990</b>	<b>2010</b>
Type	State financed but tied to prior employment	Employees' and employers' contributions
Membership	n.a.	Compulsory to all employees and as of 2005, to the self-employed
Qualifying	Involuntary unemployment.	Involuntary unemployment.

condition	UI: 18 months of employment in past 3 years	UI: 12 month of employment in past 4 years UA: prior cooperation of at least 1 year with job centre, family income below 90% of minimum pension
Benefit level and duration	UI: 70% of prior earnings for 6 months; 60% for 6 months; 45 % for 12 months	UI: 60 % of prior earnings for 3 months (maximum); 60% of minimum wage for 6 months (max); 40% of minimum wage for 3 months (max) UA: 100 % of minimum pension (39% of minimum wage), unlimited, with annual review
Obligations	UI: registering/cooperating with job centre; applying for jobs; accepting offer of 'suitable' job or training	UI: registering/cooperating with job centre; applying for jobs; accepting offer of 'suitable' job or training UA: as UI and acceptance of 'public work' of 90 days/year

Source: See tables A3-A6 in Appendix.

Table 12.5 Regulations on the Main Social Welfare Programmes in 2010

Programme	Can be claimed while in employment?	Tax allowances
Unemployment insurance/job seekers' allowance:	no (availability for work must be proved*)	
Unemployment assistance:	no (availability for work must be proved*)	
Old-age pension	yes	yes (lower health insurance contribution)
Disability pension	limited	
Disability benefit	limited	
Rehabilitation allowance	limited and availability for work must be proved*	
Gyed: paid to families with children up to the age of two, 70 % of the gross wage but maximum twice the minimum wage (either partner can claim).	no	
Gyes: flat rate, may be claimed by families with children up to the age of two.	yes (after child reaches the age of one) (no restriction on working hours)	yes (lower health insurance contribution)
Gyet: support for parents raising three or more children, where the youngest child is eight or younger.	yes (4 hours a day)	

\* Claimants are required to accept suitable job offers or community work as proof of availability for work. Support may be denied if the claimant does not co-operate.

## Appendix

Table A12.1 Registered Unemployed by Type of Benefit Received, %

	1990	1995	2000	2005	2008
Unemployment insurance	100	38.4	44.8	42.0	34.3
Job-search assistance	-	-	-	6.9	13.7
Means tested UA	-	49.1	36.9	-	-
Means tested SA	-	-	13.2	49.1	50.1
School-leavers' allowance	-	6.7	0.0	-	-
Pre-retirement UA	-	-	2.9	2.0	1.8
Pre-pension	-	5.8	2.2	-	-
Total receiving some assistance	100	100	100	100	100
Those not receiving any assistance (% of the registered unemployed)*	10.3	22.6	29.5	33.8	35.8
Registered unemployed (thousand persons)	47.4	507.7	390.2	409.5	442.3

Sources: The Hungarian Labour Market 2001-2009

Note: \*The increase in non-recipienty is partly explained by the phasing out of the school-leavers allowance in 1996, and partly by the tightening of UI and UA rules. In 2007, the share of those aged below 30 was 40% among non-recipients, and 24 % among the other registered unemployed.

Table A12.2 Other Non-employed Working Age Population by Type of Benefit

Received, thousands

	1990	1995	2000	2005	2008
Old-age pension (korhatár alatti öregségi és hozzátartozói)	41.1	27.3	94	173.4	261.7
Disability pension (korhatár alatti rokkant)	232.6	332.3	418.7	465.7	432.8
Other disability benefit (egyéb mmk)	126.4	222.7	240.3	251.8	225.5
Insured maternity leave (gyed)	154.9	128.5	54.0	87.1	93.9
Flat rate parental leave (gyes, gyet)	94.7	175.7	245.4	208.7	207.6
Sick leave (táppénz, napi átlag létszám)	272	173	112	102	90
A) Non-employed together (unemployed+inactive) (thousand persons)	1969	3245	3009	2936	2945
B) Working age (15-64) population (thousand persons)	6849	6835	6841	6815	6794
A/B) Non-employed working age (%)	29	47	44	43	43

Sources: The Hungarian Labour Market 2001-2009, CSO Labour force survey (for working age population) and Yearbook of Welfare Statistics 2008s

Table A12.3 Changes in the Entitlement Conditions of Insured Unemployment

Benefit

Year of introduction	Prior employment condition	Duration		Waiting period after	
		Minimum	maximum	Voluntary quit	severance pay
1989	18 months/3 years	24 months	24 months	smaller benefit	None
1991	12 months/4 years	180 days		3 months	same as months of severance pay
1992		135 days		18 months	
1993		90 days	360 days	6 months	
1997				3 months (90 days)	
1998					
2000	200 days/4 years	40 days	270 days	None	
2006*	365 days/4 years	73 days	360 days		

\* November 2005, no change until June 2010. Sources: Nagy (2002), Frey (2010).

