

# FROM PENSIONS TO PUBLIC WORKS

## HUNGARIAN EMPLOYMENT POLICY FROM 1990 TO 2010

EDITED BY KÁROLY FAZEKAS AND ÁGOTA SCHARLE



BUDAPEST, 2012

Published with support from the National Employment Fund of Hungary.

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## FOREWORD

KÁROLY FAZEKAS AND ÁGOTA SCHARLE

The aim of this volume is to offer an overview of the practices and achievements of employment policy over the past 20 years, with particular attention paid to the interactions of individual policy tools. By comparing these with international experience and theory, the volume also attempts to point out opportunities for policy making to contribute more successfully and effectively to an increase in employment, taking account of the specific features of the Hungarian labour market and economy.

The volume comprises six parts. The **first** part describes the changes in employment, briefly outlines the underlying economic and structural processes and makes recommendations for decision makers responsible for employment policy. The **second** and **third** parts explore the mission and functions of the major institutions that influence employment policy. Slightly unusually, the remaining parts are structured according to the main functions of employment policy rather than focusing on the institutions or the tools of employment policy. The **fourth** part deals with wage costs, the **fifth** with matching labour market demand and supply, and the **sixth** with reducing the transaction costs of hiring and employment. After the core parts comes a **Statistical Annex** with time series for the most relevant data, and an **Appendix**, which summarizes the methods of a small-scale research project that supported the writing of some of the chapters.

Employment policy is related to several other policy fields, some of which (e.g. public education or vocational education and training) may even have a stronger impact on labour market developments than employment policy tools themselves. It was impossible within the scope of this study to examine these policy fields, but, whenever necessary, we referred to studies that provide more detail on the relevant issues of education, social policy, housing and tax policy.

The publication of the volume was supported by the National Employment Foundation. The editors and authors are grateful to the Foundation, and especially to the staff in charge of the project and the members of the anonymous expert committee, whose comments on the first draft were of immense help. Most chapters of the volume are based on existing research findings, mainly on earlier works of the authors, and primarily reflect on the period between 1990 and 2010. In some cases, we had an opportunity to supplement this work with the collection of new data, generally through interviews: we contacted 31 experts and politicians who have played an active role in the development of employment policy over the past two decades. They have been very generous with their time in answering our questions; many thanks to them, too.

# 1. DIAGNOSIS AND LESSONS

## 1.1. STRUCTURAL PROBLEMS OF THE HUNGARIAN LABOUR MARKET

KÁROLY FAZEKAS AND ÁGOTA SCHARLE



As a result of the economic downturn that accompanied the political regime change, dramatic changes occurred on the labour market in the first half of the 1990s: at the lowest point (in 1996), slightly more than half of the working-age population were in employment, 42 per cent were inactive, and the proportion of the long-term unemployed exceeded 3 per cent of the working-age population, i.e. more than half of the unemployed had not had a job in over a year. Following that, there was a slow increase until 2003, after which employment stagnated at about 57 per cent up until the global financial crisis of 2008, which brought another decline. Similarly, the proportion of the long-term unemployed never dropped below 1.5 per cent, and has been increasing continuously since 2003.

The recession following the political changeover was accompanied by plummeting employment in nearly all post-communist countries. At the lowest point in the transitional recession, the employment level dropped to 70 per cent of its 1989 level in those countries that opted for a fast privatization strategy (e.g. Estonia, Latvia and Hungary), to 80–84 per cent in other countries, and, as the most cautious, to 87 per cent in the Czech Republic. After bottoming out, employment in Hungary started to rise again quite soon, but then became stagnant after a few years, while all the other post-communist countries that had joined the European Union managed to improve their employment indicators rapidly until the crisis of 2008 (Figure 1).

The external economic downturn hardly provides a full explanation for the recent decline in Hungarian employment indicators; a more probable reason is internal structural distortions. As will be shown in the [next chapter](#), the explanation lies partly in the loosening of fiscal policy and a business environment that had become increasingly unstable due to the need for continuous correction, and partly (probably more significantly) in the earlier changes to the welfare system.

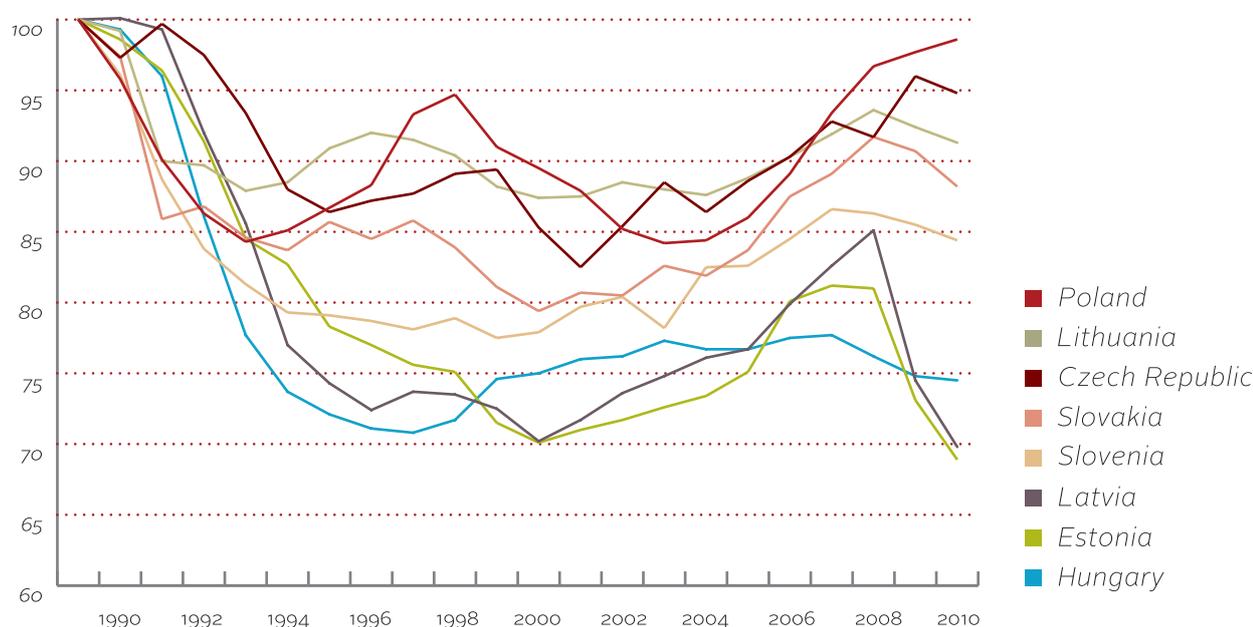
It is a conspicuous symptom of labour market distortions that during the economic recovery between the two recessions of 1997 and 2007, in spite of the continuous (although weakening) growth in output, the employment rate within the population aged 15–64 only increased by less than 5 percentage points,<sup>1</sup> largely between 1997 and 2000. According to Scharle (2008: 257), more than 70 per cent of the total increase reported in the ten inter-recession years was due to changes in the composition of the workforce, while there was hardly any change in employment within individual age groups or levels

<sup>1</sup> From 52.4 per cent in 1997 to 57.3 per cent (Source: Labour Force Survey of the Central Statistical Office, annual data).

of education. That indicates that even this modest increase was mainly due to the rise in the level of educational attainment.

The large variation in employment opportunities also reveals structural problems: the employment rate is well above average among university graduates and people living in the western part of the country, and considerably below average among the oldest and the youngest age groups, women of childbearing age, the low-skilled and people in the northern regions.<sup>2</sup> Thus the employment rate of the unqualified, of young people aged 15–24, of the age group 55–64 and of women aged 25–44 is especially low. According to the estimation of Kertesi (2005), the employment prospects of the Roma population and of people living in small settlements in remote areas are even worse, irrespective of their age or level of education.

Figure 1: Changes in employment from 1989 to 2010 (1989 = 100)



Source: 1989–95: ILO (2011);  
1996–2010: Eurostat online database (LFS employment, population aged 15+).

The majority of the long-term unemployed are unqualified or middle-aged/elderly people, or live in settlements with poor access due to reduced public transport. Between 1992 and 1996, the chances of an unemployed person of pre-retirement age finding another job were (controlling for educational attainment) less than 10 per cent of the chances of a jobseeker aged 21–25 (Galasi and Nagy, 1999), and the gap in the employment rate of men with lower-secondary education (compared to those with higher education in the same age group) shot up from 1–2 per cent before the political changes to 20 per cent in 1992 (Köllő, 2009). Variation in the employment chances across regions and levels of education have scarcely changed since the political transformation.

<sup>2</sup> Controlling for composition effects does not modify the findings, i.e. the characteristics mentioned have their own impact on employment (Scharle, 2008).

According to popular opinion, the situation is not as bad as the figures suggest, because the high level of black labour is not included in the statistics. Unfortunately, this explanation is not supported by research on the informal economy. According to calculations based on comparing the size of the workforce registered at the pension authority and the size of the workforce revealed by the Labour Force Survey (LFS) conducted by the Central Statistical Office, in 2005 black labour amounted to 17 per cent of the employment level measured in the LFS (Elek et al., 2009). The results do not differ significantly if we use other data from the Central Statistical Office (census, time-use survey, Household Budget Survey) or data collected by private organizations (TÁRKI Monitor) to measure the size of the total (formal and informal) labour force. This indicates that the majority of illegal workers are included in the labour force measured in the LFS, i.e. they are included in the above figures and are not additional to them. This is also supported by research based on the Household Budget Survey of the Central Statistical Office: according to responses given to the interviewers, unemployed working-age people (probably including some illegally employed) are significantly less content with their lives than are their peers in employment, controlling for their (declared) income (Molnár and Kapitány, 2008).

#### **A GENERAL EXPLANATION FOR THE LOW EMPLOYMENT LEVEL**

There are several reasons for the permanently low employment level: the inherited economic structure, the political changeover, the external economic downturn, demographic trends – and perhaps also government policy. The global crisis that started in 2008 further exacerbated the situation temporarily; however, low employment is mainly due to internal (and much earlier) processes.

The political transformation necessarily resulted in a temporary increase in unemployment. Prices and technology changed, as did international trade relations and their requirements, and this necessitated an improvement in productivity, which led to a dramatic fall in demand for labour. After 2000, unstable regulation and the volatile business environment may have contributed to the slowdown in growth, as well as to a decrease in investment, and therefore demand for labour. Nevertheless, permanently low employment cannot be attributed to capitalism: it did not result from the slowdown in growth (and not even from the financial crisis of 2008), but rather from the unfavourable combination of policy responses to unemployment.

To put it simply, the main objective of employment policy was to reduce the number of jobseekers; to that end, older, low-skilled or low-productivity workers were enabled, through various welfare provisions, to leave the labour market for long spells or even permanently. This alleviated the political and social tensions temporarily, but at the same time it was the first step in the development of the current imbalances. A vicious circle emerged: the extensive welfare provisions entailed high government expenditure, which required higher government revenue, which necessitated higher taxes and contributions. When high contributions are payable on the minimum wage, it is not worth employing low-skilled workers legally, and this keeps labour demand

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and employment at a low level. In turn, long-term unemployment and inactivity leads to poverty, which generates a need for further social expenditure, and so the vicious circle is complete.

As a result of the generous welfare policy that was adopted at the beginning of the political transformation with the aim of easing tensions, nearly a third of the working-age population is still dependent on some type of welfare provision (unemployment, maternity or disability provisions, or early-retirement schemes). This proportion built up in the first years of the transformation and has only started to decrease in the past few years. The majority of beneficiaries are inactive, and most of them have left the labour market for a long period or permanently (see [Chapter 4.2](#)).

At the same time, regulations and services promoting re-entry to employment have remained weak. Market economies, too, can enjoy almost full employment – if their labour market is flexible and there are market mechanisms in place to ensure the balance of demand and supply. One of the most important mechanisms is the response of wages to unemployment: when unemployment grows, average wages should fall in real terms so that employment levels can rise. This has two preconditions: wages are allowed to fall and unemployment is visible on the labour market (i.e. the unemployed actively look for jobs).

As will be seen, neither of the above conditions has been met in the past two decades. The minimum wage (which was raised at the start of the 2000s and has remained relatively high ever since) restrains adjustment in the real wage. Since it is not differentiated according to local wage levels, it has an especially strong impact on disadvantaged regions: in the majority of the 33 most disadvantaged micro-regions, the minimum wage was 55–70 per cent of the local average wage in 2008, while the national figure stood at 41 per cent (Scharle and Váradi, 2009). According to ex-post impact assessment, raising the minimum wage in 2001–02 did not significantly increase the supply of labour, while it substantially reduced employment in labour-intensive sectors (see [Chapter 4.3](#)).

Until recently, the willingness of the non-employed population to take up employment (i.e. the visibility of the unemployed) remained low. The replacement rate of the unemployment benefit gradually decreased, but early pensions, insured maternity leave and disability pensions remained relatively generous, even in the 2000s. This raises expected wages and reduces motivation to actively look for work, which is not counterbalanced by strict job search conditions imposed on benefit recipients. As will be seen in [Chapter 4.1](#), the reach of job centres is extremely small: they have regular contact with less than a fifth of the non-employed, because not all welfare services require the beneficiary to cooperate with a job centre, even if they are of working age. Due to lack of capacity and adequate regulation, job centres do not even work intensively with those claimants who are obliged to cooperate with them: they only meet jobseekers every 1–3 months, which (according to international experience) does not provide sufficient motivation for intensive job search.

Nor is labour market adjustment very intensive in other respects. The mobility of the labour force across sectors and occupations is low (Balogh and Róbert, 2008; Berde and Scharle, 2004) and geographical mobility is also restricted by the structure of home ownership, by failing public transport and by the sparse

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network of roads (see [Chapter 5.1](#) and [Chapter 6.4](#)). In other areas it is the lack of state intervention that adds to the problems of employment, such as indecisive action against gender-based and ethnic discrimination ([Chapter 4.4](#)) or the postponement of public health measures to prevent ill health.

## REASONS FOR THE LOW EMPLOYMENT LEVEL OF UNQUALIFIED WORKERS

The above problems need not necessarily lead to the permanently low employment level of the unqualified workforce; there are other specific causes. It is hardly surprising that the rapidly transforming economy at the beginning of the political changeover did not offer employment for the unqualified masses. However, chronic unemployment is not a general characteristic of market economies; rather, it is a consequence of the specific features of Eastern European economies. One of the reasons is the lack of small and family enterprises, as well as the bureaucracy that acts to inhibit their expansion. In Western Europe, the employment level of the unskilled workforce is nearly the same as for graduates, but employment for unskilled workers is typically provided by small enterprises. This sector could not be rebuilt overnight in the post-communist economies. Not even the fast-growing Polish SME sector, supported by investment from returning emigrants, can be compared in size to SMEs in South American countries that have a similar level of development (Maloney, 2004). Rapidly changing regulations, markets that are strongly influenced by lobbies, and heavy administrative burdens after the change of regime have all discouraged the growth of the small and family enterprise sector (see [next chapter](#)).

Another reason is weak public education, which restricts the productivity and flexibility of the workforce. The general competence (writing, reading comprehension, problem solving) of the unqualified workforce is rather poor, and thus they have difficulty in navigating the labour market, while their retraining is also expensive. The rapid technological change that occurred during the economic transition increased the disadvantage faced by unqualified workers, since most new jobs were created in occupations requiring literacy (Köllő, 2009).

The low employment level of the unqualified population is far from being just a marginal problem, and it cannot be expected to simply disappear in the near future. It accounts for more than half of the gap in the employment rate (compared to the EU average). A third of the non-employed population aged 20–59 (nearly 2 million people) has only eight years of primary education, and more than half have not completed upper secondary education. Current statistics on school leavers show that, among 20-year-olds, the proportion of those with only primary education is still 15 per cent (*ibid.*).<sup>3</sup>

Public education, vocational education and training, adult education and training – none of these have kept up with the requirements of the changing labour market: many school leavers lack the basic competencies and learning skills needed to fill technology-intensive jobs and to retrain several times over. The lack of early intervention and the uneven quality of basic education produce an unqualified workforce with low chances on the labour market, and these are

<sup>3</sup> This is not simply a Roma or a 'dead-end village' issue: at most a fifth of the 1 million unqualified non-employed (20–59 age group) are Roma, and only 200,000 unqualified unemployed people live in the villages of disadvantaged micro-regions, while another 60,000 live in larger settlements of the same micro-regions.

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also the main causes of the reproduction of poverty. Not only does the average Hungarian school not reduce the disadvantages that children face as a result of their family background, but it even *increases* them, since most teachers lack the methodology required to develop disadvantaged children (Havas, 2009). The methodological reform of public education started too late, in 2003, and it will only come to have an impact on the skills of school leavers in the next decade. In the past 20 years, young people without upper secondary education (and especially those completing only basic schooling) have had poorer skills than their peers in Western Europe: the unqualified Hungarian workforce is less productive and is less capable of retraining or moving into another occupation (Köllő, 2009). Adult learning is also infrequent: the majority of workers do not upgrade the skills they acquire at school (Varga, 2006).

Finally, according to the sparse data and empirical research available, active labour market programmes implemented with the aim of reducing unemployment have not proved very effective in increasing employment. Often it is not the most vulnerable who benefit from labour market programmes that improve employability; job centres do not consistently enforce sanctions against those who refuse to accept a job or training (partly because these sanctions are too strict and would have adverse effects); the supply of placement and rehabilitation services is limited and patchy; and many of the jobs created under job-creation initiatives or wage subsidies would have been created anyway. The increasingly popular public works schemes do not support entry to the labour market, but instead create a ‘revolving door’ between benefits and casual labour – the majority of the unqualified unemployed sooner or later find themselves in this dead-end street (see [Chapter 5.2](#)).

The municipalities, which provide services for the long-term unemployed are even more limited in capacity: a third of them are settlements with fewer than 1,000 inhabitants, where it is not only difficult but also inefficient to provide resources and competent staff to activate the long-term unemployed. Even some larger settlements lack sufficient staff or expertise (Fazekas, 2001; Csák, 2007; Nagy, 2008).

# 1. DIAGNOSIS AND LESSONS

## 1.2. THE MACROECONOMIC AND BUSINESS ENVIRONMENT

ATTILA BARTHA



### HISTORICAL LEGACIES

Before the regime change, the main economic trends in Hungary reflected the typical economic history of Central-Eastern Europe (Kornai, 2005). After the strong expansion of the 1950s and the 1960s, economic growth slowed down in the 1970s and was conspicuously weak in the 1980s: annual average GDP growth of around 1 per cent implied a contracting business potential and a gradual loss of the consumption opportunities previously achieved. However, the Hungarian scenario had two specific features. On the one hand, the political leadership was obliged to make gradual ‘political concessions’ after the revolution of 1956, and especially from 1964 onwards, in the shadow of the country’s financial collapse (Csaba, 2002). As a result, the so-called ‘second economy’ had been gradually developing since the 1970s, and this became an important structural feature of the Hungarian economy in the 1980s (Gábor and Galasi, 1981). Although the social support behind the market transformation and the expansion of certain quasi-market-type elements (e.g. limited skills of entrepreneurship) might have indicated a relative advantage for the Hungarian capitalist transformation, the developing ‘second economy’ also institutionalized several norm-breaking behavioural patterns,<sup>4</sup> which (among others consequences) had a long-term negative impact on Hungarian tax morale (Semjén and Tóth, 2009). At the same time, the relatively high level of well-being (set against only moderate economic performance) was only possible in the short term – and at the price of grave indebtedness: the Hungarian state debt doubled between 1984 and 1987. The high level of government debt became a serious additional burden in the period of transformation; this is another atypical feature of the Hungarian economy, as the vast majority of Central-Eastern European (CEE) countries were not heavily indebted at the time of the system change.

### THE DECADE OF THE 1990S: RAPID STABILIZATION AND LIBERALIZATION WITHOUT PROFOUND INSTITUTIONAL TRANSFORMATION

During the 1990s, Hungary was a leader in the formal adoption of the so-called SLIP agenda (stabilization, liberalization, market-compatible institutional transformation and privatization) promoted by Western economic and business

<sup>4</sup> The long-term unfavourable effects of the second economy on both the state finances and the real market attitudes were revealed early on by Kornai (1992: 12) and Róbert (1994: 314).

advisors (World Bank, 1996; Kolodko, 2000): Hungary's economic policy leaders implemented the suggested measures rapidly and relatively coherently. By the end of 1996 (albeit to varying degrees) the painful macroeconomic stabilization was complete, the financial system had been consolidated, the privatization that encouraged the inflow of foreign direct investment (FDI) was practically finished, and the country had been turned into an export-oriented open economy. Thanks to these developments, Hungary was catching up fast in the second half of the 1990s: the GDP growth rate was high and the convergence in terms of economic development was unquestionable. Whereas in 1997, Hungary's GDP per capita in Purchasing Power Standards (PPS) was only 53 per cent of that of the EU-27 (the 27 present members of the European Union), by 2003 (i.e. the year before the country joined the EU) Hungary achieved 63 per cent of the EU-27 average GDP in PPS.

The various international comparative surveys that analyse the quality of the business environment<sup>5</sup> are practically unanimous in their findings: by the second half of the 1990s, the Hungarian business investment climate was significantly more favourable than that of the other countries of the Visegrád region.<sup>6</sup> However, as we mention in [Chapter 1.1](#), the desirable profound structural institutional changes were not completed – either in public education or in public administration. In order to mitigate the social tension of the transformation, Hungarian economic policy makers adopted rather less painful, short-term measures that proved to be ineffective and, in the long run, structurally futile. Regarding the impact of employment, the growth path of the 1990s can be split into two contrasting periods. After the years of post-transition decline, between 1994 and 1997 economic growth was mainly based on productivity and capital input growth. In this period, employment's contribution to growth was markedly negative; however, the labour force reallocation did have a significant positive impact (Harasztosi, 2011: 14). In the period between 1998 and 2001, the strong inflow of foreign direct investment implied a predominantly capital-based growth; meanwhile, the growth contribution of labour was no longer negative, though it was statistically negligible. In fact, the structural components of growth did not support any expansion in employment in these years. Moreover, by the end of the period, the minimum wage increase in 2001 was having an obvious negative effect on employment: 'the minimum wage hike eliminated about 12,000 small-firm jobs mostly in the depressed regions – a huge loss in the Hungarian context' (Kertesi and Köllő, 2003: 22).

### THE DECADE OF THE 2000S: THE GROWTH IMPACTS OF AN UNSUSTAINABLE FISCAL POLICY

Evaluation of the post-socialist period of the Hungarian economy reflects two different phases: while the era of the 1990s was fairly successful, the decade of the 2000s was an obvious failure. In Hungary, structural change in the manufacturing industries and the subsequent Western reorientation of exports began earlier than in the other CEE countries, thanks to the relatively rapid privatization and FDI inflow. As a result, in the first phase economic growth was stronger, and at the beginning of the twenty-first century Hungary was considered to be one of the most successful countries in the region. Even one

<sup>5</sup> See the global competitiveness reports of the World Economic Forum and the IMD Lausanne or the comparison of the aggregated governance indicators of the World Bank (WEF, 2008, 2009, 2010, 2011; IMD, 2009; WBG, 2009). (These reports combine traditional macroeconomic and institutional indicators with large-sample survey variables.)

<sup>6</sup> The Visegrád region includes the Czech Republic, Hungary, Poland and Slovakia.

of the most critical of the state-socialist historical legacies – the government debt – improved: while gross state debt oscillated around 85–90 per cent of GDP in the mid-1990s, by 2001 it had decreased to 52 per cent – far below the critical level of 60 per cent (the prescribed criterion for Euro adoption). Aside from the pension reform of 1997, there was no major structural reform in the sphere of public services, and in the 1990s fiscal policy was fairly disciplined. However, the ‘fiscal alcoholism’ (Kopits, 2008) of the Hungarian government returned at the beginning of the 2000s: old policy-making practices were resurrected with the intention of restoring the (financially unsustainable) welfare regime of the late-Kádár era of Hungarian state socialism. Hence, Hungarian economic development reproduced all the old negative characteristics: high indebtedness, a low level of employment, grave regional inequality and a high level of inflation. Consequently, in this period, the Hungarian economy achieved much lower growth than the CEE regional average, and the process of real convergence with the more developed countries practically ceased. The generous welfare regime remained up to the end of the decade, even though domestic income sources could not finance it (Kármán, 2008; Csillag, 2009). The resurgence of state debt and external indebtedness, and the conspicuous vulnerability of the Hungarian economy – these were the logical consequences. By 2008, gross government debt was back up to 73 per cent of GDP and the international financial market considered Hungary one of the most vulnerable countries of the region. From the second half of the decade, the government did try to apply various minor policy-correction measures, but these were neither consistent nor convincing; only the stabilization measures of 2009 (again in light of the financial collapse of the Hungarian state) proved satisfactory. Nevertheless, the price of this drastic stabilization package was deep recession – much deeper than in the other countries of the Visegrád region. From the middle of the 2000s, macroeconomic stability wavered, the FDI inflow decelerated and the investment/GDP ratio gradually decreased. This was the bleak situation that faced Hungary, even though its strong and established manufacturing capacities should have ensured its competitiveness on world markets, as in most other countries of the CEE region. Meanwhile, the private service sector remained weak; and on the demand side, a lively growth in domestic consumption proved fragile and fleeting. Moreover, the high domestic interest rates and the high risk appetite on international financial markets generated a peculiarly unfavourable phenomenon: an unprecedented expansion of credits denominated in foreign currencies, which implied an extreme indebtedness in general (in the household, as well as in the corporate world and local government). This might undermine the growth performance of the Hungarian economy in the long run.

## **BUSINESS ENVIRONMENT AND INSTITUTIONAL DEVELOPMENT IN THE 2000S**

International comparative surveys that analyse business environment development reflect Hungary’s negative macroeconomic trends in the 2000s, even compared to the other CEE countries. The weakness of small businesses – something that was identified back in the mid-1990s (Gábor, 1997 and Laky,

1998) – is a major factor that limits growth even today (Bartha, 2011). In the meantime, those business environment indicators that influence the investment decisions of large corporations consistently reflect a deterioration in the relative position of Hungary over the last decade. This is true of both the aggregate competitiveness indicators and the government efficiency indicators (Bartha, 2010). The overwhelming majority of international surveys indicate that, by 2009, the business environment in Hungary had become significantly less attractive than in the Czech Republic, Slovakia or Poland; the last two years have not brought about any change in Hungary's relative position. The regulatory environment in place and the moderate administrative burden on enterprises have been the relative strengths of the Hungarian business environment since 2008; in this respect, Hungary is almost as attractive as Slovakia, and the Hungarian business regulation environment is more attractive than in the Czech Republic or Poland (see [Table 5.3 of the Statistical Annex](#)). However, besides regulation, perception of the business environment depends on at least two other decisive aspects: the level and stability of the overall tax burden, and the quality of local services provided by the public administration sector – especially the quality of public education and the transport infrastructure (Seibert, 2006). Hungarian competitiveness is clearly deteriorating, both in the field of education and when the overall tax burden is considered. This perception is also reflected in the business environment surveys of the German-Hungarian Chamber of Trade and Industry (DUIHK). Since the middle of the decade, those German enterprises that play a dominant role in regional investment trends have considered the Czech Republic to be one of the most attractive countries for investment, and Poland has achieved the same status in the last three years. In the meantime, the DUIHK business environment surveys indicate that during the crisis Hungary is only likely to be able to achieve a modest improvement in the way business perceives it: in 2010–11 it was only able to secure fourth place in the CEE regional investment rankings of German enterprises (DUIHK, 2011: 34). It is not just international comparative surveys – the preferences of potential investors indicate the same trend: by the second half of the decade, the Hungarian business environment had deteriorated significantly compared to the other Visegrád countries, and the crisis-management measures of 2009 were only able to halt a further decline in Hungary's relative position.

Regarding the impact of employment, it seems clear that in the past decade improvements in productivity have had the major effect on economic growth. According to the calculations of Harasztosi (2011: 14–15), in the period after 2001, better productivity explained 74 per cent of Hungarian economic growth. The contribution of capital to growth decreased to 16 per cent, while the contribution of employment remained marginal: as in the 1990s, it explains only 2 per cent of growth. The positive employment effects were also moderate in the service sector (Harasztosi, 2011: 18), which reflects the gradual deterioration in the business environment.

# 1. DIAGNOSIS AND LESSONS

## 1.3. THE STRENGTHS AND WEAKNESSES OF POLICY RESPONSES

ÁGOTA SCHARLE



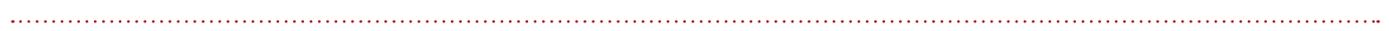
Slightly unusually, this volume examines the history of the past two decades in terms not of institutions, but of functions. As the previous two chapters have revealed, employment policy has not been a success story: the employment situation has not improved over the past two decades. This chapter provides an overview of the strengths and weaknesses of policy measures; these will be detailed in later chapters.

The opportunities open to employment policy have been limited by the low priority attached by the government strategy to the ministry responsible – and indeed to the aim of increasing employment. After the political transition, the ministry focused on the rising unemployment and on remedying social tensions that may have stemmed from this. The importance of raising employment and of eliminating the internal distortions of the labour market has only recently been recognized. Although reducing regional inequalities in employment was regarded as one of the objectives from the outset, local and regional projects have not been supported by corresponding measures in related policy areas, horizontal cooperation between local agents has remained limited, and resources have tended to be distributed in a short-sighted or politically motivated way.

In terms of the quality of policy making, the most remarkable achievement of the past two decades has been the attention given to data collection – something that has largely been due to the commitment of policy makers and to their demand that policy implementation should be more evidence based. The Employment Service collects detailed and good-quality data about the unemployed, the wages of employees and, to a lesser extent, the implementation of the main labour market policies. However, the data collected have not been adequately utilized to improve policy measures – partly because of lack of interest at the political level. Problem identification, the first stage in the policy cycle, is usually undertaken; but assessment of the impact of ensuing interventions is generally missing, as is any attempt to make adequate adjustments.

Employment policy may support the functioning of the labour market in three areas: it may enhance the flexibility of wage adjustment, support the matching of supply and demand, and reduce the costs of hiring and employment.

Flexible wage adjustment may be supported by the state in two ways. On the one hand, measures encouraging the unemployed to search for jobs serve to improve the visibility of the unemployed labour force on the labour market, so



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that employers are able to adjust wages in response. On the other hand, the state may reduce discrimination (which distorts wages) or may impose certain restrictions for welfare or political purposes, e.g. regulations on working hours or a minimum wage. At the beginning of the period, this consideration was rarely reflected in the objectives of the ministry. However, after the turn of the millennium, and especially after EU accession, efforts were increasingly made to involve the unemployed and inactive population – although recently mainly through less-efficient public works. As regards minimum wage regulation, the ministry responsible did not manage to exert its influence so that potentially negative employment effects were usually overlooked in favour of fiscal or political considerations. Similarly, although the disadvantages faced by the disabled, the elderly, the Roma and women are significant, the issue of discrimination did not receive sufficient attention over this period.

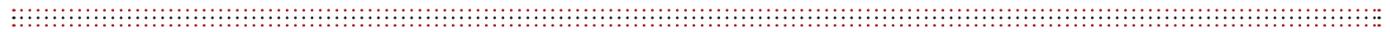
The matching of labour demand and supply is perhaps the only function where the ministry could draw on the experience of the planned economy, and this has been one of the main priorities since the very beginning of the political transition. This is also the area that is most often identified as the ministry's main task, by both the government and the general public. It is to ministry's credit that they have followed the international trend (supported by empirical evidence) of allocating more resources to active labour market policies. Also in accordance with international best practice, the ministry has increased the proportion of personalized services within EU-funded programmes, and has intensified its efforts to target programmes at the most disadvantaged jobseekers. However, the effectiveness of these efforts has been restricted by the lack of thorough impact assessment mentioned above. Issues that do not fall within the remit of the ministry (such as migration or internal mobility) have not received adequate attention in the past two decades.

As opposed to mitigating structural discrepancies, reducing the transaction costs of employment has posed new challenges for the ministry. After the relatively stable labour market of the planned economy, the new market economy (increasingly flexible due to globalization) generates large movements of labour. This creates a need for up-to-date and easily accessible information, and for subsidies that reduce the cost of moving between jobs, between locations – and indeed between stages of life (e.g. joining the workforce from college, or returning to work after parental leave). In this respect, the ministry has been good at tasks that could be achieved without the need for it to stray beyond its remit – for example, it has steadily developed the network of job centres and has improved the services provided to jobseekers and employers. However, when an issue requires the reconciliation of conflicting aims, the ministry has usually fallen short in developing and implementing the necessary detailed institutional and procedural solutions. When some accommodation has had to be found with other fields – e.g. the family support system, public transport or housing – so often the interests of employment have failed to be taken into account (or have been considered only to a limited extent). This has even been the case when the policy under consideration has fallen within the same ministry as the labour portfolio.

# 1. DIAGNOSIS AND LESSONS

## 1.4. RECOMMENDATIONS

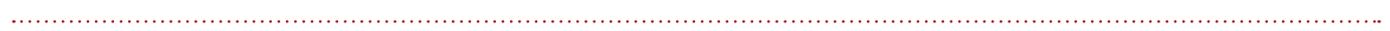
ÁGOTA SCHARLE



Hungarian governments have made several attempts in the past 20 years to mitigate unemployment, but empirical research shows that most of these have been ineffective – or have reduced employment as well as unemployment (for a summary, see Köllő, 2009). As was mentioned above, measures taken to reduce supply (early-retirement schemes, lax regulation of disability pensions) at the beginning of the political transition contributed to keeping the employment level permanently low. But subsequent measures that have focused exclusively on stimulating labour supply have not been successful either: reducing unemployment benefits, abolishing insured maternity leave (gyed) (without increasing the number of places at nurseries), increasing the minimum wage and allowing work while receiving flat-rate parental leave benefit (gyes) – none of these have boosted employment, and most have probably contributed to the aggravation of poverty.

The evidence on the impact of measures to boost demand is more mixed. Detailed impact analyses on public works suggest that increased expenditure on such programmes does not reduce – and may even slightly increase – long-term unemployment (Fazekas, 2001; Köllő and Scharle, 2011). In the case of wage subsidies and repeated cuts in employer contributions, research evidence is scarce; but (based on estimates of the wage elasticity of labour demand) it is probable that these have contributed to an increase in employment (or at least to curbing its decrease) (Kertesi and Köllő, 2003; Kőrösi, 2005; Tarjáni, 2004; OECD, 2010).

The similar experience of other post-communist countries suggests that the poor performance of employment policy may be due to the scale of the problem: the shockwaves generated by the political transition were just too great for the responsible government institutions to deal with in the space of two decades (cf. [Part 3](#)). The strengthening of government decision-making and implementation capacities requires (in addition to political will) a comprehensive economic growth strategy that assigns employment growth a high priority; a government unit with competent staff dedicated to implementing it; and a system of regular consultations that can ensure genuine cooperation with related policy areas. It is also essential to measure the impact of interventions regularly, and to continue to develop policy tools on the basis of the findings. All of this requires staff that have expertise in econometrics, an expansion of data collection and easier access to microdata.



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However, the failures of the past two decades offer some important lessons as well. Above all, it is clear that employment cannot be successfully increased without a harmonization of economic policy with measures to stimulate labour demand and supply.

The most important contribution economic policy can make is to ensure a predictable macro-economic environment (as well as a stable business environment) and to reduce the administrative burden (something that would improve the job-creation capacity of small enterprises in particular). In order to mitigate regional inequalities, it is crucial to develop the most disadvantaged micro-regions in an integrated way, based on local conditions and local expertise (see [Chapter 2.3](#)).

An expansion in labour market demand requires a reduction in wage costs, including taxes and contributions (which disproportionately hit the wages of unskilled employees): the regulations that stipulate a contribution base higher than the actual wage should be abolished; a cautious minimum-wage policy should be pursued; and there needs to be differentiation of the minimum wage, according to region or age. Black and grey employment may be reduced more effectively by well-targeted inspections than by increasing the minimum wage (see [Chapter 4.3](#)).

Encouraging job search may mitigate the limitations of wage adjustment and may help increase labour supply: such a move would require job centres to be better staffed and would need a wider range of the welfare benefits granted to the working-age population to be conditional on job search (a stipulation that should be better enforced by the job centres). Access to (but not the amount of) welfare provisions that support exit from the labour market (e.g. early pension, disability pensions, flat-rate parental leave benefit) should be limited, and there needs to be a further rise in the average retirement age (see [Chapter 4.2](#)). A more consistent enforcement of job search requirements would make it possible to raise the amount and the maximum duration of unemployment benefit. The recent drastic cut in the insured benefit is likely to have a detrimental effect on how well jobs are matched to jobseekers, and may also make the later reintegration of the unemployed more costly.

Better government communications, an increase in internships in public service and public education, the introduction of employment quotas, an expansion of the obligation of employers to draw up an equal-opportunities policy and to monitor its implementation – all this would help curb employer discrimination against the Roma, the elderly, the disabled and women. Support for work trial schemes, personalized active policies and a related mentoring service would serve the same purpose (see [Chapter 4.4](#)).

In order to support the matching of labour supply and demand, there is a need to improve the ability of disadvantaged regions to attract direct capital investment; to encourage mobility and commuting by harmonizing education and housing policy, as well as active labour market policies; to provide better-targeted and higher-quality retraining programmes and personalized active labour market policies that involve the most needy; and to offer more, more diverse and better-quality rehabilitation services to improve employability (see [Chapter 5.2](#)). International experience shows that adequately targeted, personalized and integrated retraining programmes are the most effective.

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These could be developed on the basis of a thorough impact assessment of current Hungarian programmes and pilot projects. The educational attainment of the workforce can only meet the changing demands of the labour market in the medium term if the methodological reform of public education continues, and if the role of skills development increases and the equal opportunities of disadvantaged pupils are better enforced.

Finally, the transaction costs of taking up employment and commuting may be reduced by the development of job centres, in order to ensure easy and cheap access to labour market information and to provide services to support recruitment and selection (cf. [Chapters 6.1](#) and [6.2](#)). Conflicts between the two roles of the Public Employment Service (as an authority that evaluates benefit claims and as a service provider) may be resolved by better cooperation between the institutions that fulfil these functions, whether they work in the same or in separate institutions. Improving the information service of job centres requires a clear strategy and corresponding internal procedures, as well as a regular quantitative and qualitative assessment of daily work, supplemented by feedback from both staff and directors.

In order to enhance mobility and make it easier to reach nearby towns, the network of roads and public transport should be further developed, and the costs of commuting for unqualified workers should be subsidized permanently; it would be more expedient to subsidize the rental of a flat than the purchase of one, and wage costs should be reduced (see [Chapter 6.4](#)). Finally, in order to remove any obstacles related to family obligations, more places and better services should be provided at (state-run) nurseries and family-run day-care centres (see [Chapter 6.3](#)).

Most of these measures can only be effective if they are launched simultaneously and aligned with one another. This would require considerable coordination and implementation efforts, but not necessarily significant resources. Some of the measures do involve extra costs, but others would result in savings – offsetting one against the other would reduce the need for substantial extra budget expenditure even in the first few years. For example, imposing stricter rules on early retirement (e.g. by adjusting *bonus–malus* regulations), providing unemployment benefits to working-age people only if they meet activation criteria, and restricting home purchase subsidies will all generate savings. In other areas it is not possible to reduce spending, but funding may be channelled from less efficient programmes to more efficient ones. For example, the development of rehabilitation services could be financed from a 20 per cent reduction in the subsidies to sheltered employment schemes for disabled workers. Some measures have an impact in a short time and will be self-sustaining in a few years – e.g. support provided to nurseries and family day-care centres is recovered from the tax and contributions paid by mothers taking up employment.

Rather than budgetary resource constraints, the obstacles standing in the way of implementation may be lack of expertise on the part of government staff or concerns over the political cost (cf. [Parts 2](#) and [3](#)). The former may be resolved by involving external (Hungarian or international) experts, while the latter could be overcome by a thorough preliminary assessment of costs and returns, losers and winners – and by persistent negotiation, which will (sooner

or later) persuade (or reconcile) any major opponents. What is at stake is how to make the various stakeholders realize that the well-being of the country can only be secured through reform. The gains from reform will, in the medium term, more than offset the initial losses, whereas failure to reform may well mean that any present advantage is forfeited.

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## 2. LABOUR MARKET GOALS IN A WIDER POLICY CONTEXT

### 2.1. THE ROLE AND SIGNIFICANCE OF LABOUR AFFAIRS IN THE SYSTEM OF GOVERNMENT INSTITUTIONS\*

BALÁZS VÁRADI



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The room for manoeuvre in employment policy depends largely on the position and significance of the government ministry(s) responsible for employment objectives within the structure of government institutions. The (ever-changing) position of the labour portfolio in the government is not just a public administration issue, and it cannot be solely described by depicting institutional changes over time.<sup>1</sup> Although there are studies available on the relationship between policy making and political institutions, and between civil servants and politicians in general (see Körösényi, 1997; Ágh et al., 2005), we are not aware of any relevant research findings concerning this sector. This chapter seeks to supplement the scarce literature and – based on budget data, government strategies, media analysis and interviews – to describe the political conditions that define the elbow room of employment policy.<sup>2</sup> The chapter may be regarded as a first draft for a future study of the history of institutions.

#### WHY IS IT IMPORTANT?

As specialist literature (Hare, 1993) and a report prepared by the social affairs and labour ministry (SZMM, 2006) both state, as well as labour affairs, successful employment policy covers financial (tax and contributions) policy (which influences labour supply and demand), social affairs, family policy, economic and business development and education policy. Support in formulating decisions related to these policies is necessarily undertaken in different ministries and departments of central government.

However, the position of these ministries/functions within the institutional structure is not simply a matter of design. They serve different sub-targets and therefore vie with one another for public funds. According to one of the key principles of bureaucracy theory (Niskanen, 2001), there is a correlation between the size (and the budget) of agencies (ministries) and their political significance. Furthermore, the politicians in charge of these ministries may have aims and priorities of their own. Inevitably, therefore, the cooperation between various functions in the decision-support processes of employment policy is not without conflict, including political and institutional conflict within government (Howlett et al., 2009). Thus, since successful employment policy depends heavily on the public administration staff and the politician in charge of policy making and monitoring the sector, the political weight and influence of the ministry or department responsible for labour affairs is of no

\* Special thanks to Lilla Garzó, György Hajnal and Ágota Scharle for their comments.

<sup>1</sup> For a detailed review of institutional changes, see Halmos (2010), Frey (2002; 2011).

<sup>2</sup> The system of institutions for interest conciliation is discussed in [Chapter 2 of Part 2](#).

small import. Obviously, the relationship between the bargaining power of the ministry and the performance of government in terms of employment is not unidirectional: a weak and downgraded ministry headed by a lightweight politician will be unable to contribute substantially to developing and adopting successful policies; in the same way, a prime minister who does not consider employment policy to be important will tend to appoint a weaker politician to head up labour affairs in a junior ministry.

Although we have found no international data on the linkage between the position of labour affairs within a government and the attention devoted to them by that government, we are aware of some general, empirical research on the topic. Wehner (2010) summarizes and investigates empirical studies on the connection between the number of ‘spending’ ministries and the government budget, based on several decades of international data. According to this work, cabinet performance is strongly related to cabinet structure: controlling for other factors with a high impact on fiscal performance, the higher the number of ‘spending’ ministries, the higher the budget expenditure (and deficit). In his international quantitative and empirical study, Huber (1998) examines the statistical relationship between hard policy variables (such as changes in annual healthcare expenditure) and the frequency with which ministers are replaced. The impact is significant and, although temporary, lasts for several years.

### INCREASING EXPECTATIONS – SHRINKING ROOM FOR MANOEUVRE

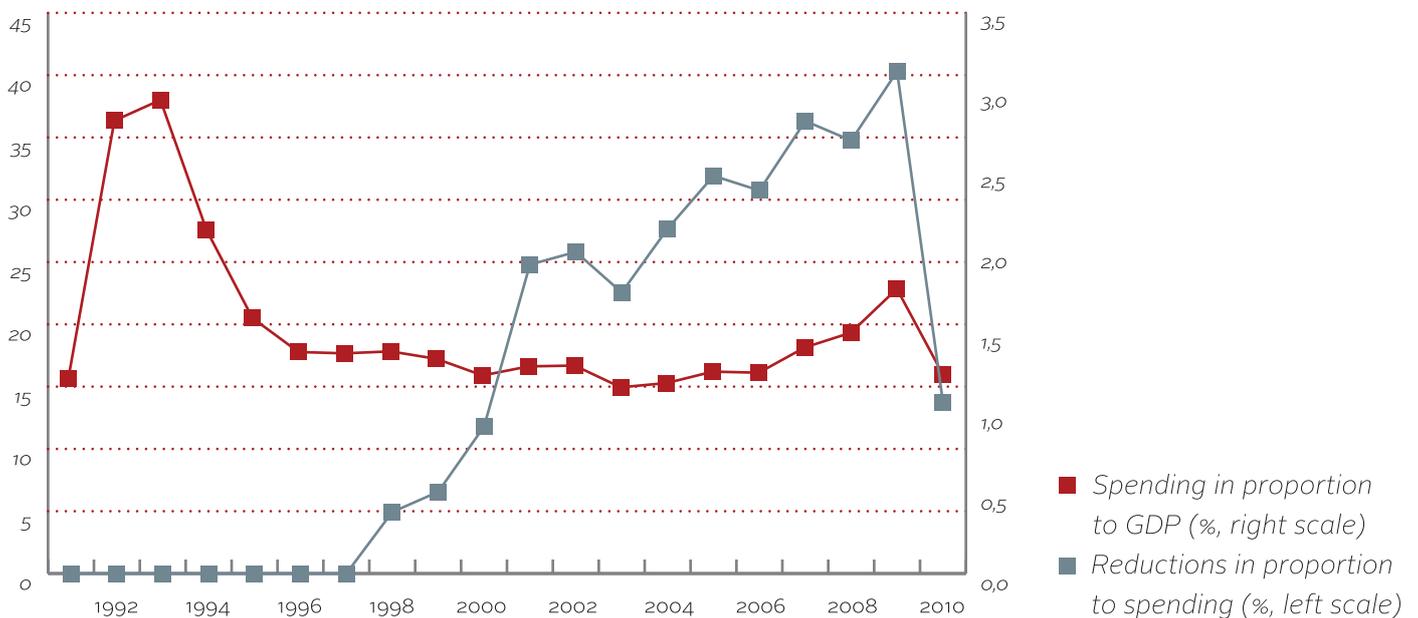
To put it simply, two opposing processes have had an influence on the latitude enjoyed by labour policy makers and their staff in the past twenty years in Hungary.<sup>3</sup> On the one hand, there was a gradual recognition that labour policy is more than merely incomes policy: in addition to providing benefits to the unemployed, it may also contribute to economic growth by effectively regulating the internal operation of the labour market and by adequately supporting labour demand and supply. On the other hand, there has been increasing centralization of government decisions, entailing the declining significance of decision support, which has made it increasingly difficult to coordinate the various policy fields.

In terms of employment policy, we have witnessed a general external, political–institutional tendency that has been of crucial importance: in the past twenty years we have seen the formation of a top-down government structure that is subordinate to political goals; this has led to the political wishes of the prime minister being implemented by civil servants swiftly and with the least possible modification of the objectives (Goetz and Wollmann, 2001; Brusis, 2006). This trend – which involves a reduced number of ministries, a more political second line of ministry officials and an increased role for the immediate team surrounding the prime minister and for the prime minister’s office – has also had an influence on the labour ministry (see also [Chapter 3.1](#)). However, centralization has not necessarily improved efficiency, since it has not resulted in a better decision-making process. Improvement has also been hampered by the traditionally weak intra-governmental cooperation between related policy fields, such as social affairs and labour, and the frequent lack of clear policy objectives, monitoring and adjustment (Verheijen, 2006; OECD, 2007).

<sup>3</sup> Both processes will be described in detail in [Chapter 3.1](#).

The importance of employment as an interesting macro-economic indicator has gradually become clear to politicians. As early as the mid-1990s, international observers (e.g. OECD, 1997) drew attention to the danger of low employment levels 'getting stuck', but the knowledge that a low level of employment is an obstacle to growth and that the causes reside in the labour market was built up gradually (see [Chapters 1.1](#) and [1.2](#)). It was only at the time of the favourable economic trend between 1995 and 2007 that decision makers started to see that economic growth will not in itself automatically raise the employment rate to the level it stood at before the political changes; it also requires restructuring within and beyond employment policy (see [Chapter 3.1](#)).

Figure 1: Expenditure of the Labour Market Fund\* and increasing payment into national budget, 1991–2010 (in percentage)



\*Between 1991 and 1995, the figure shows the aggregate amount of the Solidarity Fund, the Employment Fund, the Vocational Education and Training Fund, the Rehabilitation Fund and the Wage Guarantee Fund. Spending also includes expenditure related to the two EU schemes managed under the labour portfolio (TÁMOP 1.1 and 1.2). Budget reduction (i.e. payments into the national budget) was calculated in proportion to the larger expenditure indicator.

Source: 1991–2001: Frey (2002), 1998–2010 Ministry for the National Economy, balance sheets of the Hungarian Treasury, as well as Frey (2010).

It took a long time for labour economists to persuade prime ministers and economic policy makers that the policy tools of the ministry might actually have significant positive effects on employment policy (cf. [Chapter 3.1](#)). Within the structure of bureaucracy retained from the communist era, labour policy was regarded as a 'spending' ministry, transferring public funds to job seekers. Accession to the European Union also contributed to the increasing importance of employment. EU directives and planning frameworks included employment as one of the most important objectives, and encouraged decision makers to develop systematic policies and to identify the causes of structural problems.

Apart from during the crisis years, the labour ministry was unable to increase the funding it could devote to employment policy. One possible explanation for this is that its increasing significance was overshadowed by other, presumably short-term and political factors. The Labour Market Fund and the EU funding directly controlled by the ministry have ranged from 1 per cent to 1.2 per cent of GDP throughout most of the past twenty years, which is on a par with the regional average, but is lower than in the Nordic countries and countries with marked corporative traditions. It is an indication of the weak lobbying capacity of the ministry that it has not managed to maintain control over its allocated revenues: from the mid-1990s (when unemployment started to decrease) it paid an increasing proportion (40 per cent in 2009) of revenue from contributions to the Labour Market Fund into the national budget (Figure 1).

The gradual reduction in the elbow room outlined above is further explained by specific features of the various government administrations. These will be detailed in the following, focusing on changes in government programmes and implementation agencies.

#### THE ANTALL AND BOROSS GOVERNMENTS<sup>4</sup>

Due to its major role in preserving social stability, the ministry of labour was fairly important in the first government following the political transition. However, the main goal of the change to a market economy and privatization was to establish efficient markets, and employment was subordinate to that (Boda et al., 1999).

Until 1990, the State Office for Wages and Labour was responsible for employment policy, and its chairman participated in government meetings as a non-voting member (Halmos, 2010). When the Antall government was formed, the first signs that the change of regime would present significant challenges for labour policy had already appeared: by 1989, the number of vacancies had decreased by 40 per cent in just a year, and the number of job seekers had doubled (ibid.). The strike law, which sought to provide legal solutions to the anticipated labour conflicts (which were foreshadowed by the first strikes of 1988), was adopted by Parliament as early as spring 1989, following significant social and political debate (ibid.). However, the challenges were still great. At a time when nobody was yet clear what the outcomes of the transformation of the whole social and economic system would be, the democratically elected government of the day was expected to develop an employment policy, to establish a system of employment-policy institutions (from retraining to public works), to provide a meaningful structure for the reconciliation of labour disputes, to strengthen the labour market organization, supporting communication between employers and employees, to organize the collection of information, and to prepare forecasts in the 'new' world of liberalized wages and labour migration. Although in spring 1990 the media was still not devoting much attention to employment, the government programme, which aimed at a social market economy, was already anticipating 'a temporarily significant increase in unemployment' (Programme of National Renewal; see Kiss, 2004). After a blockade organized by taxi drivers on 26 October 1990 demonstrated that non-parliamentary political pressure was a real alternative in a democratic

4 Coalition of the Hungarian Democratic Forum, the Independent Small-holders' Party and the Christian Democratic People's Party, 1990–94.

Hungary, the establishment of a trade union movement, representing several hundred thousand discontented people and playing a political role, probably seemed a serious risk.

Although the first democratically elected government did not establish a parliamentary committee for labour affairs,<sup>5</sup> it did set up a ministry for labour affairs. However, it was headed by lightweight politicians. During its first eight months, it was headed by Sándor Győriványi (Independent Smallholders' Party), a retired technology historian and head of a secondary vocational school,<sup>6</sup> while from 1991 to the end of the government's term in office it was headed by Gyula Kiss (Independent Smallholders' Party), a lawyer from the city of Miskolc. The position of state secretary was first filled by György Lőrincz, a lawyer specializing in labour law, and then by Ferenc Rolek, who had extensive public administration experience in the previous system; from 1993 to the end of the next administration (!) the position was filled by Gyula Pulay, who worked in the State Office for Wages and Labour in the 1980s. All three men had a background in employment.

The significance of the portfolio was not related to the personalities of the two ministers. Neither the weight of their party nor their own political strength or competence in the policy field earned them the respect and loyalty of their staff. Nor did they make any great impact on their fellow politicians. (It should be noted that immediately after the political changeover there were very few people who met the twin requirements of aptitude and policy experience, and who had not been involved in the previous system.) It was also a source of conflict within the ministry that it was headed by a member of the Independent Smallholders' Party, while the state secretary was a member of the Hungarian Democratic Forum; therefore the relationship between the minister and his state secretary was not harmonious.

A network of job centres was established during this period, based on the previous system of county and city council labour departments. The National Labour Market Office (later renamed the National Employment Office) was appointed to be the central agency of the Employment Service, with county (and metropolitan) job centres and their municipal branch offices affiliated to it (Frey, 2002).

After the employment law took effect in 1991, employment expenditure was funded from two separate sources: the Solidarity Fund (financed from the contributions of employees) and the Employment Fund (financed from the national budget). The former served to finance unemployment-related benefits, while the latter financed active labour market measures. After contributions were raised several times, the Solidarity Fund showed a significant surplus from 1993, which could be transferred to the Employment Fund (ibid.).

The government, which sought extensive tripartite dialogue in decision making in the field of labour, involved the representatives of employers and employees in controlling the funds (see [Chapter 2.2](#)). The fact that they had a say in the distribution of resources gave the participants greater prestige and importance in policy making, but later on this was to provide the grounds for regular attacks on the ministry.

The different interests represented by the sectors also emerged during this period: according to the interviews we conducted, the powerful finance

5 In 1990–94 the policy field was covered by the Economic Committee of Parliament. (Source for data related to the competence of parliamentary committees: [here](#))

6 Source for members of the government, CVs of ministers: [here](#).

ministry, which was responsible for the budget, wished to impose stricter conditions on early pensions and long maternity leaves, while the ministry for social affairs and labour attempted to prevent this. At the same time, the two ministries of social affairs and of labour tried to foist any unpleasant tasks on each other. The survival of the hidden or administrative pluralism of state socialism (Ágh, 2003), implying that each ministry strove to represent the interests of a sector or a social group, meant that the civil servants of the ministry for social affairs and labour had identified a (hidden) mission for themselves: to represent job seekers in the inter-ministerial competition for budget resources. Nevertheless, the conflicting goals of the individual ministries did not hamper harmonious cooperation and information sharing between the various ministries or units.

### THE HORN GOVERNMENT, 1994–98<sup>7</sup>

The portfolio was probably strongest during the Horn government: the policy staff was retained, the remit of the portfolio was widened, it had an influence on policy, and it had two influential politicians as ministers.

By 1994, unemployment was being continuously covered by the press, although, among the general public, there was still a strong belief that the problem would automatically be alleviated by economic growth. In the parliamentary programme of the Horn government (Kiss, 2004), the key word was ‘modernization’; employment as a distinct term was not included.

However, the policy field itself was important. A separate parliamentary committee, the Employment and Labour Committee, was set up in 1994 and has been in place ever since. The labour portfolio had its own ministry, headed by two key politicians from the Socialist Party: Magda Kósáné Kovács (onetime literary historian and trade union leader) until her resignation at the end of November 1995, and then Péter Kiss (former leader of the Hungarian Young Communist League and the Association of Leftist Youth). The position of political secretary of state was filled throughout the period by Lajos Héthy, a journalist and sociologist.

During the coalition negotiations (this time and for later Socialist–Liberal governments) the Liberals did not want the labour portfolio – partly because they accepted that the Socialists ‘were more attached to it’ and partly because Liberal politicians regarded employment more as an offshoot of economic policy than as a policy field interesting in itself.

The austerity measures of 1995–96 (the so-called Bokros package) caused relatively few labour conflicts. Favouring both rationalization and the transparency of public administration, in January 1996 the finance ministry initiated a merger of the Solidarity Fund and the Employment Fund with three other funds (the Vocational Education and Training Fund, the Rehabilitation Fund and the Wage Guarantee Fund) to establish the Labour Market Fund, while the funding allocated from the national budget was reduced. The minister in charge of the labour portfolio shared control over the fund with the consensus-based steering committee of the fund (Steering Committee of the Labour Market Fund).<sup>8</sup> The Bokros package mainly contained measures suggested by the policy staff, some of them planned well beforehand (such as the abolition of career

7 Coalition of the Hungarian Socialist Party and the Alliance of Free Democrats (Liberal Party).

8 If the steering committee (comprising representatives of employers, employees and the government) cannot agree on the allocation of the resources of the fund, the decision is made by the minister (ÁSZ, 1999; 2008).

starters' allowance), and the finance ministry was ready to make concessions as well; thus the period was not especially conflict ridden for policy staff.<sup>9</sup>

### THE FIRST ORBÁN GOVERNMENT, 1998–2002<sup>10</sup>

This administration marked the absolute low point in terms of the importance of labour affairs and labour policy in government. The portfolio lost influence: it was not included in the government manifesto, the ministry was split up, the state secretary suffered a defeat and the minimum wage was raised (see [Chapter 4.3](#) for more detail).

As with the previous government manifesto, the programme of the first Orbán government (Government programme, 1998) did not contain a chapter on employment, but job creation (primarily through tax changes) was one of its key objectives. The government programme regarded job creation as the catalyst for economic growth and promised modification of the system of taxes and contributions, as well as improvement in the efficiency of labour market institutions. It is interesting to look back at a prophetic paragraph on labour policy ahead of EU accession: 'If the country is unable to increase the workforce significantly above the current level of about 4 million people before EU accession, it is possible that – because of the inflexible employment policy of the EU – employment levels will not improve after accession either' (ibid.). This is exactly what happened, even though there is no reason to think that it did due to EU regulations. Nevertheless, in its programme the government drew the conclusion that labour market flexibility needed to be increased in coming years.

In line with its programme of subordinating labour to growth-enhancing economic policy, the government did not establish a separate labour ministry.<sup>11</sup> It divided the portfolio and its tasks into two (or into three, if we include the education ministry). Employment promotion, wage policy and the coordination of interest representation were assigned to the economic affairs ministry, headed by Attila Chikán (an independent economist and university professor). Most labour affairs roles – such as the Employment Service, active and passive policies, strategy development, legislation and supervision of the Labour Market Fund – were assigned to the ministry of social and family affairs, headed by Péter Harrach, a Christian Democrat politician (Gyula Pulay stayed on as state secretary), while vocational education and training was assigned to the education ministry. Later, in July 2000, the elements of the labour ministry that belonged to the ministry of social and family affairs were returned to the ministry of economic affairs, headed by György Matolcsy (another independent economist) from January 2000 (Frey, 2002).

The ministry of economic affairs wanted to focus on strategic tasks from 2000 and to hand over the implementation of labour market policy to the Employment Service. As a result, employment institutions, job centres and the reorganized National Employment Office, which coordinated them, were again granted more autonomy and tasks in 2001 (ibid.).

During this government administration, significant sums were transferred from the Labour Market Fund to the ministry of economic affairs, the ministry of social and family affairs and the municipalities (ibid.).

9 However, Magda Kósáné Kovács resigned at the time. According to her official explanation, the new sick-pay regulations encouraged behaviour that was harmful to health; but the real reason was probably the perception that policy considerations in general came to be dominated by political ones.

10 Coalition of Fidesz, Independent Smallholders' Party and Hungarian Democratic Forum.

11 However, it set up a separate ministry for youth and sport.

There was an important and emblematic conflict in 1999 between the prime minister and Gyula Pulay, the state secretary responsible for labour issues in the ministry of social and family affairs. The immediate cause of the conflict was a draft measure proposed by the government, alongside which the state secretary had prepared an alternative proposal (in line with his convictions), which also served the aims of the government but was considered better in terms of policy. However, the government rejected it without a policy debate and adopted its own proposal. To the civil servants, it was not clear what (social) policy objective the government's proposal followed; the state secretary became involved in an argument with Prime Minister Viktor Orbán and tendered his resignation.<sup>12</sup> This conflict amounted to a prime ministerial slap-down of the labour portfolio. In general, the disagreement also highlighted the contrast between an influential civil servant trying on his own to determine the policy tools best suited to the presumed goals of the government, and a prime minister who held a democratic mandate but was inexpert with the details, yet still insisted on control over decisions on policy tools. This conflict had a symbolic significance for the labour portfolio, conveying a message from the prime minister about the limits of its remit.

### THE MEDGYESSY AND THE FIRST GYURCSÁNY GOVERNMENT, 2002–06<sup>13</sup>

This government term was hampered by changes in ministerial staff and by a change of prime minister. Politically important measures were developed outside the labour ministry, in the prime minister's office, which indicated that rather less importance was attached to it within government than in the first two terms after the political changes.

Analysis of media coverage at the time reveals that, in 2002, the general public expected more intervention on the part of the government (even direct job creation) than before, and was more aware of the regional, social and qualification patterns of the low employment level.

The Government Programme (2002), which contained both liberal and social democratic elements, identified as one of the symptoms of a slowing economy the fact that 'the expansion of employment has stopped' but included 'a high level of employment through reliable and trustworthy economic policy' as one of the tools of the 'empowering state'. It promised to increase the wages of public servants and to reduce contributions. A separate chapter on employment contained several particular measures, including welfare/employee-friendly/social democratic promises.<sup>14</sup> Similar populist measures (e.g. increasing the length of time for which unemployment benefit could be claimed) were included in the 2004 programme of Ferenc Gyurcsány 'One hundred steps', but they did not constitute a unified government strategy, either.

Prime Minister Péter Medgyessy re-established a separate ministry of employment and labour (headed by Péter Kiss until March 2003, and then by Sándor Burány, a Socialist Party politician with a degree in economics, until October 2004). In the first Gyurcsány administration, from October 2004 the position was filled by Gábor Csizmár, a Socialist politician (previously state secretary to Péter Kiss). Ágnes Csanádi (who worked for and later headed the regional

<sup>12</sup> The prime minister did not accept the resignation of the state secretary, and so finally Gyula Pulay was transferred to another ministry.

<sup>13</sup> Coalition of the Hungarian Socialist Party and the Alliance of Free Democrats (Liberal Party).

<sup>14</sup> E.g.: 'we guarantee two rest days a week, one of which has to be Sunday ... The most important task of the labour institutions is to provide employment for fresh graduates in the shortest time possible ... We are going to establish an integrated employment registry. We are going to make the system of labour inspections more effective' (Government Programme, 2002).

development body VÁTI), who had public administration experience from the Horn and Chikán era, was appointed state secretary.

In 2002, then, Péter Kiss returned to head the ministry, bringing with him political weight and his earlier experience, and thus managing to improve its bargaining power. During the Orbán administration, the economic and education ministries had spent eighteen months arguing about the supervision of resources under the Human Resources Development Operational Programme; Kiss swiftly made a decision on the matter and succeeded in having it approved. When Gábor Csizmár was appointed minister, several civil servants regarded it as a continuation of the 'Péter Kiss era' (since Csizmár had been his state secretary). The position of state secretary was then filled by Lajos Héthy, who returned from the UN mission to Kosovo and the academic world.

The tendency for resources to be channelled from the original functions of the Labour Market Fund (mainly active and passive labour market policies) to other functions continued: an increasing proportion of funding was spent on elements specified in the Budget Act (see Figure 1). However, in addition to the Labour Market Fund, EU funding also became accessible. The distribution of EU funds was undertaken by the ministries until 2006. The Human Resources Development Operational Programme, developed jointly with other ministries, was supervised by the ministry of employment and labour, with the managing authority set up within the ministry.

## THE SECOND GYURCSÁNY AND THE BAJNAI GOVERNMENTS (HUNGARIAN SOCIALIST PARTY), 2006–10<sup>15</sup>

The ministry was again merged with other ministries, and ministers were replaced on an annual basis; in other words, it again lost importance. The short employment chapter of the Government Programme (2006) contained general remarks (e.g. reform of the Employment Service and amendment of the Labour Code), a commitment to job creation, wage cost-reduction programmes financed with EU support (Start, Start Extra), and a public works programme with 50,000 participants.

In his new government, Ferenc Gyurcsány cut the number of ministries by three and merged the labour and the social affairs ministries. The resulting ministry was again headed by Péter Kiss for a year (for the third time), until June 2007; it was then headed by Mónika Lamperth (a Socialist politician) until May 2008, by Erika Szűcs (another Socialist politician with a degree in economics) until April 2009, and by László Herczog (independent, onetime deputy state secretary and state secretary) until the end of the government term. Erika Szűcs had some importance as a minister who doled out tens of billions of forints to the municipalities during the crisis, but she was considered a creature of the prime minister without any other power base. Her successor, while undoubtedly competent professionally, was politically insignificant, and therefore only managed to have some influence in the crisis management of the Bajnai government if it did not threaten major individual or party interests. Between 2006 and 2008, the state secretary responsible for labour administration was Gyula Tarcsi, onetime leader of the Hungarian Young Communist League and former CEO of state-owned companies, who, as a government

<sup>15</sup> From 2006 to 2008 in a coalition with the Free Democrats; in 2009–10 with external support from the Free Democrats.

