

**Julia Szalai, CPS, Central European University, Hungary**

**Hungary's Bifurcated Welfare State:  
Splitting Social Rights and the Social Exclusion of Roma**

***Introductory remarks***

Fuelled by widely shared frustration over the unmet expectations of postcommunist transformation, loud public condemnation of the working of the prevailing welfare arrangements has grown to a primary political concern in Central and Eastern Europe. Criticisms have become ever sharper for the undiminished insecurity of daily living, the unjust and lasting sacrifices that “ordinary people” have had to make in the coupled processes of marketisation and privatisation, and also for the evidenced incompetence of the new democratic institutions of governance to halt the unstoppable growth of inequalities and the spreading of deep poverty all around. Preparation for EU-accession and, even more so, controversial experiences of the first years of membership have gradually turned these accusations to acute political conflicts around the envisioned scope, role, and competence of the region's future “Europeanised” states.

Within the limited framework of the brief discussion below, I attempt to give an insight into these developments through the study of some important structural features and working mechanisms of the so-called *postcommunist welfare system*. Looking at them through the window of painful experiences that marketisation and economic modernisation have brought up in the area of welfare in Hungary, I would like to draw attention to those endangerments in the daily working of democracy that might conclude in gradually departing paths of longer-term social development between the two halves of Europe and thus might entail an unintended (re)creation of the invisible walls of separation much in ideological-political concordance with the once so extensively suffered cold war.

To make my point clear, a brief historical overview will be needed. In the first part of the paper, I will outline the competing visions on how to decompose the inherited institutional structures of state-socialism as they were argued for in the early 1990s. I will then present the ideological foundations and the political argumentation of the winning option: the drastic restructuring while simultaneous financial impoverishment of centrally distributed welfare that was identified as a most burdensome legacy of the state-socialist order in sustaining the “dictatorship over needs” (Feher, Heller and Markus 1983) up until its ultimate collapse. Though

the immediate consequences of the systemic turn (rising unemployment, spreading homelessness, swiftly jumping rates of child poverty, massive pauperisation of even some parts of the middle class, sharpening ethnic/racial discrimination) were seen by most contemporary analysts as transient phenomena that would automatically wither away with economic recovery, neither the extent, nor the depth of poverty have been on any significant decrease during the past 10-12 years of economic stabilisation, while ethnic/racial divides and open discrimination in welfare distribution have become more pronounced than before.

A critical review of these unforeseen developments will be provided in the second part. The discussion will bring up the causes behind the *evolvment of a bifurcated structure based on two distinct concepts of citizenship*. In attempting to reveal the deeper determinants of the long-term maintenance of the prevailing arrangements, I will then discuss in a broader context the “rationale” of running welfare in its current forms. A number of important – though hidden – sets of interests will be shown that work toward bifurcation.

In the closing part of the paper, a few general implications will be outlined. It will be argued that the construction of a hierarchical order of citizenship is not a transient by-product of economic adjustment, but a fundamental characteristic of the postcommunist welfare state.

### ***Postcommunist welfare reforms and the rise of a dual order***

Upon the collapse of state-socialism, immediate dismantling of the once omnipotent communist state was seen as the key to achieve a deep-going systemic turnover in the societies earlier under Soviet rule. In this unprecedented historic process, reforms of social security and welfare were put high on the agenda as those among the few unquestionable *preconditions* of genuine change. Urgency to meaningfully limit the presence of the central state in these areas was reasoned by a range of serious legal and financial considerations. As to the *legal* aspects, it was a widely shared view among domestic and foreign advisors, economists, financial experts, etc. that, without cutting off the strong bond between the centrally administered schemes of redistribution and the individuals’ entitlements for benefits and provisions, the very essence of the systemic transformation would be jeopardised: neither the reallocation of properties, nor the recruitment of labour, nor free entrepreneurship as the fundamentals of marketisation were to be successfully launched otherwise. As to the *financial* side, the equally widely shared views on the former “premature welfare state” (Kornai 1996) implied that welfare expenditures had occupied a too heavy weight in the yearly state budget of the late 1980s, hence upon the turnover, they should be substantially reduced in order to reapportion funds for the primary purposes of

transforming economic management according to the rules of the market, and further, also for substantiating modernisation and economic adjustment.

