Impact of Globalisation on Social Security Systems in Hungary

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I. Globalisation and Social Security

The globalisation forces countries to compete for investment with lower taxes, lower social security contribution, favourable climate for enterprises. As a consequence, globalisation has a growing impact on welfare policies, forces them to reform themselves faster and to go towards the market economy direction. These tendencies can be experienced not only in the developed countries (like Germany as we could see in the case of its pension reform), but in the transitional countries of Central and Eastern Europe as well. CEE countries need foreign direct investment, which besides other also contributes to stable position and balance of payments. However, it also sets requirements for social security schemes. It influences countries to implement such reforms of welfare systems - especially pension and (un)employment schemes, but also health and education schemes - which reduce fiscal burden of state budgets and at the same time give opportunities to cut tax rates.

Besides this, international organizations have set number of standards, conventions, recommendations, guidelines etc. over the last several decades. CEE countries have had much shorter time to adapt to the given situation and to the given development path so far. Last ten years, this represents both a big task as well as a big challenge for CEE countries to cope with.

All of these impacts are mediated, transferred towards the transitional Central and Eastern European countries through international organisations and also through multinational companies, banks and other financial institutions. Examples of such organizations are especially the European Union, International Monetary Fund and the World Bank, International Labour Organization, but also the United Nations as such, etc. For example, in Hungarian case the World Bank stated: " … Hungary's very large fiscal expenditures have resulted not only in large deficit, but also in very high and distorting tax rates. …the required reduction in the deficit and in the ratio of tax revenue to GDP define a broad envelope for reduction in expenditure. To implement this expenditures reductions, the Government will have to restructure the paternalistic, cradle-to-grave web of household benefits inherited from the former regime." (1)

While on one hand international organizations set down standards, which are to be met and which held countries to participate in the global economy, it has also its reverse side. These global forces can also influence - and they have already influenced - transitional countries to introduce such reforms, which were not completely appropriate. That is, which do not suite to their given development level. Such reforms do not improve efficiency of social security system in the
particular country, just the opposite - it can cause economic and social losses. (For example, that was the case of Poland and in some respect of Hungary too regarding to the pension reform. These pension reforms did not take into consideration the relative under developed capital markets existing in these countries. In addition, pension reforms have been used as rent-seeking opportunities for special interest groups, especially pension funds.)

It is therefore very important that the requirement of globalisation is implemented in line with special national condition. The national governments have an important responsibility to implement these policies and to carry out real reform and minimize the rent-seeking opportunities.

The paper presents these impacts of globalisation on the Hungarian social policy reforms having been implemented in the last ten years. In Hungary impacts of globalisation have been mainly transmitted by the World Bank. That is the reason that the paper refers so often the World Bank. (2)

\[1\] We use this reference as one the basic ones, because it is very relevant to the selected subject.
II. The Role of the World Bank in Hungary’s reform

Hungary joined the World Bank and the IMF in 1982. Hungary signed its first World Bank loan agreement in 1983, and until 1999 40 loan and program funding agreements were signed. The total of funding valued dollar 3.7 billion of which 1.3 billion were extended on Structural Adjustment Loans (SALs) and reform programs. In the eighties, World Bank loans were mostly provided for the modernisation of Hungary’s production potential. Mainly agricultural, energy, and transportation investment programs were targeted for financing.

The Bretton Woods institutions supported market economy transformation by structural adjustment loans. Loans aimed at assisting full-scale liberalisation, accelerating privatisation and deregulation. Following political transition, large loan packages were provided to support restructuring of the financial sector, boost agricultural exports, develop telecommunications, commodity markets, human resources and enterprise restructuring in key industries. *In the second half of the nineties, the World Bank strongly influenced the reform of Hungary’s large social systems.*

During transition recommendations of the World Bank and the IMF, and conditions attached to World Bank loans, as well as analyses of the World Bank on Hungary provided an intellectual framework for economic policy.

In the recommendations of World Bank the notion of social policy was confined on a narrow concept, which is limited to the assistance of the poor and who has gone down. On the assisting of the poor the Bank proposed efficient and effective means.

