The Collection of Theses of the Ph.D Dissertation

János Bocz

The Structural Changes of the Non-profit Sector in Hungary
The Hungarian Non-profit Sector from the early 90’s to the mid of 2000

Supervisor:
Dr. László Letenyei
Dr. Ferenc Moksony (methodology)

Budapest, 2009
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I. The Reasons for Choosing the Subject. Preliminary Researches

The subject of this dissertation is the non-profit sector. This is a sector for which there is no agreement in Hungarian or foreign scientific circles as to its place in social and economic fields. This study describes a group of organizations to which there are many different attitudes and mistaken beliefs both in society and the scientific world. Because of this one of the aims of this dissertation is to clarify which organizations belong to this sector and what processes characterized the spreading and functioning of this non-market system of organizations in Hungary in the last decade. Despite the lack of consensus concerning such organizations and their role in society, because of the role they play in social integration and their growing economic significance there has been a growing interest in their activity from both Hungarian and foreign researchers. The reasons for this are increasing individuality, the growing importance of social networks, the growing activity of non-profit organizations (NPO’s) in an increasingly globalised world, disappointment with political parties, the reassessment of ideas about the system of institutions that had originally two sectors (state-private) and rethinking the role of the state. A further reason is the recognition that civil and non-profit organizations working instead of or with the state and market sectors might get a more and more significant role in representing different social groups and solving their social needs.

Why is it important to study NPO’s?

Both the social and economic significance of civil and non-profit organizations merit a thorough analysis of the sector. The civil organizations of the sector (associations and private foundations) make the self-organization of society possible, provide social space for the communal activities of citizens and by increasing trust between people might help the realisation of the idea of social cohesion. These organizations are also interactional spaces for relations between people and social institutions and in this way they serve to represent norms, values, culture and interests. Thus we can look at NPO’s as social entities that are linked to social capital and social integration. They can be the standards, embodiment and representation of social capital at the same time. In the research of Robert D. Putnam one of the standards of social capital was the number of members of civil and non-profit organizations, in his research the author measured civil commitment by the participation in local organizations and societies and the changes of
time spent there (Putnam, 1995). However, civil and non-profit organizations can be the medium and representatives of social capital. Already Pierre Bourdieu recognised the fact that social capital can be counted on as a resource, and that it is possible to convert the different types of capital into each other (Bourdieu, 1997). To be on the board of trustees of a foundation or to take part in the activities of a well-known society is not only a factor that increases the participants’ prestige and social capital, but also makes it possible to express the different types of capital and their conversions.

Looking at them in a broader sense, civil and non-profit organizations can be seen to be one of the most important institutions of social integration and a mediating influence for system-integrating mechanisms. When discussing the crisis of welfare states, the decreasing role of the family and the challenges of globalization and ecological deterioration, Anthony Giddens suggests following a 'third way', one of the basic conditions of which would be the partnership of the state and civil society, and the integration of the third (non-profit) sector into the renewal of society (Giddens, 1984, 1998). The basis of cooperation between the state and civil society is trust, which plays an important part in the welfare of states and their ability to compete. According to Francis Fukuyama in every society all successful economic communities are held together by trust, which demonstrates its integrating effect through civil activity. As the author writes: 'the vitality of liberal political and economic institutions depends on the health and dynamism of civil societies’ (Fukuyama, 1997). It is not a coincidence that different international institutions (e.g. the UN, the EU and the World Bank) more and more often refer to the social role of civil and non-profit organizations, and what is more, the most recent approaches concerning the activity of non-governmental organizations analyze the influences of the formation of global civil society (Anheier-Glasius-Kaldor, 2004).

The potential of the civil, non-profit sector cannot be underestimated when discussing the ownership of economic resources and the fulfilment of social requirements. Although the results of several surveys on the role of NPO’s in certain countries – especially developed ones – are well-known, so far there has been only one comprehensive international empiric comparative survey,¹ which was organised by the Johns Hopkins University Institute for Policy Studies. The main reason for this is the range of interpretations of the concept of non-profit organizations within every country: because of the different cultural

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¹ In the research started in 1990 the role, size, structure and finances of the non-profit sector were analyzed first in 12, then in 22 countries. The countries taking part in the research were: Argentina, Austria, Belgium, Brazil, the Czech Republic, the United States, Great-Britain, Finland, France, Holland, Izrael, Ireland, Japan, Columbia, Hungary, Mexico, Germany, Spain, Slovakia, Peru and Romania.
and historical traditions between each country there is no universal agreement concerning which organizations belong to this sector and the position of NPO’s compared to the market and state sectors. Although, now, more than a decade has passed since the Johns Hopkins survey was started, it is still worth mentioning some of its results from 1995 in this essay.

