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**SOCIAL COHESION IN HUNGARY: THEORETICAL FOUNDATIONS
AND FACTS**

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'Economic competitiveness: recent trends and options for state
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Executive Summary

The relevance of social cohesion

Why is social cohesion relevant, or why does it occur in relation to economic competitiveness at all? The shortfalls of social cohesion is indicated by the prevalence of social exclusion. (1) *Social exclusion is 'bad' as it is expensive for the state.* (2) *Social exclusion is 'bad' as it entails a number of negative external effects.*

Social cohesion: a means for enhancing competitiveness

There is no inherent conflict between economic competitiveness and public expenditures promoting social cohesion. The impact of the welfare state on economic performance depends on the institutional settings, on the conditions of the specific policies of the welfare system. In other words, *instead of 'how much is spent by the state' the real question is 'how it is spent'.* Accordingly, relevant issues include forms of benefits, eligibility criteria and impacts of such benefits on economic behaviour.

The 2000 Lisbon summit may be regarded as a turning point of the social policy of the European Union, combining efforts for enhancing social cohesion, with the economic goal of turning the Union into the most competitive economy of the world within a decade. *These efforts of the European Union reflect the conviction that effective action against social exclusion may enhance economic growth potentials.* Examples of such policies include measures to increase participation rate in the labour market and to raise labour mobility.

'Open method of coordination' among member states is the key method of combating social exclusion, where countries exchange their experience with respect to their national action plans. Accordingly, open method of coordination is based on the principle of subsidiarity, i.e. social policy remains a task of nation states.

Income position by EU standards

Indicators of relative poverty show that Hungary is not in a worse position than countries of the European Union. There are fewer low income pensioners in Hungary than in the EU on average. The poverty rate among lone parents, however, is much higher than the average ratio recorded in the European Union.

Inequality measured by the Gini coefficient is about the same as the EU average. When an alternative measure is used, the income ratio of the highest 20% and the lowest 20%

groups, however, the situation is more favourable, Hungary is characterised by a substantially lower rate of inequality than the EU in general.

Employment, unemployment

There are significant regional disparities of the employment level, but these are not outstanding by EU standards.

Regional distribution of short term (below one year) unemployment correlates to that of long term (over a year) unemployment i.e. *long term unemployment tends to be high in regions characterised by high short term unemployment*. The situation is particularly unfavourable in the *Northern Hungary region* where the rate of long term unemployment is above 8%.

Roma population

As opposed to the 50% employment rate in the whole of 18 to 74 year old population of Hungary the corresponding rate in the Roma population is only 26%. The low labour market participation rate of the Roma population can be explained, to a large extent, by the lower education level of this group.

Principles of the new type of welfare policy

- Instead of the redistribution of incomes it focuses primarily on the quality of welfare services. 'Quality' of such services is measured by the degree to which they facilitate social inclusion, including, in particular, participation in the labour market.
- The "input" based approach is to be complemented by an "outcome" or "output" based approach, which means the sheer amount of public expenditures, their efficiency and impacts should be evaluated as well.
- It aims at coordinating specific policies in order to eliminate 'multiple' social disadvantages.
- It aims at involving civil society as well.

The key goal of this paper is to provide a theoretical and factual foundation for work related to social cohesion and the lack of social cohesion - that is social exclusion - and to determine the necessary directions of a more detailed analysis¹.

Measures concentrating on the elimination of social exclusion may be integral parts of a strategy aiming at improving competitiveness as indicated by the so-called Lisbon objectives of the European Union. The fight against social exclusion necessitates

- quantification of the problem,
- assessment of the causal relationship between the various phenomena and state intervention,
- elaboration of adequate measures and
- impact analysis and ongoing monitoring of the measures.

The Hungarian Central Statistics Office (CSO) is currently getting prepared for the elaboration of factual data. Accordingly, the range of information currently available is still rather fragmentary. Research projects focusing on the economic and social impacts of state intervention have so far been dealing primarily with the effects of cash transfers alleviating poverty and their impacts on labour supply. So far very few studies have focused on the economic incentive effects of policies and their long term effects (in terms of individual and inter-generational mobility) or their regional aspects. For the lack of such studies we are not making an attempt to synthesise information or to make matured social policy proposals.

¹ I extend my thanks to Dóra Benedek, Ágota Scharle and Miklós Szabó as well as to the staff members of the Ministry of Finance who attended the presentation of this paper, for their valuable comments on this paper. Of course I bear responsibility for any remaining deficiency or errors in this paper.

Introduction

Why is the aspect of social cohesion important or why is it considered in relation to economic competitiveness at all? In other words, does the lack of social cohesion have a negative impact on the competitiveness of the economy? And if it does, what are the reasons for such an impact? One of the marked phenomena of the lack of social cohesion - a term that has become quite frequently used recently - is social exclusion of others or being socially excluded (to simplify the wording we will use the form 'social exclusion' to refer to both to the process of exclusion and to the state of being excluded).

Table 1. Alternative approaches to social exclusion

	Social exclusion as a state	Social exclusion as lack of resources
<i>Definition</i>	An individual is socially excluded when he cannot participate in the generally accepted activities of the society in which he lives, assuming that this is against the individual's will.	Lack of access to certain resources, goods, services and rights (as understood by the European Union).
<i>Advantage</i>	It is well-founded from an ethics and social philosophy aspect as it focuses on the endstate.	It enables comparison of countries, if there is agreement on the indicators.
<i>Disadvantage</i>	It is difficult to measure.	Indicators are sometimes established on an arbitrary basis. It does not take into account the fact that equal resources may lead to different levels of living standards depending on the needs of the individual.

What is social exclusion? In my opinion, in a somewhat simplified perspective, a set of approaches focusing (1) on the 'final outcome' or state, may be distinguished from those focusing (2) on resources (see Table 1). The advantage of approach (1) is that it is well-founded from the aspects of ethics and social philosophy but its disadvantage is that it is difficult to measure. Such a definition is applied for instance by the researchers of the Centre for Analysis of Social Exclusion (CASE) in England (Burchardt et al., 2002, 30, 32. o.). According to this definition *an individual is socially excluded when he/she would like to but cannot participate in the generally accepted activities of the society in which he or she lives*. Accordingly, social exclusion is, for example, where an individual would like to have a job, invite guests or go to vote, but he or she cannot do so. Social exclusion is therefore a state involving the existence of any one or several of the problems listed above. Poverty, low schooling standards or a poor state of health are only viewed in this approach as causes leading to exclusion, though their significance is unquestionable.

Preference is given by the European Union to the second approach, focusing on the lack of resources. Instead of social exclusion, however, the *terms and concepts applied by the European Union* favour the opposite that is 'social inclusion'. A substantial weight is attached in this area to the role of the labour market, i.e. access to high quality, stable employment. Low income, lack of employment, poor health status or housing conditions each means a particular aspect of social exclusion in this approach. Interestingly enough, the relevant documents show that the deficiencies of schooling accomplishments are not regarded as a disadvantageous position in themselves; rather, they are considered as obstacles to employment. Low schooling levels are therefore not a particular aspect of social exclusion; they are one of its causes. Somewhat paradoxically, 'human capital' is not considered as a resource in the 'common goals' of the European Union. (For details see Table 2.)

Social exclusion cannot be restricted to a problem of the Roma minority or that of people with disabilities. A larger percentage of these groups may be expected to be regarded as 'socially excluded' (depending on the definition of social exclusion applied from time to time) but it is essential that the entire society be analysed from this aspect. It seems to be a particularly important aspect in today's Hungary because, for instance, the Human Resource Development Operative Programme (its version as approved in April 2003), refers only to the Roma minority, people with disabilities and addicts, as groups particularly exposed to the threat of social exclusion. Another important though less deeply analysed perspective is, for instance, *the regional and territorial aspects of the problems.* What are the particularly disadvantaged regions, municipalities or parts of towns? What sorts of problems are multiplied in the lives of people living in such areas? What state intervention could break the negative spiral offering few possibilities for breaking out?

In addition to the social exclusion problem described above the lack of social cohesion may also mean the segregation of the forms of life and institutions of the majority society and an elite group (Barry, 2002). This phenomenon is usually referred to in relation to the United States of America and the main features of the problem are that the few using private schools, private health care system or even police type services have little interest in financing and supporting the public service provider system, at the same time they do have a very strong political interest asserting capability. Ultimately, this will then lead to a change of the role of the state, which is gradually ceasing to reflect the majority society's preferences concerning 'social solidarity'.

What are the reasons for the need for discussing the lack of social cohesion or for reviewing social exclusion in relation to competitiveness?

(1) *The existence of social exclusion is 'bad' as it is costly for the state.*

People living on low incomes and the unemployed have to be sustained by the state, owing to the third type of freedoms, i.e. the advanced social rights, intended to provide its citizens with a certain minimum level of provisions. In addition to 'good will' however, this is necessitated by the need to maintain social peace which, in

turn, is necessary for the efficient operation of the economy. There is, however, an opportunity cost to each forint spent on such purposes and this aspect is definitely taken into account by an economic policy decision maker aiming at long term sustainable growth. Accordingly, the state is economically interested in reducing its long term financial commitments relating to the sustenance of marginalised social groups, through the integration of such groups - for example through participation in the labour market or performance of some other activities that are useful for the society.

Furthermore, the imperfection of capital markets - where investments of persons who do not have any coverage other than their work force, are financed - is also much discussed in the economic literature. In such cases capital markets do not finance investments on which there would otherwise be a high rate of return. Accordingly, this deficiency of the market reduces growth rate of the economy.

(2) *Social exclusion is 'bad' as it causes a variety of negative external effects.*

One negative external effect of social exclusion may be for instance the deterioration of the residential environment, high local rate of unemployment, poor health status or, in extreme cases, crime. This may hinder economic operations. Reason why we talk about negative external effects, i.e. external economic impacts, is that besides disadvantaged individuals the problem has a variety of influences on others as well, by way of the fact that this is not part of the pricing mechanism, i.e. there is no mechanism whereby an individual directly involved in a disadvantaged state could, by his own contribution, alleviate the phenomenon resulting in expenses for himself. In a 'pure' market economy this leads to an 'over-production' of 'social exclusion'. This is a typical deficiency problem where there is a need for state intervention. Accordingly, there are purely economic considerations for the elimination of social exclusion as well, therefore the role to be played by the state is not only justified by the social policy objectives of social equality or justice.