The international financial institutions influence the economic policy of the countries primarily not by their real, direct recommendations, but by developing an international atmosphere in which their views become the generally accepted basis of economic thinking. In the period under examination that general basis was the so-called Washington consensus, the spirit of which inspired first the economic policy of the developed countries, but was willy-nilly overtaken by other countries of the world too. "The success of the Washington consensus as an intellectual doctrine rests on its simplicity: its policy recommendations could be administered by economists using little more than simple accounting frameworks. A few economic indicators – inflation, money supply growth, interest rates, budget and trade deficits – could serve as the basis for a set of policy recommendations".
The Washington consensus is an agreement of the economic leaders of the U.S.A., IMF and World Bank on the implementation of concerted economic policies and on the recommendation of these policies to other countries. The consensus originated at the beginning of the eighties under the influence of the failures of state intervention policies in Latin America and in the socialist countries, as well as the costs and losses of high inflation rates.

The consensus applies the neo-liberal economic theory in practice. The substance of the concept says: if the governments cease the direct economic interventions of the state, private markets will distribute economic resources efficiently and dynamic economic growth will start of which each member of the society will gain.

The first blueprints of the reform of Hungary's public finances were outlined in the second half of the 1980s. However, the early phase of transition concentrated its efforts on restructuring the enterprise sector, and the reform of social systems was brought onto the agenda only later, when financing the country's social institutions ran into major difficulties. In the strained situation of the mid-90s, the World Bank proposed a detailed concept of the reform of the large social systems. At that time, the notion of a "premature welfare state", coined by János Kornai,(4) spread broadly among policy makers and the public. This characterization of the situation supported initiatives that caused the decrease of the scope and value of social provisions, the expansion of private financing and the deterioration of social care.

During the years of transition, the reform of public finances was never outlined as a complex program; even individual parts of public finances (municipalities, social insurance, aid, etc.) were not presented in the form of concretized reform programs to the public. In most cases, instead of reform we can speak only about adjustments within some segments of the social systems. One of the most characteristic paradoxes of government policies was that, although all governments stressed the extreme importance of education, health and the support of families, these areas typically and continually suffered from the decrease of state expenditures.

An axiom of the economic philosophy of transition (the equivalent of the "Washington consensus") was that the redistributive role of the state should be reduced. No scientific formula could have been given to the extent of the diminution, but economic-policy thinking usually said that the original 60+ percent redistribution (i.e., state expenditure as a percentage of GDP) should be decreased to close to 40 percent. Consequently, to mention any social area as a strategic aim or national priority was meaningless, since it ran up against an opposing dominant economic notion. In the seven years that followed 1989,
state expenditures on education, health, culture and social provisions diminished by 25 percent in real terms (see Table 1.)

Table 1.
Social expenditures 1991–1999
(Percentage of GDP)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>5.6</td>
<td>5.2</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Health</td>
<td>5.5</td>
<td>4.4</td>
<td>4.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Social insurance, social and welfare services</td>
<td>20.7</td>
<td>17.4</td>
<td>15.2</td>
<td>14.9</td>
</tr>
<tr>
<td>Housing, settlements and regions</td>
<td>4.0</td>
<td>1.9</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Leisure, culture</td>
<td>1.7</td>
<td>1.7</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>0.7</td>
<td>0.8</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Social expenditures total</td>
<td>38.2</td>
<td>31.2</td>
<td>28.1</td>
<td>27.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, AHIR database, consolidated data

Let us turn to the major fields of social security policy. (2)

**Pension reform**

Hungary's pension reform marked a turning point in the transformation of the welfare system. Experts recognised the inevitability of reform early in the 1980s when the financing of pensions became more and more difficult, and the diminution of the real value of pensions became an element of stabilisation policies. Transparency of the system worsened, and the system was fully exposed to the policies of changing governments. Different options or modifications were not professionally elaborated; actuarial estimates were not prepared on the long-term relationship between contributions and pensions since the 1940s. During the transition, the number of pensioners rocketed, financing difficulties increased, and demographic changes projected a structural crisis in the long run. Reform could not be postponed any longer, but its tendency changed several times during the decade.