But another important principle behind advocating revolutionary reforms in the broadly meant sphere of welfare was to increase *social justice* and *efficiency*. It was a recurring motif of the criticism of social policy in the late period of state-socialism that – contrary to the declared goals of the communist regime – central redistribution, strictly linked to employment, acted rather to increase income inequalities than towards moderating them. Moreover, by originating entitlements from compulsory full employment, the misconstrual concept of “universalism” implied massive social injustices through regularly canalising substantial provisions also to the relatively prosperous strata of society. Therefore, when laying down the principles of the new welfare system, it was one of the fundamental goals to eliminate “waste” – in plain terms, to ensure that only those really in need received supplementary sources through redistribution and only to the extent of their neediness. It could be hoped that with all this, the new system became not only more targeted but also more just: public money was to be spent only to meet the needs acknowledged by consensus, and only for those falling behind the widely agreed level of neediness. At the same time, the fortunate majority above this invisible, yet generally acknowledged line of true poverty was presumed to follow other paths opened up and regulated by the market (contribution-based provisions of social security; private pension schemes; market-related benefits in health care, etc.). Hence, the new arrangements were thought to automatically keep apart the two purposefully designed sub-systems with their clear-cut mechanisms of distribution to meet two distinctively, but justly defined sets of demands.

The technical and practical considerations underlying the transformation were linked to the assertion of these new ideas of justice and efficiency. While the universalistic considerations and welfare aspects of the centrally distributed provisions weakened strikingly with the introduction of a sequence of new regulations, the dramatically reshaped division of roles between the central bodies of welfare distribution and the significantly empowered local authorities left the definition of the scope and content of “customarily acknowledged” needs to thousands of distinct urban and rural communities. (Vági 1991, Horváth M. 2000) With this, the new decrees implied that in the area of needs it is at the most *minimum rules* that would be set up with general validity, but at the same time it was also made clear that henceforth the *central state was not prepared* to give either legal or financial guarantees for their satisfaction. (Horváth Á. 1995)

The new principles and their implementation proved extremely powerful. Within just a few years, a logically constructed, fully fledged welfare regime has evolved with *two distinct*

*sub-systems*. Put into clear legal and institutional arrangements, it is by now the rules of business that guide people with regular earnings and/or interests to income-related benefits, tax-reductions, contribution-driven social security provisions etc. in the first sub-system, while in the second, it is primarily a range of locally defined and gravely limited welfare provisions that are to complete the poor resources of those who, for a number of interrelated socio-demographic and individual reasons, fail to successfully perform on the market.

Thus far and at a first superficial glance, one can but recognise here nothing else but the embodiment of neoliberalism that had been vastly claimed to navigate the process of postcommunist transformation. (Bokros and Dethier 1998, World Bank 2001, Rutkowski 2004) After all, it is exactly the advocated dividing line of success/failure on the market that provides the justification to direct people within the above mutually exclusive arrangements of welfare. However, at a deeper scrutiny, the picture significantly changes when looking at the role that the *state* plays in making the division. For it becomes clear that it is not the market per se, but the *marketised shares drawn from the state's revenue at the expense of welfare* that are at work in the background.

