The Shifting Welfare State in Hungary and Latvia*

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ABSTRACT. This article analyzes the evolution of the welfare system in Hungary and Latvia since the early 1990s. We identify the main components of social protection and investigate whether they have shifted. We find evidence of significant changes, but not of a definite and major shift. Rather, we argue that various benefits have evolved differently. In general, reforms tend to recombine (rather than replace) specific components.

Throughout the world, welfare states have been considerably reformed over the last decades. This has involved extensive pension reforms, significant health system restructuring, more active approaches to unemployment and disability, as well as increased targeting, through both means tests and categorical provisions (Ferrera 2008). Retrenchment was accompanied by rationalization and updating; this has been labeled recalibration (Pierson 1994, 2004).

Hungary and Latvia are particularly interesting cases because welfare recalibration was carried out during systemic transformation under the advice of the World Bank. Interestingly, Hungary was a pioneer in pension partial privatization in Eastern Europe while Latvia was a pioneer in a hybrid public pension scheme (we will examine more in detail further on). It is legitimate to wonder whether such reforms introduced a shift.

Comparing these two countries is particularly instructive. Contrary to the image of state socialism as a homogeneous entity, these two

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countries show how previous legacies as well as policy options influenced national welfare arrangements. Particularly, Hungary's Goulash socialism was distinctive of Latvia's experience, as part of the USSR.

Furthermore, these two countries experienced deep crises in the early 1990s and in the late 2000s. Again, we will see how distinctive welfare arrangements and specific policy options explain idiosyncratic national reforms.

We will focus particularly on the evolution of the welfare systems over the past two decades. This is unusual, since transition studies often focus on the 1990s. However diverse these two decades were, an extended time span allows us to recognize the complexities of welfare reforms, especially since some reforms were reverted. Welfare state recalibration is a long-term process; small changes can trigger causal processes leading to big changes (Pierson 2004). Major reforms have been successively amended and limited or even abandoned. We have therefore decided to study the longest possible time span.

Welfare reforms in Hungary have been considered paradigmatic on different occasions. On the one hand, there was a shift in dominant ideas about welfare (Ferge 1997), on the other, pension partial privatization is considered to be a paradigmatic reform (Barr and Rutkowski 2005). These suggest the existence of a shift in social protection.

Our article focuses particularly on the evolution of social spending, (personal and functional) income distribution, poverty, and the balance between universal and targeted provisions, as well as the balance between social and individual insurance. We want to establish whether there was a shift in social protection in Hungary and Latvia from the 1990s.

Political economy literature stresses that the impact of economic pressures on the welfare state is mediated by the balance of power between pro-liberalization and anti-liberalization institutional entrepreneurs (Cook 2007). International financial institutions deliberately promoted pension privatization (Orenstein 2008) and empowered reform-oriented domestic actors (Müller 1999, 2003).

These approaches, like mainstream economics, focus on agency. Conversely, institutionalism maintains that institutions are not malleable, and evolution is path dependent (for example, David 1985;

North 2005). In a celebrated contribution, Pierson (1994) applied the concepts of increasing returns and path dependence to welfare state evolution.

All the same, path dependence explains continuity rather than change. The relevant literature reconciles change and path dependence two alternative ways: punctuated evolution and incremental change.

Punctuated evolution approaches sustain that a crisis disrupts long periods of institutional stability and will shift institutions from one set to another (North 2005). This idea seems to fit our case studies. Hungary and Latvia were hardly hit by a systemic crisis in the early 1990s. Such crisis might have facilitated a major institutional dislocation, namely, in the case of social protection.

Conversely, recent developments in institutionalism focus on incremental, endogenous change. According to Pierson (1994, 2004) retrenchment is a slow-moving causal process, where reforms trigger specific causal chains that facilitate successive cutbacks.

Streeck and Thelen (2005) distinguish four types of gradual institutional change: displacement (the replacement of existing rules by new ones), layering (new rules are introduced alongside existing ones), drift (neglect of old rules with a changing environment), and conversion (changed enactment or interpretation). Cerami (2009) clearly identified how all these processes were at work in the evolution of the postsocialist welfare state.

In a prominent historical study, Inglot (2008) maintains welfare reforms did not replace existing arrangements; they added to them like geological layers. This pattern led to the emergence of hybrid welfare states (Bohle and Greskovits 2007; Cerami and Vanhuysse 2009; Szikra and Tomka 2009).

The evolution of the Hungarian welfare state has attracted considerably more attention than Latvian reforms. Considering the existing literature on the Hungarian welfare state, the motivations for the present research were twofold. On the one hand, we sought to establish whether institutional evolution is different in a country such as Latvia, which lacks a pre-Soviet Bismarkian tradition and faced an enormous welfare institution design challenge. On the other hand, we propose an alternative framework. Rather than focusing on existing welfare system typologies, we want to understand how reforms changed the components of the country's social protection.

This article starts by identifying the components of social protection in Hungary and Latvia, and considers how they might have shifted over the past two decades. We consider how to distinguish between a punctuated evolution pattern and incremental evolution. Then, we present the main developments in social protection in Hungary and Latvia, with a focus on their consequences in terms of (functional and personal) income distribution and poverty rate evolution, as well as the evolution of the balance between universal and targeted provisions, on the one hand, and social and individual insurance, on the other. Finally, we closely examine the two countries in order to understand why national patterns were different, and to explain the differences in the outcomes.

Framework

Our main question is whether there has been a *shift* in Hungarian and Latvian welfare states. In order to address this question, we need to consider (i) what it is that could *shift* and (ii) define what a *shift* would entail.

What Could Shift?

Concerning the first question, we will consider the implications of welfare reforms on the balance between universal provisions and means tests on the one side, and the relative weights of social and individual insurance on the other. Hungary and Latvia's respective features of these components are presented in Table 1.

Universal and targeted provisions are flat-rate and financed through the general budget. These benefits can be received in cash or in kind, and they can be distinguished mainly in terms of entitlement. Access to universal provisions is based on citizenship or residence, while targeted provisions are only available to those satisfying specific conditions. Targeted benefits can be means tested (vertical targeting) or categorical (horizontal targeting). For example, categorical provisions will be available to specific groups of the population, such as pensioners, single parents, or larger households.

Table 1

The Main Features of Social Assistance, Universal Provisions, Social and Individual Insurance

		Targeted Provisions		Insurance	
	Universal Provisions	Categorical	Means-tested	Social	Individual
Coverage	Universal			Contributors	
Entitlement	Citizenship or residence-based	Specific groups	Means-tests	Minimum record In specific events	In specific events
Benefits	Flat-rate In kind and cash benefits			Employment-related cash benefits	Actuarial cash benefits
Aims	Broad coverage	Poverty reduction		Income insurance	Capital insurance
Financing	General budget			PAYG	Funded

Mainstream economics often assumes that universal and free access will lead to overutilization. Nevertheless, the relative advantages and disadvantages of targeting are more complex and depend on the type of provision. The efficiency of targeted provisions depends on coverage. In some countries, categorical provisions might be a better option because of bad income data quality. On the other hand, administrative costs associated with targeting will divert resources from poorer households. Additionally, universal provisions also enjoy higher popularity and lower stigmatization.

Social and individual insurance are alternative mechanisms to protect income and life style against specific risks. Under social insurance, risks (for example, unemployment or disability risks) are pooled collectively. Social insurance benefits are calculated based on wages over a specific time span; the calculation formula involves redistribution. These are employment-related, and are paid only after a minimum contribution record is reached. Social insurance is financed on a PAYGO (pay-as-you-go) basis (that is, current contributions are used to pay current beneficiaries).

Unlike social insurance, individual insurance pays actuarial benefits, which depend strictly on individual savings. Furthermore, these arrangements are financed on a funded manner because a person's contributions (accrued by its returns) are used to finance his/her benefits.

Since risks are not pooled collectively, private insurance cannot provide for unemployment insurance. There are several controversies over the advantages of private pension provision (Barr and Diamond 2008). Particularly, while some consider funded pension plans fare better with an aging population (for example, World Bank 1994), others sustain that as private and public pensions both distribute resources between workers and pensioners, there is no reason why any of them would outperform the other in a country with an aging population (Barr 2000).