Principles of the pension reform as drafted in 1991 implied (a) a pension system of three basic elements, (b) a gradually rising pension age-centre, and (c) a clear and transparent relationship between contributors’ contributions and their pensions. Implementation started sluggishly. Between 1990 and 1994, the laws on social insurance **self-governments** and voluntary pension funds and, in 1996,
the law on rising retirement age were passed. The rise of retirement age was also supported by studies of the World Bank.

The need for pension reform appeared in loan agreements and other studies of the Bank at an early stage. In the first period, goals were established to reduce the ratio of pensions in social expenditures, to diminish the number of pensioners and to correct some deficiencies in the existing system. After 1992, the reduction of expenditures continued to be found in loan agreements, though in other Bank documents there also appeared the idea of privatisation. In 1994, the World Bank published and widely publicized the great monograph entitled "Averting the Old Age Crisis," which set forth in detail the multi-pillar proposal. The suggested three pillars of the system were: 1) a civic pension minimum (more an aid than a basic pension); 2) a voluntary insurance; and 3) a wage- and salary-related provision split in two parts. One part of the last pillar was a minimised, pay-as-you-go social-security system, and the other was a compulsory and privately operated pension system, mainly in the form of individual savings accounts. The first two pillars were elements of the Hungarian concepts, too.

The World Bank study encouraged those experts, interest groups and political forces that stood for privatisation or were directly interested in it (e.g., the private insurance institutions). The fight between the Ministry of Finance, which turned into a devoted advocate of liberalization, and the other government offices and civil actors went on for three years. Finally, the position of the Ministry of Finance, enjoying the support of the financial sphere, won. The socialist-liberal coalition government accepted the reform recommendations of the World Bank, and the Parliament passed legislation creating the three-pillar pension system in 1997.

In examining the social impact of the new pension system, it is doubtless that it favours the higher-income strata of the population. The adoption of the law can be explained by the fact that this strata of the population (often called the winner of the systemic change) could better assert its interests within the political elite than could the average citizen.

Following the adoption of the law, the government and interested financial institutions initiated a large-scale campaign to make known the advantages of the system and to gain clients. This was so successful that many more people joined the private pension funds than foreseen. As a consequence, the budget deficit increased more than planned. In 1998, the new government taking office made ad hoc arrangements to diminish the deficit, in a significant part by decreasing the real value of pensions. Thus, as a consequence of the pension reform, pensioners suffered a further decrease in the real value of their pensions. Future pensioners had to pay a larger proportion of their income into pension
funds, but they could expect – with the exception of the high-income strata – lower pensions than previously.

On the matter of private pension funds, many rather irresponsible and tempting promises were made. Private pensions depend partly on the performance of institutions (which itself depends on the calculated costs that are seldom mentioned) and partly on the development of the economy over the next 20-50 years. Of course, the state of the economy also influences public pensions, but in a less irreversible way. Private pensions bear accumulated risks. Therefore, we know less about the future of these private pensions than about public pensions. It can be stated with near certainty that the chances for the degradation of the relative (and perhaps also of the absolute) level of pensions are greater than for their improvement. Such intuitions might influence the present malaise of the pensioners.

The situation of the pensioners and its change can be summarised as follows:

- The number of pensioners soared under the threat of unemployment. At the same time, in the economic-crisis situation, total expenditures on pensions slightly declined and individual pensions significantly decreased. The real value of average pensions decreased more than that of wages and salaries. To make matters worse, those pensioners who previously were employed were forced out of the labour market.

- Pensions declined more than the family income of pensioners, i.e., on average, they do not live as badly as would be justified by the decrease of pensions, due to changes in the number, composition and family structure of pensioners.

- The situation of pensioners and the elderly, which had been tragic in the 1950s, later gradually improved due to the widening of pension entitlement and to improving replacement rates. The income gap between pensioners (and family members) living in households where the head is active and those with an inactive head of household had substantially decreased by the end of 1970s and stabilized in the early or middle 1980s. After the systemic change, the pensioners’ situation worsened once again in comparison to active people.

