

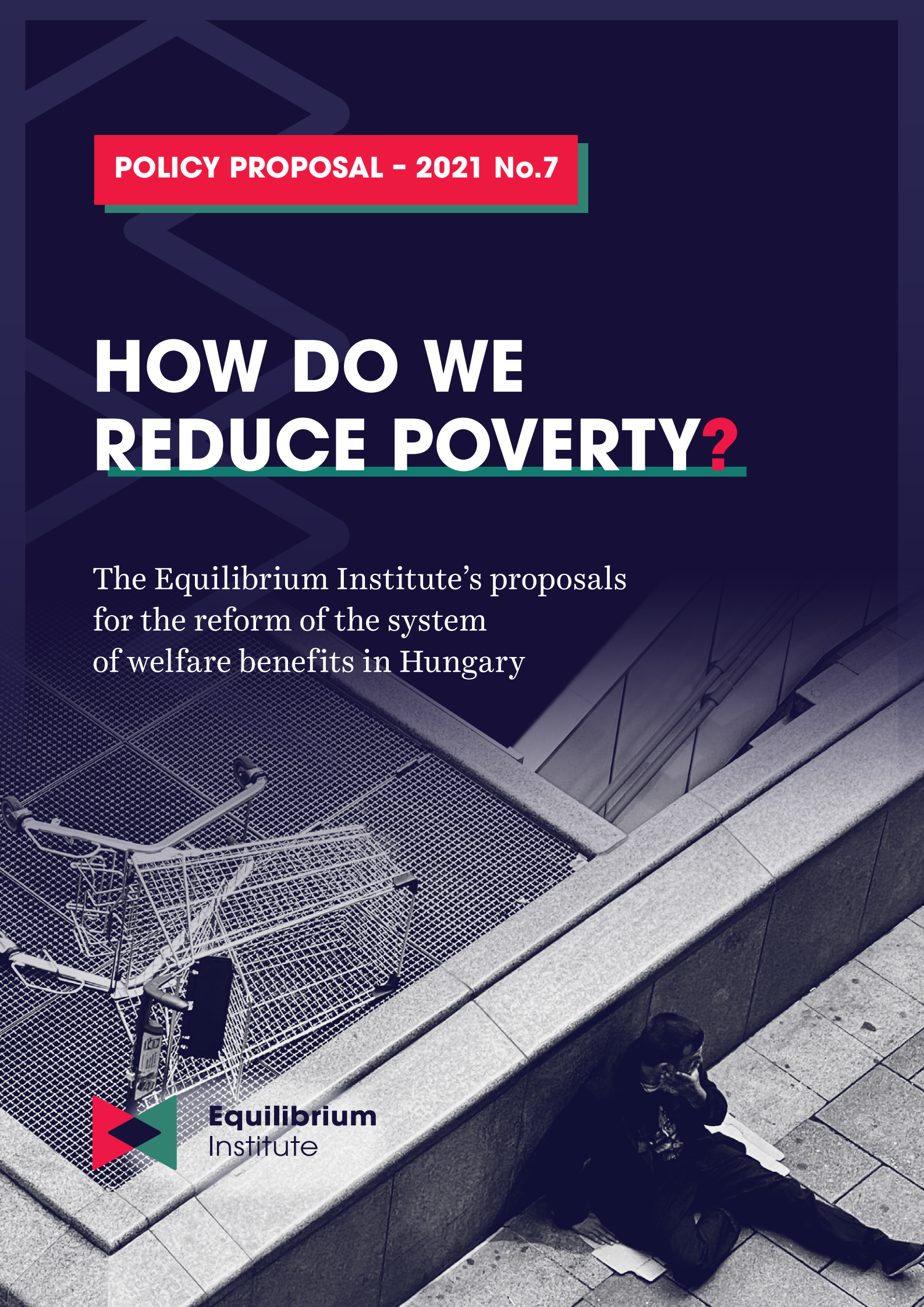
**POLICY PROPOSAL - 2021 No.7**

# **HOW DO WE REDUCE POVERTY?**

The Equilibrium Institute's proposals  
for the reform of the system  
of welfare benefits in Hungary



**Equilibrium  
Institute**



# Future for Hungary ▶▶

— Equilibrium Institute

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# EXECUTIVE SUMMARY

## 01

Although during the time of the economic expansion of the last decade, the Hungarian economy grew spectacularly, Hungary continues to be one of the EU's poorest member states with a low wage level in international comparison and a strikingly low level of social mobility. At the same time, poverty is not merely an individual problem but one that afflicts all of Hungarian society and holds it back. Reducing poverty is not only a moral imperative, but also the common interest of the entire Hungarian society. The system of social welfare benefits is not the sole instrument to this end, but it is one of the key tools at our disposal.

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## 02

Based on the poverty indices available, there are 2.5-2.8 million poor people in Hungary today – but to properly map the problem, we need new and more accurate indicators.

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## 03

In European comparison, the system of social transfers in Hungary is rather tight-fisted, while at the same time it is also fragmented, overly bureaucra-

tic and of low efficiency, which is how it deprives specifically those who are most in need of the help they should be receiving. This system needs to be radically simplified. The main objective is that within ten years every citizen in need should have at least an amount equivalent to the existential minimum at their disposal to make ends meet.

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## 04

By 2030, a basic social welfare benefit in the amount of the existential minimum (roughly 100,000 forints today) needs to be introduced. Every Hungarian citizen whose total income does not reach this level needs to receive this benefit! The basic social welfare benefit will replace most of the existing forms of state assistance and it needs to gradually increase in amount from 50,000 forints a month to at least 100,000 forints by 2030!

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## 05

We should automate the payment system: social transfers should be determined and paid out automatically by the National Tax and Customs Authority based on a unified public administrative registry of market and



social incomes! Social transfers should not be paid out on a per household basis but on an individualised basis, with each person receiving an amount that will depend on their respective income!

## 06

To reduce child poverty, we need to follow the Polish model and introduce a basic benefit for families that raise and support children! This monthly benefit should be set at a level that amounts to half of the prevailing existential minimum and is then continuously adjusted to track the existential minimum.