We consider two alternative forms of individual insurance: private and self-insurance. While social protection literature usually neglects self-insurance, we argue that this is an important mechanism to insure household life style. The downsizing of social insurance does not necessarily give way to private insurance development. It also leaves families or individuals to cope with increasing risk (Hacker 2005)

Self-insurance is a specific type of individual insurance because there is redistribution inside the household. Nevertheless, households also redistribute any benefit obtained, be it universal, targeted, social, or private insurance.

What Would a Shift Entail?

We link a *shift* with the forecasts of a punctuated equilibrium framework. Here one would expect welfare reforms to replace one institutional setting by another one. Particularly, we could assume state socialist welfare systems articulated around universal provisions and redistribution (that is, social insurance), whereas postsocialist welfare states would extensively use means tests and private insurance. Both of these components were put forth by the World Bank as the necessary components for a successful welfare state transition (World Bank 1994).

Institutional replacement would also involve a decrease in social spending as a percentage of GDP. In a celebrated assessment, Kornai considered the early 1990s welfare states in Central Europe to be *premature* because they spent more than other countries with similar per capita income. This argument is questionable because it assumes that there is a link between per capita income and social protection. Furthermore, the metaphor is flawed, since premature babies are put in an incubator and assisted (Ferge 1997). Regardless, supporters of this view would expect social protection *realignment* to take place.

One would also expect that less redistribution and less social spending would rapidly increase the risks of poverty and inequality.

A punctuated equilibria approach would, therefore, forecast that all of these elements would shift from one equilibrium to another. This shift should occur quite rapidly and definitely. We will, therefore, analyze the evolution of personal and income inequalities, poverty risks, and social spending (as a percentage of GDP), as well as the balance between universal and means-tested provisions and the relative weights of social and individual insurance.

Unlike institutional replacement, gradual transformation involves incremental changes (Streeck and Thelen 2005). These are distinguished by their speed and they both translate into changing outcomes. As seen above, incremental change can assume different forms: slow-moving causal processes (Pierson 2004), displacement, layering, drift, conversion, and exhaustion (Streeck and Thelen 2005).

Following Campbell (2004, 2010), we also consider processes of recombination, through *bricolage* and translation. Institutions provide a toolkit, which limits options. With this, actors can recombine elements of the existing repertoire (*bricolage*) or combine them with new elements, some of them may even be imported from abroad (translation). *Bricolage* and translation entail path-dependent dynamics. Within this, innovation is made possible by institutional ambiguities; "the meaning of institutions is always open to interpretation" (Campbell 2010: 105).

Translation can be particularly pervasive in our case studies because they have both received World Bank advice and support. We will particularly examine how new ideas were combined with already existing institutional practices and were translated into local institutions. We now turn to analyzing how these different components have evolved in Hungary and Latvia.

Hungary

We present the evolution of major welfare institutions in Hungary in Annex 1. We also track the consequences of reforms in the social protection components defined in Table 1 above. To improve visibility, increases in specific components are presented in bold font.

The origins of social insurance in Hungary go back to the late 19th century under the Austro-Hungarian Empire. This Bismarckian scheme covered industrial workers and civil servants in cases of illness, maternity, old-age, and disability.

Such arrangements did not disappear under state socialism. Rather, after retrenchment in the early years, social insurance progressively became universal (Inglot 2008). Similarly to social insurance, pensions continued to be employment-related, but this was (re)combined with Soviet-style division of workers into groups.

Social insurance, categorical provisions, and fringe benefits were virtually conflated. Indeed, an extensive list of social benefits was provided by firms, including kindergartens, health care, housing, and even foodstuffs. Consequently, categorical (and employment-related) provisions were not designed to improve primary income distribution.

State socialism was substantially reformed in 1968. This partly disentangled social insurance and social provisions. *Goulash Communism* expanded universal provisions, including health, price subsidies, and particularly family allowances.

Family allowances and maternity benefits experienced significant development in the 1960s and 1970s. Universal provisions allowed women to choose between working and staying at home to raise their children. This translated into an *optional familialism*, which represented "*a slight change from earlier policies of driving women into the labor market*" (Szikra and Tomka 2009).

Along with universal provisions, *Goulash Communism* also enhanced social insurance. On the one hand, maternity benefits became more generous. On the other hand, although pension calculation remained occupation-related, pensions were redistributive and less concentrated than wages (Milanovic 1994).

Poverty did not constitute a political priority and Hungarian sociologists denounced pauperization from the 1970s (Ferge 1997). In the late 1980s, poverty rates were around 10 percent (Sibos 1994). Although it can be considered high, the figure would nearly double between 1898 and 1991 (Sibos 1994); and poverty would increase rapidly over the 1990s (Figure 2).

The evolution of the Hungarian welfare system in the early 1990s was marked by a macroeconomic crisis and considerable welfare reforms.

During the 1990–1993 period, the Hungarian GDP lost a cumulative 15.6 percent (Figure 1), which reduced employment and led to the expansion of both labor force participation and unemployment. During this period, labor force participation rates lost 3.6 percentage points. Unemployment rates climbed steadily until 1994 and stabilized at double digits levels. These developments increased the number of social insurance beneficiaries. By 1996, real wages had lost 23 percent relative to 1989. This was accompanied by an increase in individual and macro inequalities.

Figure 1

GDP Growth, Unemployment, and Wage Share (%GDP) in Hungary

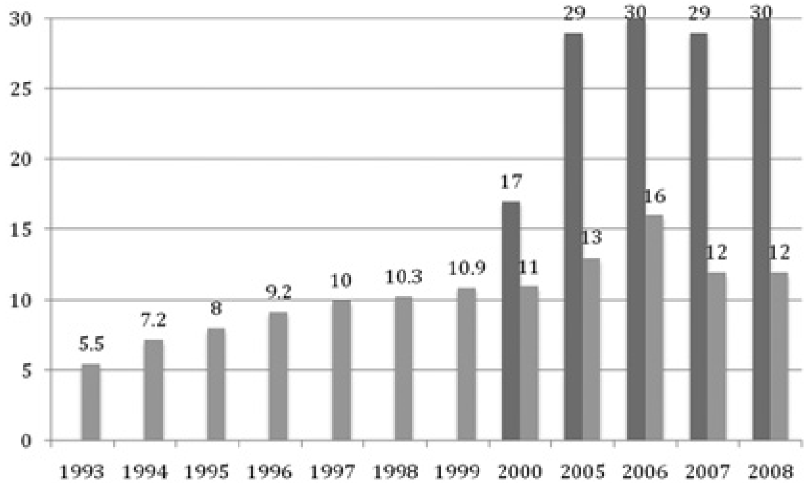
Source: GDP figures are from IMF (http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx), 1990–2005 unemployment rates are from ILO (http://laborsta.ilo.org/) and AMECO (from 2005), wage share data from AMECO database (http://ec.europa.eu/economy_finance/ameco/).

In the field of social insurance, the Antal government welfare reforms up to 1992 were incremental (Ferge 1997). To use Streeck and Thelen's (2005) typology, this involved displacement through the reactivation of some pre-1948 social insurance components (for example, autonomous management and budget). Social insurance was generally strengthened with the introduction of unemployment benefits and the reform of the health-care system. Pension calculation inequities were also reduced, but they were not canceled and the scheme kept the use of different brackets.

On the other hand, universal provisions experienced a noticeable decline. Price subsidies and universal health care were abolished. Nevertheless, family allowances remained universal. This, along with employment contraction and a reduction in the number of

Figure 2

Poverty Rates Before and After Social Transfers in Hungary



Legend: The darker column corresponds to poverty risks before social transfers and the lighter column to income after social transfers.

Source: 1993–1999 Hungarian Central Statistical Office Household Budget Surveys (several years) and from 2005 Eurostat (http://epp.eurostat.ec.europa.eu/).