Let me briefly outline how such a strange development has come about. The origins date back to the social history of the 1980s. By that time, the great invention of “liberalising” the planned economy through the limited functioning of the so-called second economy developed to a rather high stage in Hungary. As a number of studies convincingly demonstrated, the way of life put on two pillars (that is, to base livelihood on work in the formal, state-regulated segment of the economy *in combination with* an intensive participation in the family-run micro-level productive endeavours) became a model followed by no less than some three-quarters of the households and assisted as much the political stabilisation of the regime as its economic operating. (Szelényi 1988, Századvég 1991, Laki 1998) Beyond the immediate advantages, the widespread practice had also numerous fruitful lasting consequences in acquiring otherwise inaccessible skills and qualifications, developing new attitudes toward business, adopting new rules of “fair trade”, etc. that later importantly contributed to Hungary's pioneering position among the transitional economies of the 1990s. (Farkas – Vajda 1990, Laki 1998, Laki – Szalai 2004)

However, forced and enduring cohabitation of the two economies had also some deeply problematic implications. Given the unquestionable domination of the rules and requirements of the state-controlled first economy above the second, the scope, time and energy that people could devote to their productive activities in the private sphere had to be adjusted – better to say: subordinated – to the pulsation of the planned sector. At the same time, some flexibility still had

to be maintained: limited acknowledgement of the productive needs of the second economy also had to be inserted into the daily functioning of the system. Amidst the constant efforts to create the necessary balance, it was the very field of state-run welfare distribution which turned out to render the necessary bridging between perpetually clashing needs. Innovative new benefit-schemes in social security and income maintenance were set up to simultaneously secure “unchanged” domination of the party-state’s command over one’s working capacity and the tacitly shaped permissions to temporarily withdraw from it. (Szalai 1991) However, the development of such new double-faced programmes gradually undermined the classical corrective functions of central income distribution. For it was an ever increasing portion of the public welfare funds that was canalised to semi-private production in the second economy: benefits became customarily used as “salaries” for unpaid informal work, and/or as extra payments in addition to one’s (otherwise low) earnings in the formal sphere. (Ferge 2000, Spéder, 2002, Tóth, 2005) Through this way, a rapid erosion of the benefit-schemes has evolved to the detriment of those living solely or mainly from such sources, and henceforth the political innovations had their grave contribution to the spreading of poverty by the late 1980s. (Ferge 2000)

With the systemic change, inherited poverty has turned into massive social exclusion: in the eyes of the majority, it seemed justified to blame the poor for their earlier “keeping away” from the covert market-relations of the second economy and to question their rights for public support on these historic grounds. These widespread attitudes have importantly contributed to the continuation of “converting” welfare funds into support for business. Instead of combating *poverty* of the “undeserving” groups, halting *impoverishment* of the “diligent” middle class has become a preoccupation of *all* political forces, and it has gained unquestioned primacy in designing any future reforms in welfare.

This way, the once structurally constructed engagement of the state and the market has been reinforced according to new needs and legitimising ideologies. In light of the deficiencies of the post-1990 transformation process, this is, however, no surprise. As I will show below, there is a wide range of old and new, transient and lasting interests that provide the backing to maintain it at all costs.

In the first place, the economic motives are obvious. Independent economic activity entirely separated from the state requires a stable capital backing and a firmly established market, but neither of these conditions could be created in the preceding decades of state-socialism. (Voszka 2003, Laki 2003, Laki – Szalai 2004) Hence, mere survival of the domestic business, and together with it, the country’s potentials to keep pace with sharpened competition

on the world market have been at permanent risk. This is why the need for the state pillar in the raw material sense has been a built-in constituent of postcommunist transformation and economic adaptation ever since. (Voszka 1998, Báger and Kovács 2004)

At the same time, the need for the financial presence of the state has been kept alive by the fact that economic restructuring has induced erosion even in those market relations that had hitherto been regarded as more or less stable and “everlasting”. Privatisation of the state firms has disrupted the state orders thought to be secure, while the collapse of the traditional eastern markets and the rather difficult access to the western ones in substitution have confused and endangered the established export relations. Furthermore, the intense inflow of foreign capital and consumer products has concluded to heated competition also on the fronts of domestic sale. All this has greatly increased the risk of full independence and invoked for a strengthened buffer role of the state. (Báger and Kovács 2004, Szalai 2007)