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commissioner in 2005–06, was also responsible for the modernization of the Public Employment Service. From 2006 the position of deputy state secretary was filled by Judit Székely, who had worked in the National Employment Office in the 1990s.

In addition, a new institution – the National Development Agency, in charge of distributing EU funds independently of (and partly in parallel with) ministries – was established, headed by Gordon Bajnai (independent, businessman) to take over operational programmes previously supervised by the ministries.

Unlike during the merger under the Fidesz government, the second Gyurcsány administration merged the labour ministry with the social affairs ministry. One possible reason was that by this time the prime minister had realized that there was a potential conflict between projects that offered high added value but did not improve employment significantly, and projects that did not offer much added value but increased the employment of the unqualified workforce. He wanted to see compromises being reached within the government, rather than in a (merged) ministry responsible for labour and economic affairs.

The deepening conflict between the civil servants and the politicians was indicated by the withdrawal of the minister because of the implementation of a large-scale public works scheme. The scheme was mainly supported by mayors (who were often members of parliament at the same time), while the ministry of labour regarded public works as a dead end, from which it was impossible to escape. Under pressure from socialist mayors, Ferenc Gyurcsány also supported the public works scheme, but Mónika Lamperth (who, according to the civil servants and politicians interviewed, was the least successful labour minister) was unable to produce a draft of decent quality. Therefore the prime minister appointed Erika Szűcs, who had no central public administration background but was loyal to both the prime minister and the public works scheme.

## CONCLUSION

Since the shock of transformation and the years of insecurity, the labour portfolio has never been considered particularly important; it has fairly steadily and with only minor ‘blips’ grown less and less significant. This is partly due to the fact that (according to the politicians interviewed) the portfolio was partly a cluster of labour market policies that did not always fit with the main objectives of economic policy and partly a forum for bargaining and for consulting with social partners and their representatives, but by and large was an unimportant field. Although by the end of the period the objective to be achieved by the portfolio (i.e. to enhance employment) had become clear to a larger part of government, it was unable to gain in strength enough to achieve this goal by itself.

Apart from the years of the political changeover, the political weight of the labour portfolio was only (relatively) significant when there were Socialist administrations, which paid attention to this policy field and had good relations with the largest trade union – and especially when the portfolio was headed by high-ranking Socialist politicians interested in the policy (Magda Kósáné Kovács, Péter Kiss).

The position of the labour portfolio among the ministries did not improve, and by the end of the period under consideration it had been merged into other ministries (into the ministry for social affairs and, from 2010, into the ministry for the economy). This deprived the labour portfolio of having its interests represented in government, but at the same time made it possible to settle disputes and reach compromises on employment policy within a ministry. However, this did not help the inter-ministerial coordination required for a successful employment policy, since it was impossible to include in a single ministry all the functions that needed to be coordinated in order to increase employment.

In view of the above, it is difficult to make recommendations. The subject of our research – the political significance of the structure responsible for providing support to government in making decisions on labour issues – is (although probably interrelated) not directly linked to the effectiveness of a government's employment policy. The independence of the portfolio is not an advantage in itself, because it may only serve the political ambitions of its minister.

What is important for future policy making in employment is to develop an evidence-based economic policy strategy, possibly embedded in an objective-based financial framework,<sup>16</sup> which prioritizes increased employment and in which the policies analysed above have logical functions. Its development and implementation require inter-ministerial cooperation, and it is also certain that the government department responsible for developing and implementing the strategy will have a key role. This role can only be assumed by an adequately trained, organized and managed government unit, and the strategy can only be successful if this is within a ministry headed by a competent and influential politician.

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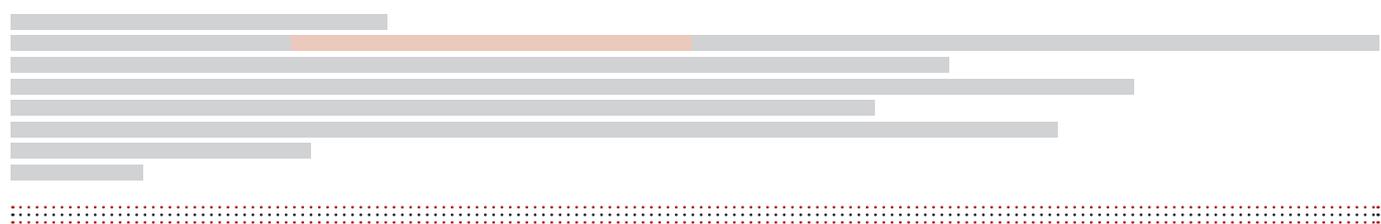
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## 2. LABOUR MARKET GOALS IN A WIDER POLICY CONTEXT

### 2.2. WAGE AND TAXATION POLICIES

LÁSZLÓ NEUMANN AND BALÁZS VÁRADI



This chapter deals with changes in wage policy, as well as with the aspects of tax and contributions policy related to employment; it focuses primarily on the institutions of political decision-making. It seems obvious to approach the issue from the perspective of the body handling national tripartite social dialogue, since for much of the past 20 years it has been the regular forum for public wage policy disputes. Nevertheless, this is not without its limitations, since political decisions were clearly not taken at this basically consultative forum.<sup>1</sup> We do not aim to analyse the complete wage and tax policy, but to examine when, where and in what context labour market objectives were considered, and whether expected impacts on employment were taken into account. We will look at two areas of the past two decades when economic policy developments were accompanied by significant tax and wage policy measures: the two periods of crisis (1994–95 and 2006–08) and the wage policy expansion of 2001–05.

#### THEORETICAL BACKGROUND

Wage policy may be defined as the set of government tools that have a direct influence on wage setting. As opposed to state socialism, where the state is the main employer, in a market economy the range of wage policy tools available to the state is relatively restricted, since wages are negotiated between employers and employees, depending on market conditions and largely independently of the decisions of government.

Aside from setting the minimum wage and defining the salaries of public sector employees, the most important tool is determining the taxes and contributions imposed on employment. On the one hand, these yield considerable revenues for the government; on the other hand, they – just as other taxes – involve inevitable social costs. More specifically, if we leave out of consideration lump-sum and corrective taxes, the various types of taxes curb income generation (by reducing the output of market activities) and thus cause deadweight loss (Stiglitz, 2000). Compared to other types of taxes, the distorting effect of charges on labour (taxes, contributions) is especially high (OECD, 2010).

A simplified explanation for the distorting mechanism of charges on labour (which generate social costs) is the following: employment is subject to labour market demand and supply. If taxes and contributions are levied on wages, demand is determined by full labour costs (net wage + taxes and contributions), while supply

<sup>1</sup> This chapter is based on original research: structured **interviews** and document analysis. The latter primarily covered the agreements concluded by the National Council for the Reconciliation of Interests (Országos Érdekegyeztető Tanács, OÉT) and the positions of the negotiating parties recorded in the minutes of the meetings.

is determined by the net wage. The proportion of the difference between the two relative to full labour costs constitutes the so-called ‘tax wedge’. The higher the charges are in relation to wages, the lower employment will become, relative to a hypothetical level without taxes. The exact extent of this is an empirical question: it depends on how flexibly labour demand reacts to labour costs and how flexibly labour supply reacts to changes in net wages.<sup>2</sup> An important and empirically supported consequence is that, in the long run, it is only the extent of the tax wedge that counts – not whether its various elements are deducted from the employer or the employee (Nickell, 2004).

It should be noted that the system of taxes and contributions on employment and income has a different impact on the various segments of the labour market with various wage levels, where the flexibility of both labour demand and supply may be different. For example, the same flat-rate healthcare contribution may constitute a quite different tax wedge in terms of extent and impact: it will have one impact on single, well-qualified men, but quite another on low-skilled (and therefore low-paid) women with a family, for whom a real alternative is to stay at home, and who are thus more sensitive to wage changes.

Another important mechanism of wage policy is the supposed Keynesian effect of wages on inflation (the so-called cost-push inflation). In this respect, governments are able to curb (double-digit) inflation if they can ensure that inflation expectations are not entirely built into wage increases.

Although the prices of products are generally determined in the market in a market economy, some industrialized countries have special political mechanisms (interest conciliation, minimum wage regulation) to influence wage changes, and these have direct social and political effects. In Western Europe, wage-related interest conciliation is usually a bilateral process, involving free collective bargaining between employers and trade unions (i.e. without government intervention); rarely is there direct government intervention or a wage freeze. The structure of collective bargaining is different in each country in terms of the level at which it takes place (corporate, sectoral or national collective agreement) and the wage features (tariff wages, percentage pay increase, minimum wage, etc.) negotiated. The bargaining structure also influences the impact wages have on inflation and employment (Calmfors and Driffill, 1988). As regards macro-economic performance, those countries with a fully centralized or an extremely decentralized structure are more successful and more capable of adapting to external shocks than are countries with primarily sectoral bargaining, because their structures allow for stronger wage adjustment (Layard et al., 1991).

Alongside free collective bargaining between employers and trade unions, governments have other important tools to influence wages, even in market economies. Besides minimum wage regulation, discussed in [Chapter 4.3](#), the role of the state as an employer is such a tool, if employment and wages in the public sector differ from those regulated by the market or collective bargaining.<sup>3</sup>

<sup>2</sup> That is, the wage elasticity of labour demand and supply. For more detail see e.g. Scharle et al. (2010).

<sup>3</sup> The state may also make employment more expensive through employment law and other administrative regulations, such as obligatory pay supplements, the need to have certain (regularly upgraded) qualifications for certain occupations, and various safety regulations (e.g. rest periods for lorry drivers or limits on overtime); however, these are not considered here.

## ESTABLISHMENT AND OPERATION OF THE SYSTEM OF COLLECTIVE BARGAINING IN THE MARKET ECONOMY

The tripartite (government, employer and union) National Council for the Reconciliation of Interests (Országos Érdekegyeztető Tanács, OÉT)<sup>4</sup> was established in 1998, but its origins go back to the ‘wage reform negotiations’ of 1987. The main purpose of the reform was to abolish administrative wage regulation in the corporate sector, with the hope of arresting the decline in average real wages that had been taking place since 1979, and then of reversing the trend.<sup>5</sup> The trade unions and employers (still mainly state-owned and cooperative enterprises) fully accepted the goals of the wage reform. Central wage control was to be replaced by tripartite negotiations between employers, trade unions and the government, and by bilateral industry- or company-level collective bargaining, whose institutions (since genuine trade unions and employer organizations were lacking) were to be established. The wage reform was also expected to ensure that central wage regulation did not have employment policy functions.<sup>6</sup> As will be seen later, this approach was also present in the wage policy pursued by the ministry in the following decade.

Following the political changeover, the confederations created by the break-up of the National Council of Trade Unions (Szakszervezetek Országos Tanácsa, SZOT) of the single-party era and the newly established independent trade unions joined the *employee side* of OÉT, while those organizations representing employers that were formed from the earlier corporate or cooperative artisan and shopkeeper organizations and the National Association of Entrepreneurs and Employers joined the *employer side* of the OÉT. The lack of legitimacy of these organizations in 1990 was due to the fact that the internal, functional reform of the successors to communist organizations was not obvious, while the newly established organizations suffered from poor organization among their members. Later on, the OÉT itself played an important role in the consolidation of the new interest groups: partly by settling the legitimacy and property rights disputes of trade unions, and partly by ensuring legitimacy through its membership, since only OÉT members were accepted as social partners.<sup>7</sup> On the side of the *government* it was always the ministry responsible for labour issues that participated in OÉT, but government delegations also included the ministers of other ministries involved in whatever issue was being discussed. Although the political significance of OÉT varied considerably across government administrations, prime ministers usually attended meetings when announcing significant economic or wage policy measures. It is indicative of the different political aims that Socialist prime ministers attended meetings more frequently.

The routines and attitudes adopted at the beginning of the 1990s, when tripartite negotiation developed fully – partly because of the conflict-resolution role it assumed during the October 1990 blockade of Budapest organized by taxi drivers<sup>8</sup> – remained dominant. The wage policy pursued by the labour ministry of the Antall government mainly followed the ‘wage reform’ principle. Almost from the beginning, annual wage negotiations included setting the minimum wage and the recommended wage increase (as an upper limit in the first few years). During the negotiations, the priorities of the government (still based

4 Wage negotiations took place in the OÉT between 1990 and 1999, and in the National Labour Council between 1999 and 2002. In addition to changes to its name, the mandate of the council was also modified several times. Reform of the OÉT began under the Horn government, with the aim of reinforcing its consultative character and reducing its co-decision rights. The reform was completed by the first Orbán government: the mandate of the National Labour Council was restricted to discussion of labour issues. The Medgyessy government restored the OÉT's earlier (pre-1998) mandate in 2002, and also – as a symbolic gesture – its name. The last meeting of the OÉT took place on 2 December 2010.

5 While in the pure command economy there was no economic restriction on the efforts of companies to increase headcount and wages (Kornai, 1980), from 1968 central wage control obliged state enterprises to pay a surtax should they increase the average wage or the wage bill. Some of the increase in wages could be exempt from the surtax, if a performance indicator was met or in line with casual exceptions (Gábor and Kóvári, 1990; Tóth, 2008).

6 In 1988, these efforts were inspired by the consequences of previous regulations governing average wages, which were designed to maintain full employment under state socialism by providing incentives for companies to keep on their low-wage employees.

7 This approach was later also adopted by legislators and, in accordance with a law passed in 1996, only organizations that were members of a confederation that participated in OÉT were eligible to delegate representatives to lower-level tripartite bodies (e.g. county labour councils).

8 The ‘taxi drivers’ blockade’ was a protest against a steep rise in the price of petrol in 1990; thousands of taxi and lorry drivers stopped the traffic of Budapest and several other towns in Hungary for three days (see also Somorjai 2003).

on practices adopted in the ‘shortage economy’) were to limit the outflow of earnings and wage inflation. This was a question of balance, and the politicians did not consider competitiveness or employment aspects. At the same time, the main considerations of the employers and the employees were the transition to a market economy (wage liberalization) and performance-related pay increase. The OÉT also had standing committees, including one (which bore different names at different times) that dealt with wages, collective agreements and/or welfare issues, and that always had a significant role.

There were diverse items on the agendas of plenary meetings, and these were reflected in the outcome of negotiations – called *wage policy agreements*. For example the agenda of the December 1990 meeting included, in addition to changes to the wage and tax system, various transfers: the method of pension increase, increasing the flat-rate parental leave (gyes) and family allowance, as well as the budget of the Social Security Fund. This agenda heralded an ambition to develop a complex living standards policy. In this respect, there was a break during the first Orbán government, since it had its own welfare policy vision, which it implemented without consulting social partners. Following that, the ‘restoration’ of the OÉT during the Medgyessy administration, with the slogan ‘welfare transition’, entailed a return to the role OÉT had developed for itself in the 1990s. Tripartite negotiations followed the pattern of meetings held between the government and the National Council of Trade Unions (SZOT), predecessor of the OÉT, before 1988. These followed the tradition of acting upon presumed interests, typical of the communist Kádár era, since they sought to speak for a wider social group than was directly represented by their delegates. Although the restriction on wages was of high priority in the first few years, by the mid-1990s the reform of social transfers and their institutions received more focus, as did changes in real wages.

Wage negotiations, in fact, involved bargaining about distribution from the very beginning: according to the minutes of meetings, allocation ratios for the three ‘income owners’ (employers, employees and the state), as they were called, were negotiated, during which it was only possible to make minor amendments to the government proposal, e.g. small realignments of taxes and contributions. Employment (or, more precisely, changes in unemployment) was a precondition of the collective bargaining only in the early 1990s, but then was soon forgotten.<sup>9</sup> The suggestion that an increase in unemployment may be curbed by a reduction in wages was never discussed.

Trade unions always demanded a minimum wage not lower than the living wage, a new system of national tariff-based wages, with using the ‘favourability principle’.<sup>10</sup> Employers never agreed with this trade union proposal, regarding it as a restriction on their autonomy. Trade unions wished to compensate for their weak bargaining power at the industry and company level, as well as for the lack of local collective agreements, by securing legal regulations adopted through the national negotiations. Their demand for a minimum wage set at the level of the living wage resulted from a realization that the transfers of the state socialist system were being cut back, and therefore they wanted to have the value of these built into wages.

In addition to the formal agenda of the OÉT meetings, an almost ritual procedure for negotiating wage policy developed back in the early 1990s

9 According to the manifesto of the Antall government, ‘The aim is to adjust the minimum wage to subsistence costs continuously, without generating inflation and reducing the competitiveness of some sectors. Potential negative impacts on employment are to be taken into account’ (quoted by Tóth, 2008). However, the minutes reveal no explicit example of the latter during the wage negotiations in the first government term.

10 The national tariff system inherited from state socialism was abolished in 1992, when the new Labour Code was adopted. The ‘favourability principle’ refers to the German *Günstigkeitsprinzip*, which is also acknowledged by the Labour Code; it states that lower-level regulations can only deviate to the benefit of employees. A ministerial decree on the system of cross-sectoral classification was adopted in 1992. OÉT even developed recommended wage coefficients for the tariff categories in 1993; in spite of the efforts of the trade unions, these did not have a regulatory effect.

and was preserved until 2010. It always consisted of three rounds. First, the partners discussed the main macro-economic indicators (preconditions for wage negotiations) expected for the following year, especially inflation, GDP, productivity and unemployment. The ‘outcome’ of the first round was a consultation held on the budget. The second round dealt with changes in the tax and contributions system, and only after that was a (formally separate) meeting (or series of meetings) devoted to wage negotiations, i.e. to setting the national minimum wage and making recommendations for wage increases in the private sector. These ‘autumn negotiations’ were still a feature in autumn 2010, during the second Orbán government’s term in office. The negotiating parties regularly held their own meetings before the plenary and committee meeting of OÉT to agree a common position and strategy. Informal deals were always important during the national tripartite negotiations. On the one hand, the government itself organized non-public meetings – usually to prepare the ground for major economic policy changes.<sup>11</sup> On the other hand, informal meetings were also frequently held by the social partners; these were often attended only by the rotating chairs and chief negotiators of the parties. This kind of information exchange occurred regularly between the wage negotiation rounds.

The government was represented by the labour and finance ministries at the tax and wage negotiations. Of the two, it was obviously the finance ministry that was dominant; the labour ministry’s role was to translate fiscal limitations in terms of wage policy and to organize the meetings.<sup>12</sup>

Organizing the meetings also included making expert calculations. The wage policy recommendations of the government (the so-called position papers) were generally summarized by the labour ministry, usually supported by detailed impact calculations (Tóth, 2008). Neither the trade unions, nor the employer organizations had sufficient expertise on which they could rely, so the impact calculations were prepared in the ministries, taking into account the needs of the social partners. In some cases, the experts from the social partners worked together with the experts in the ministries in the ‘back rooms of the finance ministry’ to calculate the impact of various tax scales. Those social partners interviewed had a high opinion of the quality of the calculations made by the ministries, which prevented any of the partners from bluffing or negotiating on the basis of unsubstantiated figures. However, the calculations only dealt with the number of people affected by measures, their proportions in terms of industry, and the impact on the budget and on inflation; they did not model impacts on labour supply and demand (cf. [Chapter 3.2](#)).

Hungarian wage policy has been influenced by the recommendations of various international organizations at various times. In the early 1990s, the recommendations of the OECD and (especially) of the IMF had an impact, as did those of the International Labour Organization (ILO), which early on recommended setting up the tripartite interest conciliation system.

### THE FISCAL CRISIS AND THE BOKROS PACKAGE (1994–95)

By 1994, the balance of payments and the general government deficit had become unsustainable: the government budget deficit stood at 8.4 per cent of

11 Such a meeting was convened by the first Orbán government after announcing the increase in the minimum wage in spring 2001; however they only became more frequent after 2006.

12 According to one of the senior staff responsible for wage policy in the labour ministry, ‘being in charge of organizing the negotiations, the “labour folks” usually managed to mediate successfully when the fiscal plans of the finance ministry and the wage demands of the trade unions clashed’. According to another ministry official, to some extent they were able to bargain with the finance ministry, e.g. about the extent of the budget reserves during the wage increase in the public sector.

GDP. This necessitated the so-called ‘Bokros package’ of 1995, long postponed by the Horn government. One of its important elements was the restriction of wage levels in the public sector, which managed to restore the sustainability of public finances (Antal, 1998). Throughout the decade, the country had inflation running at over 14 per cent, i.e. significantly higher than the OECD average. Inflationary expectations built into wages may have contributed to the economy’s stagnation.

In the first half of the 1990s, the outcome of the annual negotiations was often called a ‘price-wage agreement’. And rightly so, since it was not just that the wage increases were based on projected inflation, but the prices fixed by the authorities were also negotiated (especially fuel and energy prices, partly because of the taxi drivers’ blockade). The outcome of the price negotiations was usually exceeded by actual inflation, but this was mainly due to the tendency on the part of the finance ministry (a tendency known to the other negotiating parties) to provide understated inflation figures – partly as a negotiating strategy and partly to avoid exaggerated inflationary expectations. According to Gábor Tóth, one of the government officials responsible for wage negotiations, only the years of 1997–98 were exceptions, when reliable forecasts were prepared.

The possibility of concluding a price-wage agreement supplemented by an economic-welfare package (i.e. a social pact, in the Western European sense of the term) arose as far back as the early 1990s, but it was only the Horn government that finally attempted to conclude a *social-economic agreement*.<sup>13</sup> This was in 1994, in a macro-economic environment where political decision makers already knew that they would soon have to introduce measures that would significantly damage living standards. The aim of the agreement was to ensure public support. However, the government’s proposal on wage policy did not explicitly state the aim of reducing wage levels or halting their rise (Tóth, 2008). The increasingly lengthy lists of demands from the trade unions and employers indicate that the social partners did not wish to endorse the inevitable austerity measures (Kóhegyi, 1995; Héthy, 1998).

After the negotiations were declared unsuccessful, in February 1995, the Bokros package was practically issued as a government ultimatum. Its only wage component concerned the public sector: it restricted wage increases for employees of state-owned companies and government agencies. Nevertheless, the programmed devaluation of the Forint and a newly introduced additional duty had a dramatic inflationary impact on nominal wages. In 1995 and 1996 there was an overall 17 per cent decrease in real wages (in spite of a double-digit increase in nominal wages). The (renamed) Council for Reconciliation of Interests (ÉT) only managed to agree a minimum wage for 1995 and, as a result of the Bokros package, the usual recommendation for a wage increase was not issued in 1995.

In autumn 1995 the government was afraid that inflation would remain high, and therefore issued a proposal to the employer and employee organizations of the ÉT for a price-wage agreement for 1996. In the event, no agreement was reached, but it was an important milestone, in that one of the key demands of the employer organizations was that employer contributions (which amounted to 50 per cent of the gross wage) should be significantly reduced. Although

<sup>13</sup> According to Héthy (1998), a price-wage agreement was first proposed at the beginning of 1994 by László Urbán, who at that time was an MP for Fidesz.

agreements were reached on changes to several taxes, the negotiations on contributions ground to a halt. In spite of this, the finance ministry decided to support the demands of the employers for a reduction in employer contributions and an increase in employee contributions – a move they only managed to implement in 1999. These measures on the part of the ministry were influenced by the OECD recommendations to reduce the tax wedge (OECD, 2000). Later on, there was a gradual shift in contributions from employers to employees (see [Table 5.7 of the Statistical Annex](#)).

As for the realignment of contributions, it is worth looking at the positions of the negotiating parties. According to a senior official in the labour ministry at the time, a more significant realignment of employer and employee contributions would have required a ‘grossing-up’, i.e. employees would have to receive higher gross wages in order to be able to pay higher contributions. A fair solution to this would have been a (technically difficult) amendment to the progressive personal income tax. However, this was never seriously discussed, even though one argument for the realignment of contributions was the positive (educational) impact it would have on the tax awareness of employees (Tóth, 2008).

We believe there were more telling arguments for (and interests related to) the realignment. A senior official from the labour unit of the finance ministry said in interview that, while it had been a strategic objective to reduce labour costs, there had not been sufficient budget appropriations. As it was not possible to reduce the aggregate level of contributions, it was left to the local level to negotiate trade-offs for the increase in employee contributions. It probably resulted in a fall in net wages in the short run, and the procedure held out the prospect of an additional political benefit: decentralization of conflicts. That is exactly why the trade unions opposed the measure. They were afraid that employees would not be compensated because of their weak bargaining power at the local level.<sup>14</sup> This argument has been widely used by the trade unions ever since. Later on, government efforts to reduce charges on labour always clashed with the position of the unions, which maintained that reducing the charges on labour would only increase profits, but would not create jobs – this is hardly surprising, considering the distributive function of the wage and tax negotiations.

### WAGE POLICY EXPANSION (1999–2005)

The period following the Bokros package was characterized by sustainable macro-economic balance and stable global economic conditions. The common goal of the political elite was the political and economic integration with Western Europe, including EU accession. Hungary was successful in the regional competition among post-communist countries (primarily for foreign direct investment). Inflation, although still high, had fallen below 10 per cent by the end of the period (OECD, 2000). The change of government in 1998 saw a sharp break with the roles the previous governments had assumed: the Fidesz government wished to (and was able to) impose its political and economic policy goals more firmly on the government administration, even if the civil service opposed them (see [Chapter 3.1](#)).

<sup>14</sup> It was to some extent justifiable: according to economic theory, although it may be important in the short run which contribution is reduced, in two or three years it depends on the bargaining power of employers and employees how much is received by employees (Nickell, 2004).

The influence of the European Union on government policy increased even as the country prepared for EU accession. In terms of wage policy, the EU's Broad Economic Policy Guidelines were of importance: these explicitly recommended concluding long-term wage agreements (Tóth, 2008). After accession, the various EU framework documents (European Social Charter, Employment Guidelines) had some impact on the activity of OÉT, but there were no directives on wage policy, and those on employment rarely concerned the issue of wage levels until 2004.<sup>15</sup>

Inflation kept below 10 per cent in this period and was only a challenge in terms of meeting the convergence criteria. Economic growth opened up opportunities for a gradual wage rise. Trade unions expressed their disappointment during the 1998 autumn negotiations that employees barely benefited from the economic growth, as the government envisaged a real wage increase 2–3 per cent lower than GDP growth. Signalling a change in government tactics, from now on the government insisted that the social partners should first agree on a minimum wage and wage increase recommendation, and only then would the government decide whether to join the agreement. This was obviously driven by the consideration that the employer organizations were much stronger at resisting the demands of trade unions than was the government. Thus, by 2000, both the minimum wage level and the wage increase recommendations were determined by a bilateral agreement between employers and employees.

Although the trade union demand for wage increases proportionate to output has been a feature throughout the history of wage negotiations,<sup>16</sup> it was only in 1999 that an informal government proposal was made, offering to link the real wage increase to economic growth for three years. This was the brainchild of István Stumpf, and it proposed a real wage increase of 50 per cent of annual GDP growth – a figure that was not acceptable to the social partners. This was apparently a 'spur of the moment' figure and its possible ramifications were investigated by government experts only in 2000, when the government entered into negotiations on a potential long-term wage agreement with the public sector trade unions (Tóth, 2008). Nevertheless, a decade and more later, this is still the only moment in the history of wage negotiations that there was a chance of applying a formula in the medium term which at least had a structure similar to those of the wage agreements of the Western European social pacts.<sup>17</sup>

The Orbán government doubled the minimum wage between 1999 and 2001. The context within which this essentially unilateral decision was made is described in [Chapter 4.3](#), but it should be noted here that the demand in society for a wage increase had already been voiced earlier. It was not only the general public that hoped the political transition would result in prosperity and that conditions would improve after two crises. The National Labour Council (Országos Munkaügyi Tanács, OMT) (the new name for the old OÉT) also took a decision in 1998 to consult on the possibility of aligning wages with European levels. The consultations took place in summer 1999, when a study prepared by the analysts of the Ministry of Economic Affairs was discussed. This study emphasized the fact that any rise in wages was subject to convergence of economic output (based on productivity and not jeopardizing balanced public finances) and thus was not

15 For more details see Gács (2005): the lack of 'wage awareness' of the EU Employment Guidelines may have contributed to the weak cooperation of wage and employment units within the Hungarian ministry.

16 Trade unions never succeeded in asserting this claim in the 1990s.

17 Social pacts are national macro-economic agreements, typically concluded in major crises, which may include taxation, monetary issues, wage restraint, inflation, labour market and employment policies, flexibility and the Euro convergence criteria, etc. (Fayertag and Pochet, 1997; Hassel, 2007).

a short-term process. It required faster economic growth than was achieved in the EU-15 countries in the long run (Tóth, 2008).

Another important development related to the significant increase in the minimum wage is that in 2000 the question of the direct impact of a rise in the minimum wage on employment arose for the first time in the history of the OÉT/ÉT/OMT negotiations. However, neither the government papers nor the proposals of the social partners contained any preliminary calculations; counter-arguments were only improvised by the negotiating parties. This is in sharp contrast to the repeated recommendation of the OECD (OECD, 2000, 2002, 2004, 2007), which emphasized the importance of reducing charges on labour as a major tool in boosting employment.

One of the important wage policy measures of the Orbán government was a generous salary increase for military and law-enforcement personnel and for civil servants in 2001. Following that, major wage policy measures of the Medgyessy government's '100-day programme' included a 50 per cent salary increase for public service employees and a move to make the minimum wage tax-free. Increasing the salaries of public service employees was inevitable, since (due to the earlier minimum wage increase) in 65 of the 140 mandatory wage brackets the guaranteed minimum salary was lower than the minimum wage. From autumn 2001, protests and petitions also called attention to the fact (see Árok and Mayer, 2002). Experts still disagree whether it all had to be implemented at the same time and whether the wage adjustment should have been linked to structural changes (the concept of which was not developed at the time).<sup>18</sup> The political motives for making the minimum wage exempt from tax are clear, but its implementation is criticized by the unions.<sup>19</sup>

One of the most significant of the wage agreements of the period was a three-year agreement concluded in 2005 (during the second term in office of the Gyurcsány government) on the gradual increase in the minimum wage; it also introduced two minimum wage levels for skilled workers, dependent on work experience. It established a three-tier system for a mandatory minimum wage, supplemented by a recommended wage minimum for professionals with a higher education degree. This system is unique in Europe: in some other countries, the minimum wage is typically reduced for some groups of workers, in order to encourage their employment. The uniqueness of this system requires us to discuss the institutional background to its introduction below.

There had already been attempts to conclude a three-year agreement earlier, during the Medgyessy administration, and a multi-tier, tariff-like system had long been demanded by the trade unions. The labour ministry also accepted the idea; on the assumption that a higher minimum wage discourages the shadow economy, it fitted in with a series of government measures to combat the shadow economy.<sup>20</sup> Over the three years of the agreement (and assuming the government projections were fulfilled) the minimum wage was to reach the level of the living wage for single people, which had also been a long-cherished dream of the unions. As in previous years, the employers rejected the proposal at first, saying that 'it would eliminate the labour market definition of the minimum wage ... and guaranteed wage minimums would interfere with the decisions of employers on wages' (quoted by Tóth, 2008). The consent of the employers was achieved by offering a five-year tax-reduction

18 E.g. to the termination of doctors receiving gratuities, or to layoffs in other fields. On the impact of the significant wage increase in the public sector on the private sector, see Telegdy (2007).

19 Tax exemption was achieved by expanding the tax credit, which is efficient (unlike a zero tax rate, it only applies to people with low income) but, according to the trade unions, it did not comply with the original aim of tax credits, i.e. to reimburse the costs of taking up employment. The Personal Income Tax Act of 1988 included a fixed credit rate for that purpose.

20 A similar attempt was made in 2005 to conclude and extend an industry-level collective agreement in the construction industry, which would cover all enterprises, regardless of their membership of an employer organization (Tóth and Neumann, 2005). According to the interviews conducted, the labour team at the economics ministry also recommended the multi-tier system in order to prevent another significant increase, and in this way to mitigate the (probably highly negative) impact on the employment of unskilled workers. According to interviews conducted with labour officials, there was not another significant minimum wage increase on the agenda.

scheme at the informal meetings. Although three employer organizations the National Federation of Agricultural Cooperatives and Producers, the Confederation of Hungarian Employers and Industrialists, and the National Federation of Craftsmen Boards did not sign the agreement, they did not veto it either. Employers only managed to have it included that the guaranteed minimum wage of skilled workers could be lowered to the minimum wage under a sector-level collective agreement – but such an agreement was only concluded in agriculture. As with previous minimum wage increases, only the usual preliminary calculations had been made, but no forecast of the impact on employment had been prepared at the ministry – though two studies on the impact of an increase in the minimum wage had recently been published.<sup>21</sup> The OÉT document announcing the three-year agreement at the end of 2005 only makes general statements on employment, and does not include actual measures or recommendations.<sup>22</sup> Questioning the sense of the VAT reduction that occurred at the same time, the social partners declared that they would have preferred a tax reduction in relation to charges on labour (Tóth and Neumann, 2006).

According to announcements issued after OÉT meetings, employment policy was included in the wage negotiations, or at least in the declarations, after 2004.<sup>23</sup> Besides the rhetoric, from 2005 there were efforts to make real changes by simplifying the tax system. The ‘100 steps’ programme launched in 2005 primarily aimed at curbing the shadow economy, while the social partners at the OÉT negotiations called the attention of the government to the fact that ‘they deem it important that positive decisions are also made on employment in the formal economy in order to improve the revenue generation of the Hungarian economy’ (OÉT, 2005a). Nevertheless the most significant battles of the period still concerned issues of distribution: the most important demands of the trade unions included adjusting the tax brackets to the distribution of nominal wages (so that average wages are not subject to the highest tax rate) and retaining tax-exempt allowances. In the same period, the demands of the employers focused on reducing taxes and contributions on labour: the most notable demand of the period is for the abolition of the flat-rate healthcare contribution, which was reduced in 2006 but abolished only in 2010.

## AUSTERITY AND CRISIS (2006–10)

The budget deficit, which had again increased to an unsustainable level by 2006, was mainly due to several deficit-generating decisions made for political reasons (Ohnsorge-Szabó and Romhányi, 2007). In the meantime, the relatively good regional competitiveness of Hungary had eroded considerably according to the ranking of both the Institute for Management Development (IMD) and the World Economic Forum (WEF), based on different methodology (see [Chapter 1.2](#)). Hungary was competing with the other Eastern European post-communist countries for foreign direct investment through wages and taxes. By 1997, all three Baltic states had introduced an apparently flat-rate tax system (though – as only the part of income above the minimum wage is taxable – in fact it is a two-bracket system), and after 2000 they were followed by nearby competitors Russia, Slovakia and Romania (Kiss et al., 2008).

21 Based on the already available impact assessment of the previous increase (Kertesi and Köllő 2004; Halpern et al., 2004), forecasts of the impact on employment were prepared in the Finance Ministry and the Central Bank of Hungary, but there is no evidence that they were provided to the participants of the OÉT. However, it was well known that the analysts of the Finance Ministry opposed the further increase of the minimum wage, and the summary of the debate on it was published on the website of the ministry (Benedek et al., 2006).

22 ‘OÉT regards the expansion of employment to be as important as the increase in wages. Based on these principles, it is a common interest of the negotiating parties of OÉT to increase wages to an extent that will harmonize the increase in real wages, the expansion of employment and the output of the economy and in this way will determine a stable and reliable path for approaching the higher European (inserted by the authors) wages in the long run’ (OÉT, 2005b).

23 E.g.: ‘...considers job creation a high priority’ (OÉT, 2003). ‘...it supports all solutions for job retention and creation through tax relief’ (OÉT, 2004).

To tackle the obviously unsustainable government budget deficit, projected to be 11 per cent of GDP, after the elections of 2006 the government (the first since the change of regime to be re-elected) decided to increase revenues. Following the prime minister's leaked speech in Balatonőszöd and the ensuing protests, the government embarked on an ambitious reform agenda with little social and political support; most of the reforms were thwarted by a referendum initiated by the parliamentary opposition. The Socialist prime minister, leading a minority government after the breakup of the MSZP–SZDSZ (Socialist–Liberal) coalition, could do nothing but resign in response to the global economic crisis of 2008.

The euphoria of the OÉT agreement concluded in December 2005 lasted only six months, as the austerity package was announced by Ferenc Gyurcsány in June 2006, after the elections, at a plenary meeting of the OÉT. Negotiations in the OÉT followed the same scenario as after the announcement of the Bokros package. The prime minister declared that he was only prepared to play by the rules of a 'zero-sum game'. In accordance with the traditions of the forum, after the prime minister's opening speech and the following general remarks by the social partners' subcommittee and expert team, meetings were held. The issues discussed at the plenary meetings were of less and less significance. The issue of a potential social pact did not arise at the time the detailed package was announced because that would have conveyed the message: 'We have already developed it, calculated everything and are only expecting your support.' The announcement only outlined the austerity package and sought to reassure the state's creditors; it confined itself to generalities about the reforms (since the government only had a rough idea of them). Therefore it was not possible to discuss them and to reach a mutually advantageous, long-term agreement. The negotiations resorted to discussion of minor details, and even partial agreements failed because of the resistance of the government (Neumann and Tóth, 2008).

In the following two years, the employers wanted to denounce the three-year agreement and the three-tier minimum wage, arguing that the circumstances had changed. These 'achievements' were retained by the trade unions, with strong support from the government.<sup>24</sup> The usual scope of the bargaining was restricted to spreading the pain caused by the tax increase, and the wage recommendations issued in January 2007 served to preserve the prestige of the OÉT (which was under attack by the president of the country at the time),<sup>25</sup> rather than pursue their original aim of providing guidance for lower-level negotiations. Once the global economic crisis broke at the end of 2008, it became even more difficult to reach national wage agreements (which primarily aimed at preserving real wages), and meanwhile the employers put up ever fiercer resistance to the idea of maintaining the minimum wage of skilled workers. Nevertheless, during the crisis, local collective bargaining increasingly focused on retaining jobs.

After the resignation of the prime minister, the new government, led by Gordon Bajnai, was mainly responsible for managing the international and internal crisis. The OÉT was informed of the Bajnai package of 2009 by the finance minister. The proposal stated that it was impossible to achieve growth without restrictions; therefore the length of insured maternity leave (gyed) and flat-rate maternity

24 Before the announcement by Prime Minister Gyurcsány on the austerity measures, Péter Kiss, head of the prime minister's office, assured the trade unions that the government would respect earlier agreements concluded in the OÉT. At the same time, the (unjustified) belief that a high minimum wage effectively reduces the shadow economy and increases revenues was also widely held in the Finance Ministry (cf. Halpern et al., 2004).

25 The OÉT law, adopted unanimously by Parliament after lengthy preparation, was not signed by President László Sólyom. He referred it to the Constitutional Court, which deemed some sections of it (e.g. the consensual determination of the minimum wage) unconstitutional.

leave (gyes) was to be reduced, and there was to be a 10 percentage point cut in the replacement rate of sick pay, and modification of the subsidized housing promotion loans and the subsidized gas and district heating rates. Furthermore, significant measures were planned to reduce charges on labour (which would encourage employment)<sup>26</sup> and to reduce the administrative burdens on employers and employees. These measures were to be paid for by introducing a real estate tax and by increasing VAT by 5 percentage points.

The unions accepted the VAT increase (with minor modifications) but ‘firmly rejected and considered unethical the 10 percentage point cut in sick pay’. They also opposed the unconditional general reduction in employer contributions, and demanded the same reduction in employee contributions. At the same time, they tried to protect the tax-exempt allowances of employees and took strong exception to the government’s proposed realignment of taxes to stimulate employment.<sup>27</sup> Nor were the employer organizations content with the offer.<sup>28</sup> The employer and employee organizations joined forces to fight the taxation of benefits in kind. Finally, in spite of the intentions of the government, it was not possible to overcome the usual framework of distributive bargaining among ‘income owners’.

The top personal income tax rates have fallen almost continuously in the past 20 years; thus, if we ignore the ‘tax bracket creep’ due to inflation, the tax system has become less and less progressive. In effect, the Bajnai government introduced a flat-rate income tax when it announced plans to raise the threshold of the lower band to 15 million Forints by 2011. These performance incentives were probably well received by the employer organizations, though their support is barely evident in the minutes of OÉT meetings. The resistance of the trade unions is more conspicuous; they have always supported progressive taxation.

The charges on labour were reduced after a decade-long campaign by the employer organizations; however, even employers were unsure that it would have a positive effect on employment. According to interviews conducted, to some extent they even agreed with the unions that the charges are required for the normal functioning of the various funds (pension, social security and labour market fund). Because of the distributive nature of the bargaining, the trade unions regard the reduction in contributions and the shifting of contributions to employees (which has been a steady trend over the past 20 years) as a profit-maximizing rearrangement, since it reduces the net income of employees, who are unable to ensure in the local bargaining that employers compensate them for this 1–2 per cent annual loss.

The deepening economic crisis further eroded the prestige and political significance of OÉT (which was restored as such in 2002). On the one hand, this was due to the ever more obviously poor organization of its members (especially the trade unions), their lack of ability to mobilize their membership, and their political divisions; and on the other hand it was due to the rival forums set up by the government (Economic and Social Council, Economic Reconciliation Forum). Traditional forums for the trade unions were also increasingly overshadowed during the crisis, because Reformszövetség (Reform Alliance), a new interest group for enterprises, took the lead (Neumann, 2009). During the crisis management, trade unions gradually lost ground in the forums of

<sup>26</sup> The flat-rate healthcare contribution was abolished, employer contributions decreased by 5 percentage points up to double the minimum wage, the lower personal income tax threshold was raised to 5 million Forints and sick pay was reduced.

<sup>27</sup> According to the employee side of OÉT ‘Tax amendments in 2010 ... serve the interests of employers ... it opposes the modification of personal income tax brackets and rates in its proposed form ... and ... regards the proposal as a shift towards flat-rate personal income tax’ (OÉT, 2009).

<sup>28</sup> ‘It considers “super grossing” unreasonable, ... [and] it does not accept a fivefold rise in the rehabilitation contribution ...’ (ibid.)

influencing policy making. Their labour law rights and their budget were pruned, and the formal abolition of the OÉT during the second Orbán government marked the end of a long process.

## SUMMARY AND RECOMMENDATIONS

Wage negotiation in Hungary is primarily based on company-level collective agreements or individual agreements. Following the elimination of the central wage regulation of state socialism, the government had only the tax and contributions system, the minimum wage and its power to set public sector wages at its disposal in order to influence wages and – through them – employment. In the past 20 years, the tripartite negotiations have had an impact on all of this, although to varying extents. However, such negotiations amounted to distributive bargaining, with the macro-economic conditions fixed by the government, and the issue of employment playing but a marginal role. The intentions of the government were paramount (it was always the government that submitted proposals; the other parties always relied on figures provided by the government). The social partners sometimes managed to modify the proposals slightly, but in the long run, however, they were capable of achieving more significant change – especially if their efforts were supported by the government. Partly as a result of this, taxes and contributions on labour, as well as the top tax rate, have all decreased considerably in the past two decades. Nevertheless, even the social partners are sceptical about their positive impact on performance and employment. The most important role of OÉT/ÉT/OMT was not conflict resolution or preservation of social harmony (as was assumed in the early 1990s). For the negotiating parties, distributive bargaining has always been more important; but the changes determining its trends (e.g. the taxation of capital and work incomes, reforming/expanding the welfare state, distributing contributions, etc.) were decided in the course of political games, over which the social partners had little influence. However, it was a major result for the institution that the social partners, representing the interests of employers and employees and with their wide-ranging corporate and workplace experience, did contribute to improving the quality of policy making.<sup>29</sup>

It may also be concluded that, if it is not generally accepted by either the government, or the employer or the employee organizations that the labour market is an actual market, where an increase in payroll taxes or in the minimum wage will reduce employment (something supported by both theory and empirical data), then the different sides are likely to adopt their different stances on wage policy based exclusively on other considerations, such as the wage-inflation fears of the Finance Ministry, the constant demands for the budget revenues to be increased, and the considerations of employers and employees concerning distribution have all resulted in different measures in different situations. In spite of the declared political intentions, throughout the past 20 years, taxes and contributions on average and lower earnings have remained higher in Hungary than in other countries. If labour economists do not manage to make all the negotiating parties realize that decisions on wages may have a direct impact on employment, we cannot expect the situation to improve in the future.

<sup>29</sup> This 'input' was less conspicuous during the functioning of the tripartite negotiations but its absence is felt after the abolishment of OÉT. According to the interviewees, the government intervention compensating for the negative impacts of the changes in the personal income tax in 2011 would not have been needed if the government considers the remarks of social partners articulated at the OÉT meeting, shared by several experts.

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## 2. LABOUR MARKET GOALS IN A WIDER POLICY CONTEXT

### 2.3. MICRO-REGIONAL DEVELOPMENT\*

GERGELY KABAI, JUDIT KELLER AND NÁNDOR NÉMETH

This chapter will map out the goals of domestic development policy and the way it has influenced settlement cooperation at the micro-regional level. Although generally clear demarcations are drawn between regional and rural development within Hungarian and EU development policy, this chapter does not differentiate one from the other, since the new complex rural development approach also focuses on competitiveness and on harnessing local capacities and resources. An in-depth discussion of local government initiatives that directly aim at increasing employment will follow in the [next chapter](#).

#### THEORETICAL BACKGROUND TO REGIONAL DEVELOPMENT

Economic theories generally support state intervention in local economic development in two cases (Barca, 2009). In the first case, agglomerations<sup>1</sup> always come about as a result of decisions by state and private actors (through investment, regulation, the foundation of institutions, public services). There is generally scant information to go on in deciding whether the agglomeration process will increase or decrease the efficiency of the economy as a whole (or whether there may be another agglomeration initiative that is worthy of development). As a result, private interests can easily influence public decisions – this risk can be mitigated by intervention, transparency, external evaluation and the involvement of the local public.

In the second case, either the local elite has no vested interest in developing and managing economic institutions based on local capacities, or else effective institutions that could form the basis of the necessary institutional development have been absent from the outset (path-dependence). State intervention could provide an adequate solution to this problem, integrating public services and goods that might induce institutional development and that might increase the productivity of local economic actors.

In this case, intervention can be regarded as successful if it brings about changes in the institutional framework in such a way that increases the capacities of local actors to establish autonomous associations and developmental coalitions. Associations established autonomously by local actors can enable them to mobilize resources and to represent their own development priorities at higher decision-making levels of the state (Bruszt and Vedres, 2010). In Western Europe, regional development had evolved since the 1950s as a crisis management policy; it attempted to improve the ability of regions to

\* The authors would like to thank Gábor Balás, András Csíste and Bálint Herczeg for their participation in preparing this chapter.

<sup>1</sup> Agglomerations denote spatial units with a high density of consumers, employees and enterprises; this permits economies of scale and the development of positive externalities as a result of multiple opportunities for specialization. The latter, however, also poses risks, as it makes local economies vulnerable to unpredictable processes of globalization and swift shifts in external demands.

attract capital by developing factors of productivity (Szigeti, 2006). In a narrow sense, the goal of regional development is to reduce territorial inequalities and ensure the conditions for balanced territorial development.

In the past two decades, both the academic literature and the economic development programmes of transnational organizations<sup>2</sup> have encouraged the practical integration of public and development policies, as well as the implementation of subsidiarity and partnership. This approach recommends an overall strategic framework, within which local state and non-state actors can shape associations as they see fit. Strategy-building and the establishment of an institutional framework are central state objectives, but local state and non-state actors should also be given ample room to participate in the process. Institutional framework conditions can influence the qualitative features of local associations: top-down initiatives based on hierarchical (clientelistic) networks cannot guarantee social capital-building (Paraskevopoulos, 2001). To ensure transparency and accountability, both external evaluation – whether actors actually play by the rules – and associations of local actors are necessary (Bruszt and Vedres, 2010).

Over the past few decades, instead of investments planned and implemented by the central state, Western Europe and North America have witnessed the rise of local institutions and development projects that rely on local resources and that are accomplished through coalitions of local actors. In the EU's multi-level governance model<sup>3</sup> this vertical (decentralization, devolution) and horizontal (various state and non-state actors) distribution of power plays a significant role.

The 'place-based approach' views the local level as the basic unit of the EU's Cohesion Policy. The local level is defined as a functional unit, i.e. its boundaries are drawn flexibly and not by public administration and politics (Barca, 2009; Czene and Ritz, 2010). This approach emphasizes that developmental interventions must be designed to be compatible with local endowments and preferences, building on local capacities and the autonomous cooperation of local actors. The Barca report and the White Book of the Committee of the Regions recommend the development of territorial performance indicators – not only to monitor local experiments with institution-building, but also to measure the efficiency of Cohesion Policy interventions.

In international practice, the actors of local economic development are local authorities, local non-state actors and local development agencies that focus on territorial development (Mountford, 2009). Local development agencies prepare regional development strategies, coordinate and promote the association of local actors and the planning and implementation of development projects. Local development agencies can be coordinated by local government or by any other local organization (including partnerships); but in all cases they separate local development functions from local government tasks of public service provision (Mountford, 2009). Local economic development activities are 'market-facing' and involve long-term, wider area-based interventions that are planned and implemented through the cooperation of assorted local actors (Mountford, 2009). The public service delivery function of local government, on the other hand, is organized at the public administration level and is based on the logic of ensuring service delivery to inhabitants of the local administrative area.

<sup>2</sup> Such as the Local Economic Development (LED) and the Developing Enterprises Locally through Alliance and Action (DELTA) programmes of the World Bank, the Habitat programme of the UN and the Local Economic and Employment Development (LEED) programme of the OECD.

<sup>3</sup> It safeguards local state and non-state actors' participatory and decision-making rights in defining the goals and means of public and development policy.

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## REGIONAL DEVELOPMENT DISPARITIES IN HUNGARY

Two decades ago, the change in the political and economic system radically transformed the spatial development structure of Hungary. Whereas in the 1970s and 1980s the main differential factors were the quality of public infrastructure and access to services at the settlement and township level, nowadays it is the employment rate and income level. In the present-day economic spatial structure, depression means an employment crisis, accompanied by general impoverishment (Enyedi, 1996; Nemes Nagy, 2001; Meusbürger, 2001; Jakobi, 2002; Németh, 2009).

Economic development and rising living standards began to stagnate towards the end of the 1970s. Hungarian heavy industry fell into crisis, which led to the rapid decline of industrial areas. As a result of political détente and as a sign of economic transformation, new private enterprises were allowed to start up in 1982. The spatial distribution of these enterprises was characterized by high-level concentration: they sprang up in the capital, in big towns and in special areas (e.g. with tourist potential) (Enyedi, 1996; Nemes Nagy, 1998). Even though the economic processes of the 1980s were partly market led, the development of towns and suburbs depended on central state decisions. These decisions did not take local characteristics or potential into consideration, and the functions assigned to settlements did not evolve as part of an organic settlement development. Consequently, the industries of whole areas and counties were built on weak, temporary foundations that drove the transformation of the spatial structure in the 1990s (VÁTI, 2002).

The emergence of the market economy brought about a new spatial structure in the 1990s. Three decisive regional and settlement transformations took place that induced regional disparities: the outstanding developmental dynamics of Budapest; the greater ability of larger towns to attract capital; and the economic upgrading of the western part of the country vis-à-vis the southern Transdanubian, eastern and north-eastern regions (Nemes Nagy, 1998; Rechnitzer, 1996). Major transformations in the spatial structure had taken place by the mid-1990s, and since then regional disparities have stabilized at a high level. The crisis-ridden areas of the early 1990s are still the most underdeveloped territorial units today.

## THE EVOLUTION OF HUNGARIAN REGIONAL DEVELOPMENT POLICY IN THE LAST TWO DECADES

As a result of the emergence of crisis areas and mass unemployment, regional development has been defined in Hungary in a rather narrow sense: interventions aimed at reducing unemployment, improving employment conditions in disadvantaged (micro)-regions and minimizing disparities in income levels and living standards.

Between the regime change and 1996, in the absence of an independent institutional system of regional development, sub-national development proceeded on the basis of central government decisions (VÁTI, 2002). The five most disadvantaged eastern and northern counties were declared 'crisis areas'; jobs in the service sector there were created by central state investment (VÁTI, 2002).

The Regional Development Act of 1996 established the institutional system of regional development – it introduced the concept of micro-regions – and regulated the financial means of regional development. The National Regional Development Concept (OTK) envisaged significant spatial structural reforms that would influence resource distribution (as well as governance and policy expectations), alongside shifts in regional development policy, the effects of which are felt to this day. The OTK regarded the country as having a spatial structure, where ‘as regional disparities narrow, so the number of disadvantaged and underdeveloped areas affected by high unemployment is reduced’ (OTK, 2008: 1). According to the document, the central goal of regional development is to provide employment. However, in the following years researchers and planners realized that the resources available to support regional development and employment goals were inadequate to induce palpable spatial structural effects. The volume of available resources remained significantly below market investment (Nemes Nagy et al., 2000; Németh, 2009).

For as long as an independent regional development policy existed in Hungary, it was based on centralized decision-making mechanisms. Then in 2004 it was merged into the institutional system of development policy that concentrated on the distribution of EU resources. Thanks to some examples of Western European good practice, a degree of decentralization had taken place in the distribution of resources. Moreover, the regional economic problems of the last 20 years have induced endogenous economic development practices. The first OTK, for example, emphasized the importance of micro-regional associations and differences in local development paths of areas with diverse endowments and potential. The second, in 2005, underlined these principles and abandoned the idea of equal territorial development. In the new Concept, regional, county-level, micro-regional and settlement-level development policies are presented, along with plans for rural, urban and village development (OTK, 2005). Of late, development efforts based on endogenous resources have mostly taken place in rural development (or in programmes related to it, such as agricultural public employment projects) (cf. Nemes, 2005; Németh, 2011). Following Hungary’s 2004 accession to the European Union, domestic development policy was entirely reorganized, and the proportion of EU funds within developmental resources increased significantly. Three EU-funded development programmes have been launched in Hungary since 2004: the National Development Plan (between 2004 and 2006), the New Hungary Development Plan (since 2007) and the New Széchenyi Plan (since 2010). The principles of the ‘place-based approach’ prevail in all three documents, alongside goals of employment policy.

## REGIONAL DEVELOPMENT RESOURCES

This section focuses on regional development resources that either directly or indirectly pursue employment policy goals. These funds were available to micro-regions and settlements between 1991 and 2008.

In the first half of the 1990s, regional development functions were financed by the Regional Development Fund<sup>4</sup> (*Területfejlesztési Alap*) (see Table 1). The financial resources defined by the Regional Development Act 1996 comprised

4 Between 1986 and 1991, funding was provided by the Regional Development and Organization Fund, and between 1991 and 1992 regional development and job-creation funds were financed from the central state budget.

target-appropriations from the central budget and decentralized funds. It was the spatial development target-appropriation (*területfejlesztési célélőirányzat* or *tfc*) that provided the largest amount of direct funding for the employment market. The state of the local employment market played an important role in decisions on distribution: funding was available for settlements suffering socio-economic disadvantage, located in underdeveloped areas or where the level of unemployment was 50 per cent above the national average. In 2003, aside from the spatial development target-appropriation and the spatial and regional development target-appropriation,<sup>5</sup> three other, smaller funds targeted job creation and job preservation: the area and settlement development target-appropriation (*településfelzárkóztatási célélőirányzat*; *ttfc*), the Micro-regional Support Fund (*Kistérségi Támogatási Alap*; *kita*) and the enterprise-zone target-appropriation (*vállalkozási övezetek támogatási célélőirányzata*; *vöc*) (NFGM, 2009).

Table 1: Regional development funds and target-appropriations at various decision-making levels, 1991–2010

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010			
National level	tefa					tfc								trfc									
													ttfc										
													kita										
													vöc										
Regional level											tfc			trfc									
																	teki	céde				leki	
																	teut						
																	tehu						
													ttfc										
County level	tefa					tfc																	
						teki																	
								céde															
																	leki						

Note: Those target-appropriations that directly supported job creation are in italics.

Abbreviations: *céde* = local government development fund; *kita* = Micro-Regional Support Fund; *leki* = most disadvantaged micro-regional development fund; *tefa* = Regional Development Fund; *tehu* = waste management public services development for settlements fund; *teki* = regional compensation fund; *tfc* = spatial development target-appropriation; *trfc* = spatial and regional development target-appropriation; *ttfc* = area and settlement development target-appropriation; *teut* = in-settlement public road renewal fund for local governments; *vöc* = enterprise-zone target-appropriation.  
Sources: VÁTI OTO (2000); NFGM (2009: 16).

The distribution of funding resources has displayed a rising trend until 2003, when resources became scarcer. In the first half of the 1990s, the Regional Development Fund had over 0.15 percent of GDP at its disposal, but in the next 15 years, the *tfc* and the regional compensation fund (*teki*) together comprised

5 The spatial development target-appropriation (*tfc*) became the spatial and regional development target-appropriation (*trfc*) in 2004, when decision making on the distribution of funds was transferred from the counties to regional development councils. Nevertheless, funds continued to support the development of beneficiary areas.

only 1 thousandth of GDP. The 2007–08 total framework sum did not even approach the 1996 figure (at comparable price levels) (NFGM, 2009). Within this, infrastructure development funds exceeded support spent on job creation (VÁTI OTO, 2000; NFGM, 2009). Some 77 per cent of the total support was received by local governments and local government partnerships, which indicated that the most important local actors in regional development are local authorities and micro-regions. Enterprises received 19 per cent of the funds, while the non-profit sector got 4 per cent. The bulk of the job-creation and job-preservation support went to enterprises (NFGM, 2009). It is important to note that the local and regional levels played an important role in the distribution of funds. The goals and means of 95 per cent of these central funds were decided at the local level (county and, later, regional level) (NFGM, 2009). The effects of regional development support on the employment market have not been estimated. According to administrative estimates, support for economic development (almost entirely covered by *tfc* and *trfc*) meant that some 36,000 new jobs were created and 65,000 jobs were successfully retained between 1996 and 2008 (NFGM, 2009). However, according to Hahn (2004), in terms of the total amount of decentralized target-appropriations, the distribution of funding across the micro-regions did not correlate with the socio-economic indicators throughout the 1990s. This essentially implies random patterns of fund allocation, irrespective of local goals. In this context, the compensatory effect of funding remained weak.

The development of public roads, on the other hand, indirectly affected local labour markets. According to studies in the mid-1990s, settlements with a high unemployment rate were often surrounded by urban labour markets that were in a relatively good state. Improving accessibility to the towns could help reduce unemployment and, within the local labour market, could moderate differences in employment across villages (Köllő, 1997). As a result, public road development became the most important target for decentralized target-appropriations (NFGM, 2009).

In addition to regional development funds, the Labour Market Fund (*Munkaerőpiaci Alap*; MpA), which directly targeted employment, also included goals of reducing regional disparity. The employment section of the MpA had 80 per cent more funds than decentralized target-appropriations: in the 1990s, nearly 0.5 per cent of GDP, dropping to 0.4 per cent in the 2000s. In the distribution of MpA funds among counties, decision makers took county labour market conditions into account. The employment section of the Fund was further divided into a centrally distributed and a decentralized segment. The centralized segment of the Fund financed programmes at the national level and across several counties. Decentralized funds, on the other hand, were allocated to counties in proportion to the state of their labour market. Funds available to the most disadvantaged counties (in terms of their labour market), were further raised to compensate for territorial disparities. Fazekas and Németh (2009), however, found that the system of distribution was too complicated for decision makers to be able to enforce the priorities of reducing regional disparities. It was county employment councils that were mandated to make decisions on the application of active labour market measures and their funding, the decentralized segment of the employment fund. The territorial

distribution of MpA funds was not analysed and evaluated until the mid-2000s (Fazekas and Németh, 2009). Hence, it can be stated that the use of MpA did not chime with micro-regional development programmes, and nor could it serve to smooth territorial disparities.

Following Hungary's accession, EU funding streams partly took over the role played by domestic funds. Among these EU-funded programmes, LEADER – which has been operating in various forms since as far back as 2001 – should be highlighted (Füzér et al., 2005; LEADER, 2011). The programme provides funding for integrated rural development concepts, especially experimental integrated development strategies, the development of cooperation across rural areas and networks of local actors. Although the goals of the Hungarian programmes were similar to Western European good practice, LEADER in Hungary has not achieved significant results. The implementation of the programme took place in several waves, but its shortcomings remained the same throughout: tardiness of central administration, over-regulation and foot-dragging in terms of contracting and payment (see Fazekas and Nemes, 2005).

Finally, the programme that began in 2007 for the development of the most disadvantaged micro-regions must be mentioned: it aimed at reducing unemployment and implementing employment measures in underdeveloped areas, with the financial assistance of EU funds. The programme targeted the development of the 33 most deprived micro-regions, with the purpose of expanding local capacities to increase the number of employed inhabitants and thus improve local living conditions (NFÜ, 2007). These micro-regions – which were selected on the basis of the Central Statistical Office's socio-economic indicators – are home to over 1 million people – 10 per cent of the total population. Within the framework of the New Hungary Development Programme (ÚMFP), nearly HUF 135 billion were directly set aside in 2007 for the development of these disadvantaged areas (out of this, HUF 25 billion were earmarked to increase employment). In addition, the institutional system provided for easier access to other tender funds (NFÜ, 2011). According to Czike (2011), the first phase of the programme was rather a wash-out. While micro-regional actors had great expectations of the programme, it ultimately failed to bring solutions that met local needs. In practice, EU development policy could not be adapted to the micro-regional approach, which was further complicated by an over-bureaucratized grant application system. Another factor was the way in which party politics seized the local level of the programme in the first phase. From the perspective of getting EU funds into the most deprived micro-regions, the programme could be considered a success, since the rate of average funding increased from 71 per cent to 85 per cent between 2009 and 2010. However, the goals of the employment policy measures – raising the employment level and reaching disadvantaged social groups – were not met.

## **THE IMPACT OF REGIONAL DEVELOPMENT ON MICRO-REGIONAL COOPERATION**

In Hungary, local authorities and local government associations are the most important actors in local development; the network of development agencies tends not to initiate development (Czene and Ritz, 2010). As is argued below,

this is not about the expansion of effective institutional forms; rather it is mainly due to the weakness of local civil society and the increasing centralization of regional development policy.

Following decades of centralized governance, an elementary demand for local self-governance was articulated, even if this came at the price of efficiency. The local government reform of 1990 established 3,070 independent settlement-level local governments that had, on average, 2,700 inhabitants (excluding Budapest from the arithmetic) – compared to the Norwegian or Swedish models, where the strong local government level has 10,000–30,000 inhabitants. Although the functions and scope of authority of local government are quite extensive, its tax-raising power has been gradually circumscribed over the past two decades. Local governments receive money from the central budget through two main channels: a steadily decreasing proportion of personal income tax (in 1990 it was 100 per cent, but by 2007 it had dropped to 8 per cent), and normative funding (some of which is ear-marked to finance some public service).

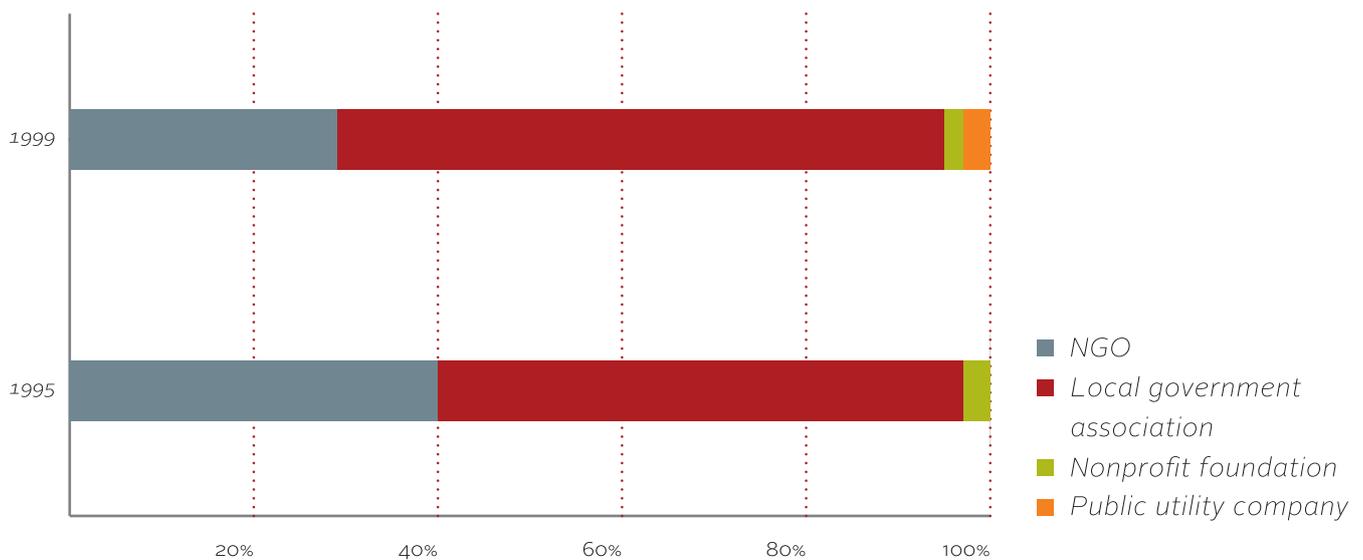
Even though economic rationality had, from the beginning, encouraged local actors and settlements to engage in various forms of association, local and micro-regional coalitions typically came about thanks to external incentives.<sup>6</sup> The establishment of micro-regional associations was driven by two goals: to ease local government service provision tasks and to implement local development programmes. As a result, the institutional structure of micro-regional associations was partly shaped by changes both in the institutional system of development policy and in public administration. The EU played an active role in shaping the institutional structure by the way it influenced and defined – in its own developmental institutions such as PHARE, SAPARD or the Structural Funds – who can participate and what counts in planning (Bruszt, 2007).