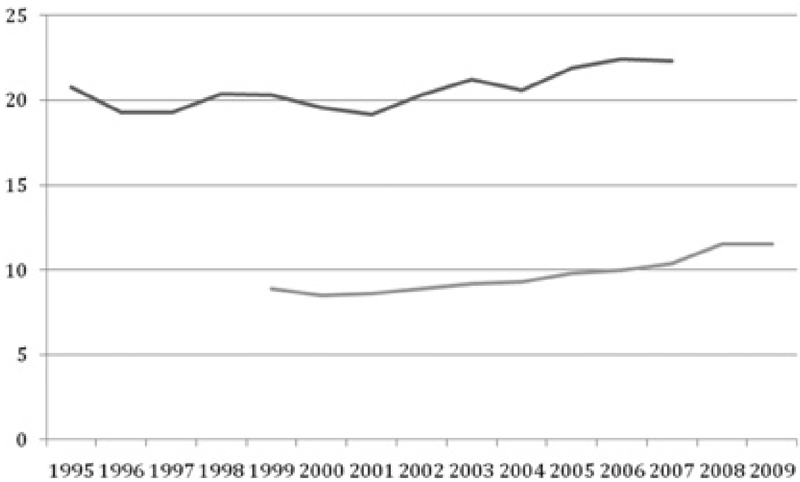
kindergartens, induced a significant decline in female labor force participation rates. Universal provisions cutbacks were also accompanied by a slight increase in categorical provisions, which dominated the now decentralized poverty assistance system. Conversely, means tests were only expanded in a very limited way.

Important cutbacks in social insurance started in 1992–1993. The 1992 pension reforms weakened redistribution, and the 1993 unemployment benefit reforms gradually reduced the components of social insurance and introduced social assistance features.

The largely incremental agenda in economic and welfare policies was rapidly disturbed. Confronted with external and domestic imbalances, Hungary signed a stand-by agreement with the IMF. The stabilization package adopted in 1995 was known as the Bokros plan, which entailed social benefit cuts and wage cuts. Social spending cuts

Figure 3

Total Social Spending (on top) and Pension Spending (second line), % GDP



Source: Eurostat (http://epp.eurostat.ec.europa.eu/).

translated into decreasing social spending (Figure 3). This was accompanied by welfare reforms. Particularly, it involved an increase in self-insurance (due to increased out-of-the-pocket health payments) and a shift from universal to means-tested provisions (since family benefits became means tested).

The Bokros plan was built explicitly based on Kornai and World Bank propositions for targeted assistance. Nevertheless, it was largely contested by other social scientists who maintained that universal family allowances were actually a better option to target child poverty (Ferge 1997; Sibos and Ringold 2005).

Although the Bokros plan aimed at introducing a considerable shift in the welfare system, its actual impact was limited by a Constitutional Court ruling against the original family allowances targeting design and ruling out some out-of-the-pocket health payments. As a matter of fact, while the reform blueprint intended to exclude the top 20 percent of income distribution, the introduced package only excluded the top 10 percent from family benefits (Sibos and Ringold 2005).

The Hungarian Constitutional Court also reduced the shift from social to self-insurance in health. Nevertheless, out-of-the-pocket payments increased from 12 percent of total health spending in 1993 to 18 percent in 1996. The trend in self-insurance expansion continued throughout the decade, reaching 25 percent by 1999. These figures actually underestimate the cost because informal (individual) health payments may be as high as 7 to 11 percent of total health expenditures in 1989–1996 (Gáal 2004).

Pension reforms further enhanced individual insurance at the cost of social insurance. This was the outcome of partial privatization and, to a lesser extent, a result of indexation changes. Under the new indexation method, pensioners are less insured against general lifestyle developments. Partial pension privatization was certainly the most conspicuous Hungarian welfare reform. It was promoted by the World Bank (Müller 2003; Orenstein 2008) and was intended to radically change pension provision. How big was the shift from social to private insurance?

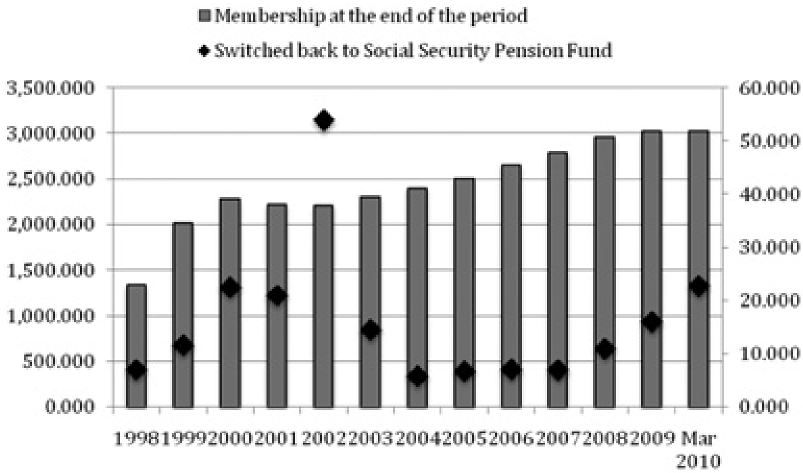
On the one hand, social insurance was not eradicated since a public earning-related scheme continued to be compulsory. Furthermore, private pension plans were only compulsory for new labor market entrants in 1998. Therefore, there was not a clear shift from social to private insurance, but there was a move to a mixed scheme. How much social and private insurance is involved in this mixed system?

Partial privatization design involved the gradual transfer of pension engagements from public to private pension schemes. This transfer was enhanced in practice by the fact that the mixed scheme attracted a significant proportion of the labor force. This choice became irreversible after 1999.

The picture becomes more complex when we consider successive amendments. A new government that was hostile to pension privatization came to power in 1998 and allowed individuals to switch back to the public pensions only scheme. This opportunity was seized by a considerable number of people (Figure 4). Indeed, some realized they had made a bad choice.[1] As a consequence, there was no linear

Figure 4

Mandatory Pension Fund Membership in Hungary (in thousands)
Members (left axis) and Switching Back to Social Security (right axis)



Source: Hungarian Financial Supervisory Authority (www.pszaf.hu/data/).

shift from social to private insurance and the state pension system remained at the heart of the Hungarian pension system.

From 1998 to 2005, growth rates were high, unemployment declined, and real wages improved. Nevertheless, poverty rates and personal income inequalities continued to increase.[2] The economic expansion was accompanied by increased social insurance and universal provisions.

This new expansionary environment was favorable to increased social spending; particularly pension spending (Figure 3). This was accompanied by switching back from the mixed pension system, therefore reducing the effects of the earlier shift. In an attempt to control spending, health system administration was recentralized.

More importantly, family allowances were switched back to universal provisions. This, along with unemployment allowance abolishment, reduced the weight of means tests in the social protection balance. This did not completely entail an increase in universal provisions because family benefit cuts were not reverted. Furthermore, the reform introduced tax credits, which were favorable to the middle, rather than poorer, classes.

Growth was stimulated by internal demand and fueled by credit. As domestic interest rates were high, a growing proportion of credits were issued in foreign currencies. Internal demand dynamics translated into cumulative external current deficits and inflation. The government introduced a new stabilization package in 2006, which led to slower economic growth, higher unemployment rates, and a lower wage share. Poverty rates increased in 2006 and then declined, mainly as a result of social benefits (Figure 2).

Social spending as a proportion of GDP stabilized (Figure 3). Nevertheless, significant qualitative changes translated into means tests expansion and social insurance reductions. Particularly, support to the poor became means tested.

Limited social insurance cutbacks accompanied stabilization. Although pension spending continued to increase steadily (Figure 3), early retirement was tightened in 2008. Unemployment and disability benefits reforms further curtailed social insurance.

Stabilization also involved an increase in doctor and hospital fees. Nevertheless, this attempt to reduce social insurance in favor of self-insurance was canceled after a referendum in 2008 (when over 80 percent voted against it).

Unemployment benefit and disability pension reforms were changed under the realm of *activation*. This brought an increase in self-insurance as a means to increase individual incentives for labor market participation. This also caused changes in family policies. In 2007, the Start-Pluzs program reduced contributions for women returning to work after absence due to maternity leave.

In spite of the 2006 stabilization package, credit continued to increase. As domestic interest rates were high, the proportion of credit issued in foreign currencies increased.[3] Starting in October 2008, Hungary was profoundly hit by the financial crisis. The country received an IMF and EU loan and adopted a stabilization package, including currency devaluation and pro-cyclical macroeconomic policies.