## 07

Let's introduce new poverty indicators to measure poverty in ways that better capture the Hungarian realities and are also useful for international comparisons!

## 08

We need to make sure that by 2030 everything is in place for the state to pay out all social transfers to the beneficiaries digitally! By that time, digital payments should be possible in all areas of the commercial/service sector, and all Hungarians should have access to a free and automatically created bank account!

## 09

Let's follow the Slovakian model in reforming the institution of personal bankruptcy, in a manner that helps the most vulnerable groups break out of the debt trap!

## 10

Following the model of the basic social benefit, we need to provide every Hungarian citizen of a pension age with a basic pension in an amount that matches the prevailing level of the existential minimum to allow them to live a dignified life in old age!

## 11

Let's introduce an entitlement to participation in workfare programmes that provide meaningful work and create actual value while they also foster the individual's return to the commercial labour market! The responsibility to organise workfare programmes should be transferred from the municipal governments to the county or central government! Meaningful work should be paid appropriately, with proper wages. As the first step, the wages of those active in workfare programmes need to be raised to the level of the existential minimum, and then their pay needs to be gradually increased so that by 2030 it is on par with the minimum wage!

# 1. WHAT IS THE PROBLEM?

Even though the Hungarian economy has expanded spectacularly during the boom of the past years, Hungary continues to be one of the EU's poorest member states. Based on our real individual consumption, we are third from last in the EU, and in terms of GDP per capita, we are also in the fifth place from the bottom. As compared to our competitors in the region and considering our level of development, there are far too many people in Hungary who lag behind in paying their bills to public utility providers or keeping up with the instalments on their loans to the banks, and there are more people here who have to make ends meet without things that are considered basic necessities within the EU (such as regular meat consumption, the use of telephones, a properly heated home or one vacation day annually).

However, poverty is not only a problem for the individual affected. **Securing the conditions for a dignified life is also necessary in order to help someone become a productive member of society and to help them not to only depend on welfare.** Those who are prevented by deprivation from even studying, training or getting a decent job may waste their active years and fail to play their part in building society. Poverty of individuals is a restraint on the economy as a whole: the lower productivity, exclusion from the labour market, lost tax revenues and low disposable income that poverty brings, all constitute a deficit in our shared economic system. Thus, the individual problem of poverty becomes a social problem, an individual fate into a social burden. **That is why reducing poverty is at the same time a moral imperative and our mutual social interest.**

Poverty is a complex phenomenon which determines every vital aspect of an individual's path through life. The main issue with respect to poverty is not an individual's disposable income but the lack of the skills they need for a life in dignity and the absence of options. Poverty is not merely about the lack of resources at one's disposal; the concept also extends to the lifestyle that this deprivation gives rise to, which limits those affected by poverty in many areas of life, from the labour market over healthcare, housing and the extensiveness of their social contacts all the way to child-rearing or mental health. That is why neither the diagnosis nor its solution can be limited to the problem of social transfers or the financial instruments available to an individual. When it comes to tackling poverty, the goal is not to treat the symptoms but to help people find a way out of the poverty trap, to provide them with skills and abilities.

Deprivation can only be effectively dealt with through public measures that are comprehensive and directed at several policy areas at the same time; even though it is true that the process necessarily involves interventions targeted at the distribution of income within society, these are by no means sufficient. Once we have managed to ensure that all Hungarians have the minimum income at their disposal that they need for a decent life, we are immediately confronted with the next major issue: what kind of skills and abilities and real opportunities they have access to as a result.

**In the following, we will focus specifically at the measures needed for the immediate and short-term reduction of income poverty, even though the emergence and persistence of poverty broadly understood is influenced by a wide variety of other factors, and as a result long-term, enduring and substantial progress in reducing poverty can only be ensured by providing a far wider array of services than the ones discussed below.**

**The Equilibrium Institute will dedicate a distinct set of proposals to the enduring and structural reduction of poverty and its increasing social mobility in the context of policy areas such as housing poverty; reforming the K-12 education system and improving its ability to create opportunities for all; boosting Hungarian economic growth and remedying the problems stemming from labour market mismatch.**

## 2. POVERTY IN HUNGARY

There is no consensus in Hungary about the way poverty should be measured. When it comes to widely used indicators, these raise serious doubts as to whether they actually capture what needs to be measured and whether they measure it in the way it should be measured. **The problems with the indicators used these days is promptly illustrated by the fact that according to the so-called AROPE (At risk of poverty or social exclusion) indicator, which is the most-often used one in the European Union, the rate of poverty in Hungary is actually lower than in Luxembourg, Sweden, Austria or the Netherlands. That is because despite its name, the AROPE indicator does**

**not really capture poverty but social differences** (*we will review the methodological problems concerning the existing indicators of poverty in the background study that served as the basis for the set of proposals formulated in the present paper*).

**Based on the indicators at our disposal, the number of persons can be considered poor in Hungary ranges between 2.5 and 2.8 million** (Figure 1); to map the problem more comprehensively and plan policy interventions in greater detail, however, **we need indicators that capture the realities more accurately.**