Some American authors, for instance, talk about 'underclass' people who are poor, uneducated and unemployed (and often black) at the same time and, turning criminal, they threaten the peaceful day-to-day life of the middle classes (pl. Murray, 1984). These views have triggered intense debate and much criticism all over the world. By contrast, methodologically more sophisticated authors have been concerned with the individual and social impacts of long term unemployment or the inheritance of social disadvantage. Accordingly, social exclusion has long term effects that do not appear as costs at a given point in time or there are no particular economic actors to which such costs can be directly assigned. These costs have to be borne by the state therefore the exploring of the problem and the identification of the causes of the phenomenon is in the economic - and political - interests of the state.

The study discusses social cohesion and the lack thereof that is social exclusion. It is not aimed to analyse the whole of the operation of the welfare system. We will touch upon the relationship between state measures promoting social cohesion and competitiveness, along with the efforts of the European Union aiming

at assisting social inclusion. Finally, the study reviews the development of some of the most important ratios of social cohesion, though international comparison of domestic data wherever possible.

Social cohesion AND competitiveness: not exclusive alternatives

Economic literature analysing questions of state intervention has long been dealing with a recurring question whether welfare activities of the state impair economic growth. In his fundamental paper entitled 'Equality and Efficiency: The Big Trade-off' (1975) Arthur Okun explains his view according to which redistribution entails welfare losses for the 'bucket' of redistribution leaks and only part of each tax dollar is received by the beneficiaries. The view that in Sweden and other West European countries the high levels of welfare spending restrict the performance of the economy (pl. Lindbeck, 1995) has recently gained popularity. This question has been analysed in a large number of empirical studies, which, however, have not lead to definite conclusions², consequently there is no convincing proof that spending on welfare would hinder economic growth. There are serious methodological problems in relation to 'measurement without theory' especially in respect of aggregated comparisons between countries. Impacts of the so-called welfare state³ on the operation of the economy depend on the institutional framework and the conditions under which the various elements of the welfare system are functioning.

According to a study elaborated on the basis of a sophisticated methodology by OECD experts the *various types of welfare expenditures have different impacts on economic growth* (Arjona et al., 2002). So-called 'active' expenditures (those aiming at altering the distribution of market income through promoting participation in the labour market especially among those who would have lower than average incomes in the market) stimulate economic growth while other types of welfare expenditures lead to lower rates of growth. Accordingly, instead of 'how much' is spent by the state the real question is 'in what way' the amounts are spent, i.e. the forms of benefits, the entitlement criteria and the effects of such benefits on economic behaviour are the questions that make a difference.

Unfortunately, very few Hungarian studies have been prepared on this issue. The reason for this may be that - as is proven by international literature - a high quality analysis of the effects of various social benefits is a highly complex task and will not even always lead to clear-cut economic policy recommendations (Atkinson, 1995; Danziger et al., 1981). The field of unemployment benefits, more specifically the relationship between labour supply (labour market participation, job seeking behaviour) and unemployment benefits seems to be the most thoroughly explored area (pl. Micklewright és Nagy, 1995; 1997).

During the mid-nineties András Semjén was commissioned by the Ministry of Finance to carry out a survey on the *incentive effects of welfare benefits allocated in cash*

² See for instance the literature reviews of the question (Arjona et al., 2002; Atkinson, 1995). These do not only outline the conclusions of previous studies but also present a methodology critiques.

³ The term 'welfare state' refers to the income redistributing role of the state regardless of the amounts or percentages concerned or the institutional arrangements involved. The 'welfare state' may be operating in a variety of forms, categorised - according to the wide-spread typology of Esping-Andersen - as liberal, conservative or social democratic.

(1996). The author presents a detailed review of the technical literature on the topic and through the assessment of the levels of benefits and wages he raises substantial questions concerning the effects of the system of benefits in place at the time concerning stimulation of participation in the labour market (see Table F1, in the appendix). One of the key conclusions is that *increasing ratio of means-tested benefits - those subject to an income review - may increase the frequency of poverty trap situations*. Although there is a Hungarian language review of the international technical literature on the incentives operating in social security programmes (Gál, 1996), the *empirical exploration of the situation in Hungary is rather far from being comprehensive*.

Focusing on social exclusion does not constitute a radical departure from the traditional role of the welfare state, in other words, from the well-known tools and instruments of social policy. One of the special features of social exclusion is that it focuses on those living in a marginalised position, including for instance the poor or the unemployed. Providing for such groups is one of the traditional tasks of a welfare state though this task is particularly important in the so-called liberal regime (Esping-Andersen, 1990; Lelkes, 2000). Other important functions of the welfare state - such as for instance redistribution within an individual's life cycle - are not as important factors in the discussion of social exclusion. Another important feature of the act or state of social exclusion is the possible accumulation of disadvantaged positions of a given individual which necessitates *coordination of the different types of measures applied by the state*. Accordingly, the traditional set of measures of the welfare state is supplemented by an *increased coordination effort*.

The action programme of the European Union

The year 2000 Lisbon summit was a turning point in the economic and social policy of the European Union as emphasis was put on problems of poverty and social exclusion. According to the closing document adopted by the summit the strategic goal of the European Union is: 'to become the world's most competitive and most dynamic knowledge-based economy', which is to be accompanied by 'more and better jobs' and 'increased social cohesion' (European Commission, 2000). According to the document the number of people living in poverty and social exclusion in the European Union is 'unacceptable'. *The endeavours of the European Union are indicative of the conviction that effective action against social exclusion may make a positive contribution to the economic growth potentials*. The most frequently mentioned example of the desirable measures is increasing the participation rate in the labour market and improvement of labour mobility.

The main method of fighting social exclusion is the *open method of coordination between Member States*, where countries share positive lessons drawn from the national action plans with each other. Accordingly, the open method of coordination is based on the principle of subsidiarity, i.e. social policy continues to be a task at the national level. Open method of coordination aims at assisting Member States in the continued development of their own policies and includes (1) the elaboration of a harmonised EU objective and guideline, (2) definition of indicators to be used, (3)

identification of national and regional objectives on the basis of the common objectives and guidelines along the elaboration of national action plans as well as (4) their regular monitoring and evaluation.

Accordingly, the national action plans drawn up by the Member States rely on the uniform European objectives. The European Union has identified four objectives, the first one of which should be broken down into two components:

- 1.1 Employment measures
- 1.2 Access to resources, rights, goods and services
2. Elimination of the risks of exclusion
3. Assistance of the most exposed groups
4. Mobilisation of all relevant organisations

Table 2 provides detailed guidance on the goals.

In June 2001, in accordance with the Nice objectives, Member States adopted the final versions of the specific national action plans, on the basis of which the Commission worked out its own report on social inclusion ("Joint Report on Social Inclusion", European Council, 2001) approved by the Laeken European Council. At the same time much effort was put into the identification of the joint social indicators as well, with the active involvement of renowned social scientists (Atkinson et al., 2002). All these efforts enabled an agreement at Laeken on the joint social indicators as well.

On the whole, therefore, the process of social inclusion is comprised of the following main elements⁴:

- Operation of a Social Protection Committee with the aim of assisting exchange between the European Commission and the Member States in order to facilitate the development of the social service providing systems,
- *Joint objectives* in the area of poverty and social exclusion approved by the Nice summit in December 2000 and modified in December 2002 by the Council of Employment, Social Policy, Health and Consumer Affairs,
- *National Action Plans* against poverty and social exclusion: the first two year plans were adopted by the Member States in June 2001. The second planning round was due in July 2003,
- *Joint Reports on Social Inclusion* (October - December 2001), and regular monitoring, evaluation and expert reviews in other countries,
- *Joint indicators*, used as a tool of monitoring, suitable for the comparison of the 'best practices' applied in the Member States,
- *Community Action Programme* for the promotion of cooperation between Member States, in the fight against social exclusion,
- Studies and papers of independent (non-governmental) researchers.

⁴ Source: EU Employment and Social Affairs homepage, 18 February 2004
http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/index_en.htm

Community Action Programme

The Action Programme of the European Union adopted in December 2001 lays out the principles and forms of cooperation between and among Member States for the period extending from 1 January 2002 to 31 December 2006 (European Council, 2002a).

1. analysis of the features, causes and processes of social exclusion, including the collection of data describing the various forms of social exclusion, the assessment of quantitative and qualitative indicators along with the elaboration of a joint methodology;
2. in respect of the national action plans the sharing of the 'best practices' among Member States with a particular emphasis on the development of adequate indicators;
3. assistance of the European level coordination of organisations working for the elimination of social exclusion with particular attention to non-profit organisations.

The measures referred to in paragraph 1 may be regarded as definition of the problem. The resolving of the problem is the objective of the specific political measures outlined in paragraphs 2 and 3 along with coordination procedures aiming at the development of such measures, in which the participation of both the state (2) and non-governmental actors (3) is considered desirable.

Table 2. Joint objectives of the EU in the fight against poverty and social exclusion

1.1 Employment measures	1.2 Access to resources, rights, goods and services	2. Prevention of the risks of exclusion	3. Assistance of those most exposed	4. Mobilisation of the groups concerned
<p>Access to <i>stable and high quality employment</i> should be improved, for all women and men of working age:</p> <ul style="list-style-type: none"> • measures and training programmes facilitating employment, for the most exposed groups; • measures to facilitate coordination of work and family life including the provision of care for children and those in need; • exploitation of the opportunities 	<p>The welfare system should help in ensuring that</p> <ul style="list-style-type: none"> • everybody has the <i>resources</i> required for human life of dignity, • <i>obstacles to employment</i> are eliminated, i.e. it should ensure that taking up employment entails increased income and it should also improve employability. <p>Efforts should be made to ensure</p>	<p>Exploitation of the advantages and benefits of a knowledge-based society without excluding anybody, with a particular view to those living with disabilities.</p> <p><i>Prevention of life crises</i> leading to exclusion such as indebtedness, dropping out of school, homelessness</p> <p>Preservation of all forms of <i>family solidarity</i></p>	<p>Integration of groups exposed to <i>permanent poverty</i> such as people with disabilities, immigrants etc.</p> <p>Elimination of social exclusion among <i>children</i></p> <p>Implementation of comprehensive measures in <i>areas</i> effected by exclusion</p>	<p>Facilitation of the <i>self-expression</i> of individuals hit by social exclusion, primarily in relation to their situation and the policies pertaining to them</p> <p>The aspect of social exclusion should be integrated in <i>sectoral policies</i> through the mobilisation of the relevant authorities and the adjustment of the public services to the requirements of</p>

