

# *Transformations of the welfare state in Hungary*<sup>1</sup>

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*Abstract.* This descriptive paper analyses transformations of the welfare state in Hungary. The time of transition brought significant challenges to the post-communist region, putting pressure on the operation of the welfare state. After providing a brief background to the origins of the Hungarian welfare state, this paper interprets the historical-institutional features of the welfare state in Hungary. Particular emphasis is placed on the effects of the transition. The main findings are summarised in the conclusion.

*Keywords:* Hungary, welfare state, welfare state regime.

*JEL Codes:* H53, I39.

## **1. Introduction**

The formation and development of the welfare state in East Central Europe has attracted much attention. The collapse of the communist regime was followed by rapid and radical changes, institutions of parliamentary democracy have emerged and produced laws to harmonise with the new system, installing a market-conforming legal infrastructure. While the private sector developed rapidly, the reform of the pension system, health care and social assistance systems were postponed for several years [Kornai 1997].

Transition brought three major challenges for the post-communist welfare states: the elimination of most price subsidies, the end of full employment, and the transformation of state-owned enterprises into profit-making companies. These shocks, accompanied with growing social need and economic reforms, caused a massive recession [Orenstein 2008].

Transformation from centrally planned systems to market economies had a significant impact on the countries of East Central Europe and those of the former

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Soviet Union, as well. The breakdown of the communist Eastern Bloc led to market-oriented reforms in all post-communist countries. Hungary and the other countries of the region launched ambitious reform programmes establishing market order, while Russia and the non-Baltic successor states of the USSR opted for a longer road of reform [Pittlik 2000]. This article presents the historical and institutional features of the Hungarian welfare state. The next section reviews the origins of the welfare state in Hungary.

## 2. Origins of the welfare state in Hungary

The origins of social insurance in Hungary date back to the late nineteenth century under the Austro-Hungarian Empire. In the framework of this Bismarckian scheme, industrial workers and civil servants were covered in cases of illness, maternity, old-age, and disability [Matos 2013]. Under state socialism, or rather after retrenchment in the early years, social insurance progressively became universal [Inglot 2008]. The reforms in 1968<sup>3</sup> meant universal provision of welfare and extended social insurance. “The evolution of the Hungarian welfare system in the early 1990s was marked by a macroeconomic crisis and considerable welfare reforms” [Matos 2013, p. 859].

Looking at the budgetary development of Hungary after the regime change, one can conclude that increased fluctuations in the fiscal balance may be a direct consequence of pro-cyclical fiscal policy interspersed with electoral budgets (i.e. deficits and debt-to-GDP ratios were always higher in the times of elections). The existence of the fiscal cycles per se shows that the sustainability of the welfare state played a secondary role, and the need for structural reforms was therefore greatly neglected [Muraközy 2008].

Let us underscore that the Hungarian welfare state is often characterised by the term “premature” welfare state, coined by Kornai [1990; 1993; 1997] by drawing the attention to the fact that the socialist regime did not leave behind a mature system, but a distorted one, if for no other reason than the transformation promised even more in terms of welfare services mainly without any rationalisation process in reining citizens’ expectations [Muraközy 2008, p. 156]. Accordingly, Szalai [2007] emphasised on the one hand that fundamental changes in the institutional aspects of welfare services remained merely declarations of goodwill, the management and control system as well as the ownership structure remained unchanged, an apparatus responsible for the principle of accountability was not established, and the hierarchical management system remained almost unaltered. On the other hand, the transition brought to life a series of changes (e.g. perceptible changes were notable

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<sup>3</sup> A comprehensive economic reform (the new economic mechanism) was introduced in Hungary in 1968. This reform addressed the issue of replacing plan directives by market mechanisms among firms, reducing the scope of central price determination, linking domestic prices of foreign trade to world market prices, and partly decentralising investment decisions [Balassa 1983].

in the daily roles and tasks expected from service providers, and in the interest and power relationships as well).