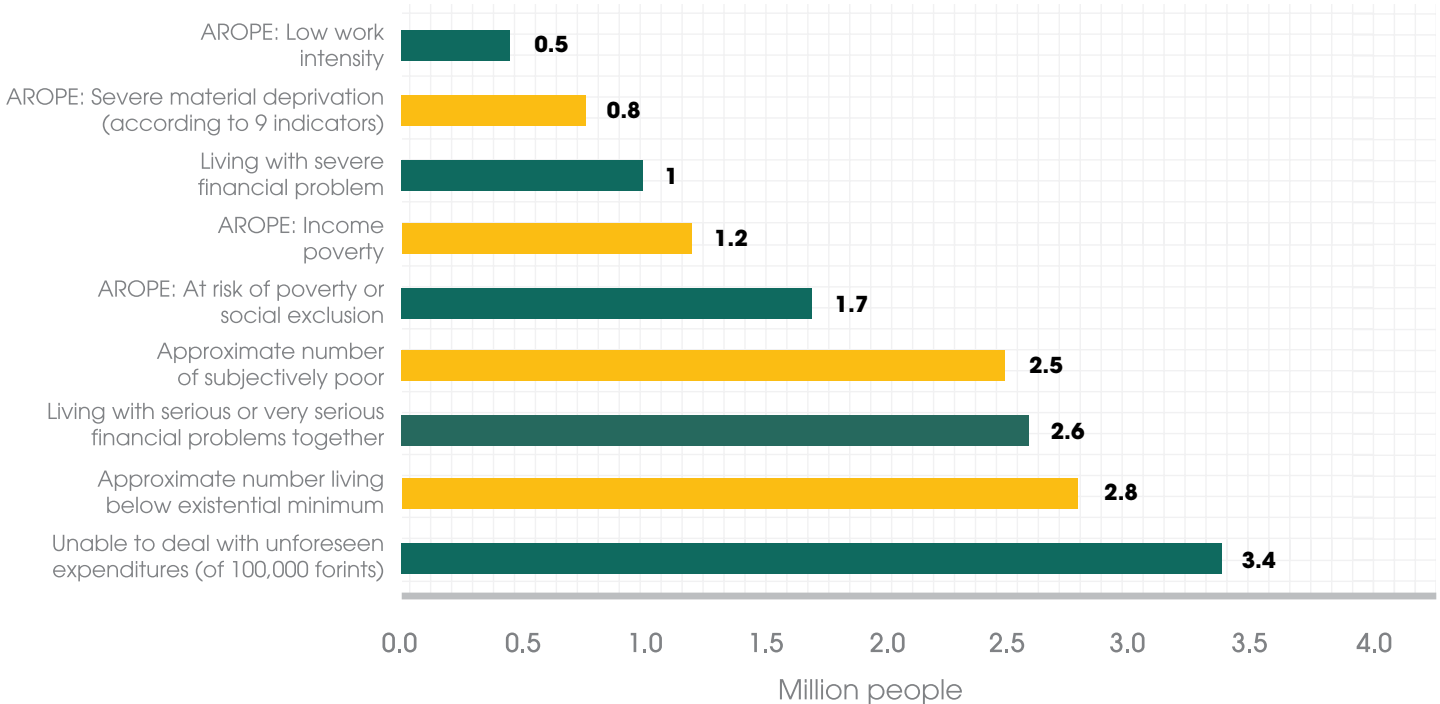


Figure 1: The number of poor people in Hungary according to various accepted poverty indicators, 2019, (Source: Hungarian Central Statistical Office and Eurostat databases, with our own calculations)

It emerges from the data at our disposal that the most disconcerting aspect of poverty in Hungary may be the extremely low level of social mobility, in other words, the problem that a person born into a poor family is very likely

to spend their life in poverty. The channels of mobility in Hungary have narrowed to such an extent that **there is no other European country where the “floor is as sticky” as it is in Hungary.**



# 3. WHAT ARE WE DOING FOR THE POOR AND HOW ARE WE DOING IT?

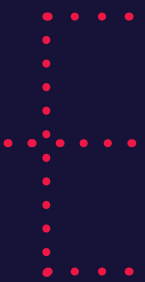
Managing and alleviating deprivation and exclusion as they manifest themselves in the forms discussed above is a social policy responsibility. **In 2019, public spending on social protection in Hungary amounted to 16.6% of the GDP.** This means that calculated on a purchasing power parity and per capita basis, Hungary spends less than half as much on social protection than the average of the 27 EU member states. But this sum is further subdivided between actual spending on protecting the poor and social security-type expenditures – the latter include, for example, the state spending on pensions, which exceed 8% of GDP. **In other words, the social welfare system is primarily used to manage systemic level social problems, while it spends relatively less on improving the situation of those segments of the population who are mired in poverty.**

Furthermore, income from social transfers is not distributed in proportion with the recipients' needs: the sum of such transfers is substantially higher in the case

**of households which have a higher income to begin with:** we redistribute twice as much to the top quintile in terms of income as to the lowest quintile. A distinct problem is that **the child support system in Hungary today favours those families which have a secure and predictable income, while it offers less to those who would really need support.** That is why their usefulness in the efforts to combat poverty is rather limited.

**This means that calculated on a purchasing power parity and per capita basis, Hungary spends less than half as much on social protection than the average of the 27 EU member states.**

## System of social transfers



- fragmentation**
- excessive bureaucracy**
- low efficiency**

The system of social transfers in Hungary does not work well from the following three perspectives, either:

**Fragmentation:** there are dozens of distinct forms of social assistance, and it is almost impossible for anyone to navigate their way through the maze of options – and it

is especially difficult for those for whom this is the most pressing issue. Currently, the poor need to find their way in an extremely overcomplicated system of assistance. This system creates the illusion of being highly targeted but manifests itself to the potential recipients as an inscrutable and unintelligible ecosystem. **Furthermore, due to many**

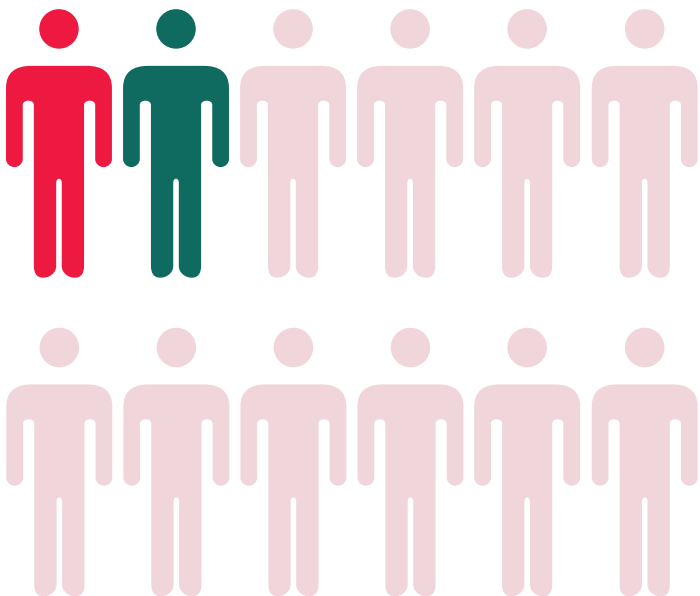
ways in which one may be eligible for assistance, the mere fact of being poor does not qualify someone for access to regular social assistance. To receive such social assistance, the recipient must always qualify for some additional kind of entitlement and comply with separate criteria (e.g. they must raise an underage child; be incapable of performing work; be elderly; perform voluntary work; or there must be an absence of a person who is legally obliged to provide care for them, etc.).