<p>offered by the society/economy for integration and employment.</p> <p>The exclusion of individuals from the world of work is to be prevented via the improvement of their <i>employability</i>, the instruments of which include human resource management, labour organisation and lifelong learning.</p>	<p>that everybody has an acceptable and healthy <i>home</i> and everyone has access to the basic services required for a normal life (e.g. power, water, heating etc.)</p> <p>Everyone - including addicts - should have access to <i>health services</i> as befits his or her health status.</p> <p>Development of services and accompanying measures for people exposed to exclusion as will enable efficient access for them to <i>education, administration of justice and other community and private services</i> including culture, sports and spare time activities.</p>			<p>people living in exclusion</p> <p>Dialogue and cooperation between all public and private organisations should be promoted for instance through the involvement of non-profit organisations, citizens and the business sector.</p>
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Source: (European Council, 2002b)

Measuring social exclusion: social indicators

The Union's endeavour to eliminate poverty and social exclusion has given rise to a need for rendering the problem measurable and comparable across countries. Methodology coordination efforts were aimed first at the development of a joint system of indicators. For this reason after the Lisbon summit of the Council of Europe the Social Protection Committee and its sub-committee working on indicators established detailed indicators during the course of 2001. At the same time social scientists invited by the Belgian presidency were also actively working on the subject. The work of Tony Atkinson, Bea Cantillon, Eric Marlier and Brian Nolan clarifies the fundamental requirements to be met by indicators and at the same time it provides a theoretical justification for the selection of the various indicators (Atkinson et al., 2002). According to Atkinson et al., for instance, one of the most essential principles is that an indicator should explore the essence of a problem and it should have a clear-cut and generally accepted normative interpretation.

Atkinson et al. proposed a three-tier system of indicators. The *primary indicators* are the key indicators of the most important areas. The indicators adopted by the Union cover *financial privation, inadequate schooling, lack of productive activities and poor health status*. This set of indicators does not include poor housing conditions proposed by Atkinson et al. which seems to be justified primarily by methodology related reasons. The set of *secondary indicators* supplement the primary ones, by - according to the concept of the authors - providing more detailed information or revealing additional dimensions of the problem on hand. The primary and the secondary indicators may be regarded as joint indicators of the Union that should be generated in each of the Member States.

The set of *tertiary indicators* include ones subject to the discretionary decisions of the Member States, ones that they intend to include in their respective National Action Plans. These indicators help the interpretation of the primary and secondary ones and they contribute to the more in-depth understanding of certain particular areas. This group of indicators may also help trigger ideas for Community methodology developments and for the possible replacement of one or another of the primary or secondary indicators at some point in the future.

Income disparities and poverty in Hungary - is Europe far away?

It is widely held that earnings and incomes in Hungary are way below the average level prevailing in the European Union. The assessment or evaluation of this issue is not part of the objectives of this paper. The above-mentioned social indicators of the European Union measure the income relations within a given country, i.e. they are not aimed at comparing different countries. This approach is related to the very widely held view in technical literature according to which *poverty is 'relative', i.e. poverty means the difference from the norm established in the given society* and so it can be captured by assessing the income disparities within the country concerned. The use of such relative indicators instead of the so-called absolute poverty indicators is particularly widespread in the developed countries where low incomes no longer - or very rarely - threaten one's survival.

In terms of the indicators of relative poverty Hungary does not compare unfavourably to the European Union: the poverty rate is 13 % in Hungary, whereas the average of the EU15 is 16 % (see table 3). This ratio means that 13 % of the population in Hungary has income below the poverty threshold which is, in this case, 60 % of the national equivalized median income. The term 'equivalized income' means in this case that after the aggregation of the total income of a household the number of the individuals belonging to the household is taken into account. A simplified case of this - not applied here - is the per capita household income, where each member of the household carries the same weighting factor, i.e. the total household income is divided by the number of the members of the household. Since the above mentioned poverty threshold depends on the amount of the national median, the poverty threshold automatically increases along with the growth of the national median

income. Together with the growing of the wealth of the average citizen of a country therefore, the minimum requirements the meeting of which constitutes the avoidance of poverty also increase.

The unemployed are facing the highest risk of poverty among all groups of the labour market. An average of 38 % of people are living in poverty among the unemployed both in Hungary and in the 15 existing Member States of the European Union, while the corresponding ratio is only 6-7 % among employees. The reason for this is that income from work constitutes the one of the most important sources of household income and that the unemployment benefits fall way below the income earned prior to the loss of one's job. Another important question from the aspect of social exclusion is the extent to which unemployment is concentrated in the various households, i.e. whether members of the families of unemployed people are often without employment or not.

Table 3. Share of low income population by labour market categories and by gender, in Hungary and in the 15 Member States of the European Union, on an average, in percentages

	Hungary			EU 15		
	Men	Women	Total	Men	Women	Total
Employee	7	7	7	6	6	6
Self-employed	6	5	6	17	15	17
Unemployed	35	41	38	43	32	38
Pensioner	8	9	9	15	19	18
Inactive and others	22	22	22	25	25	25
<i>Total</i>	<i>13</i>	<i>14</i>	<i>13</i>	<i>14</i>	<i>17</i>	<i>16</i>

Definition: Ratio of low income people: the share of individuals of age 16 or above living in households where the equalized household income is below 60 % of the national equalized median income.

Year: Hungary: 2001; EU 15: 1997

Source: (EU adatok: European Council, 2001; magyar adatok: Gál et al., 2003)

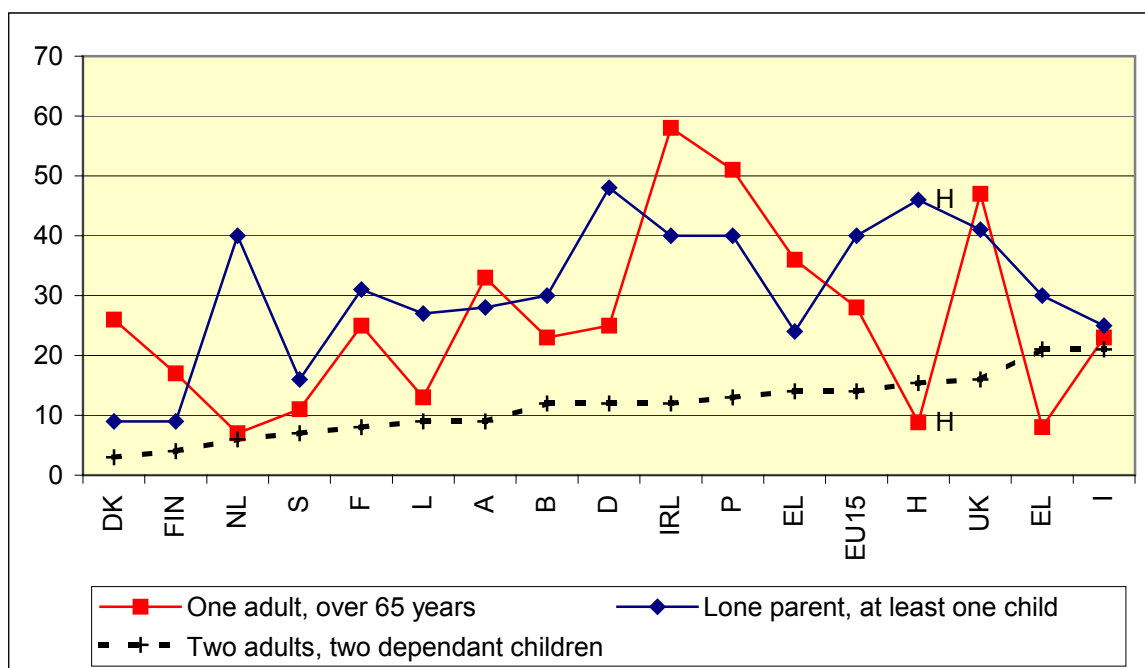
The key difference between the EU average figure and the Hungarian figure in relation to the risk of poverty is that there is a higher ratio of people living in poverty among the self-employed - entrepreneurs - and pensioners in the European Union, than in Hungary. The Hungarian data pertaining to self-employed people need to be treated with caution owing to the small number of cases. In respect of the social group of pensioners however *Hungarian pensioners are in a much better position in terms of relative poverty than the average pensioner in the European Union.* This latter data, however, reveals nothing about the issue of absolute income disparities.

An assessment of the relative poverty of the various types of households reveals that there is a substantial variance between the different states in the circumstances of lone parents and elderly people living alone in their households in respect of income position, while the differences are smaller between countries in the poverty rates of 'typical' households comprising two parents and two children (see

Figure 1). The main reason for this must be that this latter type of household has the largest income from the labour market and the income equalising role of the state plays a larger role in the first two cases, and the practices applied by the various countries in the area of the provision of income top-ups vary widely depending on the fundamental principles governing the role played by the state as well as on its generosity.

The poverty rate of households of two parents and two children in Hungary is about the same as the average of the EU15. The poverty rate of single households of individuals over 65 years of age is somewhat lower, but the *poverty rate of lone parents is significantly higher than the EU average.*

Figure 1. Poverty rate by household type in Hungary and in the EU15



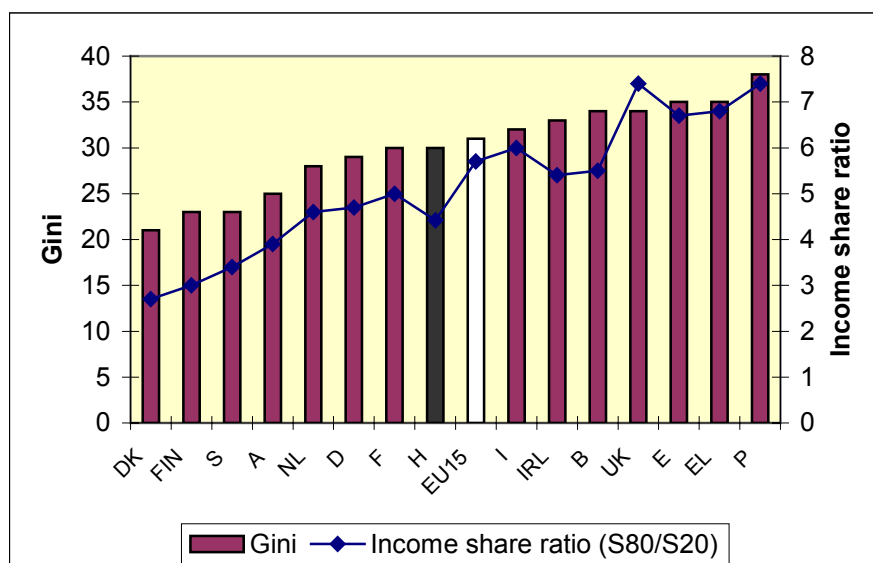
Source: (EU data: European Council, 2001; Hungarian data: Gál et al., 2003)

Notes: Poverty threshold: 60 % of the median equivalized household income. Data year: Hungary: 2001; EU 15: 1997

It is also well illustrated by Figure 1 that there are very substantial differences between the degrees of poverty in Hungary according to types of households. *There are about three times as many people living in poverty in the group of lone parents than in the 'typical' families of two parents and two children.*

Hungary is somewhere in the middle of the order of countries ranked by *income inequalities*, as is presented in Figure 2. Inequality measured in terms of the Gini indicator is more or less equal to the EU average. In respect of the income ratio of the top 20 % to the lowest 20 % of the income distribution, however, the situation is more favourable for Hungary is characterised by a much smaller degree of inequalities than the EU in general.