Hungary's welfare system was incompatible with its level of productivity (or of any transition country) [Csaba 1995]. Due to the transition, there was an increased demand for welfare services, while "*the number of contributors significantly decreased as a result of mass unemployment, the growing informal economy, and the easy availability of early retirement and disability pensions*" [Tomka 2006, p. 150]. During the transitional recession, no significant cuts in social expenditures were made; moreover new policy tools were introduced, such as unemployment benefits and new social assistance schemes [Ferge 1999; Tausz 2002]. The already existing social security benefits remained untouched for several years, although their real values eroded [Tomka 2006].

From the point of view of the welfare state, the transition is not yet completed. A fundamental feature of transition is its destructive nature [Csaba 1994] and the time horizon for transition was underestimated for the countries of Central and Eastern Europe. While the institutional setup is compatible with market economies despite structural dissimilarities, the current crisis is an indicator of the incompleteness of institutional and regulatory change [Csaba 2011].

In the case of Hungary, path-dependency means that whatever change of the system took place, the country's historical experiences are inseparable from the evolved model of 'Hungarian' capitalism. The processes of transition are fundamentally defined by the previous reform initiatives started in 1968, which are often referred to as the "long reform era" [Muraközy 2008]. The long-lasting effects of market socialism still have important consequences. A whole range of countries went through a stage in which certain ingredients of market socialism were applied. Changes pointing in this direction occurred from 1949 onward in Yugoslavia and after 1953 in Hungary [Kornai 1990]. Among the socialist countries of Central and Eastern Europe (excluding Yugoslavia), the 1968 Hungarian reform can be considered as the most significant, despite all its controversies leading to an increase in production and a rising standard of living [Muraközy 2008]. According to Kornai [1990] Hungary can rightly be considered a laboratory where some very important experiments were conducted. The 1968 economic reforms (reform socialism/market socialism) were an effort to combine socialism and capitalism to some extent.

Foreign debt accumulation started as a consequence of the first oil crisis due to the aim of policy-makers to preserve citizens' well-being. Increased indebtedness and the second oil crisis led to the introduction of new reform programmes in 1982. With the aim of restoring competitiveness, the most important elements of the reforms were the following: legalisation of informal activities (the second economy), official recognition of small private firms (especially in the service sector), the opportunity for private firms to enter the financial market by issuing bonds, the formation of a two-tier banking system and the introduction of a new, market-conforming tax system [Benczes 2011].

The market reforms from the early eighties led to marketisation which significantly increased both aggregate and individual-specific uncertainty; as compensation, the state did not hesitate to embark on offering generous welfare programmes. Welfare services became tools of the short-sighted state elites for compensating the losers of the economic reforms. As a consequence of these reform programmes, generous welfare spending became and is still an untouchable part of social rights, making the implementation of the necessary reforms even more difficult from a political point of view [Benczes 2011].

Political change opened the door to radical economic reforms to replace the system of central planning; however, economic restructuring requires more time than revolutionary political upheaval. Only a few Central and Eastern European countries realised how challenging this process would be [Somogyi 1993]. The major problems of perfecting a market economy were unemployment and capital shortage in these countries. At that time (before the first free election) Hungary had several favourable reforms laid down in advance, such as an almost complete price liberalisation, the Companies Act and the Transformation Act and an evolving spontaneous privatisation [Csaba 1995]. Since several reforms had been implemented, there was no need to apply a big bang approach for the transition. Hungary is often given as an example of gradualism; however, the bankruptcy law of 1992 for example represents a classic case of the big bang approach and even the big bang approach advocates some sort of gradualism [Carmignani 2003].

### 3. The effects of transition on the development of the welfare state in Hungary

How did the transition affect welfare systems of the model? Before transition, communist economies did not perform particularly well; they did ensure a basic standard of living for all. As this guarantee began to diminish, governments introduced emergency responses that shaped welfare-state policy through the mid-1990s to address the growing social crisis. Coordinated policy responses began to emerge only later [Orenstein 2008]. In some cases, the social costs of transition were compensated through the welfare system [Szanyi 2013].