**Excessive bureaucracy:** instead of automatically providing those in need with assistance when they face a given life situation, once an application for aid is filed an endless review process commences, and the outcome is often unpredictable. A system that is this non-transparent and haphazard in its operations is much more likely to favour those who specialise on outwitting the reviewers than those who are genuinely in need. Those who are in greatest need lack the proper amount of information and the resources to optimise their own chances at securing welfare assistance.

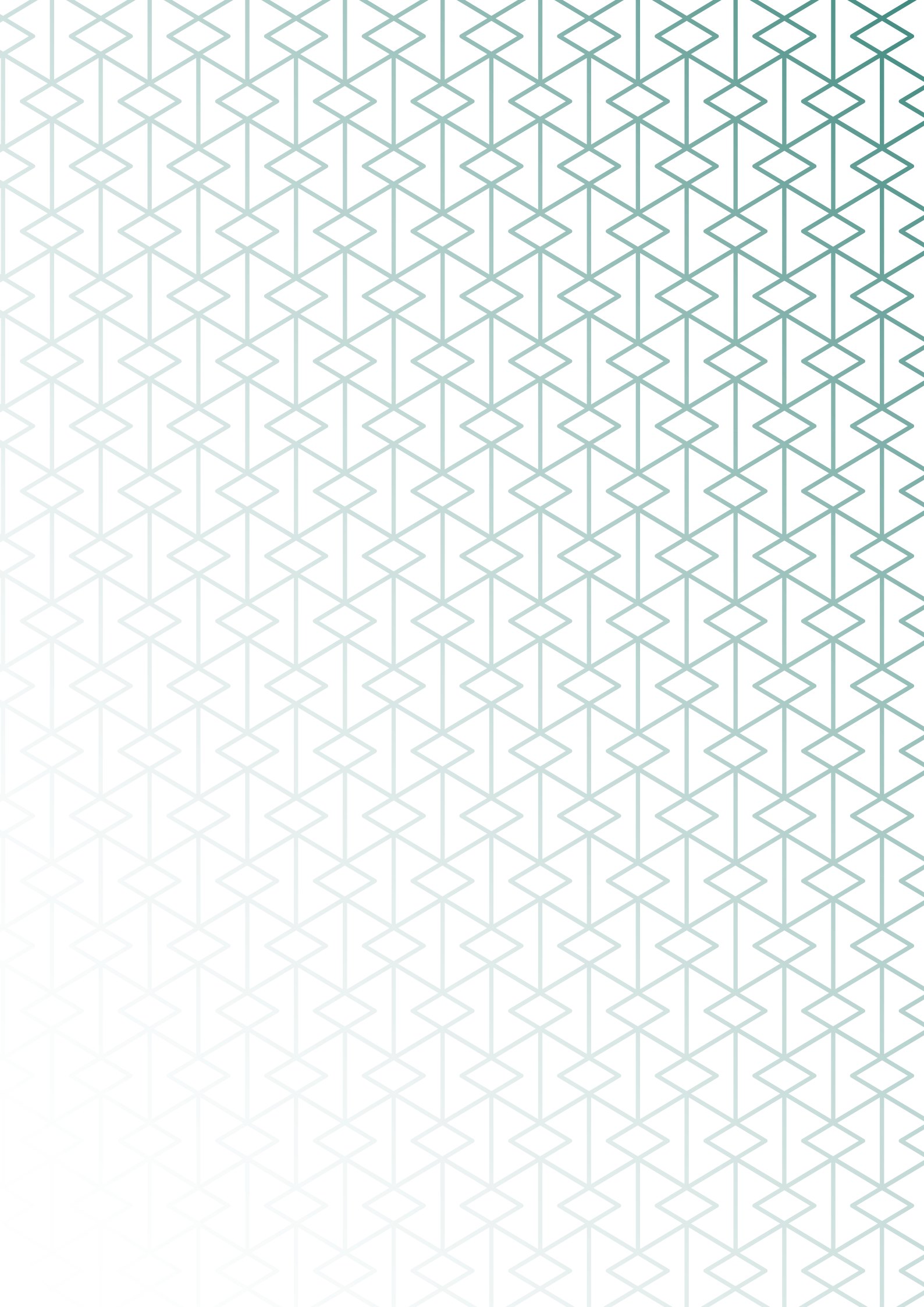
**Low efficiency:** assistance in Hungary is mainly paid in the form of cash, and it reaches recipients primarily by way of the postal services or through direct cash handouts to the recipients. This method is both unmodern and stigmatising. The transaction costs of cash handouts are far greater than those of bank transfers, and this practice is one of the major

reasons behind the fact that as compared to other segments of society, the poorest are at a major disadvantage in terms of their access to and use of banking services. Due to the welfare assistance being tailored to the needs of households, along with the ease of spending cash assistance, it cannot be guaranteed at all that the help extended by the state actually reaches the other members of the household and is not spent quickly by the individual who took receipt of the money.

**As of 2021, there were still 90,000 people in Hungary who earned their living through workfare programmes.** The goal of public employment programmes is to ensure that those caught up in long-term unemployment do not become dependent on aid but instead successfully reintegrate into the labour market or find a path to enter it, even as they escape the poverty trap in the intervening period – in this respect it is not merely an employment policy instrument but also an important tool of social policy. Nevertheless, the actual salary of workfare in Hungary is substantially below the level of the existential minimum and it is thus insufficient for helping masses escape deep poverty. Moreover, experience shows that it is also ill-suited for helping the reintegration into the labour market of those who work in these programmes.