Figure 2: Income inequalities in the member states of the European Union and Hungary

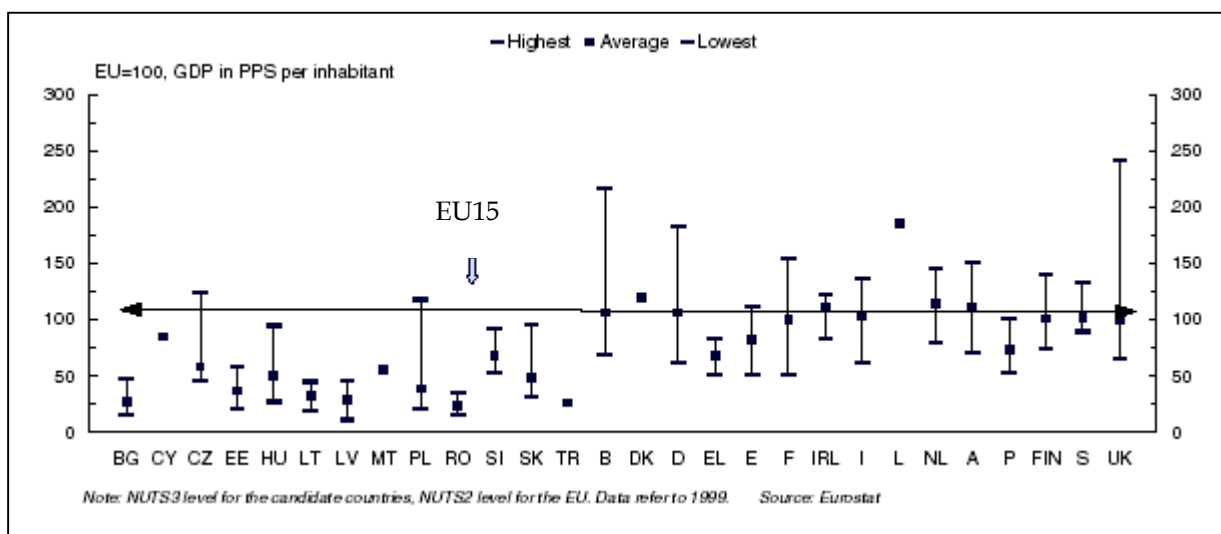


Source: (EU data: European Council, 2001; Hungarian data: Gál et al., 2003)

Notes: The definition of income share ratio: income of the top 20 % of the income distribution divided by the income of the lowest 20 %. Year: Hungary: 2001; EU 15: 1997

This indicator, however, may be regarded as only an approximate one, for several reasons. First because the EU data was recorded in the 1997 wave of the European Community Household Panel (ECHP) while the Hungarian data cover the year 2001. Second the income ratio as presented may be higher than the real value if there is a substantial income-hiding tendency in the higher income groups. This problem is important from the aspect of comparison if the degree of income-hiding is different in the European and in the domestic surveys.

Figure 3. Regional disparities of GDP in the enlarged European Union, 1999



Source: (EURES, 2002, 160. o.)

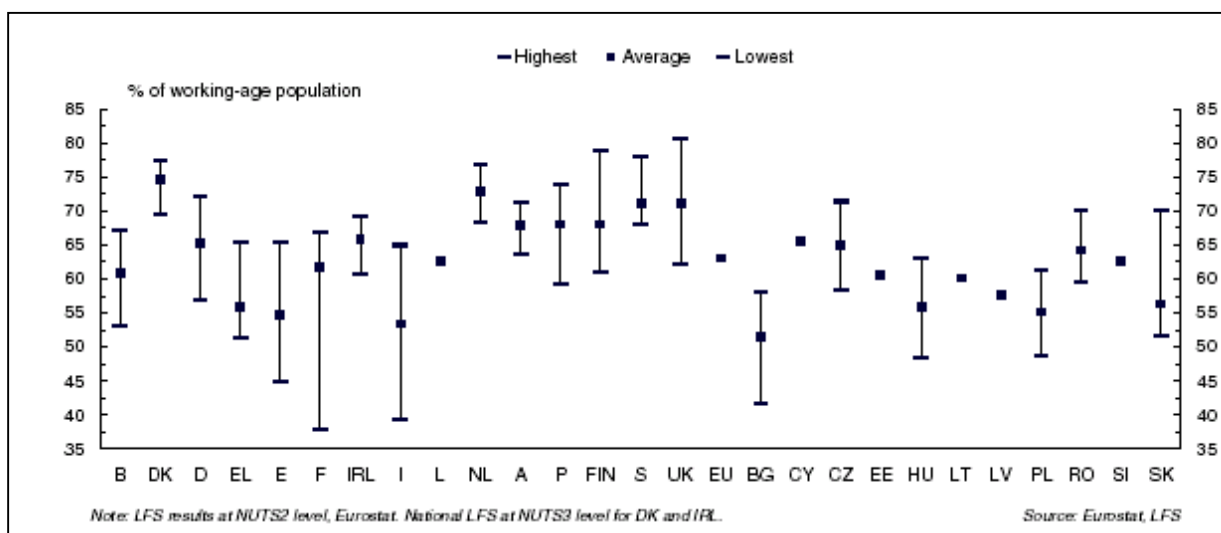
In respect of the *regional disparity in GDP* Hungary is in a better position than Poland and, from among the existing Member States, than Belgium, Denmark and the United Kingdom (see Figure 3). The level of disparity, however, is higher in Hungary than in Sweden or Ireland.

Regional and social disparities in employment

The level of employment is very low in Hungary. The key reason is that the number of employees dropped dramatically during the period of the economic transition. Although at the same time the productivity of labour improved (Scharle, 2003) which may be regarded as a positive development from the aspect of economic competitiveness, yet the drop of employment entailed a substantial additional burden on the budget on the one hand through the decline of tax revenues, on the other hand as a result of the growth of demand for social benefits. Therefore, the debate on the tax wedges, tax burden on wages cannot be separated from the development of the employment level since the possibility of any tax cut is closely related to the development of the number of taxpayers.

From the aspect of social cohesion, absence from the labour market is just as problematic in a general sense as in the regional aspects. Employment rate of the working age population was 56 % in Hungary in contrast to the average 63 % of the European Union. The Hungarian ratio is particularly low in view of the 70 % objective of the Lisbon summit, as a target to be reached by 2010. Between 1999 and 2002 the Hungarian ratio was rather stable, therefore no favourable signs have been observed that would be indicative of any expansion of employment in the long run. There are significant regional disparities in the level of employment in Hungary but they are not outstanding by European standards, as is presented in figure 4.

Figure 4 Regional disparities of the level of employment in the EU Member States and in the acceding countries, 2001 (in the 15-64 year-old age groups)

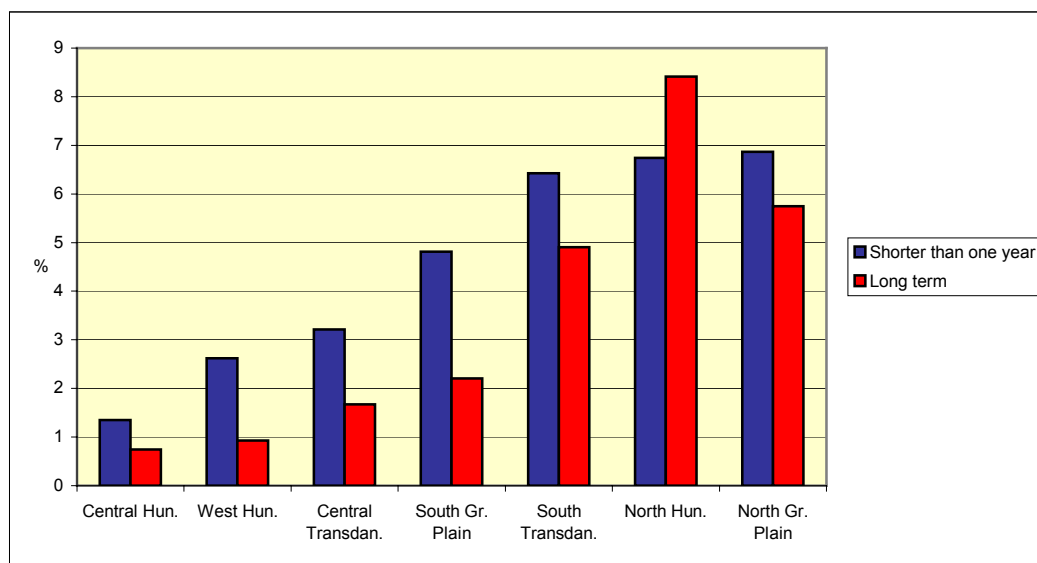


Source: (EURES, 2002, 158. o.)

Long term unemployment is a particularly serious problem from the aspects of social cohesion and flexibility of the labour market. As longer time spent in unemployment decreases the possibilities of returning to the labour market. Unemployment, for instance, may render special vocational skills outdated, reduce the social capital of the individual whereby they will have smaller and smaller chances of receiving news on possible jobs through acquaintances.

Permanent unemployment is, for this reason, considered as one of the key indicators of the process or state of social exclusion. Regional distribution of short (below one year) correlates to that of the long term (over a year) unemployment i.e. long term unemployment tends to be high in regions characterised by frequent occurrence of short term unemployment (see Figure 5). The situation is particularly unfavourable in the North Hungary region where permanent unemployment rate is higher than 8 %.