However in the case of Hungary, the 25-year legacy of economic and political reforms was a valuable asset, but “*the period between the mid-1960s and the late 1980s had witnessed not only reform initiatives but also stops and reversals*” [Marer 1999, p. 160]. In many ways, Hungary was in a more favourable position than the other Central and Eastern European countries, but the reforms of welfare programs have been laid aside due to political inability or unwillingness [Marer 1999]<sup>4</sup>.

Transition resulted in worsening macroeconomic conditions during the first four or five-year period, policy reforms were accompanied by a serious transition recession (deterioration of economic performance, rising unemployment).

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<sup>4</sup> An overview of theoretical considerations of post-communist transition and specific aspects of the Hungarian case are subject of detailed analysis in *Dilemmas of Transition: the Hungarian Experience* edited by Aurel Braun and Zoltan Barany [1999].

A distinct period of transition lasted roughly from 1989 to 1993. Due to the deep economic recession, policymakers expanded welfare provision to mitigate the immediate social distress of mass unemployment and poverty resulting from the dismissal of workers from state-owned enterprises [Hemerijck 2013]. Cerami [2010, p. 242] called this period “compensating for the transition” in which the temporary growth of welfare service provisions was aimed at solving the problem of mass unemployment by introducing extensive early retirement policies and by establishing relatively far-reaching unemployment and social assistance programmes. Vanhuyse [2006, p. 49] defined these actions as a “divide and pacify strategy” meaning that “*the work-welfare status of individuals can be manipulated by governments in order to reduce the capacity of reform losers for mobilising*”. This strategy led to relatively generous welfare benefits, especially if we take into account the real possibilities of these transition economies [Cerami 2010].

After 1994, when the cumulative burden of the expansion of social protection of the previous period (1989-1993) proved to be financially unsustainable, the second phase of post-transition welfare state development began, in which retrenchment and privatisation assumed predominant importance [Hemerijck 2013]. The early generosity of welfare systems soon became unsustainable, especially due to the rising number of unemployed [Cerami 2010]. The new direction of this period resulted in advice from the IMF and World Bank and the introduction and expansion of a multi-pillar pension systems in most CEE countries. This period is characterised by three important features: 1) welfare retrenchment and cost containment, shifting away from tax financing to increased payroll financing, linking duration and benefit levels to contributions, plus indexation; 2) pension reform, in particular the privatisation and individualisation of savings; finally, 3) creeping re-familisation of social policies, meaning that by the late 1990s family allowances began to grow<sup>5</sup> [Hemerijck 2013].

During the first few years of regime transformation, the priority of welfare state reform was subordinated to political and economic considerations, “*the transformation of social security system [...] could be treated as a second order phenomenon*” [Wagener 2002, p. 156]. The early 1990s were shaped by the dynamism of transition, the late 1990s and early 2000s were in flux as a part of EU accession. An economic boom in CEE countries during the early and mid-2000s can be observed (which offered hope for a more rapid convergence with the old EU member states), but the global economic crisis and the European debt crises after 2008 resulted in a serious decline in economic performance in the countries of the region [Nenovsky, Tochkov 2013].

Hungary is often cited as a prime example of gradualism [Dervis, Condon 1994] based on the lack of shock therapy compared to countries like Poland, Bulgaria or Russia. In the context of the post-socialist transition, gradualism was applied to avoid political conflict; it was equalled to timidity and unwillingness to change