However, the causes for claiming the state’s long-term protection for establishing independence from it include not only direct economic components, but also cultural and attitude factors. Widely varying groups consider that time has come for “the” state to compensate them for their historical grievances and their decades of “lagging behind”, to give them open assistance for the advancement they “deserve”, but have never achieved – and they do not cease to outbid each other in submitting various claims for compensation that are “legitimate” when considered separately. Having the arguments justifying these claims accepted and embodied in the legislation and, consequently, in the yearly plans for central financing, is a question of rude political force: in this way, access to the public funds has been mostly the direct function of the latent bargaining positions established prior to the systemic change. (Laky 2004)

As a result of the above, attempts at slimming down the state as yet have concluded in its actual fattening: the portion spent by the central state for financing itself as the designated agent of administering the truly complex process of transformation has been on a constant rise during the past close to two decades. (Central Statistical Office, 1997 and 2004) The inseparability of the state and the market, and together with it, the tight interlocking of the public and private spheres and resources of living seem profoundly ingrained in postcommunist Hungarian society and economy. Despite all the strong motives for full-fledged independence, the majority has serious reasons and deep-rooted interests in maintaining the bond – even though the overall costs have been skyrocketing and have grown to effectively hindering further economic advancement of the country as a whole. (Kornai 2005, Central Statistical Office 2004, 2005)

There is only one arena where the door still seems to be open for repeated cuts: this is the domain of welfare for the poor. Here the state can rely on a vast political consensus: all its

efforts to apply extra strict rules without concessions are met by massive approval on the side of the majority. Let me discuss briefly how they work in daily reality.

### ***The ghetto of poverty with thickening walls***

As outlined above, the creation of a publicly funded separate sub-system for providing efficient and just welfare exclusively for those in need was an inherent part of the liberal welfare reforms of the 1990s. While the primary goal certainly was to contribute this way to the desired diminution of the state, some further important considerations were also involved.

First of all, it was widely believed that poverty would automatically wither away with economic recovery. The arguments were in line with the reigning doctrines in policy-making: amidst the conditions of continuous growth and the concomitant expansion of the labour market, poverty would shrink to a residual size with successful economic adjustment, and if at all, it would hit people only temporarily. Secondly, it was also believed that improved targeting and the local schemes built on the community's consensus would ultimately conclude in generous supports enough to help the poor to overcome their destitute state. Thirdly, by swiftly decentralising a great number of earlier centrally administered schemes and provisions, it was assumed that the key decisions on people's daily living would arise from insightful knowledge and personal acquaintance and thereby fairness, flexibility and accuracy would be raised at once.

However, history has nullified all these expectations. As amply demonstrated by a number of independently run studies that have repeatedly arrived at the same conclusion, there has not been even the slightest reduction in the degree of poverty and social exclusion has even *increased*. (Spéder 2002, Havasi 2002; 3SZ 2003, Szívós – Tóth 2004) Welfare assistance has obviously done little to help the poor. The question therefore arises: what have been the reasons behind?

The answer can but just partially be given by looking solely at the working of the system of local welfare assistance. As to its principles and constituents, the scheme is certainly neither better nor worse in Hungary than similar arrangements are anywhere else. (Ferge 2002, Szalai 2007) This said, one can then suggest that it is probably more the implied additional social, economic and political functions that are responsible for its striking inefficacy than any particular internal characteristics of the scheme as such.

When looked at it from such a broader perspective, it is justified to say that the creation of a separate local system exclusively for the poor has powerfully served a number of goals other than actually helping the poor. The primary achievement of Hungary's decentralised assistance scheme has indeed been to carry out the *purposeful transformation* of the earlier all-

embracing central state redistribution. (Central Statistical Office 1997, 2004, 2005) Together with this, the scheme has accomplished a perhaps even more important mission: the canalisation of an important part of the affected social groups into a sealed sub-division of provisions. True, without the great expansion of welfare assistance as a new, dynamic branch of the economy it would have hardly been possible to break up the former oversized system: while “guiding” large strata into the market-regulated field of provisions, it was profoundly needed to “evict” other large groups from the potential use of central funds – and the local schemes reacted on this call with great perfection.