Figure 5 Rates of short term and long term unemployment in Hungary, 2001

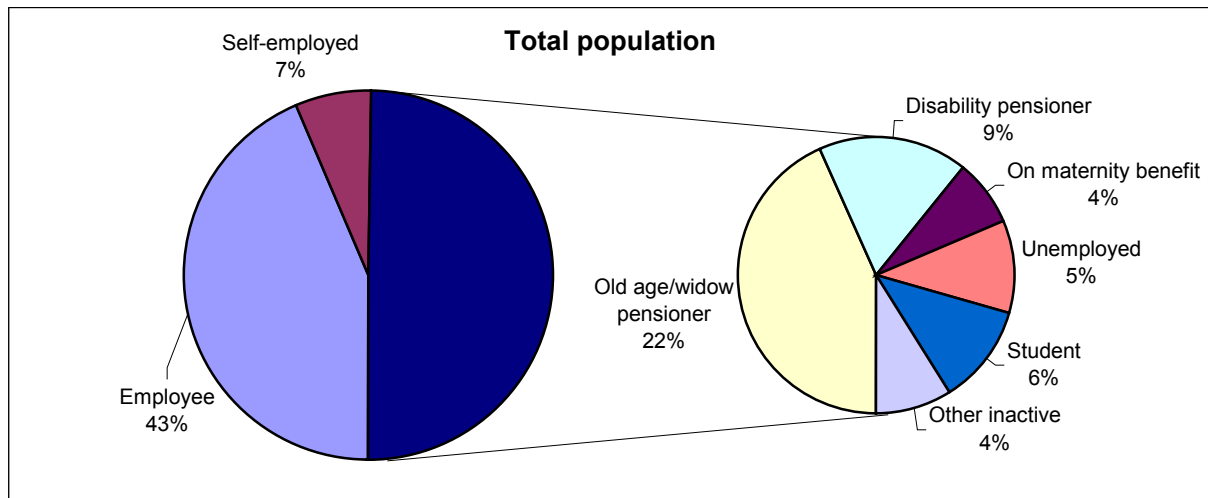


Source: author's calculations based on the Labour Force Survey of the Central Statistics Office (2001/4).

Note: Age group between 15-64 years, registered unemployed

Another CSO survey provides details on the forms of absence from the labour market in the age group between 18 and 74 years (note, that this is different from the population sample applied in the previous calculations!), both with respect to the whole population and to specific groups (see Figure 6.). In view of the data of the entire population percentage of the inactive population is remarkably high. Disability pensioners make up 9 % which is also particularly high both in comparison to old age pensioner and as a percentage of the total population.

Figure 6. Economic activity of the population aged 18 - 74 years, 2001

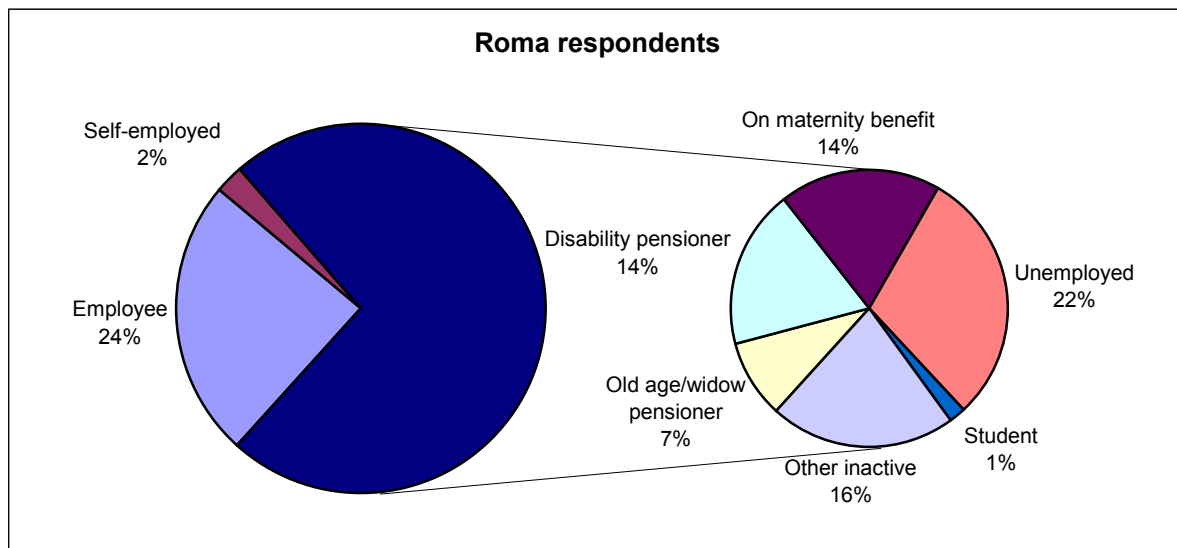


Source: CSO 'The turning points in our lives' („Életünk fordulópontjai”) survey 2001, N=16394

The above research found significantly different ratios in the Roma population (see Figure 7)⁵. Experts who performed the survey emphasise that special attention was paid to involving marginal groups in the sample but in my view since the part of the sample comprising Roma individuals included only about 400 persons, the data to be presented below approximate the data characteristic of the Roma population only with a substantial margin of error. For instance, this survey does not provide sufficient information for the analysis of geographical/territorial types of problems of the Roma minority.

⁵ People declaring themselves to belong to the Roma minority were considered as such, in the research. This method of measurement is a wide-spread way of identifying those belonging to an ethnic minority but its disadvantage is that it does not necessarily identify everyone as belonging to the Roma minority who are considered by the society as such.

Figure 7. Economic activity of the Roma population aged 18 - 74 years, 2001

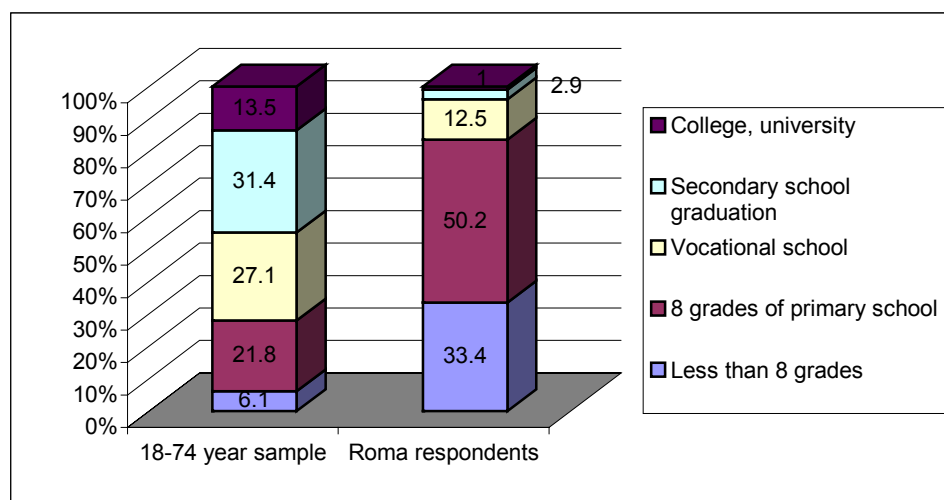


Source: CSO 'The turning points in our lives' („Életünk fordulópontjai”) survey 2001, N=414

The economic activity of the Roma population is much lower than that of the Hungarian population in general. In contrast to the overall 50 % of employment of the population between the ages of 18 and 74 years the ratio of employment is only 26 % in the Roma population. The share of self-employed individuals is also relatively small in this part of the population. The distribution of the inactive population partly reflects the different demographic features of the Roma minority as well, in that the proportion of the elderly is lower. For this reason, the percentage of old age and survivor pensioners is significantly lower in the Roma minority.

The low level of participation of the Roma population in the labour market as presented above is, to a material extent, explained by the typically lower level of schooling of members of the Roma minority (Kertesi, 1994; Kertesi, 1995). Earlier data pertaining to lower levels of education are confirmed by the above mentioned survey carried out by the CSO as well. As is shown in Figure 8 some 84 % of the Roma population have completed only primary school (or have dropped out of primary school), in contrast to the 28 % of such individuals in the Hungarian society as a whole. Only about a mere 1 % of the Roma population hold degrees obtained in higher education. These data and the relationship identified between schooling and labour market participation explain that a significant proportion of the Roma minority cannot be integrated in the labour market without a fundamental reform of the education and training system.

Figure 8 Levels of education of the total population and of the Roma minority aged between 18 and 74, 2001

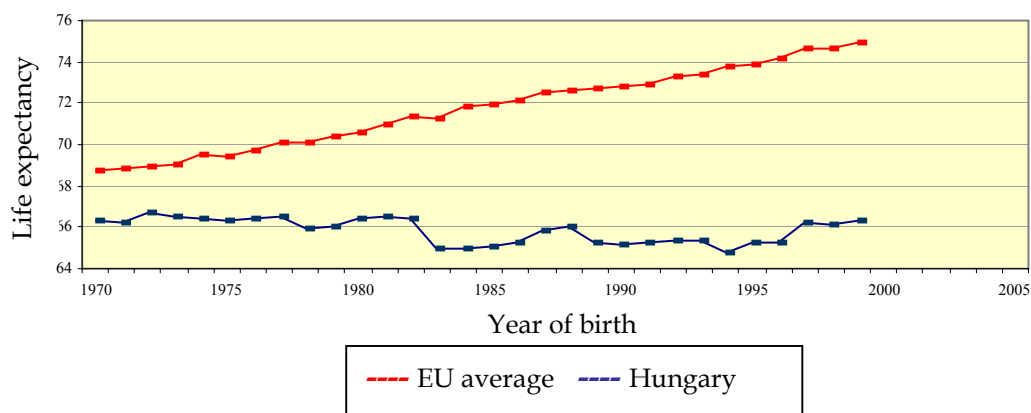


Source: CSO 'The turning points in our lives' („Életünk fordulópontjai”) survey 2001, N=16394 (of which respondents belonging to the Roma minority: 416)

Health status

The unfavourable development of life expectancy, the indicator showing the general health status of the Hungarian population, is a well known fact. The life expectancy of men is about 9 years shorter than the average life expectancy of men in the European Union. The lower level in Hungary in this area is not a result of the social effects of the economic transition for - as indicated by Figure 9 - it reflects an adverse process that has been underway for decades.