Table A12.4 Changes in the Generosity of UI

Year of introduction	Benefit in proportion of previous gross wage (and maximum duration)			Calculation of average earnings	Benefit	
	phase 1.	phase 2.	phase 3.		Minimum	maximum
1989	70 % for 6 months	60 % for 6 months	45 % in the second year	base wage in last month + monthly average of additional earnings in last year	1989: none	phase 1.: 300 % of minimum wage phase 2.: 200% of min w 300% min w
1990					0.8*min w	
					min w	
1991	70 % for 360 days	50 % for 360 days	-	average earnings in 4 calendar quarters before job loss	min w	200% min w
1992	70 % for 360 days	50 % for 180 days				
1993	75% for 90 days	60% for 270 days	-			
1997	65% (no phases) for 360 days			8 600 HUF	90% of min pension (22 230 HUF in 2005)	phase 1.: 18 000 HUF; phase 2.: 15 000 HUF 180% of min pension (44 460 HUF in 2005)
2003	65% for 270 days		85% of min wage for 180 days			

2006*	60% for 91 days	60% of min wage for 179 days	40% of min wage for 90 days		60% of min wage (37 500 in 2006)	120% of min wage (75 000 in 2006)
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Notes: \* November 2005, no change until June 2010. \*\* this column gives the length of the first, typically more generous phase of UI, compared to the total duration of UI benefit (given in table A3). min w=minimum wage, min p= minimum old age pension

In Hungarian, phase 1-2 was called „munkanélküli járadék” until 2005, when it was renamed to „álláskeresősi járadék”. Phase 3 is called „álláskeresősi segély”. Phase 3 is insurance based. Eligibility conditions are either 200 days (140 days for those less than 5 years before pensionable age) of prior employment or exhaustion of phase 2.

Sources: Nagy (2002), Frey (2010)

Table A12.5 Changes in the Entitlement Conditions of the Unemployment Allowances

<i>Year of introduction</i>	<i>Prior employment condition</i>	<i>Means test</i>		<i>Activation criteria / work test</i>
Before 1989	SA – none	-	SA – monthly income is below widows’ minimum pension	SA - none
1992	UA – exhausted eligibility for UI SA – none	UA – monthly (per capita) family income is below widows’ minimum pension		UA – min. 18 years old, capable of work, unemployed, not in receipt of UI benefit SA – none, may work limited hours
1993	UA – exhausted eligibility for UI SA – none	UA – monthly (per capita) family income is below 80% of minimum pension		
1997	UA – exhausted eligibility for UI SA – 2 years of prior cooperation with job centre		SA – own monthly income is below 70%, per capita family income is below 80 % of minimum pension	UA – min. 18 years old, capable of work, unemployed, no UI benefit SA – cooperation with job centre or family centre
2000	UA – exhausted other allowance or 1 year of prior cooperation with job centre	UA – own monthly income is below 70 %, per capita family income is below 80% of minimum pension, no property (except for own housing) SA merged into UA (the new UA was named ‘social assistance’ but requires a work test)		UA – min. 18 years old, capable of work, unemployed, no UI benefit, take part in 30 days of public works
2006 April		UA- equivalent family income** is less than 90% of minimum pension		

2009	UA – equivalent family income** is below 90% of minimum pension	SA – equivalent family income** is below 90% of minimum pension	UA – public works of at least 90 days/year, cooperate with job centre SA – cooperate with family centre
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Sources: Gábos (1996), Nagy (2002), Frey (2010)

Notes: UA=unemployment assistance (jövedelempótló támogatás), SA=social assistance (rszs)

\*\* Equivalence scale changed (consumption unit instead of per capita). When splitting the UA and SA in 2009, the SA kept its old name „rendszeres szociális segély” (regular social assistance) and the UA was called „rendelkezésre állási támogatás” (availability allowance).

Table A12.6 Changes in the generosity of SA and UA

Year of introduction	Amount		Duration
	UA	SA	
1992			UA, SA – unlimited
1995 July	80% of the minimum pension (top up to own income)	According to need, up to minimum widow’s pension	UA – max 2 years SA – unlimited, annual review
1997		70% of the minimum pension (top up to own income)	UA – max 2 years SA – unlimited, annual review
2000	70% of the minimum pension (top up to own income)		
2006 May	Top up of equivalent income to 90% of minimum pension		Unlimited with annual review of entitlement
2007	Top up of equivalent income to 90% of minimum pension, but maximum the minimum wage		
2009	Flat rate = minimum pension (about 39 % of minimum wage)	Top up of equivalent income to 90% of minimum pension, but maximum the net minimum wage	UA, SA – Unlimited with review every 2 years

Sources: Gábos (1996), Nagy (2002), Frey (2010)

Table A12.7 Major Reform Episodes (1989-2009)

1989-1992	easing entitlement conditions in all elements of the welfare system: unemployment insurance, means tested support for the unemployed, incapacity benefits, early pensions, paid parental leave
1991-2000	recurring reductions in the generosity of UI in 1991-93, 1997, and 2000
1996-97	reduction in generosity in most welfare benefits (UI, early pension and parental leave), 1998 reduction in entitlement to incapacity benefit and rise in pensionable age, as part of austerity package
2000	widening entitlement (prior work history condition) and reducing generosity in unemployment benefits (both UI and UA), strengthening work test, (but increase in both entitlement and generosity in parental leave), 2001-2: doubling the minimum wage
2006-8	reducing entitlement to insurance benefits (unemployment, incapacity, early pension, old age pension), increasing both entitlement and generosity of means tested UA, strengthening work test for UA and incapacity benefit
2009	Reducing generosity and strengthening work test of UA