In the first half of the 1990s, the institutional framework of development policy explicitly encouraged the creation of integrated development systems that relied on the mobilization of local resources. In this period, the central state considered micro-regional associations to be its new potential partners in sub-national development policy; since it lacked capacities and skills, it supported the establishment of endogenous development strategies through local associations. Encouraged from above by the central state, the Regional Development Fund, the National Employment Fund (*Országos Foglalkoztatási Alap*; OFA) and the decentralized spatial development target-appropriations provided financial resources for local economic development and crisis management, based on the cooperation of various local actors. In addition, the Austrian National Council of Disabled Persons (*Österreichische Arbeitsgemeinschaft für Rehabilitation*; ÖAR) and the first ('experimental') PHARE programmes targeted job creation and infrastructure development, and funded the preparation of micro-regional development plans by diverse local actors.<sup>7</sup> The abundance of development programme funds in the early 1990s sparked an unprecedented 'willingness' on the part of local associations in those years. In 1995, 40 per cent of the 134 micro-regional associations were so-called 'settlement associations', integrating diverse types of local actors; while 57 per cent of the existing organizations comprised local government (developmental) partnerships (Figure 1).

6 Although Ehrlich et al. (1994) predicted 'the expansion of local government associations and coalitions and the slow re-emergence of integration and merging tendencies' until the mid-2000s – in parallel to partnerships – the secession and independence of settlement districts also continued.

7 The Soros Foundation, the British Know How Fund and USAID provided financial resources for similar projects based on the same criteria.

Figure 1: The distribution of micro-regional associations in 1995 and 1999



Note: The organizations numbered 134 in 1995 and 184 in 1999.

Source: Own calculations, based on Fekete and Bodolai (1995) and Fekete (2001).

The creation of micro-regional development associations in the first half of the 1990s owes a lot to pilot programmes financed by OFA. Many OFA programmes aimed at improving employment by means of complex economic development and decentralized, integrated policy mechanisms. Thus, OFA programmes often promoted cooperation among diverse local actors and community-building – e.g. the complex micro-regional development programme between 1992 and 1997, and the framework programme for the employment of micro-regional managers to coordinate the implementation of development programmes (Keller, 2010). OFA's other programmes focused on similar goals, such as establishing employment managers at the micro-regional level (1993–96) and developing local enterprises and the economy (1998–2000).

All in all, the 1990s can be described as a period of experimentation with local institution-building to solve social and employment problems generated by economic restructuring. Institutional experimentation at this time was based on integrated policy mechanisms, with complex employment and regional development goals that made use of endogenous resources and were based on various institutional solutions for the association of diverse actors. Although the general weakness of civil society meant that an ideal balance of power did not exist between non-governmental and governmental actors, asymmetries in power between them were less visible in the early 1990s, as regulations prevented concessions being given to one actor at the expense of others (Keller, 2010).

In the second half of the decade, the central state initiated the introduction of a homogeneous institutional structure in place of – what seemed from above – haphazard micro-regional associations. The Regional Development Act of 1996 and the Act on Local Government Partnerships of 1997 generated standard forms of associations that paralleled the existing ad hoc micro-regional

associations. With this, the central state introduced an institutional system that – at least for its own purposes – seemed more transparent and accountable. The acts, however, only gave local governments the right to participate in the definition of developmental goals through their representative on the county development councils. Since decentralized financial resources were available only to local government partnerships, settlement association-type organizations were overshadowed and civil actors marginalized. This institutional system provided privileges in financial assistance and interest representation for local government partnerships without offering non-government actors similar mandates. This ended the (more or less) equal relationship between local governments and civil actors that was built on a mutual desire for efficiency gains, and instead generated asymmetrical bargaining positions between the two sectors (Keller, 2011).

Figure 1 illustrates the process by which the number of development associations – which integrated diverse types of local actors – had decreased significantly vis-à-vis local government partnerships within just four years. By 1996, the proportion of civil organizations and public utility companies involved had fallen to 8 per cent (Fekete, 2001).

Towards the end of the decade, a process of recentralization had begun in supervising the distribution of development resources, which meant the strengthening of the central state at the expense of local government and non-state actors. By the end of the decade, the European Commission had redefined the conditions governing accession by changing its priorities within regional policy. By switching its discourse to stress technical and financial accountability (safe money transfer of the Structural Funds), the Commission left the issue of extended political accountability (territorial devolution, decentralization, integration of sub-national actors) largely to one side, which ultimately gave central states the prerogative to control regional policy making and implementation (Bruszt, 2007; 2008). Thus, by the turn of the century, many of the PHARE programmes sought to strengthen administrative capacity at the central state level, rather than build up the capacity of heterarchic<sup>8</sup> associations at the sub-national level (see also Hughes et al., 2003; Bruszt, 2005). This further weakened central state ‘readiness’ to adopt governance principles of the EU – partnership, devolution – in the use of development funds (Keller, 2011). Ultimately, it led to the strengthening of hierarchical modes of governance in Hungarian regional and development policies, rather than heterarchic forms of policy coordination.

As part of the recentralization, the number of central state representatives of ministries increased in regional development councils, as well as in county development councils. Another element of the recentralization process was the provision of privileges to particular local actors (local government) that weakened previous win-win associations between diverse local actors and fostered collusive coalitions. Representational mandates exclusively for local government partnerships in county development councils were one such privilege, as was the per capita funding scheme for multi-purpose micro-regional associations in 2004, as opposed to ad hoc funding opportunities for non-governmental organizations.<sup>9</sup>

In the early years after the regime change, there was a hotchpotch of local government partnerships, settlement associations, micro-regional development

8 Heterarchic modes of governance denote forms of associations or policy coordination where diverse types of actors cooperate, and where authority is shared among them more or less equally.

9 Although multi-purpose associations often contracted out local governmental functions to non-governmental organizations (most typically tasks of local development), this relationship was not based on horizontal principles of partnership, but rather on hierarchical dependencies of non-governmental actors on government-supplied financial resources.

councils, etc. Amidst this apparent chaotic abundance of micro-regional coalitions, at the time of EU accession (and in the name of EU governance norms), the central state saw the creation of multi-purpose associations as offering some kind of assurance of transparency and accountability in the utilization of EU and domestic development resources. The per capita funding for micro-regional development that became available to the multi-purpose associations crowded out the earlier local government partnerships, making them redundant and standardizing the institutional structure and opportunities for resource mobilization. As a result of such funding schemes, in many micro-regions local actors terminated their broad-based development coalitions, leaving multi-purpose associations as the only development organizations. In most cases that brought about the marginalization or exclusion of non-state actors from development planning and decision making.

Unlike Western European practices, the institutional model of the multi-purpose association combined local government service provision with local economic development functions. Experience shows that, so far as improving public service provision is concerned, the multi-purpose associations have produced more or less positive results, even though only the first steps of the necessary transformations have been taken, and these have not involved the structural alteration of public administration (Kovács, 2008). On the other hand, the institutional system of multi-purpose associations – also contrary to Western European practices – confines micro-regional associations to within the limits of statistical-administrative boundaries. In addition, per capita funding through a highly centralized domestic institutional system of development policy plugs micro-regional development functions into the central state (re)distribution system.<sup>10</sup> Central state regulations on multi-purpose associations limit the scope for local actors to organize the mobilization of development resources as they see fit. This weakens local development capacities, but increases the vertical dependence of local governments and their associations on the central state. The institutional system of Hungarian regional development has elevated local government to the position of the single trustee of local development policy. But local governments are inherently afraid of losing their independence and share power with larger regional centres or non-state actors. The general feeling of distrust generated by bad experiences of the centralized and hierarchical distribution of resources still hampers cooperation at the local levels (Bekényi, 2004; Kovács, 2008).

## CONCLUSIONS AND RECOMMENDATIONS

In the past 20 years, Hungarian development policy has not been able to fulfil the goals of employment policy related to the expansion of employment or the advancement of social groups that are lagging behind. Even though significant funds have been mobilized to support territorial ‘narrowing’, these have been unable to counteract foreign and domestic economic processes.

The effectiveness of development policy in Hungary has been hindered by institutional factors. In developed countries, local development policy is completely separate from local government public service provision, and local institutions play an increasing role in development activities. Successful

10 Receiving more per capita funding for local government service provision in an association provided incentives for local governments to establish multi-purpose associations. Nevertheless, multi-purpose associations had discretion over only a limited amount of these resources; most of them were pre-destined by central state appropriations. Finally, combining local government service provision with development functions brought increasing administrative burdens for associations; these crowded out and eclipsed principles of regional development.

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development stems from an alignment with local endowments/potential and the mobilization of local resources through the association of diverse local actors. The institutional framework shaped by the central state can help the autonomous, bottom-up initiatives of local government, and also the top-down initiatives of non-state actors.

Bucking these trends, in Hungary local governments have played a decisive role in bringing about local and micro-regional associations, and in planning and implementing development initiatives. This is partly due to the weakness of civil society and to changes in the institutional environment that have favoured state actors in the mobilization of resources. Local and micro-regional associations have evolved as a result of external incentives and – with a few exceptions – have failed to maintain the essentially local focus of the association. In Hungary, multi-purpose associations merge local government public service provision and regional development functions in one organization, which serves to weaken the developmental capacity of local government and other local actors. Opportunities for micro-regional cooperation are restricted to within statistical-public administrative boundaries and can only be financed by per capita funding, which is embedded in the redistributive machinery of the central state. This further weakens local actors' capacities to mobilize resources for the development of local economies and for the expansion of local employment markets. Local authorities, overburdened by their public service tasks but with scant resources, find it difficult to harmonize their roles in public service provision and development policy. Local government partnerships, which are dependent on the central state and live in fear of any strengthening of the local centre, have achieved modest but encouraging results.

Attempts to introduce heterogeneous institutional solutions in development and employment policies, based on the integration of diverse social groups, mostly took place in the 1990s. However, the holistic approach to integrated policy making has failed to be institutionalized, and encouraging initiatives have often remained local experiments. In the 2000s, due to the re-centralization of programming and access to financial resources, the room for local institutional experimentation based on the win-win coalitions of local state and non-state actors has become more confined. As a result, non-state actors – who otherwise would have the capacity to integrate goals for the expansion of employment and economic development – have been marginalized in development policy. Besides harmonizing sub-national employment, development and economic development policies at the strategic level, an effective regional development policy needs the right institutional framework (e.g. comprehensive methodological standards, a system of quality control) to provide room for local actors to organize development associations at their own discretion. The first step towards this system would be the termination of local government monopolies in the planning and implementation of sub-national employment and development programmes. In this context, it would also be necessary to detach (in institutional terms) the local government functions of providing public services from local development policy in the new district-based public administration system, due to be launched in 2013 by the current government. The next step would be to establish local development agencies on the initiative of, and in partnership with, local government, profit-driven and non-profit

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non-state actors. Networks of local development agencies should not be organized on the basis of the new district boundaries: it is important to allow local actors to choose their partnerships (settlement, profit-driven and non-profit partners) for themselves. This would encourage organic cross-settlement cooperation and would improve 'willingness' to cooperate at the local level. The function of local development agencies to build local markets and expand local labour markets could provide a bridge between the business and the public sector; and these agencies could also play a central role in harmonizing state and non-state institutional means and methods in policy making. It would be important to ensure the comparative independence of local development agencies from the state, which would provide the necessary flexibility for the business sector and guarantee consistent market- and employment-building strategies across electoral cycles. As opposed to current practices within the multi-purpose associations of local governments, local development agencies could afford to employ staff with special skills (in project management, planning, etc.) to implement programmes successfully. It is recommended that the practical experience of the handful of local development agencies – or functionally similar organizations – that already exist in some micro-regions should be employed across the country.

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## 2. LABOUR MARKET GOALS IN A WIDER POLICY CONTEXT

### 2.4. LOCAL GOVERNMENT\*

JUDIT KELLER AND LAJOS BÓDIS

This chapter examines the role that local government has played in expanding employment at the local level over the past 20 years. Drawing on international literature, the expansion of employment is viewed here as an element in the institutional environment that integrates various sectoral policies. The basic principles of this institutional environment are decentralization and partnership. While [Chapter 2.3](#) provides a general overview of the mechanisms of development policy, this chapter observes the opportunities that local government has had to shape the local labour market. The questions addressed here include: What role has local government played in job creation? Has the expansion of employment been taken into consideration as a dimension of public service development (e.g. in developing public transport or crèche services)? To what extent has local government cooperated with other local actors in achieving these goals? The chapter has scant empirical data to go on, due to the low level of involvement of local governments and to the lack of empirical research in the field.

#### PUBLIC WORKS PROGRAMMES

As institutions of public administration at the settlement level, local authorities have a mandate to participate in public job creation or in employment rehabilitation. Although public works have been the dominant policy solution in Hungary over the past 20 years, there have been some initiatives to introduce social-economic programmes and employment rehabilitation<sup>1</sup> to prepare participants for employment on the regular labour market.

Hungarian public works programmes generally aim to arrest the deterioration of labour skills among the unemployed and to test their willingness to undertake employment, rather than to stimulate the local labour market as such. Job centres have been able to organize public works for these purposes since 1987, and local authorities have been allowed to launch public works programmes since 1997 (Csoba, 2010).

Public works schemes assumed greater importance in 2001, when the function of testing the willingness to work of the long-term unemployed – a function that used to be handled exclusively by the public employment service – was devolved to local government, alongside the provision of unemployment assistance. The new regulations stipulated that regular social assistance could be granted only if the claimant had worked as a public employee for more than 30 days.

\* The authors of this chapter would like to thank Ágota Scharle for her invaluable contributions and comments.

<sup>1</sup> In particular, the so called “transit-employment” projects which help unskilled, disadvantaged and unemployed groups into permanent employment.

The number of duties that could be carried out as public work increased, and central government provided large sums to finance public works.

The 'Road to Work' ('Út a munkához') programme, launched in 2009, further increased the role of public works schemes. The programme aimed to alleviate local social tensions and to cut social expenditure<sup>2</sup> (or so the political rhetoric had it), as well as to stimulate the local economy in stagnating local areas with capital shortages.<sup>3</sup> As a result, the programme was inclined to increase the number of participants, rather than to extend employment. Local governments had to prepare local employment plans, which got them actively involved in these programmes. In order to encourage micro-regional cooperation, a separate budget stream was created to finance public works at the micro-regional level.

Local governments increasingly relied on these expanding opportunities: in 2003 less than half of all settlements organized public works, whereas by 2005 almost every larger settlement did so. By 2009, virtually every settlement in the country – even the smallest village – had public works schemes (Köllő and Scharle, 2012). The increase in the number of participants in the 'Road to Work' programme was fuelled by the open top-down budgetary framework and the absence of content evaluation.

Municipalities could use the resources offered by the programme with few limitations (and under highly advantageous conditions) to expand public services or to save on regular payroll expenses. There was no automatic mechanism in the programme that would curb the absorption of central budget funds in order to save resources for other labour policy goals or to protect the balance of the central budget. According to the National Employment Office, various factors hindered the effectiveness of the programme. Modifications to public work plans did not need to be submitted for scrutiny at local job centres and, although the Hungarian State Treasury collected these plans, it did not evaluate them either from a financial or from a professional perspective, and nor did it establish a monitoring system based on the information gathered (Péter, 2009; cited by Frey, 2009: 213). In addition, regional employment centres limited the focus of their examination to the number of participants. Neither the implementation nor the output of public works plans was inspected either by the employment centre or by the sectoral ministry (Scharle, 2011).

Local authorities can focus on various – at times contradictory – local social policy goals: the provision of social assistance for the unemployed, the detection of 'black' labour or supplementing resources for public service delivery. These social policy goals may inherently contradict the goals of a local authority as a local employer and maintainer of institutions. In addition, labour costs appear merely as extra workload for local government officers.

According to reports by the State Audit Office, the organization of public works was defined by the short-term interests and labour force needs of local government (ÁSZ, 2002; 2007).<sup>4</sup> Analysing the annual public works plans of 51 settlements in the seven most deprived micro-regions in 2009, Udvardi and Varga (2010) found that, with few exceptions, they contained neither a situation analysis nor any long-term strategy to improve the situation of unemployed participants. According to Fekete (2011),<sup>5</sup> local authorities justified this by citing their low management and service provision capacities.

2 Two mayors in Hajdú-Bihar county initiated the tightening of regulations on social assistance at the central government level, on the basis of the following argument 'local communities need to perceive that people receiving the assistance of the state also strive to make a living by their own work' (Csige and Éles, 2008).

3 According to plans, the first few years would focus on rehabilitating the labour skills of the long-term unemployed and identifying viable activities for the local economy, followed by the inclusion of the private sector in local economic development (Szűcs, 2009).

4 The State Audit Office examined the efficiency of public spending on public works schemes in 2002 and 2007, based on local visits and on the unemployment register. In 2002, 18 per cent of the support given out was audited in this way.

5 The survey was conducted in a hundred (medium-sized) settlements in Northern Hungary and the Northern Great Plains, where 10 case studies in pairs of settlements with similar features in each of the regions were also prepared.

They would rather have employed craftsmen and professionals, which is indicative of their lack of motivation for dealing with low skilled long term unemployed.

A degree of change can be observed with regard to micro-regional cooperation. Fazekas's (2001) survey shows that, at the turn of the century, only 1 per cent of local governments planned to implement public works programmes in micro-regional associations. In spite of the fact that management problems could have been more easily tackled through micro-regional cooperation, the dissemination of this institutional model was not supported by employment centres or by local job centres at that time (Bódis and Nagy, 2008). In Fekete's (2011) sample, however, 45 per cent of local authorities organized local employment in partnership, and, within this group, 28 per cent in a local government partnership.

According to Fazekas (2001), following the expansion of public works schemes, considerable differences arose between local governments with regard to the provision of access to social assistance, public works and programmes for health, mental rehabilitation and family problems.<sup>6</sup> Due to organizational difficulties, local authorities could offer public works to only half of the population that received permanent social assistance. According to Nagy (2008), recipients of social assistance could expect to have to participate in public works in less than half of the settlements studied.<sup>7</sup> More than a quarter of the local authorities stated that they differentiated between applicants for public works jobs on the basis of social and equity dimensions; special attention was paid to applicants with large families.

The joint work undertaken by local authorities and local job centres with regard to the provision of social assistance to the long-term unemployed should also be mentioned here. In the mid-2000s, reorganization of the institutional framework of labour policy made local government responsible for the individual attendance of the long-term unemployed. In principle, this is tailored to individual need and is based on a mutual agreement of responsibilities (a reintegration programme) to support integration back into the labour market. Local governments required the clients to cooperate with the local job centres and with the local authority family support centre, especially since the cooperation of the long-term unemployed with local job centres was made mandatory under regulations introduced at the beginning of the decade.<sup>8</sup>

This system provides for synergies between two providers who are working with the same clientele. On the other hand, it can also lead to a rigorous demarcation of responsibilities, or duplicate inefficiencies in the enforcement of benefit eligibility criteria (see [Chapter 4.1](#)). Research conducted 18 months prior to the 'Road to Work' programme indicated the latter: due to technical shortcomings and lack of interest on both sides, cooperation between local government and local job centres stalled (Bódis and Nagy, 2008).

## SOCIAL ECONOMY

Over the last decades, social economy has gained increasing attention as a model for local employment expansion. In the EU jargon, this diffuse concept refers to the organization of local services for households and individuals into

6 Fazekas (2001) studied the results of expanding public works schemes on the basis of local government data, interviews and administrative information.

7 The sample included 5 small towns, 14 settlements with a population of 1,000–5,000, and 25 villages with a population of less than 1,000.

8 Local job centres had an ambiguous relationship with the long-term unemployed. Centres located in underdeveloped regions had a vested interest in maintaining a minimal level of cooperation. Others argued that cooperation with clients whose physical or health conditions prevented them from working should be maintained by organizations specializing in social assistance (Bálint, 2006).

market-based activities (EC, 1994; cited by Frey, 2007: 24), while in common parlance it is defined rather as a protected and self-sufficient local market (Czene and Ritz, 2010).

In the past decade – partly as a result of spontaneous processes and assistance programmes – some local governments have taken a leading role in initiating the expansion of local employment opportunities.<sup>9</sup> In most cases, this has been related to some central state assistance, such as the social land programme or the establishment of social cooperatives.

The social land programme, financed from the central budget, supports deprived families in the labour market in 150–170 settlements on average per year; between 1992 and 2007 some 471 settlements got involved. The goal of the social land programme is self-sufficiency and the development of a culture of work (together with its related value system). Without external aid, even programmes that expressly aim for market sale rather than own consumption would not be able to guarantee these families a living. Production and marketing communities that cover the whole production process and that function as supported enterprises came about in only a few settlements (Fekete, 2011). The way this land programme has been implemented in most places does not allow acquisition of the means necessary for the production of goods for permanent market presence, and of land for cultivation or active capital.<sup>10</sup>

Although (ethnic) minority self-government bodies, non-governmental organizations and local government associations were all eligible for funding, as well as local authorities, the majority of applicants (and in 2007 more than 80 per cent of those successful) were local authorities. Even the most independent family enterprises needed the coordination that local governments could offer; families most in need of support do not even apply for grants under the programme (Rácz, 2009). In-depth case studies in the second half of the 2000s concluded that the launch of programmes, the network of participants, the intensity of coordination and the quality of services provided for producers depended greatly on the individual qualities, knowledge and ambitions of local government leaders (Kovács, 2008; Németh, 2011).

Social cooperatives – along the lines of European models – have been possible in Hungary since 2006. The goal of these organizations is to create jobs for their unemployed and socially disadvantaged members, and also to supplement their members' economic, educational, social and health-related needs. The first cooperatives were created and encouraged by the labour ministry through programmes of the National Employment Fund (OFA): between 2007 and 2010, some 50 cooperatives were established. The role of ambitious local government leaders is key to the organization and functioning of social cooperatives (Fekete, 2011).

Németh (2011) studied the empirical features of Hungarian social economy. His findings suggest that most of these programmes involve undifferentiated, mass production; that products never reach their markets; and that production cannot be sustained beyond the end of the project. In cases where products do manage to reach the markets, actors who are aiming for greater efficiency squeeze out those who are most in need of employment. If the principles of efficiency and solidarity do manage to coexist in harmony, it is likely that the programme is organized by a charismatic local leader. Therefore,

<sup>9</sup> According to Csoba (2007) Hungarian social economy-type programmes were first generated by non-governmental organizations; local governments took over the role of programme initiators only later. The weakness of non-governmental organizations resulted in their inability to establish methodological centres on their own, and therefore these centres were eventually created using OFA funds.

<sup>10</sup> The most highly developed local employment programmes can be found in North-east Hungary and in Southern Transdanubia (Kabai and Németh, 2011).

the sustainability and spread of such programmes is rather unstable: successful programmes are exceptions to the rule, rather than pilot projects that provide the foundations of sectoral policy.

## EMPLOYMENT REHABILITATION (TRANSIT) PROGRAMMES

Transit-employment programmes have followed a negative developmental path: from heterogeneous and innovative institutional solutions to over-standardized and over-regulated local initiatives constrained from top to bottom (see also [Chapter 2.3](#)). The institutional transformation of transit-employment programmes was due to the lack of integration between employment and development policies, and to the recentralization of this fragmented institutional structure towards the end of the 1990s.

OFA has supported endogenous development initiatives, based on the association of local actors, since the 1990s (Molnár, 2011). In the first half of the 1990s, OFA programmes represented the second-largest pool of development resources in Hungary. Besides local governments, the beneficiaries of OFA's complex economic and employment development programmes could be non-governmental organizations that focused on micro-regional development – unlike in the case of decentralized funds in 1996. In this sense, OFA programmes – although they were central state funded – aimed to strengthen the local perspective by encouraging the mobilization of endogenous resources and by supporting innovative institutional solutions. OFA employment programmes covered practically all sectoral and labour groups.

The first transit programme was launched by OFA as a pilot project in 1996, with the goal of helping unskilled, disadvantaged and unemployed groups into permanent employment. The programme was built on three pillars: *training* (semi-skilled or vocational, or that otherwise supports permanent employment), *employment* (generally funded either throughout the programme or just for part of it) and *assistance* (career guidance and aftercare) (Györgyi and Mártonfi, 2001).<sup>11</sup>

OFA transit-employment programmes were run by non-governmental organizations with various backgrounds and orientations, but that nevertheless shared the goal of helping individuals who were marginalized in the labour market (Györgyi and Mártonfi, 2001). The functional and organizational heterogeneity of non-governmental organizations made 'transits' highly innovative: their differentiated approach enabled them to reach various groups with diverse employment and social problems in micro-regions with different socio-economic contexts.

OFA managed the heterogeneity and the (frequent) infrastructural and institutional instability of these non-governmental organizations by excluding extremely unstable organizations from the programme and by supporting the institutional capacity-building of organizations.

Overall, 65–70 per cent of jobseekers who participated in OFA transit programmes ended up finding employment in the labour market (Molnár, 2011), while drop-out rates remained low, at around 5–6 per cent (Györgyi and Mártonfi, 2001). The long-term effects of the programmes were not evaluated, though a single impact analysis was carried out before the programme

<sup>11</sup> Similar programmes – also referred to as 'transit' – of employment centres did not provide assistance.

closed in 2001. This revealed that 72.4 per cent of programme participants had found a job within a month of completing the programme (Györgyi and Mártonfi, 2001: 51).<sup>12</sup>

OFA programmes were also adopted by other institutions, but with less flexible financial frameworks. The programme of the education ministry and PHARE in 2000 financed several transit organizations that had been funded by OFA as well. Within the institutional framework of PHARE, the flexible institutional logic of OFA programmes could be maintained, and thus project owners could organize the content and budget at their own discretion (without standard costs). The employment measures of PHARE intended to provide a bridge between the programme standards of OFA and of the Structural Funds.

The measures of the Human Resources Development Operational Programme (HEFOP) 2.3.1 and 2.3.2 (between 2004 and 2006) continued earlier OFA and PHARE programmes.<sup>13</sup> The goal of these measures was to adapt previous non-governmental OFA programmes to the institutional framework of the labour policy of the central state. This integration was, however, stalled by discrepancies in the institutional mechanisms of HEFOP and of OFA transit programmes in terms of financial and institutional conditions.<sup>14</sup> As a result, the projects of non-governmental organizations funded by measures HEFOP 2.3.1 and 2.3.2 remained isolated initiatives (HEFOP, 2008).

Nevertheless, the responses of participants during evaluation of the programme indicated its relative success: 79 per cent of participants did not have a job before the training, but 64 per cent of them found employment after taking part in the programme; 67 per cent ended up working at or close to the level of their qualifications; 85 per cent of respondents found consultations very useful tools to help them in completing the programme successfully; and 64 per cent of them graded the programme 'excellent' (HEFOP, 2008).

In spite of these positive results, EU-funded transit programmes have been strongly criticized on professional grounds. Late payment on HEFOP and Social Renewal Operational Programme (TÁMOP) programmes caused enormous problems for professionals in non-governmental organizations. Besides the funding problems, the professional background of HEFOP and TÁMOP transit programmes was also questioned by several professionals who had participated in the original OFA transit programme.<sup>15</sup>

Anomalies in the adoption of OFA transit programmes by HEFOP highlight a problem also mentioned by László (2010): the inability of the institutional system of Hungarian labour policy to integrate place-based principles, to define policy means and goals in a way that can manage regional variety and differences in employment and in the labour market. This can be explained by the lack of integration of development and labour policy, and by the absence of decentralization in institutional structures and in decision-making about the use of resources and their allocation. In the gradually recentralized institutional system of development policy since the turn of the century, HEFOP and TÁMOP funds have abandoned the principles of subsidiarity and partnership, and their centrally defined, over-regulated institutional system has narrowed the scope for action of local state and non-state actors. Their standardized requirements have blocked heterogeneity and experimentation with innovative solutions. Overlaps between HEFOP/TÁMOP, OFA and Employment Service

12 Beyond these concrete results, the authors of the impact analysis saw the success of OFA transit programmes in institution-building and the development of professional standards. In this vein, these programmes contributed to the development of a holistic and interdisciplinary methodology that could provide the foundations for the planning and functioning of other transit-type programmes (Györgyi and Mártonfi, 2001). Institution-building that evolved as a by-product of the programme generated associations of diverse organizations that would have been unimaginable earlier. This induced the long-term self-sufficiency and institutional stability of these organizations.

13 The authors of the mid-term evaluation of the programme in 2007 found that the long-term effects of the 2.3.1 programme could hardly be measured. First, several parallel and overlapping programmes were run at the same time; secondly, the measurement of target groups took place according to different standards in the programmes of HEFOP and the Public Employment Service (HEFOP, 2008).

14 Project owners of OFA transit programmes could shape the content and finances of their projects more or less as they wished, without standard costs (HEFOP, 2008).

15 Standard programme requirements 'sometimes oblige organizations to work in partnership even if they would manage the programme better alone, or in other cases force them to provide tasks (e.g. employment) that they can only implement with an external partner' (Vargabetű Association). HEFOP and TÁMOP standardized functional requirements of non-governmental organizations, which destroyed the organizational and institutional heterogeneity that had been seen as the source of earlier success.

transit programmes, discrepancies in their methodologies, and the fragmentation of programme management organizations underline the decade-long absence of integrated development and sectoral strategies.

## EMPLOYMENT PACTS

Employment pacts first appeared in Hungary at the beginning of the 2000s. Since 2004, grants have been available for the local coordination of projects that promote employment within the framework of PHARE, the Regional Operational Programme (ROP) and TÁMOP (László 2010).<sup>16</sup> As part of these programmes, employment pacts were reached, setting out the willingness of enterprises, local governments, training institutions and employment organizations to engage in cooperation in many micro-regions.

Employment pacts provide a framework for the development and management of visions generated by the participants. Such visions might include the synergistic development of micro-regional competitiveness and human capital, the coordination of institutions promoting employment, or the refinement and dissemination of methods used in social economy.

László's research (2010) identified 47 pacts across the country, two-thirds of them at the micro-regional level (the level also preferred by publishers of tenders). More than a third of pacts were initiated by local authorities, occasionally by local government associations or employment centres, and only rarely by a non-governmental organization. The regional distribution of pacts is uneven, but this is due to varying degrees of engagement by county job centres and the spread of good practice in their vicinity, rather than a result of the level of regional development. In most cases, to begin with, a maximum of 25 organizations joined the pacts, though later (also due to tender requirements) the number of member organizations increased. Vocational and adult training establishments are generally absent from employment pacts, as are innovation and development agencies and organizations, larger enterprises and regional representations of trade unions.

Four-fifths of the pacts investigated were funded by grants. Sometimes local actors had planned similar associations before, but it was more common for the associations to be formed in reaction to the invitation for tenders: to solve local labour market problems or, in many cases, to win grants. The majority of participants viewed a pact as just one project of many, and they remained involved for only as long as the project required; the project approach in these tenders also supported short-term and formal indicators. Although most pacts include situation analyses, strategies and work plans, little is known of their content or functioning.

In general, the organization and impact of pacts – as of micro-regional associations – is at an early stage. According to László's (2010) evaluation, the conditions necessary for the effective functioning of pacts would be provided by a labour policy that differentiates between them and that acknowledges well-defined local plans as official programmes (and provides the means for their implementation). In the current climate, even viable local employment strategies and genuine partnerships come up against local actors who only see pacts as a way of acquiring grants and formally satisfying requirements.

<sup>16</sup> Two years before the launch of these EU-funded central state programmes, the first bottom-up employment pact was sealed in the micro-region of Kemenesalja, in May 2002 (Kovács, 2003). This programme was initiated by the Employment Centre of Vas County.

Since the cost of network building, dissemination and continuously improving coordination is not worth the effort for any actor in terms of the money received, at the moment the majority of the pacts rely on the state and central state resources, rather than on local initiative.

## THE PROVISION OF DAY CARE

One way for local governments to contribute indirectly to the expansion of employment is to develop services that help people take on jobs. This might include the maintenance of institutions, improvement in the management of local government institutions, or the coordination of various actors in the provision of public services.

From the perspective of employment, the most important local government institutions are crèches and kindergartens that help working mothers.<sup>17</sup> Since the start of the 1990s, the capacity of crèches has dropped from 15 per cent to 8 per cent of crèche-aged children. Over a quarter of all crèches are located in Budapest, and they are few and far between in small settlements. Generally, crèches are open only during the day shift: children must be picked up by five o'clock or, in some places, by four o'clock (Pataki and Somorjai, 2007). The high cost to local authorities of setting up and maintaining crèches – higher than kindergartens – affects their establishment (Herczog, 2008).<sup>18</sup> In the absence of empirical data, it cannot be stated why it is that some local authorities have undertaken the development of crèches in the past 20 years. But according to some experts,<sup>19</sup> the decision by local authorities to develop crèches is based not on making it easier for working parents, but rather on gaining access to EU funding, which appears in their communication strategies as providing care for children. Crèches that are located near to successfully privatized or new large enterprises, or that have been set up by them, are exceptions to this. There are also only a few agglomerations where the various factors required for a crèche to be set up and maintained are present at the same time. In these limited cases, migration into the settlement induces a rise in the number of children, and local governments have enough resources to cover the costs. In such cases, the new inhabitants can effectively lobby for public services, which is also important because neither local authorities nor job centres survey the unemployed about the expected impact of crèche development, and thus their needs are not taken into account in decisions about the provision of daycare.

Kindergartens can offer day care from the age of 3, but it is only mandatory from the age of 5.<sup>20</sup> The institutional system of kindergarten care has led to considerable regional differences in the density of kindergarten service provision: in economically more developed regions, the number of kindergarten places has increased (or at least has not decreased), while in less developed regions their number has dropped (Kotán, 2005). Among the local authorities that provide kindergarten services, the proportion of those that have more jobs and more resources to keep up the kindergartens has increased.<sup>21</sup>

Facilitating employment plays an explicit role in the application of informal rules governing kindergarten enrolment: if kindergarten places are in short supply, children aged under 5 from families where both parents are employed

17 See [Chapter 6.3](#) for an in-depth discussion of the functioning of institutions that help to reconcile work and family commitments, and of the impact of childcare benefits.

18 On the other hand, a survey in 2010 demonstrated that the basic functioning of a crèche can be ensured by central state per capita funding, without support from local government (Scharle, 2011).

19 Some previous (and current) officials from the Democratic Trade Union of Crèche Workers, who, alongside their classic role of representing workers' rights, also participate in policy discourse.

20 Since 2005, different rules have been applied to children aged 3 whose parents have at most eight years of primary-school education: kindergartens are obliged to take such children at the age of 3. Since 2004, kindergartens must also accept those children whose parents cannot provide parental day care for them due to their work or to some labour market programme. In these cases, kindergarten day care must be aligned to the working schedule of the parents.

21 Regional disparities in kindergarten service provision also represent a serious problem for public education. Studies have demonstrated that a scarcity (or complete lack) of kindergarten services can be observed in settlements with high rates of unemployment, and with high proportions of the persistently poor and of Roma. This causes considerable disadvantages in children's development and affects their future success in school or in the labour market (Havas and Liskó, 2006).

have priority (Vágó, 2005; Havas, 2009). Kindergartens have a fair degree of autonomy in considering the situation of families,<sup>22</sup> which is no guarantee that they give priority to supporting families in reconciling work and family obligations. In the case of unemployed parents, neither the local job centres nor the local authorities intervene to assist the placement of children in kindergartens. It is more common for them to ease the conditions governing job search (Bódis and Nagy, 2008).

The opening hours of kindergartens seem to have adapted better to the needs of parents and the labour market. After 1990, the number of kindergartens at (formerly) socialist enterprises that aligned their opening hours with work schedules dropped by 90 per cent (Tóth, 2000). In 2001, roughly half of the parents in a representative sample for a national survey were fully satisfied with the opening hours of their kindergarten (Török, 2005). The number of completely dissatisfied parents was infinitesimal, but really only local surveys can show how local needs can be better met. Kindergartens and those who fund them seemed more prepared to satisfy such needs in the 2000s than they were in the 1990s, which can be explained by changes in the labour market and by measures that strengthened client-centred approaches in public education institutions. For instance, our own research, conducted in the late 1990s among dressmakers in a county town in the Great Plains region, revealed that the opening hours of kindergartens were adjusted to the needs of kindergarten employees rather than to those of parents. As a consequence, despite the good labour-market and public transport conditions, parents commuting from a village to a nearby town were unable to arrive in time for a regular shift without the help of family members (Bódis, 2002). Part of the problem was the insensitive attitude of local authorities, which tried to duck their responsibilities, and part was the inflexible employment regulations governing kindergartens (such as the requirement for the permanent presence of a trained kindergarten teacher) (Török, 2005; Kotán, 2005). Interviews repeated in the second half of the decade showed that the kindergarten had extended its opening and closing hours and was cooperating with parents who were coming from farther away (Bódis, 2008).

## THE COORDINATION OF PUBLIC TRANSPORT

Local government can assist people to reach their workplaces. According to research data, the alignment of public transport timetables with the times at which people start work began to improve towards the end of the 1990s and the start of the 2000s (see [Chapter 6.4](#)). The engines of harmonization and information gathering were the public transport companies (largely the Volán bus and coach companies, which early on became cost-conscious). The inclusion of the local authorities in finding out what people need is essential, since people who cannot travel and are unemployed because of a lack of proper transport schedules can still be reached by them.

Since the 1990s, one characteristic coordination problem has been how to arrive at work on time if the starting hour is later than usual. In the early days, the transformation of socialist enterprises was all about downsizing and the best utilization of resources (Köllő, 2003), and many companies moved over to

<sup>22</sup> According to a national survey in 2001, less than half of local governments stated that they had a say in the definition of preferences applied to enrolment (Vágó, 2005). Local governments became more active in this respect in the 2000s, and the forms of local government influence extends to local decrees and the adjudication of appeals.

a single day-shift regime. Some of the new production lines in labour-intensive sectors in the latter half of the 1990s were also organized around a single day shift, which was very appealing to unskilled workers, who had been used to plants that worked using two or three shifts or on continuous shifts (Bódis, 2008). The public transport companies, despite little coordination, sought to guarantee that most commuters could reach the towns – even from quite far away and with a change of bus – by the beginning of the morning shift and the start of school.

Company-sponsored transportation of workers requires coordination – not only by employers, but also by workers who live near one another. The costs involved in running a bus for workers make economic sense only if the buses transport a sufficient number of productive workers, on a fixed route and without major detours. Aside from local job centres, companies involved in wide-scale recruitment also contacted the local authorities, which may have played a decisive role in the dissemination of information and the mobilization of jobseekers' social capital (Bódis, 2008).<sup>23</sup>

The coordination of public transport is a success story: in more developed regions, it is on the daily agenda of micro-regional discussions. Local job centres, local government and public transport companies all participate proactively in the process, and the latter – especially the Volán coach companies – respond swiftly to new needs.

## CONCLUSIONS AND RECOMMENDATIONS

The patchy research data discussed above indicate that local government has not played a significant role over the past two decades in expanding the opportunities for local employment. Apart from a few successful attempts in recent years, we have not seen the kind of local partnerships between employers, training and other stakeholder institutions that could generate endogenous development based on long-term strategies. Nevertheless, there have been promising initiatives that could spark progress – or at least provide lessons for policy makers in the future.

The organization of public works is a critical aspect of programme management and of inter-agency cooperation; it can trigger diverse responses even from different local authorities that have certain characteristics in common. The very modest results of public works programmes – something that runs counter to expectations – indicate that the majority of settlements do not have the capacity or the skills to manage tasks related to long-term unemployment. Research suggests that local authorities find inter-settlement cooperation burdensome; nevertheless they increasingly organize public works within some form of partnership – mainly within local government associations.

Local government also plays a decisive role in organizing social economy, which reconciles market production and human services. This can be explained by a decline in the non-governmental sector that used to be more active in this field. Experience shows that these programmes could only be sustained in a few places, and only at the price of social goals.

The project owners of the transit-employment programmes that were launched in the 1990s were non-governmental organizations, which focused

<sup>23</sup> This is due to the fact that a certain number of workers need to be enrolled from the same settlement at the same time for the bus to make a worthwhile detour. Therefore, individual jobseekers may sometimes need to get involved in recruiting peers from their village.

on micro-regional development. Transit adaptations funded by EU development schemes have been over-regulated, over-standardized and display institutional uniformity. The institutional system of these transit programmes is fragmented and lacks coordination. This can be explained by the lack of policy integration (between labour, education and economic development policies) and lack of harmonization at the regional level.

The patchy empirical data suggest that the organization of public transport timetables improved greatly in the 2000s, and that local government played an important role in this by providing essential information to the service providers. The data also suggest that the opening hours of childcare institutions have adjusted to parents' working hours. Access to local government childcare is still inflexible and haphazard. The considerable autonomy of kindergartens means that, if capacity is low, enrolment decisions are based on parents' chances of employment and willingness to work.

In local government institutions and local job centres, the coordination of moves to facilitate employment is poor, and is undertaken by several independent organizations, and hence is not clearly observable. For this reason, the collection and dissemination of good practice should take place at the right level – by and large above that of individual institutions.

Due to limits in local capacity, local government functions that support the expansion of employment should be organized at the level of micro-regions – e.g. by job centres or the new district public administration institutions. In this way the incentives for cooperation among local actors would be strengthened. In this set-up, programme and institutional management would have higher transaction costs than before. But this is the price of developing individual mentoring, improving targeting, harmonizing the quality of work in different units and influencing the impact of organizational features on programme outcomes.<sup>24</sup> This would also be in keeping with the schemes to moderate and transform local government dominance in local coordination. It would likewise support the strengthening of local partnerships between businesses, state and non-state actors and the evolution of local development agency-type institutions.

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<sup>24</sup> The National Social Policy Concept (NSZK) also encourages the strengthening of functional delivery at the micro-regional level and the support and evaluation of regionally dispersed units. The Concept recommends relying on the experiences of job centre networks (NSZK, 2011). The programme outlines a comprehensive system, whose goal is to provide balance between central state regulations (functional funding and quality control) and the decision-making rights of micro-regional units.

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### 3. THE QUALITY OF POLICY MAKING

#### 3.1. DECISION-MAKING PROCEDURES IN THE NATIONAL POLICY\*

BALÁZS VÁRADI

The aim of this chapter is to examine the decision-support and decision-making mechanisms behind employment policy over the past 20 years in Hungary. The institutions of interest conciliation were discussed in [Chapter 2.2.](#)

Twenty years is a long time in policy making, and the literature available on the decisions and decision support in Hungarian employment policy (e.g. Frey, 2002; Halmos, 2010; Tóth, 2008) is rather limited. This chapter does not attempt to fill this gap. Nor does it aim at providing a descriptive catalogue of policy, regulations and institutions of labour affairs by summarizing the extensive work of Mária Frey (2002; 2011).

Instead, it will discuss the history of decision support and decision making through some arbitrarily selected topics that have been characteristic of most of the past two decades, and whose social and economic policy impacts are still relevant today. The chapter relies on the scarce literature, some structured [interviews](#) (supplemented by a questionnaire) and [media analysis](#). Owing to these limitations, this chapter (unlike other chapters that summarize empirical findings) presents hypotheses, rather than empirically sound evidence.

#### THE THEORETICAL BACKGROUND TO POLICY DECISION MAKING

Using the methods of several disciplines (political science, economics, organizational sociology, game and information theory and psychology), various descriptive models have been developed for analysing policy decision making. The extensive literature on these is summarized by Parsons (1995) and, in Hungarian, briefly by Hajnal and Gajduschek (2010).

We are going to examine those models that are relevant to decision making in Hungarian employment policy.

The first is the classical cyclical model of policy making, the major steps of which are summarized in Table 1 below.

\* Thanks are due to Lilla Garzó, György Hajnal, Péter Galasi and Ágota Scharle for their remarks, and to András G. Szabó for compiling the media analysis. I have integrated the ideas of Zsombor Cseres-Gergely and Petra Reszkető on EU policy with their approval, and assume responsibility for any mistakes or inaccuracies.

Table 1: Actions and roles in the cyclical model of policy making

Action	Decision maker	Expert
a) Agenda-setting: identifying and defining issues*	politicians in charge and policy makers	
b) Developing policy alternatives		civil servants and/or external experts
c) Ex ante assessment of alternatives		civil servants in accordance with criteria defined by decision makers
d) Decision-making upon thorough consideration of the above	politicians in charge: minister, government or parliament	
e) Implementation		civil servants
f) Ex post evaluation of policy		experts not involved in the decision making and implementation

\* may be based on the development of the country, politics (e.g. party manifestos), institutional agendas, lobbies, external crises, the media, international trends or ideologies.

The professional approach of *new public management* (Hajnal, 2004) (which focuses on governance and rational elements) and *evidence-based policy making* (Head, 2009) (which is one of the most important policy-making approaches of recent years) fit very well into this model (especially on actions (b), (c) and (f)). This model is highlighted here because – not coincidentally – it forms the focus of introductory textbooks (e.g. Howlett et al., 2009): many experts who are not involved in decision making itself but who participate in other steps of the process consider it the only ideal form of decision support.

Several other models, which analyse policy making with more sociological and descriptive methods, may be contrasted with it. These will not be described, but some important elements of the wide range of models (see Parsons, 1995) that do not fit into the scheme of Table 1 are discussed below:

- Stakeholder interest already influences preparations for decision making. According to Lindblom (1959), policy decision making is incremental, i.e. it involves the art of taking small steps. Only small changes can be made, one at a time and after broad consultation. Lindblom warns that, if policy actions are adopted in this way, it may lead to ‘local optimums’, i.e. situations that seem ideal if one considers a small number of alternatives, but that are not optimal if one considers the full range of policies available.
- The production and processing of information also has several (e.g. temporal or psychological-cognitive) limitations.
- Institutions involved in the decision-making process are not always able to aggregate personal – albeit possibly rational – goals of individuals to obtain the public good. Political decisions are usually made by groups with members in conflict with one another.

The relationship between the policy makers, civil servants and political leaders who possess a mandate based on democratic elections is an important component in all models.

### THE SIGNIFICANCE OF POLICY DECISIONS

The details of policy decision support and decision making would hardly be interesting and relevant for the output of employment policy if different countries arrived at a similar employment situation by adopting different policy/institutional decision-support and decision-making mechanisms. However, if we compare Hungary to other Eastern European post-communist countries – which started from the same baseline and were exposed to roughly similar external economic shocks – we see that this is not the case. Whether we consider labour market participation or the proportion of long-term unemployment within unemployment generally, there are significant differences to be observed (Bajnai et al., 2009). These differences, in a group of countries with similar pre-1989 history and status in the world economy, reveal (or at least do not exclude) the fact that their different decision-making procedures may have had an impact on the indicators of employment policy.<sup>1</sup>

In the following, we will discuss to what extent and how the decision-support and decision-making procedures of Hungarian employment policy differ (if they differ at all) from the classical, cyclical model of policy making in four fields. First, the recruitment of senior civil servants will be examined, along with their own perception of their role. Secondly, we will investigate the perception of problems by decision makers and their support staff, as well as the main ideas on how to improve the labour market situation. The third topic will canvass opinions on public works; while the fourth will look at the impact of EU guidelines on policy making.

### THE ROLE OF CIVIL SERVANTS AND THEIR PERCEPTION THEREOF

The personnel who initially handled the labour portfolio during the political transition were primarily recruited from the National Planning Bureau, the National Office of Wages and Labour and the (communist) party trade union. Those of our interviewees with this last career background looked back on the pre-transition era with some nostalgia.

To start with, it is worth noting that, according to Linder (2010), the employment of civil servants under communism was usually characterized by the following:

- the politicization of public administration,
- low mobility,
- the decentralization and fragmentation of human resource (HR) policy,
- the allocation of certain HR functions to ministers, and
- a negative image of the civil service (due to its politicization) and a low salary level.

The dichotomy that is so characteristic of democracies – between the (frequently changing) elected government politicians, with their divergent political goals, and the career civil servants who are devoted to them and simultaneously to the public good – was absent from this structure. Those who participated in

<sup>1</sup> For changes in the civil service of post-communist EU Member States after EU accession, see Meyer-Sahling (2009).

this system were expected both to recognize and to serve a public good that was inseparable from the politics.

The first government after the political transition also relied on this self-confident attitude. In this period, within the budget and objectives specified, the civil servants handling the labour portfolio had considerable scope for initiative in selecting instruments, and often also in defining sub-targets (see [Chapter 2.1](#)).

In 1992, Parliament adopted a law on the status of civil servants, which included mixed provisions that were, to a large extent, based on the traditional, closed German–Austrian governance of the civil service (salary dependent on seniority, job security) (Linder, 2010).

This highly autonomous role, which included scope for political deliberations, was retained after the change of government in 1994. For example, the abolition of support for new graduates was initiated by the civil service: Finance Minister Lajos Bokros only specified that welfare benefits should be pruned. During the development of the ‘Bokros Package’, civil servants were expected to review political decisions, and it was entirely acceptable for them to argue against a planned measure by saying ‘it will be too painful’ (i.e. it will cause significant losses and therefore generate discontent) or ‘it will have poor returns’ (i.e. it will entail only minor savings in the budget and so is not worth implementing). Following the Bokros Package, under the leadership of Minister Péter Kiss, it was mainly programmes that targeted distinct groups (and potential voters) – the Roma or fresh graduates – that got the green light. Some civil servants resented this, but others appeared to go along with the political orders.

Looking back, staff working at the ministry between 1990 and 1998 say that a relatively cooperative and well-performing civil service emerged during the period (compared to other ministries).

The first Orbán government tended to be more specific in its political instructions, but the details of employment-related plans were still worked out by the ministry’s civil servants (Pesti, 2000). Nevertheless, the government considered implementation (rather than the development of alternatives) to be the main task of the civil service between 1998 and 2002.

An important change in the role of civil servants and politicians was marked by the massive increase in the minimum wage in 2001 and 2002. The exact source of the idea has proved impossible to identify, but it definitely emanated from leading government politicians and came as a complete surprise to senior civil servants. Although they accepted some of its elements (the potential to curb the shadow economy, an increase in the difference between the amount of social assistance and labour income), it was a shock to them that a decision had been taken on a labour issue without prior calculations of the possible employment effects being undertaken by the experts at the ministry (cf. [Chapter 2.2](#)).

The Orbán administration’s concept of civil servants differed from that of its predecessors, as is indicated by the fact that, in 2001, it established a 300-strong team of highly skilled (and highly paid) lead civil servants who were suited to several fields of government. The aim was to improve the quality of policy making, but the political loyalty of this elite team was felt to be suspect after the change of government, and its special status was abolished in 2007.<sup>2</sup>

<sup>2</sup> The government also planned a unified public service law, and a government commissioner was appointed to draft it; but then the plan was abandoned – probably in part because of the resistance of the civil service (Linder, 2010).

Those who had an inside view of the labour ministry during the Horn and Medgyessy government – a ministry that was split up and then re-merged – unanimously said that the quality of the personnel had deteriorated by 2006. In that period, policy packages considered important for the elections (e.g. the programme entitled ‘One Hundred Steps’) generally consisted of only minor steps and were drawn up using a top-down approach, without the usual horizontal consultation. Civil servants were only expected to work out minor regulatory details.

The scrapping in 2006 of the position of deputy state secretary is judged differently by the various actors.<sup>3</sup> According to ambitious civil servants, the professional independence of the civil service was impaired, its initiative was needed less, and the career path available to civil servants without open party allegiance became shorter. They think the change, forwarded to legislators as an explicit political wish, aimed at suppressing opposition to the unprofessional instructions of politicians. However, according to politicians who were directly involved, the deputy state secretary position had, in fact, previously also been filled by political appointees (politicians cum public servants), upon whose dismissal large sums in severance pay would have to be paid. According to them, the reform brought the written law closer in line with the reality of the situation.

Our interviewees stated unanimously that, once the Western European study tours that were conducted during the political transition and consultation with visiting international experts were over, no statistical, methodological or economic in-house training was held either for labour affairs politicians (who often had a completely different background, cf. [Chapter 2.1](#)) or for decision-support civil servants. This did not necessarily prevent those civil servants willing to engage in self-education from understanding aggregated time series or comparison tables, but it probably did hamper the preparation of analyses based on micro-level data, which required labour economics and econometric studies (for more detail, see [Chapters 3.2](#) and [3.3](#)).

The problem of providing decision-support calculations may have had something to do with the above deficiency. Although the ministry’s civil servants tried to obtain accurate, up-to-date and detailed data, and occasionally commissioned surveys on relevant, long-term issues (e.g. an ex-post impact assessment of the minimum wage increase), usually they themselves – by their own admission – ‘cobbled together’ the figures included in proposals submitted to the government. It is important to note, especially in the case of active policies, that in the course of decision support no behavioural effects modifying the supply of and demand for labour were taken into account (except for in the field of pensions).

Over the past 20 years, the boundary between the civil service and politicians in the decision-support procedures has gradually shifted towards the politicians: the civil service has increasingly become a mere implementer. A confident late-Kádarian civil service<sup>4</sup> (which considered itself to be professional) participated in employment-policy decision support, with considerable autonomy and influence, during the Antall, Boross and Horn administrations after the transition.<sup>5</sup> During the first Orbán government, however, this role was restricted to codifying and implementing (increasingly impatient) political

3 While deputy state secretaries used to be departmental appointees, the new ‘special secretary of state’ position was expressly political. Previously there had been a political and an administrative state secretary reporting to a minister, as well as deputy state secretaries in charge of sub-sectors, who reported to the administrative state secretary. In the new system, each portfolio had one state secretary and several ‘special secretaries of state’ reporting to them, all appointed by the prime minister.

4 For a background to this, see for example Szalai (2005).

5 The first two governments after the political transition were fairly dependent on this civil service.

orders. Nor was this tendency reversed after the change of government in 2002; indeed it was pushed even further by the 2006 conversion of the deputy state secretary position into a political post. This resulted in a more successful realization of the political will of the government, on the one hand, but also in the demoralization of the civil service and its gradual exclusion from decision support, which damaged the quality of the decisions taken.<sup>6</sup>

## OPINIONS ON THE LOW ACTIVITY RATE

One of the most important questions – if not *the* most important question – of employment policy in the past two decades has been why it took so long for politicians to realize that the permanently low employment level (see [Chapters 1.1](#) and [2.1](#)) is one of the key strategic challenges for Hungarian economic policy. It is a problem that will not sort itself out and that can only be solved by the coordinated modification of labour supply and labour demand incentives, as well as of the whole system of employment policy. It should have been the task of civil servants providing employment-policy decision support to make government politicians aware of this.

Media analysis clearly reveals a slow process of journalists coming to realize the significance of the problem. In the turbulent spring of 1990, employment hardly figured in the media, and even the language that allowed it to be spoken about it in the context of the market economy had yet to evolve. The strike law was adopted by Parliament after large-scale social and political consultation in 1989. In the same year, the Labour Code was amended to fit the system of private property (Halmos, 2010). However, journalists were left in the dark about emerging employment relations. According to the daily newspaper *Népszabadság*, only “self-financing” jobs were worth supporting, other people losing their jobs should be retrained and the unemployed deserved decent benefits. According to the weekly magazine *HVG*, people should be helped to take up employment through relocation assistance. By the autumn of 1990, changes in the labour market had made progress: the press was explaining that the level of employment was dependent on investment, and increasing unemployment was tackled by early retirement.

In 1994, on the eve of the elections, the press was already discussing the fact that high unemployment was perceived as a structural problem. Incoming foreign investment to stimulate job creation was considered a positive notion by the conservative press, too. The specialist press was also interested in the more detailed structure of the employment situation: highly qualified workers were less likely to become unemployed, parental leave benefits encouraged absence from the labour market, and neither early retirement nor (forced) self-employment were real solutions.

By 1998 the media still believed that economic growth would increase employment (albeit not automatically). This was the first time that the idea had appeared in the press that increasing taxes on labour (this time the healthcare contribution) may depress employment.

In the spring of 2002, *Népszabadság* presented the following employment-related issues: 1. incoming foreign investment improves employment; 2. a high minimum wage may reduce employment; 3. unemployment is higher among

6 According to Meyer-Sahling (2009), Hungary was one of the new Member States that joined in 2004 where, in some respects, the post-2004 shift (in compliance with EU norms) towards a Western European, autonomous civil service has been reversed.

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the Roma (who are also less qualified), but allowing them to obtain a secondary school leaving qualification may be a solution; 4. the active population may at the same time reduce the number of those employed and those unemployed, e.g. disability pension may provide an alternative to unemployment; 5. it is more expedient for municipalities to employ people in public works schemes than to provide benefits. According to the daily *Magyar Nemzet*, taxes on labour hindered any increase in employment, while the aim of employment projects was partly to improve the chances of the Roma minority.

By the autumn of 2006, *Népszabadság* was less convinced about part-time employment than it had been before (it did not support the employment of older workers), and it also discussed the way in which the expansion of the road network might contribute to increased employment. The story resurfaced that tax relief may boost employment. The press was already aware that improving productivity does not necessarily entail an increase in employment, and that lack of qualifications hampers an improvement of the employment situation. Nevertheless, a specialist politician belonging to the governing party announced that it was impossible for the government to counteract unemployment (i.e. not low employment) directly.

*Magyar Nemzet* was still hopeful about part-time jobs and teleworking: it hoped that Hungarian enterprises would expand and was aware of the impact of the quality of education and healthcare on the employment situation. It also stated that economic growth stemming from an increase in productivity does not necessarily boost employment.

It was around 2006 that *HVG* covered employment most frequently. In addition to earlier opinions, it had the following new ones: the reasons for low employment included the expanded welfare systems, high taxes and contributions levied on labour, an insufficiently liberalized labour market, and a high minimum wage. It also revealed that unemployment was lower along motorways and that the number of the unemployed may be related to the size of benefits. Multi-generational unemployment was presented as a serious problem.

In the autumn of 2006, the topic of employment lost ground to other issues in *HVG* and *Népszabadság*; however, *Magyar Nemzet* mentioned again that reducing taxes on labour may lead to an increase in employment, and for the first time it considered that the relationship between growth and employment may work in the opposite direction: increasing employment may be the basis for long-term economic growth.

Obviously, the issue of employment gradually moved higher up the political agenda: in 1990 the focus was on fear of the future; then, for a long time, it was expected that economic growth would alleviate employment problems; only by 2006 had it become clear that employment was stuck at a low level for structural reasons (an opinion present in the literature since 1994).

It seems the media had woken up slowly; but was the government ministry in charge of the issue any faster? Alas no. This may have been due to the (otherwise understandable) strategy, by which the main task for the portfolio at the start of the transition was to tackle steeply rising unemployment, largely by removing people from the labour market (see [Chapter 1.1](#)). Politicians and civil servants thought that the approximately 1 million (generally older or less well qualified) people leaving the labour market would never have a job again,

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and therefore the state had to provide for their subsistence through social means. To achieve this, sometimes even inertia was enough: for example, for allowing many out-of-work people to be declared disabled it was enough not to tighten regulations – since the increase of the number of people on disability benefit would only have been prevented by more stringent regulations. At the time, job retention or labour demand stimulation through wage support (measures perceived as excessive intervention in the functioning of the market) would not have been well received by the typically (economically) liberal public opinion.

For quite a long time, even as late as in 2002–05, the unemployment rate was the most important indicator for the ministry; only after 2005 did civil servants realize that the employment rate is also of importance.<sup>7</sup> The number of unemployed was not only important because it was used by the press to gauge the efficiency of the minister, but also because unemployment is, in general, more closely related to the unpopularity of a government than is inactivity: those who are not looking for a job accept their lot and thus do not blame the government as much as those who are looking for a job unsuccessfully.

The employment section of the Bokros Package (except for the ensuing large decrease in real wages) contained more stringent measures, already planned by the ministry in charge – corrections also deemed necessary by the civil servants, based on the experience of the first years.<sup>8</sup> However, they principally aimed at making economies rather than boosting employment. Even the government manifesto of 1998 expected economic growth to improve the employment situation.

Until 2002, there was no sign that the ministry regarded the employment situation as a reason, rather than as a symptom and a key challenge requiring a complex, coordinated policy response. Some of our interviewees believe it was between 2002 and 2006 that the civil servants handling the portfolio started to ponder increasing employment in addition to reducing unemployment. A lead politician recalls having taken account of both indicators from 2004. Nevertheless, employment policy between 2002 and 2006 remained a mosaic of several separately introduced measures (rather than integrated in a comprehensive strategy), some of them only aimed at improving election prospects. Interviewees expressed their disappointment several times about the *ad hoc* approach to employment policy: while it focused on developing, fine-tuning, cutting back or abolishing a measure, it did not pay enough attention to the whole of the system.

Policy decision support was nothing more than deliberating (albeit often important) details, and the civil servants could not get politicians to put the main strategic issue – the low employment level – on the agenda.

It would be unjust to blame the civil servants exclusively for the above, since the Hungarian Parliament of the day never had a proper debate on the proposals of the government, least of all during the discussion of the budget. As the Hungarian system is institution-centred, baseline budgeting (Marczell and Romhányi, 2010), the goal of senior officials is to protect their own institutions and ensure their own finances. By a curious paradox, the government prepares Programmes for Government that contain more or less specific objectives, and then Parliament discusses the budget, in which there are

7 According to one of our interviewees, it was partly because senior ministry officials did not have up-to-date employment data. However, this is not supported by the findings of [Chapter 3.2](#).

8 Two overgenerous benefits were abolished: the benefit for jobless fresh graduates and early retirement.

unclear relationships between the objectives and the several thousand billion Forints set aside for the largest items. Similarly, progress in implementing the government's explicit (and hidden) programme is not debated, and nor are the further measures necessary.

## PUBLIC WORKS AS A SOLUTION

One of the paradoxes of Hungarian employment policy is that, while the relevant literature (see [Chapter 5.2](#)) considers public works (and especially large-scale public works) to be one of the least efficient active labour market policies, in Hungary its volume had increased dramatically by 2009–10.

According to media analysis, acceptance of this solution by the general public has increased gradually over the past two decades. Readers of *Magyar Nemzet* were already informed in 1994 that, for municipalities, it may be more worthwhile to organize public works than to pay benefits. The opinion that non-market employment programmes (public works, social welfare employment) may encourage the unemployed to become self-sustaining was also expressed here. In 1998, the left-wing media (*Népszabadság*) also shared the view that, in disadvantaged micro-regions, public works schemes were the only employment opportunity. In the autumn of 1998, after the elections, *Magyar Nemzet* thought that public works could help marginalized groups to reintegrate back into society. In the autumn of 2002, *Népszabadság* articulated even stronger views: the government was responsible for increasing employment and reducing unemployment; the disabled should be offered social welfare employment; and state-supported employment was able to reintegrate the unemployed into the labour market. The press still hoped in 2006 that public works schemes would be capable of remedying unemployment.

In the meantime, public works schemes were obviously attractive to governments: they provided popular solutions, as opposed to unpopular benefits, and mayors also liked them. Back in 2000 this may have been the reason for introducing public works organized by municipalities (which at the time was opposed by the Socialist Party).

Prime Minister Ferenc Gyurcsány realized the political necessity of such a programme from 2007, but he failed to get a feasible policy proposal from his minister, Mónika Lamperth. Considering the opposition to large public works schemes on the part of civil servants in the ministry, it is possible that the launch of a programme was delayed by resistance in the ministry. Then Erika Szűcs was appointed by the prime minister, and she did implement the plan.

This case reveals a lot about employment-policy decision making. The policy-based opposition of the portfolio's experts was enough for some obstruction, but it was not enough (especially not in the late 1990s and late 2000s) to persuade politicians to inform the public or to ensure that the government did not select an inefficient policy instrument to achieve its political goals.

## THE IMPACT OF EU GUIDELINES ON HUNGARIAN EMPLOYMENT POLICY

Policy making was influenced by the EU accession – right from the start of the negotiations leading to accession,<sup>9</sup> and then, after 2004, by EU membership

<sup>9</sup> EU accession already had an effect on policy making before it took place, e.g. the Public Employment Service was modernized in a PHARE twinning programme. The EU wanted to ensure that this priority institution was adequately reformed, or was at least approaching that state, by the time of the accession. Therefore it not only aimed at modernizing it, but also commissioned experienced experts to elaborate the objectives to be achieved. The issue is discussed in detail in [Chapters 6.1](#) and [6.2](#).

itself. There were influences from two sources: on the one hand from adjustment to the policy-making cycle of the EU (and consequent tasks), and on the other hand from changes that came with use being made of the Structural Funds.

Policy making in the European Union relies clearly on the classic cyclical model of policy making. When Hungary became a candidate country, it became subject to the European Employment Strategy, the Lisbon Strategy, and the related Employment Guidelines, and then to the integrated guidelines from 2005. Based on this, the country had to prepare National Action Plans (meeting EU-level objectives and then, later on, including national targets) between 1989 and 2004, and National Reform Programmes for the periods of 2005–08 and 2008–10, with convergence programmes that contained employment policy chapters. Experts from the European Commission consult governments before they submit these documents, and then the experts of the Directorates evaluate the final documents.

A similar document, prepared and evaluated in a similar context, was the annual Implementation Report, which described the fulfilment of the objectives undertaken in the National Reform Programmes. On the basis of this, country-specific recommendations are drafted. It is a requirement for Member States to follow the country-specific recommendations, but non-fulfilment does not entail sanctions – only reprimand.

In the course of the coordination, several question and answer cycles take place. These review the objectives of economic and employment policies annually. The logic is different from the institution-centred, baseline budgeting of Hungary: the EU coordination documents focus on objectives, and their arguments are generally evidence based.

This policy cycle could have a direct impact on the domestic, governmental decision-support and decision-making process, as it requires the preparation of several policy documents that the government would not otherwise prepare (or would prepare significantly later or in a different way). The frequent delays between, and the different content of, documents addressed to the EU and to the Hungarian public suggest that the two processes are not in harmony. The documents prepared for the Commission often reveal their fragmented preparation and implementation.

EU accession necessitated adjustment of the system of employment policy measures to EU regulations. That would have been a good opportunity for comprehensive reform. If there had been political will, as well as civil service capacity and intention, it would have been possible to introduce a simplified, more purposeful and efficient system of employment policies. The chance was missed.