- An assessment of the situation of pensioners and the elderly also depends on to whom we compare the picture. The picture is worse in a comparison of pensioners to active people than if a parallel is drawn between all people above sixty and the younger part of the population. Considering that pensioners usually live in smaller families and thus
comparing, for example, a single active person to a single pensioner, the bad situation of pensioners looks emphatic.

• The proportion of the poor and very poor is smaller among pensioners than in other groups of the population, since the pension minimum – be it as low as it is – is still more than other social provisions. Its amount is higher than that from aid, family allowances, income replacement allowances – or nothing. Moreover, it is more secure than social assistance. However, the proportion of wealthy pensioners is also low.

• Since pensions have a minimum and their top level is also strictly limited from above, they are much less differentiated than are salaries or total incomes, and that influences the family income of pensioners, too. That is the explanation for the much smaller inequalities inside the group of pensioners than inside other groups of the population, which is a fact proved by all surveys.

• Beside the income level, the price system also influences the situation of pensioners. Price proportions changed for the elderly and families with children in an unfavourable direction. Prices endanger the satisfaction of certain needs of the elderly and pensioners (e.g., buying medicines and household energy) to a larger extent than do decreases in incomes.

• Finally, however bad a situation is, much might be endured if there is a hope for improvement. Through the uncertainty in the pension system, as well as the malicious inter-generational rivalry with an overtone against the elderly and those with political assistance, pensioners feel more and more that their situation is going downhill. Therefore, their general feelings might be worse than justified by objective facts.

Public health reform

The public-health strategy of the World Bank was built around three elements: cost efficiency; access; and quality. However, as regards the practical proposals, the first element proved much weightier than the other two. The requirement of universal access to health care was mentioned as a priority, but it is regarded feasible only if the realization of this aim does not exceed the limits of economic performance and does not collide with the interests of sustainability and the labour market. These conditions could be met if the state
would provide only a "basic package", which means that health services would also fall victim to the reduction of the redistributive role of the state.

In the perception of World Bank experts, health is not a social value, but the subject of individual responsibility. This approach met with the support of influential Hungarian economists and politicians and served the strong and growing interests of the insurance companies, too. However, this one-sided perception of public health is neither accepted in Western European societies (see as an example how far British society insists on the National Health Service). Even less relevant is the application of such an approach in the situation of transition economies, in which the general state of health deteriorated, income levels strongly differentiated and state control over social processes weakened. With the uncontrolled functioning of markets, the mass of market failures requires much more assistance from existing collective structures and their internal reforms than do an individualized system built on market forces and individual responsibility. In Central and Eastern European countries, required state intervention cannot be reduced to a basic package, the limits of which are determined by cost efficiency without serious social consequences.

Although basic principles are not yet clarified, for several years the reform of public health has proceeded with very few results and more and more perceptible disadvantages. A main reason for the deficiencies is the significant reduction of resources in the process of transformation. The real value of budget expenditures on health has decreased by at least 15-20 percent since 1991, and the ratio of health expenditures to GDP declined from 5.5 percent in 1991 to 4.3 percent in 1998. Budget estimates project a further decline to 4.2 percent in 2002. The reduction of state expenditures and resources affected changes in the opposite direction from those reflected in strategic and professional views. In the prevailing atmosphere of economic necessities and compulsions, the quality of health care was not able to receive any political attention. The "mercantile epidemiology", as developed under the influence of performance financing was neither a subject of scientific research nor of discussion on the public-health policy.

In spite of resource reduction and contradictions, health care still functioned and provided universal access to nearly all. It also more or less kept its integrative role, which is so important for sustaining the physical and social opportunities of life. The sense of vocation in the medical and nursing profession can be praised and credited for the continuation of medical treatment of sick persons under deteriorating and uncertain circumstances. The doctors and nurses bridged – as far as they were able – through their own sense of responsibility, honesty and
intensity of work the organisational perturbations of the public-health system. But this sustaining force is also increasingly weakening.

According to the opinion of Hungarian civil societies, – supported also by international experiences – the commonly (by charges and/or taxes) financed, for all citizens attainable and the highest possible care can provide the best health state of the population the most efficiently. However, the reform programs of partial but significant privatisation of health services and financing, as well as the idea of competing private insurance companies remained still on the political agenda, and these programs are drafted in more and more details.