In the first three quarters of 2009, total spending on cash social benefits increased by 3.2 percent because of rising social benefit needs. This was followed by a decline due to the stabilization package. Social spending cuts translated into cutbacks in universal provisions and social insurance. The overall impact is, however, more complex since the Constitutional Court ruling imposed phasing out most cuts; therefore, their full implications cannot be perceived immediately.

The declines in social insurance contraction did not crowd-in private insurance. Rather, private insurance declined in two main ways. First, Hungarian pension funds were among the most strongly hit in the OECD during 2008 (OECD 2009). Consequently, those closer to retiring saw their benefits from private pension plans decline. Second, people were once again encouraged to switch back from the mixed scheme to the public system. During 2008–2009, 26,880 people chose to do so (HFSA). In late 2010, the government decided to nationalize private pension funds. These developments have considerably changed the Hungarian mixed pension system, away from private insurance.

We cannot identify a punctuated evolution pattern in Hungarian social protection balance over the last two decades. Clearly, the fiscal crisis did have an impact on benefits in 1995, 2006, and 2008–2009. Nevertheless, these were often less dramatic than intended and were sometimes reversed after a while. Particularly, family benefits remain universal, and health co-payments were canceled. Most interestingly, pension privatization was repeatedly amended and, more recently, canceled.

Nevertheless, there is no general linear pattern of incremental change either. True, some benefits witnessed a gradual and steady decline in universal provisions and social insurance. However, in other cases, change followed a stop-go pattern. Particularly, family benefits, health, and pensions evolved through a stop-go pattern. This can be accounted for by different factors. First, macroeconomic stabilization imposed cuts, which were partly reversed afterwards. Second, health co-payments were massively reduced by referendum. Third, there are political factors, since socialist governments introduced means-tested family benefits and pension privatization, whereas their successor Fidesz governments engaged in offsetting these reforms.

The Constitutional Court systematically limited brutal cuts or shifts. This implied an incremental change pattern. It does not, however, explain the stop-go pattern since slow changes would be possible as long as they did not violate constitutional rights.

The stop-go pattern occurred in a limited way. Unemployment benefits and social insurance declined swiftly and steadily. Family benefits remained universal but were permanently reduced. Moreover, parametric pension reforms also had an enduring impact (retirement age increase, early retirement penalties, or disability pension reforms). Therefore, benefit fairness and legitimacy is central to understanding which reforms were reversed.

Despite stop-go policies, there was a clear increase in self-insurance. This was the result of decreasing benefits in the field of universal provisions (for example, kindergartens, family allowances, price subsidies) as well as social insurance (for example, unemployment benefits), which can be associated with a drift (Streeck and Thelen 2005) due to nonreforms as well as intentional cuts.

The decline of the Hungarian welfare state was a complex process in which different benefits exhibited different patterns and new components (private insurance and targeted benefits) were combined with (rather than replaced by) existing ones (such as social insurance and universal provisions). This recombination was particularly noticeable in the case of pension reforms. Here, the existing employment-related arrangements were recombined with private insurance in new ways. Rather than switching from public to private pensions, the emerging pension system combines features from the two schemes. Unexpectedly, the pension fund nationalization coincided with a trend of decreasing private insurance associated with several waves of switching back and forth.

Nevertheless, public pensions became increasingly contributions-based, which is the basis of private insurance (that is, with a strong benefits-contributions link). As a result, there was some displacement within the public scheme. There was a cumulative process of decreasing unemployment benefits. Although no such program existed previously, the scheme was designed on a social insurance model, which reintroduced the Bismarkian legacies. These benefits were reduced rapidly, thus curtailing social insurance. Throughout the last two decades, different reforms recombined social insurance with horizontal and vertical targeting. In addition, decreasing insurance benefits increased the role of self-insurance.

The developments in the health-care field were also incremental and there was a considerable recombination of different components. On the one hand, there was an early shift from universal provision to social insurance. However, the scheme continued to exhibit universal provision features such as universal coverage and centralized management. Furthermore, attempts to increase fees (in 1995 and 2006) have been partially reversed. Indeed, public spending still represents the bulk of health-care spending. On the other hand, private insurance has slightly increased, and voluntary health funds only covered an insignificant proportion of overall health-care expenditure (WHO).

The development of family allowances was specific, and also recombined different components. The stop-go pattern translated into some stability and the Goulash socialism's universal and social insurance allowances proved extremely resilient. However, successive governmental changes distorted the distributive impact of family benefits. The 1995 and 2006 reforms were more favorable to poorer households, whereas the 1998 reforms were more favorable to the middle class. Poverty ethnicization can also explain why means tests were only introduced in a limited way.

Other universal provisions were also reduced and changed. Contrary to early expectations, means-tested benefits were not widely used. Conversely, categorical provisions developed at both the national (e.g., minimum pensions) and local level (e.g., local assistance to pensioners). Some categorical benefits already existed during state/Goulash socialism. These were often employment-related; therefore, they were intermingled with social insurance. There was, therefore, a translation of existing principles into new domains.

Although income support is now means tested, Hungary is among the very few EU countries that do not have a guaranteed minimum income scheme. Poorer households are nonetheless protected by universal family allowances and by categorical provisions (e.g., benefits for elderly persons). As a matter of fact, while the poorest quintile is fairly covered by social transfers, only 10 percent received regular social assistance in 2004 (Mitra, Selowsky, and Zalduendo 2009).

These reforms were accompanied by a steady increase in poverty risks and income inequalities. Social provisions played a significant role in curbing poverty risks (Figure 2); however, this impact is unevenly distributed among the population. Poverty risks are lower for pensioners, but considerably higher for the Roma population and among the unemployed (Molnár and Galla 2008). These inequalities in poverty risks can be accounted for by the social protection developments presented above.

Over the past 20 years, inequalities increased as a result of unequal social protection dynamics, declining wage share in the early years, growing wage inequalities, and most importantly because social benefits (pensions) were not redistributive.

Latvia

Annex 2 presents an outline of major welfare system reforms in Latvia and their impact on the main components of social protection. Social insurance in Latvia dates back to the early 20th century under Russian domination. This involved only pensions and health insurance. Coverage expanded during independence (1920s and 1930s). These provisions were expanded under State Socialism.

According to the social contract thesis (Cook 1993), Soviet workers accepted the absence of political rights in exchange for full employment and extensive welfare provisions. Furthermore, under the full employment system, universal provisions, social insurance, and fringe benefits were intermingled. By the late 1980s, firm-financed benefit spending actually exceeded pension spending (Milanovic 1998).

Nevertheless, there were individual differences and privileges (Matthews 1978). Inequalities were further heightened by occupational- and branch-related differences. The heavy industry that was developed in Latvia attracted a significant number of Russian workers (who eventually equaled Latvians in numbers). These firms paid high wages and high fringe benefits. The Soviet welfare state evolved, and as a result spending on social provisions increased during the Bezhnev era, while inequalities and privileges declined (Cook 1993).

Pensions and maternity benefits were managed on a social insurance basis. Childrearing was based on the woman-mother model (Lace, Novikova, and Purvaneckiene 2006) and women were entitled to a one-year paid maternity leave. Although daycare centers and kindergartens were free of charge, there were not enough vacancies to satisfy the demand.

The retirement age was low, but benefits were meagre and were not indexed. By the late 1980s, the average pension represented less than half the average wage (Milanovic 1998). Consequently, pensioners were overrepresented among the poor (Shilneva 2005). Pensions were also unequal becausethey were occupation-related.