The administration of the Structural Funds requires extremely stringent and detailed financial and content planning. The programmes financed from the Structural Funds have more visibility than those implemented from national funding. The use of Structural Funds is governed by pre-defined, formal framework regulations. Therefore strategic and operational documents are needed to align the content, implementation and funding of the projects and to divide implementation into technical stages. Hungarian government measures are usually not that well prepared or well implemented.

The macro-level convergence and reform programmes translate into Operational Programmes and action plans for distributing hundreds of billions of Forints from the Cohesion Funds.

The transparency of employment policy measures funded from the Structural Funds is also important because in the case of interventions financed from national sources (the Labour Market Fund) there is little documentation published and their evaluation is also insufficient (cf. [Chapter 5.2](#)). Since significant programmes were entirely funded from the Human Resources Development Operational Programme (HEFOP) and the Social Renewal Operational Programme, these have become much more transparent. As opposed to nationally funded projects, those financed from EU grants have obligatory indicators – ideally output, outcome and impact indicators. Non-fulfilment places the beneficiary in an exceedingly difficult financial situation; therefore such indicators are defined carefully. Their mere existence represents great progress in an environment where neither the preparation nor the implementation of policy measures is as detailed as is required under Structural Fund regulation. In addition to monitoring the achievement of indicators, the government agency in charge (typically the National Development Agency) may also decide – and has often decided – to commission a professional programme evaluation (e.g. of the HEFOP 2.1 programme for the modernization of the Public Employment Service). Such evaluations are rarely organized for interventions financed exclusively from national resources (cf. [Chapter 3.2](#)).

After 2004, because of EU requirements, policy makers were under pressure to systematize and provide information. Anyone who wishes to implement policy measures with the assistance of funding from such sources cannot avoid thinking structurally (or at least giving that impression). This also has a disciplinary effect on politicians: they have to be aware that (at least some of) their measures are known to the public early on. This is very different from nationally funded and pre-accession measures.<sup>10</sup>

## CONCLUSIONS

If we try to apply the cyclical policy model of Table 1 to the processes presented above, the Hungarian practice of identifying and defining issues (influenced by the media and external factors) more or less fits the first step of the model. However, the second step – of developing policy alternatives (by civil servants or experts) – is not characteristic of Hungarian reality.

At the beginning of the reference period, the self-confident civil servants (who had gained experience in public administration in the 1980s) provided full-fledged solutions rather than alternatives; by the end of the period under consideration, civil servants had hardly any influence on developing solutions and measures.

*Ex ante* evaluations are even less frequent, perhaps because politicians define policy instruments (e.g. public works schemes) without defining social, economic and political objectives first; or perhaps because everything is done in haste and there is never any time; or perhaps civil servants do not have the experience and autonomy to undertake *ex ante* assessments.

<sup>10</sup> As an unfortunate side effect, due to the special governance structure, technical supervision during implementation may conflict with maintaining the absorption capacity (i.e. spending the funds), which is not always resolved.

Decisions about the public works schemes were not taken after consideration of evidence-based alternatives: they were based on political considerations outside the scope of employment policy. Even though the EU would obviously like Hungary to adopt the model described above, employment policy is not based on it. Among the policy factors described at the beginning of the chapter, the influence of vested interests is not characteristic of the aspects of employment policy examined.

However, incrementalism is a strong feature of the sector: policy makers focus on individual measures, changes, side effects or political instructions, while the whole sector is stuck in a sub-optimal state (low employment level), which, as we can see from other post-communist countries, could have been avoided. In addition, we cannot rule out (although it is not verified either) that information and other cognitive biases (e.g. their work history in the 1980s or their lack of training in evaluation methodology and labour economics) may have had an impact on policy making.

And finally, apparently the expertise of civil servants and the institutions that contribute to political decisions are not integrated in an evidence-based strategic structure of the policy cycle, but operate within a public administration and political framework that is not quite suited to strategy development, implementation and organizational learning.

This chapter offers no recommendations, as the addressees of policy recommendations, i.e. the proposers of decisions and decision makers are the very subject of this chapter.

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### 3. THE QUALITY OF POLICY MAKING

#### 3.2. THE INFORMATION BASE OF POLICY MAKING, IMPACT ASSESSMENT

ZSOMBOR CSERES-GERGELY AND PÉTER GALASI



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This chapter examines the information that has been available over the past two decades to those decision makers who plan and implement employment policy measures. It also covers, albeit with severe limitations, how decision makers have or have not used the information available.

In general, the impact of information bases and impact evaluations on labour market policies and on the labour market itself is difficult to ascertain. Due to the lack of an adequate control group, the usual causality analysis is of no use for the large-scale programmes of national labour markets. There is no international experience in this field, because the effects of improvement in an information base are usually unmeasured. International good practice, by making use of various (output, result, etc.) labour market success indicators, might justify the given policy, ex-post ; however, there have been no efforts to distinguish between the impacts of various factors. More simple institutional questions – such as the impact of the method of evaluation on the evaluation results – have only recently come to be researched, for example by Card et al. (2010).

On the assumption that, when it comes to information, more is better than less, the type, amount, accessibility and cost of the information available are examined in what follows; the significant difficulties detailed in [Chapter 3.1](#) are not covered in this chapter. The policy process has been analysed from two perspectives: only those organizations that have participated in the process of policy making through well-defined institutions (e.g. unemployment benefits) have been taken into account; and only issues pertaining to policy making have been considered – other elements of the process have been disregarded. We collected data from the appropriate ministry and from the Public Employment Service on direct and indirect information sources; these we sorted into two categories. The first category included collections of data used by the organizations: these data provide inputs for analysis and supply information on simple processes. The data cover statistical services and other, state-owned institutions such as the Public Employment Service and the National Development Agency (as well as their predecessors and successors). The second category includes analyses and studies prepared using external and internal resources that are sometimes used to support decisions; it also includes the intellectual resources suited to producing such studies.

## USE OF DATA AND POLICY MAKING IN HUNGARY

The conditions leading to a more efficient, evidence-based policy making have improved in the past two decades. Information sources have expanded, access to information has improved, and opportunities for analysis have increased thanks to developments in information technology. In addition, human resources have developed to enable the exploitation of these advantages. Whereas in the early 1990s it was not feasible to analyse individual data (e.g. follow the individual history of unemployed people) using a computer, by the late 1990s this had become possible, and by the start of the 2000s it had become established routine. Similarly, professionals with a degree or PhD obtained abroad who were able to use modern, internationally accepted tools (and to interpret the information produced with those tools) started to enter the Hungarian labour market in the 2000s.<sup>1</sup> The fact that, in the more advanced Western European countries and the United States (regarded as role models by Hungarian policy makers), research into the effects of labour market programmes and analysis of the effectiveness of employment services gradually gained ground from the 1980s also opened up opportunities for evidence-based policy making (see [Chapter 5.2](#)).

The development of information sources and economics/econometrics usually generated policy changes in more advanced countries. For example, in Ireland, Great Britain and Sweden, institutions with significant human resources and budgets were established to produce policy impact evaluations.<sup>2</sup> These bodies regularly evaluate the effectiveness of the latest labour market programmes and income maintenance and training programmes generally, making maximum use of available data sources and methodological tools. A good example of the support provided to policy making by information is the British “Pathways to Work” programme, based on the principle of „better regulation” – elaborated at the end of the '90s – stressing the importance of a thorough analysis of problems, applying tools that emerged from the theory and practice of situation analysis and adjusting them as required (Scharle, 2007). Analysis was considered important right from the launch of the programme. Conscious of the need for control groups to ensure comparison, the developers of the programme rolled it out gradually, first in just a few job centres: five years after its launch, the programme was available in 40 per cent of job centres. The reason for the apparent delay was the evaluation itself: by 2007, some 11 assessments had been produced. The findings of these were used for the continuous fine-tuning and adjustment of the programme.

There are significant differences in the information support for policy within Europe, and the European Union tries to tackle this by disseminating whatever knowledge is available. The collection of [manuals of Evalsed](#), which supports the evaluation of socio-economic processes contains information on both methodology and best practice. The former includes methods and techniques to measure the impact of programmes (from ‘soft’ indicators to econometric methods). The latter includes, among other things, efforts to build capacity to analyse the [effectiveness of programmes](#), and cites Dutch, Irish and Italian examples. The manuals also cover best practice from post-communist countries.<sup>3</sup>

1 It is important because Hungarian higher education does not produce sufficient numbers of professionals who are well versed in the theory, methodology and political-economic background relevant for policy making.

2 Such institutions include [ESRI](#) (Economic and Social Research Institute) in Ireland, the [IFS](#) (Institute for Fiscal Studies) and the [Warwick IER](#) (Institute for Employment Research) in the United Kingdom, as well as the [IFAU](#) (Institute for Evaluation of Labour Market and Education Policy) in Sweden.

3 E.g. a Polish study analyses the impacts of cohesion policy on the level of employment and quality, relying on a wide range of econometric tools (Dębowski et al., 2010).

International good practice would have provided examples for Hungary to follow (and did so in a few isolated cases) in basing its policy decisions on reliable evidence. However, the opportunity was inadequately utilized. Whereas the Hungarian employment service improved considerably, policy making and the use of information bases to measure the impact of programmes did not perform well. This was partly because the expertise of the civil service did not improve sufficiently. Neither the Employment Service nor the relevant ministry built up advanced analysis capacity: assessments were made by a handful of staff in the ministry. Leaving aside the limited number of the analysts involved, their methods also left something to be desired: the assessments were restricted to determining the size of various population groups affected by the given policy and calculating simple averages to describe their characteristics. They did not attempt to include more refined indicators to describe the behaviour of employees and employers. However, the lack of interest evinced by top politicians (and the fact that other stakeholders – e.g. trade unions – were either ignorant of the situation or found their attention deflected onto other issues) meant there was no pressure to improve. Consequently, the available information sources could only be used (and sometimes were used) professionally by involving external contractors. Although researchers in various fields were now and then commissioned to undertake small tasks, policy makers did not regularly rely on external analysis in their decisions. As a result, they did not even use individual-level data to assess the impact of their (often far-reaching) decisions.

We are not aware of any permanent staff at the Research Institute for Labour (and its forerunners), at the National Employment Office,<sup>4</sup> or in the relevant government departments who are skilled in up-to-date econometric analysis methods and who can use these to undertake studies prepared for policy making or for academic publication.

In order to highlight the losses that accrue from the non-exploitation of the available data, we must briefly outline the key importance of these data. In general, the process in which this information is so vital involves measuring the impact of policy programmes, the details of which are described by Kézdi (2004) and in [Chapter 5.2](#) of this study.

Such impact evaluation seeks to provide answers to three types of question: 1. Was the programme adequately targeted, i.e. did it reach the people who really needed it?; 2. Did it have the right impact, i.e. did the lives of the participants change for the better (and if so, to what extent) because they participated in the programme?; 3. Did it have any unintended by-product; if so, to what extent? These questions can only be answered by analysing individual-level data and by using statistical-econometric tools. Expertise is required to use these tools and to handle all the potential methodological problems. Obviously not all problems fit into this framework perfectly, because the analysis of complex past behaviour, micro-simulation and forecasting are not the same as impact evaluation, and they do not meet the criteria of impact evaluation. But the methods applied are *similar* to those of impact evaluation of programmes, since they seek to discover functional and causality mechanisms, and require similar types of data and methodology.

4 The name of the authority supervising the activities of the Public Employment Service changed frequently in the reference period; therefore it is always mentioned as the National Employment Office (its current name) for the sake of clarity.

The process may be presented through the following example. Wage subsidy and labour cost subsidy are important elements of active labour market policies and have long been used. In order to assess their effectiveness, the individual data of the beneficiaries are needed. The relevant raw data indicate that a significant proportion of participants were still in employment three months after the end of the support period. This proportion is higher than is typical for other active policies. For example, in the first half of 2010, the raw share of participants (successfully completing the wage subsidy and labour cost subsidy programme) who were in employment was 93 per cent and 86 per cent respectively (Tajti, 2010: 8), which seems very effective. However, if we also have data on the individuals involved, it is possible to examine their individual characteristics and work histories, as well as their ensuing career. In this case, it turns out that far from being positive, the impact of the programme is negative, i.e. the seemingly positive effect is due not to the efficiency of the programme, but to the special composition of the participants (see O'Leary, 1998 using earlier data for the same programme). The policy conclusion is that the programme should be terminated (or significantly amended) and, above all, better targeted.

One might question why this situation arose. Why did policy makers not rely more on the processed and raw data available to stop evidently ineffective interventions and to launch others? Lack of information was not the cause, since our interviews clearly revealed that – at least in some of the organizations – expertise on information sources and methods was available.

Was it because of financial reasons? A simple calculation may be in order. Having a small analysis unit involves annual salary costs of, say, HUF 60 million (at 2012 prices), plus negligible other costs.<sup>5</sup> This is insignificant when set against the HUF 341 billion budget of the National Employment Fund for 2012; to recover the costs, the analyses carried out would be required to save just five-thousandths of the budget of the Fund. The lack of interest cannot be explained by financial reasons.

The most probable explanation, suggested by [Chapter 2.1](#), is that the problem is political in nature. The employment agency was never strong enough to make long-term plans and strategies; however, there were always political considerations that defined the directions that were deemed 'correct' in the absence of thorough analysis of a problem. As a result, mid-level officials could not convince their superiors of the importance of such analyses, and thus could not allocate sufficient resources to establish or involve analysis and research capacities. Furthermore, even if there is the occasional achievement, if it is not utilized then those middle-ranking officials lose their motivation to undertake or commission regular impact evaluations. The interviews we conducted revealed that, even though the ministry departments relied on outdated techniques, they still produced more diverse (and more) data than were required by top-level officials.

## INDIVIDUAL AND CORPORATE SURVEYS

Micro-level data on individuals and businesses have a double benefit. On the one hand, aggregate data on the complete population can only be computed on the

<sup>5</sup> Assuming that five experienced and five fresh graduate analysts with an appropriate background (at a monthly gross salary of HUF 500,000 and HUF 250,000, respectively) are able to carry out thorough research in the total scope of employment policy.

basis of individual data. On the other hand, the results of economic processes and the impacts of policy interventions can (with rare exceptions) only be examined by relying on micro-level information. This is primarily because the observed impacts are due to several factors – spatial and temporal information that can only be interpreted and handled at the level of individuals (persons, households, businesses). Equally important is the fact that it is only possible to account for the impact of human adaptation if such detailed information is available. If it is not undertaken, no analysis can differentiate between the impact of the intervention, independent processes and human adaptation.

The regular and careful implementation of large-scale surveys of individual data is costly, and it is not easy to use the information produced. Partly because of this, most of the micro-level, labour market-related information is collected by two organizations – the Central Statistical Office and the National Employment Office. Rare exceptions to this are the individual-level household surveys undertaken by the social research institute TÁRKI in the 1990s and 2000s, which were funded by government agencies. In general, the findings of individual-level surveys may be used in themselves; but if the permission of the individuals involved is gained during the survey, they may also be linked to other data sources.

*Wage Survey.* Before the establishment of the Public Employment Service, there was only one important internal information base (which is still in use). This is the Wage Survey (conducted in 1986, 1989, and then annually since 1992), from which the most important data on wages can be obtained; it is also used at the tripartite negotiations and in the course of collective bargaining. One of the important characteristics of this survey is that it provides individual-level data on the wages of employees in the businesses included in the sample, along with information specific to the individuals and the businesses involved. The sample covers all company types except the smallest (those with less than 20, more recently, less than 10 employees), and altogether annually 150–200 thousand people. This survey – either on its own or in conjunction with other (anonymous) data – is suitable for impact evaluations, such as the assessment undertaken after the increase in the minimum wage in 2001–02, or a potential assessment of the impact of changes in wages or contributions on the demand for labour.

*Labour Force Survey.* The other notable external information base is the Labour Force Survey conducted by the Central Statistical Office (CSO LFS, quarterly since the first quarter of 1992), which is the source of the major officially published employment and unemployment figures. The unit of observation is the individual, but the data of persons living in the same household may be analysed together. Within limits, it is also suitable for panel analysis, as the same households are included in the sample for six consecutive quarters (CSO, 2006). It is suitable for impact analysis in itself.

*Household Budget Survey.* The Central Statistical Office has been organizing household budget surveys for over 50 years (CSO HBS). These have sometimes been carried out annually, and sometimes every two years, and include the data of about 10,000 households (thus 25,000 persons). The structure was finalized after 1993. Since then, as with the Labour Force Survey, it has been a rotating panel: one third of the sample is replaced every three years.

The unit of observation of the survey is the individual, but it contains data on both individuals and households. The aim of the survey is to assess the pecuniary and in-kind income and expenditure of the population. There is less labour market-related information, but it does give a detailed picture of various incomes (CSO, 1997). It is also suitable for the preparation of impact evaluations, e.g. on the impact of changes to the tax system on consumption and the labour market position.

*Household Panel Survey.* The household panel survey of TÁRKI Social Research Institute, carried out annually in the 1990s, contains the most important socio-demographic, labour market and income characteristics of individuals and households for the period 1992–97. This was later replaced by Household Monitor, with a set of variables that were very similar to those of the panel, and with cross-section samples. These surveys were organized first annually (1999, 2000, 2001) and then every two years (2003, 2005). After 2005 it was discontinued (TÁRKI, 2010), which is unfortunate, because this survey was more reliable in terms of income data than the Household Budget Survey of the Central Statistical Office (cf. Kézdi, 1998).

The labour government made attempts to assess labour market processes – especially the reintegration of the unemployed into the labour market – quite early on, at the beginning of the 1990s. The regular data collection and data provision for this purpose started with the establishment of procedures to monitor active measures and the introduction of short-term labour market forecasts.

*Active Measures Monitoring.* Assessment of the effectiveness of active measures is an important policy tool that helps to develop adequate labour market programmes and to identify target groups. The monitoring of active measures was established in 1994 by the National Employment Service, following considerable organizational development and with support from the World Bank. Essentially, the labour market status of people involved in active measures is recorded on the basis of a questionnaire, three months after they exit the programme. The questionnaire is received by the participant or, in the case of wage-subsidy programmes, by the employer. The chief output indicator is to find normal market employment (or, in the case of wage-subsidy programmes, continued employment by the employer). Results are regularly published by the **Employment Service**. However, information obtained from the monitoring of active measures is problematic for several reasons. First, there is no control group (participating, dropping out or exiting the programme while still unemployed), and therefore the impact of the measures cannot be measured properly. Secondly, the bias from self-selection and refusal to answer is not handled. And thirdly, only the raw employment rate after the programme is published, which does not even provide an accurate estimate of the short-term impact of programmes. There were efforts to modernize the system of monitoring active measures, in a project undertaken by the Human Resources Development Operational Programme, entitled HEFOP 1.2, between 2004 and 2008. A recommendation was drafted to rectify the estimation and impact evaluation problems mentioned above (Nagy, 2006a,b), and similar proposals were drafted by a study that evaluated the HEFOP 1.2 programme (BCE EET, 2008). Adjustment of the monitoring system started after 2009, and today

it is solely based on administrative data on the progress of individuals; this will be described in detail below. Further development of the programme is envisaged within the framework of TÁMOP 1.3.1 of the Social Renewal Operational Programme.

*Short-term labour market forecasts.* This information base, which covers the actual demand for various occupations, may be an important instrument to facilitate the flexible and rapid adjustment of employment policy. Such surveys, based on company interviews, began in the mid-1990s and have continued since. Currently the forecasts are prepared annually by the Institute for Economic and Enterprise Research, using a one-year horizon. The data for the forecasts for the period 2004–11 are available on the [website of the Employment Service](#).

*Mid- and long-term labour market forecasts.* Initiated by the ministry of labour, the 15-year forecast of labour market demand and supply was prepared in the mid-1990s with the support of the World Bank (1995–2010); it was based on aggregate data (Ministry of Labour, 1996). The objective of the forecast was to predict the volume and structure of the demand and supply in terms of gender, age, qualifications, fields of study and occupations, and in this way to support the development of education and employment strategies. At the end of the project, the working group was dissolved. The project was not repeated and the findings do not seem to have been utilized. The next forecasting project started about ten years later, under the HEFOP 1.2 programme, and partly relied on aggregate data. The findings were presented at a conference, were published, and some of them are available on the internet ([Labour market research, 2008](#)). After the closure of the HEFOP 1.2 programme, the working group was dissolved, the project was not repeated, and we have no information on whether the findings were utilized. A similar project was launched in 2009 under TÁMOP 2.3.2; its findings are expected at the beginning of 2013. The aim is again to forecast the structure of the labour market for a period of five and ten years. This time the project relies on economic models and the individual data mentioned above.

### INDIVIDUAL DATABASES SUPPORTING GOVERNMENT ADMINISTRATION

Besides the Wage Survey, the internal information base of the employment sector, including the Employment Service at the beginning of the period under consideration, consisted of information obtained from registration activities related to unemployed people and the administration of unemployment benefits; the data were totalized in the regional/county job centres and the National Employment Office, and revealed all the characteristics of the unemployed that could be revealed by statistical methods at these various stages of aggregation.

*Ad hoc data collection and supplementary surveys.* The aggregate data used by the National Employment Office were derived from individual data collected daily to aid in the administration and disbursement of unemployment benefits. The routine nationwide collation of these primary data was rather difficult, not least because of the heterogeneous IT context within which the recording took place. However, the difficulties were overcome on several occasions, as

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is evidenced by the findings of academic research (e.g. Galasi and Nagy, 1999) and some impact evaluations.

*Integrated IT system.* The individual data of registered jobseekers held by job centres have been compiled in an integrated IT system (IIS) since the late 2000s. Work on the IIS began under the PHARE programme, and the unified, integrated IT system (which supports both administration and analysis) was implemented under the HEFOP 1.2 programme. The system records the data of clients required for administration and allows the registered unemployed to be tracked within the institution. Thus it creates the conditions necessary for programme impact evaluation with a control group of registered unemployed. Research projects analysing the employment effects of the HEFOP 1.2 modernization programme (Cseres-Gergely and Scharle, 2010) and the placement activities and labour market services of the Employment Service (Berde, 2010) relied on the IIS.

*The Hungarian Unified Labour Database (Egységes Magyar Munkaügyi Adatbázis, EMMA).* This unified IT system holding the central registration data of employees was launched in 2003. Originally the plan was to link it to other administrative databases, but nothing came of that. In principle, the database is suitable for the evaluation of labour market measures – a move that would revolutionize the information system of employment policy. However, in January 2007 EMMA was overtaken by the Tax Authority's system, and since then the National Employment Office has been able to obtain labour market information from that database (within certain limits).

*Other administrative databases.* Just as the Household Budget Survey of the Central Statistical Office provides important supplementary information, in addition to the information from the Labour Force Survey and the Wage Survey, so other administrative databases within the public administration system may provide important information for the formulation of employment policy. Although EMMA is not operating as was originally envisaged and does not serve its original purpose, Act CI of 2007 on the accessibility of information required for decision support allows the government to request the anonymization of any administrative database for government decision-support purposes and to use up to 50 per cent of the data held for the purposes of analysis. In this respect, since 2007 employment policy has been able to make use of large databases covering the entire population, such as the database of the National Tax and Customs Administration on income tax and corporate income tax, the database of the Central Administration of National Pension Insurance on determining and disbursing pensions, and the database of the National Health Care Fund (OEP) on use of healthcare services. These provide valuable information – even when anonymized – on the relationships between employment, wages, health, pension claims and employment history. Not only do they provide information on a large number of individuals, but they do so continuously, and in this way the dynamics of behaviour may also be examined. However, unlike the population surveys which use much smaller samples, they only provide information on registered employment.

*Ad hoc linked databases.* As well as anonymization, Act CI of 2007 allows for various databases to be linked up, applying a technique used for encryption. Databases like these that contain complex information have the same

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advantages as those described above, but they also contain more information. This partly remedies the halt in the development of EMMA: in terms of the volume of information for a given period, the resulting database is not inferior to EMMA (as it was originally envisaged). However, in order to meet data protection requirements, the sampling, linking and anonymization of the data must be repeated each year, and the resulting database is difficult to clean. This in turn may reduce the accuracy of calculations based on these data. An important example of analysis undertaken by anonymized linking is the reform of the monitoring of active measures in 2009 (see Tajti, n.d.). This quiet but significant reform was based on application of the technique described above, during which the National Employment Office annually links the data of the National Tax and Customs Administration on payment of contributions with the data from the unemployment register. This database enables analysts to examine the work history, benefits and post-benefit labour market success of the unemployed. The National Employment Office only uses the data for monitoring purposes, in order to track the participants in all programmes (including those who have participated in one of the wage-support programmes) and to collect information about them six months after the end of the support period. Although not all the features of the database are utilized (e.g. there is no control group defined), this still marks considerable progress over the earlier method. This method has the same weakness as other administrative databases: it can only take account of registered employment. Since, in terms of employment policy, entry to informal employment is also desirable (albeit not the optimal outcome), those not listed on the registers continue to be approached with questionnaires.

### **AGGREGATE DATA**

Using micro-level data – and interpreting whatever analysis is carried out using such data – requires considerable expertise, and not everyone manages to acquire such skills. Partly because analysis that is carried out without applying a strict methodology is, within limits, also useful (e.g. to determine whether there is need for more detailed analysis), such analysis is often performed – in Hungary, too. This is usually based on aggregate data.

Although aggregate data, by definition, are obtained from micro-level data, it is important to consider them separately, for two reasons. First, both for technical reasons and for lack of expertise, most of the civil servants responsible for policy decision support have used aggregate data in the reference period, but since a significant proportion of the middle and senior management do not have any research-related qualifications, they are not familiar with the strengths (and weaknesses) of these tools. Secondly, they embarked on their careers at a time when it was not possible to analyse micro-level data routinely, because of the lack of capacity of IT devices. For these two reasons, it was mainly aggregate data that supported everyday work in the reference period. Aggregate data are usually obtained from individual-level, unanonymized data that are aggregated by data providers (they are the ones authorized by law to manage data). Although it was possible to transmit unanonymized data within the statistical service, this did not happen regularly. Therefore the content of

the regularly produced data series was primarily determined by the staff of the data providers, and the content of the data requested on a case-by-case basis was determined by the body requesting it. The two most important data providers in employment policy, the Central Statistical Office and the National Employment Office regularly produce data series for internal use and to meet external orders; however, these are not published together by the labour ministry as its own product.

The website of the National Employment Office offers a lot of **statistical data** for analysts and policy makers. There are monthly flash reports on the status of the labour market; detailed monthly figures on the number and composition of the registered unemployed; annual figures, as well as the time series data obtained from the registers of the National Employment Office, which break down the data of the registered unemployed, beneficiaries of cash benefits and registered vacancies by county/region.

A special group of aggregate data is based on micro-level data and is related to behavioural models, but may still be calculated routinely. Such indicators include parameters describing the behaviour of economic actors, such as the flexibility of labour demand, the rate of return on educational attainment, or indicators of labour market flows. The Institute of Economics of the Hungarian Academy of Sciences has made an effort to develop and publish such indicators in its **Indicators database**. Other data aggregated according to region or some other relevant aspect also fall within this category, e.g. the so-called **Resource Map**, developed by the Institute of Economics. Although, in terms of their purpose and structure, both examples could be suitable for supporting the government's work, we do not have information on their utilization.

## ANALYSIS AND IMPACT ASSESSMENT

The labour portfolio generally carried out analyses either using its own limited capacities or relying on the greater capacity of its subordinated agencies.

In addition to calculations prepared in the ministry, analyses were made by professional teams, at universities, independent research institutes and private companies – sometimes under contract from the ministry, and sometimes without funding. However, the National Public Employment Foundation (Országos Foglalkoztatási Közalapítvány – OFA) regularly finances research on labour issues. As a result of this fragmentation, relevant analyses and research had no central repository for most of the reference period (e.g. a suitable website in the 2000s).<sup>6</sup>

The Labour Research Information System (MUKUTIR), which operated between 2007 and 2012, followed the example of more advanced countries and was also the repository of labour-related research funded by OFA or the National Employment Office. The website offered hundreds of studies for download and, after some modernization and marketing, it could have been central to the provision of information to decision makers – however, it was discontinued in 2012.<sup>7</sup> There is a similar website, but with broader objectives – the **Integrated Knowledge Base of Social Partners**, which was developed under the TÁMOP 2.5.2 project. Although this website is still available, its information content is inferior to that of MUKUTIR, and at the time of writing, it was last updated in 2010.

6 Such a website in the United Kingdom is that of the **Department for Work and Pensions**, which contains research findings, analyses and statistical data. Readers can find side by side the **policy programme** and research findings. This arrangement ensures that readers can clearly see the objectives of policy and the database on which decisions are based.

7 The summaries of research funded by OFA are currently available at the **OFA website** and the works funded from TÁMOP programmes are published on the **research portal** of the National Employment Office.

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Just as civil servants in their daily work mainly relied on aggregate data, which are of limited value as a source of analysis, so research studies and analyses also often examine simple data (typically time series or one-dimensional spatial or social distribution) using simple tools (mainly analysing graphs and tables). A typical example of this is the annual publication on the functioning of active measures, which is available to both internal and external users on the website of the Public Employment Service. As was mentioned above, these surveys are not suitable for measuring the real impact of interventions or for analysing causality. Nevertheless, they do have one advantage: they can be rapidly implemented and can pinpoint areas that require more thorough research into underlying mechanisms.

However, it would seem there is a peculiar division of labour between government units/agencies and professional teams at universities or research institutes: government units and agencies perform simple analyses almost exclusively, whereas the university/institute teams undertake all manner of research and analysis. Unless there is direct, daily contact between researchers and their clients, this situation is not optimal. In the course of decision support, there may often be times when the expected success of an intervention has to be assessed by micro-simulation or advanced estimations based on micro-data, to take account of behavioural effects and to examine counter-factual situations. We are not aware of the regular use of advanced methods in the labour ministry. Nevertheless, calculations concerning the registered unemployed and the wages of workers – which examine government interventions – are sometimes made, generally at the statistical unit of the Public Employment Service. Some were undertaken during the period of the minimum wage increase, before the introduction of public works schemes, and during changes to unemployment benefits. However, in the absence of supplementary data (e.g. the Labour Force Survey) and professionals who are able to use advanced methods, no analysis or research using up-to-date methods was undertaken (nor could have been undertaken, even if commissioned), and thus the reliability of simple analyses depends largely on the nature of the problem examined.

A good example of the use of micro-simulation is a computer programme developed jointly by the economic research unit of the finance ministry and TÁRKI Social Research Institute from 2005. Later on it was regularly used by the unit to examine employment policy issues. An informal inter-ministerial team was set up to focus on the use of the micro-simulation software, and formal training courses were also organized. The unit made attempts to involve the staff of the ministry of social affairs and labour in the use of the software, but with only moderate success. The development continued at the secretariat of the Fiscal Council (established at the end of 2008 but later dissolved) and in the National Bank of Hungary, where it was first used to calculate the labour supply impact of the tax and transfer system reforms (Benczúr et al. 2011).

There can be no evidence-based policy without impact evaluation and assessment. In legislation it has been obligatory to undertake impact assessment since 2006: for example, only after such an assessment may a bill be introduced to Parliament. There are clear and comprehensible documents available concerning the nature of impact assessment, methodology guidelines on its implementation (see e.g. Kovácsy and Orbán 2004; Ministry of Justice, 2006)

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and textbooks, such as O’Leary (1998). There is a considerable difference between impact evaluation and impact assessment. We define impact evaluation as an examination that fulfils the evaluation principle of comparing the outcome to a counter-factual. Impact assessment, on the other hand, includes examinations that do not necessarily undertake such a comparison, but still give detailed and thorough information on the impact of an intervention. The former is essential to identify the impact of programmes, while the latter is useful in interpreting an impact or in altering a programme in order to improve its effectiveness.

Despite the opportunity and the regulatory pressure, as far as we can gauge, impact evaluation has not gained ground in decision support and, given the circumstances surrounding policy implementation, this is not surprising – [Chapter 3.1](#) discusses the issue in detail. The case of active measures is also edifying in this respect. If the ministry had considered the information provided by the impact evaluation and impact assessment to be useful and reliable, then, on the basis of the findings, it would immediately have ordered a review of the allocation of resources to active measures (since the actual situation was wasteful and inefficient and there was an appropriate alternative). If an impact is shown to be negative, no review is even needed for a decision to be made. If policy makers accept that the method is good but they do not believe the findings, they ask for further, detailed research or additional data collection. However, none of the above happened in the case of active measures. The available evidence is based on research conducted out of an academic interest, under restricted conditions, as a side element of low priority projects.

Later on, impact assessments were undertaken, and these shed light on several interesting details (e.g. that in wage-support programmes many employers used the support to employ workers with whom they had already had contact; Frey, 2011); but no impact evaluations suitable to inform decisions on the reorganization and adjustment of measures were performed. The interviews revealed that this was no accident. The ministry admitted that it did not wish to provide feedback on the functioning of measures. On the contrary, it was proud of only ‘holding up a mirror’ for decision makers.

Though central government did not do so, government agencies and non-governmental institutes undertook impact evaluations that met the quality level of the age. The impacts of active labour market measures were first analysed in 1992–93, when the labour market status of the participants in three programmes (labour market training, support for start-ups, public works) was compared to a control group that did not participate in any active labour market programme (Godfrey et al., 1993). A similar follow-up study was undertaken by the National Employment Office in 1997 involving the participants in four active programmes and a control group: the main findings are described in [Chapter 5.2](#). Then there were attempts to carry out impact assessment within the HEFOP 1.2 project, but ultimately the only research was accomplished by Cseres-Gergely and Scharle (2010). It examined the impact of HEFOP 1.2 on job centres that participated in the project and on those that did not, by comparing average chances of entering employment, using the *difference in differences* method.<sup>8</sup> And lastly, an important exception is a multivariate evaluation of active measures, including a control group, carried out by Csoba and Nagy (2011).

8 Currently implemented TÁMOP programmes also contain studies defining themselves as evaluative research, but these cannot be regarded as impact estimations in accordance with the potential outcome model. For example, according to its title, the work of Bíró et al. (2010), prepared for the project TÁMOP 2.3.2, analyses the impact of active and passive employment policy measures on labour market indicators. However, the authors are lawyers and their research is largely based on analysis of legal regulations (although they also relied on descriptive sociological works and quoted from the published works of Hungarian labour economists).

The above impact assessments were almost exclusively commissioned by government actors, and thus their aim was to answer the questions of the client. This type of work often inspires independent academic works, which are also prepared independently in great numbers. Although they do not often examine the impact of policy interventions, they do provide information on the behaviour of labour market players, which may also be useful for policy makers. Independent research has usually been conducted by academic institutions or in international cooperation, but some have been commissioned by the National Employment Fund, the National Employment Office or ministries.

## CONCLUSIONS AND RECOMMENDATIONS

To sum up, the information base of policy making did improve significantly in the reference period; however, the information produced was not used effectively. This may be largely due to the lack of well-defined strategic activities on the part of the sectoral ministry and to the paucity of research and analysis capacity, which is difficult to explain.

As for the National Employment Office, most policy making is outside its remit, as – according to the division of tasks between public institutions – it is in charge of implementing employment policy. Of course, this does not preclude the further development of information systems nor the improvement of the conditions required for impact evaluation activities. At present, the Employment Service does not possess sufficient research and analysis capacity – its department for statistics and research has no economists trained in labour economics and advanced econometric tools. Consequently, it does not have the analytical capacity to adapt international best practice, monitor the effectiveness of adaptation and work out the correction of any deficiencies revealed by the monitoring (Cseres-Gergely and Scharle, 2010).

The limited use that is made of information bases for policy purposes is surprising, because the labour ministry generally tries to follow international (principally European) best practice. Recently both in the European Union and in individual Member States there has been a shift towards measuring the impact of programmes and analysing the efficiency and cost-effectiveness of policy programmes. Therefore we recommend that, assuming the government wishes to have an evidence-based policy, it should establish and maintain the capacities that are currently lacking. We are aware of plans at the Public Employment Service to develop its analytical capacity, as part of its modernization process. The first steps towards this have already been taken within the National Labour Office, but with strict financial constraints. Major progress was made in January 2011, when Ecostat (the erstwhile research institute of the Central Statistical Office) was reformed and re-established as the Ecostat Government Centre for Impact Evaluation. The function of Ecostat is to use the data described above in preparing methodologically sound impact evaluations, and to support other public administration bodies in such work. In spite of the existence and functioning of these institutions, further development is required, primarily in order to ensure that national and EU-funded projects are based on the evaluation of earlier measures, and that the projects and interventions themselves actively support the production of data required for such work.

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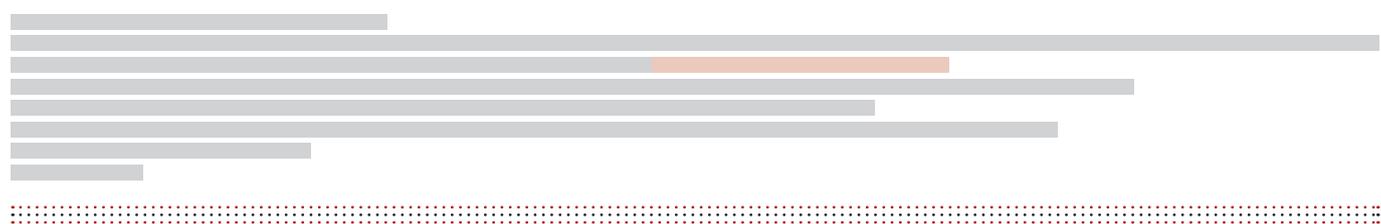
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## 3. THE QUALITY OF POLICY MAKING

### 3.3. ORGANIZATIONAL CAPACITY, ORGANIZATIONAL LEARNING

LAJOS BÓDIS



The aim of this chapter is to briefly present the factors determining the performance of organizations that implement employment policy programmes and work with clients. These factors include the headcount, the workload and the procedures for accumulating and sharing knowledge (within the organization) required for successful intervention. The scope of examination has been narrowed down to the activities of the Public Employment Service. Changes in the size of the organization over the past 20 years will be presented, as will changes in a crude workload indicator. A fairly detailed overview of the main conclusions of research conducted on workload in the late 2000s will be provided, in order to shed light on the causes of persisting problems. Then follows a brief analysis of the main procedures for organizational learning, along with recommendations on their more efficient coordination.

#### INTERNATIONAL OVERVIEW

The optimal headcount of job centres depends to a large extent on the precise tasks they undertake: whether they disburse unemployment benefits, organize placements and implement active measures alone or in cooperation with other institutions. As well as the tasks involved, the number of clients also determines how many staff are needed. Since the tasks are different in each country, international comparison must be handled with caution, even in assessing the number of clients per staff member. According to Kuddo (2009), the workload of staff working with clients is quite high in Hungary: data from 2006 show that a front-office clerk in Sweden works with 24 jobseekers; in Germany with 70; in the Czech Republic with 114; and in Hungary with 178.

The capacity of job centres and the expertise of the staff may increase the chances of the unemployed finding employment. Having examined the effectiveness of job centres with differing activities in the United States, Bloom et al. (2003) concluded that (controlling for all other factors) job centres with a lower number of clients per staff member perform better.<sup>1</sup>

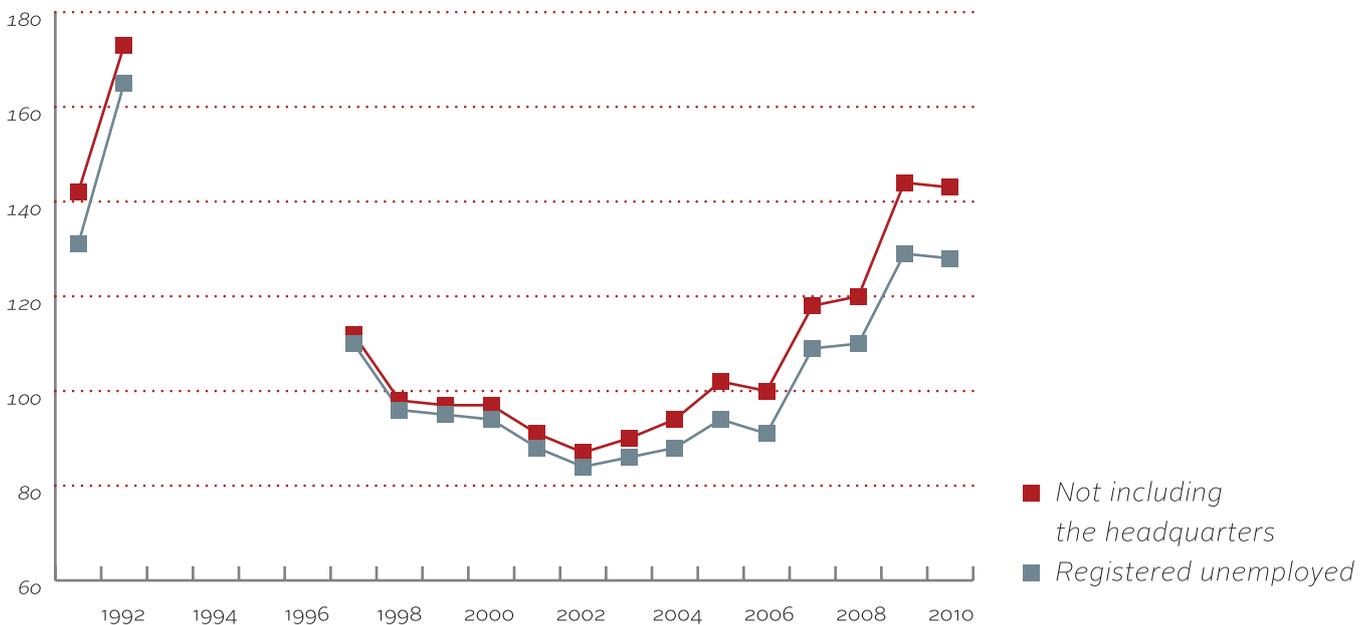
#### CHANGES IN THE CAPACITY OF THE PUBLIC EMPLOYMENT SERVICE

The staff of the Public Employment Service was recruited over two or three years, during the rapid growth in unemployment. The number of registered unemployed rose by two and a half times within a year in 1992, and peaked in

<sup>1</sup> Effectiveness was measured by the wages that jobseekers received after finding a job (over a period of two years).

1993. The headcount of the county labour centres and the network of local job centres more than doubled in 1992, topping 4,200 by the end of the year.<sup>2</sup> We do not have headcount data from the mid-1990s; we only know that, in 1994, the headcount increased by only 159. It would seem the headcount did not increase significantly after the mid-1990s – if we disregard the increase due to the shift between 1997 and 1999 to place the work safety and labour inspectorates (which had completely different tasks) under the control of the county labour centres. If we include these inspectorates, the headcount was highest in 1998 (4,916); if not, it was highest in 2010 (4,558, including civil servants with fixed-term contracts working on EU projects).

Figure 1: The number of registered unemployed per Public Employment Service staff member, 1991–2010 (persons)



Note: Based on annual average headcounts. For more details, see [Table 7.2 of the Statistical Annex](#).

During the mass layoffs in public administration, the Public Employment Service received no special treatment. Therefore, layoffs of 5–10 per cent occurred at the time of the Bokros Package in 1995, and then in 2003 and 2006. The last wave of redundancies was implemented during the regional reorganization of the Public Employment Service, when parallel units were merged. However, the headcount decreased only temporarily; it started to rise again because of the increasing scope of tasks and because of participation in EU projects. But in this way, some of the staff were replaced: those dismissed during the layoffs were usually replaced by better qualified and better paid staff. In addition, in the second half of the 1990s there was significant fluctuation: newly established companies lured away some of the staff, whose replacement was not always either quick or easy.<sup>3</sup> Since the mid-2000s, it has been even more difficult to retain highly qualified staff, as a significant proportion of new civil

<sup>2</sup> Because of the large-scale expansion of the network, the average headcount in a job centre is much smaller.

<sup>3</sup> In 1997, 152 of the staff members who quit had not been replaced by year end. In one of the counties with favourable labour market conditions some 7–11 per cent of employees of the labour centre left annually between 1994 and 1997 (Taschner, 1998). Average headcount was often lower than the annual approved headcount; in the 1990s this was due to fluctuation, and in the 2000s to additional staff approved for extra tasks within a year.

servant positions have been created for fixed terms, and the organization is unable to offer career prospects for keen, young employees.

Casework and various background activities together define the impact of most employment policy measures. The number and intensity of tasks related to the registered unemployed (as well as any differences in the number or intensity) can only be revealed by detailed workload surveys. Changes in the relationship between the headcount and tasks are now described by the number of registered unemployed per staff member – a less than perfect indicator (Figure 1).<sup>4</sup> The workload of staff in this sense was highest in 1992. From the mid-1990s, the headcount did not change significantly, whereas the number of registered unemployed started to decline, and continued downward until 2002. The number of clients per staff member decreased by nearly 25 per cent between 1998 and 2002; there was a fall of over 10 per cent even compared to 2000. In terms of workload, this was the best time for reviewing organizational objectives, for developing activities deemed useful but hitherto (inevitably) neglected, and for redistributing capacities. By a fortunate coincidence, both the PHARE programme of preparation for EU accession and preparations for the modernization of the Public Employment Service started in 2002.

However, at the time of EU accession and the start of the development programmes, the number of registered unemployed (and thus the workload) began to grow again. This was not automatically followed by a rise the headcount, but additional staffing was approved each year for the extra tasks given to the PES.<sup>5</sup> The reorganization of labour centres according to regions – the most important organizational change of the period – took place in 2007. It involved almost a 9 per cent reduction in staffing (15 per cent in the national centre): the organization was slimmed down to the size it had last been in the second half of 1992. The downsizing, which was originally planned to be 20 per cent, was moderated because of the new tasks of the Public Employment Service, especially the new system of employment rehabilitation (see [Chapter 4.2](#)).

From 2004, EU-funded Human Resources Development Operational Programme (HEFOP) and the Social Renewal Operational Programme (TÁMOP)<sup>6</sup> allowed in-house staff to be employed to supervise the implementation until the end of the funding period, and services to be procured from third-party businesses. Headcount was increased mainly at the national centre: the number of staff there grew by 130 per cent in 2004/05 and by 50 per cent in 2009/10. At the end of the period, the number of staff at the National Employment and Social Office was more than three times the number before EU accession, a significant (and growing) share of them employed as fixed-term civil servants on EU-funded projects.

The staff paid from TÁMOP programmes in the network of job centres<sup>7</sup> worked with those groups of unemployed people that the PHARE programme also recommended should be the focus of organizational attention (Hansen, 2003; see also [Chapters 6.1](#) and [6.2](#)). However, this occurred when the workload had increased to levels not seen since the 1990s. The success of the new, personalized services may also have been diminished because analysis of the redistribution of capacities had only just started, and the various levels of management

4 The closer a department is to the regional network, the more front-office work it undertakes; but even in job centres not everyone does it. According to an optimistic estimate by Berde (2010: 60–61), the proportion of staff (also) undertaking front-office work in the network of labour centres before the reorganization into regions was less than 50 per cent, and was 60 per cent in subsequent years. Considering this, the proportion of front-office staff on average at the PES was 44 per cent before the reorganization and 54 per cent after the reorganization. Based on this, there were 207 registered unemployed per front-office staff member in 2006, which is higher than the workload calculated by Kuddo (2009) (which took 65 per cent of the staff as front-office staff).

5 Such tasks included operating the Integrated Hungarian Labour Database in the period 2003–06 (according to data from the annexes of the final report, 266 staff in 2004, 130 staff in 2005), employment support for disabled workers and related social policy activities from 2006 (60 staff in 2006 and 424 staff in 2007) and organizing public works from 2009 (200 staff in 2009 and 2010).

6 In the labour centres, 200 staff were employed on rolling annual contracts between 2004 and 2007 under the HEFOP 1.1 programme. Between 2008 and 2013, 113 staff are employed on similar contracts under the TÁMOP 1.1.1 programme. Some 226 staff were employed from 2008, and 316 staff from 2009 to 2011 under the TÁMOP 1.1.2 programme; and 54 staff annually from 2009 to 2011 under the TÁMOP 1.1.3 programme. In the national centre in 2010, employees were hired for 40 programmes financed from EU sources.

7 In all 339 staff in 2008 and 483 staff in 2009 and 2010.

did not yet feel that they should systematically influence the division of labour in job centres. Following the regional reorganization, the number of clients per staff member increased by 20 per cent in a year. At the end of the decade, as a result of the global financial crisis, the number of registered unemployed had risen to levels not seen since the early 1990s, while the staff workload had increased to 150 per cent of the pre-accession level. Not including staff in charge of EU projects, the headcount and workload of the network of job centres had both deteriorated: the headcount was 14 per cent down on 2003, while the workload was 82 per cent up on 2003.

As regards the human resource management of the Public Employment Service, EU-funded projects expanded the room for manoeuvre somewhat, but at the same time reduced predictability. On the one hand, if they had any time left after completing their own tasks (i.e. providing information, involving clients in the programmes, keeping contact, monitoring and coordinating participants), staff involved in development programmes also undertook general administrative tasks. On the other hand, the success of the programmes depended not just on them, but also on the other job centre employees, who offered services, training or suitable jobs for clients. Thus the activities of the staff at job centres often could not be clearly delineated, and the considerable increase in workload made it inevitable that adjustments needed to be made to cover actual shortfalls in capacity.

The development programmes may have served as a means of increasing the headcount and replacing staff, but, regardless of performance, fixed-term contracts do not offer career prospects (or only very tentative ones). The programmes may also have served as a means of avoiding layoffs – but usually they only offered a postponement; the staff involved knew this, and that may have had a negative impact on their motivation.

Under the development programmes, job centres had the opportunity to purchase certain services for their target groups. According to the findings of a workload survey conducted in 2008, the number of external service providers working in job centres was about 10 per cent of the headcount of the job centres' own staff (ErgoFit, 2008). If that figure is correct, the total headcount of Public Employment Service staff and contractors working in job centres would mean that the number of registered unemployed per staff member in 2008 was approaching the 2006 level.<sup>8</sup> Capacity was boosted by purchasing services to approximately the same extent as the in-house staff was reduced due to regional reorganization and layoffs. The intention of the job centres to make up the shortfall in capacity for routine work was explicit in the justification for the purchase of services. In at least half of the cases, job centres did not hire external contractors to provide personalized services, but to provide information, so that their spare capacity could be used for diverse tasks. Only 16 per cent of external service providers were hired to provide counselling, and only a few job centres hired contractors to maintain contact with employers (an area that is often described as necessarily neglected).<sup>9</sup>

Workload also varied enormously between individual departments. This is illustrated by data from 2004, when the average workload of the Public Employment Service was relatively low and therefore departments had considerable

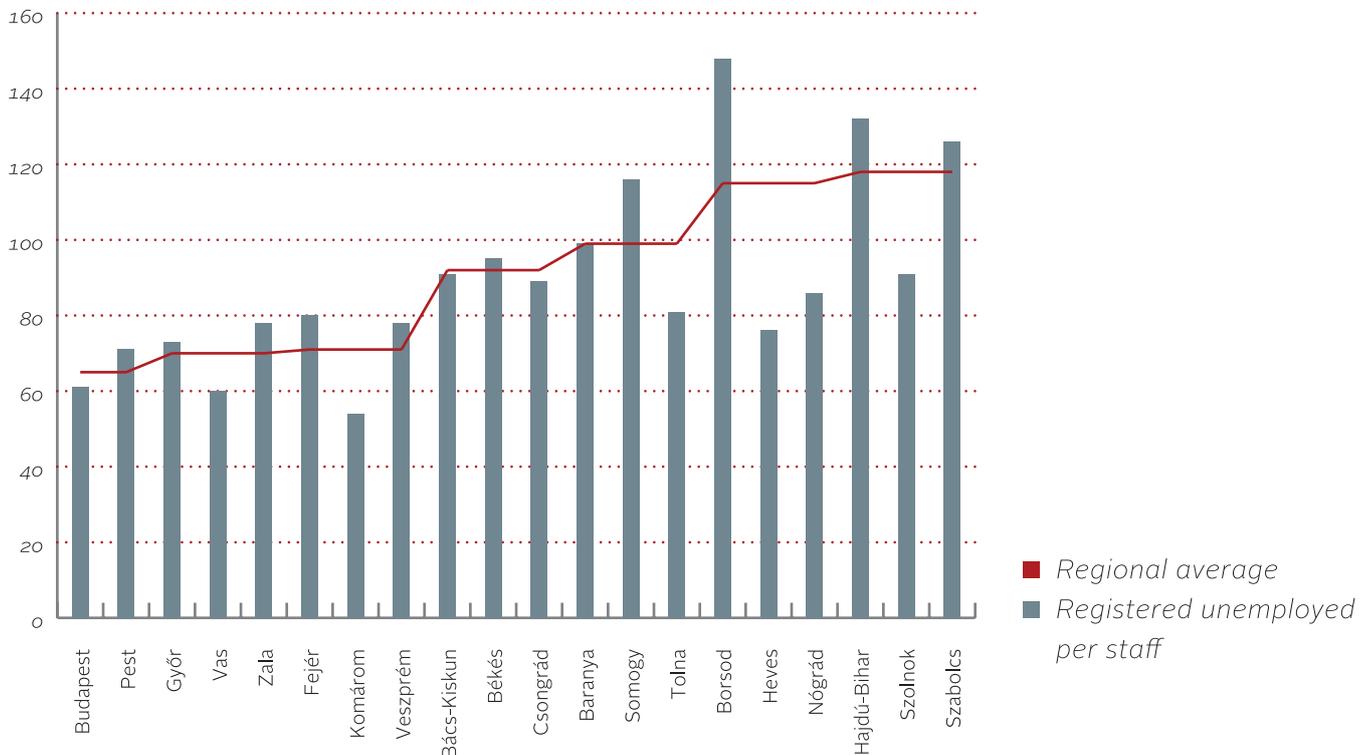
8 The estimated headcount of external contractors working in job centres was 269, so that PES staff and contractors altogether totalled 4,286. The number of registered unemployed per staff was 103. We have relied on Berde's (2010: 60) estimate that 73 per cent of the staff of labour centres worked in job centres that year.

9 Job centres insist on keeping contact with employers, even if they are unable to do it properly or with sufficient intensity. For more details see

[Chapter 6.2](#)

freedom in deciding which activity to focus on. Figure 2 summarizes the findings, by region, in order to reveal, later on, one of the greatest difficulties of the reorganization.

Figure 2: The number of registered unemployed per staff in county labour centres in 2004 (persons)



Sources: Own calculations. The average headcount of county labour centres later belonging to regions is calculated from Annex 11 of the 2008 report of the State Audit Office, not including the headcount of the national centre. The number of registered unemployed is based on the data of the National Employment and Social Office.

The number of registered unemployed per staff in county labour centres varied by up to 2.7 times, and those of the subsequent regional organizations by up to 1.8 times. There was also a considerable heterogeneity within regions: in one case it was even greater than the variance across regions. In counties with high registered unemployment, the workload indicator was usually worse and differences within the region were higher. This may indicate that the departments of the Public Employment Service working in the different regional/local labour markets focused on different activities, in order to adjust to their tasks and the available capacity. However, we may also assume that the lack of balancing mechanisms meant that considerable differences emerged and persisted between the average workload of the staff of individual departments. Based on an analysis conducted in 2002, Bódis and Nagy (2005) also concluded that there was significant difference in the frequency with which benefit recipients were summoned to a job centre. In over half of the 28 job centres in the six counties involved in the analysis, benefit recipients were summoned every three months; the second most common frequency was every month

– a frequency used in a fifth of job centres. Practice differed significantly between counties – and often within counties, too; and in a few job centres, there was even significant difference in staff practices. Data from the 2002 Labour Force Survey of the Central Statistical Office on the proportion of benefit recipients visiting a job centre in a month led to a similar conclusion: there was a difference of over 200 per cent between the minimum and the maximum monthly ‘footfall’ in counties (made up of the average of 5–15 job centres).

### UTILIZING CAPACITY AT JOB CENTRES

The aggravation of problems pertaining to the reduction in headcount and the increase in tasks in the second half of the 2000s directed the attention of top-level officials and analysts to utilizing capacity in the network of job centres (Kaucsek et al., 2006; ErgoFit, 2008; Berde, 2010; Németh et al., 2011). As far as we know, after the diagnostic research by Kaucsek et al. (2006), the first systematic workload survey, based on client statistics and time estimation, was undertaken by ErgoFit (2008). Although this survey was carried out towards the end of the reference period, it analysed problems originating from earlier years, which had remained unaddressed and were only indicated by anecdotal information.<sup>10</sup>

In the course of the time estimation, it turned out that lots of job centre managers were unaware of how long certain activities took. At the various decision-making levels of the Public Employment Service (and in the Hungarian public administration in general) there was no tradition of estimating the time required by specific activities and rationalizing work procedures accordingly. When establishing office procedures, the legal aspects take priority, while developmental and regulatory changes usually make tasks longer and more complicated. The heads of job centres estimated the time required for adequate service to be 25–35 per cent longer than it actually was, and the time required for contact with clients and individualized tasks<sup>11</sup> to be 50–70 per cent longer than it took in reality. When time pressure was high, job centres reduced the length of time to 1–2 minutes, which of course was inadequate. All this is related to the lack of protocols influencing the content of services, as well as to system-level conceptual and capacity-planning problems. Some 30–40 per cent of the workload of job centres consists of only 4–5 activities, and thus workload may be significantly reduced by rationalizing these activities.<sup>12</sup> There was no difference between the workload of the 75 modernized and the 81 unmodernized job centres. However, there were rather large differences within these categories: the maximum values were 2.5–3 times higher than the minimum values. Job centres react to an increase in workload – especially during peak times, when the peaks cannot (or are not) smoothed out – by focusing on mandatory tasks and speeding up other tasks wherever possible: interviews and placement interviews. Consequently, as a result of the crisis, the key activities of the ‘new service model’ lost out to bureaucratic activities, and administrative procedures became more formal.

Job centres also adjusted to fluctuating workload by prioritizing tasks, reorganizing the daily work flow and, if necessary, introducing voluntary overtime.

<sup>10</sup> The survey examined workload at 156 job centres in the first eight months of 2008, on the basis of data from the databases of the office, questionnaires used at the job centres and interviews.

<sup>11</sup> Such tasks include the modification of job-placement data (+50 per cent), conducting the first and an interim interview (+60 per cent and +65 per cent, respectively), placement interview (+72 per cent) and recording the job search agreement (+55 per cent). The length of the first interview was estimated at 18 minutes on average, and the length of the interim interview and the placement interview at 10 minutes on average.

<sup>12</sup> The most important are ‘recording continuous accountancy items’, ‘modifying the date of visit’ and ‘recording casual labour’. The most significant item, accounting for a quarter of cases, includes the tasks related to casual employment logbooks. The abolition of these in 2010 was therefore an effective capacity-management decision.

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Official matters were top priority, since the consequences were worst if those were neglected. These were followed by job placements and active measures; contact with enterprises lagged some way behind; and the provision of labour market services brought up the rear (see also [Chapters 6.1](#) and [6.2](#)). Most of the job centres complained (whatever the workload) that their activity was being hampered by excessive workload, the increase in administration and lack of time.

Given the significant differences between job centres, it may be assumed that there were also considerable differences between micro-level work organizations, professional content, the quality of services, expertise of staff members and performance (ErgoFit, 2008). This situation can only be changed by planning and monitoring capacity usage. High workload is not only caused by an increased volume of tasks, but also by poor workflow organization. According to analysts, that is where the potential is for improvement. According to Németh et al. (2011), all job centres have, in recent years, adapted to deteriorating conditions by making use of specific work-organization solutions. This confirms the need to unify the elements and the optional models adopted, so that the centre of the network can support the decisions of job centres and mitigate the unjustifiably large variations. This partly confirms and partly colours our rough estimates of the long-term prospects and regional differences in workload. It also sheds light on the importance of analysing differences and of evidence-based differentiation at all levels of the organization.

## THE PROCESSES OF ORGANIZATIONAL LEARNING

The collection and sharing of knowledge necessary to accomplish the tasks of the Public Employment Service are described in terms of labour economics and human resource management models. On the one hand, a significant proportion of these tasks require special knowledge that can only be acquired as a member of staff or in cooperation with the staff, and can only be used if working for the PES. This creates interdependence between the organization and its employees: it is worth offering career prospects to a significant share of the employees in order to motivate them to obtain the necessary skills, to stay in the organization and to do good work (Ehrenberg and Smith, 2012; Milgrom and Roberts, 1992). On the other hand, a large proportion of the necessary knowledge is generated by staff members through horizontal cooperation. The technology needed for bureaucratic tasks and service provision can only be developed successfully if the staff support and monitor one another, since no one else can do that efficiently (Lazear and Gibbs, 2009; Storey et al., 2009).

In the following, some procedures related to organizational learning will be summarized: procedures supporting recruitment and selection, in-service training, career management and knowledge sharing within the organization. Then we will look at the extent to which the PES fulfils these criteria.

*Recruitment and selection.* When the organization was set up, the staff of county labour centres and job centres were recruited from the labour departments of discontinued local councils and from the personnel departments of companies that were closing or downsizing. A few years later, during the rapid expansion of the organization, job centres were in charge of recruitment, which

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they carried out simply among their clients and selected staff by interviewing potential staff members. Recruitment and selection were carried out informally throughout the 20 years under consideration. The survey of human resource management tools applied by the Public Employment Service, conducted at the end of the reference period, only slightly modifies the picture (Fodor et al., 2010).<sup>13</sup> It was mainly new recruits to the regional labour centres who received information on the grapevine; most of the new recruits to the national centre and the local job centres learned of vacancies on the **public administration job site**. Selection was based on CVs and (non-systematic, undocumented) job interviews, which are not suitable for checking the necessary skills and competences. The exception to this was the national centre, where one new recruit in five was selected on the basis of how well he/she accomplished a routine task, and where competence tests and assessment centres were also used.

*Induction.* When the Service was established, many of the staff had only an upper secondary qualification. In the following years, it was typically higher-education graduates who were hired – a sizeable proportion of them from the unemployed PES clients.<sup>14</sup> Most of those with an upper secondary qualification either obtained a degree later on or were passed over; a number of them were replaced by better-qualified workers during the mass layoffs.

Due to the special tasks, induction training undertaken by the organization is required for all employees. During the mass recruitment of the early years, the centre organized an internal basic training course, which culminated with a so-called ‘threshold’ examination (Rózsa, 1991). After a while the course and the examination became less rigorous – probably under pressure from job centres, which needed the new recruits at once. The course came to involve only simple, repetitive tasks, but many job centre managers were comfortable with that, and were confident that the new staff would be able to undertake more complicated tasks later on. This approach, which saved on management expenses and was similar to the way organizations functioned under communism, is probably largely responsible for the fact that the staff does not have a shared knowledge and concept of several theoretical and technical issues. According to the experts interviewed, the fate of the threshold examination was sealed by the introduction of the compulsory civil service examinations, which do not include specific knowledge.<sup>15</sup>

Labour centres mainly organize lectures for newly recruited employees about regulations, organizational structure, finance and IT issues. Although one of the most important elements of the EU-funded development programmes of the Public Employment Service was in-service training, the centrally organized obligatory induction training on several topics was not re-launched. However, modules of intranet-based e-learning started to be developed; in future these may be appropriate for uniform training in fields that do not require personal tuition. There were some regions where new recruits also attended practical training on client-centred approaches and stress management, but this has been discontinued due to lack of funding (Fodor et al., 2010).

*In-service training.* In order to carry out its specific tasks, the Service has to undertake significant in-service training. In addition to basic training, steps were taken from the start to provide specific medium-level and higher-level training for staff members (Rózsa, 1991). However, the specific training was

13 The data collection of the survey was based on an online questionnaire for the staff of the PES (n = 916) as well as interviews with top-level and HR managers.

14 For example, the proportion of staff with upper secondary qualifications in a county labour centre at the end of the 1990s was 39 per cent; the proportion of staff with a college degree was 40 per cent; and the proportion of those with a university degree was 16 per cent. Most degree holders had a degree in teaching and economics (28 per cent and 23 per cent), followed by those with a degree in HR and agriculture (11 per cent and 12 per cent) and then by lawyers and engineers (9 per cent and 7 per cent) (Taschner, 1998).

15 According to the estimate by Felső-Farkas (2010), 40 per cent of own funding for training was spent on obligatory civil service examinations.

gradually replaced by participation in formal education. This was encouraged by the changes in qualification requirements, the salary scale for civil servants and support from the organization to obtain a degree through part-time higher education courses.<sup>16</sup> In addition, from 1997, after the leading role of the national centre was scrapped, the counties became the project providers for methodology development, and they did not have sufficient capacity to operate extensive in-house training.

In-service training was reinterpreted and received new funding as part of the modernization programme in the 2000s. Most development programmes had a major training component: 1,250 employees attended in-service training in 2005–06 and 5,000 in 2007 (Barta, 2006; Felső-Farkas, 2010). The considerable opportunities for in-service training could not replace the missing unified conceptual and methodological foundations. Similarly, the well-planned and monitored programmes could not make up for a missing human resource strategy, organizational and individual development plans, and a central register of staff qualifications and work experience. As a result, there was nothing to stop job centre managers from acting in their own (short-term) interests and preventing their most productive staff from attending training, simply in order to maintain the necessary capacity. They did not take on board the conclusions of methodology projects run in certain counties in earlier years, and did not respond to criticism from experts and workshops that failed to be included in the restarted central training courses.<sup>17</sup> And finally, the sustainability of training courses depended on whether efficient solutions were developed and whether they were run using home-grown resources (e.g. relying on in-house trainers, increasing the role of the intranet significantly) (Felső-Farkas, 2010; Fodor et al., 2010; Németh et al., 2011).