Even at its peak period between 2016 and 2018, the share of those who shifted from workfare to the open labour market never exceeded a share of 15-18%. To make things worse, over half of those who exited workfare were back in the system in a matter of months.



# 4. THE RECOMMENDATIONS OF THE EQUILIBRIUM INSTITUTE FOR REDUCING POVERTY

## I 4.1. LET'S EXTEND SOCIAL ASSISTANCE IN WAYS THAT GENUINELY HELP PEOPLE! – THE BASIC PRINCIPLES FOR RESTRUCTURING THE SYSTEM

There are currently **several dozens of forms of welfare assistance, which are differently defined, targeted, paid out and regulated.** Despite good intentions, the result is that the system of social transfers is confusing and opaque, and difficult to navigate even as its individual parts do not really add up to a coherent whole.

In transforming social welfare assistance, we need to simultaneously satisfy three criteria:

**01** We need to radically simplify the system of social transfers so that it simultaneously becomes more transparent, predictable for the recipients and sustainable, all the while it also serves the main underlying objective, which is reducing poverty in Hungary. The new system needs to become as efficient as possible in delivering assistance to the those in need with the least amount of information with minimal bureaucratic costs.

**02** Social assistance can only realise its fundamental objectives if it secures at least the minimum financial support necessary for subsistence to all those who are in need.



**03** Even if it fulfils the objective of providing social security, social assistance should not disincentivise employment. In other words, it should not be allowed to contribute to the reproduction of the traps of poverty and dependence. Rather than impeding, we should help and incentivise employment!

**The general long-term goal is to ensure that within a span of ten years every citizen should have access to a level of income that reaches at least the level of the existential minimum, thereby making it possible for them to cover the costs of living a life in dignity.**



▶ **BY 2030, AN EXISTENTIAL MINIMUM LEVEL OF INCOME (CURRENTLY, THIS WOULD BE ABOUT 100,000 FORINTS) NEEDS TO BE INTRODUCED!**

This should be set as the minimum amount of income that no Hungarian should be allowed to fall below, in order to avoid them becoming stuck in a long-term cycle of poverty.

▶ **EVERY HUNGARIAN WHOSE INCOME IS LESS THAN THE EXISTENTIAL MINIMUM SHOULD BE AUTOMATICALLY GIVEN A NET BASIC ASSISTANCE OF 50,000 FORINTS!**

Starting from a net amount of 50,000 forints a month, the sum should be gradually increased to reach the amount of 100,000 forints by 2030. From then on, the amount should be continually adjusted to track the changes in the amount of the existential minimum. The net amount of 50,000 forints a month should be automatically extended to every adult Hungarian citizen in the event that their total income – be it income from work, from capital, from business activities, health condition-related or other benefits – does not rise to the level of the existential minimum.

▶ **WORK SHOULD BE MORE REWARDING THAN NON-WORK!**

The provision of income that matches the existential minimum can only provide genuine assistance to people if it does not disincentivise work. **For historical and economic reasons, the gap between the existential minimum and the lowest level of work wages is too low.** That is why we recommend a nearly ten-year transition period for the full amount of the proposed existential minimum to become effective: during this time, the minimum wage will also increase in parallel with Hungary’s economic growth, and as a result the gap between the level of the existential minimum and the minimum wage will also increase substantially.

The basic social welfare assistance would replace a major portion of the currently existing forms of assistance and benefits. Although a partial targeting also has benefits (it makes it harder to fall through the cracks), the effectiveness of the system on the whole is undermined by the fact that

our welfare assistance system supports those in need with dozens of minor amounts instead of one or a few subsidies in larger amounts. This makes it more difficult for citizens to plan, all the while it imposes major administrative costs on the state as well. A unified basic social welfare assistance would result in a fundamental and positive change as compared to the current welfare regime in which citizens have no access to any stable source of income from the state in situations involving income poverty, and thus they have no access to assistance that helps ensure that they make the existential minimum. Only two of the existing forms of assistance would be retained alongside the basic social welfare assistance. These two forms of assistance are intended to help in two very specific life situations:

- ▶ Those who live with major health problems have to continue to receive a separate form of assistance.
- ▶ A universal crisis assistance will also be retained; this benefit is not contingent any of the broader special areas based on which assistance can be provided, and it can be awarded swiftly and flexibly.

▶ **THE BASIC SOCIAL WELFARE BENEFIT, AS WELL AS INCOME FROM SOCIAL WELFARE IN GENERAL, SHOULD NOT BE ALLOCATED TO HOUSEHOLDS BUT TO INDIVIDUAL PERSONS!**

In other words, in the future the assessment of whether someone is eligible to receive a benefit should not be contingent on the family/household’s level of income and life situation but on the income situation of a particular individual! In practice, this means that the eligibility for a given benefit will no longer be dependent on the composition of households, which is difficult to track and sometimes changes rapidly: **the basic social benefit might be separately paid to a member of a household even if it may happen that another member of the same household (who does not qualify as being in need) is not necessarily eligible for the same support – everyone will be supported on the basis of their own income.**

Calculating on the level of households is often inaccurate and is also inefficient. There are many life situations in which it is very difficult to define the people that actually make up a given household. Let us consider the example of multi-generation family homes, older persons supported by younger family members or those adult children who temporarily or permanently reside abroad but continue to be registered at their parent's address. The low effectiveness of the current regime stems from that fact that in a system where welfare assistance is household-centred, generally a single person will be in control of the entire family's income from social transfers. It does not matter who that family member is, it gives them great power over the other family members, which also renders the others vulnerable to potentially bad decisions taken by the latter (such as for instance the unilateral spending of the assistance), which could thus result in adverse impacts on all members of the affected household.