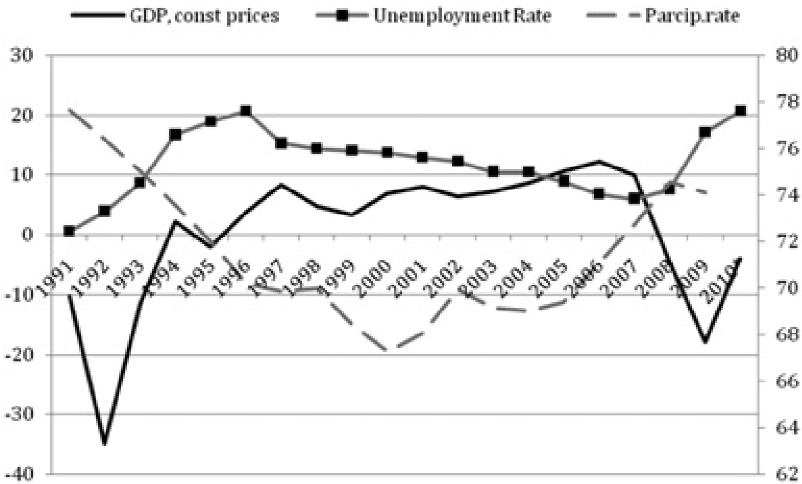
These welfare institutions were deeply disrupted by systemic transformations and economic crises. Latvia experienced the deepest post-socialist crisis in Eastern Europe in the early 1990s. GDP lost over 50 percent from 1991 to 1993 and a second downturn occurred in 1995 (Figure 5). Simultaneously, an extremely high inflation eroded existing savings. The economic collapse was mainly a result of the massive supply chain dislocation that broke up the heavy industries within the former USSR. Throughout the first half of the 1990s, high inflation eroded existing savings. The 1995 economic decline was marked by bank bankruptcies, which further devastated household savings.

Unemployment rose as GDP declined, but it lagged behind as GDP recovered (Figure 5). As in Hungary, labor force participation rates declined dramatically; Latvian labor force participation rates lost almost 10 percentage points by 2001. Extremely high unemployment rates and lower labor force participation rates led to higher demand for social services, which clashed with the government's tight fiscal policy.

By 1999, both real GDP and real wages were still at 65 percent of their 1989 value. This was accompanied by increasing inequalities: the Gini coefficient rose by 8 percentage points by 1995 (Figure 6). This was accompanied by a dramatic increase in poverty, as average income was below the minimum subsistence level throughout the 1990s (LCSO). Nevertheless, these figures do not capture the impact of the denationalization of property on household wealth.

Figure 5

GDP, Unemployment Rate (left axis), and Participation Rate (right axis) in Latvia



Source: GDP figures are from IMF (http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx), unemployment rates are from AMECO database (http://ec.europa.eu/economy_finance/ameco/), and the participation rate is from ILO (http://laborsta.ilo.org/).

The systemic transformation was also marked by inequities in terms of unemployment and political rights. The biggest firms were more severely hit by mass layoffs. Their workforce was mainly made of Russian-speaking employees. This was doubled by citizenship concerns, since a 1994 law declared that only those who were Latvian citizens or descendents of Latvian citizens before 1940 are recognized as citizens. This meant that nearly half of the population was excluded. Citizenship, however, did not affect social entitlements, which were (and still are) based on residency.

Latvia's welfare system went through deep transformations. These were the outcome of a dismal economic background as well as political choices. Contrary to Hungary, the recreation of pre-Soviet

Figure 6

Macro and Personal Inequalities in Latvia

Source: For the Gini coefficient: up to 1995 data comes from Milanovic (1998), 1996 to 2003 LCSO (www.csb.gov.lv/), and from 2005: Eurostat (http://epp.eurostat.ec.europa.eu). Wage share figures from AMECO (http://ec.europa.eu/economy_finance/ameco/).

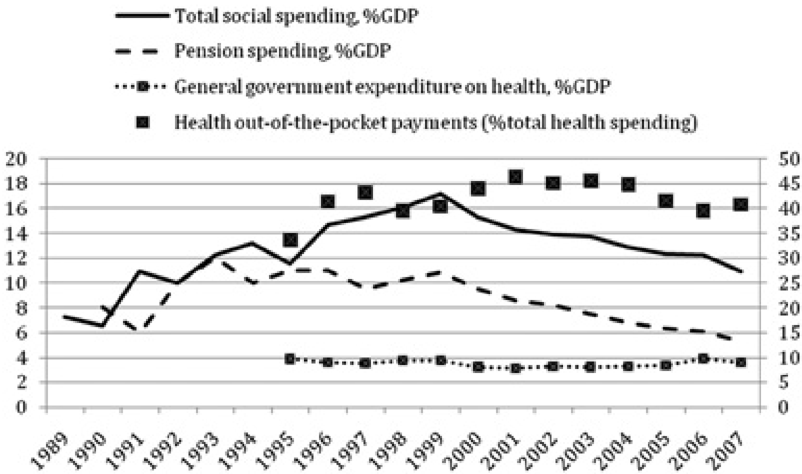
institutions was problematic in Latvia because those arrangements were incomplete.

Social spending options were constrained by fiscal discipline. Fiscal concerns implied meager benefits with declining universal provisions and social insurance. Even so, spending increased as a consequence of mounting claims, particularly because unemployment fueled pension spending (Figure 7).

As we can see in Annex 2, the reforms' impact on the components of social protection was complex. There was a slight increase in categorical provisions. At the national level, most benefits were categorical (for example, flat-rate pensions and unemployment benefits). At the local level, support to the poor was categorical. Municipal support to the poor was half self-financed and thus poorer municipalities paid the lowest benefits. This critically limited redistribution at

Figure 7

Social Spending Evolution in Latvia



(Proportion of health out-of-the-pocket payments is measured in right scale.)

Sources: For total and pension spending: up to 1995 data from Milanovic (1998), 1996 to 2003 data from LCSO (www.csb.gov.lv/), and from 2005: Eurostat (http://epp.eurostat.ec.europa.eu). For health: WHO (http://www.who.int/nha/country/lva/en/).

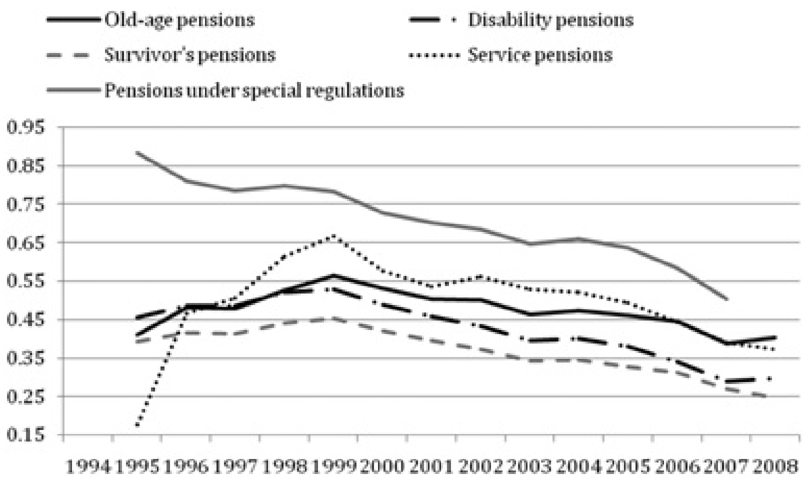
the national level. However, some categorical benefits in the field of family provisions were reduced. Additionally, the firms' disengagement from welfare provision had immediate and depressing consequences on fringe benefits, which were previously quasi-universal (because of full employment).

Social insurance declined in the early 1990s. Maternity and illness benefits, although unreformed, were severely hit by inflation. New provisions, such as unemployment benefits, were flat-rate benefits and did not provide income insurance.

The existing occupation-related pension system was further fragmented. A new pension system included distinctive special schemes, which paid different pension benefits (Figure 8). These were flat-rate and therefore categorical benefits, rather than social insurance benefits. Special pension schemes were the main path into early retirement.[4]

Figure 8

Average Pensions as a Proportion of Average Wages in Latvia



Source: LCSO (www.csb.gov.lv/).

Developments in the field of health care were also very specific. The Latvian health-care system combines components from universal provisions (which is tax-financed), social as well as self-insurance, and categorical provisions (exemptions include persons under 18, chronic diseases, Chernobyl victims, and the disabled). Reform was accompanied by a rapid expansion in self-insurance; by 1995, out-of-pocket health-care payments represented over half of overall health-care spending (WHO).