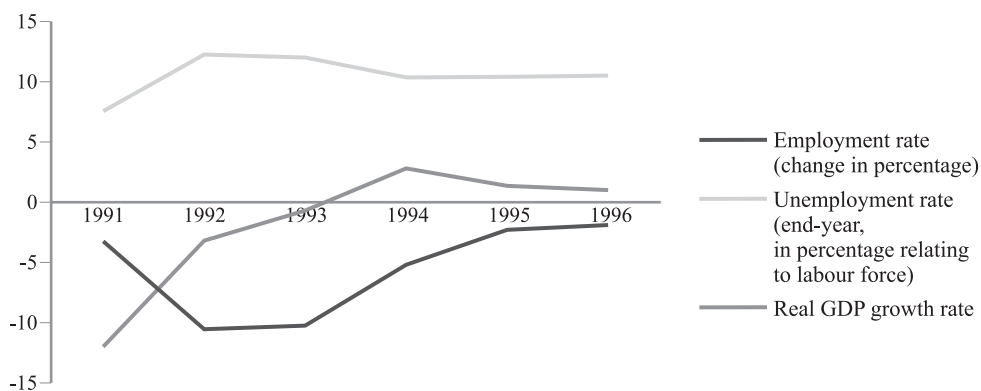
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<sup>5</sup> In 1995/1997 a means-test procedure was introduced first for families with not more than two children, then for all families. In 1998 the new government cancelled several measures and reintroduced principles of solidarity and universal entitlements [Tomka 2006].

[Csaba 2011]. The overall unique feature of the Hungarian transformation can be described as “transformation without stabilisation” [Csaba 1995, p. 195]. To link Hungary’s experience to the debate on the speed of the transition, Benczes [2011] claimed that the gradualist character of the Hungarian transformation was not the result of a conscious decision of the freely elected government, but a historically determined path dependent outcome of a two-decade long reform process which culminated in the political changes of 1989. The early years of the Hungarian transformation, however, were burdened with ambiguity and a lack of coherence in policy decisions.

On the one hand, the socialist system was characterised by full employment consequently there was no need for unemployment insurance, and on the other hand the contributions to the pay-as-you-go system were fully secured. Thus, before 1989, the budget deficit was financed by the significant surplus of the pension fund. The transition brought significant restructuring which led to dramatic decline in employment (see Figure 1). Therefore, in 1989 Hungary introduced a system of unemployment compensation and then established an insurance-type unemployment benefit system in 1991 [OECD 1995]. The pension system bore the brunt of the costs of the introduction of a new system. Due to the transformation recession, with the welfare system being so generous it was placed under even more financial pressure, further aggravating its unsustainability. In an effort to dampen the additional burdens, the government resorted to inflating expenditures in an era of double-digit inflation.

Figure 1. Development of the labour force in Hungary (1991-1996)



Source: [IMF 1997, p. 5].

Between 1989 and 1996, the real value of welfare expenditures decreased by 35% [Ferge 1999, p. 165]. As a consequence, tensions over the sustainability of pay-as-you-go systems increased substantially. By the early 1990s, a drop in the universally provided welfare services can be observed. As part of this process, the previous health care service was replaced by a compulsory insurance-based system.

During the 1990s, labour force participation (especially for women) fell significantly, while a rise in unemployment can be observed, which was especially sharp for men. Government-supported pension policies, intended to mitigate the effects of declining labour demand, were mainly responsible for the decrease in participation. Most people leaving the labour market became eligible for some social provision, such as an old age pension, disability pension, or maternity allowance. By 1995, the share of benefit recipients among the working age population reached 31%. Pension schemes had been used to reduce open unemployment since the mid-1980s, and after the transition this practice was expanded [Duman, Scharle 2011]. This compensation process carried out by the extension of pension schemes could dampen the negative effects of the transition; however, in the long run it has become the cause for the unsustainability of the pension system.

Studies show that during the 1990s, the pruning of the “premature welfare state” was successfully achieved in Hungary. During the decade after transition, the decrease in welfare expenditure of the government budget was significant<sup>6</sup>. The decrease in expenditure did not really entail real reform of the welfare system and solution of its problems. The welfare system cannot really help to solve the worsening social and income problems following the change of the political system [Muraközy 2004].