▶ **LET'S AUTOMATE THE PROCESS OF ESTABLISHING WHETHER A PERSON IS IN NEED ALONG WITH THE PAYMENT OF BENEFITS!**

The state has all the data at its disposal to ascertain whether someone is eligible for a given benefit – that is why it should not be the citizens themselves who are required to initiate and verify that they are eligible for the basic social benefits! Instead, the process of determining eligibility should be automated, just as it is already done in the case of the personal income tax statement draft for each citizen generated by the tax authority!

The system of social assistance today is bureaucratic, slow and often haphazard in its operation. Most elements are subject at some point to a manual review (performed by an administrator). The citizen has to file a claim to establish that they are eligible and they need to verify this (on the basis of data about their income, their housing conditions, family relations, etc.), even as the review and decision process is often protracted and cumbersome.

**A unified system for tracking and registering incomes both from the market and the social welfare system must be introduced. It should be the National Tax and Customs Authority's responsibility to determine an individual's income from social welfare assistance and to pay out the relevant benefits!**

**It should be the National Tax and Customs Authority's responsibility to determine an individual's income from social welfare assistance and to pay out the relevant benefits!**

▶ **FOLLOWING THE POLISH MODEL, WE NEED TO INTRODUCE A BASIC BENEFIT PAID AFTER EACH CHILD, IN A MONTHLY AMOUNT OF 50,000 FORINTS!**

In addition to the basic social welfare benefit targeted at the adult population, we need a distinct form of support to ensure the existential security and the proper conditions for a balanced upbringing for each family in need that raises children.

This benefit will be aimed in particular at those who raise and support children, and every family will be paid the same amount regardless of their income and the number of children! Its sum will be half of the amount defined as the existential minimum at any given time (roughly 50,000 forints today).

A similar programme introduced in Poland called the Rodzina 500 plus (Family 500 plus) has halved child poverty there within just a year. The basic social welfare benefit paid after children would replace the existing system of the family income supplement and would be paid until the child reaches the age of majority unless the minor already receives an income in excess of the existential minimum already before reaching that age.

# Let's introduce a new indicator for measuring poverty!

Most accepted indicators used to measure poverty today are unsuited for capturing the actual pervasiveness of the phenomenon in society. This methodological difficulty impedes both, the efforts at capturing the real impact of poverty as well as our understanding of the underlying dynamics.

We need a new indicator that is capable of 1) presenting a credible picture of the poverty situation in Hungary; and 2) is based on data that are available going back years in other EU member states as well.

The **Equilibrium Institute's Poverty Indicator (EIPI)**, which is based on the data collected annually as part of the EU SILC survey, satisfies both these criteria. The EIPI is a composite index made up of five constitutive elements:

**01** The disposable income of the given household (the question of whether income reaches the prevailing level of the existential minimum).

**02** The ability of the given household to properly heat their own family home.

**03** The ability of the given household to nourish every member of the household with meat, fish or their vegetarian equivalents at least every other day.

**04** The ability of the given household to cover unexpected and extraordinary expenses.

**05** Does the individual have two good pairs of shoes; we survey whether that is true of every member of the household.

If we capture a deficiency in the case of any of the five elements, then the household is considered to be at risk of poverty: in the event of two to three problem areas which apply at the same time, the household is considered poor; and if four or five problems apply, then it is considered to be extremely poor.

The **Equilibrium Institute will calculate the EIPI figures for 2021 following the annual publication of the underlying database. We will publish these results and also juxtapose them with the relevant data for previous years.**

## I 4.2. MORE EFFICIENT, MORE TRANSPARENT, MORE MODERN – FINANCIAL MEASURES

In the coming decades, a growing number of developed countries, Hungary included, will be increasingly quickly transitioning from a cash economy to a cashless economy, which is both cleaner and smoother. Based on the existing international experience, the losers of this process will be those with lower incomes, the elderly and those with lower educational attainment. That is because in their case cash use tends to be far more common as compared to the average, while the rate of banking in turn – and especially online banking – is far below the average. This owes primarily to a lack of competence, the higher number of low value transactions and the fees associated with holding a bank account.

▶ **BY 2030 THE STATE SHOULD PAY EVERY TYPE OF SOCIAL TRANSFER DIGITALLY TO THE RECIPIENTS! BY THAT TIME, THE OPTION TO PAY DIGITALLY SHOULD BECOME AVAILABLE IN ALL AREAS OF THE COMMERCIAL AND SERVICE SECTOR!**

In addition to shielding the most vulnerable groups in society from the costs of scaling back the use of cash, this would also lead to a simplification and greater plannability in the system of social transfers. Automated payments into the recipients' bank accounts would remedy most of the problems associated with the use of cash, from public stigmatisation all the way to overburdening the postal services with the administration of payments.

▶ **BY 2030, EVERY HUNGARIAN CITIZEN NEEDS TO HAVE ACCESS TO A BANK ACCOUNT THAT IS AUTOMATICALLY CREATED (OR THROUGH A SIMPLIFIED PROCESS) AND WHICH IS FREE, EXEMPT FROM MONTHLY ACCOUNT AND CARD FEES!**

The resources to this end could be achieved through the elimination of the tax on financial transactions. During the transition period, the state should prepare those with lower incomes for availing themselves of banking services as a matter of routine!

▶ **LET'S REFORM THE SYSTEM OF PERSONAL BANKRUPTCY BASED ON THE SLOVAKIAN MODEL!**

The current system is practically unattainable to citizens in need, primarily because the barriers to entry are too high, the procedural rules are too complex, the eligibility criteria are too narrow and the administration is overly complicated. That is why we need to start with getting **rid of those entry barriers** (e.g. the value of insolvency assets, the excessively narrow definition of the kinds of debt allowed, the requirement of regular income, etc.) **which end up excluding those who are most in need of help from the system.**

To make the institution of personal bankruptcy smoother and more efficient, one must also expand and shore up the **support capacities (client centres)** in addition to changing the legal framework: **anyone in need who is going through a personal bankruptcy should also receive the support of a social worker throughout the process!**



## 4.3. PROTECTING THE GROUPS WHO ARE MOST AT THE RISK OF POVERTY

### ▶ LET'S INTRODUCE A BASIC PENSION PAID TO EVERY CITIZEN WHO IS OF A PENSION AGE!

Today, roughly 39,000 elderly Hungarians receive a pension that is less than 50,000 forints a month, while a further 395,000 have to make do with over 50,000 forints but less than 100,000 forints in pensions each month. These are referred to in public as so-called petty pensioners, and they are most at risk of poverty in their old age and are more likely to suffer from the concomitant health risks.