For all the countries taking part in the survey, the non-profit sector accounted for 1.1 thousand billion dollars and the expenditure of this sector on average amounted to 5% of the GDP. The NPO’s employed almost 19 million paid full-time staff, in the countries being examined on average 28% of the population undertook voluntary work for NPO’s. Also in western countries NPO’s played an important role in job creation. Between 1990 and 1995 the number of people employed by NPO’s on average grew by 24%, and this created new jobs in the fields of health care, social care and education (Salamon-Anheier-List-Toepler-Sokolowski, 1999).

The Hungarian figures also show the development of this sector and the strengthening of its economic importance. Since 1990, also in Hungary the number of civil and non-profit organizations has increased fourfold, the sector’s income grew from 240 to 896 billion Ft between 1996 and 2006. According to the latest data of 2006 the number of employees in the sector had reached 100 thousand, statements from the organizations indicated that staff levels had reached 3.8 million along with 438 thousand people who contributed voluntary work to help them achieve their goals. In order to illustrate the amount of the resources concentrated in the sector it can be said that in 2006 the amount of the resources of the non-profit sector was equivalent to the combined income of the state budget derived from inland revenue tax and simplified entrepreneurial tax.

We should not question the economic potential of the organizations, which were called ‘social’ before 1990 but are now called ‘civil’ or ‘non-profit’ organizations; at the same time we can also see that information about them is often misinterpreted. One of the main reasons for this is the fact that their aims are incorrectly presented, and another is that their aims are often seen as just a collection of homogeneous organizations. People tend to generalize when forming opinions about these groups by looking at their appearances and even scandals, ignoring the fact that the structure, aim and function of each organization are generally different.

2 A typical example of this is when civil and non-profit organizations are used as each other’s synonyms, or when referring to NPO’s, they mean only foundations and voluntary associations, ignoring the fact that the greatest part of the sector’s incomes and employees are concentrated in the public benefit companies, which are few in number but whose economic potential is significant.
In this dissertation my starting point is the assumption that over the last two decades the Hungarian civil and non-profit sectors have changed significantly. This has been shown not only by the changes in the structure of organization and activity, but also by the fact that because of the growing concentration of financial and human resources the organizations themselves, previously diverse, have now become increasingly so. Thus the variations in their aims and financial resources have become greater due to the differing structure and access to resources of each separate organization.

**Foreign and Hungarian research of the subject**

On the basis of foreign, especially Anglo-Saxon and German theories of social science, the development of NPO’s is due to both economic and sociological factors. The former theories explain the development of the non-profit sector and the differences within various countries as caused by the shortage of available public goods (Weisbrod, 1977, 1986), the greater trust in NPO’s (Hansmann, 1987), the heterogeneity of demands (James, 1987). In sociological approaches stress has been placed on the prevailing social and historical factors, resistance to the power structure, changes in ways of life and social structures and meeting the demands of different groups of stakeholders. According to these approaches the development and function of NPO’s can be explained by protests against the prevailing power structures (Smelser, 1963; Tilly, 1978), the overloading of the state (Etzioni-Halevy, 1983), the continuous adaption to the environment (Touraine, 1981), changes in ways of life, the intention to influence social and political decisions and achieving results benefitting particular groups of stakeholders (Krashinsky, 1997). On the basis of interdisciplinary approaches, the differences between NPO’s and the development and social function of the sector can be explained by the different cultural and economic development of the various countries (Salamon-Anheier, 1998), the NPO’s role of mediating interests in the welfare states (Evers, 1988; Evers and Olk, 1996) and the ideas of evolutionary theories concerning ‘organized diversity’ (Grabher and Stark, 1996).