Figure 9. Life expectancy of men at birth

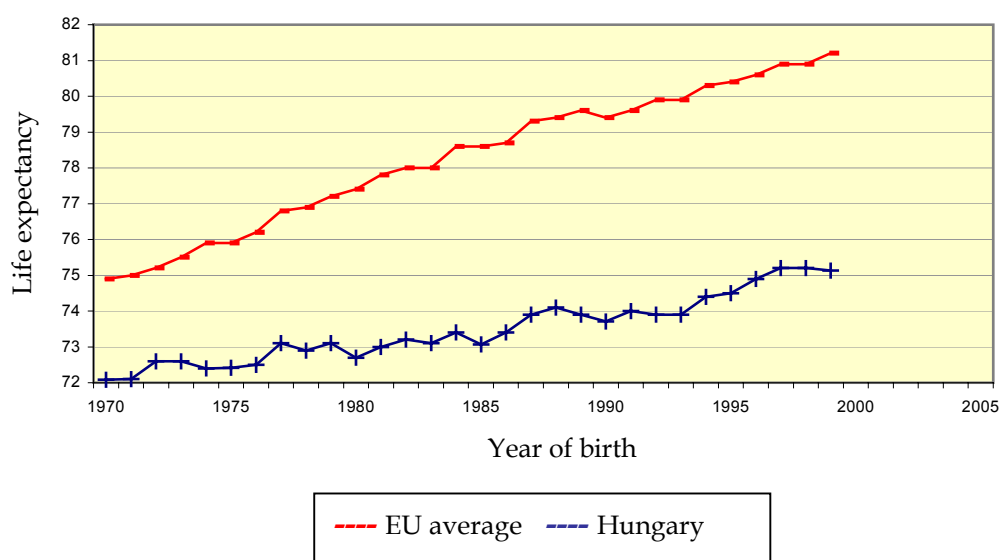


Source: Human Resource Development Operative Programme (FMM, 2003), page 11

The life expectancy of women is also significantly lower, as is presented in Figure 10. Women's life expectancy is about 6 years shorter than in the EU average, which is a significant difference, but it is not as large as the difference observed in the case of men.

These rather general type indicators show that there are substantial tasks to be carried out by the Government in order to improve the quality of life. One of the most important factors in this field is strengthening of the preventive role of the health system.

Figure 10. Life expectancy of women at birth



Source: Human Resource Development Operative Programme (FMM, 2003), page 11

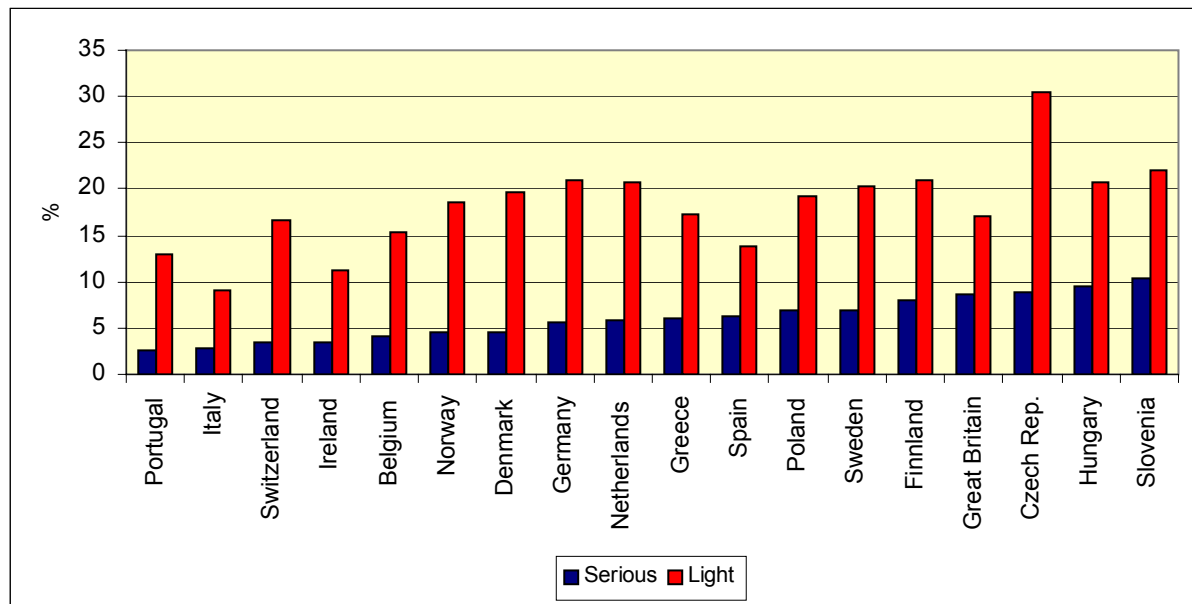
Life expectancy, however, is only a rather general type of indicator, the 'quality' of life years should also be examined (this is referred to in technical literature as 'quality adjusted life years'). This aspect involves the frequency of protracted periods of ill health and locomotor disorders.

By international comparison the situation is highly unfavourable in Hungary in terms of other indicators of the general health status as well. The data of the European Social Survey 2002 presented here provide information on 18 countries⁶. The sophisticated methodology of the sampling procedure and the sample size of about 35,000 ensures that the data on the various countries are representative. As is presented in Figure 11 there is a very high - 9.5 % - incidence of grave *health problems*

⁶ The entire set of data covers Israel and Luxembourg as well, but these have been dropped as a non-European country and as an atypical European state.

seriously impeding day-to-day life in the adult population of Hungary. Furthermore, some 21 % of the population reports of health problems that are not as grave but that do cause day-to-day difficulties. Unfortunately, Hungary takes one of the worst positions among the 18 European countries covered by the survey, together with the Czech Republic and Slovenia.

Figure 11. Incidence of illnesses or disabilities hampering day-to-day activities in the various European countries, 2002



Notes: 'Are you hampered⁷ in your daily activities in any way by any longstanding illness, or disability, infirmity or mental health problem?' Responses: (1) yes, very much, (2) yes, to some extent, (3) no. Response No. (1) is and No. (2) is indicated in the figure by 'serious' and 'light', respectively.

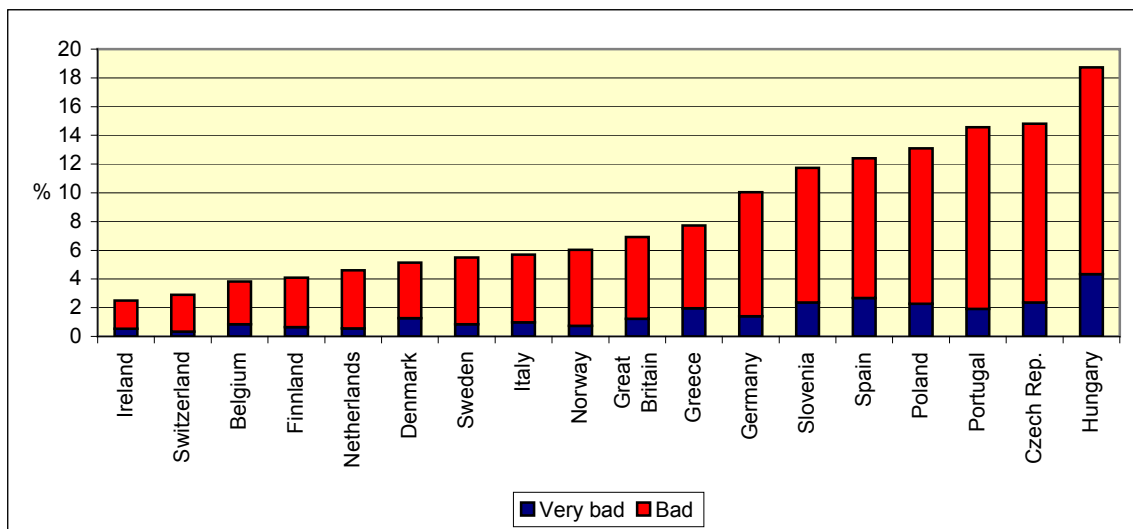
Weighted frequency, as a percentage of the population of the country concerned.

Source: author's calculations based on European Social Survey 2002/2003, sample size: 34426

Another indicator widely used for the measurement of the health status, i.e. *subjective health status* also compares unfavourably with the corresponding indicators of other countries. Some 4.3 % of the respondents consider their health status to be very poor and another 14.4 % consider that their health status is poor (see Figure 12). By comparison: the ratio of people of very poor health status is below 2 % in almost all West European and South European countries, i.e. it is below half of the Hungarian ratio. The situation is a lot worse in the other acceding countries - Poland, Slovenia and the Czech Republic - than the average of the EU Member States, but even the ratios observed in these three countries are way below the Hungarian ratio. Hungary is in the last position among the European countries covered by the survey.

⁷ "Hampered" = limited, restricted in your daily activities

Figure 12. Subjective health in certain European countries, 2002



Notes: 'How is your health (physical and mental health) in general?' Possible answers: very good, good, fair, bad, very bad

Source: author's calculations based on European Social Survey 2002/2003, sample size: 34515

Weighted frequency as a percentage of the population of the country concerned

The above surveys did not and could not give a complete picture of all aspects of social cohesion. They focused primarily on the income and labour market position partly owing to the importance of these aspects and the availability of a clear-cut methodology. This later is explained by the fact that the measurement of these factors is regulated by the EU in detail in the description of the joint social indicators. The assessment of the following indicators may raise additional interesting aspects for a possible future research:

- skill deficiencies, low schooling levels,
- housing conditions,
- social relationships,
- civil society and political activities.

Any more thorough exploration of the situation and in particular the establishment of *causal relationships* will necessitate an increase of the quantity and an improvement of the quality of the available statistics. The *lack of so-called panel data* causes particularly serious problems as by tracking development of individual circumstances such data could enable, among other things, the assessment of income mobility, i.e. the identification of permanent poverty.