*Procedures supporting knowledge sharing.* Between the late 1990s and the early 2000s, the methodology development of the Public Employment Service was powered by county leaders and experts with ample ambition and skills. While the impact assessment of programmes is best implemented through independent survey, professional practices (e.g. the procedures for individualized casework) are most successfully developed through the cooperation of staff in hierarchical and horizontal relationships. Both the former and the latter should be reinforced in the organizational culture. This may be most efficiently organized not by traditional training courses, but by new forms of knowledge sharing (case studies, problem-solving groups, use of the intranet, etc.). Such activities are undertaken in certain programmes or certain departments,<sup>18</sup> but there are no routines or developments to indicate a shift in this direction for the Service as a whole.

Knowledge sharing may, for example, take place in the framework of quality management. This management tool was adapted to the Public Employment Service according to the principles and methods of the public administration self-evaluation system of the EU (Common Assessment Framework, CAF) at the time the new service model was introduced (see [Chapters 6.1](#) and [6.2](#)). The objective was to support the development of the professional activities of job centres participating in the programme by enriching the tools applied by their management – or, more specifically, to reinforce a culture in which the operation of the organization served the interests of clients and encouraged

16 Around the millennium, significant tension built up at the job centres between older workers (mostly with upper secondary qualifications) recruited in the first wave, and younger, graduate workers who arrived in subsequent waves.

17 Respondents to the questionnaire in the study on HR tools complained that there were few advanced interactive methods in the training courses, that previous experience of participants was insufficiently utilized, and that the training was not very useful for supporting everyday work (Fodor et al., 2010).

18 For example, establishing the advanced system of career guidance (TÁMOP 2.2.2 programme), whose elements supported one another excellently; and the group problem solving (which was successful in one county labour centre and was then adopted by two other counties when the network was reorganized into regions).

reflection and responsiveness by mastering the cycles of planning, measurement, analysis and feedback. The participating job centres developed detailed procedures, which, according to Madarász (2006) and Fekete (2009), functioned successfully. This picture is slightly modified by the fact that many job centres focused on satisfaction surveys, while international findings indicate that these are not an effective indicator (Galasi and Lázár, 2003). The impact of such surveys on the responsiveness of the organisation is not obvious either – this is reflected in the lack of response to the capacity distribution criterion pertaining to the new job centre model. Although several departments probably use quality management for solving complicated professional problems, unfortunately the Service did not uphold it as best practice.

The ‘Management by Objectives’ (MBO)<sup>19</sup> approach may be partly suited to this, although the prevalent opinion has it that it is more of a management information or organization-level performance evaluation tool (PES forums, 2009; Hörömpöli, 2008; Madácsyné, 2004; Orcsik, 2007). However, the expert who initiated the programme believes that the original aim (and initial practice) was to promote evidence-based analysis and discussion in labour centres about tasks and achievements (Lengyel, 1998). Obviously, this management approach includes negotiation (Karolinyné et al., 2003) and seeks to structure it in cases with significant information asymmetry. If there is sufficient analysis capacity and a supportive management culture, it may be an adequate tool for achieving the original objectives.

*Career management.* Rapid changes in tasks due to labour market and institutional factors, the significant deterioration in predictability and management deficiencies contributed to an absence of systematic career management in the Public Employment Service (Fodor et al., 2010). The problem here dated back beyond the time when fixed-term contracts and bought-in services became the only way of boosting capacity; the rot had already set in by then, as permission for talented and interested staff members to attend training depended on their line managers (Nagy, 2010). The problem was compounded by the lack of a unified labour issues database on staff members, to be used for analysis and practical decision-making. In recent years, there has been some opportunity to progress thanks to participation in development programmes; however, this has not been properly regulated either, and has not been based on any widespread performance principle (Fodor et al., 2010). According to our model, it results in the loss of the knowledge of some staff members. However, this may be reversed even after the development funds dry up by having an increased role for top management in human resource management, by balancing the autonomy and control of job centres and by increasing the headcount of internal experts.

## CONCLUSION AND RECOMMENDATIONS

It is a common challenge for analysts and top-level officials to contribute to the establishment of efficient institutional mechanisms (Milgrom and Roberts, 1992). Effective management of the staff of the Public Employment Service would encourage the members of the organization to cooperate in implementing effective policy solutions and would increase the knowledge

<sup>19</sup> The so-called Management by Objectives (MBO), used in several Member States of the European Union, based on performance indicators, has been in place in the Public Employment Service since 2005. See also

[Chapter 6.2.](#)

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they jointly possess. This chapter has revealed several weaknesses of the Public Employment Service over the past two decades. However, it has also pinpointed several promising development alternatives.

Two of the governance mechanisms of the organization have been discussed: the division of tasks among organizational levels in human resource management; and balancing the importance ascribed in regulation to inputs, procedures and outputs. By accepting higher transaction costs, the management would probably be significantly more effective in both fields.

Our analysis shows that the competences of the three management levels in managing the staff were most harmonious in the initial years. In the late 1990s, the national centre, which had lost ground, could not organize the unified training system of the Service or offer internal career pathways – which were much needed and should have been possible because of the complex and very specific tasks in hand. The interests and capacity of the county labour centres were adequate to cope with their methodology development concepts. However, they were not powerful enough to select developments based on stringent criteria, to disseminate best practice and to launch their own training programmes based on experience gained. The national centre, reinforced before EU accession, ran the large-scale development programmes, but had neither the strength nor the will to influence the procedures of job centres and staff members. It is even doubtful to what extent the development programmes were able to mobilize the whole of the knowledge possessed by the staff and encourage them to systematically compare new knowledge with experience gained at job centres.

It is crucial to manage the distribution of capacity among job centres and the practices of staff members, and to create diverse roles for experts in the network for the purposes of career management. Effective management methods are capable of providing autonomy for subordinates and information for management.

The approach in developed countries, which aims to modernize public service governance and to reinforce performance in general, recommends measuring the output of services rather than the inputs and processes (Pollitt and Bouckaert, 2000). In the case of the Hungarian Public Employment Service it is worth developing all three elements, even at the same time. The problem of inputs involves the distribution of capacities and the lack of in-service training; the problem of processes involves the paucity of professional protocols; the problem of outputs involves the one-sided use of quality management and MBO and the neglect of dialogue within the profession.

Recommendations have already been made in the analysis: they are all related to the improvement of coordination between departments and tools and the fostering of dialogue and cooperation.

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## 4. ACTIVATION AND WAGE ADJUSTMENT

### 4.1. USING ELIGIBILITY CRITERIA TO STIMULATE JOB SEARCH

GYULA NAGY



#### THEORETICAL CONSIDERATIONS AND INTERNATIONAL EXPERIENCE

The literature on unemployment benefits primarily discusses the conditions of entitlement, the length of the support period and the amount of assistance granted, as well as their effect on the labour market. However, it is also important to consider how support is administered; whether, in addition to basic entitlement, unemployed people are expected to fulfil any behavioural criteria; and, if so, how fulfilment of those criteria is monitored. Analysing the long-term unemployment prospects of the OECD countries, Nickell et al. (2005) propose that making strict behavioural criteria a condition of unemployment benefits, as well as sanctioning their violation, may curb the growth in permanent unemployment.

The entitlement conditions for unemployment benefits define the prerequisites for being granted support. For example, claimants are only entitled to insurance-type support (*benefit*) if they worked for a certain length of time prior to becoming unemployed and if they paid employee contributions. Similarly, only those living in a low-income household are generally entitled to unemployment support (*assistance*). Apart from these entitlement conditions, access to support is also restricted by so-called eligibility criteria. According to the eligibility criteria, those unemployed people conforming to the International Labour Organization (ILO) definition<sup>1</sup> may be given assistance if they are able and willing to take work at short notice and undertake active steps to find work themselves. This is monitored according to the various requirements of the administering organization: recipients of support have to visit the employment office by appointment, contact employers suggested by the office, accept suitable job offers and participate in prescribed training, etc.<sup>2</sup>

According to the predictions of economic models, unemployment support, as a financial support system administered to the unemployed, diminishes the likelihood of finding employment by inflating the reservation wage rate,<sup>3</sup> thus increasing the expected duration of unemployment. At the same time, because they have more resources at their disposal, benefit recipients are likely to have a better chance of finding employment.

Making sure unemployed people fulfil the eligibility criteria may have a greater impact on their financial situation (and, consequently, behaviour) than changing the benefit amount (benefit/wage ratio), because a violation of the rules may result in them losing the entire amount of support. The two key requirements

<sup>1</sup> Out of work, able to enter work at short notice and undertaking active steps to find work.

<sup>2</sup> Scharle (2002) and OECD (2007) offer an international overview of eligibility requirements. According to the latter, the majority of developed countries apply an increasingly extensive system of requirements in order to prompt the registered unemployed to actively seek work.

<sup>3</sup> The lowest wage rate at which an employee is willing to accept a job.

of eligibility criteria (active job search and availability) directly stimulate the process of finding employment. In addition, the ‘disutility’ of monitoring may also contribute indirectly to the intensity of job search, thus increasing the chances of someone finding a suitable position. If this influence is strong enough, it may even discourage unemployed people from claiming benefits (Grubb, 2001).

The insistence on the importance of eligibility criteria may appear to promote negative incentives: tighter monitoring of recipients may screen out dubious claims and stimulate the job-search efforts of those who wish to find employment. Nevertheless, the same tools can also fulfil a role of positive motivation: tighter and more frequent contact with the public employment office may provide jobseekers with more information and help them apply relevant job-search strategies. This latter may work most effectively if the administrative appointments are combined with counselling and a review of job opportunities. In sum, monitoring the recipients’ job-search activity and willingness to work may increase the likelihood of employment through both positive and negative stimulation.<sup>4</sup>

## REGULATION AND RESEARCH IN HUNGARY

In Hungary, the eligibility criteria are officially termed the ‘cooperation requirements’ of benefit recipients and such criteria have been in use since the introduction of unemployment benefit. Unemployment benefit and social assistance recipients both have to fulfil eligibility criteria. Unemployment support recipients have to report regularly to the public employment office or the organization appointed by the local authorities to administer the benefits. They have to accept suitable job offers, participate in any training offered, take active steps to find a job, and inform the public employment office or the local authorities of any changes in their situation. According to the benefit regulations, milder infringements of the requirements are sanctioned by the suspension of benefit. Repeated and graver offences (such as refusing a job offer) may result in the benefit being terminated. In the case of social assistance, the local authority sanctions the violation of eligibility requirements.<sup>5</sup>

Among the criteria listed above, the obligatory acceptance of a job offer provides an opportunity to monitor willingness to work. However, the scarcity of registered vacancies restricts the application of this monitoring strategy. In Hungary, unemployed people also have to accept jobs offered within public works schemes. Jobseekers assigned by public employment offices have been employed in supported public utility works since the end of the 1980s. Public work schemes were broadened by centrally regulated programmes in the second half of the 1990s and by local government-regulated programmes for social assistance recipients in 2000. In that same year, a significant change occurred in entitlement conditions: claimants of local government-administered social assistance were now required to participate for a minimum of 30 days in public works, if any were offered, before they could receive the benefit. This requirement is an ideal platform for monitoring willingness to work.

Three separate pieces of research were conducted in conjunction with the fulfilment of eligibility criteria in Hungary. In 2003 and 2004 the monitoring

4 Studies on the stimulating effects of benefit systems have primarily focused on the generosity of benefits (amount of support, length of entitlement), while relatively few have addressed the issue of monitoring. Among these are: Abbring et al. (2005); Boone et al. (2007); McVicar (2008); Van den Berg and van der Klauuw (2006).

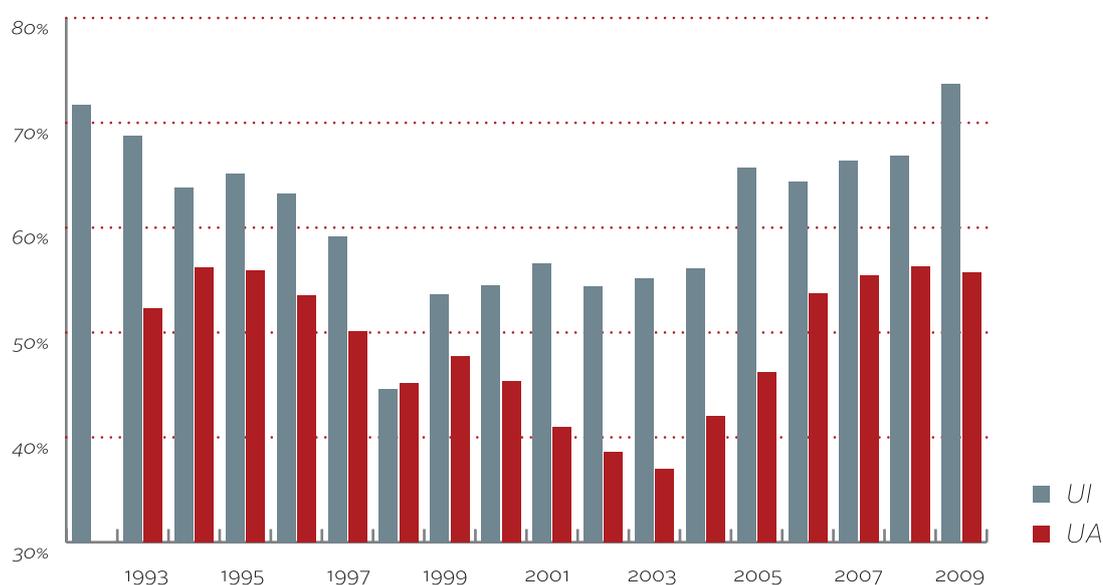
5 For a more detailed overview of the eligibility requirements in Hungary, see Koltayné (2002) and Frey (2007).

of benefit recipients was analysed (Bódis et al., 2005; Micklewright and Nagy, 2010; and Bódis and Nagy, 2008). In 2007, case studies formed the basis for an examination of the social assistance administration practices of local governments (Nagy, 2008: Chapter 3). Finally, in 2008 the data of a Labour Force Survey (LFS) performed by the Central Statistical Office were processed to determine the prospects of registered unemployed people in job seeking and finding employment (Galasi and Nagy, 2008).

### MONITORING WILLINGNESS TO WORK

Figure 1 shows the ratio of jobseekers among unemployed people receiving unemployment support (benefit or income support and social assistance) between 1992 and 2009. In the first part of the period, between 1992 and 2003, the ratio of jobseekers decreased steadily in both categories: while 69 per cent of benefit recipients and 60 per cent of social assistance recipients were actively looking for a job in 1993, by the period between 1999 and 2003 the figures had plunged to 54–56 per cent and 39–48 per cent, respectively. This tendency seems to suggest that the targeting of benefits deteriorated, in the sense that the benefits were increasingly being given out to people who were not actively looking for a job.

Figure 1: The ratio of ILO unemployed among unemployment benefit recipients, %



Notes: UI: unemployment insurance (*munkanélküli járadék, álláskeresési járadék*); UA: means tested unemployment assistance (*jövedelemplótló támogatás, rendszeres szociális segély*)

Source: Central Statistical Office.

Significant changes came into effect regarding the rules of administering unemployment support in 2000, 2003 and 2005. The 2000 amendment primarily affected those permanently unemployed: the income support that

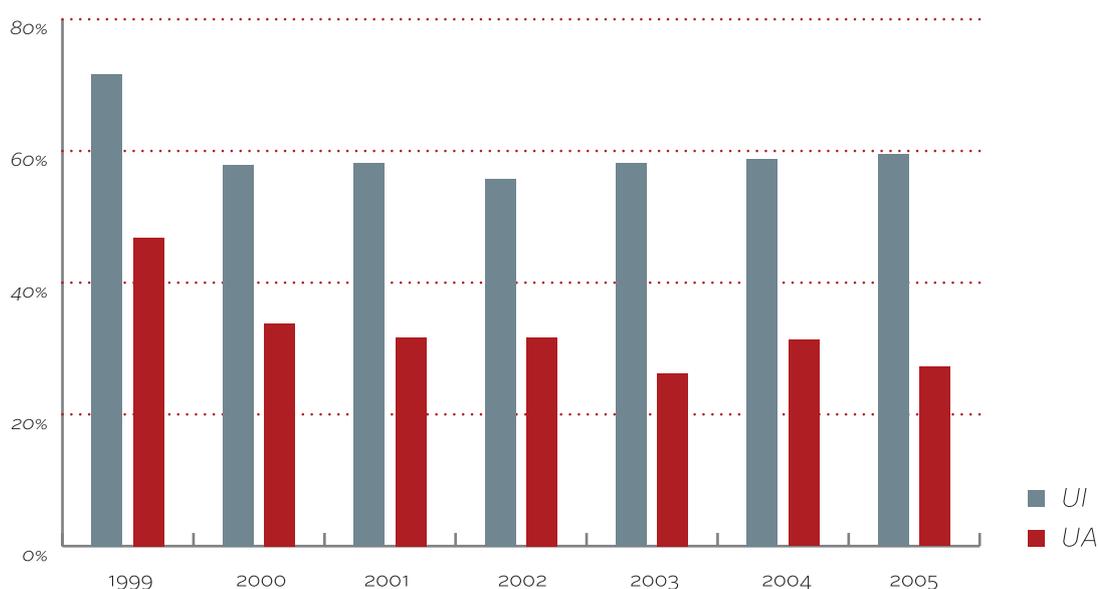
was available after benefit ran out was merged with the regular social assistance that anyone could claim up to that point, regardless of employment status. With the amendment in effect, claims could only be lodged after 30 days of public work had been undertaken; this prompted local governments to organize public work schemes (Nagy, 2002). The so-called jobseeker's support that was introduced in 2003 secured another six months of financial support after unemployment benefit was exhausted, offering a lower, flat-rate extension for those people with a minimum of 180 days' entitlement. To be eligible, benefit recipients had to sign an individual action plan (the so called cooperation agreement) with the public employment office. According to the agreement, recipients had to visit the office at least once a month and give an account of their job-search activities. It was up to the benefit recipients to decide whether they would enter into this agreement, even though the obligation to cooperate is included as one of the general conditions for receiving benefit, in accordance with international practice. This clause entails active job search and it applies to all recipients of unemployment support. The data in Figure 1 do not suggest that the jobseeker's support introduced in mid-2003 did anything to improve the job-search activities of benefit recipients. In fact, the same number of benefit recipients were active jobseekers in 2003 as the year before (55 per cent), and the figure rose by barely 1 per cent in 2004 (up to 56 per cent), which does not represent a significant change. The idea that an agreement was necessary for an extension (of the jobseeker's support) suggested that those who refused to sign the agreement would be exempted from having to comply with the eligibility criteria in exchange for renouncing the extension. Thus, the obligation to provide proof of job search would only apply to those claiming the extension. This construction is more likely to have undermined the enforcement of eligibility criteria in the support system than to have improved it. It would have been far more sensible to extend the support period universally, regardless of personal choice, and to ensure that the eligibility criteria were monitored more consistently than before. This could have been combined with a definition of individual job-search criteria. The rules for administering unemployment support were modified to this effect in 2005: recipients of the redesigned forms of support now had to enter into a job-search agreement that detailed the ways of actively seeking a job. Depending on the form of support they received, different groups of claimants had to visit the public employment office at different intervals (often with increased frequency); they had to report that they were keeping up their end of the agreement; while the public employment office documented the activities reported by the recipient, re-evaluating and (if need be) modifying the agreement. The name of the support was also changed to *jobseeker's benefit* from unemployment benefit (while the name of jobseeker's support was changed to *jobseeker's assistance*).

From Figure 1 it becomes obvious that after the introduction of the new eligibility criteria far more recipients were actively looking for jobs. The proportion of the ILO-defined unemployed among the benefit recipients reached two-thirds in the period between 2005 and 2008 – 10 per cent higher than in the previous years; and by 2009 the proportion was close to three-quarters (74 per cent). The job-search activity of those receiving unemployment support

(social assistance) also increased: while 40 per cent of them took active steps to find work in the period between 2001 and 2004, this figure had risen to 55–56 per cent by the end of the decade.

Willingness to work can only be monitored if the recipients regularly visit the public employment office that administers the support. These obligatory appointments may in themselves be regarded as monitoring willingness to cooperate and enter work: by reporting at the office, the unemployed demonstrate their willingness to cooperate, as they have to devote this time to looking for a job. Additionally, the visit is likely to hinder them in other activities, such as household chores and maintenance, unregistered ways of earning money or leisure pursuits. Apart from this, the visits present an opportunity for the public employment office to monitor the willingness to enter work from other angles, for instance by asking questions about the independent job-search efforts or informing the client of likely vacancies, etc. For this reason the frequency and scheduling of visits is anything but unimportant with respect to the fulfilment of eligibility criteria.

Figure 2: The ratio of unemployed who visited the public employment office in the previous month (by benefit type), 1999–2005, %



Notes: UI: unemployment insurance (*munkanélküli járadék, álláskeresési járadék*); UA: means tested unemployment assistance (*jövedelemplótló támogatás, rendszeres szociális segély*)

Source: Central Statistical Office

Figure 2 shows the ratio of the unemployed who visited the public employment office in the previous month in the period between 1999 and 2005, according to the Labour Force Survey of the Central Statistical Office. Significant variations manifest themselves in the different support groups in each year: people receiving benefits visited the employment office far more frequently than those on income support or social assistance. In 1999, more than two-thirds

of benefit recipients visited the public employment office within a month of their last appointment, whereas with the other group the figure was less than half that. From 2000 onwards, 50–60 per cent of benefit recipients and 26–34 per cent of social assistance recipients reported to the office within a month of their previous visit. In other words, the nationwide results seem to suggest that benefit recipients were summoned to the public employment office more often than those on assistance. In international comparison, this intensity of contact is relatively (though not remarkably) low. Based on data from 24 European countries, the ratio of those who visit the public employment office within a month of their last appointment is lower than average in Hungary: in 14 countries the figure is higher, and in only 8 countries is it lower; one country is at the same level as Hungary (Bajnai et al., 2009).

The data in Figure 2 demonstrate the substantial decline in the frequency of appointments after 1999. The phenomenon is hard to explain. The reason cannot have been an increase in workload at the public employment offices because, from 1999/2000, the total number of registered unemployed and the number of benefit recipients both declined somewhat. The staff at the employment offices cited changes in legislation to explain the phenomenon: in the 1990s, the labour law had only one clause regarding the frequency of visits (to the effect that an unemployed person had to show up at the appointments specified by the office). The amendment that came into effect in 2000 left the practice of scheduling up to the individual office, but included an additional clause which obliged the unemployed person to report *at least* once every quarter. That is to say, the new legislation did not introduce a lower frequency of appointments: it merely broadened the requirements by inserting an additional clause of minimum frequency. In spite of this, it seems that a great number of offices aligned their appointment frequency with the minimum requirement specified by law, and even relaxed their previous practice.

From Figure 2 it also becomes evident that the frequency of visits by benefit recipients increased slightly in the period between 2003 and 2004, after the introduction of jobseeker's support. The question regarding the time of the visit was not asked in the LFS from 2006 onwards; therefore, based on these data, the effect of the changes that came into effect in 2005, which affected all benefit recipients, cannot be measured. At any rate, the frequency of visits to the public employment office did not increase in the first year (2005) compared to earlier years.

In the 2000s there was no uniformity in how frequently the public employment offices saw their clients. According to nationwide data from 2004, in several counties less than half of benefit recipients reported to the office in the preceding month; in other counties the figure was closer to two-thirds. The highest rate was more than double the lowest (Bódis et al., 2005: 84). The same issue was investigated in greater detail in research that processed 2002 data from 28 employment offices in six counties (ibid, pp. 78–91). Aside from differences between individual counties, the results also showed that the frequency of appointments was not uniform even at the county level. In the majority of the offices examined, benefit recipients were only summoned once every three months, while in others the obligatory visits were scheduled monthly. The data reveal that the employment offices did not consider

monitoring willingness to work to be an important duty, and aligned the frequency of visits with the minimum prescribed by law.

The data from the case studies revealed, furthermore, that most of the employment office staff only considered regular visits to be important insofar as they concerned the accurate recording of benefits and other administrative procedures. On the whole, the results of the 2002 research demonstrate that public employment offices in Hungary neglected to monitor the eligibility criteria and willingness to work. Benefit recipients were rarely summoned to the employment offices; when they were, active job-search efforts were not monitored and negligent recipients were treated indulgently. Employment offices attributed no significance to fulfilling the eligibility criteria and were likely to fend off related tasks due to the extra work involved and the risk of conflict they presented. It is also not unusual to find that employment office staff were not familiar with the exact eligibility criteria ('the benefit is administered on the basis of intrinsic eligibility') or they cited ideological or pedagogical reservations about them ('the act of monitoring is not compatible with our character as a service provider').

#### **MONITORING SOCIAL ASSISTANCE RECIPIENTS' WILLINGNESS TO WORK**

We are in possession of case-study data that concern the application of eligibility criteria by local authorities. A 2007 study concerned with the provision of regular social assistance to the unemployed (Nagy, 2008) examined the assistance administration practices of local authorities in 44 settlements.<sup>6</sup>

Within the framework of (behavioural) eligibility monitoring, social assistance recipients had to arrange to be entered into the records and had to keep in contact with the designated agency. In four-fifths of the sample settlements, the agency coincided with the local public employment office; in the remaining cases, it was the family support centre run by the local authority or (in the case of one settlement) an employment non-profit organization. Arrangements had to be made for an integration programme, and recipients had to accept suitable job offers, participate in training offered, as well as in developmental, life coaching and counselling programmes. Where the agency was not the public employment office, assistance recipients were still required by the local government to cooperate with the agency. In practice, this was carried out in the form of a job-search agreement with conditions similar to those cited earlier in this paper, as specified by the labour law.

In this time period, participation in public works was already established as a prerequisite for assistance. A number of local governments successfully applied the practice of offering jobs to monitor recipients' willingness to work. Some municipalities asked people who were claiming social assistance for a formal undertaking to accept a public works position if one was offered, and this occasionally led to the claim being withdrawn.

If there was no job opening in a settlement that corresponded to a well-educated recipient's level of qualifications, their willingness to accept a job offer – and, ultimately, to cooperate – could not be monitored. Local governments also secured an exemption for some recipients: if they had any kind of medical

6 Within the framework of the survey, interviews were conducted with the local government officers in charge of benefit administration. They also collected data about the benefit administration practices and the public work involvement of recipients.

certificate they did not have to accept an offer of a position. Employment offices acted similarly with regard to social assistance recipients: they accepted virtually all requests for exemption filed by women (not child-raisers generally) citing childcare difficulties. There was no rule that provided for different treatment on the grounds of the child's age, the family structure, the labour market activities of the family members or the work shifts at a company where the client was previously able to work. In the experience of the authors, local authorities were more familiar with the circumstances of the applicants than were the employment offices; consequently, they were in a better position to reliably weigh the obstacles that child-raisers faced on the job market.

In theory, eligibility criteria can be applied successfully to screen out assistance abuse. In some villages cited in the above-mentioned study (Nagy, 2008) untrained men receiving regular social assistance either in their own right or via their spouse regularly worked on construction sites as unskilled labourers, but according to local government officials any action to prevent this would have been futile. It also happened that regular social assistance (or unemployment benefit) recipients would turn up for their appointment at the agency even though they had a registered job, according to employment centre officials.

Social assistance for the unemployed was transformed into family assistance in July 2006.<sup>7</sup> This enabled either spouse to be the claimant, so they could delegate the one more willing to visit the authorities. By way of example, in the experience of employment officers, women raising small children have been almost always granted exemption from having to accept suitable but non-desirable work. Families could use this to relieve male family members of the obligation of active job search so that men would only be affected by the income test part of the benefit claim.

The cooperation agreements signed at the public employment offices are relatively detailed and require an IT system to administer them. In spite of this, certain critical factors affecting ability to work (such as temporary or permanent medical conditions and childcare problems) are not treated uniformly, but are rather based on the judgement of the administrative officer.

In the day-to-day routine of local government offices, the log detailing the implementation steps of the integration programme, as well as its regular evaluation and (if needed) modification, is not unlike the procedure in practice at employment offices. With the former, however, the lack of IT support is more prevalent; documentation is even less uniform; labour market criteria are ignored; and elements considered to be mere formalities (such as evaluation) are generally not applied.

## **SANCTIONS APPLIED UPON BREACH OF THE COOPERATION AGREEMENT**

Another crucial element of how well the eligibility criteria are administered is how often and how gravely violations are sanctioned. Lamentably, the sole source of information in our possession on this matter is case studies. Offenders are punished by the suspension or termination of the benefit payment. In the early 2000s, based on data collected from 27 public employment offices (Bódis et al., 2005), the suspension of benefit was applied as a sanction against repeated

<sup>7</sup> This is discussed in more detail in [Chapter 4.2](#).

failure to keep an employment office appointment. Even though the failure to actively seek work could be similarly sanctioned, only one employment office applied this punishment for that infringement. Most benefit recipients were disqualified for refusing appropriate job offers, for engaging in income-generating activities or for repeated breach of the cooperation agreement.

Disqualification was more frequent than the milder punishment of suspension of the benefit: in the employment offices examined, 0.37 per cent of benefit recipients were disqualified in an average month, as opposed to 0.17 per cent who were punished with suspension of benefits. A review of the sanction routines confirmed that there was no uniform practice of monitoring willingness to work either in the counties or in the individual employment offices within them. The differences between the sanctions applied in the various counties and their employment offices were manifold and cannot be accounted for by varying labour market conditions.

Similar conclusions were reached when the authors reviewed the social assistance administration practices of local authorities (Nagy, 2008): assistance recipients rarely had to worry about disqualification due to insufficient cooperation. In the settlements examined, on a monthly average, in 2006 and in the first four months of 2007 less than 0.5 per cent of assistance recipients were reported by the monitoring agency (whether it was the employment office or the family support centre) to the notary for insufficient cooperation. In the same period, an average of 0.6 per cent of assistance recipients were punished with disqualification by the notary.

## **JOB SEARCH MONITORING AND REEMPLOYMENT**

We know relatively little about how stimulating job search and monitoring willingness to work affect jobseekers' chances of employment. In 2003, an experimental research study was conducted in six counties on the effects of monitoring eligibility criteria (Bódis et al., 2005; Micklewright and Nagy, 2010; Bódis and Nagy, 2008). Benefit recipients of 75 to 179 days of entitlement were involved in the research. The sample was randomly sorted into two groups: a so-called 'treatment' group and a control group. The research continued for three months: members of the treatment group were summoned to the employment office every three weeks for a 'regular appointment', while members of the control group only had to report after three months had elapsed. When the three-month period was up, the offices continued to schedule appointments for those unemployed still receiving benefits according to their usual practice. With the majority of participating employment offices, this meant every three months; but in several places the period was of a considerably shorter duration – one or two months. Consequently, in this category of offices, the appointments for the control group were less frequent than usual. The employment officer interviewed members of the treatment group on the basis of a questionnaire. Each unemployed person had to give an account of his/her job-search activities since the last interview at the employment office, and had to list the employers they had contacted. Those who did not actively seek a job were asked each time why they had failed to do so. Those who missed an appointment also had to explain themselves, and the answer they gave was

then entered on the questionnaire (in the same way as the answers given to the questions on job search). However, failure to actively seek a job was not sanctioned in any way.

The effect of tighter monitoring was measured by the outflow rate of both groups. Even though members of the treatment group (who had to report more frequently) left the unemployment register somewhat sooner, the difference was slight – in fact, statistically negligible. In other words, it cannot be stated of the entire sample that the outflow rate of the treatment group would have exceeded that of the control group. Examining the outflow and the chances of employment demonstrated that the treatment had a significant effect in the group of women aged 30 and above, resulting in quicker outflow and a higher likelihood of finding employment. The same phenomenon was not present in the case of men and younger women.

The authors used multivariate modelling to determine whether certain personal traits or the local unemployment rate modified the effect of the treatment. The results pertaining to women aged 30 and over vary according to marital status: married women in the treatment group were 60 per cent more likely to find employment than in the control group. However, in the case of single women there was no significant difference between the two groups. Furthermore, it is also demonstrable that, in the group of women aged 30 or above, the effect of the treatment varied by county, and its degree decreased quite significantly with the growth of the unemployment rate: according to the estimates, at an unemployment rate of 4 per cent, the treatment group's likelihood of finding employment was 80 per cent better than that of the control group. With the average unemployment rate of 5.5 per cent, the difference was only 40 per cent; and at an unemployment rate of 8 per cent the difference was virtually non-existent.

The authors have not been able to account for the fact that increased monitoring affected (only) older (especially married) women in terms of their chances of finding a job. The explanation may have to do with the fact that older and married women tend to be less likely to be looking for a job than men or younger single women. Another possible explanation may be that, although monitoring prompted all groups of people (younger and older, male and female) to more intensive job search, it was only among those older women with a lower job-search intensity that the increased effort yielded tangible results. With men and younger women, who tend to be more active in seeking jobs anyway, the prompting did not result in a greater likelihood of employment. According to a further hypothetical explanation, monitoring did not increase the job-search intensity of men and young women, who constitute a high number of jobseekers in the first place: the increased frequency of appointments at the employment office posed no inconvenience to them, and nor did having to answer questions about job search. However, it did increase the job-search intensity of older women (constituting a smaller group of jobseekers), and the extra effort resulted in a greater likelihood of employment. Since job-search data were only collected from the treatment group and not the control group, we cannot provide a well-founded explanation for the phenomenon.

When interpreting the data, it is worth noting that, in spite of the obvious differences in the requirements incumbent on the two groups, we cannot be

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sure that the monitoring of the treatment group was rigorous enough to affect behaviour in any measurable way. Reporting to the employment office every three weeks placed a small enough burden on any benefit recipient who was passive, had no wish to find employment or who worked unregistered; and neglecting job search was not sanctioned.

Another similar analysis examined the job-seeking efforts and the likelihood of employment among registered unemployed people between 1999 and 2007 using the LSF data of the Central Statistical Office (Galasi and Nagy, 2008). It confirms the trend depicted in Figure 1 regarding job-search activity: the ratio of jobseekers among the total of registered unemployed people declined somewhat in the early 2000s; then, from the middle of the decade (following a stricter prompting of job search), there was substantial growth. The study presents variations in job seeking by gender, region, age group and level of education, and although it claims to have found considerable differences in job-search activity, the same trend is observable among all groups: following the regulations introduced in 2005, the proportion of jobseekers increased significantly.

The multivariate modelling of the job-search likelihood also points to the conclusion that there was no significant difference in the increase in job search between the various groups of registrants. In other words, it cannot be shown that the public employment office would have prompted job search in a focused way, favouring certain groups on the labour market. At the same time, the modelling confirmed that the increase in the job-search likelihood of the entire cohort was significant (screening out the effects caused by changes in the composition of registrants): compared to 1999, the average job-search likelihood was 0.06 higher in 2005 and 0.11 higher in 2006. In other words, activation effected a significant change on the job-search activity of the unemployed in the last two years.

The study (also using the LFS data from the Central Statistical Office) examined employment rates in the period 1999–2007. According to the data, the likelihood of employment in the entire cohort of registrants and in various subgroups was no higher after the introduction of the new regulations. In fact, in certain groups employment rates declined slightly after 2005.

The authors used multivariate modelling (including the personal traits of registered unemployed people and, within that, the group of jobseekers; the current situation of the local employment market; and omitting the potential seasonal quarterly effects) that examined employment chances prior to the introduction of the jobseeker's agreement and in the entire period following its introduction. These results also suggested that the increase in job search brought about by the new regulations did not figure in the growth of employment chances. Examining the period prior to (2001–02) and after (2006–07) its introduction, the authors found that the measure's positive effect on the chances of employment weakened in the second period.

In sum, the results showed that the 2005 austerity measures designed to monitor job search significantly elevated the ratio of jobseekers among the registered unemployed. However, the rates of finding employment did not increase because job search had little effect on the likelihood of finding employment.

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## SUMMARY AND RECOMMENDATIONS

In this chapter we have presented the Hungarian literature on stimulating job search, as well as domestic research findings. According to international literature, stimulating job search (fulfilling the so-called eligibility criteria for support) can have a significant effect on the likelihood of finding employment, decreasing the duration of unemployment. The Hungarian results found that, in the early 2000s, the public employment offices and local authorities administering social assistance did not focus on monitoring clients' willingness to work or their job-search activities. The new eligibility rules of unemployment support (introduced in 2005) significantly increased the proportion of jobseekers among unemployment registrants; however, the proportion of those who were successful at finding employment did not increase. Nonetheless, we do not accept this as evidence that stimulating job search is pointless or completely ineffective. The studies cited did not concern themselves with the qualitative aspects of the monitoring practices in the period following the change in regulations (such as what intensity of job search was required by the employment offices; how successful they were at identifying the deficiencies of cooperation; and how rigorous they were at sanctioning offenders). It is possible that an increased level of consistency in fulfilling the activation criteria would affect employment chances beneficially.

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## 4. ACTIVATION AND WAGE ADJUSTMENT

### 4.2. PENSIONS AND UNEMPLOYMENT BENEFITS

ÁGOTA SCHARLE



#### WELFARE AND LABOUR MARKET EFFECTS OF TRANSFERS TO WORKING-AGE INDIVIDUALS

This chapter will mainly address benefits to the unemployed, but it will also briefly touch upon pensions and similar provisions that allow an early exit from the labour market.<sup>1</sup> In most developed countries, the state provides jobseekers and disabled workers with some sort of income. Beside solidarity, state intervention can be justified by rational arguments as well (Galasi, 1996; Köllő, 2002).

On the one hand, unemployment insurance would not work on the basis of market principles, or its scope would be narrower than is optimal. On the other hand, unemployment benefits allow people to devote enough time to job search, even if they do not have substantial savings, and be able to financially support themselves and their families. Benefit payments also make sense even if the problem could be tackled by taking out a loan, because many people cannot realistically assess their future opportunities or are unable to secure an adequate loan due to a dysfunction in the capital markets. In lower-income countries, state intervention is justified even if unemployment has little effect on consumption, but risk-averse households with no access to insurance cut back on both their consumption and their investments – particularly in the education of their children. Considering aggregate welfare, this would result in a less than optimal investment.<sup>2</sup> Finally, unemployment provisions (if they smooth consumption) act as automatic stabilizers: during times of economic recession, they automatically increase government spending and thus mitigate fluctuations in the economy (see, for example, Auerbach and Feenberg, 2000). State intervention is justified for similar reasons in the case of people who have limited work capacity due to illness, accident or disability, and for parents with young children.

At the same time, financial assistance for working-age people does reduce willingness to work: [Chapter 4.1](#) shows how this works in the case of unemployment provisions. Even if the provision does not (or does not completely) exclude the possibility of work, there is still a certain disincentive, because the individual – although he or she might not lose entitlement to the provision – has some income that might be enough to cover their basic needs.<sup>3</sup>

<sup>1</sup> Parental leave benefits are discussed in [Chapter 6.3](#).

<sup>2</sup> Chetty and Looney (2006) estimated that in both the United States and Indonesia, food consumption is reduced by 10 per cent if the main earner becomes unemployed. Based on this, the introduction of a formal unemployment insurance system would provide a modest welfare gain. However, in the case of Indonesia, it should also be taken into account that people used inefficient methods to avoid their consumption declining with their income (in technical terms: they smooth their consumption). Generally, if consumption does not closely follow the changes in income because people are highly risk averse, then public insurance would provide significant welfare gains by eliminating inefficient adaptation strategies (Chetty and Looney 2005).

<sup>3</sup> The disincentive effects of different provisions (flat-rate and means-tested assistance, wage subsidy, tax credits, assistance linked to strict eligibility) are somewhat different – for an overview see, for example, Cseres-Gergely and Scharle (2008: 40–43).

## EXTENSIVE PROVISIONS IN HUNGARY ARE COUPLED WITH LOW EMPLOYMENT

Since the regime change, nearly a third of the working-age population (15–64 years) in Hungary has been receiving some form of welfare benefit; the majority of recipients are out of work. Half to two-thirds of the claimants receive disability or old age pension. Compared to this, the combined share of unemployment and welfare assistance is relatively small.

There are few studies that have investigated the positive effect of unemployment insurance in Hungary. Galasi (1996) examined the effect of the amount of unemployment benefit (insurance based) on job search intensity, using the Household Panel Survey of TÁRKI from between 1992 and 1995. He estimated that a higher amount resulted in higher job search intensity. Therefore a higher benefit increases the probability of re-employment, because more intensive job search results in a higher number of job offers within a given period.

Various empirical studies have confirmed the disincentives of unemployment provisions (for a summary, see Bódis et al., 2005; Firlé and Szabó, 2007). Hungarian studies have found similarly modest effects to those in other countries. For example, Micklewright and Nagy (1998), in a follow-up of unemployed people who had exhausted their benefit entitlement, found that the re-employment rate suddenly increased in the week following the end of the benefit. This suggested that some of the benefit claimants (2–3 per cent of the cohort) had found a job earlier, but had postponed starting the new job because of the benefit. Köllő (2001) estimated the effect of the insurance-based unemployment benefit using the records of the employment service and data from a survey in the spring of 2001.<sup>4</sup> He found no relationship between the replacement rate and re-employment, but there was an increased probability of exit at the end of the entitlement period. However, this was only significant for jobseekers with upper secondary (with a school leaving certificate) or higher education, and such people make up a very small proportion of the total unemployed population.

Firlé and Szabó (2007) found that people receiving regular social assistance had a 30–35 per cent lower likelihood of re-employment, compared to people not receiving assistance – although this might not be attributable exclusively to the amount of the assistance, but also to the different characteristics of claimants.<sup>5</sup>

There is very limited research on disability and old age pensions; nevertheless the studies that do exist unanimously show a significant and negative effect on labour supply (for an overview, see Scharle, 2008b). Cseres-Gergely (2008) estimated how current wages and expected pension influenced retirement, using a panel created from individual-level data between 1993 and 2000 in the Hungarian Household Budget Survey. The results showed that a 1 per cent increase in earnings reduces the probability of retirement by 0.11–0.13 percentage points, while the same increase in pension increases the probability of retirement by 0.16–0.18 percentage points.

4 Adjusted for the different probability of recalled workers.

5 Based on interview studies, it is likely that people receiving means-tested assistance differ from benefit recipients and unemployed people who do not receive any assistance, not only in terms of education or age (these can be adequately measured and controlled for in most surveys) but also in terms of other characteristics – such as inner motivation, self-confidence, social networks and health status – that are rarely measured in large-scale surveys. This might bias results and the disincentive of assistance might appear larger than it is in reality.

## ECONOMIC TRENDS HAVE INCREASED THE TAKE-UP OF PROVISIONS

The regime change, as is discussed in [Chapter 1.1](#), was accompanied by dramatic changes, particularly a sharp fall in demand for labour. As a response to this, the demand for working-age provisions (unemployment benefit and assistance, different forms of early retirement, disability provisions and parental leave benefits) increased considerably, as Table 1 shows. The ministry in charge did little to prevent this in the early 1990s (see [Chapter 3.1](#)).

Table 1: Percentages of people receiving different welfare provisions within the total population aged 15–64, 1990–2010

Year	Unemployment benefit	Unemployment assistance	Pension (under 65)	Disability provisions	Parental leave benefits	Total	Receiving assistance and working*
1990	0.4	0.7	15.9	1.8	3.6	22.5	n. a.
1995	2.3	3.7	17.5	3.2	4.4	31.3	6.6
2000	1.8	2.4	19.7	3.5	4.4	31.8	8.3
2005	1.5	2.3	18.1	3.6	4.3	30.0	9.6
2010	2.8	2.5	15.9	2.8	4.0	28.0	10.2

\*As a percentage of people aged 15–64 receiving provision.

Note: Unemployment benefit includes insurance-based provisions, while unemployment assistance covers means-tested out-of-work allowances (young entrant's assistance, regular social assistance, income maintenance and income replacement assistance, depending on the year in question). Pensions include disability pensions, and disability provisions include non-pension provisions; parental leave benefits cover insurance-based childcare leave and universal childcare allowances.

Source: Calculations by Duman and Scharle (2011), based on data from the Central Statistical Office, the Employment Office and the National Directorate of Pension Insurance. Last column: calculated by Árpád Földessy using data from the Hungarian Labour Force Survey.

Subsequent periods when economic growth has stalled, and then the crisis from the end of 2008, have mainly increased the take-up of unemployment provisions; they have had no substantial effect on other provisions – probably partly due to earlier restrictions on the conditions governing entitlement.

## DEMOGRAPHIC TRENDS HAVE DECREASED TAKE-UP OF WELFARE PROVISIONS

The *health status* of the population has been gradually improving since the early to mid-1990s. Although mortality indicators only started to improve in 1993, the deterioration in health had been arrested earlier, according to Pauka and Tóth (2003).<sup>6</sup> This is also reflected in life-expectancy trends: since its lowest level in the early 1990s, life expectancy at birth has increased by 4–6 years, and life expectancy at the age of 60 has increased by 2–3 years.<sup>7</sup> This improving trend might have contributed to the decline in disability pension claims (Scharle, 2008b).

6 Pauka and Tóth (2003) compared the results of the Complex National Morbidity Study carried out in 1980 (and based on a medical assessment) with the self-assessment-based health status survey in 1994 and the 2001 demographic survey of the Population Research Institute of the Central Statistical Office. The latter two surveys indicated improving trends in the 40–49 and 50–59 cohorts, for both genders.

7 Source: CSO. See [Table 4.3](#) of the Statistical Annex. The improvement in life expectancy does not necessarily go together with an increase in healthy life expectancy; however, data from recent years suggest that this has also improved in Hungary (see [Eurostat online database](#), the values of the indicator hlth\_hlye show an increase of 1.5 years for men and 1 year for women between 2006 and 2009).

The *education* level of the working-age population – particularly women – has also improved in the last 20 years. This is a result of the expansion of education in the 1960s that reached pre-retirement cohorts in the past few years: the number of people with a school leaving certificate has increased substantially among the over 50-year-olds. The improvement in education has reduced the volume of pension claims and has thus helped to increase activity. Analysis of the decline in disability pension claims between 2000 and 2004 has shown that 95 per cent of the observed decline was due to changes in the composition of affected cohorts, while neither the reasons for claiming disability pension nor the rigour of the assessment process changed substantially. Between 1997 and 2007, when the economy was growing steadily, the employment rate in the 15–64 population increased by 5 percentage points in total. Scharle (2008a) found that over 70 per cent of the total increase observed during this ten-year period was related to changes in the composition of the labour force, while the employment rate remained virtually unchanged within particular cohorts or education levels. Further improvement of a similar magnitude in the education level of women cannot be expected for another 20–25 years (in the case of men – 10–12 years): only then will new cohorts that are significantly better educated than their predecessors will reach pre-retirement (Scharle 2008b).

#### **UNEMPLOYMENT PROVISION HAS BECOME MUCH STRICTER, EARLY RETIREMENT LESS SO**

The unemployment insurance introduced in 1986 and the system of welfare benefits that dates from before then have been amended on several occasions during the past 20 years. The insurance-based unemployment benefit has operated in more or less its present form since 1989, although its name has changed from time to time and it has become increasingly less generous.<sup>8</sup> Most of the changes have reduced the (initially) fairly generous replacement rate (the ratio of the benefit to the previous wage) or the entitlement period, largely with the aim of cutting government spending. First, the entitlement limit was reduced in stages from two years to nine months between 1991 and 2000; secondly, the replacement rate dropped from 70 per cent to 65 per cent of pre-tax earnings (between 1993 and 1997 it had even reached 75 per cent). The highest amount of benefit was reduced from three to two times the minimum wage in 1992, and was then fixed at that rate until 1996 – which meant there were no increases, despite an annual inflation rate of around 20 per cent (Nagy, 2002).

In addition to the benefit available to all eligible unemployed people, there were also various provisions targeted at older people during the early years of transition: the pre-retirement pension was replaced in 1997 by the much lower pre-retirement unemployment assistance (Scharle, 2001). Young entrants (who are not entitled to unemployment benefit) could claim Young Entrant's Unemployment Benefit between 1991 and 1996.<sup>9</sup>

There were no significant changes to benefit entitlement conditions until the reform of November 2005, which sought to encourage the activation of jobseekers. This reform replaced unemployment benefit with a jobseeker's allowance and incorporated the pre-retirement unemployment benefit into this assistance. The benefit in the first phase (up to 91 days) was linked to

<sup>8</sup> Insurance contributions, the Labour Market Fund, employee and employer contributions were only introduced in 1991.

<sup>9</sup> This was a non-means-tested flat-rate provision set at 75 per cent of the minimum wage.

previous earnings; in the second phase it was a flat-rate payment. Those with low previous earnings received a much higher amount than under the previous system, because the lower rate of the benefit was set at 60 per cent of the minimum wage, rather than 90 per cent of the minimum old age pension, as before (this meant an increase from HUF 23,200 to HUF 37,500 in the lowest amount of benefit in 2006). There were also rises in the amount of benefit paid to higher earners, because the upper rate increased from twice the minimum old age pension to 1.2 times the minimum wage, which represented a 60 per cent increase in 2006. For those earning around or slightly above the minimum wage (between the new lower rate and the old upper rate) the amount of the benefit decreased by 5 per cent, because its rate was reduced to 60 per cent of previous earnings (from 65 per cent). In the second phase, everybody was paid 60 per cent of the minimum wage, and thus the average unemployed person received more money at the beginning and less at the end. As a further incentive, those who took up a new job before the end of their entitlement could claim half of their remaining benefit paid as a lump sum.

The latest restriction of the benefit (in September 2011) is hitherto unprecedented: the rate remains at 60 per cent of the previous wage; however, the upper rate has been reduced from 120 per cent to 100 per cent of the minimum wage, and the maximum benefit period has been shortened to 90 days (from the previous 270 days). Jobseeker's assistance – which had been paid for up to six months to those who had exhausted their benefit entitlement but could still not find a job, or who had not paid contributions for long enough to be entitled to jobseeker's allowance – was abolished.

The eligibility conditions for social welfare assistance changed very little until 2000, when the two means-tested benefits were merged into a single provision. Technically this meant that the income replacement of unemployed people was abolished, and the regular social assistance paid to those of working age could only be claimed by unemployed people.<sup>10</sup> The aim of this reform was to activate the long-term unemployed, and this is when the 'jobseeker's agreement' was also introduced (see [Chapter 4.1](#)). The amount of the benefit also decreased (from 80 per cent to 70 per cent of the minimum pension), but people who had never worked could also claim this benefit, provided they had cooperated with the local job centre for at least 12 months (Frey, 2001).

Entitlement was unaffected, but the amount of assistance increased significantly for many people, following changes introduced in July 2006 that did away with the previous flat-rate assistance and linked its amount to the size of the family, supplementing the income per consumption unit in the family up to 90 per cent of the minimum pension (Firle and Szabó, 2007). This change might have reduced child poverty, but it was criticized by professionals and local government officers because it created a disincentive to work and led to tensions between low-paid workers and those receiving social welfare assistance.<sup>11</sup> In response, as of January 2007 the maximum amount of the assistance was capped at the net minimum wage.

The next major change was brought about by the 'Road to Work' programme ('Út a munkához') launched in 2009. People receiving regular social assistance were assigned on the basis of their capacity to work to one of two groups: those able to work and those not able to work. The first group was enrolled

<sup>10</sup> The regular social assistance also existed before transition as a means-tested benefit administered by local councils. A reform in 1997 made it mandatory for recipients to cooperate with the local job centre or the family service of the local council; however, being unemployed was not an eligibility criterion (the rules allowed a limited amount of paid work).

<sup>11</sup> Changes only affected the amount of the assistance, there were no attempts to reduce the unemployment trap, for example by disregarding some of the work income of family members taking up work or continuing the payment of the assistance for some time (see also TÁRKI, 1998).

in public works programmes or received income maintenance assistance.<sup>12</sup> Increased funding from the state budget was made available for local councils to organize public works projects, and various co-financing deals aimed to encourage them to make use of this: central government contributed 80 per cent to the cost of income maintenance assistance (reduced from the earlier 90 per cent) and 95 per cent to the cost of public works. The income maintenance assistance is flat rate and is somewhat lower than the average amount of the previous regular social assistance. However, this rule only came into force in January 2010, and therefore the previous regular social assistance was paid to all those eligible in 2009 (Csoba, 2010; Frey, 2011). Another amendment in 2011 renamed the income maintenance assistance ‘income replacement assistance’ and set its amount at the rate of the minimum state pension.

Trends in the benefit and assistance claimant counts have been similar during this period. With the increase in long-term unemployment, the number of people claiming social assistance reached 45 per cent of the combined claimant count, before levelling off at around 50–60 per cent (Bálint, 2010) until the onset of the global financial crisis, when the influx of the newly unemployed increased the share of benefit claimants.

The first major reform of disability and old age pensions took place in 1998, when the pension age of men was increased from 60 to 61 years, and then to 62 years, as of 2000. Meanwhile the pension age of women rose gradually from 55 years – roughly by one year every other year – to reach 62 years in 2009. The reform also aimed to encourage people to delay their retirement, by introducing changes to the amount of the pension: those retiring early saw their pension reduced proportionately, while those delaying their retirement past pension age received a proportionally higher pension. Full old age pension could be paid to those who reached the appropriate pension age, who had at least 20 qualifying years and who were not employed or self-employed. The pension age increased again in 2010, and it is gradually approaching 65 years. Also in 1998, there was an attempt – which enjoyed rather limited success – to restrict access to disability pensions; this was followed by a more serious measure in 2008 – the introduction of rehabilitation allowance. Under the new scheme, people claiming disability pension are only eligible for rehabilitation allowance initially (except for those who cannot be rehabilitated). This is paid for up to three years and recipients must cooperate with the employment service. An amendment that extended the requirement of cooperation to recipients of other disability-related provisions came into force at the same time.<sup>13</sup>

The subsidies supporting the rehabilitation of people with reduced work capacity were amended at various stages in the years after 2005, in order to bring them into line with EU regulations, as well as to improve their efficiency and promote more effectively the mainstream employment of people with reduced work capacity. As a result of the reforms, the subsidies paid to employers were reduced without there being any parallel increase either in the incentives to take employment on the open labour market or in the funding of employability services – typically provided by non-governmental, non-profit organizations (Scharle, 2011). Since 2008, job centres have offered a range of services for jobseekers with reduced work capacity within the framework of fixed-term, EU co-funded programmes.

<sup>12</sup> Furthermore, while only one person in a household could receive regular social assistance, the income maintenance assistance could be claimed by more than one person up until January 2010.

<sup>13</sup> This rule applies to those who have been classified by a medical assessment as suitable for rehabilitation; people within ten years of the pension age are temporarily exempt. In the same way as those receiving rehabilitation allowance, recipients must cooperate with the local job centre.

## POLICY MEASURES HAVE SO FAR HAD MIXED RESULTS

The restriction of unemployment provisions has been examined by various studies, none of which has detected a significant increase in the supply of labour. The most thorough of the three studies that addressed the 1993 reform (Wolff, 2001) concluded that the simultaneous decrease in the replacement rate and entitlement period had no effect on men, and only a moderate positive effect on women aged under 30 years.<sup>14</sup>

The rise in the pension age could increase employment significantly. According to Kátay (2009), by 2007 the proportion of pensioners within the 15–64 population had declined significantly, and, as a result, the activity rate had increased by approximately 1.5 percentage points among men and by nearly 3 percentage points among women.

There was a twofold increase in economic activity and employment among people with reduced work capacity between 2002 and 2008, while their unemployment rate increased by 60 per cent.<sup>15</sup> The expansion of activity can be partly attributed to an increase in job search activity (and, to a lesser extent, in willingness to work); put differently, *somewhat* more people would like to work, and among those people *significantly* more are actively looking for work. Increase in activity can be related to changes in legislation, but also to higher education levels – so far as we know, there has been no research that has addressed this question to date.

## RECOMMENDATIONS

The entitlement conditions for unemployment benefit since the last reform have been exceptionally strict, compared to most of the developed world. The maximum claim period of three months is half that in the United States and the Czech Republic (which is the second-strictest EU country, after Hungary). The extensive literature on the optimum duration of unemployment provision suggests that both the entitlement period and the replacement rate should be increased substantially (see, for example, Landais et al., 2011).

To reduce the disincentives of unemployment provisions, a number of countries use measures other than reducing their amount or duration, and that still do not increase poverty (World Bank, 1996). Such measures can include stricter eligibility criteria or the gradual withdrawal of benefit, in order to increase the financial incentives to return to work; the introduction of a negative tax; and schemes to disregard some of the earnings of benefit recipients (or to introduce a higher income threshold) (TÁRKI, 1998). Another incentive is if the payment of the benefit can be suspended and then easily and quickly claimed again after a spell of temporary employment – therefore people who are willing to take up uncertain jobs do not need to worry about being left without an income for weeks on end if they become unemployed again. In the area of pensions, other incentives are necessary to accompany the rise in the pension age if a real increase in the average retirement age is to be achieved. However, rather than a complete ban on early retirement, this should be implemented in a more flexible manner, by increasing the *malus* for early retirement and rewarding delayed retirement (*bonus*).

14 This result slightly clarified Micklewright and Nagy's earlier estimate (1995) that did not control for the effect of recalled workers. They measured the effect of tighter entitlement conditions by comparing the re-employment rates of existing benefit recipients and new entrants under the revised scheme. The results were biased by the fact that the number of recalled workers was higher among the new entrants, who are more likely to return to work. For a summary of studies looking at the effect of restrictions, see Bódis et al. (2005) or Cseres-Gergely and Scharle (2012).

15 The CSO's Labour Market Survey had three supplementary surveys within the past 20 years – in 2002, 2008 and 2011 – that were based on international methodology and provided representative and comparable data on the labour market situation of the population.

For disability provisions, it might be justified to reduce the amount of assistance in order to bring it closer to unemployment benefit and future pension. More importantly, however, job centres should provide more and better services, because without these disabled people's work capacity and employment prospects will not improve substantially.

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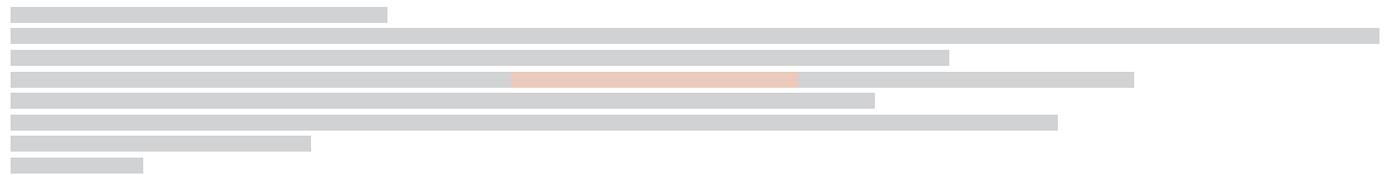
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## 4. ACTIVATION AND WAGE ADJUSTMENT

### 4.3. MINIMUM WAGE REGULATION

JÁNOS KÖLLŐ



#### THE MINIMUM WAGE – ITS ROLE AND POSSIBLE EFFECTS

The arguments for and against the minimum wage can be grouped around three questions: does the minimum wage promote *fairness*, what effect does it have on social *inequalities*, and how does it affect *employment*?

The second question can be answered more readily than the other two. The introduction of the minimum wage and any substantial increase in it does, in most cases, narrow wage inequality; however, in developed economies this has a very small effect on the dispersion of incomes, as is illustrated by Hungary, to which we turn later. The first and the last questions are rather more open to debate; these are closely related questions, however distant they may seem. The justification for a minimum wage as a means to promoting *fairness* (elements of which can be found in the *Rerum Novarum* Encyclical of Leo XIII, issued 120 years ago, as well as in contemporary documents of the International Labour Organization that describe decent work) assumes that the bargaining position of the employer and the employee is unequal and hence the power of the employer must be curtailed. The validity of this assumption – or more generally, of the model of perfect competition – determines the direction and strength of the employment effect as well.

In the classic model of the market economy, the introduction of a minimum wage generates unemployment. Firms that are under pressure from competition, that have no market dominance and are price takers will go bankrupt, downsize or hire better-qualified labour and introduce more capital-intensive technology. In such cases, fairness also suffers: the working class – which was supposed to be better off under the new rules – may end up worse off than before the minimum wage was introduced.

The situation is different if the firm is a monopsonist, either because it is the only buyer of labour in a geographical and/or market segment (which is often the case) or because it is a member of a collaborating group, which acts as a monopsony. In such cases, as we know from basic labour economics textbooks (e.g. Ehrenberg and Smith, 2012), the firm can set the wage below the zero profit wage level. In this case a modest increase in the minimum wage might boost employment, and the distribution of income will become fairer, as less monopsony rent is taken. (However an overambitious rise in the minimum wage will lead to layoffs even in the case of the monopsonist.)<sup>1</sup>

<sup>1</sup> This is valid in the case of non-discriminating monopsony, where every employee receives the reservation wage of the newest employee. In the case of discriminating monopsony (where the firm pays everyone his/her own reservation wage), the introduction of a minimum wage decreases employment or leaves it unchanged (Card and Krueger, 1995).

The effects of introducing or raising the minimum wage also differ from the anticipated effects of the perfect market-economy model when its assumptions regarding *employees* prove to be invalid: that is, if the employer is not dealing with employees who have no bargaining power, who can be hired and fired without any costs and who can easily be replaced with capital resources or better-qualified labour. If downsizing is costly and involves conflict, and if replacing one resource with another is time consuming and expensive, then the introduction of a lower wage threshold can prompt the firm to increase labour productivity through training. In this case – if the firm is forced to take action that it would not otherwise have taken – the equilibrium of employment is set at a higher wage level, with no decrease in the number of employees, which serves both economic development and the general good. Predictions of other models also differ from the orthodox theories, taking into consideration market frictions, the inevitable imperfection of employment contracts and collective bargaining. The partial equilibrium model of Mincer (1976), which takes into account the effects of the supply side and labour turnover when explaining the effects of a minimum-wage hike, shows that – depending on how the elasticities of demand and supply and the turnover rate relate to each other – employment and unemployment can rise, fall or stay the same. In the search model of Mortensen (1988), Burdett and Mortensen (1989) and Ahn and Arcidiacono (2004), a rise in the minimum wage leads to increased employment through a reduction in market frictions. Pettengill (1981) and Rebitzer and Taylor (1991) point out that the level of employment can be raised by a hike in the minimum wage if the loss of income in case of dismissal becomes higher, as this allows for more stringent performance requirements. In the model of Cahun et al. (2001), the employment effect depends on the substitutability of the employees affected by the minimum-wage regulation and those not affected (i.e. those in a position to negotiate their wages).

It has to be decided, by empirical means, which of these contradictory (yet formally flawless) abstract arguments better describes the reality; but the empirical results are not uniform. There are very few instances in the literature of an *increase* in employment resulting from a minimum-wage hike, and the arguments for a ‘new economics of the minimum wage’ are mostly theoretical or experimental.<sup>2</sup> The most frequently cited empirical study is that of Card and Krueger (1994), which detected a positive employment effect in the fast food restaurants on the border of New Jersey and Pennsylvania; however, their analysis was criticized for the unreliability of data and for the methods of measurement applied (Neumark and Wascher, 1992; Michl, 1999).

A number of empirical studies have shown an effect close to zero, or a very slight negative effect: Card (1992a, b) and Katz and Krueger (1992) in the United States; Machin and Manning (1994) and Dolado et al. (1996) in Europe. The longitudinal models of the 1990s usually detected a weaker effect than earlier ones (Brown, 1999). Among the abundant studies concerning the introduction of the British national minimum wage, Stewart (2004) found no effect on employment, and Metcalf (2004) detected a weak negative effect in the field of home care. Lemos (2008) came to a similar conclusion in Brazil. Doucouliagos and Stanley (2009) analysed the publication bias (which means that researchers are less willing to publish results that contradict expectations

<sup>2</sup> An example of the latter is Falk et al. (2003).

and editors are less willing to accept them) and came to the conclusion that the employment effect of the minimum wage was negligible. However, even after the birth of the ‘new economics of the minimum wage’, countless studies have indicated negative employment effects – in some cases very strong effects.<sup>3</sup> According to the model of Acemoglu and Pischke (1999), the likelihood of receiving *training* is no lower for minimum-wage employees than for other employees; however, the overview by Neumark and Wascher (2008) states that empirical studies show a decline in investment in human capital: a rise in the minimum wage definitely reduced the amount of training – and according to some studies, even on-going vocational training.

Neither theoretical models nor international empirical literature lead to an *a priori* conclusion as to the extent to which Hungarian minimum-wage policy serves fairness, affects equality and influences employment. To resolve this issue we can only rely on Hungarian research – and on the fact that, over the past 20 years, Hungarian governments have boldly experimented with the minimum wage, which provides a good basis for study.

## REGULATION OF THE MINIMUM WAGE IN HUNGARY

The mandatory minimum wage was introduced in Hungary shortly before the regime change in 1989.<sup>4</sup> It governed gross monthly earnings, net of overtime pay, shift pay and bonuses, and was legally binding on all employers and full-time employees. These principles did not change until 2007. In that year, minimum weekly, daily and hourly rates were introduced; furthermore, differentiated minimum wages were set, depending on the level of education required by the job and previous work experience. The separate wage minimum of young skilled workers was dropped in 2009. Before 1998 and after 2002, the National Council for the Reconciliation of Interests decided the level of the minimum wage, and the agreed figure was introduced into the budget by a government motion. Between 1998 and 2002, the minimum wage was set unilaterally by the government, and it would seem that the current Fidesz-KDNP government is returning to this practice.

In the first year of its introduction, the minimum wage amounted to 34.6 per cent of the national average wage. This level was far below the average for the EU Member States in the mid-1990s, but was still within the range of EU countries, being a little higher than the level in Spain (Dolado et al., 1996). In the years of the transition, the relative level of the minimum wage declined almost constantly, and by 2000 it stood at only 29.1 per cent of the national average wage (Figure 1).

In discussing the Hungarian minimum-wage regulations, it is primarily the motivation for and the effects of the extraordinary rise in 2001–02 that require some analysis – on the one hand, because there is no parallel in the developed world for doubling the minimum wage (so far as the author is aware, a rise of similar proportions has only been undertaken in Indonesia and Puerto Rico); on the other hand, because the effects of this hike have been examined in several studies, using different methods.