#### **4. Welfare state development in Hungary after transition**

The period of fiscal consolidation for Hungary started in March 1995 (nine months after the election held in 1994). This was institutional shock therapy (the Bokros “package”), fiscal adjustment and reforms were introduced with substantial expenditure cuts, using the tool of surprise inflation and introducing the creeping devaluation of the currency [Csaba 2009]. In the course of stabilisation, the government intended to rein in domestic demand through income policy restrictions on the flow of wages, by freezing the salaries in public institutions and public companies. The inflation rate increased to over 26% due to discretionary measures (devaluation, additional customs duties) in the stabilisation package. Accordingly, real wages were devalued by 10-12%, thus competitiveness improved. The domestic demand orientation turned into an export one which became decisive in this area, and the rate of welfare expenditures diminished as a proportion of GDP. Before the consolidation, the deficit was 5-7% of GDP two years in a row, and in 1995 this forced the government to intervene through the introduction of a tuition fee in higher education, and the application of needs-based principles in the social supply system. Furthermore, the maternity benefit (GYED) and maternity leave (GYES) were tied to an income limit; the retirement age was raised to 62 years and a co-payment was

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<sup>6</sup> The development of welfare expenditures can only be analysed by secondary sources due to the lack of data. It is important to note that OECD Social Expenditure Database (SOCX) publishes data for Hungary from 1999 onwards, as well as the European System of Integrated Social Protection Statistics (ESSPROS) which provides internationally comparable data on social protection but in case of Hungary from 1999 onwards.

introduced for some health services (e.g. dentistry, pulmonary screening) [Horváth, Jakab, Kiss, Párkányi 2006].

Between 1995 and 1998, social expenditures were decreased considerably, even several universal entitlements were transformed into means-tested benefits, and the privatisation of public programmes was carried out [Tomka 2006]. The stabilisation in 1995 resulted in a significant, but merely provisional decrease in public expenditures. The increase in spending began afterwards, especially after 2000, and its growth rate became faster in 2002. The consolidation could not be durable. By now we can claim with reasonable certainty that the temporary cut in the generous welfare expenditures, without any notable structural changes, are counter-incentives of successful long-run stabilisation [Tagkalakis 2009].

As a reaction to the pressure on the pension system, there was a wide-spread feeling among decision-makers that to solve the short- and long-term problems of the pension system, it should also be partially privatised and prefunded. After lengthy debates, the new three-pillar pension system was introduced in 1998 [Simonovits 2009] and maintained until January 2011 [Égert 2012]. The first pillar is a traditional pay-as-you-go system, the second pillar was a fully-funded private pension fund scheme based on mandatory contributions until the reform in 2011. Now it operates as a pension fund only for three per cent of the insured. The third pillar introduced in 1993 is a voluntary private pension fund [Parniczky 2000]. Hungary undertook significant reforms with the introduction of a funded second pillar in 1998 (and a third pillar in 1993) in order to reduce pressures on the rather expensive social security system, but these changes have recently been reversed [OECD 2012]. Currently, the Hungarian mandatory pension system is a pure pay-as-you-go state pension system<sup>7</sup>.

Hungary underwent a ‘cold shower’ consolidation in 1999 (and another in 2003); however, each episode of fiscal tightening was followed by an even stronger fiscal expansion. Despite the so-called ‘cold-shower’ fiscal consolidation after the elections in 1998, the increase in expenditures was substantial, so the ‘cold-shower’ adjustment was an unsuccessful attempt. As for the revenue side, the number of tax brackets was cut in half, and the government also mitigated the amount of the social security contribution paid by the employers. The reason behind the increasing expenditures was partially the dominance of domestic demand and consumption-driven economic policy with its already introduced measures (salary increases in the public sector, public transfers such as pension increases) [Hassett, Lachman, Mathurm 2009].

In the late 1990s, early 2000s, more activating strategies, welfare to work programmes were introduced. In Hungary, the activation shift was part of the political

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<sup>7</sup> This covers all persons who are engaged in any kind of employment as well as recipients of unemployment and certain child care benefits. Projections for future pension-related expenditures show when the baby boom generation of the 1950s retires, it will drive the level of pension expenditures upwards in the 2010s, while the statutory retirement age increases between 2012 and 2021 from 62 to 65 and this gradual increase has a downward effect on pension expenditures. Spending on pensions starts to increase again when the children of the baby boom generation start to retire in the mid-2030s [European Commission 2018].



agenda of the conservative government to encourage self-help. In order to reinforce activation, unemployment assistance and social assistance programmes were downsized, but the minimum wage was doubled. The early welfare to work actions have put further impetus on the divergence between unemployment insurance and social assistance. In 2006, unemployment assistance was redesigned by the social-liberal government as a minimum income scheme, with benefits measured in terms of equivalent family income, in order to allow for better targeting of families and child poverty [Hemerijck 2013].