The economic crisis was followed by a steady growth period from 1996 to 2007 (Figure 5). Although growth was accompanied by real wage growth, the wage share decreased and income inequality increased (Figure 6). Poverty rates remained rather stable until 2003 and rose slightly afterwards.

As in Hungary, growth in Latvia was accompanied by a credit expansion (mainly issued in Euros), which fueled a housing bubble. Domestic demand growth was associated with increasing imbalances.

The current account deficit was over 22 percent of GDP in 2006–2007; inflation reached 10 percent in 2007 and 15 percent in 2008. However, there were no fiscal imbalances before 2007. As a result, social spending was low and mainly driven by pension spending (Figure 7). Social provisions had a limited and decreasing impact on poverty reduction.

Economic growth was accompanied by welfare system recalibration. Universal provisions remained largely residual. Reforms enhanced both social and private insurance. Health care retained its specific mix but management was centralized in 1996 because of spending concerns. Categorical provisions and means-tested provisions were also expanded. There was also a change in political rights, since the naturalization procedures were simplified in 1998. However, by 1999, 56 percent of the Slavics in Latvia had no nationality (Aasland and Fløtten 2001).

Social insurance was partly expanded through reforms to unemployment benefits, the introduction of a 10-day paternity benefit, and pension reforms. Moreover, with lower inflation, unreformed maternity and illness benefits regained an income insurance capacity. However, the expansion of social insurance was partial. Although the new unemployment benefits scheme is employment-related, income insurance was restricted by a short duration and low income subsidies. Furthermore, rejection by the services was high (IBRD 2010).

In 1996, public pensions were reformed into a notionally defined contribution (NDC) scheme. In theory this should have enhanced individual insurance since pensions should depend strictly on lifetime contributions. However, the implementation of a NDC scheme in Latvia involved considerable translation. The adaptation reduced the components of individual insurance. This was due to information problems, combined with fiscal considerations as well as social unrest.[5]

Pension reform amendments enhanced social insurance and redistribution, as well as categorical benefits. Pension indexation became redistributive after 1998. Furthermore, different pension systems continued to operate and pay different pension benefits (they remained categorical benefits). As in Hungary, pension reform in Latvia involved penalizing early retirement.[6] The ratio of average pension to the average wage increased significantly with the 1996 reform (Figure 8). However, pensions remain, on average, quite low and beneath the minimum subsistence (LCSO).

Voluntary and compulsory pension plans expanded private relative to social insurance. The reform required the public scheme to share payroll taxes with compulsory pension plans. The proportion going to the latter was expected to gradually increase to 10 percent in 2010 (but, as we will see, this figure was revised afterwards). In spite of some legal development, private insurance remains small. Pension plan returns were extremely low. Private insurers' health-care spending remains insignificant; it is mostly paid by employers (and is de facto *employment-related*). Conversely, there was an increase in health-care self-insurance (Figure 7).

Means tests developed. However, it was extremely hard to establish a national income level threshold (Rajevska 2005). The 2003 guaranteed minimum income (GMI) represented only 17 percent of the minimum living standard. Richer municipalities could pay higher GMI benefits. In spite of means tests expansion, categorical provisions still constitute the bulk of support for the poor.

Latvia experienced a dramatic downturn in 2008. According to IMF forecasts, 2008–2010 GDP cumulative contraction reached an impressive 26.6 percent (IMF 2010). Faced with a rampant current account deficit, Latvia accepted an unusually high loan package, involving macro-stabilization without devaluation. The choice not to devalue was imposed by the EU (Lütz and Kranke 2010). Without nominal devaluation, exports, foreign investment, and, therefore, employment will take longer to recover (Weisbrot and Ray 2010). Particularly, recovery depends on real devaluation, through wage contraction.

This aggravated inequalities. Internal devaluation compressed the wage share. Wage inequality increased, since workers have different levels of bargaining power. Public/private sector inequalities have already changed, since the public sector was more directly hit by fiscal austerity.[7] Furthermore, income tax became less redistributive and the nontaxable income threshold was reduced.

Relative poverty risks increased dramatically.[8] In 2008 and 2009, the at-risk poverty rate after social transfers was above 50 percent. Unemployment increased to more than 18 percent in the first quarter of 2010. This disproportionately affected nonnationals, whose specific unemployment rate was 26 percent.

While an IMF press release maintained the Fund "supports the protection of social spending embedded in the program" (Press release n. 08/332, December 19, 2009), EU-related lenders demanded social spending cuts (Lütz and Kranke 2010). As we can see in Annex 2, Latvia introduced significant social benefit cuts. These cuts translated into a considerable increase in self-insurance and some increase in means-tested assistance at the expense of all other social protection components. Unemployment benefits became less generous, while the proportion of long-term unemployed grew steadily and represented 34 percent of the unemployed in the first quarter of 2010.

Most social insurance benefits were reduced, thus expanding self-insurance. However, there was a decrease in private insurance in the field of pensions, while social insurance remained the same. The Constitutional Court ruled out the introduction of pension cuts. Furthermore, as a response to fiscal needs, the proportion of payroll tax allocated to pension plans was reduced in favor of public pensions. The decline in private insurance was aggravated by pension fund losses. The average real rate of return of Latvian pension funds for 2001–2007 was already negative at −3.5 percent and was −21.8 percent in 2008 (World Bank 2009).

Latvia faced specific welfare state building challenges throughout the last two decades. Institutional design problems were doubled by two big crises. On the whole, the evolution of social protection was somewhat pro-cyclical. During the early 1990s, economic crisis was accompanied by a minimal social protection that was dominated by categorical benefits. This considerably increased self-insurance. During the period of economic expansion, there was an increase in social and private insurance along with the development of means tests. This expansion was nevertheless more discrete than economic growth. In spite of the increasing needs, the recent economic crisis was accompanied by cutbacks.

The welfare state redesign lagged behind market building. The political arena was dominated by economic liberalization and competitiveness concerns (Rajevska 2005; Eglitis and Lace 2009). The Georgetown Gang,[9] backed by the IMF, imposed tight monetary policy. This choice forced government to tight fiscal discipline. These options, along with a traditionalist family policy (Lace, Novikova, and Purvaneckiene 2006; Eglitis 2002), shaped the evolution of the Latvian welfare state.

Overall, benefits are so modest that even the OECD (2006) considers that their impact on work incentives is not an issue. Income inequality increased significantly and poverty rates are among the highest in the EU.

Increasing poverty in the 1990s was the result of macroeconomic conditions (unemployment, hyperinflation, low wages), but poverty risks did not decline with economic prosperity but have been growing since 2006. Furthermore, according to Eurostat, social transfers have a inadequate impact in terms of poverty reduction. Poverty risks are particularly high for women, the unemployed, and pensioners.

Latvia's social protection was deeply reformed. This did not imply a linear shift from universal provisions to means tests or from social to private insurance. Moreover, in spite of an early reduction in social insurance and an attempt to expand private insurance, the former proved particularly resilient, particularly in the case of pensions.

While it is true that universal provisions have declined rapidly and dramatically, this did not give rise to means-tested provisions. Means tests have only developed slowly and the GMI threshold remains inadequate. The gap created by the decline in universal provisions and the rise in means tests was filled by self-insurance and by categorical provisions (for example, rent subsidies to pensioners).

Categorical provisions were developed to support the poor and to replace social insurance in the early days. These allowed for a semantic (rather than income) definition of the *deserving poor. Categories* define who deserves better pensions and which categories deserve health co-payment exemptions.

Latvia's first unemployment benefits program was a flat-rate scheme; therefore, it was a categorical benefit. This was reformed into a partly social insurance scheme. Such ingredient was further reduced recently. Categorical and social insurance components have been recombined repeatedly.

Pensions are the major social benefit and they have kept a highly inequitable logic, with different schemes operating simultaneously. These paradoxically remind us of the inequitable Soviet pension scheme. However, the current divisions are less occupation-related. From 1992 to 1996, pensions were more akin to categorical benefits (they were flat-rate benefits) than to social insurance.