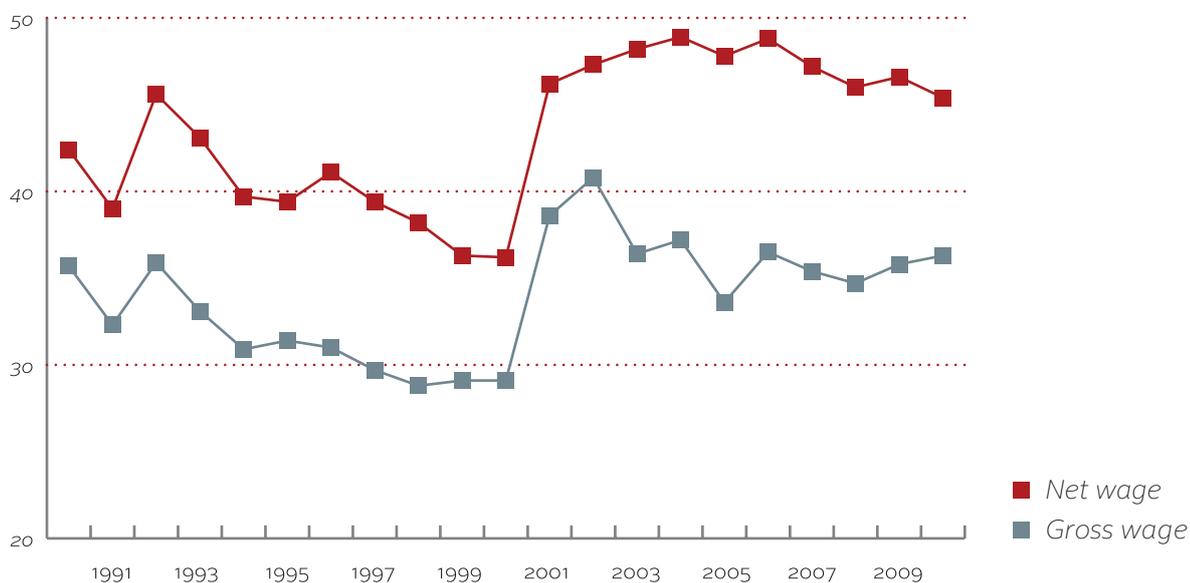
It is unlikely that the ‘new economics of the minimum wage’ encouraged the Hungarian government to embark upon such an unprecedented move;

3 For example, Deere et al. (1996), Neumark and Wascher (2002), Singell and Terborg (2007), Aaronson and French (2007) in the USA; Yuen (2003) in Canada for employees who have a low wage over the long term; Abowd et al. (1999) comparing France and the USA; Bell (1997) and Maloney and Nuñez-Mendez (2004) in Colombia; Castillo-Freeman and Freeman (1991) in Puerto Rico; El Hamidi and Terrell (1997) and Gindling and Terrell (2007) in Costa Rica in the range of high minimum wages; Pereira (2003) in Portugal among teenagers; Rama (2000) and Alatas and Cameron (2003) in Indonesia among small enterprises. In the above-mentioned British example, Dickens and Draca (2005) examined the decreasing chance of retaining a job, while Stewart and Swaffield (2008) found a strongly negative effect on working hours.

4 There was a concealed minimum permitted wage even earlier in the framework of the wage tariff regulation. On the evolution of the minimum wage between 1990 and 2011, see [Table 5.6 in the Statistical Annex](#).

nevertheless, it cannot be denied that the arguments used by the government were, in their economic essence, close to the spirit of the new school of thought. As the then prime minister and his key administrators explained, the higher minimum wage would enhance work performance, raise productivity and make it easier to find labour, while the lower benefit/wage ratio was an incentive for jobseekers. Most of the arguments did not use the terminology of economics (e.g. it was said instead that the minimum-wage hike would ‘restore the dignity of work’, ‘combat the culture of living off benefits’, etc.), but it is easy to discern their closeness to the core statements of the new economics of the minimum wage. Further arguments were that a change in economic philosophy had taken place; that this was an effort to create a new middle class; that it would maintain competitiveness at a new wage level (a level that generally increased with the new minimum wage); that it would reduce wage inequality; and that it would help curb the grey economy (see Cserpes and Papp, 2008). The fact that the idea of raising the minimum wage was conceived directly after reform of the unemployment benefit system (January 2000 saw more stringent measures for claiming social security benefits; and in May the regular welfare benefit combined with public work was introduced, which to this day remains the main form of support for the long-term unemployed) means that the government’s main motivation was ‘to increase the distance between benefits and wages’.

Figure 1: The minimum wage in 1991–2009, percentage of the average wage

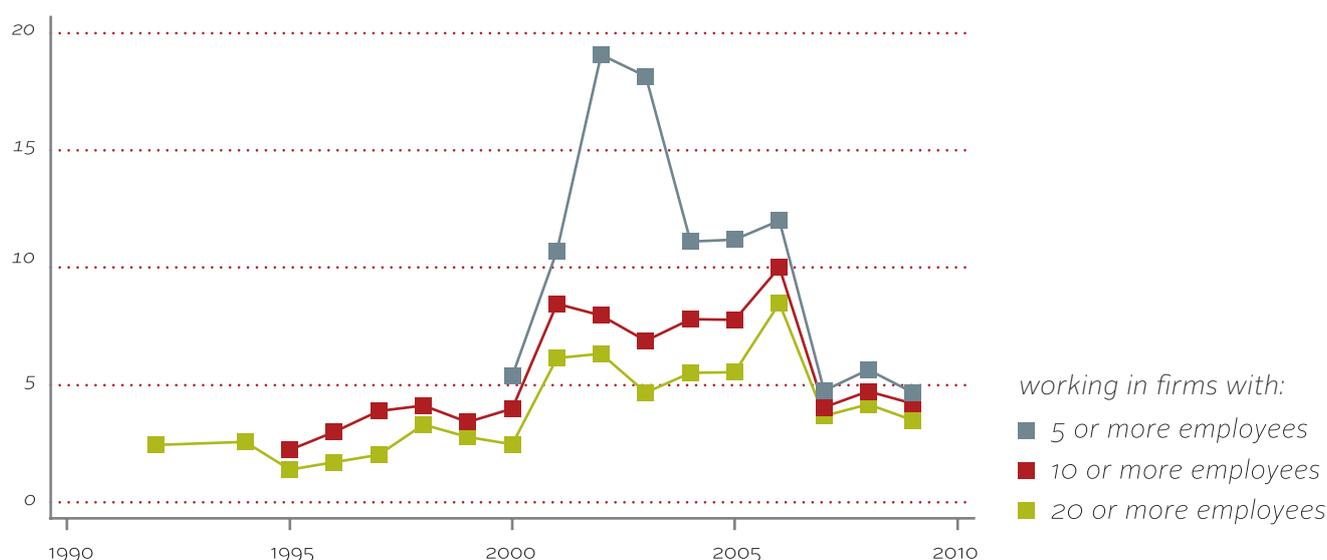


Source: CSO Institutional Wage and Employment Statistics

At this point the trade unions reacted cautiously: they voiced their concerns about a possible decline in the employment rate and the erosion of wage differentials. They suggested mitigating the first by compensating those firms affected, and tackling the second by differentiating the minimum wage by level of education (see Cserpes and Papp, 2008).

Following the big hikes of 2001–02, the minimum wage/average wage ratio rose from 29 per cent to 39 per cent and later 41 per cent. Yet even the 2002 rate was below the OECD average, though it surpassed the British, American, Portuguese and Spanish levels. At the same time, even in 2001 the proportion of people employed at close to the minimum wage exceeded the OECD rate: the figure increased from 5 per cent in 2000 to 10 per cent in 2001 and 17 per cent in 2002 – a level that is unheard of in the OECD (Figure 2).

Figure 2: The proportion of employees on a wage not more than 5 per cent higher than the minimum wage, 1992–2009

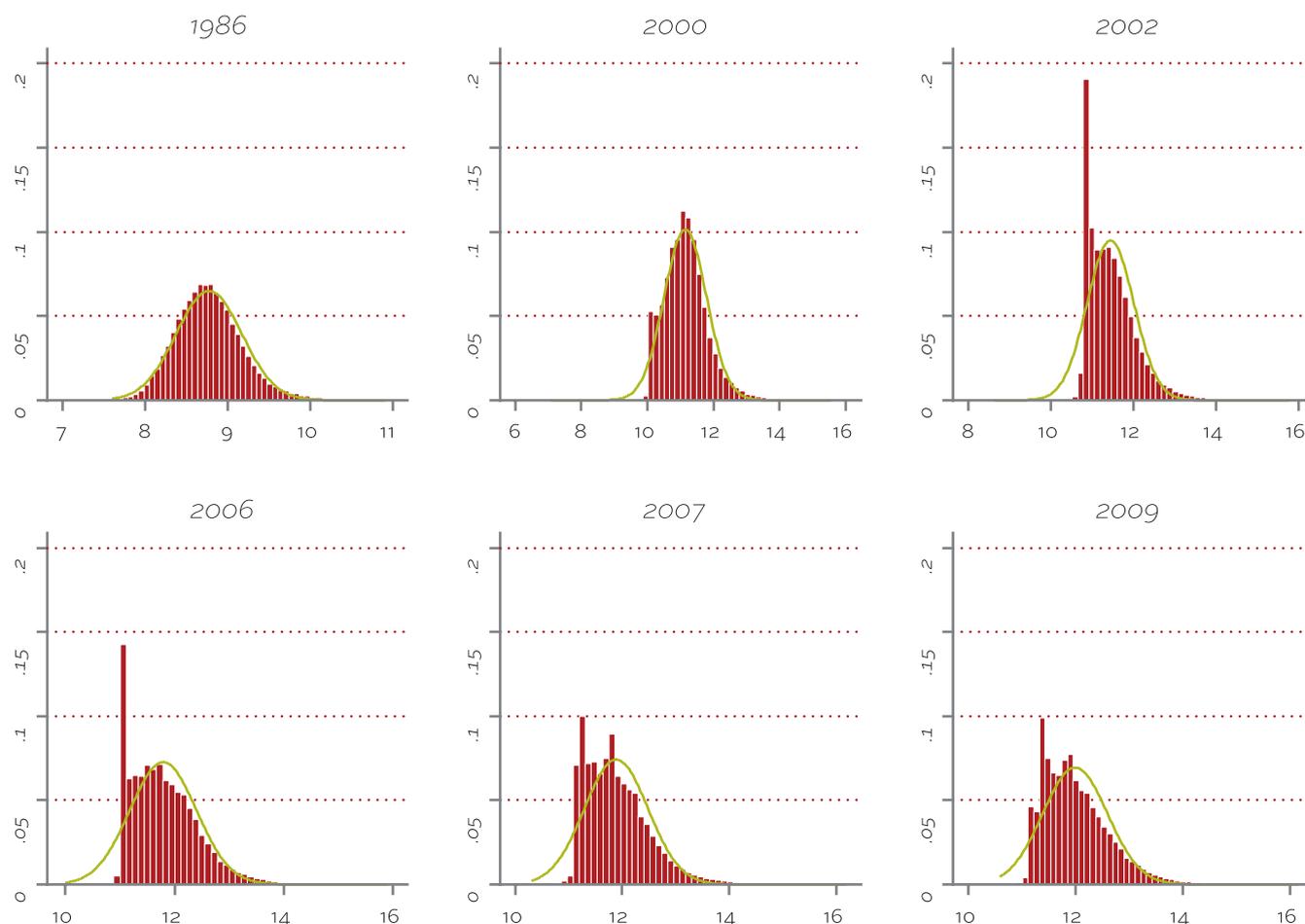


Source: Author's calculations based on the Wage Surveys of the Employment Office.

The spillover effect was not strong in the short term. An precise description of the effect follows: in the percentiles 1–10 the new minimum wage was paid; in percentiles 11–40 there were successively lower rates of spillover; above this, wages increased in line with nominal GDP growth (Kertesi and Köllő, 2003). As a result, the distribution of incomes became unprecedentedly distorted (before the regime change, this was close to log normal distribution, and even in 2002 was only a bit more dense in the vicinity of the minimum wage) (Figure 3).

*Wage inequality* decreased in 2001–02: according to the data of the Wage Survey, the ratio of the top decile of gross income to the bottom decile (the decile ratio) fell from 4.9 in 2000 to 4.2 and then to 4.1. However, this effect was transitory, and by 2005 the decile ratio had increased to 4.8, near the level before the rise in the minimum wage. Similarly the Gini coefficient of gross incomes decreased from 0.39 before the rise to 0.36; however, it had begun to move back up as early as 2004, and in 2005 had climbed back to the 0.38 level. The effect on *income inequality* was even weaker; this can be explained by the fact that those receiving a minimum wage are typically not the primary earners in the household and during the period of the great hikes, less than 20 per cent of them belonged to the bottom income quartile (Benedek et al., 2006; Szabó, 2007).

Figure 3: Distribution of the monthly average wage, 1986–2009



Source: Author's calculations based on the Wage Surveys of the Employment Office.

The effect of the rises on employment was regarded as insignificant by some politicians and experts interviewed by the press; they argued that the level of employment did not decrease in 2001–02. This is clearly a flawed argument, since the task is not to determine whether employment decreased or increased compared to the period before the rise (this needs no research at all), but to determine the direction of change compared to the level that might have been expected if there had been no rise.

Using the data from a survey of small firms in 2000–01, Kertesi and Köllő (2003) estimated that, in firms with 5–20 employees, some 12,000 jobs were lost due to the first hike. The immediate aggregate loss was estimated to be 1.1 per cent. Elek et al. (2011) examined a longer period, up until 2003, looking at the effect of rise in the average wage induced by the minimum wage hikes in firms that employed genuine minimum-wage employees (i.e. those that did not start to pay 'cash in hand' even after the rise). Their study shows that, in firms that were strongly affected by either the first or both hikes, average wages rose significantly more rapidly, employment grew significantly more slowly (or decreased more quickly), and the employment of those with only 0–8 years of general schooling suffered an especially large drop.

The study by Kertesi and Köllő (2003) examined the effect of the rises using both individual data and data from employment offices. Using the CSO Labour Force Survey they estimate the probability of job loss for a 25-year-old man with five years of tenure to be an annual 0.972 per cent some 4–6 months after the first hike, if he was on the minimum wage (taking average values for other variables), and only 0.476 per cent if he was on a slightly higher wage.<sup>5</sup> Using the unemployment register of the Public Employment Office, the study also examined the chances of a low-wage unemployed person getting a job. The data came from 172 job centres and covered a period of 54 months (January 1998–June 2002). It showed the number of registered unemployed at the beginning of the month, and those leaving the register because they found a job, sorted by level of education and wages. The study compared the exit probability of *low-wage* unemployed to the exit chances of *uneducated* unemployed (with lower secondary education or less). Whereas in 1999–2000, the relative chances of a low-wage unemployed person getting a job were the same as in the reference year (1998), in 2001 there was a 7–8 per cent drop, and in the first half of 2003 another 2–3 per cent drop. The relative chances of a low-wage unemployed person landing a job deteriorated even further in regions with a high unemployment rate.

Nor have the government hopes of *whitening the grey economy* materialized. According to the estimation of Elek et al. (2011), which has been verified in several ways, in 2003 some 5–8 per cent of employees in firms with 5–20 staff were officially paid a minimum wage, whereas in reality they earned rather more. In 2000, barely 5 per cent of all employees earned the minimum wage; thus any *decrease* in the practice of ‘cash-in-hand’ wages is completely ruled out, even if we take the lower limit of this 2003 estimate as valid and assume that in 2000 everybody who officially received a minimum wage actually earned more.

Finally, the expectation that an increase in the difference between benefits and wages would *motivate* the uneducated to work also remained unfulfilled. The chances of this segment getting a job could not be improved because of the decrease in demand for labour. However, if potential wages increase when the number in employment drops, then we might expect more intensive job search – at least if jobseekers do not (or only belatedly) recognize the decrease in vacancies. Nothing of the sort occurred either at the time of the big jumps in the minimum wage, or after 2003, when income tax on the minimum wage was abolished and the net minimum wage/net average wage rate increased further, as Figure 1 shows.<sup>6</sup>

The (so far) latest in the series of experiments involving the minimum wage was the 2007 introduction of a minimum contribution payable by the employer on the basis of twice the minimum wage.<sup>7</sup> The aim of this measure (which some years ago was also introduced in Croatia and Bulgaria on an experimental basis) was to reduce under-the-table (so-called ‘false minimum wage’) payments. Firms that paid less than double the minimum wage were not obliged to pay the increased contributions, but they did have an obligation to prove that they were paying their low-income employees the going rate for their specific market segment.<sup>8</sup> Firms paying ‘under the table’ wages to their highly qualified workers had an incentive to raise their wages to double the minimum wage

5 These seem to be small numbers, but they mean a big difference: the chances of the two men in our example avoiding unemployment until they retire can then be estimated at 67.5 per cent and 87.6 per cent, assuming a constant probability of job loss.

6 On the trends in the intensity of job search, see Köllő (2009: Ch. 8).

7 More precisely, the rule required employers to pay social security contributions on the basis of at least twice the minimum wage, ie. for workers earning more than that, the contribution was left unchanged, and for workers earning less than that, the contribution was replaced by a flat rate. This rule was abolished in 2011 and later reintroduced at a rate of 150% of the minimum wage.

8 Masses of those affected by the regulation used this opportunity: ‘Altogether 307,958 firms have given notice that they have a contribution basis of less than HUF 125,000, affecting 1,572,334 private individuals and 1,610,608 contracts... More than a third of private entrepreneurs have used this opportunity, partly as an employer or payer, but mostly for their own sake, through entrepreneurial withdrawals. The ratio is even bigger in the case of Ltds’ (response by the Ministry of Finance to a question put by Kristóf Szatmáry, MP, 19 November 2010.)

and thus reduce the risk of a tax audit. This reasoning is supported by the estimates of Elek et al. (2011): in firms that were – based on the double-hurdle estimation of Elek et al. (2009) – suspected of paying a false minimum wage, observed wages grew faster in 2007 than the average, and it happened more often than average that the wages were raised from the level of the minimum wage to double the minimum. Due to the increased cost of labour, the revenues of these firms plummeted and the number of employees was cut.

### FACTORS AFFECTING THE MINIMUM-WAGE LAW

The notion that a high minimum wage can encourage work and ensure the expansion of employment soon proved illusory: nowadays there are no significant mainstream political or professional groupings that would argue this. However, the consequences of decisions that were taken in the past in this context are still being felt (uneven wage distribution, income tax exemption of the minimum wage, the double-the-minimum-wage contribution). Apart from that, a desire to maintain the current level of the minimum wage (or even to raise it) is still present and presumably will be in the future, too.

The motives are, above all, political. Despite the fact that the median voter is not affected by measures involving the minimum wage (in recent years the median employee has earned more than double the minimum wage), the majority of the populace supports it (Gábos, 2000). This is supposedly due to demands for fairness and ‘decent work’, and is not seriously compromised by the failure of the minimum-wage regulations – partly because the findings of academic research are hard to communicate and remain little known, and partly because it is hard to identify the group that is adversely affected. In fact, disadvantage appears in the form of an absence of advantage – plans for workforce expansion cancelled, persistent inequality (Scharle and Váradi, 2010). Furthermore, as Falk et al. (2006) revealed in a laboratory experiment, the minimum wage itself affects our ideas of fair pay. The reservation wage of the members of an experimental group increased after the ‘introduction’ of a minimum wage, but did not decrease after its ‘abolition’. This encourages decision makers to keep increasing the amount of the minimum wage in order to demonstrate their commitment to ‘decent work’.

These assumptions naturally influence the conduct of *trade unions*, although there are several other, more practical factors governing this. It is well known that, as early as in the years of the minimum-wage hikes of 2001 and 2002, trade unions pledged themselves to fight for the introduction of a differentiated minimum wage based on qualifications. This is perfectly understandable: in the lower income decile around 20 per cent belong to a trade union; in the middle the figure is 30 per cent; whereas in the higher percentiles 40 per cent are trade union members.<sup>9</sup> The efforts to switch to a tariff-based system came to fruition in 2006, and from that time on minimum-wage demands became a means of shifting the whole wage scale higher. Enhanced trade union activity was particularly spectacular during the minimum-wage negotiations of 2008, when, in September, the side representing workers’ interests suggested a hike of 11.2 per cent in the basic minimum wage, a 10 per cent rise in the minimum wage of young people entering the labour market, and a 6.3 per cent rise in

<sup>9</sup> Data from the National Labour Centre’s Wage Survey from 2009. Organization levels are measured by the number of collective contracts. Data are for full-time employees.

the minimum wage for skilled workers in real terms (assuming a 4.2 per cent inflation rate); and even in November, in the second month of the economic crisis, they were insisting on this initial proposal for the minimum wage of young people and skilled workers, while demanding a 10.9 per cent hike in the basic minimum wage.<sup>10</sup>

In the last decade, Hungarian minimum-wage regulations have been heavily influenced by *budgetary considerations* as well. Undoubtedly, hidden wage practices did become widespread, manifesting themselves in the practice of formally registering workers as being on the minimum wage – in a way similar to Turkey (Erdogdu, 2008), the Baltic countries (Kriz et al., 2007; Masso and Krillo, 2009; Meriküll and Staehr, 2008) and Bulgaria (Madzharova, 2010). Indirect evidence of false minimum wages was presented in studies conducted by Benedek et al. (2006) and Tonin (2007); furthermore, Elek et al. (2009), Reizer (2011) and Elek et al. (2011) also estimated the scale of the phenomenon. The idea that ‘whitening’ of the economy could be achieved by increasing the minimum wage was presented during the rises of 2001 and 2002, following the simple train of thought that a raised wage threshold would guarantee higher budgetary income. Halpern et al. (2004) demonstrated with their general balance model that this expectation is unfounded if we take into consideration labour demand and other indirect effects. The aim of introducing contributions payable on twice the minimum wage was to make a greater part of the wages (fraudulently) paid by firms more transparent and eligible for taxation. However, applying the minimum wage as a fiscal means has a cost; and even if we do not take this into consideration, the profit deriving from the move remains insignificant. As was shown by previously quoted studies, rises in the minimum wage generally, but especially in the case of ‘decent’ enterprises, reduced the demand for labour; and a similar effect was observed after the introduction of the ‘double-the-minimum-wage’ contribution among firms involved in hidden wage practices. According to estimates by Köllő (2008), the expected profit from ‘whitening’ the economy would not exceed 1.3 per cent of GDP – even if we assume that every single minimum-wage recipient is fraudulent and that their real wages are similar to those of above-board employees, that the data on their real wages could be obtained without extra expense, and that the increase in the labour expenses has no effect on labour demand. Real fiscal profit is clearly *much* lower than that.

Abolishing the twice-the-minimum-wage contributions threshold, not focusing on the minimum-wage issue and ignoring the fair-pay argument (which seeks the introduction of a minimum wage for public works) are signals that the current administration – unlike previous governments – is not making the minimum wage a cornerstone of its policies either by way of an incentive, or as an instrument of social or fiscal policy. There is scarcely any opportunity for the latter anyway, since, after the introduction of differentiated minimum wages based on qualifications, any increase in the minimum wage will inflate expenditure far more than previously.

Minimum-wage regulation does not have to take account of *external restrictions*. There are no EU recommendations or directives in this field (although the idea of introducing a single European minimum wage did surface in Brussels in 2008). Trade unions frequently refer to Hungary’s commitment to

<sup>10</sup> Source: *Népszabadság* newspaper. See also [Chapter 2.2](#).

achieving a 60 per cent (some say 68 per cent) minimum wage/average wage ratio, but this is not a binding commitment. Hungary did sign the European Social Charter of 1961, renewed in 1996, which means that the government acknowledges the right of a worker and his family to a fair wage, but the Charter contains no reference to a desirable minimum wage/average wage ratio. The *recommendation* of 68 per cent was made in 1977 by a Committee of Independent Experts, which was set up to supervise the application of the Charter and consisted of nine members. It later altered its recommendation to 60 per cent. However, non-compliance with this recommendation is widespread throughout the European Union: minimum wage/average wage ratios are around 30–50 per cent.

## CONCLUSION AND RECOMMENDATIONS

Twenty years after the transition, radical views on minimum-wage law seem to be fading; opportunities to use the minimum wage as a budgetary tool have decreased; promoters of ‘decent work’ have turned to other policy tools (for instance, to a flat rate income tax or the rejection of forced integration in education policy that would appeal to overburdened teachers); and the issue in general plays a less significant role in public opinion than previously. However, it is not yet possible to speak of an open policy change.

Obviously, in a country like Hungary, where the employment levels of unskilled workers are conspicuously low, the minimum wage needs to be regulated with the utmost care. The most obvious means of achieving this would be to differentiate the basic minimum wage on a territorial and/or age basis. According to Scharle and Váradi (2009), the minimum wage/average wage ratio in the most developed areas of the country does not reach 30 per cent, whereas the ratio exceeds 70 per cent in the most disadvantaged regions. This invites a regional differentiation in the minimum wage – something that was proposed for consideration by an OECD (2005) country report and that was documented in detail in Scharle and Váradi (2009). It would also be desirable to establish an independent committee with a similar status to the Low Pay Commission (LPC) in the UK. This committee could evaluate minimum-wage regulation (among other issues) from the viewpoint of the effect it has on the employment levels of unskilled workers. For the time being, there are no signs of reform or of new institutions of this type. Also needed is a serious debate on the advantages and disadvantages of introducing wage regulation that is tending toward a tariff-based system.<sup>11</sup>

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<sup>11</sup> Kátay (2009) proposes abolishing specific minimum wages for skilled workers, since the monopsonic effect is not relevant, but they are a barrier to wage flexibility and, through this, to competitiveness.

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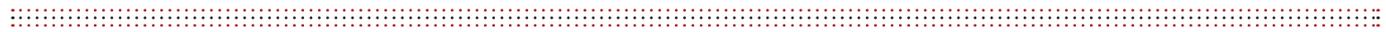
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## 4. ACTIVATION AND WAGE ADJUSTMENT

### 4.4. LABOUR MARKET DISCRIMINATION

ANNA LOVÁSZ



#### DEFINITION OF LABOUR MARKET DISCRIMINATION AND ITS EFFECTS

In an economics sense, there is labour market discrimination if two – equally productive but distinct – individuals are treated differently on the basis of certain demographic characteristics.<sup>1</sup> In this case, the market values the personal characteristics of an individual independently of his/her individual productivity.<sup>2</sup>

According to one of the common criteria used, there is no discrimination when the average wages of two people from equally productive groups (on average) are equal. In addition to innate ability, current productivity may also depend on an employee's previous human-capital investment decisions, which may have been affected by discrimination. If would-be employees know that employers pay different wages to two different groups, then members of the group that is discriminated against are less interested in investing in education. In light of this, we can also talk of discrimination when the average wages of two groups that have equal innate skills are different, since productivity may also be influenced by discrimination (Lundberg and Startz, 1983). This is what lies behind measures that are aimed at equal opportunities: for example, the provision of good-quality public education to reduce the disadvantages of the home environment. Such measures are intended to prevent the formation of future unequal labour market chances.

The literature distinguishes between two main types of labour market discrimination. *Preference-based discrimination* reduces certain prejudiced employers' (co-workers, customers) sense of well-being when they come into contact with members of a certain group.<sup>3</sup> Prejudiced employers who maximize their utility rather than profit ( ) are prepared to pay higher wages to members of an advantaged group with the same abilities. For this reason, they hire fewer employees, at a higher cost, and achieve lower profit than non-prejudiced employers (Becker, 1971). If the proportion of prejudiced employers or customers in the labour market is high enough, this could lead to the segregation of employee groups at the company level and to wage differentials.<sup>4</sup>

Labour market discrimination generates serious economic and social losses. It reduces production efficiency, since employers decisions in hiring, promotion, and the payment of employees are not optimal. Because of the lower demand for their manpower, the employment rates and wages of the group that is discriminated against will be lower than those of other workers with

1 The difference in treatment can be manifested in various stages of hiring, type of contract, profession, promotion, notice to quit or pay.

2 It is possible to discriminate by observable characteristics. The most frequently studied are discrimination against women, ethnic minorities, race, the handicapped, the elderly or immigrants. Occasionally, discrimination is studied based on sexual orientation, height, appearance, voice tone, and religion or political views.

3 This can also occur if the group's productivity does not in fact differ from others. For the reasons and models for the formulation of prejudices, see Erős and Fábíán (1999).

4 If customers are prejudiced against a particular group (e.g. do not trust female car mechanics), for jobs that require direct contact with clients, employers hire members of the other group – even if they are not prejudiced.

the same skills. The consequent lower expectations and the poorer financial circumstances of those who suffer discrimination can have an impact on their (and their children's) human-capital investment decisions and on their potential, which can then lead to the perpetuation of disadvantage. The long-term social impact is visible in the disadvantaged group's desperation, its inactivity on the labour market, and the development of social (inter-group) tensions. Discrimination also damages the optimal operation of the labour market, since undervalued labour remains underutilized.<sup>5</sup>

The other main type of discrimination is *statistical discrimination*, when employers discriminate not on the basis of personal preference, but because of a lack of information. Employers do not know what the real productivity of a potential employee is: they only know that person's basic human capital characteristics (e.g. education and work experience), gleaned from a CV and an interview. However, the employer also observes which group the individual belongs to, and, if the average productivities of the two groups are different based on the employer's experience, i.e. statistics, then this is also taken into account in their decisions. If two groups really differ on average, then the employer's decision is rational and designed to maximize profit: he/she will hire workers from the more productive group on the basis of his/her expectations. In an economic sense, statistical discrimination is efficient, and it is not a consequence of prejudice. However, for a number of reasons, it is still important to take steps to reduce such differentiation: it runs counter to the principles of fairness and equality, since employees are distinguished on the basis of characteristics over which they have no influence. In addition, averages can be misleading: members of a disadvantaged or discriminated group can clearly be above the average, and may well be more productive than members of the advantaged group. A decision based on averages is unfair at the individual level, and may be economically inefficient. In real life, employers' decisions are based not on exact statistics, but on their own (not necessarily representative) experience, and this bias can limit the effective operation of the labour market. As with preference-based discrimination, statistical discrimination also affects human capital investment decisions, therefore, the banning of unequal pay reduces the extent to which the disadvantaged group lags behind (cf. ERRC, 2007; OECD, 2008).

## DIFFICULTIES IN MEASURING LABOUR MARKET DISCRIMINATION

Although the economic definition of labour market discrimination is simple in theory, the empirical measurement of the extent and impact – i.e. proof – is extremely difficult. The main obstacle of accurate measurement is that an employee's real skills and productivity are difficult to quantify, and appropriate data are seldom available.<sup>6</sup>

Differences in the easily calculated average statistics can be explained by numerous other factors, aside from discrimination. We obtain a more precise estimate if, using employee data, we filter out the impact of differences in observable human-capital characteristics (in general: education and work experience).<sup>7</sup> The remaining unexplained wage gap is closer to the extent of discrimination; but it can be interpreted only as an upper estimate, since there may be further,

5 Recent studies also emphasize that labour diversity increases productivity, and with the increase in teamwork, the role of alternative skills is also growing.

6 In certain occupations, individual productivity is measurable – e.g. in the case of production that is measurable by the number of units produced. However, the results of research based on these is not representative of the economy as a whole.

7 To do this, we estimated an individual-level wage equation by multivariate analysis, in which the explanatory variables are the employee's observable characteristics. If we also take into account the impact of segregation – so we are interested only in wage discrimination – occupation, company, sector and geographic parameters are also included as explanatory variables. In the equation, the estimated coefficient of the indicator (dummy) variable for the demographic group is the unexplained wage gap. Lovász (2010), for example, using the Employment Office wage tariff survey, estimated the wage gap at 15 percent between the sexes. Decomposition methods can also examine what share of the overall wage gap is explained by group-level differences in the observed characteristics.

unobserved differences between the productivity of groups, which could not be filtered out.<sup>8</sup> Moreover, this method requires detailed and representative employee data, and in many cases these are not available.

'Discrimination tests' measure discrimination using a different approach: job applications are submitted using properly prepared CVs for fictitious applicants. They include identical skills and capabilities, but the 'applicants' belong to different demographic groups (as revealed by their name, age or photo). The tests measure the chances of success. This testing does not pertain to wage differentials, but provides information on hiring, based on the different chances that the different groups have of getting a job. However, this analysis is relatively expensive, and therefore discrimination is tested on a fairly small sample; nevertheless, it allows for experimental control of employees' skills, and the results usually show significant discrimination.<sup>9</sup>

Some surveys examine population and employee perceptions and experiences of discrimination. These do not give an accurate benchmark as to the extent of discrimination, because the results are also influenced by the prevalence of discrimination and by social sensitivity. The problem with tests that examine the chances of victimization (own experience of discrimination) is also that respondents may hide/exaggerate their experiences, leading us to underestimate or overstate the extent of discrimination. Nevertheless, these do contribute to the overall picture created by the various methods, and do provide important information on changes over time.<sup>10</sup>

Finally, examination of population and employer prejudices – according to the preference-based discrimination method – measures prevalence by the root causes of the phenomenon.

## EXTENT OF AND CHANGES IN DISCRIMINATION SINCE THE TRANSITION

According to previous research and surveys of the Hungarian labour market, the Roma, women, elderly, and disabled workers are discriminated against most often. And yet nearly two-thirds of the working-age population belong to these groups.

1. ROMA. The employment rate of the Roma population had started to decrease some years before the transition, and it has decreased further in the past 20 years.<sup>11</sup> Whereas before 1985 there was no significant difference between the employment rate of Roma and non-Roma men, the difference had increased to about 40 per cent by 1994.<sup>12</sup> This was caused, in part, by the low education of the Roma, and by a fall in the demand for unskilled labour; but there are several indications that the role of employer prejudice cannot be ignored. In order to estimate the extent of discrimination, Kertesi and Kézdi (2011a) separated out the total difference in employment explained by education, region, household size and number of children – and an additional (unexplained) element. According to the results, observable characteristics explain between a third and a half of the total difference. The most important explanatory factor for men is difference in education; for women, the number of children is also significant.

Low education is also partly a consequence of discrimination.<sup>13</sup> On the one hand, lower anticipated wages may be a demotivation to study further; on the other

8 A well-known example is that same-aged men and women generally (because of maternity leave) have different levels of work experience, and (because of familial obligations) have lower average number of hours worked per month. Differences in efforts made at work, opinions on the importance of their career, or attitudes towards competition could also lead to real differences in productivity. The groups may also differ from preferences regarding working conditions, which lead to wage differentials.

9 Before the TÁRKI research series (Otlakán et al., 2006; TÁRKI, 2006), this method was only used in Hungary to prove individual cases of discrimination in the field of justice – mainly the Legal Defence Bureau for National and Ethnic Minorities (NEKI for short) and the Equal Treatment Authority. NEKI considers it worth testing about 10–15 notices per year; in 70–80 per cent of such cases, the test justifies the suspicions of the person who submitted the complaint (Simonovits, 2009).

10 See, for example, the international study of the European Union Minority and Discrimination Survey (EU-MIDIS, 2009a,b), the survey of the CSO in 2008 and of TÁRKI in 2009 (Sik and Simonovits, 2010), and the Equal Treatment Authority's research with reference to employers (Simonovits and Koltai, 2011a).

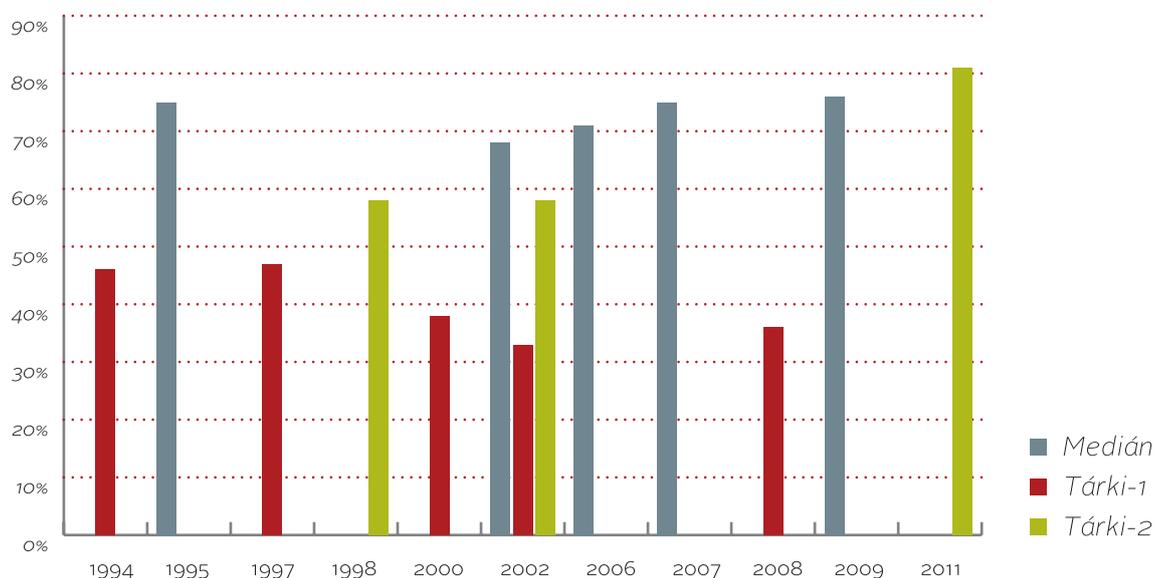
11 Kertesi and Kézdi (2011a) examined the development of the Roma population's labour market situation, based on representative surveys in 1993, 1994, 2003 and 2007.

12 Based on the Hungarian Career Survey of the Educatio Kht in 2007, 35 per cent of working-age Roma men and 82 per cent of non-Roma men in the sample were employed; for women, the proportions were 24 per cent and 71 per cent, respectively (Kertesi and Kézdi, 2011a).

13 Kertesi and Kézdi (2011b) showed that the current significant difference in Roma/non-Roma test results almost disappears, if the variables describing the pupils' family circumstances are taken into account.

hand, it is well documented that anti-Roma discrimination has contributed to school segregation, which, in most cases, has led to poor-quality education for Roma children.<sup>14</sup>

Figure 1: Attitudes towards the Roma expressed in public opinion surveys, 1994–2011 (per cent)



Medián: Average of opinions given on a 100-point scale, where 100 = not likeable sympathetic at all; 1 = very likeable sympathetic.

TÁRKI-1: Proportion of those in the adult population (percentage) who agreed with the statement 'It can only be acclaimed be said that there are still such places that the Roma are not allowed to enter.'

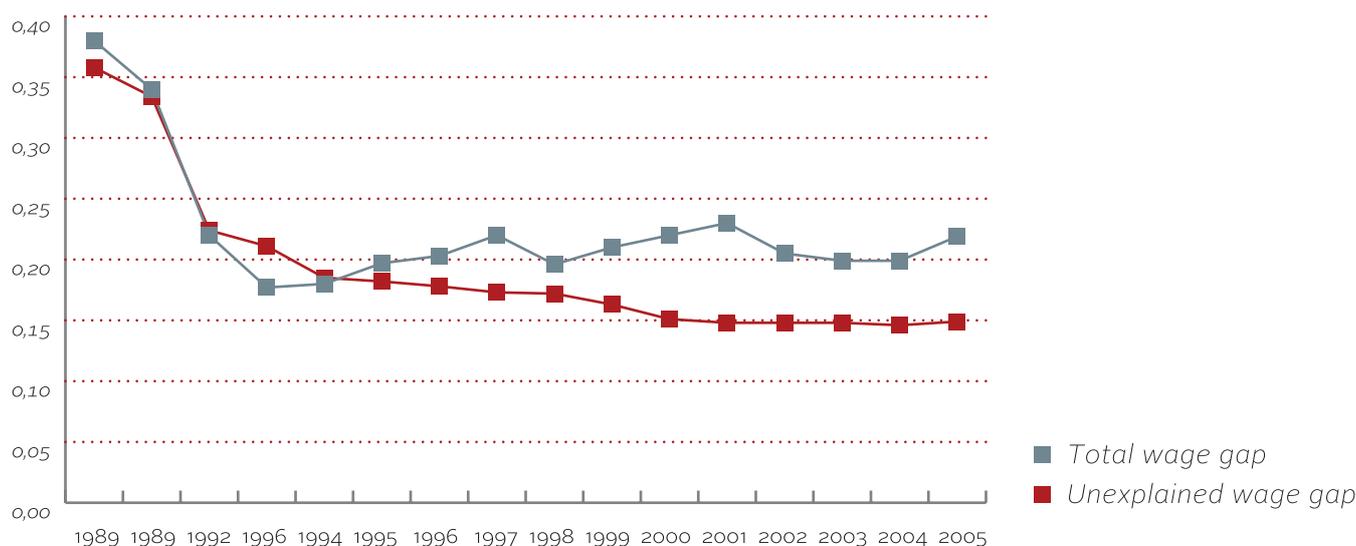
TÁRKI-2: Proportion of those who answered the following question in the negative: 'Would you accept a member of the Roma as a neighbour/your child's spouse?'

Sources: Medián (2009); TÁRKI-1: Enyedi et al. (2004); TÁRKI-2: Csepeli et al. (1998); Enyedi et al. (2004); Sik and Simonovits (2012).

In the case of the Roma, it is difficult to estimate wage differences accurately, since ethnicity is not included in most surveys. According to Kertesi and Kézdi's (2011a) estimation, the wages of Roma are about 30 per cent less than those of non-Roma; but the role of selection bias is important here, since their sample covered Roma who were better educated than average Roma. There is no estimate for the difference in wages between Roma and non-Roma that is comparable to the estimate for the difference between the sexes, but the difference is reckoned to be nearly double that between men and women. Wage differences in the case of Roma and non-Roma men have not changed over time: in both 1993 and 2007 the difference was approximately 30 per cent; in the case of women, it increased from 30 per cent to 40 per cent over the same period. Observable characteristics explained two-thirds of the difference in 1993; in 2007 the figure was rather higher, indicating a reduction in discrimination.

<sup>14</sup> Kertesi and Kézdi (2010a) map the situation countrywide. According to their results, segregation in schools is significant; more segregation takes place based on ethnicity than on being disadvantaged. On segregation by residence, see Havas and Zolnay (2010). There is also an estimate of the long-term benefits of investing in 'catch-up' policies: based on Kertesi and Kézdi (2006), the discounted present value of future state budget gains of investing in early education is HUF 19 million; even the most cautious estimate is at least HUF 7–9 million forints. The basis for this estimate is that better-educated people contribute higher amounts to the state budget and/or receive less in benefits from it.

Figure 2: Wage differences between men and women in Hungary



Note: The total wage difference is the average wage difference between men and women (the log difference in average wages). The unexplained wage difference is the estimated coefficient of the dummy variable indicating gender in the equation including education (5 levels) and potential work experience (based on age and number of years spent at school). The dependent variable is the log of net salary per month.

Source: Author's own calculation, based on weighted representative sample of the National Employment Office Wage Survey.

Surveys examining perceptions and attitudes suggest that the degree of discrimination is extensive.<sup>15</sup> This is also confirmed by research conducted in 2006 to test discrimination in the first stage of the hiring process.<sup>16</sup> The attitude surveys show that discrimination against the Roma declined in the 1990s, but has increased again in the past few years (Enyedi et al. 2004; Medián, 2009). Figure 1 shows how the prejudices of the population have changed over time since 1994.<sup>17</sup>

**2. WOMEN.** In contrast to trends observed in developed countries, women's labour market activity has decreased since the transition. The labour market activity of women with small children is particularly low, due to the traditional division of labour within families, the incentive system that rewards women for staying at home, and the low capacity of the childcare system (see [Chapter 6.3](#)). The proportion of women in managerial positions, among entrepreneurs and in government is low. At the same time, the average wage gap between men and women – as well as the inexplicable wage differential (by observable human-capital variables) – has decreased in the past 20 years (Figure 2).

The unexplained wage gap – which can be interpreted as an upper estimate for discrimination – has narrowed by about 20 percent (from about 35 percent) since the transition. The decline could be explained, in part, by improving female education and by the relative revaluation of typical female occupations; but also in part by the fact that the decline in employment greatly affected low-skilled women, in particular (Galasi, 2000; Frey, 1998). A significant part of the change in the wage gap is inexplicable, possibly indicating the existence of discrimination; but it also decreases in parallel with growing market

<sup>15</sup> Based on the Equal Treatment Authority representative survey, four-fifths of the Roma population consider discrimination against Roma to be prevalent, and every second person believes the extent of the problem has grown in the past five years. Nearly one-fifth of the population indicated that they had witnessed discrimination against Roma in the past 12 months (Neményi et al., 2011). According to the results of the EU-MIDIS survey in 2009, 65 per cent of the whole population believed that a darker skin colour is a disadvantage in getting a job (EU average: 42 per cent). One third of the Hungarian Roma perceived discrimination in job search, which is (together with the Czech Roma) the top value in the examined countries. Based on the TÁRKI survey for 2009, 14 per cent of the Roma perceived discrimination in hiring or dismissal in the previous 12 months (Sik and Simonovits, 2009).

<sup>16</sup> In testing by telephone, the positive feedback ratio was about 12 per cent higher for non-Roma people (judging by their names). Employers openly told 18 per cent of the Roma that the reason for rejection was their Roma origin. In testing by CVs with photos, a Roma appearance reduced the chances of feedback by about 8 per cent (compared to non-Roma) (Simonovits, 2009).

<sup>17</sup> In addition to the economic crisis, the media may have a role, too, often exaggerating the negative impact of real conflicts in order to increase viewer ratings, and being less than conscientious in giving a balanced view of the life of the Roma (Ministry of Labour and Social Affairs, 2007).

competition (Campos and Jolliffe, 2005; Lovász, 2010). The remaining wage gap is greatest among the best-educated and in the upper reaches of the wage distribution (Koncz, 2008), indicating the ‘glass-ceiling’ phenomenon that is often referred to in the literature.

Discrimination against women is, in part, statistics-based: for employers, maternity leave really does mean extra costs, and this reduces the average productivity of women.<sup>18</sup> However, it is difficult to separate this from prejudice, and empirical results suggest that both types of discrimination are present on the labour market. Public and employer surveys show that the extent of discrimination against women is much lower than against the Roma. However, research based on wages confirms that prejudice-based discrimination against women is also present in the labour market.<sup>19</sup> Finally, it is worth noting that, in Hungary, occupational segregation by gender is still significant (Sik et al., 2011; Koncz, 2011). Women are often grouped into occupations where wages are lower, both in horizontal terms (these are typical ‘women’s jobs’) and in vertical terms (there are fewer managers). Both surveys and the monitoring of job advertisements clearly demonstrate occupational stereotypes in society and among employers (Simonovits and Koltai, 2011a).<sup>20</sup> According to a 2009 survey that included the monitoring of nearly 2,000 job advertisements, 63 per cent of those advertisements had discriminatory content, included gender restrictions (ibid.). A survey of employers by the Equal Treatment Authority (Egyenlő Bánásmód Hatóság) also found that the so-called ‘forbidden questions’ (number of children, family planning and assistance with childcare) are asked at a third to a half of all job interviews (Neményi et al., 2011).

**3. THE ELDERLY.** The employment of older workers (55–64 years) decreased dramatically in the early years of the transition, and then, from the beginning of the 1990s, slowly began to increase again (see [Table 1.1 in the Statistical Annex](#)). These trends can be explained by reasons of both demand and supply. On the supply side, the trends are mainly due to changes in retirement regulations; on the demand side, lower educational levels, lower production and discrimination against older workers shaped their employment.

It shows the importance of the supply side that older-worker activity rose after 1998, as the pension age gradually increased. For older workers it is more difficult to return to the labour market, and studies on unemployment benefits suggest that the chance of being employed decreases markedly with age (Galasi and Nagy, 2002).

In the years after the transition, the labour market prospects of older workers fell drastically. The rapid spread of modern technology and corporate governance methods devalued their knowledge, gained before the transition, compared to those workers whose knowledge was more appropriate to the new situation. But the impact of this sudden reduction in relative productivity faded within 10 years, according to estimates, as newer cohorts of older workers came through, with more appropriate education and work experience (Lovász and Rigó, 2010).

The deterioration in the labour market situation of older people was also reflected in wages. Kertesi and Köllő (2002) estimated that, in terms of wages, 20 years of labour market experience resulted in a reduction of 4 percentage points between 1989 and 1992, and 7 percentage points between 1989 and

18 In Hungary, 0.1 per cent of working-age men, as against 10 per cent of women, claim insured maternity leave benefit (gyed) or flat rate parental leave benefits (gyes and gyet). [Chapter 6.3](#) deals in detail with the situation of women with small children and steps taken to improve their situation.

19 Lovász (2010) showed that, in Hungary, growing competition explains about 15 per cent of the reduction in the inexplicable male/female wage gap, also implying indirectly the presence of prejudice-based discrimination. This is why a competition-friendly economic policy is an important aid to policies aimed at reducing discrimination (OECD, 2008).

20 In the EU-MIDIS survey, according to 29 per cent of the population, female jobseekers are disadvantaged; that is confirmed by the CSO and TÁRKI surveys (Simonovits and Koltai, 2011a). According to the Equal Treatment Authority survey, discrimination against women is the fourth most common form of discrimination, with 45 per cent of respondents believing that discrimination against women is widespread (Neményi et al., 2011). TÁRKI testing research in 2006 for women gave seemingly contradictory results: the lack of feedback – that is the most elementary form of rejection – was higher in the case of men, but this also suggests gender segregation of occupations (Simonovits, 2009).

1999. The growing wage disadvantage of older workers was partly a result of the devaluation of knowledge gained before the transition: the relative productivity of skilled older workers declined significantly compared to that of younger workers, and by 1999 there was no significant difference between them and unskilled workers (Kertesi and Köllő, 2002; Lovász and Rigó, 2010).<sup>21</sup> Disadvantages in employment and wages cannot be regarded as a measure of discrimination in the case of the elderly, since productivity (experience, knowledge, and physical performance) change with age. However, the shock of the transition in itself worsened the labour market chances of this worker cohort and may have led to further prejudice-based discrimination. This is indicated by Daxkobler's (2005) research, which examined stereotypical attitudes towards older workers by evaluating job applications and by interviewing Hungarian human resources managers and other senior personnel. The research indicates that the attitude to older workers is not necessarily negative, but those who are significantly younger than the older applicant tended to have more negative attitudes towards older workers.

According to public surveys, there is major labour market discrimination against the elderly. In the European Union Minority and Discrimination Survey (EU-MIDIS), 67 per cent of people said that old age means disadvantage; and Hungarians equate age with disadvantage more strongly than the people of any other EU Member State (Sik and Simonovits, 2008).

Some 16 per cent of those who were asked during a supplementary study to the Central Statistical Office's (CSO) annual Labour Force Survey of 2008 had experienced discrimination in job search and dismissal, mostly on account of age (Sik and Simonovits, 2009). According to a recent Equal Treatment Authority survey, age is the second most common factor leading to discrimination: more than 10 per cent of the population had witnessed age-related discrimination. For more than half of the population, age-related discrimination is 'very' or 'fairly' widespread (Neményi et al., 2011).

**4. PEOPLE WITH DISABILITIES.** The change in discrimination against people with disabilities over time is even less well documented: there are also few comparable data available on their labour market activity. Censuses have collected data on the activity of people with disabilities, and, within the framework of the annual CSO Labour Force Surveys of 2002, 2008 and 2011, supplementary surveys gathered data on the labour market situation of those who live with a permanent disability or illness. According to the latter group of surveys, the working-age population with disabilities has shown a growing tendency to employment; yet even in 2011, barely half was employed. The proportion of employees with disabilities is very low in all sectors, and in the civil and public sector it is even lower than the national average (about 1 per cent, while it is about 2 per cent in the private sector) (Simonovits and Koltai, 2011b). We have no information available on wage differentials of the disabled.

As with older workers, this low labour market participation is explained by reasons from the supply and demand. On the supply side, the relatively easy access to disability pensions is responsible; on the demand side, low levels of education<sup>22</sup> and discrimination are the causes.

According to the household surveys of the past few years, the extent of discrimination is considerable. In the Equal Treatment Authority survey, after

21 For the period 1992–99, using three distinct models (unskilled, young-skilled, old-skilled), Kertesi and Köllő (2002) carried out estimates of differences in wages and productivity. Lovász and Rigó (2010) estimated differences in productivity using similar methods for the period 1986–2008, also dividing the unskilled group into two, by age.

22 The low level of education itself may be a consequence of discrimination: in addition to the demotivating impact of lower anticipated wages, discriminatory practices in public education can lead to discrimination. Children with special needs are taught in typically segregated, separated institutions; this often means lower-quality education. It is particularly common in the case of children of low-educated parents not to get access to proper development (Havas, 2009).

origin and age the most frequent perceived reason for discrimination is disability. Almost 8 per cent of the total population perceived disability-related discrimination in the year prior to the survey. According to half of the population, disability-related discrimination is frequent (Neményi et al., 2011). In the EU-MIDIS survey, 50 per cent of the total population of the same skilled and experienced jobseekers believed that disability was a disadvantage, while the EU average was 41 per cent (Sik and Simonovits, 2009).

According to a study by the social research organization TÁRKI, people with disabilities typically face some form of discrimination – most of them (20 per cent) on the labour market (Bernát and Hajdu, 2011). During CV testing in hiring, there was less feedback given to people with disabilities. Men with disabilities received feedback only 19 per cent of the time, while in other groups the feedback rate ranged from 20 per cent to 29 per cent (Simonovits, 2009).

## POLICY MEASURES AND THEIR EFFECTS

There are different reasons for the various manifestations of labour market discrimination among different groups. These all require specific policy actions. However many measures provide protection for all vulnerable groups and are of key importance in combating all types of discrimination. The most important of these measures are laws that guarantee the right to equal treatment, and the most important organizations are those that monitor and encourage implementation of these laws. In Hungary, the basic legal framework was put in place early on; however, the institutions that can actively intervene to uphold the law have developed rather more slowly. A prohibition on discrimination is, above all, enshrined in the Constitution. The Equal Treatment Act, which reflects EU recommendations and contains detailed rules on the outlawing of discrimination and on safeguarding equal rights, has been in place since 2004.<sup>23</sup> This legislation describes exactly what is meant by the concept of discrimination; who is covered by equal treatments; and, in the case of violation, what legal procedures are available. The Act explicitly refers to employment, and also contains several more related rules.<sup>24</sup> To monitor compliance, the Equal Treatment Authority was established.<sup>25</sup>

Since the enactment of the legislation, the practical enforcement of these legal tools has been limited, as the content of standards and the practice of law is characterized by over-cautiousness (Lehoczky, 2010).

The limitations of enforcement and the low rate of success have not encouraged victims to take legal action in the face of discrimination and have not deterred offenders; thus enforcement of the anti-discrimination laws is still weak (Majtényi, 2009; Lehoczky, 2010). A comparative analysis by the European Roma Research Council, however, suggests that the authorities in the countries of Central Europe have inadequate resources to educate and inform employees and employers (ERRC, 2007). Only 30 per cent of a representative sample of the Hungarian population were even aware of the Equal Treatment Authority (Neményi et al., 2011). According to experts, growing professional experience and changing social values can, in time, lead to the establishment of efficient legal frameworks and legal tools (Lehoczky, 2010).

<sup>23</sup> Act CXXV of 2003 on equal treatment and the promotion of equal opportunities (Ebkvt.).

<sup>24</sup> The Equal Treatment Authority, if discrimination is proved, may impose a fine ranging from HUF 50 thousands to HUF 6 million. It may order the infringement to be rectified, may prohibit future illegal behaviour and may order the public announcement of legally binding decisions on the violation. Since November 2009, a list of those employers who have been shown to have engaged in negative discrimination on at least two occasions within the past two years should be published; this would result in those firms' exclusion from numerous European Union tenders (Udvári, 2009). It is important to emphasize that in legal proceedings initiated for violation of rules governing equal treatment, the burden of proof is different from the principles that apply in civil proceedings. The burden of proof is not only on the accuser, but shared between the parties involved (ibid).

<sup>25</sup> The Hungarian Labour Inspectorate and its regional inspectorates also have supervisory powers related to equal treatment. In the field of education and enforcement, non-profit organizations are also important players.

The employment policy tools that helped disadvantaged groups at the beginning of the transition sought to combat unemployment, rather than to foster integration. Only in the late 1990s, when employment began to grow, did policy turn towards the so-called ‘active tools’ to promote employment. A further motivation was the preparation for accession to the EU; also, in the past ten years, EU guidelines have meant that more emphasis has been placed on combating exclusion and encouraging the labour market integration of disadvantaged groups.

One of the first steps, in 1998, was to raise the retirement age and introduce rehabilitation, encouraging employers – by the threat of financial penalties – to employ people with disabilities.<sup>26</sup> Other measures have included public education reform, launched in 2003 with the aim of improving equal opportunities;<sup>27</sup> the extension of training and wage subsidies offered by local job centres to disadvantaged groups from 2005; and the ‘Start’ programme, introduced in 2007, which basically grants wage subsidies to mothers returning to work after having a baby<sup>28</sup> and to unskilled or older long-term unemployed people.<sup>29</sup> The last two years have seen significant progress in the development of complex rehabilitation services, with claimants of the new rehabilitation allowance, launched in 2008, being helped by EU-financed mentors and services to return to the labour market (Scharle, 2011). Even back in the mid-1990s, programmes were launched to promote the integration of the Roma population, though they were typically small-scale and did not bring significant results (Fleck and Messing, 2010; Simonovits and Koltai, 2011b). There are no impact studies available to assess the effectiveness of programmes to promote equal opportunities – apart from integration in education.

## RECOMMENDATIONS

The Western European and American experience of reducing discrimination suggests that successful policies consist of diversified and coordinated steps: anti-discrimination laws and their vigorous enforcement; action aimed at creating equal opportunities; an avowed commitment and active participation on the part of the state; and strict supervisory authorities (ERRC, 2007; OECD, 2008).

The primary condition for reducing discrimination and inequality is to balance opportunities for employment.<sup>30</sup> In compensating for perceived or real disadvantage in production and services, the active tools of job centres can play an important role, by offering more personalized assistance for disadvantaged jobseekers.

Employers can also be motivated by positive and negative incentives, and by education. An example of the latter is when the state, as an employer, sets a positive example in the field of equal opportunities and workplace integration. The OECD (2008) recommendations say that the first step is to shape public opinion and disseminate information, to assist victims with legal cases, and to provide professional support for employers in drawing up appropriate internal rules. In the integration programmes, steps also need to be taken to form the attitudes of the majority, as well as to shape the identity of the Roma. The ERRC (2007) report emphasizes that, in the case of the Roma, it is particularly important for the government to declare that discrimination is unacceptable.

26 A contribution has to be paid by enterprises with more than 20 employees if the proportion of disabled employees is less than 5 per cent of the labour force. This amount tripled in 2004 and had increased five-fold by 2010; it now stands at close to the annual minimum wage.

27 By the end of 2009, EU-financed education development programmes reached into 1,600 schools, a quarter of them practising integration (Reszketó et al., 2010). The Integration Pedagogic System aims to provide various opportunities for multiply disadvantaged children. According to a particularly thorough impact study, as a result of the methodology development programmes, fewer disadvantaged children – including Roma pupils – were lagging behind; meanwhile non-Roma pupil results have not deteriorated (Kézdi and Surányi, 2008).

28 For other tools supporting mothers with small children returning to work, see [Chapter 6.3](#).

29 According to the study on the programme’s effects, less than 5–8 per cent of the enterprises that participated in the ‘Start’ programme hired mothers with small children, while 4–13 per cent of the institutions that participated in the ‘Start-plus’ programmes took on older or unskilled long-term unemployed people (Simonovits and Koltai 2011b).

30 For actions required in this field, see Havas (2008).

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## 5. MATCHING DEMAND AND SUPPLY

### 5.1. GEOGRAPHICAL MOBILITY

ÁGNES HÁRS



Migration is a form of mobility that involves crossing the boundaries of a specific geographical unit (region or country) and a change of residence. Moving between the regions of a country is usually termed *internal migration* or *mobility*, while cross-border mobility is called *international migration*. This chapter examines these two types of migration, and commuting is discussed in [Chapter 6.4](#). There are crucial differences between interregional and international migration, primarily in the regulation of migration policy and the equalizing effects of migration. The direction of international migration, the fact and the impact of *emigration* and *immigration* have a diverse influence on the labour market of a country, and thus it is important to distinguish between them in our analysis. Migration involves a longlasting change of residence, and this is the main difference from *commuting* – a temporary, short-term change of residence or longer-distance travel with no change of residence.

#### THEORETICAL BACKGROUND, WORKING MECHANISMS

In classical economic theory, the individual's decision to migrate is determined primarily by the wage and employment prospects and whether or not they are better. If it is indicated at all, the loss of certain factors – such as the familiar surroundings of home – is included in the models only as a subjective cost, if at all, and is hard to quantify. According to the classic Harris–Todaro model (1970), which examines urbanization resulting from industrialization, the expected differential between incomes in the city and in rural areas is the main factor in the decision to migrate. In this model involving unemployment, the migrant individual is able to make a rational decision about moving from a rural area to the city by considering both the potential for high wages in the city and the possible loss of income due to unemployment, and factoring in the unemployment rate. The conclusion the model reaches is that a number of inhabitants in less developed regions take a rational decision to move to more developed regions, which can reduce the gap between the development rates of regions within the country.

However not even in theory does migration remove all territorial differences. Moving entails considerable cost: it means cash expenditure, the need to acquire information, a change of house and the removal of belongings, leaving one's home, losing social contacts and security, a change of environment. The people who decide to migrate are those for whom the prevailing difference

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in wages will make the move worthwhile, thus – according to human capital theory – it is the young and educated who are more likely to leave in order to settle somewhere else. However, those living in extreme poverty in poor regions do not participate in migration.

It takes time for migration to gain momentum and for the migration networks to be consolidated (Boyd, 1989). Furthermore, family ties may lessen the willingness to migrate (Mincer, 1978). According to the recent economic theory of migration, the decision to migrate is made by the family rather than by the individual, which reduces the risk at the individual level. The family may choose to delegate a member for whom it was not optimal to migrate if he were to decide on his own (Stark and Bloom, 1985; Massey et al., 1993). Newer theories, supported by empirical data, state that the migration decision is determined not by the difference in wages alone, but also by the standard of living, or relative prosperity, and status compared to the reference group (Stark, 1984; Stark and Taylor, 1989; Rappaport, 2005).

Many of the factors that motivate international migration are similar to those that prompt internal migration. The most important difference is a function of the state control of borders (Zolberg, 1989), which makes an econometric estimation of the migration decision practically impossible.

The effects of international migration on the labour market of the host country are described in well-researched studies, which provide important insights for migration policy. The labour market is influenced by the structure of migrant groups and native employees. Depending on this, either the migrants can take the place of native employees on the labour market of the host country, if the two groups are similarly structured, or – if their structure is different – then there is a complementary effect, with new jobs created and increased wages (Borjas, 1995; Altonji and Card, 1991; Chiswick, 1999). Empirical studies show the effect of migration on unemployment and wages in the host country to be surprisingly low (Borjas, 1994; Winter-Ebmer and Zweimüller, 1996; Boeri and Brücker, 2000). Migrants usually pose a threat to the wage rates and jobs of earlier migrants, while on the labour market of the host country they play a complementary role. A study by Baas et al. (2010) found this to be the strongest effect of migration on the labour market after the EU enlargement. Most studies concentrate on the host countries and only a few analyse the effect of migration on the labour market of the sending country. Most of those that do examine the effect of the migration of highly qualified workers: in such cases there is no definite proof of any economic loss to the sending countries due to migration (Commander et al., 2004; Stark, 2005). Rarely do these studies examine the connection between migration, unemployment and wage levels in the sending country. A study did examine the effect of increasing emigration in eight East European countries of the post-enlargement EU. It can be shown that, on the labour markets of the sending countries, the equalizing effect on employment and wage levels is equivocal, contradictory and difficult to distinguish from the effects of the business cycle (Baas et al., 2010; Kazmarczyk, 2010).

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## THE EFFECT OF MOBILITY ON EMPLOYMENT

The potential of migration for regional equalization is limited: mobility does not significantly change the differences between regional labour markets. Apart from the imperfection of mobility, the lack of equalization can also be explained by the fact that the workforce is not sensitive enough to the differences in wages. Barro and Sala-i-Martin (1991; 1995) examined the differences in incomes in the states of the US, the regions of Europe and the prefectures of Japan (regardless of productivity), and found that workforce mobility had a minimal effect on the convergence of wages: a 25 per cent difference in wages led to a maximum 1 per cent increase in net migration. Other estimates showed an even smaller effect (Hatton and Williamson, 1998) or else no correlation at all between the level of wages and migration (Blanchard and Katz, 1992). Using a long time series, Rappaport (2005) proves that the decisive factor in equalizing incomes is capital flow. In other words, it is unlikely that workforce migration causes wages to fall and it has no effect on the equalization of wages.

In line with the international experience, migration in Hungary has had a very limited effect on employment in the last twenty years. Kertesi (1997) examined the factors that boosted territorial mobility and internal migration in the first half of the 1990s, and Ábrahám and Kertesi (1996) identified the factors that increased domestic mobility for periods during which the regional differences in unemployment were great and were becoming constant. Based on settlement-level migration statistics Kertesi (1997) showed that migrants are attracted neither by low unemployment, nor by better employment prospects, but rather by flourishing economic regions. For a later period (the whole of the 1990s) Cseres-Gergely (2004; 2005) found the role of labour market factors – unemployment and wage differences – to be significant in inducing migration, but this observation explains a relatively small proportion of migrations. Examining regional income and wage differences, Köllő (2004) (for the turn of the millennium) and Szabó (2007) (for the years after 2000) found moderate differences when they compared regions with the same level of productivity and unemployment, and somewhat greater differences when they took into consideration wage gain and labour cost reduction. In terms of territorial mobility, those factors – together with the transaction costs of migration – are insufficient to stimulate the decision to migrate.