In Hungary, as far as the social insurance system is concerned, local governments have been responsible for the provision of the services. Welfare services have been mainly provided by local governments which resulted in the problem of indebtedness of the local level. The wide range of compulsory provisions of local public services entails that local governments are obliged to provide primary education, basic health and social welfare provisions, waste disposal, safe drinking water, public lighting, and to maintain local public roads and cemeteries. They are also obligated to enforce the observance of the rights of national and ethnic minorities. Other tasks, which are not all mandatory, include providing local mass transport, settlement development, snow removal, fire protection, public security, and the explicitly voluntary provision of cultural and sports facilities, housing, and public safety [Dethier 2002].

As part of the reform processes with the new Act on Local Governments 2011 the voluntary tasks can be delegated to local governments only if their maintenance does not endanger the fulfilment of mandatory tasks. A further limitation is that these voluntary tasks can be financed only by their own revenues or by other financial sources especially designated for them. Another tool to handle the indebtedness problem of local governments is that education has been operated by the central government since September 2012.

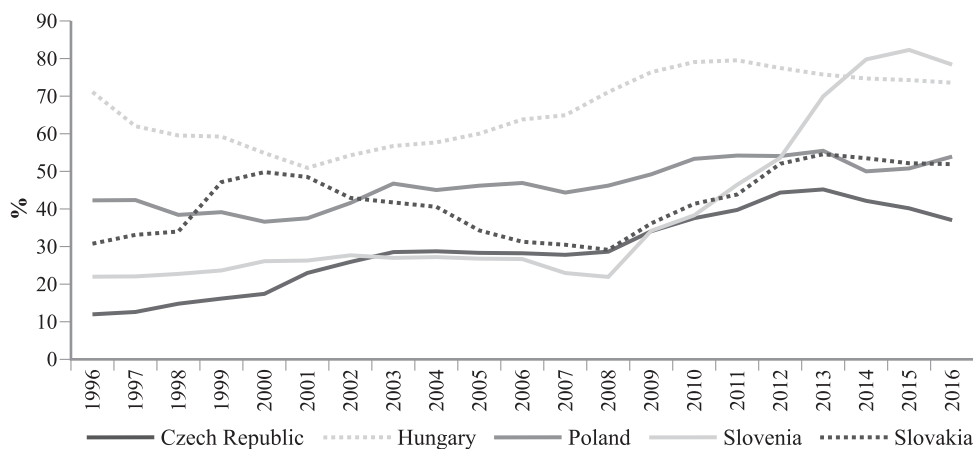
## 5. Recent development of the welfare state in Hungary

Hungary has been one of the worst-hit countries of the current financial crisis among the new member states of the European Union. Financing external debt became a major constraint on policy in Hungary; in October 2008 the country received external financing from the IMF and EU under terms that implied budgetary constraints.

Figure 2 shows that the high level of public debt in Hungary was an exception within East Central Europe, while in general the region was characterised by low debt levels in international terms. 2008 can be treated as a turning point in the indebtedness processes of the region, as debt levels started to rise considerably.

Due to the consolidation package, Hungary was able to maintain and reduce its debt level from 2010 onwards. The only outlier of the region is Slovenia, where public debt increased dramatically in 2013, reaching almost 72% and public debt is expected to increase further.

Figure 2. Evolution of general government consolidated gross debt (1996-2016)



Source: Eurostat statistics, General government gross debt (EDP concept), consolidated - annual data, online code: tipsgo10.

Hungary requested a Stand-By Arrangement (SBA) from the IMF in October 2008, shortly after the peak of the worldwide financial market crisis. The EU agreed and joined the IMF in providing Hungary additional financial support by using its Balance-of-Payments (BoP) Assistance Facility (the total amount was to € 20 billion of which the IMF provided € 12.3 billion, the EU: € 6.5 billion, World Bank: € 1.0 billion) [Seitz, Jost 2012].