The reform of pensions into NDCs was supposed to enhance social as well as private insurance. Surprisingly, the introduction of NDC pensions did not reduce these differences; in fact, successive amendments increased inequalities and introduced new flat-rate components, which reduced private insurance. Even the principle of individual insurance (that is, benefit-contribution link) was phased out and remained underdeveloped. Therefore, the NDC translation was recombined with other components, particularly, categorical benefits. In the medium term, special cases should disappear and individual insurance should therefore gradually increase.

The new pension scheme proved to be rather resilient. In spite of some crisis-induced pension cuts, pensions have resisted major reductions. Indeed, social insurance pensions have proved more resilient than private pensions, which were hit by depressing returns and contribution cuts.

Latvia's health-care system is also a hybrid, combining elements from social insurance and universal provisions. Fiscal austerity has gradually contributed to increasing self-insurance.

In different fields, the decline in social insurance did not crowd-in private insurance. Rather, cutbacks gave rise to self-insurance. Furthermore, private pension plans did not develop capital markets; rather, they were victims of capital market fragilities and vulnerabilities.

To conclude, while some provisions were established ex-nihilo, there was also considerable institutional translation, involving the recombination with existing arrangements. The conversion of universal provisions into categorical ones was only barely accompanied by an increase in means-tested social assistance. The evolution of social insurance was not linear, and was often recombined with (rather than replaced by) categorical provisions and self-insurance.

Comparing the Two Welfare System Paths

There were significant changes in the welfare state outcomes in Hungary and Latvia, but there is no evidence of a definite shift from a specific set of social protection components to another. Rather, our analysis shows that welfare systems in both countries are hybrid. This was the result of different reforms.

If we focus on welfare systems' outcomes, there were clear changes, which were all the more noticeable in Latvia. Social spending decreased. Labor markets were transfigured by unemployment. Both personal and functional inequalities increased. Poverty risks increased dramatically. Furthermore, personal inequalities and poverty increases were persistent and were not curtailed by economic growth. Rather, they reveal that social protection was less *decommodifying*.

Fiscal austerity was less prevalent in Hungary, where fiscal discipline was the result of specific austerity packages. Conversely, in Latvia tight fiscal policy was the rule. While social spending constrained fiscal discipline in Hungary, it was rather fiscal discipline that constrained social spending in Latvia. As such, during the recent crisis, and in spite of pressing social needs, Latvia appeared more prone to draconian social benefit cuts. Additionally, in countries where social entitlements are more developed, cuts are more difficult, namely, because of Constitutional Court rulings. This is an argument for path dependence in the sense that only small cuts are possible.

This had clear implications for the macro-level evolution pattern of social protection. However, different benefits experienced different dynamics. In Hungary, some reforms followed a stop-go pattern, while other benefits changed incrementally. In Latvia, social policy was moderately pro-cyclical, but some benefits proved more resilient to cuts than others.

Both countries adopted pension privatization and increased the benefit-contribution link, which increased individual insurance. The new mix systems emerged from translation through successive amendments. The Bismarkian mold of the Hungarian pension system was more favorable to strengthening the benefit-contribution link in the public scheme than the Latvian system in which individual records were missing. Furthermore, there was considerable layering in Latvia, where special schemes paid categorical benefits.

In Hungary, we witness a reduction rather than a progressive increase in private insurance. Successive amendments have reduced and finally eliminated compulsory pension plans. Their contribution share was reduced in Latvia as well. In addition, their dismal returns have chilled much of the early enthusiasm about their benefits.

Unlike pensions, social insurance was limited in the case of unemployment benefits. In Hungary, after a brief moment of expanding social insurance, it experienced a gradual and cumulative decline. In Latvia, the early categorical benefits were reformed into social insurance, but increasingly recombined with components of categorical benefit. There was a drift in both countries, since unemployment benefits were reduced when unemployment grew. Unemployment benefits were much less resilient than pensions in the two countries. Pensions have a higher priority and a larger constituency.

Health-care spending is an extremely interesting case because both countries refused to create a universal health-care system, which would have meant continuing with the old system. Instead, they recombined the existing arrangement with social insurance and categorical provisions. The outcome is extremely different, since the expansion of self-insurance was much more prevalent in Latvia than in Hungary.

Universal provisions from state socialism were reduced in both countries. This involved the reduction of firm-level as well as state-level provisions. Family provisions are still universal in both countries. Even though benefits have declined, universal family provisions are still the main avenue for poverty reduction.

Categorical provisions are the primary ways to target poverty in both countries (for example, heating or health-care coupons for pensioners). In both countries, income support was decentralized and national redistribution was particularly limited in Latvia. Neither Hungary nor Latvia had a tradition of means testing; needless to say that the shadow economy has undermined the quality of income testing. Furthermore, the GMI threshold in Latvia is very low. However, Hungary continues to resist means testing and has not introduced a GMI.

Our analysis also reveals that self-insurance increased more significantly than private insurance. This was particularly a result of the decline in universal provisions and social insurance. Despite stop-go policies in Hungary, there was a considerable decline in unemployment benefits. Self-insurance expansion was more palpable in Latvia, as a result of both budget austerity and a less important domestic social insurance tradition.

Rather than following a consistent path, different social provisions have been reformed differently. We have seen how different social protection components have been recombined as reforms were adapted and repeatedly amended. Recent crisis-induced adjustments can be understood in the context of former reforms. As path dependence would predict, benefit cutbacks were more significant in the country with more meager protection. Furthermore, new adjustments follow in the path of previous adjustments. Amendments continue to recombine different components rather than to replace them.

Concluding Remarks

A punctuated evolution framework predicts that crises open a window of opportunity and facilitate systematic shifts. Hungary and Latvia were interesting case studies because they went through two big crises over the last two decades. The first crisis was central because it coincided with economic transformation, and some experts maintain that the recent crisis should be used to restructure social protection around means tests (for example, Mitra, Selowsky, and Zalduendo 2009; IBRD 2010).

This article highlights that there was no clear shift from social to individual insurance and no move from universal to means-tested benefits. Indeed, Hungarian and Latvian welfare reforms recombined these systems. The national arrangements were dissimilar and different benefits involved a specific *bricolage* of social protection systems. In general, family provisions and pensions were the most resilient, whereas unemployment benefits were more easily curtailed. These benefits have distinct beneficiaries and various levels of popularity.

There was a clear decline in universal provisions, which were mostly associated with an expansion in categorical provisions and increased self-insurance. However, family allowances remained universal. The evolution of social insurance is complex. In the case of pensions, we witnessed swings rather than a clear decline of public pensions. Resilience was particularly significant in Hungary, which had a longer and stronger social insurance tradition. Means tests and private insurance developed less than was expected. Indeed, it was mostly categorical assistance and self-insurance that compensated for the decline in welfare benefits.

Thus, our choice to consider self-insurance as a separate category allowed us to recognize that the decline in welfare benefits has increased the level of risk directly borne by households. Self-insurance expanded as a result of the decline in universal provisions and social insurance (particularly unemployment benefits in both countries, but also health care in Latvia).

Furthermore, the choice to focus on two decades rather than just the 1990s proved useful because we were able to capture the role of successive amendments. It also allowed us to consider the long-term impact of austerity on the recalibration of the welfare state. It also forced us to remain careful in our conclusions, since recent reforms can also be amended. This is particularly important, since austerity measures remain prevalent and are imposed by the EU.

Notes

1. Since persons in the mixed system lost $^3/_4$ of their public pension, older workers actually lost when they joined the mixed system.

2. According to Eurostat, the Gini index increased from 25 to 34 percent; Tárki estimates a lower increase, from 25 to 29 percent.

3. According to the Hungarian National Bank, household foreign currency loans were over 70 percent of total loans in 2008; this proportion was 65 percent in the case of corporate loans.

4. While the number of old-age pensioners increased by 7 percent during the 1990s, the number of disability pensioners increased by 21 percent, and the number of recipients of service pensions (those in occupations involving hard work) increased by 125 percent. Also the number of pensioners under special regulations (received by the Chernobyl victims) increased particularly in the second half of the 1990s. By 1996, 91 percent of the recipients of service pensions were under 60 and all special pension recipients were under 60 (95 percent were under 55).

5. "The outcome was shocking for the society. Variance between the lowest and highest pension was enormous" (Bite and Zagorskis 2003).