The involved “exchange” not only required the application of financial techniques for regrouping, it also opened the way for important mobility processes. Another important function of the rapidly growing welfare assistance system was that, by calling into being thousands of new offices and tens of thousands of labour market jobs with decent middle-class positions, it *created a refuge* for many who had been endangered by losing employment amidst economic restructuring. (Central Statistical Office 2005)

An examination of local supports in their natural community context reveals further important functions beyond these macro-level roles. After all, the scheme turned out to be instrumental in *maintaining social peace* and smoothly operating relations in the life of local communities. Firstly, it has provided a professional machinery and institutional background enabling the non-poor majority to deal with poverty as a minority problem separated from its own “normal” affairs; secondly, the system has offered efficient means for managing the fluctuation of the local labour markets; thirdly, it has rendered reliable guarantees for the endured supply of the human resources for the least qualified and least desired jobs. In addition, the fragmentation of decentralised means-tested provisions in substitution of the earlier centralised arrangements has successfully hid the real selective functions of the system behind its welcome veil: the potential question of *social responsibility* for poverty has been almost automatically reduced to the question of improving the *level of expertise* of a few local welfare workers.

It is important to stress that while exercising the economic and political functions listed here – which at first sight appear foreign to the spirit of assistance – the considerations of fairness and neediness mentioned above lose nothing of their significance. Quite the contrary: local welfare providers are not being misleading when constantly affirming that their work is guided primarily by these very considerations. However, by transforming the principles into hundreds of thousands of decisions on particular cases, they are continuously doing a delicate “translation” work in order to justify nothing but *selection*. In the final analysis, it is thus the



*legitimisation of the prevailing deep social divides* which is assigned to them as their *chief role* in the broad division of labour.

As I show below, this fundamental trait of the assistance scheme is inescapable.

In this new order of localised welfare, the keyword is *distinction*, which, at the same time, has its clear indication: as said, it is the level of *need*. However, in lack of any universal norms for assessment, the new decentralised arrangements make it the discretionary right and duty of local welfare providers to establish the criteria with exclusive relevance to the given community. This way, acknowledged needs of the poor become dependent on a consent of the non-poor majority whose new authorisation leads, in turn, to the reinvention of the centuries-old idea of *deservingness* as the most powerful “just” basis for selection. The renewed application of behavioural traits in selecting has led to extraordinary results on the national level: within a decade, local governments have cut back the take-up rates of public assistance by no *less than some 65 per cent!* (Ferge 2000, Havasi 2002, 3SZ 2003) In other words, instead of warranting solidarity and generosity, “deservingness” has generated in practice a strong justification for the majority’s claim to reduce public support for those in need. As recent surveys have unequivocally shown, only a relatively narrow circle of the needy can be sure that once they have been accepted they can count on unconditional support. But the majority of the poor who apply for assistance do not belong in this group. The local office workers – like the widest circles of public opinion standing behind them – share the already outlined strong view that the poor have their lot in their situation and they can certainly be expected to make at least some attempts to get out of it. On the basis of such a widely held conviction, nobody would then question the rightfulness and indeed the necessity of taking into account the *degree* of the applicant’s “faults”, “errors”, “failures” and “irresponsibility” in judging applications for welfare assistance to be given from ‘the taxpayers’ money’.