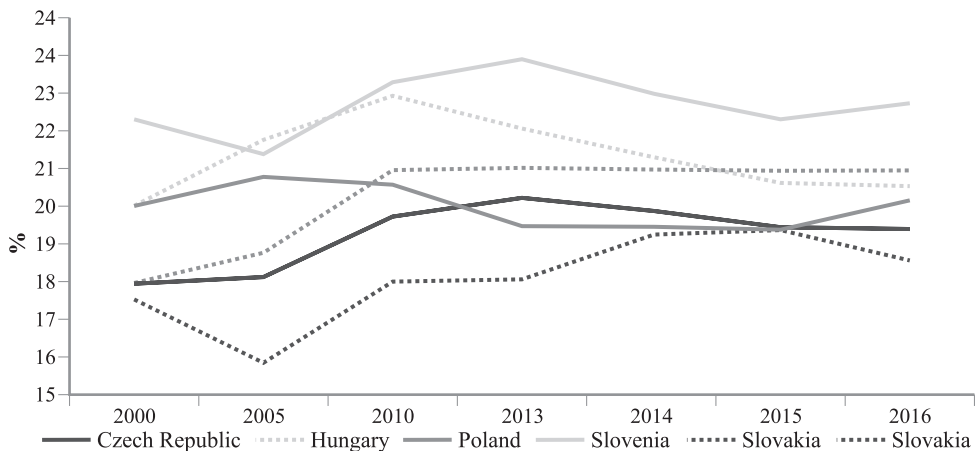
In 2008, the focus of measures applied was on the expenditure side, including pay cuts for public-sector employees, equivalent to one per cent of GDP, the elimination of the 13th monthly pension for early retirees and a cap on the 13th monthly pension for other pensioners, equivalent to 0.2% of GDP. The indexation of selected social benefits was to be postponed or eliminated (0.2% of GDP), and other spending was to suffer a general reduction (0.5% of GDP) [Myant, Drahekoupil, Lesay 2013]. In 2009, social spending cuts translated into cutbacks in universal provisions and social insurance [Matos 2013].

In 2009 and 2010, expenditures were reduced by the equivalent of 1.6% and 3.6% of GDP, respectively, including cuts in pensions, by diverse means, and cuts in various social benefits. Public-sector pay was frozen for 2010 and 2011 and cut through abolition of the 13th-month salary starting in 2009. The dominant features of crisis management in Hungary were to remain a shift towards a less progressive tax system, cuts in redistributive state spending, most notably on the unemployed [Myant, Drahekoupil, Lesay 2013].

In late 2010, the government of Hungary decided to nationalise private pension funds, moving the Hungarian mixed pension system away from private insurance and reinstalling the pay-as-you-go scheme [Matos 2013]. 2012 brought great vulnerabilities and limited space to absorb shocks, financial pressures rose sharply

in the wake of growth and financial spill-overs from the eurozone crisis, which exacerbated existing strains on the domestic economy. However, despite these pressures, the authorities managed to maintain macroeconomic stability. From 2012 onwards, the authorities have made job creation a key policy objective and have adopted measures to stimulate employment, including tightening unemployment and welfare benefits, expanding the public works program, and reducing tax rates and social contributions for some segments of the labour force [IMF 2013]. However, as Szikra [2018] summarised, instead of building and sustaining a Western type of welfare state, the Hungarian government is committed to establishing a work-based society. Austerity measures affected the workless and the most vulnerable groups, as the maximum length of the unemployment benefit was reduced from nine to three months. Furthermore, entitlement to any social benefits or social assistance was linked to the compulsory participation in public works programmes, regardless of the educational level of the unemployed. The resources of active labour market policies were channelled into the vast public works programme, resulting in a decreased number of beneficiaries of the unemployment benefit system. Based on the research results of Scharle and Szikra [2015], the public works programme did not prove to be an efficient tool to foster the return of the unemployed to the labour market.