**All Hungarians who have reached the pension age must be given a basic pension which provides them with the means to lead a dignified life as pensioners and which matches to the amount of the existential minimum!** This basic pension should be paid independently of the individual pensioner's other sources of income and of their previous contributions into the social security fund. It would constitute an addition to the current system of pension benefits and would be funded by that central budget rather than the pension fund. The amount of the basic pension should be roughly 100,000 forints at the start, and then its value would increase based on annual indexing that tracks the trajectory of the existential minimum. *(We have written in greater detail about the possibilities for transforming the pension system in the Equilibrium Institute's previously published set of policy recommendations titled "How do we become wealthier?")*

### ▶ A SENSIBLE WORKFARE PROGRAMME AND AN ENTITLEMENT TO PUBLIC WORK!

We have to rethink the entire Hungarian workfare system from scratch in order to make it genuinely effective in preventing the most vulnerable groups in society from dropping out of the labour market, as well as to ensure that it provides those in these programmes with effective help in returning to the commercial labour market.

**We need to introduce an entitlement to public work to prevent poverty and long-term exclusion from the labour market! The access to workfare should be available to anyone in need, and no one should be deprived of this possibility for arbitrary reasons.** If such a work opportunity cannot be arranged for them in the place of their residence, they need to be assisted in commuting to the nearest locale where such an opportunity is available to them.

**The right to workfare should imply the right to meaningful work that creates value.** This may include, for example, the renovation of public buildings; responsibilities involving the efforts to improve climate adaptation; or work that helps the individual job seeker in improving their own employability (for example by providing them with new skills). **Workfare cannot be limited to the performance of meaningless and rote work that does not result in creating anything of actual value.**

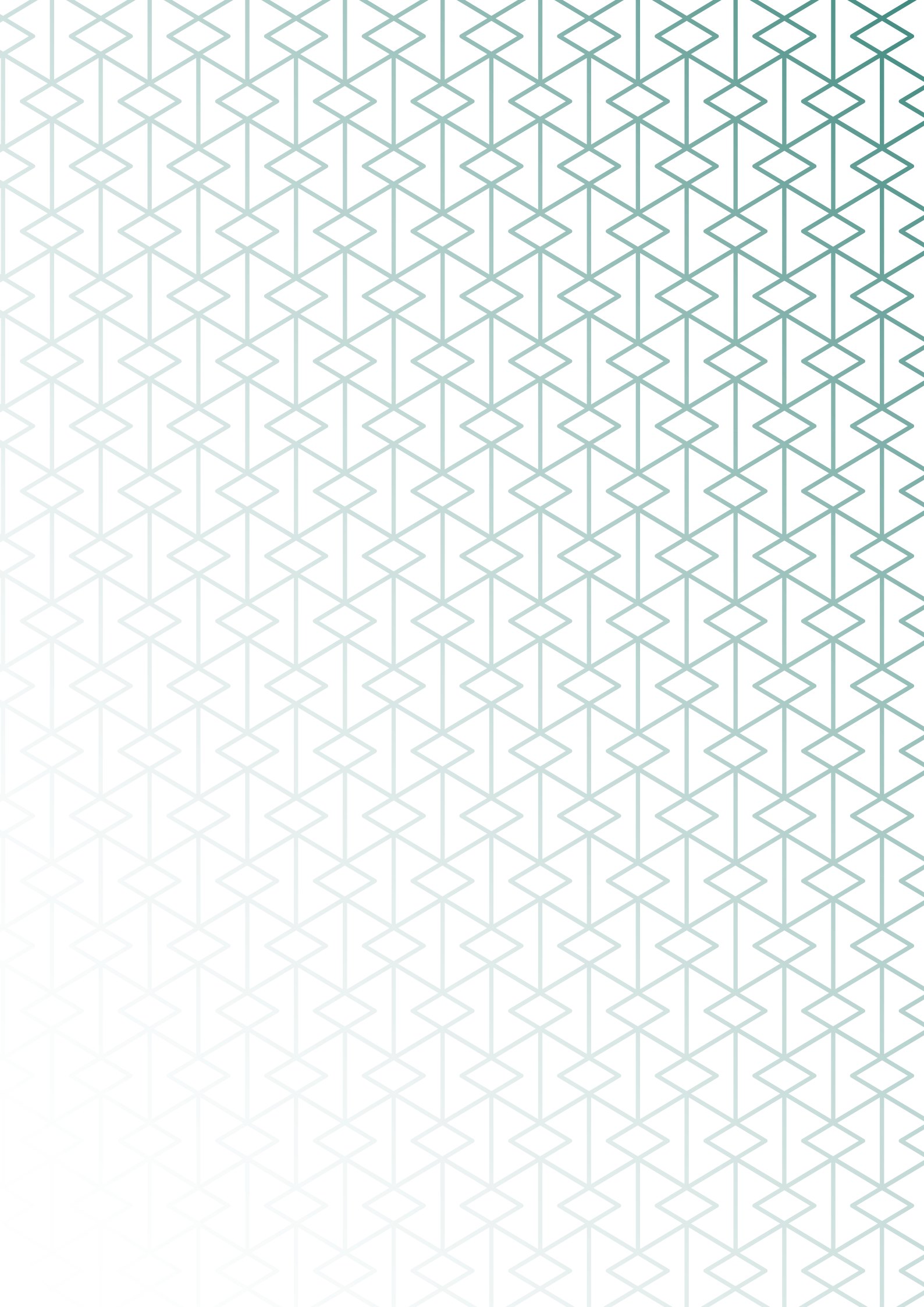
### ▶ THOSE WHO WORK IN WORKFARE PROGRAMMES SHOULD BE PAID THE MINIMUM WAGE!