Welfare policy and citizens' satisfaction

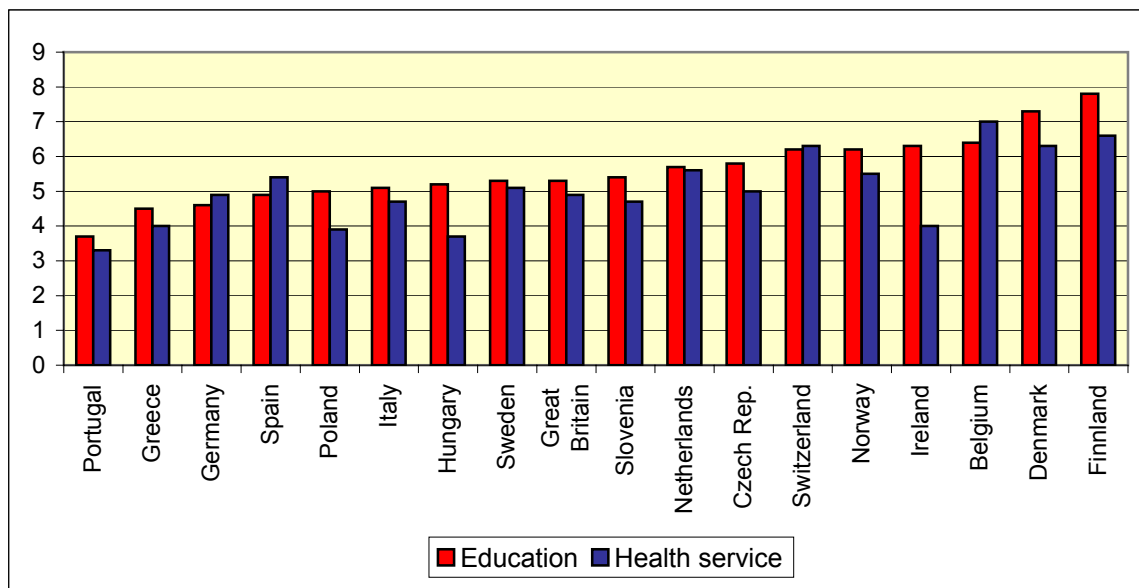
The level of citizens' satisfaction is a possible though not at all the most comprehensive or most important indicator for the measurement of the effectiveness

and efficiency of welfare policies. Nevertheless available data may provide some information for the evaluation of various policies.

As far as we know, the first questionnaire-based survey for the description of subjective welfare was carried out by George Gallup in the United States in 1946. In later years US social scientists were the first ones to start analysing the issue by applying statistical methods (Bradburn, 1969; Cantril, 1965; Gurin et al., 1960). A number of studies have come to the conclusion that there is a rather weak link between objective circumstances of life and their subjective evaluation (pl. Allardt, 1977; Campbell et al., 1976). This fact has given rise to fundamental doubts concerning the interpretation and usefulness of subjective indicators, i.e. ones where individuals evaluate their own circumstances. Psychological and economic research projects carried out in recent years, however, have clearly proven that there is a clearly measurable and systemic relationship between objective and subjective indicators and substantial steps have been made towards the description of the nature of such relationship (Clark és Oswald, 1994; Di Tella et al., 2001). Higher income groups are, for instance, more highly satisfied within a given country and people expecting improvement in their income positions are also satisfied. (Lelkes, 2002; Lelkes, 2003). The positive correlation between money and satisfaction does not disappear with the elimination of effects of other factors influencing satisfaction such as labour market position, age or family status. Furthermore, findings of the psychological literature related to consistency and stability of the indicators over time also confirm the justification of the application of subjective indicators.

The year 2002 European Social Survey explores opinions pertaining to the state of two welfare services provided by the state: education and health. From the European countries covered by the survey views of the education in Hungary is somewhat poorer than the average, however, the *general view of the health service is one of the worst* (see Figure 13). Only people in Portugal and Ireland have similarly negative opinions of the state of the health service. In Hungary the situation of health service is assigned an average score of 3.3 on a scale of 0 to 10, or, to use a different indicator, 62 % of citizens assigned a score below 5 which is the medium score in the scale applied (see Figure 14). Conclusion is that the majority of Hungarians covered by the survey are more or less dissatisfied with the health service.

Figure 13. The state of education and health services according to citizens, in various European countries, 2002



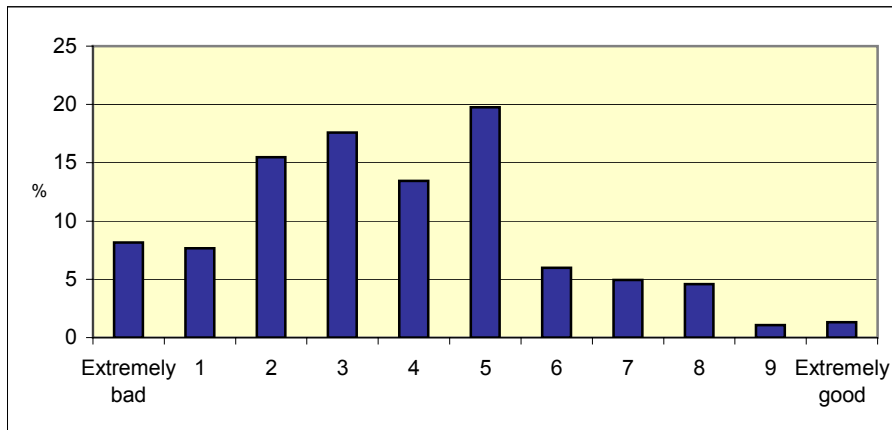
Notes: ‘Please say what you think overall about the state of education⁸/health services in [country] nowadays?’ Responses on a scale of 0 to 10 where 0 is ‘extremely bad’ and 10 is ‘extremely good’.

Weighted average for each country (the weighting factors eliminate the distortions of the sample, ensuring thereby that the data are representative of each country)

Source: author’s calculations based on European Social Survey 2002/2003, sample size: 34103

⁸ The “state of education” covers issues of quality, access and effectiveness/efficiency.

Figure 14. State of the health service in Hungary according to citizens, 2002

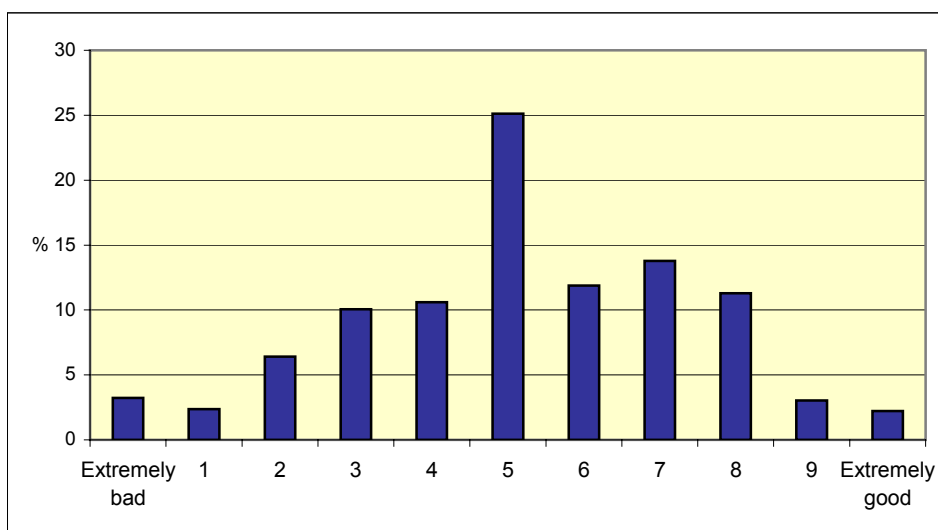


Note: 'Please say what you think overall about the state of health services in Hungary nowadays?' Responses on a scale of 0 to 10 where 0 is 'extremely bad' and 10 is 'extremely good'

Source: author's calculations based on European Social Survey 2002/2003, sample size: 1659

The state of education is considered by citizens rather good than bad. The average level of satisfaction was 5.2 on a scale of 0 to 10, however, the distribution of scores within the sample provides even more information. As is presented in Figure 15 this distribution is much closer to the normal distribution pattern than in the case of health services, for example. Most people consider the situation of education as neither good nor bad, but it is considered as good by more people than it is considered as bad. One out of three persons consider the position of education as poor (scores 0 to 4) which is only half as many as the number of people dissatisfied with the quality of the health sector.

Figure 15. State of education in Hungary according to citizens, 2002



Note: 'Please say what you think overall about the state of education in Hungary nowadays?' Responses on a scale of 0 to 10 where 0 is 'extremely bad' and 10 is 'extremely good'.

Source: author's calculations based on European Social Survey 2002/2003, sample: 1481

The above-mentioned indicators, however, cannot be taken as the exclusive measures of welfare services, primarily for psychological considerations. It is not possible to clearly identify how individuals interpret the extremes of the scale. i.e. the 0 and the 10 values. Instead of 'merely' the current state of the services concerned they also take into account their changes or their own personal experiences concerning such changes. We do not know, at the same time, the weight they assign to the evaluation of the past circumstances in the responses they give to the questions pertaining to the present, or whether it has any feature characteristic of individuals or social groups which could on the whole result in a 'distortion' to the evaluation of such past information. For this reason, there is a need for other units of measurement of the quality of services for the development of a comprehensive assessment and evaluation.

Welfare policy with new focal points

What is a welfare policy promoting social cohesion and competitiveness like? Does the contemplation of the ways of addressing the problem of social exclusion entail any practical social policy implications? In other words, is there a need for a new welfare policy and if there is, what would be its elements like?

Welfare policy cannot be restricted to the improvement of the *current income* position of those in need. First of all it should not be limited to 'current' actions, it

must not be content with assessing the needs existing at the time of the assessment. Attention has to be paid to those living in permanently disadvantaged circumstances as well, because for such people the provision of the possibility of social integration needs a different set of social policy instruments. Secondly, welfare policy must not be restricted to income policy. International and (the few) Hungarian fact-finding studies show that there is only a partial overlap between poverty and other forms of disadvantaged positions. In other words, the problem of social exclusion is a 'multi dimensional' one. Consequently the improvement of the income position will not necessarily resolve the problem of social exclusion. For example, in the lower income groups of society there is a typical lack of political activity, but income redistribution is not the most appropriate means for the boosting of the political activities of the poor (Hills, 2002). A problem necessitating similar, targeted action, may be territorial polarisation, or 'ghettoisation' in big cities, necessitating coordination of spatial and housing development measures. Furthermore, there seems to be a need for a training reform focused on the Roma minority, which could promote their labour market integration. An important feature of the process or state of social exclusion is the potential accumulation of multiple types of disadvantage of the individual, which necessitates the *coordination of different types of governmental measures*. On the whole, therefore, there is a need for a set of versatile social policy instruments along with the *coordination of income redistribution and other welfare policies*.