In Hungary, however, foreign theories cannot always be applied. Before 1989 the functioning of the greater part of organizations, considered now to be NPO’s, was hindered by the laws of the time, the one-party system and the prevailing power structure. Exceptions to this were the politically neutral organizations (e.g. sports clubs) and organizations founded and influenced by the state (e.g. the People’s National Front and the trade union movement). Thus the development of Hungarian NPO’s and the circumstances of their formation from the late 1980’s differed greatly from those of democratic countries.
Besides satisfying increasing demands and acquiring extra support resources, in the
development of the sector an important role was played by the change of the political
system, the survival of the major part of earlier social organizations and the change in the
structure of economy and ownership.
It might be a Hungarian characteristic, which also played an important role in the growth
and structural changes of the sector, that on the one hand, state and municipal institutions
lacking funds, increased their economic possibilities by creating NPO’s; on the other hand,
amongst the many types of NPO’s founded after 1994, it was the public benefit companies, which due to their non-profit characteristics and the benefits and supports
linked to them that were able to gain advantages in the market over the state and for-profit
economic organizations. The formation of the Hungarian non-profit sector was effected by
the far-reaching changes in world politics and economics together with the arising of a
global civil society. Because of this Hungarian policy-makers – even if only symbolically
– pay more and more attention to the arbitration of their interests with civil organizations
and the communication with social agencies. Last but not least, the formation and growth
of the Hungarian non-profit sector was significantly effected by the prevailing
governmental policy, which through the regulation of legal and fiscal conditions effected
both directly and indirectly the development of the whole non-profit sector and the
operational conditions of particular organizations.
In Hungary researches into NPO’s started relatively early, in the late 80’s, and in this the
Non-profit Research Group played a pioneering role, which as a professional workshop
for non-profit researches drew attention to the social and economic significance of such
organizations. In the last 18 years several comprehensive studies and essays have been
published on the sector, and more and more information has been published about the
functioning of NPO’s. One part of these researches focused on a general introduction of
the sector and the description of foreign theories (Kuti-Marschall, 1991; Bartal, 1999),
while another part attempted to create the Hungarian model of non-profit organizations
(Hegyesi, 1991; Lévai-Széman, 1993; Fülöp, 2002; Bullain, 2005). Works of synthesis
analysed the sector’s developmental tendencies and legal and economic environment
(Vajda, 1995, 1997; Kuti, 1998; Bartal, 2005; Bíró, 2002), while statistical analyses (Bocz
NPO’s known. Besides the comprehensive studies, several essays have been published
which examined specific fields: the 1% tax-deductible donation scheme (Kuti-Vajda,
1997; Bíró-Gerencsér, 2000), voluntary work (Czakó et al., 1995; Czíke-Bartal, 2005;
Czike-Kuti 2006), specific fields of non-profit activity (Szalai, 1997; Bocz, 2004), cooperation between local authorities and NPO’s (Sebestyén, 1996; Harsányi-Széman, 1999; Szabó, 2000) and discussions on Hungarian NPO’s (Glózer, 2006).³

³ It would need a separate chapter to list all foreign and Hungarian research concerning civil society, its meaning and the history of its theories. References to these are to be found under 'Main references'.
II. The Methods Used

In the dissertation I have used various methods of analysis and examination. In the first and second parts of the essay, with the help of foreign and Hungarian technical literature, I have shown the different interpretations concerning the usage of ideas about civil and non-profit organizations and the most important theoretical approaches related to the creation and the social role of NPO’s.

In the third and fourth parts, I used the databases of the Hungarian Central Statistical Office (HCSO) containing the results of the surveys of data concerning NPO’s and the income tax report data gathered by the National Civil Fund and the Tax Office. The HCSO has been annually examining the most important economic indices of Hungarian NPO’s since the early 90’s. Comprehensive opinion polls carried out by mail referring to the years from 1993 to 2000 and from 2003 to 2006\(^4\) included all NPO’s registered in Hungary. In the data gathering of the HCSO significant changes have occurred, the subjects of observation, the questions asked in the questionnaires and the methods of data processing have all been changed. In order to make a comparison I unified, in several steps, the indices linked to the different years and the databases used in the dissertation.

The concepts used in this essay are identical with those generally used by the HCSO. The categorising of the NPO’s on the basis of activity groups was done using the International Classification of Non-profit Organisations. Based on this, according to their activities are classified into 18 main groups, 62 minor groups and 192 subgroups.

According to the method of the HCSO\(^5\) the statistical indices concerning the whole sector are estimated on the data-providing organizations. Replacing the non-responding organizations and grossing up have been recently done by the method of dynamic imputation. The essential point of this method is that the missing data of the non-responding organizations, which have the same characteristics as other registered NPO’s, is replaced by the data of similar NPO’s that have responded (donor organizations). In order to provide more precise results while processing the data for 2004, some NPO’s that have since closed down\(^6\) were used in the modelling and this influenced the indices for

\(^4\) There was representative data collecting concerning the years 2001 and 2002.
\(^5\) There are detailed descriptions of it in ’Non-profit Organizations in Hungary, 2004’ and ’Non-profit Organizations in Hungary, 2005’ both published by the HCSO.
\(^6\) Previously non-responding organizations, about which there was no usable data (they did not send the questionnaire back, wrong address, already defunct organizations not reported), were automatically given a
2004, too. In the table below I comprehensively describe the changes in the data collecting methods of NPO’s during the period from 1991 to 2005.