The errors, shortcomings and irresponsibility that can be listed when making decisions come in many different forms, but the most serious case of “own fault” is the lack of “proper” employment, which is understood as a “failed” attitude to work – for people can always do work of *some kind* if they really *want* to. A vast body of literature produced to refute such views has still not managed to topple this dogma. It is perhaps unnecessary to argue at length that the main force that keeps it alive is its clear *ethnic/racial content*, giving the local communities a handy confirmation for the conflict that causes the most tension in their everyday lives: the feelings of the non-Roma majority who suffered relative losses or at least have lived in a state of constant insecurity amidst the lengthy process of economic transformation, towards the Roma minority living in extreme and lasting poverty. Furthermore, the implied ethnic/racial differentiation

entails some beneficent outcome also in the economic sense: it helps to keep claims for local assistance within limits. After all, amidst the arising competition and, in fact, heated rivalry between the Roma and non-Roma groups among the “truly” needy, it is always the “others” whom to blame for “eating up” the scarce local funds and for lowering the actually delivered sums while winding up the rates of refusal.

Of course, in demanding that the cases of “own fault” be carefully screened out, no one states (openly) any ethnic/racial implications. But even so, everyone clearly understands them. And the practice of welfare assistance converts this widely inferred thought into money, while at the same time, it also transforms the personified struggles of *openly* racialised pre-selection into the rule-governed cooperation of local welfare providers and their clients under the guidance of *covertly* racialised mechanisms of distribution.

Empirical findings show that, regardless of their personal attitudes, the staff of the local welfare offices simply have no means at their disposal to properly react on the present labour market position of those many applicants – for the most part Roma – who were thrown out of regular employment 10–15 years ago, and since then at the most have been able to find casual, unregistered black work. From their viewpoint, this labour market situation *does not exist*. In response, they either try to force the clients into “proper” jobs, and thus regard their official task as being principally the *prosecution of crime*; or they acknowledge the reality and become silent accomplices with the “cheating” clients, in which case they risk their own positions. Either way, continuous conflict is unavoidable.

It is *this* that gives the dynamics of one of the main roles of decentralised welfare in today’s Hungary: meeting the local demand for the worst jobs and providing an outlet for labour market fluctuations. Survey data show that Roma – and the very poorest non-Roma sharing a similar fate – came to see this long ago. It was the pressure of a number of daily facts that taught them. The first among them is the extreme segmentation of the Hungarian labour market dating back to the very origins of the post-1990 economic transformation. As a result of the gradually intensifying segmentation, the poorest strata of workers (with a heavy overrepresentation of Roma among them) are now almost entirely excluded from *any* access to proper jobs. (Kertesi 2005) The second set of lessons that the poor – especially, the Roma poor – had to draw that marketisation from below led to an unprecedented competition among those inside employment to capitalise on all the good jobs that today arise from the old informal production. In this process of marketisation from below, access to work is still at the most only partly regulated by demand and supply, and is largely a question of trust and connections where the former relations of mutual favours play the main role in distribution. (Kertesi, 2005) The poor generally did not

have and still do not have anything to offer in exchange and so the well-paid contracts, commissioned work, consulting projects, etc. remain beyond their reach. And even if they have the necessary training and experience they have little hope of being the ones to learn in time about any opportunities that exist. The cultural arguments that owe the lack of employment to “bad” socialisation and the subsequent “faulty” attitudes to work have to be considered against the brutal facts of sharp segmentation and dramatic exclusion that are further accentuated by a set of ethnic/racial implications.

Under such circumstances it is taken for granted that if on rare occasions the possibility for even the worst kind of paid work arises, it is a *must* for the poor to accept it without hesitation or bargaining. These and similar facts should make it clear that whether the poor have their hands full with work or not does not depend on their *attitude*. It is the reality though, that their efforts remain largely invisible: to themselves because of the very small payment they receive for the extreme exploitation, and to the outside world because no written contract was made to set its terms, no records were taken of its details, and further, because neither them, nor the employees paid any taxes or social security contributions on it. On top of the involved obvious defencelessness, it is a most tragic irony that, amid the indicated conditions, such a traceless existence is in the *own best interest* of the poor themselves. The situation is clear: if they do not have even a chance of a proper occupation, then they should at least be allowed a livelihood; and for this they *have to* apply for welfare assistance which the office would refuse to give them if it knew about their “illegal” incomes from work. At the same time, these incomes from work are so little that they make no real difference even to the lives of the poorest of the poor. Under such circumstances, welfare assistance is quite literally needed to mere survival – obtaining it is of *vital importance*. And in the same way, it is a vital question that the sharp-eyed welfare providers should be reassured: the concealment of the casual work that now and then turns up is in the *common* interest of the office and the client.