6. Early retirement was initially phased out until 2008. Its elimination was later rescheduled to December 31, 2011.

7. Public servants' wages lost 38 percent from 2008 to March 2010 (MFRL 2010). Average wages in the private sector lost 5 percent over 2009 (MFRL 2010).

8. Eurostat's relative poverty threshold is at 60 percent median equivalent income. In the case of Latvia, an increase in relative poverty should be understood in the context of massive median income decrease.

9. This group is linked to Georgetown University, Washington, DC, and was mentored by Juris Viksnins. It included Einars Repse, who was President of the Bank of Latvia from 1991 to 2001, Prime Minister between 2001 and 2004, and Minister of Finance since March 2009.

10. Legend:

CP—Categorical provisions
II—Individual insurance
MT—Means tests
PI—Private insurance
SII—Self-individual insurance
SI—Social insurance
UP—Universal provisions

11. The proportion of those unemployed for less than a year (that is, those entitled to unemployment insurance) decreased from 68 percent in 1993 to 50 percent in 1996 (ILO).

12. While the family allowance had represented 14 percent of average wages in 1991, this had declined to 6 percent in 1999 (Transmonee database).

13. Entitlement and duration is based on contribution record. Benefit duration ranges from 73 to 270 days.

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ANNEX 1—Evolution of Major Welfare Institutions in Hungary

	Major welfare institutions	UP/CP/MT/SI/PI/SII[10]
Legacies		
Austro-Hungarian Empire	Sickness insurance, maternity leave as well as old-age and disability pensions.	SI
Early State Socialism	Universal, occupational-related SI.	+SI, with privileges
	Firms provided extensive social benefits.	CP
		some PI
"Goulash Communism"	Universal provisions expanded from the late 1960s.	+UP
	Employment-related family benefit and a universal family allowance.	+SI
Early 1990s		
1991	Introduced unemployment benefits.	+SI
	Price subsidies were abolished.	−UP
	Universal health care was reformed into social insurance.	−UP
		+SI
	Poor income support was transferred to local governments and was dominated by categorical benefits.	+CP
1992	Pension reforms increased benefit-contribution link.	−SI
		+II
1990–1993	The number of kindergartens declined by 16 percent (HCSO).	−UP
		+SII
1993	Voluntary pensions plans introduction.	+PI
	Voluntary private health-care insurance.	+PI
	Unemployment benefits duration reduced (from 24 months to 360 days) and maximum and minimum benefits were reduced.	−SI
		+SII
	At the end of the statutory period, the unemployed could receive means-tested unemployment assistance.	+MT
	UI replacement rate fell by over 20 percentage points during the 1990s while coverage declined noticeably.[11]	
Bokros plan		
1995	Social benefit cuts.	−SI, −UP
	Family benefits became means tested.	−UP
		+MT
	Increased out-of-the-pocket health-care payments.	−SI
		+SII

1996–1998		
1996	Prior to 1996, pensions were indexed to average wage increases. Afterwards, pensions were indexed to an average of price and wage increases.	−SI *+SII*
1998	Private pension plans became compulsory for new labor market entrants and voluntary for those already participating in the labor market. However, a significant proportion of the working population adhered to these private plans.	−SI +PI
1998–2005		
	Increased social spending, particularly pension spending.	+SI
1998	Family allowances were switched back to universal provisions (but the benefit was kept low[12]).	+UP
	Introduced child-related tax allowances.	
	Unemployment allowance eliminated.	−MT
	Switching-back to the public pension only option.	+SI −PI
Late 2005–2006—Activation		
2005	Unemployment benefits were replaced by a *job search benefits*.	−SI
	The duration was reduced[13] and the wage-related benefits are paid only during the first half of this period; afterwards, the unemployed are entitled to a flat-rate allowance (60 percent minimum wage). Some of those not entitled to the *job search benefits* are entitled to a flat-rate allowance of 40 percent minimum wage for a maximum of 90 days.	+CP
2006	Eligibility and the amount of income support for poorer households became income tested. This expanded the dimension of means tests, although entitlement is also partly categorical (those employed are not entitled).	+MT
Crisis-induced adjustment		
2008–2009	Average child-care allowance reduced.	−UP
	Phased out energy price subsidies.	
	Reduced maternity leave.	−SI
	Abolished 13th month pension.	
	Sick leave cuts.	
	The proportion of the previous wage paid was reduced from 60–70 percent to 50–60 percent. The duration shortened and ceiling established at 150 percent of the minimum wage.	
	Those aged 52 and over were encouraged to switch back to the social insurance system.	+SI
2010	Private pension fund nationalization.	−PI

ANNEX 2—Evolution of Major Welfare Institutions in Latvia

	Major welfare institutions	UP/CP/MT/ SI/PI/SII
Legacies		
Early XXth	Sickness insurance and pensions.	SI
State Socialism	Full employment.	+SI, with
	Universal, occupational-related SI.	privileges
	Firms provided extensive social benefits.	UP
	Universal provisions: price subsidies, low rents as well as free health care.	Some PI
	Low retirement age (1980s: 55 for women, 60 for men).	
	Maternity benefits paid the previous wages 56 days before childbirth and for an identical period afterwards.	
	Women were also entitled to a one-year paid leave.	
Early 1990s: Crisis		
1992	Introduced flat-rate unemployment benefit.	+CP
	Poor income support was transferred to municipalities.	
	Pensions flat-rate, with different schemes.	−SI
	Maternity and sickness benefits were severely hit by inflation.	
	Special allowance for single mothers eliminated.	−CP
	Working mothers no longer entitled to childcare allowances.	
	Firms closed down their kindergartens and the price of child-related facilities increased.	−UP
	Price subsidies were abolished.	
1994	New, hybrid, health-care system.	+SI/UP
	Increasing fees.	+SII
1996–2007: Growth		
1996	Health management recentralized.	−SI
	Unemployment flat-rate benefits and duration depend on applicant's employment record.	Some SI
	Public pensions reformed into NDC.	+II
	– Amendments:	CP
	Since individual records did not exist, it was decided that	II>1996
	1. pensions would be calculated based on individual accumulated pension capital from January 1, 1996 and on an	CP
	average insurance contribution wage from 1990 until 1996.	CP/SI
	2. those who started working before 1970 (and with low wages during 1996–1999) are credited with average national wage.	
	3. a minimum pension was set, depending on state social benefits as well as the length of the working period.	

1998	Only low pensions were indexed to CPI and, in 2002, extremely low pensions were indexed to both wage and price variations.	+SI
	Voluntary pension plans.	+PI
2001	Compulsory private pension plans.	
	Participation in funded pension plans was compulsory for those under 30 and voluntary for those aged 30 to 49.	
2003	15 Lats guaranteed minimum income (GMI).	+MT
	It is paid for a maximum of 9 months a year. In Riga, pensioners and disabled are entitled to a more generous GMI of 90 Lats.	
Crisis-Induced Adjustment		
	Unemployment, sickness, maternity, and paternity benefits were divided into two brackets: if calculated benefits are below 11.51 Lats a day they are paid in full amount, otherwise daily benefits will be 11.51 Lats plus half of the sum over 11.51 Lats.	−SI +SII
	Reduced sickness benefits duration.	
	Unemployment benefits determination became less employment-related for those with less than a 20-year employment record.	
	Pension indexation was suspended for two years.	
	Early retirement penalties were increased.	
	Retirement pensions reduced by 70 percent for working pensioners and by 10 percent for others. However, the Constitutional Court overruled these cuts.	
	Payroll tax allocated to private pension plans was reduced to 2 percent in 2009–2010; it should reach 4 percent in 2011 and 6 percent from 2012 (original blueprint expected this should increase to 10 percent).	+SI −PI
	National family allowance declined by 10 percent.	−UP
	Parental benefits dropped by 50 percent.	+SII
	Health budget reduced by 25 percent (2008–2010). Health co-payments increased and the list of exemptions reduced; only children and the needy are exempt from health co-payments.	
	GMI threshold was increased in 2009, from 37 to 40 Lats.	+MT
	Public works program pays a 100 Lats monthly wage to its participants (that is, half the minimum subsistence basket).	+CP