<table>
<thead>
<tr>
<th>Year</th>
<th>Description of changes</th>
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<tbody>
<tr>
<td>1991</td>
<td>Beginning of statistical observation of NPO’s. Using data provided by the Tax Office.</td>
</tr>
<tr>
<td>1992</td>
<td>Methodological change I. Start of data collecting about NPO’s by the HCSO. Use of a method based on index numbers. Data referring to finances and employment had to be given only by organizations having an income higher than 500 thousand Ft.</td>
</tr>
<tr>
<td>1993</td>
<td>Income data had to be declared by all organizations. Data referring to outgoings and employment had to be declared only by organizations having an income higher than 500 thousand Ft.</td>
</tr>
<tr>
<td>1995</td>
<td>Outgoings and employment data had to be declared by all organizations. Public law foundations, public benefit companies and public law associations start to be studied. Start of thematic complementary collection of data about particular fields of the sector.</td>
</tr>
<tr>
<td>1997</td>
<td>Methodological change II. Replacement of method based on index number by the method of dynamic imputation. Removal of the Voluntary and Mandatory Pension Fund from observation.</td>
</tr>
<tr>
<td>1998</td>
<td>Use of two sources of data (OITH, NPREG) in order to define the circle of observation.</td>
</tr>
<tr>
<td>2001</td>
<td>Methodological change III. Representative data collecting. Use of specific methods.</td>
</tr>
<tr>
<td>2002</td>
<td>Methodological change IV. Representative data collecting. Use of specific methods.</td>
</tr>
<tr>
<td>2003</td>
<td>Methodological change V. Reuse of the representative data collecting method. Associations entering the spheres of observation.</td>
</tr>
<tr>
<td>2004</td>
<td>Methodological change VI. Further refinement of the method of representative data collecting, developing methods for long term use. Modelling of data of defunct organizations. Integrated use of three sources of data (OITH, GSZR, and NPREG) in the course of defining the spheres of observation.</td>
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The databases used in this essay refer to the years from 1996 to 2000 and from 2003 to 2006, have the required number of cases and contain all the information on which I have based my hypotheses. In order to carry out the research I unified the variables of the data bases and created new derived variables. During the process I also analyzed cross-section data. In my dissertation I applied the simple but efficient method of cross-table analysis. The analysis is based on proportions and index-type variables. I carried out the analysis of the databases using the SPSS programme.

donor and were registered as functioning. Before, only those organizations, which had reported their closing down, escaped analysis. In the course of processing data for 2004, during the procedure of finding donors we modelled even the non-responding and defunct organizations, with the result that some of the non-responding organizations (modelled as defunct) consequently evaded analysis. This partially explains the fact that in 2004 there were fewer NPO’s in Hungary than in 2003.
III. The Main Scientific Conclusions and Findings of the Dissertations

In the following part I shall summarize the main scientific conclusions and findings, in the order of the hypotheses that I chose at the beginning of the dissertation.

1. The hypothesis: not every civil organization is an NPO, and not every NPO is a civil organization

The two groups of organizations are not identical, but NPO’s might have civil characteristics, just as civil organizations might have some features of an NPO. While examining the hypothesis, by introducing the development and meaning of the two concepts, I have tried to prove that using ‘civil’ and ‘non-profit’ as synonyms hides the immanent characteristics of the different meanings behind the two concepts. The concept of civil organizations, when compared to NPO’s, might be considered as both a narrower and wider category, and though there is some overlapping between the two groups, not every NPO is a civil organization and not every civil organization is an NPO. There have been great differences in their ideological backgrounds, the times of their development, the actual social and economic context either helping, or hindering their formation (Europe versus the United States, establishing the rights of autonomous citizens versus the attempt to separate the private and public sectors, the conditions of the formation of the non-profit sector in democratic and post-communist countries). And in time, as the meanings behind the concepts (e.g. the concept of civil society in western and eastern Europe) continue to change, the different interpretations of their original meanings make their basic differences diminish, so eventually civil and non-profit organizations will be neither one, nor the other.

Through examining the hypothesis, it can be proved that although the two groups of organizations are not identical, NPO’S might have civil qualities (e.g. voluntary work, independence from the government), just as civil organizations might have qualities characteristic of NPO’s (e.g. institutional functioning without the aim of profit).

2. The hypothesis: the difference in the development of the Hungarian non-profit sector from that of developed countries

As opposed to foreign theories, the formation and development of the sector in Hungary was more strongly influenced by factors connected with the changes in the social and
economic environment and with the activity of governmental decision makers. These were, for example, the change of the political structure, the continuing activity of previous social organizations, the transformation of the structure of economy and ownership, the under funded state and municipal institutional systems as well as the policy of the prevailing government regulating the functioning and management of NPO’s.

When examining the hypothesis, introducing and considering the changes in the Hungarian social and economic environment, I have tried to show that the conditions of the formation of Hungarian NPO’s and the development of the sector significantly differed from the practice in democratic countries. In the late 1980’s only 8.5 thousand social organizations (associations and representative organisations of employers and workers) were working in Hungary, while by 2006 the sector expanded to 60 thousand organizations (incorporating 9 organizational types). Such significant increases in numbers and organizational changes can be explained by several partially linked processes and factors.