Contrary to expectation, the low migration rate of the end of the 1980s decreased still further in the 1990s. Between regions, the migration from east to west became dominant. If we look at the different counties, the capital Budapest has suffered a significant migration loss to Pest county. The characteristics of internal migration can best be described at the level of small regions. In the small regions of the Budapest agglomeration, the yearly migration gain was significant even back in the 1990s, while in the disadvantaged regions of the north-east there was a considerable loss through migration. By the beginning of the 1990s, the earlier trend of moving to the cities had changed direction: the migration balance of cities was negative from 1990, and the same was true of the capital from 1991 onwards, while in the villages after 1991 the balance was positive. In the 2000s the zone of migration into the agglomeration stretched steadily further from the capital.

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In recent years, the direction seems to have changed again, but the nature of the change is not yet clearly discernible (Illés, 2000; Dövényi, 2007; 2009). The strong wave of suburbanization and de-urbanization of the 1990s was partly directed towards smaller and less well-appointed, cheaper villages, due to the lower cost of living. The labour market-related connection between such migration and commuting can be demonstrated, as the target settlements of migration lack local jobs but offer the possibility for people to commute. Migration is also partly motivated by the wealthy escaping from the cities. A comparison of the economic and other reasons for migration based on the available statistics suggests that only a small proportion of migration was directed at tackling territorial differences (Cseres-Gergely, 2004; 2005).

Different effects are to be expected in the case of cross-border migration.<sup>1</sup> The situation in Hungary has proved changeable: at the beginning of the 1990s, migrants and refugees arrived in the country in unprecedentedly large numbers (compared to previous periods), and it was expected that immigration would remain a permanent feature.<sup>2</sup> No estimates were made in the early 1990s of the consequences of immigration for the labour market, but international studies have shown small effects even in the case of a large and sudden influx of migrants (Winter-Ebmer and Zweimüller, 1996). The relatively high wages of the 1990s (compared to other countries in the region) and the strengthening of the network connections of those living in neighbouring countries were enough to predict a permanent influx (Gödri, 2010). Analysing the structure of immigration, Hárs (1992) assumed that migrants would have an influence on wages in those labour market segments that cover the low-skilled domestic workforce and the illegal migrant workforce, but this assumption lacks empirical evidence. The enduring (and partly illegal) immigrant workforce serves to point up the complementary nature of migration, contributing as it does to domestic employment (Fox, 2007; Pulay, 2005). The trend of the first years after the political regime change ran out of steam, and there has been no increase of a similar size since.

By the end of the 1990s there was a regional shortage of labour in the fast-developing western region of the country that could not be met by domestic recruitment. (No studies were undertaken into the reasons for the lack of adjustment.) In the short term this labour shortage was met by the – partly organized – cross-border daily commuting of Hungarian-speaking Slovak workers, in the context of a regional labour market characterised by major differences in terms of tightness and structure on the two sides of the border (Hardi and Lamp, 2008). Regional cross-border commuting remains a permanent feature, though it has fallen back during the current economic crisis. To the best of our knowledge, there have been no studies into the effects of cross-border (regional) commuting on the labour market.

The main targets for the Hungarian workforce that emigrated in the 1990s were Germany and Austria. Migration with the aim of finding employment was partly in response to recruitment drives. In accord with the theoretical models, it was largely better-placed employees, generally with some qualifications, who participated in this (Hárs, 2003a; 2004). The scale of migration had no substantial effect on labour market indicators, and those returning home did not use their savings to start up businesses (Hárs, 1999; 2003a).

1 As a rule, international migration studies classify migrants according to citizenship or place of birth, the latter being relevant in the case of successive generations of migrants. Hereafter, when examining international migration, we use the classification according to citizenship. Until recently, migration meant a stay of longer than a year; now it means a stay of longer than three months. However, cross-border commuting – just as internal migration – is a different type of equalization mechanism of mobility.

2 Even countries with different migration histories have in common the fact that the direction of economic migration shifts towards immigration. On the transitory position of East European countries see Hárs (2010).

3 The trends of internal mobility can be determined based on administrative data for migration. The Demographic Yearbook of the Central Statistical Office gives detailed information on permanent and temporary migration; the TSTAR database offers similar assistance, supplying unified data on permanent and temporary migration, and on moves in and out of every municipality.

4 NUTS2 regions are the territorial planning units of the EU. Hungary was divided into seven regions, which were formed by uniting certain counties and the capital.

5 The low mobility in Eastern Europe is usually explained by theories that lack empirical evidence – by the legacy of the socialist past, by the secure workplaces and (partly) by family ties (see Feldmann, 2004; Paci et al., 2008). It is worth noting that, though such explanations refer to internal mobility, in countries with a low emigration rate (like the Czech Republic or Hungary), they are valid for international migration as well.

After accession to the EU, in contrast to some other Member States, such as Poland or the Baltic states, emigration gained momentum only slowly (Hárs, 2008; Baas et al., 2010).

## THE PROCESS OF MIGRATION AND THE TRENDS

The migration process of the early 1990s clearly shows some continuity from earlier periods; the trends were strengthened by rising unemployment and by the transformation of the economy.<sup>3</sup> Cseres-Gergely (2004) compared domestic statistics with those of foreign countries and found that mobility in Hungary was low, but his estimates for people moving between larger regions<sup>4</sup> suggest that migration does not lag behind other countries of Europe. Paci et al. (2008) examined internal migration and commuting in the 1990s and the 2000s in the eight new, East European Member States (EU-8). According to this study, mobility across regions of Hungary is low by comparison with the older EU-15 Member States or other developed countries, but in some Mediterranean countries, such as Greece or Spain, mobility is even lower. Commuting between regions is also low compared to the EU-15 Member States and some other developed countries; however, between 1999 and 2004, commuting increased in the new EU Member States, whereas it declined in most of the EU-15 states. Hungarian figures are not below the EU-8 average, and low mobility is characteristic of all these countries.<sup>5</sup>

Immigration into Hungary began rapidly after the transition and was more significant than in other East European countries. Refugees arrived in large numbers, and the primary source of migration was citizens from neighbouring countries who had Hungarian as their mother tongue.<sup>6</sup> After the rapid initial influx, the level of legal immigration stabilized; so, too, did the composition, with most migrants arriving from neighbouring countries. The level of Hungarian immigration does not significantly differ from other East European countries, with migrants accounting for only a few per cent of native citizens (a substantially lower level than in most West or South European countries). Among East European countries, only the Czech Republic after 2000 experienced rapidly growing immigration that was comparable to West and South European migration (Hárs, 2010).

After the political transition, the rate of *emigration* was relatively low, and the main destination countries were Germany and Austria.<sup>7</sup> The destination of migrant labour did not change significantly after Hungary's accession to the EU: unlike in other East European countries, the fact that the free movement of labour was restricted in those two countries until the end of the transitional period made little difference. On the other hand, the proportion of Hungarians in the fast-growing migration from EU-8 countries – particularly to the United Kingdom and Ireland – remained low and grew only slowly (Hárs, 2008).<sup>8</sup> Migration figures indicate the forecasts,<sup>9</sup> and the calculations based on the Labour Force Survey of the Central Statistical Office (Hárs, 2011) also show that the largely labour emigration from Hungary – unlike from other new East European Member States – increased in the period beginning with the austerity measures of 2007 and the imminent economic crisis. The increase seems to be definite; however, its scale and structure are hard to predict. Until

6 Immigration figures are regularly published in the Demographic Yearbook of the Central Statistical Office. Based on information from the public administration bodies, we are able to trace the foreign nationals legally staying in Hungary. Only the stock data and the immigration data are adequate for a reliable analysis; net emigration, however, cannot be established from available data, due to the inaccuracy of data on outflow (see [Table 4.4 of the Statistical Annex](#)).

7 The statistical sources for quantifying emigration are not reliable and only a fraction of those living abroad are officially registered; thus the statistics of the host country (so-called mirror statistics) must serve as the statistical source on Hungarian citizens living abroad. These show the data for legally and permanently settled people; the registers do not contain those who, for one reason or another, have not registered (see [Table 4.5 of the Statistical Annex](#)).

8 After EU enlargement on 1 May 2004, the movement of labour became free. The United Kingdom, Ireland and Sweden were the first to open up their labour markets; however, some of the old EU Member States, concerned about perturbations on the labour market, took the opportunity to only gradually open up their labour markets to the new members. They deferred the possibility of the free movement of labour for a three-year period after enlargement, and then for an additional four years. But since May 2011, the labour markets of those countries that prevented free movement for longest, Germany and Austria, have also opened up to the new EU members.

9 In the 1990s both short- and long-term intentions of working abroad were low (3–4 per cent) in the relevant age group (18–55). At the beginning of the 2000s this figure rose (to 8–9 per cent in the short term and to 6–7 per cent in the medium term). In 2005 the short-term intention of working abroad soared (to 15 per cent), and then fell back the next year. In 2008, both short- and long-term migration expectations rose again (to 11 per cent), then finally settled at a level that was 1–2 per cent higher than before (Monitor- and Omnibus-surveys of TÁRKI, 1993–2010).

now, the Hungarian emigration rate has remained low by international standards: along with the Czech Republic, the proportion of nationals who live in the EU-15 countries is below 1 per cent, whereas the figure is 3.5–4 per cent in those new Member States with the greatest number of migrants (Bulgaria, Lithuania, Poland) and more than 7 per cent in Romania (Kahanec et al., 2010).

## EXOGENOUS EFFECTS ON MOBILITY

Why are Hungarians *not* mobile? What prevents the equalizing effect of mobility from acting on the labour market? The main question for Dövényi (2007), who examined *domestic mobility* after the transition, was: Why do people stay in the same place, rather than migrate? In the absence of statistical data, his hypothetical answer was that, on the one hand, the old workers' hostels had closed down, and so workers who returned to their villages had no mobility assistance, while on the other hand, house and property prices had changed. Hegedüs (2004) examined the housing market of the 1990s and found that those factors that impeded mobility were the high cost of housing and of mortgages on privately owned flats, the institutional system for subsidizing housing mobility, the lack of private rental apartments and their inadequate regulation, the scarcity of information about the housing market, and the municipal social support system (which disadvantaged newly settled inhabitants). Under such circumstances, the personal risk of mobility is disproportionately high for the individual, which impedes migration to regions with better employment prospects. This is the barrier to adaptation.<sup>10</sup>

Internal migration can be thwarted by other factors as well: for example, in the job-hunting process, the scale and importance of informal channels of information is very high, which serves to accentuate the role of the local community. Data show that, from the beginning of the 2000s, the scale of informal job seeking was high in all EU-8 countries, compared to West European countries and developed non-European countries. (Only in Spain was the level comparably high.) In Hungary, the role of informal information in finding a job was especially high – the highest in the region, which is quite remarkable. The mobility-hindering effect of this requires more thorough analysis (see the results of the International Social Survey Programme (ISSP) 2001; the calculations of the World Bank are quoted in Paci et al., 2008: 48).

Hungarians have proved to be immobile in *foreign job seeking as well*. However, the causes of low intensity are – apart from the low propensity to migrate (which is hard to prove) and the lack of language skills (which is a common argument) – of economic and institutional nature. According to Hárs (2009), among the factors that hinder and constrain the decision to migrate are the (relative to the region) high welfare benefits in Hungary, the unemployment benefits and childcare system, plus the old age and disability pension systems. All these push the migrant reservation wage up and raise the alternative cost of migration, which lowers the propensity to migrate. Kurekova (2010) came to a similar conclusion when (taking advantage of the rare opportunity presented by the natural experimental situation) she compared the low Czech and Slovak migration rates. In these two countries which, until the very recent past, had a common history and customs, the pattern of emigration was very

<sup>10</sup> More recent results on the changes in the housing market and its effects are not available. The costs of adapting without changing residence and of commuting, and the restrictive factors are not discussed here; they are dealt with in [Chapter 6.4](#).

different – something that casts doubt on the theory that low (or high) migration propensity has its origins in history. The two countries' propensity can be explained much better by their different paths of development after the break-up – primarily the differences in the social benefit system, which was generous in the Czech Republic, but scanty and restricted in Slovakia.

*The inflow of foreign nationals* to the Hungarian labour market – after an intensive start and expectations of a rapid increase – quickly ebbed (Hárs, 1998). The attraction of foreign nationals was limited by economic growth with no increase in the number of jobs – indeed with redundancies – and by the different structure and the scarcity of new jobs (Kertesi and Köllő, 2001; Kőrösi, 2005); there was also a lack of jobs in the kind of micro- and small enterprises that induced the South European migration (Reyneri, 2008; Abreu and Peixoto, 2008). In contrast to Hungary, there was a swift increase in the number of foreigners taking jobs in the Czech Republic, primarily to satisfy growing demand in the labour-intensive sectors (Drbohlav, 2011).

## THE ROLE OF STATE POLICY AND ITS INFLUENCE ON MIGRATION

Though it was always a goal of state policy to encourage *internal migration*, with the aim of levelling out regional differences, the role of incentives to this end remained marginal, which is reflected in the size of the budget allocations and in the number of individuals concerned (Fazekas and Németh, 2005). Most of the direct support for mobility subsidized commuting in the form of individual and group travel subsidies, and the number of those who received a subsidy diminished steadily (around 1,000–3,000 beneficiaries), the option of housing support was removed, and neither the effectiveness of the subsidy nor its effect on the labour market was examined.<sup>11</sup>

Other experimental programmes that subsidized mobility failed similarly. For example, the experimental programme launched by the National Public Employment Foundation (OFA) in 2008 to support the mobility of those living in disadvantaged areas (which aimed to encourage mobility by subsidizing the costs of migration) failed to generate any interest: there was not a single beneficiary of the programme (OFA, 2008). Another experimental programme of OFA offered a subsidy to healthcare workers affected by sectoral reforms, but was implemented only partially after several amendments and delays. The failure of the programmes indicates the haphazard nature of the policies and the vagueness of the targeting. The effectiveness of the programmes was not examined (OFA, 2009).

Apart from the failed targeting of direct subsidies, other serious drawbacks included the state of the housing market (which deterred migration) and the lack of rental apartments. Around 2000, as part of the housing policy reform, there was an attempt to adjust housing subsidies, and in 2002–03 a rental apartment strategy was announced; but after six months these programmes were cancelled (Hegedüs, 2006).

Though immigration was modest, Hungarian regulators tended to restrict even this, in preparation for perturbations on the labour market.<sup>12</sup> Labour legislation regulated the access to employment of foreign nationals, and at the end of the 1990s a ceiling was imposed to limit the number of work permits.

11 Governmental decree 39/1998 (III.4.) on subsidies for employee travel expenses and manpower recruitment. Subsidies could be granted for a) local travel; b) group transport; c) housing subsidies refund; d) workforce recruitment. However the decree failed to regulate the last two, the text referring to these remained incomplete, and they were not indicated among the sources.

12 In 1993 Act LXXXVI of 1993 on the Entry, Stay in Hungary and Immigration of Foreigners was passed, and later a number of amendments and additions adjusted the regulation to the presumed dangers. The paradox described by Freeman (1993) prevails in this case: the question is on what grounds economists accept free trade and on what grounds they support the restriction of migration. The preconceptions formed as a result of presumed dangers act, according to Freeman (1993), as a barrier to the absorption of migrants, which sets a limit on the influx of foreigners, even if this is not justified by the labour market.

However, the number of foreign nationals never even came close to the limit. Immigration was not encouraged in any tangible manner. When Bulgaria and Romania joined the EU, after much consideration the Hungarian labour market was opened up; but no impact assessments were carried out and restrictions were imposed: only specific jobs were open to the nationals of these two countries, in anticipation of a significant level of migration, which would have caused disturbances and had adverse effects on the labour market.<sup>13</sup>

Before the 2004 enlargement (and in some cases in the transition period after enlargement), the older EU-15 Member States had restricted access to their labour markets on similar grounds, and back then Hungary had disputed the need for excessively tight restrictions to counter presumed risks; through bilateral agreements, she had put in place a legal framework that made it possible for people to work abroad, but further measures were not undertaken on account of the relatively modest rate of emigration. If we examine Hungary's position, it becomes clear that neither inbound nor outward migration was significant. The restrictions on immigration were substantial and little was done to encourage it. While the restrictions involved significant cost, their effect on the labour market, their advantages and disadvantages were barely examined.

## THE RESULT OF MEASURES ON MOBILITY AND THEIR EFFECT ON EMPLOYMENT

The possibilities of internal migration proved to be limited in smoothing territorial differences. The regional differences in unemployment, as we have seen, are stable and persistent, and the variation in productivity of the regions is also permanent, which is a cause of the wage differentials.

The regional development policy, without well-targeted developments supported by case studies, can also impede territorial equalization. Addressing the popular notions of aid programmes, Razin and Sadka (1997) emphasized that in such cases trade can act as a mechanism to supplement workforce mobility. Wage differentials will not necessarily be eliminated as the result of such a programme; in fact, they may even increase, thus providing greater incentive for workforce migration, should the technical and economic advantage of one region remain the same (or increase) compared to another region. Hárs (2003b) examined the possible effect of the employment of foreign nationals in Hungary on the labour market, in light of the exaggerated forecasts of policy makers and the measures taken to protect the labour market. An *ex ante* approximation was made – at a time when conditions favoured inquiry, in the period before the Status Law was passed – of the connection between the wage expectations of the migrant workforce and the anticipated supply of labour. It found that the reservation wages of the migrant workforce far surpassed Hungarian wages (approximated by the minimum wage), which predicted a substantially smaller supply of migrant labour than the policy makers expected. Given the professional and wage structures at the time, it was unlikely that the naïve assumptions for the supply of migrant labour would be realized. The often heated and partisan debate surrounding the Status Law and the resulting restrictions were pointless and unnecessary.

<sup>13</sup> According to an employee of the Ministry of Labour, Hungary '... accepted that old Member States also restricted their labour markets. Caution is legitimate if we consider the state of the labour market and the unemployment rate. In addition Bulgaria and Romania have a bigger potential of migrants than any of the countries that have recently joined' (Index, 6 September 2006).

Another estimate for a later period was made by Hárs et al. (2006) to evaluate the restrictions on the labour market after Romanian and Bulgarian accession. The results were similar.

## CONCLUSION AND RECOMMENDATIONS

The potential of domestic mobility to go some way towards levelling wages and unemployment is, as we have seen, limited. Territorial differences can be mitigated by well-targeted, clearly defined development policy, and mobility could be encouraged, primarily by means of education and housing policy. In the regulation of international migration, restriction has prevailed. The costs of this, as we have already pointed out, are significant, albeit difficult to quantify. The policy regulating migration could be a liberal and selective one, based on impact assessment; it would be especially important to examine the job-creation potential of migration.

Policy has few means at its disposal to restrict or to enhance emigration. Migration is regulated by the restrictions and opportunities of the host countries, and most Hungarian emigrants have been attracted by the labour markets of Austria and Germany, both of which restricted immigration. This shows the limited effect of such regulation. Earlier programmes to channel migration and to recruit a migrant workforce were successful, but not in all cases. The labour market of the host country will decide the success of any decision to migrate.

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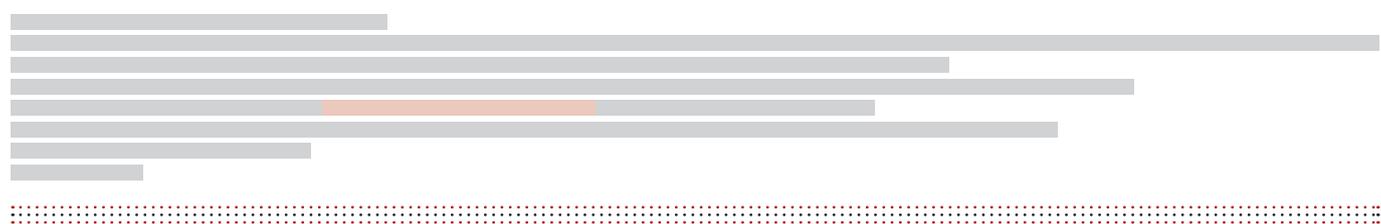
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## 5. MATCHING DEMAND AND SUPPLY

### 5.2. ACTIVE LABOUR MARKET MEASURES

PÉTER GALASI AND GYULA NAGY



The definition of active labour market policies (retraining, labour market training) has evolved in parallel with the diminution of the role of financial assistance in coping with unemployment. The term covers any policy measure that serves to hasten the reintroduction of unemployed people to the labour market. The concept has seen significant changes since the 1980s. Until the end of that decade, two types of active programme were in evidence: those that affected the supply side, and those that dealt with the demand side. On the supply side, the most important measures sought to prevent any decline in a person's ability to work (public works), to boost their ability (education, training courses) and to cut the costs faced by an employee (transport contributions). The various measures on the demand side aimed to cut the cost of employment.

From the 1990s, the concept of active measures was broadened out to cover recruitment and related services, subsidy schemes that encouraged job search, as well as counselling and monitoring – and also sanctions. Sociological literature describes these measures as counselling and monitoring (see [Chapter 4.1](#)). According to the grouping of Kézdi (2011a), the main types of active labour market policies are as follows: counselling and the provision of information to assist in job hunting; public works; programmes to support employment (such as benefits for companies if they employ target-group individuals, or assistance in becoming self-employed); training programmes; and packages of (usually) small-scale initiatives that perhaps combine programme elements with other measures to offer services to a clearly defined target segment.

Over the past twenty years there has been no unified framework to guide measures in Hungary: as well as the employment office and the ministry of labour, other government ministries and EU development agencies have launched employment support programmes, drawing on several streams of finance. Partly for this reason, there is no long time series available of comparable data on the implementation and effectiveness of the various measures. In this chapter we examine the best-documented measures: the programmes undertaken by the employment office, which fall within the framework of the Employment Act.<sup>1</sup>

<sup>1</sup> Frey (2010) gives the most detailed and up-to-date overview of the set of measures and of the major programmes outside the framework of the Employment Act (TÁMOP programmes, Start-card, benefits for disabled workers, etc.).

## THE MECHANISM OF ACTIVE MEASURES

Active measures can help speed up the process by which potential employees and employers ‘find’ each other and can sustain an individual’s ability to work – partly by reducing the work-related costs that face employers and employees, and partly through the direct creation of jobs. Training courses can enhance the skills of individuals (increase their human capital), but equally they can adjust those skills to fit the requirements of the demand side – an employer’s needs. The working mechanism for the measures can be described by several theoretical models. In order to analyse the various measures, studies of unemployment use ‘search’ or ‘search-matching’ models (another name is ‘search-equilibrium models’) (Diamond, 1982; Kiefer and Neumann, 1989; Mortensen, 1986; Pissarides, 1990). These models easily handle primarily passive measures (income supplement) and measures that increase the incentive to search for employment and the probability of finding a job (for example, help in contacting employers, monitoring and sanctions). However, direct job creation (i.e. public works under a variety of names) and wage subsidies, or the reduction in employer contributions do not fit well into this modelling framework.

In the first case (direct job creation) we do not really have a theoretical model, and the effectiveness of the programme is entirely an empirical question. In the latter cases, we can apply simple labour market demand models, in which the reduced cost of employment leads to an increase in the number of employees; thus the employer can hire more (previously unemployed) workers than he could if there were no benefits. The theoretical effect is ambiguous, because in such cases the counter-effects also need to be considered: the crowding-out effect (those supported by a policy can ‘crowd out’ other job seekers), the replacement effect (hiring a supported individual may involve firing another employee) and the dead-weight loss (the job might have been created even without the subsidy). If a specific measure reduces the cost of work for the employee (e.g. a previously unemployed person receives a travel benefit for a certain time), then we have a simple model of work supply, where reducing the working costs of the employee (with the wages remaining the same) unambiguously raises the individual supply of work.

The effects of training can be described by simple human capital models. The individual can add to his/her human capital (intellectual capital) by undertaking learning. This will have two consequences: on the one hand, it will raise the (expected) wages of the individual, and on the other hand, an intellectual capital that is better suited to demand will speed up his/her (re-)employment, so – *ceteris paribus* – the result is a shorter spell of unemployment. In practice, retraining can have significant adverse side-effects (dead-weight loss, a crowding-out effect and a replacement effect), but these can be mitigated by well-targeted programmes.

## INTERNATIONAL EVIDENCE

To what extent do the programmes aid a rapid accommodation to the labour market and thus an increased level of equilibrium employment to be reached? This is an empirical question, and we can attempt to measure the effects

using empirical estimation that identifies the causalities. Today there are several international studies available on the subject.<sup>2</sup> In some of these, the net programme impact or the average (median) effect are calculated as well, which allows the effectiveness of programmes to be clearly quantified and for them to be compared properly.<sup>3</sup> At the same time, only partial and short-term estimations have been made of the effect of active measures, and the assessments of the effects of the programmes are mixed.<sup>4</sup>

According to recent meta-analysis, the type of the programme determines its success (Card et al., 2010; Kluve, 2006). Aside from the type of programme, there are no other factors (e.g. the macroeconomic environment, the institutional characteristics of the labour market or the timing of the programme) that would explain the effectiveness of the programmes. According to Card et al. (2010), counselling, monitoring and wage subsidy are effective measures, while the direct creation of jobs in the public sector (public works schemes) is clearly a failed programme type. Training programmes usually have a negligible positive effect on employment and wages, and so their cost-effectiveness is inadequate. Such programmes are more effective when general growth prospects in the economy are good, when they are small in scale and when they are well targeted. Training programmes for the young and for those who have lost their jobs in mass redundancies produce especially weak results. But workplace training and training combined with services connected to employment are generally more effective than average training courses. In developed countries, the figures usually show small but positive effects on employment, and have a mixed effect on salaries; in transitional countries the effects are usually positive.

Card et al. (2010) point out that, when measuring the effectiveness of programmes, the timing of the survey plays a crucial role. In the case of training, they demonstrate that the short-term effects (measured one year after the programme) are often not significant or are negative, whereas the medium-term effects (measured two years after the programme) are significant and positive. The more time elapses between somebody finishing the programme and the assessment, the more successful is the programme; and so it is a good idea to measure the effects at least three years after the programme.

As Betcherman et al. (2004) point out, for a programme to be deemed effective, it is not enough simply to have a greater probability of a person being hired. It is only effective if the programme costs no more than the yields from being employed (the taxes paid or the benefit spared), if without the programme the employee would not have found a job, and if there are no side effects (or they are negligible) – e.g. the crowding-out effect. In the case of wage subsidies and employment incentives, it is mostly dead-weight loss and the substitution-out effect that are the causes of low efficiency: it is difficult to ensure that those employers who are subsidized would not have recruited new workers anyway, regardless of the subsidy, and that the subsidized workforce does not replace other employers. These risks become even more acute in the case of programmes for the long-term unemployed: careful targeting can lessen (but not eliminate) these negative effects, and vigorous monitoring is needed to detect abuses.

<sup>2</sup> In this chapter we mention only the studies with a microeconomic approach, and some empirical results collected in summarizing studies.

<sup>3</sup> See Card et al. (2010); Fretwell et al. (1999); O'Leary (1998; 2000); O'Leary et al. (1998; 2001). In the Hungarian language, Kézdi (2004; 2011a) sums up the methodological problems of the impact studies of the programmes, while Hudomiet and Kézdi (2008) give an overview of experiences abroad. Kézdi (2011b) and Hudomiet and Kézdi (2011) give a short summary of the problem areas, describing earlier results as well.

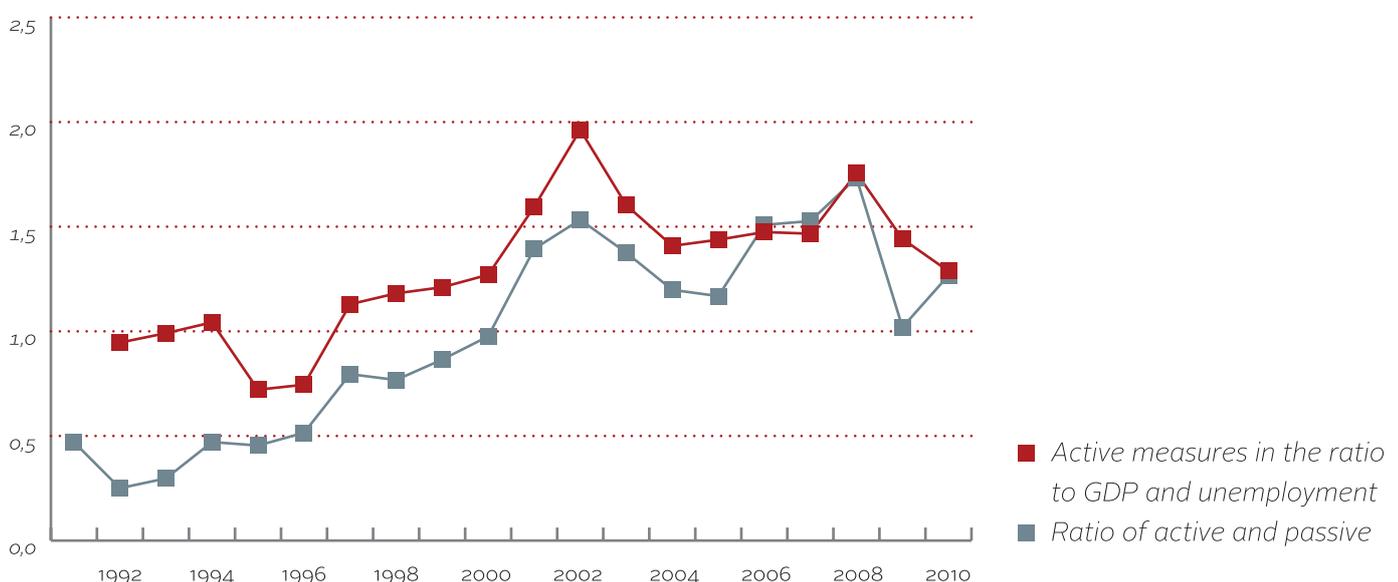
<sup>4</sup> The first comprehensive study was made by Dar et al. (1999); later works, partly based on this, include Betcherman et al. (2004), Lehmann and Kluve (2008), Hudomiet and Kézdi (2008), Kluve (2006) and Card et al. (2010). The later studies, which also examined specific problems, produced controversial results.

## THE EVOLUTION OF EXPENDITURE ON ACTIVE MEASURES IN HUNGARY

In the last two decades, several active labour market programmes have been launched in Hungary (see [Tables 6.1](#) and [7.1 of the Statistical Annex](#) for an overview). Most programmes are run by the employment offices; but the ministries of labour, the economy and finance, various institutions that fall within their remit and the development agencies of the EU have also launched programmes, in some cases very significant ones.<sup>5</sup>

Apart from national schemes, several smaller, experimental programmes have started up in the past two decades. Most of these have not come to form part of the conventional set of measures, but they have long been operating using grant money applied for and won.

Figure 1: Budgetary expenditure on active measures 1990–2010



Note: active = an active measure of the Labour Market Fund (MPA), training, vocational education, rehabilitation and TÁMOP (Social Renewal Operational Programme); passive = unemployment subsidies. All active expenditure /1,000 unemployed (CSO MEF) as a per mille (%) of GDP.

At the beginning of this period, budgetary expenditure on active measures was around 0.6 per cent of GDP; later on it formed 0.4–0.5 per cent, which is very low in international terms.<sup>6</sup> According to [OECD data](#), in the period 2004–09 the average for OECD countries ranged from 0.5 per cent to 0.6 per cent, while in Denmark, the Netherlands and Sweden it topped 1 per cent. At the beginning of the period, the passive subsidies outstripped the active ones. The resources for active measures began to rise from the middle of the 1990s, more or less in parallel with the economy taking off (Figure 1). In the second half of the period, the expenditure allocated to active measures remained at much the same level in terms of share of GDP and adjusted for the number of job seekers.<sup>7</sup>

<sup>5</sup> About the organization of the institutional system of the training system see Pulay et al. (2009).

<sup>6</sup> Hungarian data are shown in [Table 7.1 of the Statistical Annex](#).

<sup>7</sup> The sudden rise in 2002 was caused by a new form of compensation – wage compensation to raise the minimum wage (Frey, 2008).

The conventional elements of the measures were set out in the Employment Act of 1991, which entrusted the Labour Market Fund with distributing resources.<sup>8</sup> In the first ten years, there was almost no change, except for some smaller steps that were taken at the end of the 1990s to encourage demand and bolster mobility. At the turn of the millennium, the allocation of resources was determined by an urge to centralize, and the proportion of resources spent was weighted towards enhancing the supply of labour. From accession to the EU in 2004 until the world economic crisis hit, the role of conventional elements seemed to lessen: a major part of the expanding resources was allocated to allowances on tax and contributions (in order to raise demand), and to personalized services (in which the authorities try to involve the inactive population). Now, at the end of this period, the factors that determine labour policy are how to handle the global crisis and long-term unemployment; as part of the drive to tackle the latter, there has been an unprecedented expansion of public works.

In the last twenty years, the role of retraining has shown a tendency to decline (albeit with greater or smaller fluctuations), while the role of wage subsidies and other measures to raise demand for labour has become steadily larger.<sup>9</sup> Until 2009, around 20 per cent of the resources were allocated to the public works scheme undertaken by the central labour organization, while since 2000 a growing sum has been spent on public works organized by municipalities. As of 2010, the government was spending half of all domestic labour policy resources on this latter function.

The shift to active measures may have been partly brought about by the decline in unemployment (which was only halted by the recent crisis), partly through encouragement by the EU and partly by the efforts of experts who were familiar with the experiences of the European Union or the OECD countries in this field. Experience (so far unsupported by statistical calculations) suggests that the allocation of resources between the different types of policy may have been influenced by political considerations<sup>10</sup> and lobby interests, as well as by professional considerations. The professional aspect has failed to prevail – on the one hand, because there has been no consistent labour policy with political support, and on the other hand because – as we will show below – there have been no case studies to reliably measure the cost-effectiveness of specific measures, filtering out the diverse distorting effects.

## THE EFFECTIVENESS OF HUNGARIAN PROGRAMMES

For the period between 1996 and 2010, the raw placement rate for those who completed the main programmes is available. Based on this, the most effective of the programmes was the small business start-up assistance: except for in the last few years, the rate of those starting a small business has been over 90 per cent.<sup>11</sup> After completion of the wage subsidy programme, the rate of those finding or staying on in work has been somewhat less than two-thirds, except for in the last two years, when the figure has surged to three-quarters and later to over 90 per cent. The programme to support school leavers in getting work experience – which was cancelled at the end of 2006 – was at least as successful as wage subsidies in raising participants' chances of getting

8 See [Chapter 2.1](#) and the summary of Frey (2011).

9 Subsidies for small business start-ups, for creating and keeping jobs, compensation for travelling costs and job-seeker clubs. Of these, the role of subsidies for job creation – which is the most debated internationally in terms of effectiveness – was never significant: it accounted for around 7 per cent of the conventional active measures.

10 For example, the county boards of labour could have an interest in raising resources, which they could divide among specific local employers, since these could be used for political purposes. Lobby interests could have a special influence on training, since the market for these services was formed without a transparent quality-assurance system based on evaluation of results. The operators on the market were able to influence the conditions under which suppliers entered the market and also the content of the training (Halmos, 2005; Pulay et al., 2009).

11 The data for the last years cannot be fully compared, as between 1996 and 2008 data collection was done in the third month after the end of the programme, whereas in 2009 and 2010 it was conducted in the sixth month. The data are presented in [Table 7.3 of the Statistical Annex](#).

a job. Finally, the rate of those finding employment after training is around 40–50 per cent, with a consistently lower rate in the case of group training organized by labour centres. The effectiveness of training, as measured by the probability of placement, has not advanced in this period, which raises questions about the targeting, validity and evaluation of such programmes. However, the overall effects of the programmes are presumably smaller than the measured raw placement rates. In the case of subsidies for the employer (or the potential small entrepreneur) the crowding-out effect and the dead-weight loss can distort the results; in the case of training, the issue lies especially with selection for the training.<sup>12</sup>

An impact analysis to filter out some of the distortions of selection was carried out for the first time between 1995 and 1997, as part of a project funded by the World Bank to help in setting up the Employment Office's system of monitoring and following up active measures. The results were published in several studies by the lead researcher on the programme; here we use O'Leary's (1998) results. In the last twenty years, other research projects have been undertaken, but these cannot be regarded as programme evaluations in the sense of the potential outcomes model, and so we shall refer only to their more important results.<sup>13</sup>

O'Leary (1998) covers the main active measures, based on a representative sample of several thousand people taken from the pool of registered unemployed. The first survey was in the second quarter of 1996, and the second in the first half of 1997; this made it possible to determine for at 6 months the labour-market status of each person in the two groups, and the most important events between the two dates. The effects of the programmes were measured by their influence on the chances of finding employment and on wages,<sup>14</sup> and several measurement methods were applied.<sup>15</sup> A relatively large range of an individual's data was examined: education, previous career details, past and recent employment, the desired position, details of the household and type of habitation. The findings show unambiguously that public works do not boost the employment prospects of participants, and nor will those participants gain a wage advantage. For the poorly educated, the effect on employment prospects is significantly negative; in the case of the better educated, the effect is negligible.

Based on similar data, the research of Csoba and Nagy (2011), which examined individuals embarking on an active measure at the end of 2009 and the beginning of 2010, reached the same conclusion. Nor did the only piece of research over a longer duration indicate positive effects: according to the assessment of Köllő and Scharle (2011), based on settlement-level data for the years 2003–08, the public works schemes organized by municipalities do not reduce the level of long-term unemployment.

O'Leary's (1998) results show that wage subsidies do not increase the prospects of someone finding a job: the raw data on placement/retention are a result of the favourable composition of the participants and not the effect of the programme. However, in the case of the poorly educated, the effect of the programme is positive and significant.<sup>16</sup> As for wages, even after filtering out the effects of the composition of the group, a positive effect could be discerned; thus the programme contributed to higher wages in the first job.

12 Two kinds of selection effects can prevail: we might suppose that those who themselves initiate the training are more motivated and more informed about the requirements of employers, which also helps them to get a job. Moreover, the officials who decide which applicants to send on expensive training courses may aspire to send those with better prospects of success (see [Chapter 6.2](#)).

13 First, they did not use a control group that did not take part in the problem, and to which the results of the participants (treatment group) could be compared; secondly, the estimation methods (models with restricted dependent variables and duration models) are not capable of measuring the effects of the programmes. The most important characteristics and results of Hungarian research into wage subsidies are summarized by Cseres-Gergely and Scharle (2012). The methodological limitations indicated by them are valid for several programmes, as most of the studies listed examined the aggregate of main active instruments.

14 Four outcome variables were used, according to the type of employment (subsidized or not; employed or self-employed) and to the time of the survey (any time in the observation period or at the time of the second survey), and another two variables referred to the demand.

15 Estimations were made in a linear probability model and also with a matched-pairs method. These can filter out the distortion resulting from the different composition of the group of participants (treatment group) and the control group (distortions due to education, age and other traits), but are not suitable for filtering out distortions due to the traits that were not observed (such as motivation).

16 According to Galasi et al. (2007), based on the monitoring database of the Employment Office, in the period between 2002 and 2005, the short-term placement chances of women, older people and those with a vocational high school education are higher, while the chances of those with general schooling are significantly lower. However, the authors had no information on whether or not a former recipient of the subsidy was working at another employer.

The estimation of Csoba and Nagy (2011) for later periods shows a significant effect on the chances of getting a job, despite the fact that in the past decade the proportion of the uneducated unemployed among subsidy recipients has dropped.<sup>17</sup> As none of the assessments filtered out either the (presumably significant) crowding-out effect or the replacement effect, it is not clear whether there has been any improvement.<sup>18</sup>

The effect of wage subsidies can depend on the duration of the entitlement and the circumstances of the labour market. According to research by Galasi et al. (2007), in the period 2002–05 wage subsidies for 180–270 days provided a better chance of an employee being retained by an employer in receipt of the subsidy than wage subsidies for less than 180 days (this is a lower estimate for the probability of being employed examined in the above studies). Otherwise the duration of wage subsidies does not influence the chances of retention. A worse labour market situation (a higher unemployment rate in the micro-region) reduced the chances of an individual being retained in the job, especially at the beginning of the period under examination.

In the case of individual training, the raw placement rates and those estimations that take account of composition effects both indicate a significant and positive effect (O'Leary, 1998). Individual training thus raises the prospects for employment and wage expectations; the effect is relatively long term and is felt right up to the end of the period under examination.<sup>19</sup> The raw indicators show a somewhat smaller effect for group training, but this is at least partly caused by the composition of the participants. An estimate of the effect of such programmes after this element has been filtered out shows no significant difference from individual training, either in terms of employment probability, or in terms of wages. Csoba and Nagy (2011) calculated that the overall effect of the two types of training is positive and significant, albeit smaller than the effect of wage subsidies.

According to Galasi et al. (2007), in the 2000s training programmes raised the chances of women and job seekers under 30 getting a job. The chances of employment for people over 30 are definitely lower. However, there is no clear relationship between the level of education and the chances of getting a job: even those participants with less education than general schooling do not face significantly worse chances in every year. At a higher rate of unemployment, those leaving training may even have less chance of finding a job.

Regarding the different types of educational establishment, a larger than average and unambiguously positive effect on the chances of employment can be observed in the case of lower secondary vocational schools (which usually do not offer an A-level certificate) and institutions of higher education. The effects of training at training providers and specialized schools and of companies' in-house training do not differ from the average; the results for higher secondary vocational schools are mixed.

The type of training also has an impact on the chances of school leavers getting a job. Both vocational and practical training are more advantageous than language training. However, those who complete a practical training course have roughly double the chances of those completing vocational training. The training hours also have a positive impact on the chances of getting a job: the

17 According to Frey (2011), the proportion of poorly educated people in the programme in 2002 was nearly 23 per cent, while in 2010 it was barely 20 per cent.

18 A significant dead-weight loss is indicated by the fact that, according to the Employment Office's own monitoring questionnaire, around a quarter or a fifth of those employers surveyed said that they would have hired the employee even without the subsidy offered by the programme (data from 2001–07, see Frey, 2011).

19 In those assessments that deal with the effect of simultaneous participation in several programmes, the effect of individual training is not significant (the effect of group training remains significant), which raises doubts about the results.

more lessons one takes, the greater the probability of finding a job (though the effect is rather weak).

Finally, O'Leary (1998) found a significant positive placement rate in the case of small business start-up assistance (even surpassing the various forms of training), while its effect on wages is negative. The programme raises the chances of employment among older people and women.

## TARGETING OF ACTIVE INSTRUMENTS

The targeting policy for the main instruments has been more or less the same for the past twenty years. In the 1990s, Galasi et al. (1999) examined the composition of those participating in the programmes: in this period the small business start-up assistance had the most participants with a higher education, and the fewest participants with only general schooling. The opposite pole was public works, which had many participants with only basic schooling (or even less); the education level of those receiving wage subsidies was somewhere between the two other groups. On public works, the proportion of the over-50s and of men was relatively high.

For the years between 2001 and 2006, Galasi and Nagy (2008) found similar rates among those on social assistance and benefits.<sup>20</sup> According to their results, among those registered as unemployed, women had a better chance than men of getting onto training programmes. The chances decline with age, but grow with level of education. When it comes to wage subsidies, those aged 25–39 had the best chance of receiving one, and those under 20 the least chance. The results show that the chances of receiving a wage subsidy get better with higher education. The local unemployment rate also influences the chances of getting onto a wage subsidy scheme, since more wage subsidies are allocated to regions with a difficult labour market situation. Finally, men, older people and poorly educated job seekers are much more likely to participate in public works. If we examine the length of time that people have been registered as unemployed, the chances are that those on public works will have been registered as unemployed for 1–3 months; this shows that many register or re-register just for this reason. With a higher unemployment rate, the chances of getting into public works are also greater.

Galasi and Nagy (2008) also examined the chances of getting onto a programme according to the type of assistance received. People who receive social benefits have a better chance of getting onto a wage subsidy scheme than people who do not, while those receiving social assistance have less chance. In the case of public works, the situation is reversed: those on benefits have 30 per cent less chance, and those receiving social assistance have double the chance of being taken on. The results thus show that, compared to other groups of unemployed people, those on social assistance have less chance of getting into wage subsidy schemes, but more chance of getting onto public works schemes – after which very rarely can they return to the labour market.

Köllő and Scharle (2011) pointed out that the 'Road to work' programme (begun in 2009) did not substantially change the targeting of public works. Those with a lower education were more likely to get into this programme, to which significantly more resources were allocated than preceding programmes.

<sup>20</sup> The data come from the computer database of the Public Employment Service. Those registered in July 2005 are followed until January 2006 in the registers. The estimates were made using discrete-time duration models for each programme independently.

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Age had no significant effect – with one important exception: under-25s had a significantly greater chance of getting on; this is not necessarily a good thing, as public works participants do not get work experience that they can later use somewhere else, and they have less time and motivation to look for a job on the open labour market. In settlements far from the city and with a depressed labour market, the number of participants in public works has grown, but the inhabitants of the remotest, farthest-flung villages cannot make so much use of the opportunity.

## SUMMARY AND RECOMMENDATIONS

To sum up, we may conclude that in the last twenty years Hungary has seen a relatively small (in European terms), albeit steadily increasing sum spent on the active measures that help the unemployed to find a job. Several institutions share responsibility for the management of the set of measures, so it is hard to establish even the rate of expenditure. There are only a few appropriate research results available on the effectiveness of the utilization of resources, and thus the choices between the specific measures are random.

Although most evaluations of the Hungarian programmes are not suited to measuring their effects, based on the only such attempt (and international experience) we can draw certain conclusions. Most importantly we see that the various types of public works neither improve the chances of finding proper employment, nor lead to better wages. If the aim of the programmes is to lead the unemployed back to the labour market, this measure barely lives up to expectations at home or abroad. Apart from the mixed programme results of the 1990s, the single Hungarian programme evaluation and the results of the most recent meta-analysis show that subsidized private sector employment (wage subsidies, small business start-up assistance) has a more beneficial effect on the probability of securing employment. The available data on training and retraining programmes show that their exit indicators – measured by the placement rates – show a declining rather than a rising trend.

The lack of impact assessments is presumably connected to the general difficulties of policy making discussed in detail in [Part 3](#) of this book. It is characteristic of the whole period that no comprehensive strategies were developed for economic policy, to which the strategy for employment could have been coupled. As a result, the goals of the labour ministry were hazy, or were changed rapidly according to short-term political aims, but were not accounted for later. It therefore comes as no surprise that the interest of policy makers in impact assessments could not be met by the available studies (see [Chapter 2 of Part 3](#)).

Based on sociological studies, it would seem that retraining programmes can be effective if they are supported by impact assessments, are well targeted, small scale, and often combined with other measures. To this end, it is primarily analysis using control groups that is needed; such analysis is feasible with the present IT system of the National Employment Service – at minimal cost – if the data from the registers and the Unified Hungarian Employment Database (EMMA) are merged at the individual level. However given the present legal situation, it is not enough that academic research requires such scientifically

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based evaluations: only politicians can initiate the process to anonymize the data needed. Thus, in order to improve the context of political decision making, rights of access need to be broadened, or the interest of policy makers in this area raised.

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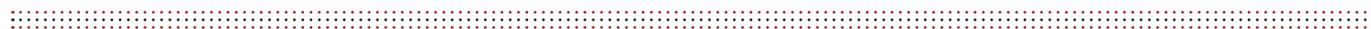
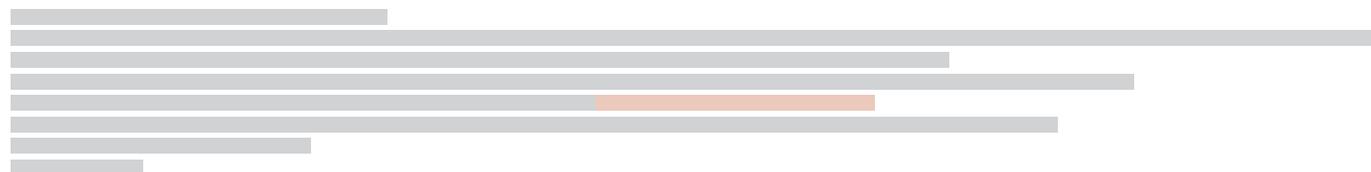
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## 5. MATCHING DEMAND AND SUPPLY

### 5.3. PART-TIME JOBS AND OTHER ATYPICAL FORMS OF EMPLOYMENT

JÁNOS KÖLLŐ



#### INTRODUCTION

Over the last thirty years the most developed economies have seen a relaxation of the old work routine: 8 hours a day, 5 days a week, the same place and the same time. Other forms of paid employment have evolved; for want of a better term, these are called ‘atypical forms of employment’ (see a detailed description in Kalleberg, 2000). The literature and language of sociology considers part-time jobs, flexitime work, jobs through ‘temp agencies’ or jobs with a fixed contract all to be ‘atypical jobs’ – and in some cases self-employment is added to this list.

The adjective *atypical* seems inaccurate – not only because it tries to meld too many concepts into one, but also because, throughout history, work undertaken without a contract, at home or at different locations, and with a variable timetable has rather been the rule than the exception (e.g. for farmers, tradesmen, hauliers or merchants). In fact, the novelty has been that, after the 1980s, these types of work came to be more frequently carried out within the framework of regular employment; meanwhile their importance decreased in parallel with the reduction in the number of jobs in the agricultural and traditional small-trade sectors. The example of Southern European countries illustrates these two parallel processes: in Italy, Portugal and Spain, the proportion of part-time jobs stagnated or slightly decreased until 1991–92, and in Greece it plummeted until 1992, and since then has not increased significantly.<sup>1</sup>

Nor can we say that *atypical* work forms have been gaining huge ground in *all* developed economies. If we take just part-time jobs: in the United States their share decreased steadily between 1980 and 2000; and after a rise in Canada there came a drop in the 1990s (Buddelmeyer et al., 2004). Finally in those Central East European countries that can be categorized as developed countries on the basis of their economic and welfare indicators, these types of employment were exceptional until very recent years.

In this chapter, we examine part-time employment in detail, and only touch on other *atypical* forms. One reason for this is that either the other types play a marginal role in Hungary (like remote working or flexitime), or there is insufficient data about them (temp agencies, concealed employment) – or, even if the data are available, conceptual obscurity makes their analysis difficult (working from home). Another, more important reason is that part-time jobs have become widespread in Europe (their proportion has also grown in

<sup>1</sup> Smith et al. (1998) and Buddelmeyer et al., for example, show and evaluate long time series.

Hungary over the past ten years), and many analysts and politicians consider this to be one of the most important factors in raising aggregate employment and making the labour market more flexible.

In the case of Hungary, this assumption seems to be supported by the fact that today the working population is sharply divided into two groups: those who typically work 8 hours a day, five days a week, according to fixed working hours; and those who have no connection to the ‘world of labour’ at all. Bajnai et al. (2008) analysed the micro-data of the Labour Force Survey for the year 2005 and found that in Hungary the total working hours of the prime-age group of the active population diverge less from the optimum than is the case in, for example, Sweden, Finland, Norway, France, England, Germany or the Netherlands. At the same time, the relatively large workload is distributed among fewer people, and the intermittent zone between proper full time employment and unemployment is significantly narrower. The net average working hours of Hungarian males (41.6 hours a week) is 36 minutes longer than the EU-15 average, while working women put in more hours a week (39) than their Western European counterparts: they work 6.5 hours more every week – almost a whole working day.<sup>2</sup> Hungarian employees are absent from work less; the pattern of working hours deviates less from the customary pattern (and if there is any deviation, it is seldom due to flexible working hours); and fewer Hungarians work part time. Compared to the most advanced countries, fewer people work from home (Bajnai et al., 2008), those with remote working account for less than 2 per cent; and more than 90 per cent of all employees have a fixed daily ‘clock in’ and ‘clock out’ time – the highest proportion in the EU (EU, 2006, quoted in Frey, 2005). Thus in Hungary the work is done by fewer people, and largely within the rigid employment framework of the nineteenth and twentieth centuries. This situation may be altered by raising the number of part-time jobs. Very few studies exist in Hungary that examine part-time employment based on ‘solid’ empirical data, so we have to make up for the lack of factual data by using ad hoc calculations; that said, we are fully aware that this method may not fit into the concept of this volume. The figures and estimates published here do not amount to systematic research, and we can only hope that they are adequate to demonstrate the most fundamental trends and correlations, and to help formulate suitable research hypotheses, evaluation criteria and starting points for policy making.

### **PART-TIME WORK – INCENTIVES, GAINS, COSTS**

The number of part-time jobs has been boosted by factors on both the demand and the supply side of labour. Part-time labour can cut costs for the employer by making it easier to adjust to the peaks and troughs of the workload; such considerable – yet calculable – fluctuations in the workload are very common in trade, in catering, in personal services, in healthcare, education and even in the civil service. Another advantage of part-time jobs (though not everywhere) is that employee-protection regulations do not apply to part-time employees, who also enjoy less protection from the trade unions. A similarly important advantage (although again not universally the case) is that, in many countries, part-timers are paid lower wages than full-time employees, as we

<sup>2</sup> Average weekly working hours in the week of the survey. (Source: Eurostat: Labour Force Survey, 2005.)

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will discuss in detail later. Last but not least, in most European countries the state subsidizes part-time employment through several types of allowance, hoping to create new jobs or to involve more employees in the same 'volume' of work (Layard et al., 1991).

On the supply side, part-time jobs make it easier to divide the time between childcare or looking after relatives – work at home, in general – and taking a job on the labour market. Mothers who are bringing up a child and who do not want to give up their career are not obliged to make a *yes or no* choice; nor are students who want to learn and at the same time to earn money; nor are newcomers to the labour market who are 'shopping around' for a job and do not yet want to commit themselves for a longer period of time. Part-time jobs open the labour market up to those whose optimal working hours – taking account of the expected wage and their incomes from other sources – are more than 0 but less than 8 hours a day (or 40 hours a week).

Alongside these advantages, there are considerable difficulties and disadvantages. The process of taking on a new worker and of getting employed in a new position has fixed costs (advertising, training, travelling, childcare), which render part-time employment less profitable for both the employer and the employee. The fixed costs can impel the employer to pass these on to the employee in the form of lower wages, exploiting the fact that many people choose this kind of employment not because they want to, but because they have no option (the proportion of such people in the EU is 10–40 per cent, according to labour force surveys). At the same time, again because of the fixed costs, it is often only worthwhile taking on a part-time job if the hourly rate is higher than for a full-time job, which makes part-time employment more expensive for employers. Certain longitudinal studies (O'Reilly and Bothfeld, 2000) show that part-time employment is typically not a stepping stone towards full-time employment: most of those quitting part-time jobs do not move on to full-time employment, but instead leave the labour market. The differences in advantages, expenses, incentives and barriers may be the reasons for the wide range in the proportions of part-time working across the EU. The Netherlands – a country that is frequently cited in any discussion of part-time labour, since the proportion (for both sexes) of part-time workers is over 40 per cent – is an extreme even in Western Europe: in other Western countries the proportion before the global crisis was between 5 per cent and 25 per cent; in the old EU Member States it was 21 per cent (EU, 2006: 40, Table 23), and once the new Member States are considered, the figure was somewhat below 20 per cent. The United Kingdom and the northern countries head the list, while at the bottom come Greece, Spain, Italy and Portugal, plus the former socialist new Member States.

The contribution part-time jobs made to *raising* aggregate employment was not significant until 2000: apart from in the Netherlands, nowhere did it reach even 1 per cent. But in the last ten years it has become more significant: in 2004–05 some 65 per cent of new jobs were part time, according to the EU (2006) report.

The author of this chapter has no information about any research that would reveal the effect of part-time jobs on net employment, or about differences between countries. Buddelmeyer et al. (2004) analyse the ratio of part-time

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employment *within* net employment; although this does not answer the question that most interests economic policy makers (whether it is possible to raise the employment rate by encouraging part-time employment), the results are nevertheless remarkable.

The ratio of part-time employment was significantly influenced by changes in the emphasis of labour policy, which manifested themselves – at different times but in the majority of countries – in the wages for part-time jobs, the guaranteeing of equal rights for part-time workers and the abolition of discrimination. The proportion of part-time employment was indirectly raised by regulations protecting full-time employees with a fixed-term contract, since these made full-time employment more expensive (employment protection legislation, EPL). There is a strong correlation between the proportion of part-time employment and productivity and child allowances. On the basis of the trends (and ducking the issue of what is cause and what is effect), we can state that, on the one hand, we see high productivity, low childcare benefits and many part-time jobs; on the other we have generous childcare benefits, few part-time jobs and low productivity.

The study by Buddelmeyer et al. (2004) found no significant correlation between the proportion of part-time employment and taxes on labour, or between part-time employment and the sum (and duration) of unemployment benefits. Part-time employment is negatively correlated to the business cycle: it is high in times of recession and low in times of growth.

On the basis of the study's somewhat imprecise estimates (which are nevertheless revealing because they indicate the magnitude), we reckon that reforms such as those undertaken in Europe in the period examined (1983–2002) could raise the *proportion* of part-time jobs in Hungary by 1.6–3.5 per cent over ten years, though naturally this would not lead to a similar (or any) increase in the *level* of net employment. Even if we suppose that the new part-time jobs resulting from the reforms would simply add to the existing jobs (or would replace full-time jobs deemed to be lost anyway), the numbers warn us to be prudent on the subject of the job creation through direct labour policy measures.

### **PART-TIME EMPLOYMENT IN HUNGARY**

The exact number of part-time workers cannot be determined – or, to be more precise, we achieve different results by using different definitions, all of which are equally valid. Before the crisis, at the beginning of 2008, according to the Labour Force Survey of the Central Statistical Office, 4.3 per cent of employees had a part-time contract; however 7 per cent stated that their weekly working hours were less than 40; most worked 30 hours, and only 1 per cent worked less than 30 hours (Table 1).

Table 1: Part-time contract and average weekly working hours in January–March 2008 (per cent, all employees=100)

	Men	Women	All
Part-time contract	3.1	5.9	4.3
Usual weekly working hours less than 40	5.4	8.9	7.0
1–19 hours	0.3	0.2	0.3
20–29 hours	0.9	1.0	0.9
30–35 hours	2.2	4.0	3.0
36–39 hours	2.0	3.7	2.8
40 or more hours	94.6	91.1	93.0
All	100.0	100.0	100.0

*N=25,554 employees*

*Note: For those who described their usual working hours as ‘very varied’ (mostly entrepreneurs), we used the hours worked in the week of the study.*

*Source: Labour Force Survey of the Central Statistical Office, 2008. January–March, author’s calculations.*

The two groups overlap: 1.3 per cent of those who described themselves as part-time workers worked more than 40 hours a week, while 2.4 per cent of full-time workers worked less than 40 hours. Similarly, the data of the Wage Survey show divergent ratios, with some overlap. In companies with more than five employees and in public administration bodies, the proportion of part-time workers was 8.1 per cent (not counting those who carried on working in retirement, the figure was 7.2 per cent). However the data show that 2.4 per cent of full-time employees worked less than 40 hours, and in the case of 10.5 per cent, the number of paid working hours in May did not reach 168, while this figure was exceeded by 1.1 per cent of those employed part time.

Whatever data and working-hour limits we work with,<sup>3</sup> the proportion of part-time employment seems much lower than the European average; this is not specific to Hungary nor to Eastern Europe, but is also a characteristic of Southern Europe, as was shown by Bajnai et al. (2008).

It is not just the level, but also the evolution of part-time employment that is hard to determine. As we can see from Table 2, the data from the Labour Force Survey of the Central Statistical Office show a rise of just a few decimal points between 2003 and 2010, which (considering the c. 0.5 per cent margin of error in the case of employment) can be deemed insignificant. The data of the Wage Surveys of the National Employment Office, drawn from company records, show a higher ratio and bigger increase in part-time jobs (Table 2). The reason for this discrepancy is unclear; perhaps it might be attributed to the fact that companies can pay below the minimum wage by declaring their employees to be part time. In 2008, 22 per cent of part-time workers – roughly 2 per cent of all employees – were earning less than the relevant full-time minimum wage. Even if the net rise shown in the proportion of part-time jobs between 2003 and 2010 is entirely due to this factor (which seems unlikely), we still get a higher rate than for the time series of the Labour Force Survey. However, even if we trust the data of the companies, the increase is very modest and does little to alter the perception that we are lagging behind Western countries.

<sup>3</sup> In our calculations shown here, we draw the line at 40 working hours a week. If we applied 36 hours, for 2008 we would get almost 3 per cent less part-time employment (as can be seen in the indicated data).

Table 2: The ratio of part-time workers according to different surveys and criteria, 2003–10

	Labour Force Survey		Labour Force Survey, the target universe of the Wage Survey <sup>a</sup>		Wage Survey	
	part-time	usual working time 1–39 hours <sup>b</sup>	part-time	usual working time 1–39 hours <sup>b</sup>	part-time	usual working time 1–39 hours <sup>c</sup>
2003	4.8	8.5	3.8	6.7	6.0	9.0
2004	4.4	8.5	3.5	6.7	6.5	9.7
2005	4.0	8.6	3.1	6.7	7.7	10.2
2006	3.9	7.9	3.2	6.1	8.9	11.7
2007	4.0	7.7	3.3	5.9	7.3	9.6
2008	4.3	7.6	3.5	5.8	8.1	10.6
2009	5.0	8.5	4.1	6.6	9.8	12.4
2010	5.6	9.2	4.1	6.9	..	..

*a* An approximation: we listed here those who work for companies with at least five employees and the public sector (education, healthcare, public administration).

*b* For those who described their usual working hours as 'very variable' (mostly entrepreneurs) we used the number of hours worked in the week of the study (See [Table 1.3 of the Statistical Annex](#)).

*c* The working hours stipulated in the employment contract. At the time of writing the micro-data from the 2010 survey were not available.

Source: Author's calculations.

Table 3: Ratio of part-time workers among new entrants and all employees, 2003–09

(Companies with five or more employees and the public sector, not counting pensioners)

Year	Proportion of part-time workers among		Proportion of employees normally working 1–39 hours per week	
	All employees	Previous year's entrants	All employees	Previous year's entrants
2003	6.0	9.8	9.0	11.2
2004	6.5	10.5	9.7	12.2
2005	7.7	12.1	10.2	13.3
2006	8.9	13.8	11.7	15.1
2007	7.3	12.5	9.6	14.4
2008	8.1	13.3	10.6	14.3
2009	9.8	14.4	12.4	15.5

*Part-time employee: based on the contract.*

*New entrant: was hired in the year indicated and was still employed at the time of the next year's Wage Survey in May at the company or public body.*

*Note: The information on the nature of the contract is first indicated in the 2003 survey.*

Source: Wage surveys.

To gauge the *future* trends of part-time employment, it is useful to observe the ratio of part-time jobs in recent contracts. To determine this, the data from either the Wage Survey of the National Labour Office or the Labour Force Survey are suitable; here we use the data from the former (comparison of old and new contracts yields a similar result in the case of the Labour Force Survey as well). As we can see from Table 3, the proportion of part-time workers is significantly higher among new employees (in the previous year) than among all employees; it rose steadily and, by the end of the period, was not far behind the part-time ratio of Western European employees.

Whether we can expect a significant rise in part-time employment based on these data depends on the proportion of part-time workers among those who quit a job or are dismissed. It is possible that the data in Table 3 merely serve to indicate the instability of part-time jobs and a higher-than-average turnover in the workforce. The Labour Force Surveys of the National Statistical Office contain all the data needed to examine this important question – however it takes a very long time: by tracing individuals, we can find those who changed jobs, or became unemployed or inactive, and we can determine whether those jobs that were left or lost were full or part time.

### WHO WORKS PART TIME?

We try to answer this question briefly using three estimates, which are summarized at the end of this chapter, in Tables F1, F2 and F3 of the Annex. In all three we examine, with probit functions, how certain individual, company and environmental factors influenced the fact that the person examined worked part time (according to the contract). The first estimate is based on the Labour Force Survey of the first quarter of 2008; the second is based on the Employment Office's Wage Survey of 2008, as is the third, though it only examines the private sector. The Labour Force Survey allows for the use of household variables, while the data of the Wage Survey provide information on the effects of company characteristics.

According to Table F1, the bulk of part-time employees are poorly educated, especially women with only basic schooling (though their share of employees is less than 0.5 per cent); women aged 15–29 are 2 per cent more likely to work part time; and women over 50 are 5 per cent more likely. The number of children does not influence at all the decision by men to work part time, but it does influence women to a small extent. The strongest factor affecting part-time work is receipt of a pension, childcare allowance (maternity leave, flat rate parental leave) or unemployment/social benefit: being a pensioner increases the probability of part-time work by 40 per cent, childcare allowance by 32 per cent, and unemployment benefit by 8.5 per cent for men and 24 per cent for women; this is more dominant than any other effect.

Table F2 indicates that the rate of part-time work drops as the level of education increases. The age factor is insignificant here, though receipt of a pension has a strong influence. The difference between the private and the public sectors is only significant in the case of women; the difference between Budapest and the rest of the country only in the case of men. The higher the rate of unemployment in the micro-region, the more probable it is that the individual

observed works part time. This effect, though significant, is not very strong (an unemployment rate one standard deviation above the mean indicates a rate of part-time working that is roughly 1 per cent higher).

Table F3, where we examine primarily the effects of company characteristics, combines both sexes. Here we have a chance to examine further dimensions, apart from the earlier divisions according to sex, age and education. Part-time labour is 4.3 per cent higher among new entrants and 6.3 per cent higher among those with a fixed-term contract. Those, who have a sector-level, company-level or other kind of collective agreement, are (individually) 2–4 per cent less likely to work part time, while foreign ownership of the company has a similar effect. State ownership has no effect. The data show a higher part-time rate in the case of very small and medium-large enterprises. The sectors with the highest rate of part-time employment are catering, personal, business and financial services, (private) healthcare and (private) education.