These common interests then guarantee two things. On the one hand, they secure that unregistered employment enshrouded by the working of local welfare assistance continues to flourish unchanged and as needed; on the other hand they powerfully safeguard that the bargain to be struck between the provider and the client remains a matter of internal struggles between the rather defenceless office workers in service of the public will and the extremely defenceless poor – above all: Roma poor – in service of demonstrating general “justice” and wise economising with the public funds. (Szalai 2007)

In this way the ghetto is constructed out of common interests. All that remains is to safeguard its walls so that social peace can be maintained and the majority can accomplish its

huge national tasks of modernisation while enjoying the gifts of democracy which – for the (unlimited) time being – implies only *their* full citizenship. The persistent “cultural arguments” about explaining poverty along the lines of deservingness with its ethnic/racial implications are of utmost importance here: without their powerful justification, participation in the market would fail to legitimise the coexistence of two sub-systems in a hierarchical order with the underlying two distinctive concepts of citizenship.

### ***Concluding remarks***

In this paper, I attempted to describe the complexity of macro- and micro-level interests that inform the ongoing social struggles around the role of the postcommunist state and its responsibilities toward the citizenry. I argued that the involved conflicts cannot be understood without due consideration of the legacy of the former state-socialist order in restructuring welfare according to the conflicting goals of economic and political transformation. While a qualitative change of the planned economy toward a market-regulated one invoked speedy *decomposition* of the inherited institutional structure, democratisation implied a *universalisation* of civil control above it. The initial idea was a sequencing of the two huge historical tasks. It was expected that swift conversion of the property-relations would give rise to a private market and an independent bourgeoisie as twinned foundations of advancement toward an automatic expansion of civil control above the state. Further, much in line with the evolvement of the post-war Western welfare states, growing civil control over the state would bring about a universalisation of democratic citizenship rooted in undivided civil, political and social rights. In other words, marketisation was thought to facilitate economic adjustment and democratic rule with one and the same momentum – hence, decomposition of the inherited state structures through privatisation was seen as an unmistakable first step toward genuine systemic change.

However, such reasoning has been falsified by the history of the close to two decades of postcommunist transformation. Under the pressure of the preceding lasting economic crisis of the 1980s that had manifested itself in extraordinary external and internal indebtedness of the state, swift privatisation at all costs was seen as the only way to recovery. Amid the given conditions, the conversion of the run-down stock of the planned economy logically led to unconditional opening of the domestic market that induced, in turn, the speedy inflow of the most efficient global capital. However, unrestricted opening of the economy concluded in an unexpected devaluation of its marketable value: in competition with cheap labour of the developing world, no less than 40 percent of the jobs available around 1990 have been lost, while only 8 per cent have been replaced ever since. Amid these circumstances, the once

designed welfare provisions to assist forced employment under the guidance of the state-socialist project had to be quickly re-tailored upon its collapse to calm down sharp competition on the labour market, and keep vast groups in the insecure informal economy.

Most importantly, successful implementation of the transformation-project assumed remarkable reduction of the earlier excessive power of the central state. However, forceful downsizing quickly turned into the actual *desertion of it*. Elimination of the all-embracing programmes of the old regime concluded into a lasting vacuum-situation which led, in turn, to the rapid increase in the number of people without any forms of social protection. Hence, beyond steep rise in the rate of poverty, the withering away of the central schemes significantly contributed to the speedy social exclusion of the weakest groups once in full service of “socialist production” and direct dependence from the provisions of the then ruling communist party-state behind.