The socio-political framework of the development of the sector was formed by the changes in the political structure in the late 80’s, early 90’s. While in Hungary, before the late 80’s only politically neutral associations and state-controlled representative organizations of employers and workers could function within an official framework, the new democratic political environment made it possible not only for the previously informally operating voluntary organizations to be given an official foundation, but also for those NPO’s which had differing structures (e.g. foundations) and represented new aims and interests brought about by the transformed social conditions. The transformation of the political and economic environment played a demonstrably major role in the sharp growth in the number of NPO’s – especially foundations and representative organizations of employers and workers – and provided a suitable background for the further development of the sector.

Alongside the newly founded NPO’s, the past continued to survive. Many previous social organizations remained, and what is more, many organizations that between 1945-48 had been shut down, were re-founded. Mostly those, typically urban social organizations concerned with sporting, leisure and cultural activities, survived, which had a stable organizational and support basis and were not closely linked to the party-state institutional system or the large communist companies and collective farms. In the early 90’s the organizations which were shut down in the greatest numbers were mainly local ones, belonging to village communities (e.g. sports, fire services), the basic organizations of the
big communist state-linked trade unions and political organizations, and which had been
founded before the change of regime, and which had never had mass support.
Finally we must mention a special group of organizations, which were re-established and
continued the aims of their antecedents. In the early 90’s many associations, which had
earlier been banned or shut down – mainly due to the activities of the previous members –
were re-established and tried to continue their pre-1945 activities with more or less
success.
During the first decade of the 90’s the sector’s development was significantly influenced
by the economic environment, and within it, the transformation of the structure of
ownership. The privatization of state property, the change of ownership of Hungarian
companies and the start of property ownership within municipal authorities all affected the
composition of the non-profit sector just being formed. It was shown by the fact that many
social organizations, previously owned by state companies or collective farms (e.g. sports
clubs, political youth organizations, trade unions) were shut down due to the
transformation of the donor institution. However, at the same time, changes in the social
environment helped the formation and development of the new organizational forms. In
the early 90’s the ‘old-new’ owners (managers) and employees established new
representative organizations of employers and workers, in accordance with the new
institutional system, while municipal authorities, in order to gain the support of citizens
and businesses and to run local communities, first set up foundations, then from 1994
public law foundations and public benefit companies. In the early 90’s, taking advantage
of the liberal and favourable regulations for donations, private persons and different
institutions established (private) foundations, then after 1994 Parliament and governmental
institutions established public law foundations in order to carry out public works.
Eventually all the agents of economy recognised the possibilities within the non-profit
form, and their ability to adapt themselves to the economic environment changed the
internal structure of the sector significantly in the long term.
Through the example of educational and academic institutions it has been shown that in
accordance with foreign theories, the development of the sector in Hungary was
encouraged by the fact that NPO’s were able to meet unfulfilled demands, or as alternative
providers managed to carry out such institutional services, which in the state-socialist
system were state monopolies. The resulting information drew attention to the fact that the
spread of non-profit providers would be a longer process than expected by many, and that
NPO’s could only be competitive in a market where there were fewer rivals as opposed to state- and municipally-run institutions.

It can be considered as typically Hungarian, that the non-profit organizational form not only met unfulfilled demands, but also made it possible for under-resourced municipal institutions to gain more funding and external support. Among the foreign approaches to the question it is worth mentioning those support theories according to which the main aim of establishing NPO’s was to gain financial support. These motives also played an important role in Hungary, but we must also add that here it was promoted by government institutions managing on under funded budgets, and the growing difference between normative subsidy and running costs. This latter statement can be proved by empirical data and is especially valid concerning those medical, social and educational institutions, which by establishing foundations tried to involve both private citizens and businesses in financing their institutions. Furthermore, with this income they were able to relax the rigid rules governing the workings of institutions financed from budgetary money. It is difficult to estimate the exact number of NPO’s established by under funded institutions, or the magnitude of the incomes they received, but the minimum number of such organizations must be 4-5 thousand, and their financial support from the general public and from companies must have been at least 8.4 billion (!) HUF in 2006.

It is impossible to estimate the exact number of organizations established solely to gain the advantages derived from the non-profit structure, but it may be safely assumed that some public benefit companies and foundations were certainly motivated by such aims when being set up. Such are those NPO’s which were set up mainly to use budgetary support in both ‘targeted and flexible’ ways (e.g. certain public benefit companies established by state and municipal institutions) or to make it possible for party-political interests and interest groups linked to the governing parties to receive support for governmental projects (e.g. certain public law foundations) and to eliminate structural constraints (e.g. reduction of governmental work force).