**If workfare involves meaningful work then its wage level should not be below that of the minimum wage.** No public institution (state and municipally-owned corporations included) should be allowed to employ anyone with less favourable conditions than are legally mandated in the commercial labour market! **That is why the pay of public workfare programme participants needs to be gradually raised to the level of the (untaxed) minimum wage** (in contrast to the prevailing 85,000 forint upper limit that applies today). **As the first step of the transition, the minimum wage of workfare participants needs to be increased to the level of the existential minimum, and then an indexing must be used to gradually increase it to the level of the minimum wage.**

▶ **THE RESPONSIBILITY FOR ADMINISTERING WORKFARE SHOULD BE TRANSFERRED FROM MUNICIPALITIES TO HIGHER LEVELS OF GOVERNMENT, THEY SHOULD BE ADMINISTERED EITHER AT THE LEVEL OF THE COUNTY OR CENTRAL GOVERNMENTS!**

This is also warranted by the goal of preventing local political dependencies from being reinforced as well as the interest in protecting local markets. Naturally, this does not imply that municipal governments should be barred from drawing on the labour of those who are involved in workfare programmes, but the allocation of the workforce, its organisation and review should be within the purview of the county or of the central government! **In the meanwhile, the state should introduce a strict inspections regime to scale back the use of undocumented labour!**

In a previous study the Equilibrium Institute addressed the issue of the role that public workfare plays in the system of the benefits extended to job seekers. In the corresponding study we argued that job seekers should be entitled to both a higher amount of unemployment benefits as well as a longer eligibility period spanning 10 months. In the event that they fail to secure a job in the commercial labour market during that time, they should have the option of choosing between workfare or a guaranteed basic social welfare assistance.



# THE EQUILIBRIUM INSTITUTE'S RECOMMENDATIONS

AREA	RECOMMENDATION
<b>MORE EFFICIENT SOCIAL TRANSFERS</b>	<b>Let's introduce a basic social welfare benefit to everyone whose income is below the existential minimum! The amount should start out at half of the level of the existential minimum (50,000 forints) and should be gradually increased over time to reach the existential minimum by 2030!</b>
	<b>Welfare assistance aimed at households needs to be replaced by benefits that are aimed at individuals!</b>
	<b>Let's automate the system of social transfers! Let the National Tax and Customs Authority determine the amount of the benefits that individuals are entitled to and automatically transfer the amount to the recipients!</b>
	<b>Let's introduce a basic benefit paid out to those who raise children, in the monthly amount of half of the existential minimum (50,000 forints today)!</b>
	<b>Let's introduce a poverty indicator that better reflects the new Hungarian realities!</b>



# FOR REDUCING POVERTY

AREA	RECOMMENDATION
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## FINANCIAL MEASURES

By 2030 we need to pay out all social transfers into free bank accounts!

A new institution of private insolvency that provides effective protections for the poor!

## THE PROTECTION OF ESPECIALLY VULNERABLE GROUPS

A pension that matches the existential minimum for all persons who have reached the pensions age!

Let's introduce a right to meaningful workfare that creates value!

Let's transfer the responsibility for the operation of workfare programmes from the municipal governments to the county or central governments!

Let's raise the wages received by those are active in workfare programmes to the level of the existential minimum, and then increase the amount gradually so that by 2030 it matches the minimum wage!

# ABOUT US

The Equilibrium Institute is Hungary's largest independent, future-oriented policy think tank.

In line with the vision of Hungary's future presented in our publication entitled Hungary 2030, the Equilibrium Institute works on creating a smart and environmentally cleaner nation rooted in a strong community. To this end, we write widely appealing and practical policy proposals that serve the development of our country, and we discuss these jointly with the best domestic and international experts.

Our goal is to ensure that the current and future political, economic, and cultural decision-makers learn about our recommendations, come to agree with them and implement them.

The staff members of the Equilibrium Institute and the members of its Advisory Board are renowned experts in Hungary who are considered to be among the best researchers and analysts in their respective fields. The work of the Institute is helped by more than 30 experts, including economists, sociologists, political scientists, lawyers, urbanists, and climate researchers.

# OUR EXPERTS



## TAMÁS BOROS

*Executive director and co-founder of the Equilibrium Institute*

He serves as a member of the Scientific Council of a leading European think tank, the Brussels-based Foundation for European Progressive Studies (FEPS). He is the co-founder and co-owner of Policy Solutions, a consultancy and research institute. He is a recurring guest on a variety of political talk shows and often comments about public affairs for leading international media. He previously worked for the European Commission and the Hungarian Ministry of Foreign Affairs as an expert on communication and EU affairs. His research focuses on Hungarian and EU political communication and populism.



## GÁBOR FILIPPOV

*Director of Research*

Previously he worked as an expert advisor in the Hungarian National Assembly and then as a political analyst and senior analyst at the Hungarian Progressive Institute. His analyses and op-eds have been published by numerous domestic and international media outlets, and he is frequently invited to talk about politics on television and radio shows. His research focuses on the European and the Hungarian far-right, on the histories of anti-Semitism and Islamophobia and their present-day manifestations, as well as the workings of contemporary authoritarian regimes.



## DÓRA CSERNUS

*Senior Climate and Environmental Policy Expert*

As an expert in environmental issues, she has worked for the Ministry of Environment and Water, the Office of the Parliamentary Commissioner for Future Generations and the Ministry of Public Administration and Justice, representing the Hungarian position in different EU, UN, and OECD fora. She later worked as Director for International Policy Development at Klímapolitika Research and Consultancy Ltd, and as an independent expert in climate and environmental issues. Her main focus is on climate policy, air-quality control and water policy.



## ZSOLT BECSEY

*Senior Economist*

Zsolt Becsey started his career as an economic planner at the Ministry for National Economy, then worked as an economic analyst and later as a modeller at the Central Bank of Hungary. His areas of interest are industrial policy, input-output analysis, macroeconomics, SME policy, and competitiveness.



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