The notion of an integrative, non-market reform of public health received some enforcement recently. OECD recommendations, several Hungarian experts and some politicians, and a group of World Bank experts argue for keeping a high level public financing on health. The World Bank proposed several times not to impose too high health charges on the employers and employees and to involve also the taxes into the financing of public health. (That proposal didn't gain hearing yet.) Public financing does not exclude changes in ownership and reorganisations. It assumes, however, a control stronger than today, first on behalf of social institutions, and that voluntary insurance will enter into the system not in a substituting but only in a complementary role.

The contradictions of reforms coming from the unfounded, inadequate market models and the increasing difficulties of daily operation all are rolling down on the patients at the very bottom. Sick persons are the primary victims of the liberalized market of pharmaceuticals, the reduced subsidies on therapeutical equipments, increasing costs and gratuities, and forced economies of indebted hospitals. Similarly, the patients suffered from the reform of the sickness benefit system in and after 1995. The danger of discrimination by the employers grew and, for fear from sacking, the number of employees who try to work even when they are sick increased.

**Education**

The educational system has been deeply transformed in the nineties. Modernisation, joining line with Europe, adjusting to the requirements of market economy, freedom of choices, improving the level of education, and cost economies were the clue to the direction of changes.

The role of state decreased in favour of local self-governments. The decentralisation to municipalities evolved the responsibility for education on
local level. At the end of the decade the majority of schools got embedded in local societies with the many advantages and disadvantages of that situation. Schools began to play an integrative role in the villages, but also it was more and more difficult to maintain the kindergarten or the school where the municipalities were poor.

Beside state institutions new sectors appeared at all level: ecclesiastic, foundation and private schools. The multisectoral school system increased the freedom of choices for parents, but the return of a part of schools to churches caused tensions at the beginning. Foundation and private schools often segmented the system and increased inequalities of chances, though the ratio of paying schools increased slowly.

The World Bank played an initiative role in the Hungarian education reform and continuously urged its implementation. In fact two loans served educational aims. The first – Human Resources Project – signed in 1991 produced very positive results. The loan contributed to the building of labour market organisations, to the development of adult education and retraining, and to qualitative changes in the middle and higher education. The second loan – Higher Education Reform Loan – signed in 1998 aimed at assisting the development of the technical, organisational and substantial conditions of a modern higher education with some positive and several questionable and discussed elements. The recommendations on education made valuable contributions to improve technical, organisational and substantial conditions, but caused several problems too, since the implementation of the experiences of developed countries mustn't mean copying. The reforms encountered opposition not only because of backwardness and defence of vested interests, but also for the retaining and development of the values of the Hungarian education system were overshadowed during the elaboration of reforms.

The recommendations of the World Bank overemphasised cost-economy, though economising on education brought little economic benefits, while caused the decline of quality and retarded the development of the level of education for long. In the first years of system change the real value of the expenditures on education diminished gradually, afterwards in the introduction of the stabilisation package the government claimed large economies from the education. The result was a steep fall of the real value of expenditures on education, which was by one third less in 1998 than in 1990. The state support of higher education decreased from 1,3 percent of GDP in 1994 to 1 percent in 1997, when the OECD countries' average is 1,6 percent related to a much higher GDP.
Education faced serious problems due to demographic changes in this decade: the second demographic wave culminated in the higher grades of primary schools at the beginning of the nineties, then moved to the secondary schools and at the end of the decade reached the higher education. In kindergartens and primary education the number of children decreased more rapidly than the number of teachers, which improved the child per teacher ratio. In secondary schools the number of pupils strongly increased, but the number of teachers grew with a somewhat higher rate. Thus, in international comparison too few pupils were left on a teacher in the primary and secondary schools. The "low efficiency" of education became a target of international (World Bank, OECD) criticism. Class and school fusions were often motivated by the interests in the sold of the building or by financial economies and the viewpoints of improving the quality of education and of the local communities were pushed behind. The dismissal of a part of teachers created pedagogue unemployment. Recently there is a slow improvement in some indicators, but in the transformation a part of values went lost. The newly learned Irish example proves that a good pupil per teacher ratio might be turned into a rewarding advantage in the long run.