But the process had some further consequences, too. As demonstrated above, the drastic retrenchment of the centrally distributed resources induced heated social struggles: the freshly freed central funds quickly became absorbed by privatisation and economic adaptation from below. At the same time, the decentralised municipal welfare programmes proved incapable of keeping pace with the unstoppable increase in the number of applicants: the poor struggling for mere livelihood and the impoverished groups of the middle class seeking compensation unequivocally identified the new local assistance schemes as their only remaining option. The evolving cruel competition between the two groups has contributed to the sharpening of those deep socio-economic divides by class and race/ethnicity that had arisen as sorrowing but “inevitable” concomitants of economic restructuring.

By the turn of the millennium, the indicated processes concluded in the evolvement of a bifurcated welfare system with hermetically separated structures of services for the well-integrated and the marginalised groups of society, respectively. With the country’s successful economic recovery, all the contribution-based services and benefit schemes have produced remarkable rise in standards and coverage for those successfully involved in Hungary’s already dominant market economy. At the same time, it is the highly segregationist world of local welfare assistance that is meant to deal with the respective needs of the poor: the longer the period of their poverty, the thicker grow the walls that lock them into the secondary arrangements designed “for them alone”.

Such a bifurcated system manifests, however, long-term departures from the envisioned West-European path of social development. Deeply ingrained into the inherited structure of late socialism, the rising of a new domestic bourgeoisie is conditioned by maintaining strong bonds

to the provisions of the state. This is clearly reflected by the still prevailing dominant form of living based on two pillars: one in acquisition of state-resources through welfare distribution, and another one in semi-private business. Though the combination might be familiar from the state-socialist past, the function of the two pillars has been reordered by the new rules of the market. Given the conditions of steadily shrinking employment amidst the working of privatised market, it is entitlements for welfare provisions ruled by anticipated “contribution” that are mobilised in substitution for vanishing labour force participation. In addition, largely fluctuating small entrepreneurship is meant to assist material advancement – though without any motivations for breaking the mentioned bonds with the state. (Laki 1998, Laky 2004) Put it differently, endured *economic dependence* from the state is seen as a precondition to *civil independence*: widespread conversion of the welfare funds into private business is perceived as legitimate to gradually accomplish the still unfinished embourgeoisement-process, and claims for the maintenance of state provisions are articulated according the historical arguments of all-societal restoration. (Szalai 2007)

At the same time, massive struggles for maintaining the fusion of the state and the market concludes in crowding out the poor. The construction of a system sealed in decentralised schemes of means-tested assistance of the local communities in an exchange for powerfully keeping them away from the domain of guaranteed central provisions has to be seen as the institutionalisation of *second-order* citizenship. However, in a country with a democratic constitution and declared citizens’ rights, the involved differentiation cannot be made in an open way. But if put in “cultural” terms, it immediately gives reason for an important democratic principle: after all, citizenship is nothing but a contract between society and the individual to meet certain obligations in return for certain rights. Those who cannot meet the former should not expect society to provide the latter. In this vein, the earlier outlined considerations on the usefulness of a separated sub-system of provisions for the needy are completed and, at the same time, justified by the notion of “cultural otherness”. However, as shown, their bondage becomes the foundation of *structural disintegration*. After all, the coupled principles of unlimited competition on the market and expulsion on the grounds of individual failure keep alive as a rightful institutional separation of an utterly closed world – a ghetto proper – for those whom the concepts imply: Hungary’s dramatically marginalised long-term poor and, above all, the Roma among them. The coexistent two sub-systems of welfare – the rather generous public financing of the market and the running of the impoverished quarters of public provisions for those outside of it – reflect and reproduce the outlined strange social contract in steadfast advancement toward

a social structure divided along ever sharper fault-lines with ever more pronounced institutional separation along a hierarchical order of citizenship.

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