The acknowledgement of the social role played by the Hungarian non-profit sector and the governmental recognition of civil organizations were linked to changes in the wider world political and economical environment as well as the development of the so-called global civil society. Because of the new challenges (e.g. environmental and regional) and the overshadowing of traditional political parties and the state, non-governmental organizations (NGO’s) became important agents in the global and European Union decision-making processes and led to their roles being more highly appreciated even in
Hungary. This can partly explain why Hungarian governments – not least because of international expectations (e.g. from the EU) – in recent years have paid greater attention to the mechanisms of interest-reconciliation as well as the importance of communication with the social agents.

The development, or more exactly, the establishment of the Hungarian non-profit sector was also affected by influential Hungarian experts in the field of NPO’s, but the composition and working conditions of the Hungarian NPO’s have been mainly influenced over the last 18 years by the activities of the prevailing governments aiming to determine the legal and fiscal environment.

Foreign and Hungarian authors, without exception, agree that governmental policy can greatly encourage the spread and the range of activities of NPO’s through the conscious design of the sector’s environmental conditions. Hungarian practice, however, shows a rather ambiguous picture of the connection between the two spheres. The policy of the party-state before 1989, definitely hindered the establishment of civil and non-profit organizations, and only after the change of regime did it become possible to freely form independent associations and to develop the Hungarian non-profit sector. In the course of events between 1990-93, the collapse of the previous structures and the appearance of new ones were observed simultaneously. While some previous social organizations survived, many were shut down because of the structural changes in the economy and ownership.

The more liberal laws of 1990 and 1991 provided very advantageous conditions for the establishment of NPO’s, and this, in turn, was a decisive factor in the speedy development of the sector. However, partially because of the abuse of tax allowances, but mostly because of the deteriorating financial situation of the state, during the first three years of the 90’s, the financial scope of the NPO’s was more and more strictly regulated, and with the 1993 codification of the new non-profit organizational form, the government transformed the sector’s organizational structure, as well.

By the middle of the 1990’s, the tax laws referring to NPO’s had been stabilized, which made it possible for practices already established abroad, to be introduced in Hungary. The government was determined to create more favourable conditions for the economies and infrastructures of NPO’s by passing the ’1% Law’ in 1996, the law regulating the use of property by social organizations in 1997 and 1999 and the Act of Public Benefit Organizations in 1997. Although in 2000 the personal income tax allowances were further limited, the first years of the new decade could be described as a quiet period with professional discussions in the background and work continuing to prepare further NPO
laws. The first results of this appeared in 2003 when the Act of the National Civil Fund was passed, which was then followed by the codification of the Voluntary Activity Law in 2005.

From the middle of the decade there was a shift of emphasis in governmental policy, and laws changing the structure of the sector were created in rapid succession. The 2006 Act of Business Associations ended the possibility of establishing public benefit companies, while the modification of the Civil Code had the same effect on public law foundations. The aim of this was to block any loopholes in economic regulations and to tighten up the regulations concerning socially ineffective forms of organizations; this should in the long run bring about greater transparency throughout the whole sector. However, the future effects of governmental intervention should be definitely be estimated during the preparatory stage of decision-making, as the effect of the planned measures can be greatly reduced if the major public services are changed without social consensus. The lack of consensus was mainly evident during the changes in the medical and educational sectors; the confrontations between the government and the representative organizations of employers and workers as well as the general increase of governmental authority in various spheres suggest that the system of reconciling the interests between the civil sector and the government is still not harmoniously resolved. To summarize the period of government during 2006 and the years following: it has been characterized by more intense state intervention, the huge transformation in the regulations concerning the structure of the non-profit sector and the limited possibilities for reconciling interests.

In conclusion it can be said that at the beginning of almost every governmental cycle, there has been a lack of clear and unambiguous governmental policy, which, in order to provide the necessary social services, would encourage a more effective division of labour between the two sectors. Over the past 18 years Hungarian civil and non-profit organizations have been working against a background that could be typified by the constant transformation in the governmental institutional system dealing with them, the division of duties and authority between different institutional levels in the government and the not insignificant influences of party politics. The system of reconciling interests between civil and non-profit sectors and the government was characterized by ambiguity; the political interest groups in the government tried to create institutional structures, which would provide more advantageous conditions for organizations closer to them. The constant transformation of the institutional system significantly reduced its effectiveness, the consequences of which can be seen in the failure to ensure the smooth continuation of
services and the ‘weakness’ in the mechanisms of interest-reconciliation. In spite of the fact that in the past decade the governmental subsidies given to the sector have greatly increased, relatively few NPO’s have taken over duties previously carried out by state and municipal institutions; furthermore, the effectiveness of governmental projects aiming to develop cooperation between the two sectors is questionable.