Following also the advice of the World Bank and the European Union, the number of students more than doubled in the high schools and universities. The burden of teachers and the number of students per employed teachers grew significantly, but after the dismissals the number of teachers has been increased again. The growing number of high school and university students is an important contribution to the future and a particularly positive feature in the context of the country's accession to the European Union. The last loan of the World Bank supports the higher education reform only. However, the higher education will not be successful, if the level of education worsens in the primary and secondary schools and, as it was experienced in recent admission examinations, less prepared students start high school and university studies. The pedagogues suffer the main losses from restrictions, and the schools who have no possibilities to find complementary resources as well as the infrastructure of education that is, generally, degrading or slowly modernised. Nowadays the teachers' particularly bad salaries put obstacles in the way of improving the education.

The central personage of education is the teacher; in western countries the teachers' salaries expresses somehow their important role. According to OECD data in all western countries, i.e. also in poor countries like Greece or Turkey teachers' salaries are 1,1 to 1,7 times higher than per capita GDP. In Hungary salaries of primary school teachers was 68 percent of per capita GDP in 1993, that of secondary school teachers 72 percent and since the situation worsened as GDP increased while the real value of teachers' salary declined. Only employees
of health and social services are in a worse position among intellectuals and branches of the economy (see Table 2.).

Table 2.
Net salaries of employed intellectuals in 1998

<table>
<thead>
<tr>
<th></th>
<th>National economy total</th>
<th>Within the national economy:</th>
<th>Mostly within the budget:</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Competitiv e sphere</td>
<td>Budget</td>
</tr>
<tr>
<td>Average net monthly salary HUF</td>
<td>58 072</td>
<td>66 587</td>
<td>49 435</td>
</tr>
<tr>
<td>National economy average=100</td>
<td>100</td>
<td>115</td>
<td>85</td>
</tr>
</tbody>
</table>


Costs of education increased to a large extent in the nineties, which fact diminishes the chances of children living in families of bad financial circumstances. In spite of increasing number of pupils in secondary and higher schools, chances of continuation of studies and learning a profession are bad and worsening for children coming from unskilled, unemployed, poor or gypsy families and for those who live in crisis districts. The always-existing settlement slope gets steeper. The gap between elite-schools and those of poor settlements and districts increases.

A factor strengthening the differentiation between families and schools is the increase of education costs that are not compensated in the education norms and calculations. The education of children got to be very expensive and imposes heavy, sometimes insupportably high burden on poor families. The same factor differentiates also between settlements, for schools of poorer settlements do not receive the needed financial support.

**Family allowances**

The guiding principle of the reform of family allowances was also the cost-economy that seemed reasonable, as the proportion of these allowances (family allowance, child-care benefit, cheap child-care institutions etc.) was high in comparison to western standards. However, that comparison gave a false impression, for the allowances functioned in the past as "indirect wages". In spite of the relative low wages of the time, the families could live on the wages, because price and other subventions diminished the costs of bringing up the
children. In the nineties all these wage supplements were abolished without compensation in the wage level.

Concerning the children and families the recommendations of World Bank emphasised two contradictory aims. The first put forward the decrease of family allowances deemed too high related to western European average. The other, somewhat later emphasised aim was the prevention and reduction of child poverty by means of well targeted subventions. The proposal implied not necessarily individual, with income and wealth certification justified aid, in those cases World Bank accepted the practice of group targeting too. The two aims contradict each other not only for children subventions were in the previous system wage supplements, but also because of other aggravating factors coming into force, as e.g. unemployment, which afflicted the families and the children. The circumstances aggravated by unemployment were somewhat alleviated by changing the conditions of aid for education. Since 1990 education allowances are not tied to employment, hence unemployed families are also entitled on the allowances, although they are low and their real value decreases.

The uncertainty of child-care worsens the situation of families and influences in a negative direction families' inclination to have children in all those families in which long-term family planning existed and the care for the child's future is still a need.

Another contradiction between the two aims was that World Bank – similarly to its other practices, also in the case of family allowances, – raised as conditions of loan agreements or calling in a tranche only restrictions and reductions. The proposals on improvement were at best recommendations that governments could disregard.