Besides the elimination of existing disadvantaged situations the goals of the welfare policy aiming at promoting social integration also includes its *prevention*. It means an active welfare state that does not only care for 'losers' but also promotes the evolution of a welfare society as an active 'investor'. (Giddens, idézi: Hills, 2002, 231. o.). These two endeavours may, however, go hand in hand. According to British analyses, the elimination of child poverty has an effect not only on the current financial deprivation but also on the poverty of the next generation.

Accordingly, social exclusion as a newly assessed problem has a special feature in that it lays a special emphasis on the '*dynamic*' nature of social exclusion i.e. the permanent nature of disadvantaged position, along with its '*multidimensional*' feature, i.e. the accumulation of problems. The *main characteristics of the 'new welfare policy'* promoting social cohesion may, therefore, be summarised as follows:

- Instead of focusing exclusively on the re-distribution of incomes it also deals with the quality of welfare services. The 'quality' of such services is measured in terms of the degree to which these facilitate social inclusion, including, in particular, participation in the labour market.
- A 'result' based approach instead of 'expenditure', i.e. instead of the mere amount of public spending it also traces their effectiveness and social impacts. (The basis of which is laid down by fact finding and impact assessment efforts.)
- It is aiming at coordinating various *functional political measures* in order to eliminate 'multiple' social disadvantages.
- It aims at involving the civil society as well

Further possible directions of analysis

1. *Assessment of the incentive effects of the various existing in-cash welfare assistance forms and the taxation system.*

The aim of such assessment is to identify the obstacles to employment, laying down the foundations for the state measures aimed at increasing employment.

2. *Assessment of the long term dynamics of social exclusion.*

The goal is to elaborate measures after the identification of the facts and relationships that will enhance social mobility, in other words, reduce the risk of passing down the disadvantaged status.

3. *Assessment of the regional and territorial aspects of social exclusion.*

Identification of disadvantaged regions, municipalities and town districts, along with the analysis of the problems relating to employment, schooling and the accessing of local services in such areas. The aim is the social integration of the population living in such areas, thereby to improve the productivity of labour.

Appendix 1: Labour market incentive effects of state benefits

Figure F1

Benefit's effects*	Effect			Is it relevant in a broader context outside the scope of unemployment benefits	
	on labour supply of		on labour demand		
	those entitled to aid	those not entitled to aid			
1. The benefit removes the spare time - income budgetary restriction	Reduces (-), but leaves activity (participation in the labour market) unchanged		increases (+)	yes	
2. The tax resulting from the benefit - the contribution payable on wages - shifts the labour demand curve (to the left, downwards)			reduces (-)	increases (+)	if the benefits are financed from taxes on wages
3. The benefit increases the reservation wage and thereby it increases the duration of unemployment	reduces the supply of those living from benefits, for low wages (-)			increases (+)	yes
4. The benefit increases the level of wage required for stimulating employment			as a result of higher wages as an incentive the enterprises will reduce their demand for labour (-)	increases (+)	yes
5. In the case of an income growth an approx. 100 % limit tax rate appears owing to the loss of the benefit (subject to income test) - 'poverty trap'	reduces (-)			increases (+)	yes
6. The aid increases the frequency of jobs on offer** among those without benefit				reduces among those not receiving benefit (0)	yes (slightly)
7. The benefit increases the expenditure on seeking and the efficiency of seeking (and thereby the likelihood of taking up employment)				reduces among recipients of benefit (-)	no (?)
8. Increasing of benefits will work as an incentive for acquiring entitlement, rendering employment more attractive than inactivity and the continuation of unemployment (in certain situations)		increases		reduces (-)	no (relevant only with respect to social security type benefits)

*/ Not all of the names of the effects in the table are identical with those used in the 1995 study of Köllő - Semjén. The order of the effects differs from the order applied in the study.

**/ If raising benefits increases reservation wage and the number of rejected job offers of unemployed living from benefits (the job supply is exogenous) then *ceteris paribus* (without change of the demand for labour on the whole) frequency of job offers will increase among unemployed not receiving benefits. Their reservation wage is not influenced by the benefit, therefore, an increased number of them will take up jobs.

Source: (Semjén, 1996, 849. o.)

Appendix 2: EU Funds for policies tackling social exclusion

Importance of social exclusion in the Member States and candidate countries is substantially influenced by the funds allocated by the European Union for such purposes. After the accession the Structural Funds - particularly the European Social Fund - will play a dominant role in the area of employment and human resource development (see Table F2). The Social Fund - the total amount of which may increase to EUR 65 billion between 2000 and 2006 - will therefore be able to provide the largest support for the attainment of these goals. Furthermore, the measures against social exclusion may also be linked to other funds available in a number of additional areas as well. Such a possibility is the Community Initiative called EQUAL. The title 'Community Initiative' refers to an aid target specified within the scope of competence of the Commission one of whose main characteristics is that it is not one of the objectives of the four Structural Funds. EQUAL provides assistance to the fight against labour market disparities and any form of discrimination by new types of means. Its budget for the period between year 2000 and 2006 amounts to EUR 3 billion. The programme differs from the Social Fund in that it lays emphasis on innovation and calls for cooperation between nations. An amount of EUR 75 million is available specifically for the financing of the Community Action Programme - that is the supporting of the 'open method of coordination' between the Member States - for the above five year period.

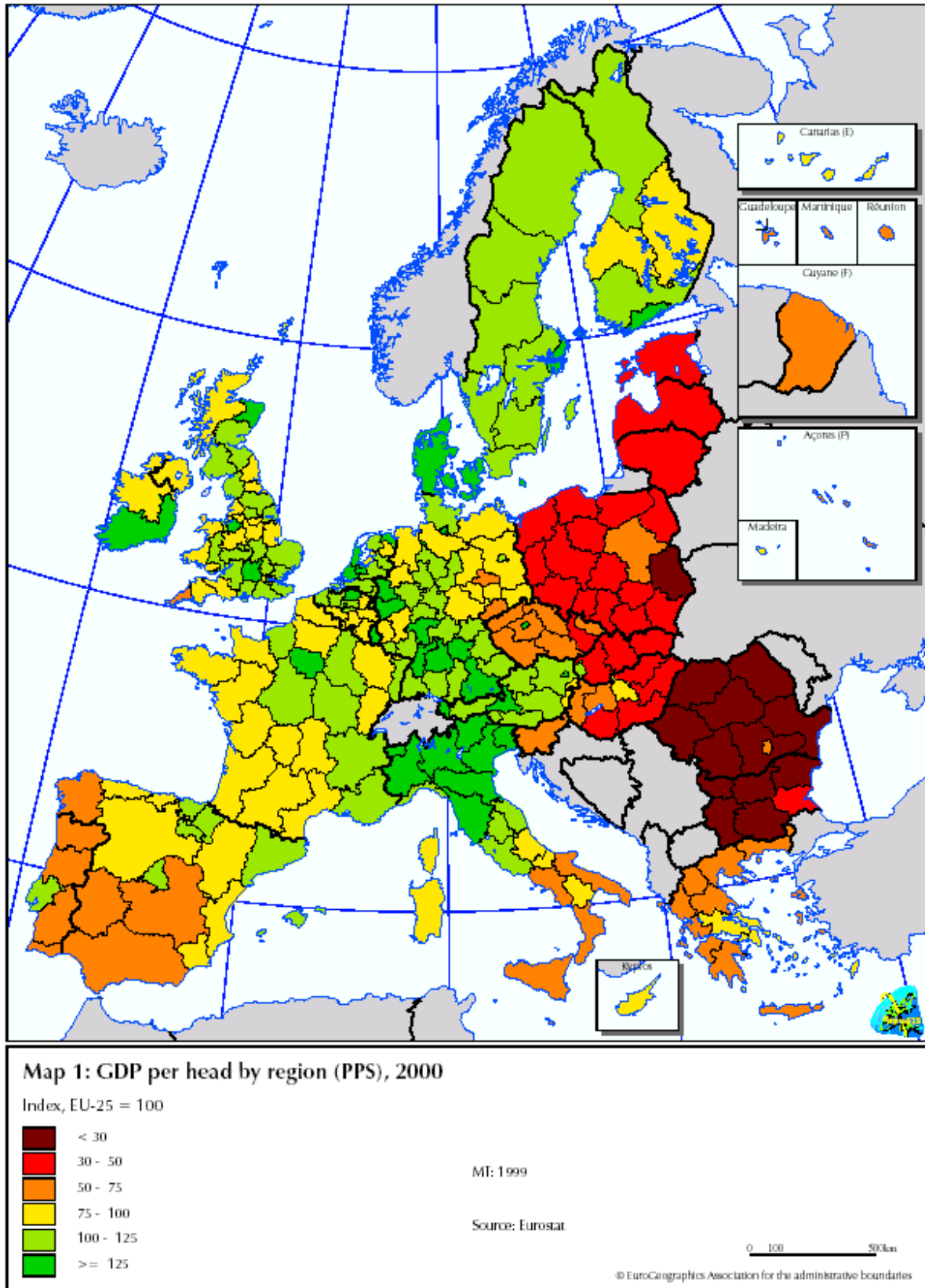
Table F2. The objectives and the distribution of the funds of the EU Structural Funds, 2000-2006

<i>Structural Funds</i>	<i>100%=195 billion Euros</i>	<i>Objective</i>
European Regional Development Fund (ERDF)	46.9%	alleviation of regional disparities and disadvantages; main areas: reduction of inequalities, facilitation of economic and social transformation of backward regions
European Social Fund (ESF)	33.5%	improvement of employability, development of entrepreneurial skills, promotion of equality of opportunities, human resource investments
Guidance Section of the European Agricultural Guidance and Guarantee Fund - (EAGGF)	17.4%	improvement of agricultural competitiveness, supporting of population training capacity of rural areas, protection of natural environment, cultural heritage etc.
Financial Instrument for Fisheries Guidance (FIFG)	2.2%	ensuring the balance between fisheries and natural resources, modernisation of fisheries structures etc

Source: (Oross, 2003)

On the whole, therefore, *in the case of the overwhelming majority of the Community funds the fight against social exclusion as a target is included as an indirect goal.* Furthermore, the general EU expectation that the funding of the implementation of such measures should be provided partly by the various Funds of the European Union and partly the budgets of the Member States is to be met in this area as well.

Annex 3: GDP per head per region in 2000, PPP



Source: Commission of the European Communities: Second progress report on economic and social cohesion (30 January 2003)

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