As a result of closely examining the hypothesis, the assumption that the formation and development of the non-profit sector in Hungary is significantly different from those of developed countries, is justified. The reasons for this are: the different political and economic background factors (e.g. in the period 1948-88: the restriction of civil voluntary organizations, political influences on representative organizations of employers and workers, the state monopolies of education, health and social services, then from 1989 the change in the political system) and the transformational processes following the change of regime (e.g. the change in the structure of economy and ownership, the under funded state and municipal institutional systems). It could be shown, using the example of NPO’s founded by state and municipal institutions and carrying out educational activities, that in Hungary unfulfilled demands and the motivation to gain subsidies played a part in the sector’s formation, but its development was mostly influenced by governmental policy deciding the sector’s economic possibilities and composition of the organizations. The latter can be proved not only by the changes in the legal environment (e.g. the originally liberal but then increasingly strict regulation of tax allowances for NPO’s, governmental measures first creating new organizational types of NPO’s and then closing them down, and finally the implementation of non-profit laws), but also numerically based on the growth of state funding directed to the non-profit sector. This latter point is paradoxical. In spite of the fact that during the period surveyed government funding for the sector significantly increased, the number of NPO’s taking over state and municipal responsibilities remained noticeably low, and the resources of normative subsidy are concentrated in a specific group of NPO’s (foundations and public benefit companies).

3. The hypothesis: limited cooperation = limited participation in providing public services and limited employment

In Hungary, between the state and municipal authorities and NPO’s there is no partnership or close cooperation in providing public services. This is at the same time the cause and the consequence of the fact that the sector’s organizations have, on only a small scale,
taken over state and municipal services and neither is the sector’s influence on the labour market significant.

In countries having a developed non-profit sector, growing state funding is usually accompanied by the handing-over and the taking-over of state and municipal duties, and consequently the number of employees in the non-profit sector has grown. In Hungary, despite the significant increase in state funding, neither the mass handing-over of duties, nor the significant growth in the number of employees is typical. Although the number of employees in the sector has grown, only a small number of NPO’s, belonging to a clearly differentiated group, have been able to raise their employee levels. Compared to other branches of the national economy, NPO’s have not become decisive economic agents in the Hungarian labour market.

The lack of cooperation between the state and municipal authorities and NPO’s is shown by the fact that the proportion of NPO’s receiving normative subsidy – i.e. providing public services – is very low within the sector, over the 10 years that have been examined the proportion of NPO’s receiving per capita state subsidy was 1-4%, while the proportion of those getting normative subsidy from municipal authorities was 0.5-2.5.

The analysis proved the hypothesis that there is only very limited cooperation between the non-profit, state and municipal sectors in the provision of public services; the increase in state subsidy within the sector was neither accompanied by the mass handing-over of public duties, nor by a significant growth in the number of NPO employees.

4. The polarization of the NPO sector. The hypothesis: different resources = different opportunities

Because of the growing concentration of the resources, the sector has become polarized and the financial and human resources move to the non-civil types of organizations of the sector, which in the long term might lead to a split in the sector.

Examination of the hypothesis justified the assumption that during the late 90’s in the non-profit sector – because of new forms of NPO’s entering the sector – an increasing concentration of the workforce and the economic resources was to be found in the non-civil types of organizations within the sector, mostly within public benefit companies. In the early 1990’s most employees worked for civil types of organizations, but the public benefit companies, founded after 1994, rearranged the employment structure with great speed. The number of their paid employees grew by 37 thousand over ten years; even now
they are the largest employers within the sector. In 2006 every second employee working for NPO’s received their salary from public benefit companies. Similar processes can also be observed in the sector’s incomes. Although representing only 3% of all the organizations, public benefit companies’ share in the sector’s income is constantly rising. In 1996 they received ’only’ 9% of the sector’s income and 5% of all governmental subsidies, but by 2006 they already got 40% (!) of the sector’s income and 44% (!) of governmental subsidies. Although from economic and organizational viewpoints, these organizations can be considered non-profit only in a very restricted way, the economic growth of the whole sector and the increasing proportion of state subsidies were mainly due to the subsidies given to these semi-governmental organizations over the past 18 years. While within the sector the economic potential of the civil types of organizations (foundations, associations) became smaller and smaller, through financing public benefit companies, the state and municipal authorities often provided significant funding to organizations under their control.

At present the question to be answered is how funding within the sector will be divided after the termination of all public benefit companies and the establishment of non-profit business organizations. It is only an assumption that because of the effect of legal regulation, a stricter economic environment and economic restrictions in the future, there will be less state and municipal funding, which paradoxically, in the long term, might even result in a decrease in the concentration of economic resources.