The first government in 1992 transformed the earlier maternity aid into a maternity allowance provided during the whole gestation period in order to inspire childbirth. In 1993 a new provision was introduced, the child education support (with Hungarian initials GYET) for mothers educating three or more children. From the beginning this support was due to families below a certain income level and until 1996 a condition was also that the mother had earlier employment. There is no information that IMF or World Bank would criticise the new provisions directly, though also these extra budget expenditures could play a role in the negative evaluation of the government cycle's financial policy. At the same time, between 1990 and 1994 the real value of the family allowance decreased by 30-35 percent, started the reduction of crèches (the normative support ceased), and the costs of child meals were raised in child care institutions and schools.
The second government introduced the stabilisation package in March 1995. Its draft proposed as an element of the reform of public finances, not as a temporary measure but as a final change, "to reduce the scope of free-of-charge provisions, the partial privatisation of non-basic elements of the provisions". The package and the follow up measures were based upon the principles and strict requirements of IMF and the World Bank. The Act on Stabilisation decreased family allowances (family allowance, childcare benefit, child education support, maternity allowance) and tightened the entitlement conditions. The Constitutional Court objected mainly the speed of introduction, most elements of the package remained and only the validation was delayed. At the end only few families (6-7 percent) were driven out from the family allowances in consequence of introduction of the income certification since the income ceiling was determined in a relatively high level. Significant cost economies were achieved by decreasing the real value of provisions, but costs of administration increased and the measures exerted a negative influence on taking employment and created tensions among families. Economic measures of the stabilisation package might have been successful, but the impact of the social policy elements was damaging on the society and demographic development, while they brought about only few economies for the public finances.

Setting in place again the normative support of crèches was a correct measure of the second government aiming at female emancipation, but its effect cannot be felt yet.

The adoption of the Act on Child Protection made a landmark in 1997. The law represents a new approach in caring for "children in danger": it tries to prevent leaving children their families and to accelerate re-joining the family by using new instruments, creating new institutions and applying new methods. Broad and important function is placed upon the modern social services. The law regulates the child assistance for the first time on almost European level. Unlike the earlier education aid the new child protection allowance is not a grace, it is not discretionary, but it is strictly placed on legal basis. However, in the technique and methods of regulation many anachronisms remained. The fix allowance that neglects the differences between the circumstances of families is unjust and has an important opposing effect. The assistance of families is based upon two (or more) laws and is not concentrated on the family, but supports separately the child, the unemployed, the old aged. This deficiency contributes to the lack of guarantees that the aid is really sufficient for solving the most serious problems, for example, keeping the roof for families with children.

The third government in 1998 made family allowance, childcare benefit, child education support universal, which change simplified and made less expensive the administration, and ceased the wrong stimulating effect of the previous
regulation. The family allowances became more transparent and some centralization of claiming the allowances (in a part relieving local governments and smaller enterprises from administration) might mean a step forward towards better organising the rather chaotic welfare system. However, claiming got to be more complicated, the administrative tasks of schools increased, and further on more institutions deal with family support.

It is noteworthy that beside the "responsibility for the well-being of children" the new legislation indicates two other aims: the care for social equality of chances and the demographic policy aim (i.e. the increase of the birth rate). Unfortunately, these aims are accomplished in practice only partially, contradictorily or not at all.

Disintegration is a serious problem of the operating system of family provisions. Only the children provide rights on three-four different allowances. Besides, the rules often change while the real value of allowances further declines. The majority living in relatively better circumstances is able to utilise the conditional allowances weakening the rightfulness. The policy of the third government supports the middle class (and high income) families, the conservative oriented family policy applies rigour against the poor and those living under the worse circumstances.

Concerning families with children the balance of ten years after the system change is disturbing. The decrease of the main family allowances (see Table 2.) demonstrates this conclusion since tax exemptions only partially compensate the losses.