Figure 3. Social Expenditure - Aggregated data (2000-2016)



Source: OECD Social Expenditure database (SOCX).

Already before 2010, the state's commitment to protect its citizens had weakened, especially the unemployed, from the hardships caused by the economic crisis. Between 2010 and 2016, spending on social protection further dropped to 20.6% of GDP, somewhat below the OECD average (21.0%). Figure 3 shows that after 2010 social protection expenditures started to steadily decrease, however its level is higher than in other countries of the Visegrad Group.

Matos [2013, p. 867] summarized the evolution of the Hungarian welfare state, stating that its decline was a “*complex process in which different benefits exhibited different patterns and new components were combined with existing ones*”. Income support is mainly now means tested in Hungary, but a guaranteed minimum income scheme is lacking, in contrast to most EU member states. The welfare reforms were accompanied by a steady increase in poverty and income inequality. Social provisions played a significant role in curbing the risk of poverty; however, this impact is unevenly distributed among the population.

There was no clear shift from social to individual insurance and from universal to means tested benefits; the Hungarian reforms recombined these elements. In general, family provisions and pensions were the most resilient to dramatic changes, whereas unemployment benefits were more easily downsized [Matos 2013].

Drahokoupil [2008] argued that the Visegrad countries are competition states, which means that they became structurally dependent on foreign capital, which controls access to technology, know-how and distribution networks. Being locked in the competitive direction has a significant impact on the development of social policy. Aiming to promote workforce flexibility and employability according to the needs of capital has been the driving force of shaping social policy after the transformation, and this trend will continue. The need for external financing and foreign direct capital might lead to a situation in which social policy is further subordinated to attracting capital and economic competitiveness.

## 6. Conclusions

The overall aim of this paper was to provide a comprehensive analysis of welfare state transformations in Hungary. First, the article analysed the origins of the Hungarian welfare state, which dates back to the late nineteenth century under the Austro-Hungarian Empire. Under state socialism, or after retrenchment in the early years, social insurance progressively became universal and the reforms in 1968 meant universal welfare provision and extended social insurance. The welfare state in Hungary in times of the transition and shortly thereafter is characterised by the term ‘premature’ welfare state by drawing attention to the fact that the socialist regime did not leave behind a mature system, but a distorted one. The transformation promised even more in terms of welfare services mainly without any rationalisation process in reining citizens’ expectations. Particular emphasis has been put on how the transition affected the welfare state in Hungary. There was a significant decrease in social expenditures; however, this did not really entail real reform of the welfare systems. Through welfare provision the worsening social and income problems after transition could not have been mitigated.

The first phase of welfare state development after transition is called “compensating for the transition”, in which the temporary growth of welfare service provisions were aimed at solving the problem of mass unemployment by introducing extensive early retirement policies and by establishing relatively far-reaching unemployment and

social assistance programs. After this period, the cumulative burden of the expansion of social protection proved to be financially unsustainable, starting the second phase of post-transition welfare state development, in which retrenchment and privatisation assumed predominant importance. In the late 1990s and early 2000s, more activating strategies, i.e. welfare to work programmes were introduced. In Hungary, the activation shift was part of the political agenda of the conservative government to encourage self-help. The financial and economic crisis of 2008 and 2009 resulted in measures on the expenditure side, including pay cuts for public-sector employees, the elimination of the 13th monthly pension for early retirees and a cap on the 13th monthly pension for other pensioners. The dominant features of crisis management in Hungary were to remain a shift towards a less progressive tax system, cuts in redistributive state spending, most notably on the unemployed.

Already before 2010, the state's commitment to protect its citizens had weakened, especially the unemployed, from the hardships caused by the economic crisis. Between 2010 and 2016 spending on social protection further dropped close to the OECD average, but still remained the highest within the Visegrad Group.

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**Abbreviations:**

CEE – Central and Eastern Europe; GDP – Gross Domestic Product; IMF – International Monetary Fund; USSR – Union of Soviet Socialist Republic.