5. Non-profit Acts and their effect. The hypothesis: increasing subsidiary resources, more balanced conditions of operation and greater inequalities

After passing the non-profit acts, the organizations’ potential subsidiary resources increased significantly and the more favourable operational conditions contributed to the strengthening of the sector. However, in contrast to the lawmakers’ intentions, unequal access to funds increased the sector’s inequalities, and the distance between the population and NPO’s could be said to have modestly decreased.

Examining the hypothesis partially confirmed but also partially refuted the original assumption. Statistics can reinforce the fact that due to the 1% Law and the National Civil Fund Act, the subsidiary resources of the sector’s organizations have greatly increased, but on the basis of time series data, it can be shown that NPO’s have very different opportunities to acquire these funds, depending on their location, their activities and the
size of their other incomes. In the following paragraphs, I will show, how each act has fulfilled its expectations.

The greatest merit of the 1% Law is that it increased the potential sources of income of NPO’s, whilst at the same time incorporating the citizens into the redistributional process. This system of pledging money encouraged a more direct relationship between citizens and NPO’s, and also triggered intense competition between civil and non-profit organizations. The legal system is still bureaucratic, and the control of the pledges is rather insufficient. The still prevailing distrust in NPO’s by citizens has been partially confirmed and partially refuted by the statistics. The number of organizations receiving pledges and the amount of money pledged, have both increased over the period under examination, but general lack of faith in NPO’s is shown by the fact that more than half of potential pledges are not made. The other problem with the 1% Law is that it has not reduced the regional inequalities of the sector, nor has it helped to stabilize the financial situation of organizations on small incomes. According to the tendency based on time series data, a growing number of pledges are given to relatively few, but high-incomed NPO’s.

By passing the so called Act of Public Benefit Companies, lawmakers provided NPO’s with a variety of financial allowances, which in turn led to more favourable working conditions. Data, examined by traditional and regression methods, confirmed the assumption that citizens, companies and the business world are more likely to fund and with greater sums organizations qualified as public benefit. These results are influenced by the fact that without targeted surveys it is not possible to know exactly what other aspects play a decisive role in this, besides being qualified as public benefit companies. Apart from the positive effects of the Act of Public Benefit Companies, attention should be drawn to the problem within the system, namely, that because of the inadequate resources of the controlling tax authority and the Public Prosecutor’s Office, the public benefit control of NPO’s is random and often without legal consequences. The aim of the act, to reduce state involvement and to increase the role of civil and non-profit organizations, has only been partially successful. According to statistics that refer to state and municipal normative subsidies, the number of NPO’s given such funding – that is those performing either state, or municipal jobs – has grown since the passing of the act, but their actual number is still rather low. Of the almost 60 thousand NPO’s working in 2006, altogether only 1644 were given the state, while only 1023 received the municipal normative subsidy, and this suggests that the cooperation between the sectors is small and restricted.
In regulating the distribution of those state resources to be paid through grant support, the passing of the Act of the National Civil Fund was an important step forward compared to the previous system of distribution, which did not rely on official procedures to control the funding. The Act increased the resources available to NPO’s putting in grant supports, however, it failed in many aspects to decrease the sector’s inequalities. After looking at the results we can conclude that the decision makers of the National Civil Fund are more likely to fund NPO’s located in towns and cities as well as those carrying out specific activities (e.g. social, sport and leisure organizations and umbrella organizations); and consequently the new system of funding was disadvantageous for smaller organizations. The operational transparency of the NCF – and within it especially the decision makers’ personal interest and involvement in judging the projects given in for grant support – is still insufficient; and the government has imposed restrictions upon the functioning of the NCF several times through pay-off amount commitments.

*The possible methods for the future examination of the sector*

Last but not least, the analysis of the time series data also drew attention to the fact that the functioning and effectiveness of the Hungarian non-profit sector can only be examined in a limited way using the present databases. Because of the incompleteness of the ‘input’ data sources, the ‘output’ information is missing, which would be required to judge the effectiveness of funding (e.g. the number of private individuals served by NPO’s; the comparison between NPO’s and for-profit organizations carrying out the same functions), thus the functioning of the different organizations of the sector cannot be properly compared to other organizations doing similar activities, but in different organizational forms (education, health care).

From the results of this dissertation concerning public benefit companies, civil and non-civil organizations, it would be important that besides analyzing the whole sector, a greater emphasis than before should be placed on the different types of organizations, regional characteristics, the service providers and environmental factors influencing the sector, with each being given a greater depth of analysis. In the researches concerning the non-profit sector it is becoming increasingly necessary to carry out small-sample or panel-type examinations besides cross-sectional surveys.
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