The many kinds of changes – labour market, legal, budgetary changes together – deteriorated the circumstances of families with children. About the poverty of children and families with children are several, strongly differing data. >From information of civil societies a dramatic picture emerges about children who are badly nourished, have cold and don't receive medicaments. According of data of the Central Statistical Office (with Hungarian initials KSH) derived from a broad sample in 1987 families with one children could live slightly above the national average, while families with three or more children could achieve only 65 percent of the national average. In 1995 the data were 97 percent and 58 percent respectively.
Table 3.
Change of the main family allowances 1990-1998

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>The number of beneficiaries, thousands</td>
<td>2498</td>
<td>2041</td>
<td>240</td>
<td>244</td>
</tr>
<tr>
<td>Per head average, forints in current prices</td>
<td>2144</td>
<td>4908</td>
<td>4660</td>
<td>14305</td>
</tr>
<tr>
<td>Real value, 1990=100*</td>
<td>100</td>
<td>44</td>
<td>100</td>
<td>59</td>
</tr>
<tr>
<td>In percentages to GDP</td>
<td>2,5</td>
<td>1,2</td>
<td>0,53</td>
<td>0,38</td>
</tr>
</tbody>
</table>

*/ Note: The consumer price index 1998/1990 is 517,7
III. Some conclusive remarks and policy proposals

Conclusive remarks

Generally the World Bank didn't intervene in the decisions of economic policy and the social life in Hungary. However, the conditions of the loans, conclusions of analyses on Hungary and the intellectual and financial influence by which the Bank assisted the Hungarian neo-liberal economists plaid an important role in the solution of the problems of transformation. Notably, that the government in power rigorously applied the neo-liberal economic and social policy and imposed on the country the free market rules, when the Hungarian economy and society were not prepared to such change.

The more intensive examination of the social dimensions of economic and public financial reforms, the more determined striving after prevention of the negative social impacts could have helped avoiding the unfavourable public opinion. With more transparency those analyses and recommendations of the World Bank, which endeavoured to direct transition economies towards more rational economising, stability and development, could receive more attention.

The critics towards the World Bank can be rooted in the adopted economic philosophy (namely: Washington consensus). An essential element of the difference of views lies in the social policy concept. What is the role of social policy? Only to aid those who suffered serious losses on the market or also to improve general living circumstances and to prevent emerging of bad and impossible situations, and keep the society integrated. In the recommendations of World Bank the notion of social policy was confined on a narrow concept, which is limited to the assistance of the poor and who has gone down. On the assisting of the poor the Bank proposed efficient and effective means.

Policy proposals

Our main policy proposals can be the followings:

The practice – which is known by the common knowledge of the world as "Washington consensus," – to use privatisation, liberalization and restrictions of the budget as main means for increasing GDP and the living standard of the
population, as well as for diminishing poverty, needs to be reviewed. These measures don't result in themselves rapid growth and the diminution of poverty, moreover in the case of Hungary they were accompanied by increasing social and regional disparities. Therefore it is time to modify it. There is a need a new one.(5) The new consensus revalues the role of the state and the importance of democratization of decision-making, and places greater emphasis on surmounting poverty. Addition to these, it broadens the objectives of development. In the close relation to these:

- Beside equilibrium the fiscal and monetary policy should attach adequate importance to sustainable economic growth and demands of raising wages and incomes.
- The development of human infrastructure, its urgent investments should be managed as high priority task.
- Reforms of the health and education systems have to be carried out with full attention to national traditions saving the systems existing and lasting values, improving the competitive capacity and the equal chances of the young.
- The pension system should be stabilized and developed establishing adequate guaranties for saving and increasing the real value of pensions and for higher level of the newly created basic pensions (the first pillar).
- In the family allowances and particularly in children provisions should be taken into account the ceasing of previous subventions (the indirect wages); the emerged income deficit should be gradually eliminated.
- In harmony with long-term family policy aims increasing resources should be provided for maintenance, reconstruction, modernisation and new building of dwellings and for ceasing the environmental backwardness.

The main issue of reform policy in the next decade will be, how could be more competitive the Hungarian economy in the twenty-first century. The new modernisation program, which will be also the program of closing up to the European Union, should no more be based upon the continuous devaluation of the human capital due to inadequate social policy but on developing the competitive capacity by knowledge. This knowledge should be supported an active welfare policy rooted in the Hungarian conditions and having priority concern on education and health care.
References