The fact that the rate of part-time employment is relatively high among smaller enterprises and enterprises not covered by collective contracts, in areas of high unemployment, and among the least well educated indicates that part-time jobs are created more on the initiative of enterprises than on the demand of employees. At the same time, the fact that, among those on benefits, part-time employment is many times higher than average can be interpreted as a sign of less resistance to part-time jobs among such people; moreover it shows that a contract with more advantageous conditions can be agreed upon by both parties. Why is that so? The wages of part-time workers – and among them of those receiving and not receiving transfers – can provide vital information to answer this question.

## WAGES OF PART-TIME WORKERS

The international literature of sociology discusses in detail the problem of part-time penalty. In the most developed economies, most studies observe a lower hourly rate among part-time workers (Ermisch and Wright, 1993; Wolf, 2002; Kranz and Rodriguez-Planas, 2009; Manning and Petrolongo, 2005; Rodgers, 2004), and this remains true even after controlling for the differences in structure and selection effects. However this result cannot be generalized: certain studies have, in contrast, detected a part-time premium – e.g. Posel and Muller (2007) for South Africa; Krillo and Masso (2010) for Estonian women; O’Dorchay et al. (2007) for Denmark; and in Hungary, too, the data on wages – raw data and data adjusted for observable characteristics – suggest something similar.

According to the Wage Survey in 2008, part-time workers – both men and women – earned 15.5 per cent more an hour (pro rata) than full-time employees. On top of that, after controlling for sex, work experience, education, the sector, the region and company size, the wage premium rises to 29.6 per cent!

There may be a variety of reasons for this: part-time workers may be more productive; they may be better in non-observable traits; they may fill special positions. At the same time, they are scarce and therefore have a better bargaining position. The aim of this chapter is not to uncover the causes of the wage premium – to make up for research not yet done; but we would like to

share with the reader an observation – and, based on that, a hypothesis – that might be useful for subsequent research and discourse on employment policy.

### HYPOTHESIS ON THE COSTS OF PART-TIME EMPLOYMENT

Broadly speaking, the hypothesis can be summarized thus: in Hungary a) it is primarily those receiving transfers (pension or flat rate parental leave benefits) who will seek part-time work; b) these people are willing to accept such a job for substantially lower wages than are those who do not receive any transfer, and who choose part-time work only if the wage is much higher than average; c) the consequences of this are 1) that part-time jobs are expensive for employers and (for this reason) are also scarce; 2) these jobs are filled primarily by pensioners and those receiving childcare allowance.

As for statement (a), Table 4 shows that the proportion of the unemployed who are looking for (or are willing to accept) a part-time job is much higher among those receiving a transfer.

*Table 4: The distribution of those looking for a job, according to the type of transfer received and the type of employment sought*

What kind of employment is sought?	Pension, parental leave		All job seekers
	Does not receive	Receives	
Full-time job	54.3	19.6	52.4
Primarily a full-time job	34.0	28.4	33.7
Part-time job	1.6	28.5	3.1
Primarily a part-time job	0.8	10.0	1.3
Any job	9.0	11.6	9.1
Wants to start a business	0.3	1.9	0.4
All	100.0	100.0	100.0

*N = 2,826 persons*

*Source: Labour Force Surveys of the Central Statistical Office, April–June 2008; author's calculations.*

Also the second (b) assumption is supported by the same data from the Labour Force Survey of the first quarter of 2008. Only monthly wage data are available, so in Table 5 there are no data about the hourly reservation wage; nevertheless, it underlines the thesis that those receiving transfers will accept a part-time job at much lower wages than an average unemployed person.

This observation is in line with the basic model of work supply. On the one hand, if the fixed costs of taking on a job are high, they may equal – or even exceed – the wage from short-term employment, which rules out part-time employment; this is not necessarily the case if the job seeker receives some kind of allowance. On the other hand, if the job seeker has a significant non-employment income that he or she will not lose by taking on a job, then his/her choice will more likely be to take part-time employment; without such income, only a high hourly wage rate ensures that it is more profitable to work than to remain inactive, since a relative low net income is commensurate with short hours of work.

Table 5: The reservation wage according to the type of transfer and the type of employment sought, compared to unemployed people receiving no transfer who are willing to take only a full-time job (regression coefficients\*)

How many logarithmic points lower is the monthly reservation wage if the job seeker is:	Pension or parental leave	
	Does not receive	Receives
	-0.1381 (4.32)	-0.2699 (8.13)
willing to accept a part-time job and ...	-0.0814 (8.33)	-0.1969 (8.52)

\* The dependent variable of the regression equation is the logarithm of the monthly reservation wage of the job seeker. Independent variables: male, age, the square of the age, a binary variable for each of the six levels of education, a binary variable for Budapest, the logarithm of the local unemployment rate, the length of job-seeking in months, and the interactive variables shown in the table (looking for a part-time job, receives a benefit, etc.). The coefficients show the difference in the reservation wage counted in logarithmic points, compared to those who are not looking for a part-time job (first row), or would only accept full-time employment (second row).

Note: in the reference groups, the reservation wages of those receiving benefits do not differ significantly from those not receiving benefits. The values in brackets are t-quotients.

N = 2,452 persons

Data source: Labour Force Survey of the National Statistical Office, January–March 2008.

Table 6: Working hours and income of part-time employees, April–June 2001

In receipt of a pension or parental leave?	Weekly working hours (hour)		Wages modified by regression (the wage of full-time employees in a similar position = 100)	
	Working hours	Full-time employee = 100	Monthly income	Hourly wage
Yes	19.1	48.7	52.7	110.1
No	20.9	51.1	68.3	134.9

Control variables: sex, age, local unemployment rate, and binary variables for ten business sectors, for ten kinds of profession, for five categories of companies according to size, and for Budapest.

Data source: Labour Force Survey of the National Statistical Office, second quarter of 2001.

Real wages show a similar difference to the reservation wage, as Table 6 shows (already published in Köllő and Nacsá, 2004). Unfortunately the data on wages of the Labour Force Survey are currently not accessible to scholars; however the data from 10 years ago are adequate to formulate a hypothesis.

It can be observed that the hourly wage of those receiving transfers is not much higher than that of full-time employees in a similar position: they work 51.3 per cent less and earn 47.3 per cent less in a month. However those not receiving transfers only accept a part-time job for a much higher hourly wage: they work 48.9 per cent less, but their income is only 31.7 per cent less, and their hourly wage is 34.9 per cent higher than that of full-time employees in a similar position.

Finally, concerning point (c), not only is it true (as we saw earlier in Tables F1–F3) that part-time employment is much more frequent among those receiving benefits (42 per cent, compared to 3 per cent in the case of full-time employees), but what is more, those receiving benefits make up almost half of part-time employees – 47.4 per cent, as shown in the data of the Labour Force Survey for the first quarter of 2008 (Table 7).

*Table 7: The distribution of employees according to whether they receive benefits and the type of their position in the first quarter of 2008 (per cent)*

Benefit status and type of position	Per cent
1. The ratio of those receiving pension or parental leave	
– among full-time employees	3.3
– among part-time employees	47.4
2. Among those who receive a pension or parental leave	
– full-time employees	58.1
– part-time employees	41.9
– all	100.0
3. Among those who do not receive pension or parental leave	
– full-time employees	96.7
– part-time employees	3.3
All	100.0

*N = 25 554.*

*Data source: Labour Force Survey of the National Statistical Office, first quarter of 2001; author's calculations.*

## CONCLUSION AND RECOMMENDATIONS

In the last twenty years, Hungarian labour policy has consistently tried to tackle the question of part-time employment, and has sought to encourage it through pragmatic measures. People were allowed to undertake part-time work while claiming certain childcare allowances or drawing early retirement pension. Young mothers returning to the labour market were supported by allowance benefits (the Start programme); after some years the healthcare contribution (eho) was calculated as a proportion of the monthly working hours; a transport allowance was offered to new entrants, which reduced the fixed costs of taking on a job. In the years of the crisis, a temporary (or even permanent) reduction in working hours has been supported (assistance for keeping jobs in 2008–09). A programme has been introduced to support the wage costs of working mothers (in 2011), and the state itself has created plenty of new part-time jobs under public work programmes (from 2000 to the present).

Based on the data at our disposal, these efforts have failed to bring significant gains. The proportion of part-time employment – even if some data sources do show a rise – is today not even a third or a half that in Western countries, and is significantly behind the figure for Poland, which has risen steadily in recent years.

If the hypothesis discussed under above is true, then it has important consequences for the evaluation and planning of labour policy measures. First of all, we can state that successive governments have provided highly effective support for part-time working by offering monthly cash benefits to the inactive working-age population. Limiting these benefits (raising barriers to early pensions or cutting the generous childcare allowances, which is not currently being considered, but which is regularly mooted) would militate against part-time employment and would raise its costs – though this would not *necessarily* be a negative consequence.

Secondly, if the observations described above are correct, then we can conclude that the high costs of part-time employment are not necessarily a consequence of the fixed costs faced by employers, and are certainly not a result of the high rates of employer contributions (which are calculated in a linear fashion, and therefore do not make part-time employment any more expensive), but are simply a consequence of high wages: in the Hungarian context, part-time jobs will be profitable for the average job seeker only if they bring with them high hourly rates. This situation may be helped by easing the fixed costs of employees, by better transport, more nurseries and kindergartens with a more flexible daily schedule.

The hypothesis briefly described here needs verification, but – until researchers gain access to the existing (but as yet inaccessible) data of the Labour Force Survey – insufficient data are available. Apart from the Labour Force Survey (complemented with data on wages), other important sources include the company panels, based on the data of the Wage Survey of the National Employment office, and the institutional survey of the National Statistical Office. Given that information on part-time and full-time jobs are available for the whole of a company, this survey would allow the creation and termination of part-time jobs to be examined, especially with regard to the question of whether the part-time jobs are in addition to full-time jobs or are merely substitutes for them. Without such studies it would be irresponsible to evaluate the measures of labour market policy in this direction; nor is it possible to conceive of a rational and useful labour policy.

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## ANNEX TO CHAPTER 5.3.

Table F1: Factors affecting the probability of working part time  
(probit marginal effects for the sample mean)  
Labour Force Survey, employees, January–March 2008

Dependent variable: works part time.

	Male	Female
0–7 classes	0.035* (1.76)	0.266*** (4.51)
8 classes	0.020*** (3.71)	0.061*** (7.14)
Vocational school	0.002 (0.50)	0.056*** (7.46)
High school	0.008** (2.00)	0.024*** (4.08)
15–30 years old	0.006 (1.59)	0.020*** (3.07)
41–50 years old	0.000 (0.15)	–0.008 (1.59)
51–60 years old	–0.001 (0.35)	0.002 (0.32)
61–74 years old	–0.005 (1.07)	0.049*** (3.16)
Budapest	0.006 (1.16)	–0.002 (0.20)
unemployed/local population (log)	0.002 (0.77)	0.007** (2.07)
0–6 years old children in the household	–0.003 (1.31)	0.009 <sup>†</sup> (1.83)
7–18 years old children in the household	0.001 (0.54)	0.011*** (4.09)
Entrepreneur	–0.005 (1.54)	0.001 (0.22)
Works on a casual basis	0.192*** (10.67)	0.193*** (4.42)
Receives pension	0.419*** (24.62)	0.386*** (24.37)
Receives parental leave benefits	0.146** (1.99)	0.320*** (11.27)
Receives unemployment benefit	0.085*** (2.92)	0.242** (2.34)
Number of observations	13 869	11 685

Note: Z values in parenthesis.

Significant at \* 10 per cent; \*\*5 per cent; \*\*\* 1 per cent.

Source: Central Statistical Office Labour Force Survey, January–March 2008.

Table F2: Factors affecting the probability of working part time  
(probit marginal effects for the sample mean)  
Wage survey, employees, May 2008

Dependent variable: works part time

	Male	Female
0–7 classes	0.147*** (10.97)	0.171*** (9.48)
8 classes	0.023*** (7.73)	0.084*** (23.52)
Vocational training	0.001 (0.66)	0.049*** (14.47)
High school	0.009*** (3.78)	0.008*** (3.17)
15–30 years old	0.014** (5.62)	–0.015*** (5.22)
41–50 years old	0.002 (0.89)	–0.015*** (5.71)
51–60 years old	0.016** (6.66)	–0.010*** (3.59)
61–74 years old	–0.006 (1.43)	0.040*** (6.27)
Pensioner	0.537*** (72.85)	0.423*** (63.64)
Company (0 = no; 1 = yes)	–0.000 (0.13)	0.071*** (33.81)
Budapest (0 = no; 1 = yes)	0.017** (6.58)	0.001 (0.24)
Small-region unemployment rate (log)	0.011*** (6.51)	0.008*** (3.76)
Number of observations	105 426	110 007

Note: Z values in parenthesis.

Significant at \* 10 per cent; \*\*5 per cent; \*\*\* 1 per cent.

Table F3: Factors affecting the probability of working part time  
(probit marginal effects for the sample mean)  
Wage survey, private sector employees, May 2008

Dependent variable: part-time employee

	dy/dx	Z values
Sex (0 = female; 1 = male)	-0.061***	37.44
0-7 class	0.183***	13.82
8 classes	0.062**	19.74
Vocational training	0.026**	10.43
High school	0.017**	7.34
15-30 years old	-0.011**	5.37
41-50 years old	0.001	0.72
51-60 years old	0.019**	8.76
61-74 years old	0.038**	7.87
Pensioner	0.529**	86.48
Entered in the previous year (0 = no; 1 = yes)	0.043**	21.14
Has a temporary contract	0.063**	19.82
Does the company have a collective agreement?	-0.032**	16.84
Sectoral collective agreement encompassing several employers?	-0.028**	8.06
Non-sectoral collective agreement encompassing several employers?	-0.024**	6.50
100 per cent foreign owned	-0.032**	15.20
Majority is foreign owned	-0.039**	11.58
Minority is foreign owned	-0.024**	4.63
Budapest (0 = no; 1 = yes)	0.009**	3.90
Local unemployment rate (log)	0.014**	8.59
5-10 employees	0.066**	18.21
11-20 employees	0.026**	8.39
21-50 employees	-0.004	1.81
51-300 employees	0.061**	23.64
Mining	-0.010	0.92
Processing industry	0.011**	2.86
Energy sector	-0.017**	2.26
Sewage, waste treatment	0.012**	2.16
Building industry	0.008*	1.83
Trade	0.037**	8.70
Transport	0.003	0.55
Catering	0.098**	14.88
Telecommunications, IT	0.046**	7.01
Banking, insurance	0.092**	14.42
Real estate agency	0.015**	2.25
Science and technology	0.025**	4.20
Renting and man power agencies	0.089**	14.79
Education (private)	0.099**	13.70
Healthcare (private)	0.100**	15.49
Culture (private)	0.022**	2.97
Personal services	0.076**	8.11
Number of observations	156 584	

Note: Z values in parenthesis.

Significant at \* 10 per cent; \*\*5 per cent; \*\*\* 1 per cent.

## 6. REDUCING TRANSACTION COSTS

### 6.1. INFORMING JOBSEEKERS AND EMPLOYERS – TOOLKIT

LAJOS BÓDIS, ZSOMBOR CSERES-GERGELY\* AND PÉTER GALASI



This chapter addresses the provision of information to registered jobseekers and employers, as well as the information services toolkit. The organizational background to informing clients and the way it has changed over time are discussed in [Chapter 6.2](#); information channels between the responsible ministry and the Public Employment Service (PES) are discussed in [Chapter 3.2](#). The available literature is limited to a few studies, and so, as well as research findings, this chapter relies on interviews carried out with managers and officials from the employment service.

#### THE ROLE INFORMATION PLAYS WITHIN THE SERVICES PROVIDED TO THE UNEMPLOYED

The issue of informing unemployed people can be discussed theoretically within the context of a job-search model that explicitly models both the duration of unemployment and the lifespan of unfilled vacancies: one example is the so-called *search and matching* model (Diamond, 1982; Mortensen, 1986; Pissarides, 1990). The situation is very simple in theory. We look at an imperfect labour market, where the speed with which demand and supply are matched up depends – among others - on the costs of obtaining information. The more complete and accurate the information about jobseekers and vacancies that is provided by the organization that deals with finding jobs and filling job vacancies, the sooner jobseekers and vacancies can be brought together: in other words, the length of time spent on job seeking (unemployment) and the length of time vacancies remain unfilled will both be shorter.

As they go about matching jobseekers and vacancies, and of developing jobseekers' skills, employment services are simultaneously producers, processors and customers of labour market-related information (Koning and Graves-teijn, 2012). Their data on jobseekers and vacancies serve as a basis not only for labour statistics, but also for their daily operations. The employment services' job placement activities are more efficient if they collect quality information and are able to pass it on effectively.<sup>1</sup>

In the process of informing people looking for work, the best international practice is characterized by the cautious application of self-service methods, alongside personalized case-management (Pieterse, 2011). It is important that an overabundance of information should not deter users: information should be provided in a user-friendly structure and form. If successful, such

\* I would like to thank Bálint Szőke for the excellent research assistance which helped in the empirical analysis.

<sup>1</sup> Especially if the employment service outsources part of its activity: if so, it has to give detailed information about the clients and receive information on their operations (Finn, 2011).

a development can provide a genuinely direct connection to job centre information, which will also reduce the workload of officials who deal directly with clients. To efficiently combine personal case-management and multichannel systems, both personalized information and client access to their own personal data are necessary (Pieterse and Johnson, 2011).

However, while the employment service's main task in its dealings with employers was, for a long time, to assist with recording vacancies, recently there has been a shift, and the service in many countries has gradually been moving from almost exclusively serving jobseekers to serving employers, too (Koning and Gravesteyn, 2012). As well as placing (without a fee) those jobseekers who are prepared to work, there is a move to provide information services that are both more comprehensive than before and also more personalized. In many countries, the employment service coordinates and distributes forecasts on where labour-market bottlenecks might be expected, and on the basis of these they provide employers with information. Finally, there are more and more places where more personalized information is offered to enterprises, on top of more general information on hiring, training and dismissal; sometimes this is accompanied by a fee.

The main trends in the approach of job centres are shaped mainly by the everyday experiences of the officials involved and the new technological opportunities becoming available. Empirical literature that deals with the efficiency of particular approaches is quite scant, but the literature based on the *search and matching* theory examines what influences the duration of unemployment. International experience shows that active programmes which include guidance and counselling (as well as provide information) generally increase people's chances of finding employment and reduce the time spent unemployed (Martin and Grubb, 2001; Kluve et al., 2006). Guidance and counselling have a positive effect only if they are paired with monitoring and sanctions (cf. Martin and Grubb, 2001; [Chapter 4.1](#)).

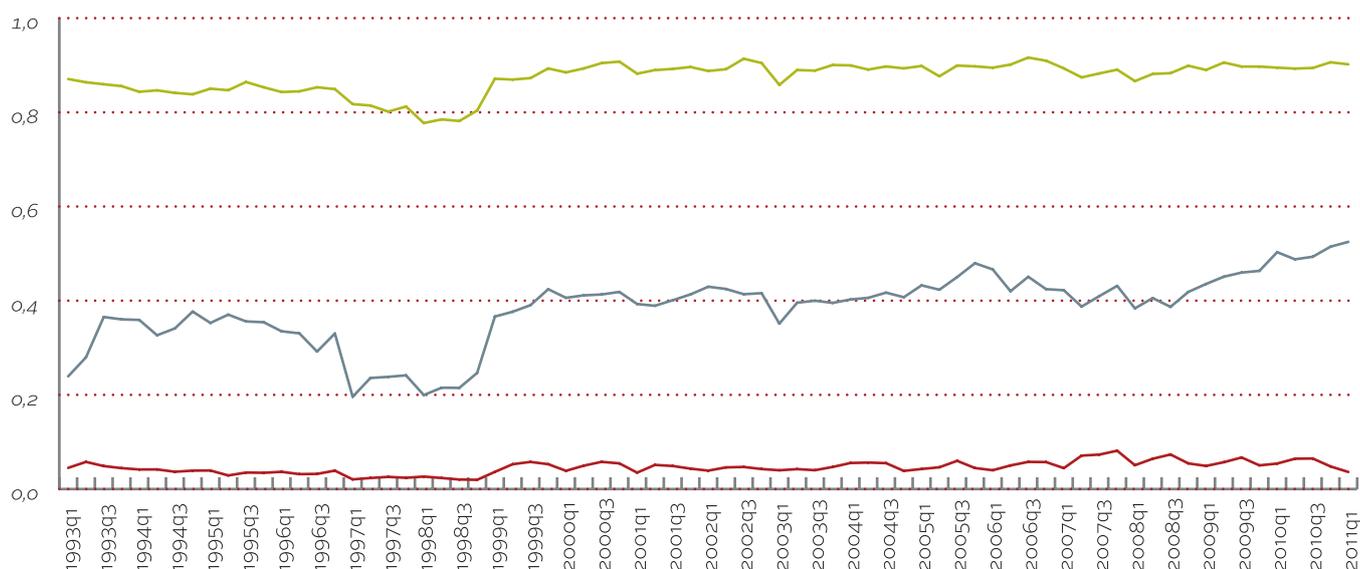
## INFORMATION ACTIVITIES IN THE HUNGARIAN PUBLIC EMPLOYMENT SERVICE

At the beginning of the 1990s, the employment service focused on monitoring eligibility for, and the disbursement of, unemployment benefits. In 1993, when unemployment reached a then unprecedented rate of 12 per cent, there was little or no talk of activation of the registered unemployed by means of tools such as those discussed in the literature – considered the most successful, combining as they do powerful monitoring and very varied support.<sup>2</sup> By the end of the 1990s, the officials and managers of the PES had gained enough experience to know that, in addition to their supervisory tasks, service expansion required the development both of local job centres and of the central office. This aim luckily met with a funding opportunity: from 2002 onwards, money was provided by the PHARE programme, in preparation for EU accession, and this was followed by subsequent development projects (Human Resources Development Operational Programme or HEFOP and Social Renewal Operational Programme or TÁMOP). The first project, aimed at modernizing the Public Employment Service, consisted of several objectives that promoted

<sup>2</sup> This is supported by the interviews conducted with policy makers during the mini-research we did in relation to this volume (For more details see [Appendix 8.2](#)). For the political considerations, see [Chapters 2.1](#) and [3.1](#).

direct information for jobseekers. The most important of these followed the international trends and included the development of self-service systems and the introduction of new service models supporting personalized administration. The details of this development process are discussed in [Chapter 6.2](#).

Figure 1: Proportion of those who used the services of the PES by particular groups of unemployed



Note: We have defined job search according to the ILO standard.

Source: Authors' calculations based on the CSO Labour Force Survey.

- Registered and ILO + using PES
- ILO only + using PES
- Registered only + using PES

However, the Hungarian PES keeps in touch with a smaller proportion of those who are not in work than is generally the case abroad (Bajnai, Hámori and Köllő, 2008), although this proportion is relatively high among the registered unemployed, at around 60 per cent (see [Chapter 4.1](#)). One reason for this is that those concerned receive unemployment benefit through this channel; however, the PES's information role should not be neglected. Figure 1, which is based on the Labour Force Survey (LFS) of the Central Statistical Office (CSO), shows the extent to which certain groups of the unemployed rely on the employment service during their job seeking. We deal separately with the unregistered unemployed; and among the registered unemployed we distinguish those actively seeking work. However, information gained from the LFS questionnaires did not make it possible to separate the PES's service and information provider activities.<sup>3</sup> It can easily be seen that this relationship is fairly close and stable over time – despite the significant methodological change that occurred at the end of 1998. Only a small proportion of clients who are registered as jobseekers but not actively seeking a job use the employment service as a source of information on job opportunities. Of those who are not registered, quite a lot use the employment service, and after the crisis that broke in 2008, the numbers increased by a fifth. Nearly 90 per cent of those registered unemployed who are actively seeking a job used the service

<sup>3</sup> The analysis is based on the LFS question 'How did you look for a job?'. Before 1998 it was not possible to choose search options separately, but only to rank the tools used as first, second and third (three in total): here PES users are those who at least in one case ticked 'via the Public Employment Service'. After 1998 we deemed PES users to be those who inquired about vacancies at the job centre or gave 'is waiting for notification from the Public Employment Service' as an answer.

throughout the period under examination (Figure 1). We do not analyse the period before 1998, and especially not the major drop in the number of those unregistered unemployed who used the PES after 1995, due to the methodological change in data collection.

## INFORMATION BASE OF THE EMPLOYMENT SERVICE

Since the beginning, in the 1990s, the employment service has considered one of its primary tasks to be to pass on information about incoming vacancies to its clients. For this, the primary information source was the database of available vacancies. This was based on registrations by employers and vacancies sought out by PES officials. Information related to unfilled vacancies was collected by the job centres even in the 1990s, but at most was shared between counties. It was one of the most important results of the 2002 modernization programme that vacancy descriptions were standardized, and a countrywide database and platform were created (to which every job centre was given access). The quality of the information available, however, needs to be improved.

One reason for this is that the regulations in Hungary – in contrast to the trends of the International Labour Organization (ILO) and the EU and the practice of two-thirds of OECD countries – are confined to mandatory employer vacancy registration;<sup>4</sup> they do not apply sanctions if registration is omitted (Frey, 1999; Konle-Seidl and Walwei, 2001).<sup>5</sup> This practice may disadvantage those who obey the rules, since it increases the administrative costs of those who do not wish to recruit through job centres. It also undermines expectations of a rational procedure, since there may be no practical consequences flowing either from registration or from the lack of it. Finally, it could weaken the culture of cooperation and give rise to a wrong interpretation of the rule-makers' intentions, since the increase of administrative costs contradicts the intention that services provided to employers need to be improved.<sup>6</sup> Enterprises are not allowed to upload their vacancies to the database independently; moreover, not even electronic notification is possible. The system only allows employers to have a say in the procedure to the extent that they may stipulate avoidance of placement or open announcement of the vacancy.<sup>7</sup>

Carrying out job placement activities effectively requires information about current labour demand that helps officials to orient the job searches and/or training of the unemployed. This sort of large-scale survey based on enterprise questionnaires was introduced in the mid-1990s and has been ongoing since then.<sup>8</sup>

These forecasts form the basis of the so-called '**labour force barometer**' that shows, by county and by region, what size of workforce increase or decrease might be expected and in what occupations (trades). Although, in principle, the barometer provides useful information for the short term, the results of our interviews indicate that the job centres do not consider it a tool that can help them with the timing of their tasks or the planning of training. Results of the barometer are available by region, in contrast to the local job centres, for which the most useful information refers to employers in the area and the county.

4 The official form used for the labour-market service and available benefits is the annex of 30/2000 (IX.15) Ministry of Economy regulation. According to the interviewees working at the Public Employment Service, the PES has made several attempts to make the form more flexible and simple, so far in vain.

5 A few analyses have named Hungary as lacking the relevant regulations (Kuddo, 2009; Larsen and Vesan, 2011).

6 We will come back to the conceptual explanations of the contradiction in Chapter 6.2.

7 As a prerequisite of some programmes, vacancies must also be advertised on the internet, but by withholding some important elements (e.g. contact details of the employer) the information will be useless without an official's intervention. In practice, the employees of the local job centre have the opportunity to recommend this course of action to the employers, too, if they think it proper with regard to the selection of applicants or for the evaluation of their own performance.

8 At present, forecasts are made yearly by the Institute for Economic and Enterprise Research (MKIK) and the Employment Office; those for 2004–11 are available on the homepages of the employment service.

The quarterly Manpower Survey is similarly important. It was introduced within the framework of the PHARE Twinning programme (2004–05) and has been operating throughout the employment service since 2005. The job centres contact the employers in their area with a questionnaire every quarter – the survey may provide a sort of framework for keeping regular contact with employers, but it is not necessarily accompanied by a site visit. In the questionnaire, the job centres ask about expected changes in the labour force in the next quarter (three months) and the next year (twelve months). Based on the information gleaned from the questionnaires, the local job centres – also at the level of individual employers – can picture what changes can be expected in the coming quarter and in the coming year in terms of size and direction of the number of employees. The results are published every quarter, and the reports on the individual quarterly survey are available on the homepage of the PES.

It is not only the current results that are reported (from various aspects), but also the extent to which the currently available figures correspond to the expectations of the previous period. The survey concerns 8,000–10,000 employers, employing some 500,000 or 600,000 employees; the response rate is good (76–80 per cent).

In theory, as with the barometer, this information is suitable for informing the unemployed, and the local job centres – according to our interviews – would use it to plan training. One of its limitations, however, is that users do not see the data reliable enough; the way in which the data are collected is partly responsible for this. The samples are not representative of the enterprises, at least in the light of any published statistical data characterising respondents, and there is no sign that any kind of statistical methodology has been applied to establish representativeness. According to the experience of job centre staff, the plant units of larger enterprises often do not even have the necessary information, or else head office does not give its approval for such information to be shared. Accordingly the job centres typically include those employers in the survey from whom data are relatively easy to obtain.

## INFORMATION SERVICES PROVIDED BY OFFICIALS

The Hungarian PES provides labour-market information within various activities. Employers and jobseekers are provided with information in various forms, depending on the target group. The service is rich in content, but it seems that the integration of the traditional system (which requires the intervention of officials) and the self-service system – for example, by developing a single protocol that takes into account all channels – has not yet been successfully accomplished. This all suggests that efficiency lags behind potential, and it cannot be guaranteed that different organizational units and service staff provide a service that benefits both sides and that draws on professional know-how. This issue is dealt with in more detail in [Chapter 3.3](#) and [Chapter 6.2](#). The recently completed work on a national standard for job placement<sup>9</sup> separates traditional and personalized job placement as well as self-service information gathering. It envisages a situation whereby jobseekers have a detailed first interview, during which information is recorded for administrative purposes;

9. The elaboration of service standards was a development within the TÁMOP 2.6.1 project at the end of the 2000s; a longer-term goal is to contribute to standardization of the quality of labour market services ordered by the state, irrespective of where the services are provided and by whom. This is dealt with in more detail in [Chapter 6.2](#).

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an employer must be informed of a client's existing competencies and special needs. The applicable rules of the standard are included in the employment service protocol (Employment Office, 2011). The daily routine, however, is rather different from this ideal.

In traditional job placement, the interview involves only a few questions, and placement is restricted to offering a particular vacancy. By contrast, the personalized job placement interview covers standard work-impeding factors (for example, family circumstances) and competencies that may be lacking, and identifies any fears jobseekers may have about potential negative stereotypes on the part of employers. Then the official helps the jobseeker find a job through personalized choice and recommendation. So that clients can find information for themselves, if necessary they are taught how to use the computers at the job centre.

Fulfilment of the employer's needs may require not only a simple pre-screening, but also a more methodical and intensive involvement in selection. The starting point for the process, according to the standard, is a 'job requirements profile', although the method of constructing one is not specified (an example of Hungarian best practice is described in [Chapter 6.2](#)). The interview held during screening is part of this process. The standard does not refer to the types of interviews, and the use of tests. However such tools are common in the selection process for routine jobs at enterprises, and such vacancies are frequent in the PES. Nor does the professional standard cover the part that officials should play in selection or the aspects that should be attended to during screening together with the employers, although these might be critically important in selection.

## SELF-SERVICE SYSTEMS

An important tool for disseminating information within the PES is the Hungarian institutional system of EURES (European Employment Services), which has been developed since EU accession (Koncz, 2011). It consists of information collected by the Member States, and its task is to provide information and guidance to employees who intend to get a job abroad, and to help employers hire foreign workers. The services of the Hungarian network are available at all job centres. The activities of local EURES assistants (170 people) are coordinated by consultants (29 people) working in the chief county towns. Both job activities involve direct client relationships; at the same time, however, the system is largely based on self-service, and the tool for that is the [EURES portal](#), which consists of labour-market and other information provided by the Member States.

Within the EURES-T, a regional version of this service, is an area-specific and more intensive forms of providing information and job placement may be realized by cross-border partnerships that promote commuter traffic. The Hungarian PES is heavily involved in this initiative: of the 20 or so partnerships covering 13 countries, Hungary is involved in three. The joint partnership with the Slovak border areas was the first of these, and apparently enjoys intensive cooperation; it was followed by the organization of two-way information flow with Austria and then with Romania. Outside the EURES framework, an

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Austrian initiative has helped a few cross-border county job centres to maintain intensive work contacts with partner organizations since the 1990s.

In addition to the EURES, several self-service tools and internet portals help clients in their individual job search; however, these are sometimes not easy to use, are not integrated, and their content is sometimes incomplete or out of date. General information and available services are outlined on the main homepage of the employment service ([www.afsz.hu](http://www.afsz.hu), or more recently [www.munka.hu](http://www.munka.hu)) and the regional job centre homepages provide further details. Unfortunately, these are all fairly difficult to use; however there are some promising signs of development.

When it comes to self-service job hunting, the situation is just the opposite: individual job centre homepages direct people to the main homepage, where a fairly lean database search engine is available. The now defunct [www.epalya.hu](http://www.epalya.hu) can be seen as a forerunner to the [ez itt link legyen: [www.eletpalya.munka.hu](http://www.eletpalya.munka.hu) ], introduced in 2010, but the latter's functionality is wider: it provides expected vacancy figures for a number of jobs (though it is already based on an outdated forecast) and information about expected salaries. The lifelong guidance portal created within the TÁMOP 2.2.2 project was introduced at the end of the 2000s and offers adequate information on current professional standards and on career choices and changes. The existence of such websites indicates that the PES did, to a certain extent, realize the importance of self-service systems, but it never devoted as many resources or paid as much attention to such services as to developing and maintaining the traditional services.

#### Efficiency of information provision for jobseekers

The process of informing jobseekers has improved over the past 20 years, though not as much as was technically possible; client service has developed at the same time, too. However, in this period we have witnessed no substantial growth, either in the chances of an unemployed person finding work or in the employment rate – not even if we disregard the unfavourable effects of the recent crisis. One reason could be that these changes have affected only one (less important) job search tool. Nagy (1999) reports that formal tools are effective in large-scale or extensive job search, but are unable to provide details on certain features of the individual offers: the proportion of those who have been able to get work with the support of formal job placement is 25 per cent – and in many cases is below 10 per cent. By contrast, through informal channels people can receive information on only a narrow segment of the labour market, but that information is detailed and reliable.

If we wish to ascertain the extent to which unemployed people acquire information from the PES, we should evaluate it just like any other programme. To date there has been no analysis that has directly addressed this question. Cseres-Gergely and Scharle (2010) provide detailed results on the overall impact of the PES modernization programme on unemployed people's chances of getting a job; they found it significantly positive, albeit small in scale. This, however, fails to answer our question satisfactorily in many respects – mainly because it is not able to separate the PES's information role from its other roles, and because it covers only a few years.

We try to make up for the lack of comprehensive studies for a major part of the period with an assessment based on individual LFS data. We are trying

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to find out whether the chances of getting a job have altered for unemployed people who rely on the PES in their search for a job, by comparison with those who do not rely on the PES; in all other respects the two groups have similar characteristics.<sup>10</sup>

As we saw from Figure 1, use of the PES is stable among active jobseekers. Examining the same groups, we found that the proportion of those who got a job – among both the non registered unemployed and the registered unemployed who are actively searching for a job – is generally not dependent on use of the PES as an information resource (10–13 per cent on average over 10 years, either with or without use); at the same time, in the case of those who are only registered but are not actively seeking a job, returns to using this source of information are significant: 31 per cent of PES users found a job, but only 14 per cent of non-users did.<sup>11</sup>

The effects of PES use could be influenced by factors that determine what type of people have a better chance of finding a job, and these may be correlated with the probability of using the PES. To control for these factors, we used multivariate analysis. Contrary to expectations, the regression results show no significant change from the raw data: use of the PES has a significant effect on the chances of finding a job only in the case of those unemployed who are not actively seeking a job. Although job hunting through informal channels is of major importance (Nagy, 1999), the results do not change even if we use the indicator of searching for a job with the help of relatives and friends in the estimation, as a proxy for social embeddedness. Pending further examination, we can say in general that we could not prove the impact on successful job search of using the PES as an information resource. The significant observed proportion of those who found a job among the population of registered unemployed who were not actively searching for a job requires further examination and research.

## TOOLS FOR INFORMING EMPLOYERS AND THEIR USE

In Hungary, the tools for informing employers typically do not feature as a separate service, but are included in various services. Some of the information services could be clearly connected to either the employer or the jobseeker, whereas in other services they are connected to both at the same time. Tasks defined in the regulations that belong here include: provision of labour-market and employment information services, local (area) employment counselling (Employment Office, 2011), maintaining contact with employers in job placement, service contract with employers (*ibid.*) and (rather as an idea for the future) providing labour-market information to employers.<sup>12</sup>

As part of the Hungarian professional standards – following the international trends mentioned above – more emphasis was given to serving employers; however, the provision of information is limited by certain general features and problems of the PES. In practice, supplying labour-market information has meant informing unemployed people rather than employers. The primary goal of maintaining contact with employers has been to explore vacancies and draw attention to allowances – and, to a lesser extent, to provide more general information by making them aware of trends.<sup>13</sup>

10 We measure the chances of finding a job by observing how many people got a job between two quarters of the LFS. We made a probit estimation for the years from 2000 to 2010 for the registered unemployed and the job-seeking unemployed. Among the explanatory variables were registered and jobseeker status, and interaction of those with the indicator for PES usage.

11 We give no details here on the estimation; it is available from the authors on request.

12 See the protocol mentioned in footnote 9 (Providing labour market information to employers, TÁMOP 2.6.1.).

13 Only the comprehensive protocol on development plans treats provision of information to employers as a separate service.

At the end of the 2000s, important measures were enshrined in EU programmes to strengthen relations with employers: a network of full-time agents was set up in the PES head office to liaise with large businesses, and a dedicated internet portal was created.<sup>14</sup> The PES's routine operations, however, still relied heavily on employers initiating contact. Mirroring the situation with jobseekers, in practice there is little sign of any planning of staff capacity. Disproportionately great attention is paid to certain employers, for whom the service is free (as it is for all). The provision of information to clients can thus fall victim to a backlog of tasks – perhaps caused by growing unemployment or a change in the rules governing unemployment benefits. As soon as there is an expansion in the number of employers who maintain contact with local job centres – as has recently been the case – those offices immediately face serious capacity limits.

The essential elements of international best practice appear in the professional standards, and primarily in the service standards. These are, first, to emphasize the various flexible forms of employment and to inform smaller businesses about matters of which they may have little knowledge (efficient selection and orientation methods, the relationship between the internal and external labour market); second, to offer the quarterly Manpower Survey providing information on supply and demand by labour-market segments; third, to provide documentation and share experiences within the PES of maintaining contact. The local job centres also do this in practice; however, maintaining contact is still largely carried out in a traditional way (focusing on vacancies and benefits).

The element most lacking from local job centre practice (and from ideas for further development) is a guarantee of professionalism and fairness in providing personalized information to employers. One of the goals of maintaining contact is to get to know the main job requirements, but up until now the application of suitable methods and the adoption of tried and tested enterprise workforce management methods have been only sporadic and unsustainable. [Chapter 6.2](#) describes a few cases where international trends of intervention in hiring and workplace training are to be found even in Hungarian practice.

Generally speaking, despite the range of available tools and services, both employers and unemployed are averse to using job placement services. There are other reasons for this, besides the relatively modest returns of the extensive job search. Those who are searching for a job know that job placement is not the most popular way to fill a vacancy, and they suspect – not without reason – that employers opt for this route to fill low-quality, hard-to-fill vacancies. The least-attractive vacancies hang around and accumulate on the register. Employers are also mistrustful of applicants from an employment service, because they know that those who can get a job more easily tend to avoid such services, and that clients of employment services are less productive than average. This applies especially to the Public Employment Service, which has also to deal with those people for whom private employment services are unable to offer a job. Moreover, all the unemployed who receive benefits are obliged to register with the PES. The combined effect of all this is that the most unsuccessful jobseekers and the long-term unemployed are concentrated in the Public Employment Service (Nagy, 1999).

14 The pilot period of the job agent system was carried out within the TÁMOP 1.3.1 programme in 2009–10, when 14 agents explored vacancies in an unprecedented and concentrated way. Since 2011, the number of agents has been increased to 40. By maintaining contact with large enterprises, the head office of the PES expects the system to harmonize the activities of those job centres involved through countrywide recruitment campaigns, and to make information dissemination more efficient and simpler for the employers.

There are only a few empirical results available from the 2000s on the use of job placement services and the success rate. The conclusion is that the client groups of the PES are heterogeneous, and that placement services – compared to other tools – are relatively important, but in many cases are not the most important tool. According to certain assessments (Ipsos, 2011),<sup>15</sup> PES services are the second most frequently used hiring mechanism (24 per cent), with only informal channels used more often (29 per cent). It seems that one of the important observable characteristics is the frequency of contact. Møller (2003) analyses a business sample,<sup>16</sup> from which it appears that those businesses that had maintained regular contact with the employment service over the previous two years hired nearly half (44 per cent) of their new employees through the employment service.

Some unrepresentative information indicates that the client group also varies by sector: , certain industries in the private sector – e.g. transport, commerce, tourism and hospitality – are underrepresented among enterprises that maintain regular contact with the employment service (Møller, 2003).

Businesses that want to hire blue-collar workers use the PES more than businesses that are seeking white-collar workers (Nagy and Kopasz, 2010).<sup>17</sup> A third (34 per cent) of white-collar workers are hired through the employment service (while advertising is heavily used). The share claimed by the employment service is slightly bigger for blue-collar workers (40 per cent), and the proportion of advertising is the same as for white-collar recruitment; however the role of internet as a tool is smaller. Moreover, private employment services are used relatively frequently to hire white-collar staff, and informal methods are commonly used in the case of blue-collar workers.

The use of the PES in hiring appears to depend to some extent on the size of the enterprise (Ipsos, 2011): it is used less by enterprises with fewer than nine employees (14 per cent) and by enterprises with more than 1,000 employees (19 per cent). According to this study, the PES's main client group is formed of enterprises with between 10 and 1,000 employees: for this group, job placement through the PES is the most frequent way of hiring (around 30 per cent) and is even overtaking informal search.

Unfortunately, it would seem that not only are job placement services used by only a subset of companies, but in general they are not especially successful, despite the efforts made. In this respect, important differences can be seen between subsidised and non-subsidised vacancies. The number of successful job placements into non-subsidised vacancies between 2004 and 2009 fell almost throughout the period. The number of successful job placements into assisted vacancies increased from year to year (except in 2007, the year of regional restructuring, when there was a dramatic, 30 per cent drop in this category over the previous year). Within all open vacancies, the proportion of subsidised vacancies was above 50 per cent in most of the counties and (not surprisingly) the figure is high in areas with the worst labour-market situation. During the period examined, as a whole the share of successful job placements for non-subsidised vacancies got smaller and smaller (Berde, 2010).<sup>18</sup>

15 As part of their joint research (Labour market prognosis, 2009) Ipsos Zrt., the Ministry of Social Affairs and Labour, the PES, regional chambers and the Institute for Economic and Enterprise Research (MKIK GVI) examined inter alia the labour market share of the PES on a representative sample of 7,500 within the TÁMOP 1.3.1 project (Ipsos, 2011).

16 The size of the sample includes 670 enterprises. The survey was carried out in such a way that the 20 local job centres who were involved in the pilot project recommended 60 enterprises each for the sample; of those, 40 enterprises used the services of the PES, and 20 did not use; the response rate was slightly more than 50 per cent. Due to the composition of the sample, the survey was most suited to indicating the most critical problems.

17 Within the research carried out in the plant units using the so called 'linked survey method', Nagy and Kopasz (2010) analyse those survey questions that were asked of managers about the information channels used to hire workers. The sample consisted of nearly 1,000 plant units in the private sector that had at least 10 employees. Since firms with fewer than 10 employees were not included, and since the figures for companies with more than 250 employees are unreliable (due to the small number of items), the results cannot be regarded as valid for the Hungarian labour market as a whole.

18 In 2004 the referred rate was 41 per cent, and it had dropped to 32 per cent by 2006; after a small drop in the next two years, by 2009 the proportion of the non-assisted vacancies among the successful job placements stood at 23 per cent.

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## EFFICIENCY OF THE PES'S JOB PLACEMENT SERVICE

The PES's success with job placements also depends on settlement type. The role of internet advertising and the significant differences in the intervention level of local job centres are features worthy of attention (Nagy and Kopasz, 2010). Local job centres in Budapest are used less frequently than in the countryside and their success rates are lower: they have a 10 per cent rate for successful job placement of blue-collar workers and only 5 per cent for white-collar staff. Meanwhile, the success rate for hiring blue-collar workers for businesses in villages is 43 per cent. Differences in the use of internet and newspaper advertisements are significant too; however, the use of informal recruitment methods varies only slightly by settlement type.

The already low success rate and the further decline in job placement success indicators may have been influenced by many factors. The increasing proportion of people who have found a job without assistance in recent years – despite the employment rate barely rising – may indicate that the PES has successfully concentrated on the provision of information. In that case, it is hardly a problem if the proportion of direct job placements has fallen within the pool of non-subsidised vacancies. The huge proportion of unfilled vacancies might be explained if these are lower in quality than the jobs whose information is readily accessible through self-service. A qualitative examination of the service tools and organizational processes, however, does not indicate any such reshaping of activities. Quite the opposite: it indicates a concentration on direct job placement and the underdevelopment of self-service information – a trend that is possibly a result of the introduction of performance evaluation and the method used to calculate the indicators measuring the lifespan of vacancies<sup>19</sup> (on this see [Chapter 6.2](#)).

According to previous empirical studies, for blue-collar workers it is still usual for most information that actually leads to employment to come through informal channels. It is a new development in the case of white-collar staff that formal channels have gained the upper hand: most likely white-collar applicants are using the internet differently. The development and spread of mobile communications and the internet may improve the quality and accessibility of information put out through formal channels, while the opportunity to pick up information informally need not necessarily decrease. Borbély-Pecze (2009) suggests that public and private service suppliers might ensure joint monitoring of the quality of labour-force information and it could be in their mutual interests to increase the use of formal channels. The author gives internet real estate as an example and makes recommendations on how to improve labour-market services; however, at present in Hungary these recommendations are more by way of potential aspirations. They all accord with the recommendations and trends presented in relation to the PHARE project that preceded EU accession; a central element of that project is to have information provided without the local job centres playing a direct role, in such a way that unemployed people and unfilled vacancies can find each other (Hansen, 2003).

<sup>19</sup> The lifespan of a vacancy is the elapsed time from registration until the vacancy is filled or ceases to exist.

## RECOMMENDATIONS

The way in which the Hungarian Public Employment Service provides labour-market information differs significantly from the recommendations made at the time of preparation for EU accession. This would not necessarily be a problem if, during the ongoing development processes since 2002, there had been any analysis of the advantages, risks and system-level correlations, and if a different but consistent information model had been set up. However, no alternative has been worked out to the recommendation that would form the basis for modernization, which mainly concerns the categorization of clients and an increasing move towards a self-service system. If this indicates a change of goal, it should be explicitly recorded. Failing this, there is a risk that development will take place without the requisite frameworks and that clients will receive information only on haphazardly.

Managing vacancies by undertaking proper, methodical support and monitoring in addition to (rather than instead of) activation and proper human resource services would also increase the effectiveness of activation. It would be a good idea to work out protocols for both, paying particular attention to the possible complementary nature of the two activities.

With regard to the efficiency of PES information activities, no empirical information is available. It would be a good idea to initiate research, if possible, that differentiates between specific information tools and target groups. It needs to be investigated which tools make it possible to reach employers more effectively and in larger numbers than at present, and these should be applied in practice. The provision of information to employers – especially small and medium-sized enterprises – must be balanced.

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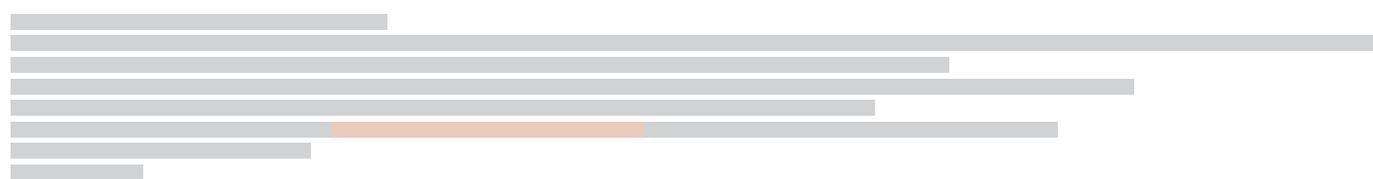
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## 6. REDUCING TRANSACTION COSTS

### 6.2. INFORMING JOBSEEKERS AND EMPLOYERS – INTERESTS

LAJOS BÓDIS



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Of the tasks facing the Hungarian Public Employment Service (PES), seeking out and publicizing vacancies are two that are of outstanding importance. The quantity, quality and availability of the vacancies offered are strongly influenced by the internal operations of the local job centres. The present chapter investigates this in detail. There have only been a handful of studies on the topic in Hungary, and therefore we have supplemented our analysis of the results of the various research studies with document analysis and interviews. Lacking reliable data from the past, our ability to reconstruct the changes in the practices of job centres has been rather limited.

#### INTERESTS AND ROLE CONFLICTS OF PROVIDING INFORMATION AND PLACEMENT SERVICES

The relationship of those involved with labour market information services can be appropriately modelled by the principal-agent theory (Bódis, 2002). The theory concerns itself with situations where one party (the principal) commissions another party (agent) to perform a task because he is unable to do it himself or it is not worth his while doing it. The principal has to deal with an information gap and faces the risk that the agent may be incompetent or may fail to act to the principal's advantage. However, by applying a variety of selection, motivation and monitoring practices, one can prevent the risks stemming from opportunistic behaviour (Milgrom and Roberts, 1992).

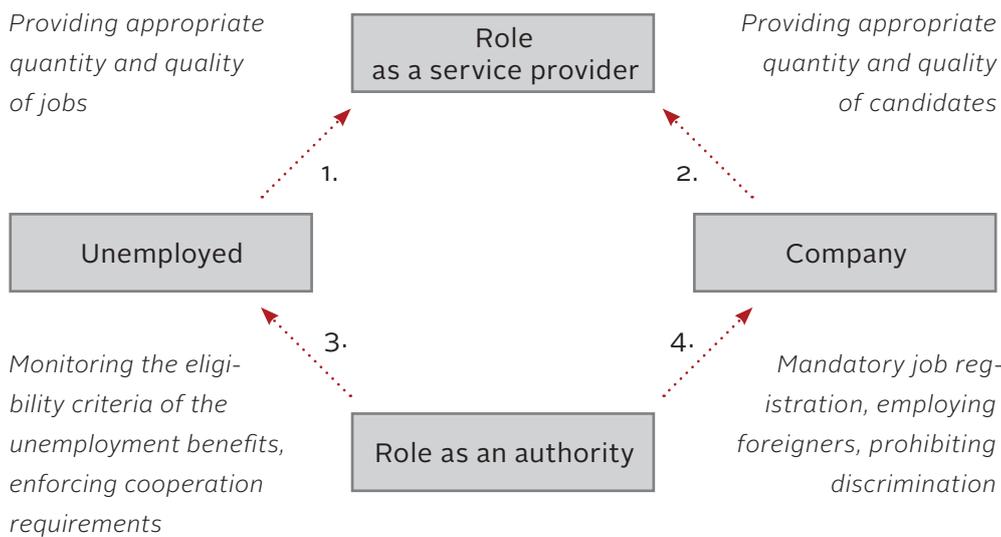
The PES offers services to employers and unemployed people alike, at the same time acting as an authority over them. As a service provider it is their agent, but as an authority (in the role of the principal) it may monitor compliance with the law. At the same time the local job centre is an agent of the national employment office as well as of the ministry responsible for employment policy (Addison et al., 2010).

The PES must represent the interests of both employers and jobseekers: only then can it be effective. But this also presents an inherent conflict of roles: both groups must be regarded as principals! Since recruiting is costly for the employer, he expects the job centre to pre-screen applicants. If, however, companies perceive that the centre disregards their interests – in other words, if they are dissatisfied with the quality of jobseekers referred by the agency – in future they will not make use of its services. Permanent cooperation also prompts the job centre to consider company interests. Should the employment

agency convince the company to hire an unsuitable workforce, the firm is likely to dismiss him in the future and, due to the unpleasant experience, withdraw from dealing with agency altogether.

A company might strive to satisfy its urgent expansion needs by raising wages and spreading the word more widely. As a result, it may temporarily occupy a central position on the labour market, as if it was the sole employer. In other words (in accordance with the monopsony model) it can gain more manpower by raising wages (Ehrenberg and Smith, 2012). However, it is only worthwhile and possible to offer higher wages than the competitors if the less obvious skills and efforts of employees have a significant influence on the overall performance of the company. This is not characteristic of mass production (with the exception of automotive plants assembling products of a high unique value). Another way of increasing applications is to boost the reputation of the company through a recruitment campaign. This may be combined with higher-than-average wage rates (except for public placement services, given that their jobseeker clientele is of a different composition).

Figure 1: Roles performed by the public placement service as an authority and service provider



Note: The arrows point from the principal to the agent, the numbers denote the relation.

Instead of addressing rapid expansion needs, it is a more frequent concern to replace departing staff or, at most, to provide for gradual growth. In this case, it may be sufficient (especially for companies of great renown) to accept applications ‘on spec’ or applications from people recommended by employees, as well as to contact candidates on the company files. This route of attracting applicants is faster, and the composition of candidates more favourable than is often offered by state-run job centres. Hence even companies that require such services at production launch or when there is a need for rapid staff increase are likely to loosen the relationship with the job centre later on.

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If we focus solely on job placement as a service, it is reasonable to suppose that the goal of jobseekers is to find employment, that of companies is to employ productive staff; and as an agent for both, the job centre aims to match them appropriately. In addition to this, however, state-run job centres also monitor adherence to various laws and regulations, in which role they act as a principal of unemployed people and employers alike. The simultaneous roles as service provider and authority fulfilled by the job centre are a source of further role conflicts, summed up by Figure 1.

It is an official task of the PES to decide if the unemployed are eligible for unemployment benefit: whether they take the steps prescribed in order to find employment and whether they accept job offers that suit their level of qualification (role No. 3). In this relation, the unemployed person is an agent of the job centre and can avoid keeping his end of the agreement if his cooperation is purely nominal. This question is addressed in greater detail in [Chapter 4.1](#); in the present chapter we concern ourselves with its direct implications for job placement.

The job centre may only chart the features of jobseekers and employers partially, and it can rarely provide unambiguous justification for a failed partnership attempt. It would be unacceptable to employers if the job centre assessed the entitlement of all unemployed people at their expense, citing powers vested by law (see the conflict between principal-agent relation No. 2 and 3). This would rather prompt them to circumvent the PES, in the same way as failure to pre-screen applicants would. The optimal degree of pre-screening as performed by the job centre also depends on assessing the contradictory consequences of a strict application of authority.

What happens if the unemployed person identified by the job centre does not want to enter employment? Deliberately poor performance on the entry test will probably remain hidden, as the actual result will render the applicant unsuitable. If the company accepts all applicants, the reluctant candidate may reveal his unwillingness openly. In this case jobseeker and employer may agree to cite inadequacy as the reason for the unsuccessful placement, thus avoiding disqualification from unemployment benefit. If, however, the company is unwilling to follow this course of action and it forces the unemployed person to accept the position, and if that person then leaves the company soon after or else acts in a disruptive fashion, that can prove rather costly. Since dealing with people referred by the job centre also incurs certain costs, mass placement of those unwilling to work may drive the company to avoid the PES in the long run.

In spite of the costs associated with the workforce fluctuation and undisciplined behaviour, some companies that offer unattractive wages and/or working conditions may decide to use the threat of disqualification from unemployment benefit to fill their vacancies. Employment service officials are reluctant to send unemployed people to these plants, citing reasons of fairness. Additionally, they may not be disposed to shoulder the psychological burden of disqualification, even if that is part of their job. In other words, if they cannot decide whether the blame lies with the employer or with the disruptive behaviour of the employee (conflict between principal-agent relationships No. 1 and 3), they are likely to suppose the former.

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In Hungary, the PES is licensed to take action regarding the mandatory reporting of vacancies and the authorization of foreigners work permits. It is likewise responsible for ensuring that there is no discrimination in the hiring process: the PES enforces compliance with the rule that says that any decision to hire is legally based on considerations of personal ability.

Monitoring the eligibility criteria of the unemployment benefit and acting against discrimination in hiring (principal-agent relation No. 3 and 4) are compatible with each other. If the job centre refers a member of a group that is discriminated against, deeming them suitable for the position based on their personal merits, this causes a conflict between the authority and the employer (principal-agent relation No. 2 and 4) as well as between the authority and the unemployed person unwilling to work (principal-agent relation No. 1 and 3). There is no such conflict if the authority adjusts to discrimination and ensures that the company's criteria are entirely met during the pre-screening process. Discrimination in hiring is advantageous to those unemployed people who violate the criteria for receiving unemployment benefit: since they are offered fewer vacancies, they are more likely to stay as unemployment benefit recipients. This kind of behaviour, whether exhibited by the employer or the jobseeker, has a negative impact on the common good. At the same time, motivation is difficult to achieve, as the parties involved are mutually uninterested in a successful placement.

## GOALS AND DEVELOPMENTS DEFINING THE FUNCTIONING OF THE PES

The goals of the PES concerning information on jobs and jobseekers have barely changed in the past 20 years. In the early 1990s, providing information to employers and jobseekers was not considered an important task (as with other services). In the second half of the decade, however, with economic growth, the role of the employer regained its value and the focus shifted primarily to start-ups. The EU projects launched after the millennium further strengthened employer orientation, at least in the declared strategy of the PES network.

In the 1990s there was no single, government-supported and consistently used concept to improve the efficiency of the employment service. In the middle of the decade, the discourse shifted from motivating and monitoring methods meant to improve efficiency toward the dilemma of combining or separating the tasks of authority and service functions, even though international practice<sup>1</sup> and theoretical considerations likewise suggest that efficiency depends on other factors, such as less obvious organizational features. As observed by Larsen and Vesan (2011), in order to achieve efficiency, the management should not only be able to define what effective motivation and the right strategic choices are for the organization as a whole, but should also specify exactly what these mean for the individual professional procedures. In the view of Milgrom and Roberts (1992), in turn, the key is planning and reinterpreting the explicit and implicit agreements that link the employment service officials with each other and their clients on a daily basis. That way cooperation pays off better than gaining advantage at each other's expense. Lastly, Williamson (1991) asserts that even if the functions of authority and service provider

<sup>1</sup> In international practice, both models are widespread and the direction of transformations is also not clear-cut.

are separated, they have to be harmonized. If they are integrated, differing responsibilities have to be delineated. In sum, the institution is a hybrid either way, and the solution lies in the exact efficiency criteria.

There has been no clear-cut professional standpoint on the conceptual contradictions that emerged in the second half of the 1990s, when a mass need for corporate manpower became apparent. In all likelihood, this provided ample leeway to the local directors of the employment service to adjust to the situation at any given time. The efficiency of placement and providing information may have been damaged by local practices carried out without due reflection. At the turn of the twenty-first century, as a basis for the modernization programme already alluded to in [Chapter 6.1](#), a comprehensive development strategy was produced regarding the information-providing tasks of the employment service. However, the administration never followed up its actual implementation. The core idea of the ‘new service model’ that the strategy proposed was that, in order to provide valuable information services, precise targeting was necessary (Hansen, 2003). In the first place, it is indispensable that all jobseekers should be able to access information pertaining to vacancies, including through the internet.<sup>2</sup> On the other hand, they had to ensure that only those who were confused by the system and were unable to find a job would be given counselling and individual case management. We will see that the daily routine of job centres differs significantly from this on more than one point – or at least the transformation is slow.

The recommendations set out by Hansen (2003) have only been further expounded in a limited number of analyses known to a small audience (for instance Borbély-Pecze, 2009; ErgoFit, 2008; Németh et al., 2011). The development of an employment code system necessary for competence-based recruitment was indeed launched within the framework of a central platform (Borbély et al., 2008), but the programme was halted because (to the best of our knowledge) decision-makers deemed its application too complicated, the prerequisites surpassing the capacity of the service. The use of a simpler version of competence-based recruitment that can be developed locally (Kun et al., 2008) remains sporadic; widespread evaluation or dissemination never came to pass.

The EU-funded development project brought with it the centralization of development initiatives: the position of the national PES headquarters strengthened considerably, while the importance of local (county-level) job centres declined. The job information system was unified as part of the programme, and a management evaluation system (MBO) based on performance indicators was developed.<sup>3</sup> In order to achieve uniform quality, best-practice labour market services were enshrined as standards at the end of the 2000s.<sup>4</sup>

The centralization, however, had little effect on the daily routine of individual job centres. A high sense of methodological independence has been a feature of job centre staff since the foundation of the employment service. While the legal background is regulated down to the smallest detail and the internal standard operating procedures (SOPs) also provide a legal-IT framework (for instance FSZH 2007), the specification of methodological guidelines has been seen neither as indispensable nor as a management task (Bajka, 2001). Job centres tend to rely on individual practices, and it is uncommon for the

<sup>2</sup> In accordance with the employment strategy of the EU, Member States had to provide that by 2005 the latest.

<sup>3</sup> The Management by Objectives (MBO) system, based on performance indicators and widely used in other EU Member States, has been in use in the Hungarian PES since 2005. For further information see [Chapter 3.3](#).

<sup>4</sup> The specification of the standards was carried out by boards of experts within the TÁMOP 2.6.1 project (Social Renewal Operational Programme). The standards comprise about 40 kinds of services. For further information consult [Chapter 6.1](#) or visit <http://www.tamop261.hu>.

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management to invest time and attention in organized comparisons or joint discussion of methodological findings; a tendency that has not changed since the 1990s.

### CONTRADICTORY LOCAL DEVELOPMENT EFFORTS

The local and central developments aimed at providing information and recruitment services have rather tended to run their separate courses, instead of being a joint effort. There are no comprehensive data available about the procedures as they are actually implemented at the job centres. However, even a few documented cases suffice to point out the vast differences between local strategies.

The goal of a typical development effort that emerged in the 1990s was to enhance the intensity of participation in the employer's admission procedures, as well as to improve its quality. The employment service strove to screen applicants using extensive mechanisms. Furthermore, participation in selection was not limited to the neediest of clients, and the job centre did its best to ensure that jobseekers were able to access the list of vacancies (Janovics, 1998, 1999a,b; Adorján, 2000). The basic principle of the method was the joint analysis of vacancies on offer, the identification of skills and competences necessary for the successful applicant, the selection of appropriate admission tests and a degree of involvement in the screening process. Financial support for the admissions testing, combined with joint supervision, may prompt an employer to abandon group-based discrimination of jobseekers. This may prove to be a 'carrot and stick' kind of recommendation to improve the targeting of services, especially considering that large mass producers in a state of rapid expansion cannot really avoid the involvement of the state-run placement service. From a professional point of view, this is a more meaningful practice than unsystematic arbitrary selection by the job centre, based on vague instructions from the company. The procedure (rooted in the second half of the 1990s) has recently been developed further as the so-called Equal Programme (Kun et al., 2008).

Another branch of local developments aimed at providing information to small and medium-sized enterprises. Personal participation at discussion events was the main focus of the effort, apart from a self-service job information portal developed by county experts well ahead of Hungary's EU membership and the joint PHARE programme. This spread through the western counties primarily: the Austrian public employment service and ministry (with the special involvement of a few leading officials) showed great interest in the partner organizations across the border well before Hungary joined the EU, and a dialogue was initiated back in the 1990s. The fact that there were no dominant corporations in the area facilitated the development efforts. The small and medium-sized enterprises naturally presented themselves as the ideal target group for the service. Furthermore, in recent years, the Hungarian PES recommended on a regional level the acquisition of Opten Llc.'s company information database. An algorithm was developed to identify start-ups, and job centres were offered to them through a combination of letters, emails and phone calls.

The diversification of local developments might have been prompted by the competition existing between counties and experts. Lamentably, the same rivalry blocked the exchange of experience, the spread of good practice and the correction of conceptual and methodological mistakes. The ongoing ‘demarcation disputes’ between higher levels of administration and the lack of any tradition of cross-county cooperation also contributed to the phenomenon.

### STANDARD OPERATING PROCEDURES AND ACTUAL ROUTINE

The practical procedures show a significantly greater stability than the changes on the labour market or in the service concepts.<sup>5</sup> Organizational attributes unaffected by the launch of the Hungarian PES may be a possible explanation for this. The potential mistakes anticipated by Hansen (2003) among others did indeed happen in the active practice of the employment service. To the best of our knowledge, no systematic assessment of effects measured the fulfilment of the recommendations set out in the developmental concept that served as the basis of the modernization effort. We can draw some conclusions on the service methods and related organizational procedures, based on a few qualitative studies and some data system analysis. These were verified and amended using data from the interview-based research conducted for the current volume.

The introduction of the management evaluation system based on performance indicators opened the door to evaluation and management feedback of varying intensities. This had a motivating effect on local job centres to achieve the performance indicators. The consequences of underperformance may have been different in the individual counties and regions, but according to the testimony of the interviewees they were never more severe than listing the job centres in question, obliging them to justify their failure to comply with the indicators, and the occasional verbal reprimand. Statistical record keeping in itself is not a sufficient leadership tool to supervise the provision of information: the regulation and qualitative monitoring of work processes is also necessary.<sup>6</sup>

There are several circumstances showing that the introduction of the MBO was at least partly a nominal act, in accordance with the predictions of contract theory (Milgrom and Roberts, 1992). In the view of Berde (2010), an increasing intensity of performance is reported by services that are included in the evaluation (while the results indicator steadily declines), whereas the services not included in the evaluation gradually fade from the records (but probably not from practice, though that is difficult to monitor, and can only be done with qualitative tools).<sup>7</sup>

### TARGETING, QUALITY AND ACCESSIBILITY OF JOB INFORMATION

There are few signs indicating that the PES would have considered the strict conceptual logic needed to distribute clients and the capacity of the staff. Efficiency is likely to suffer badly if either is mishandled. The ‘new service model’ placed great emphasis on refining targeting; another of its indispensable elements would be the profiling of clients in order to assist in assigning them

5 By way of example, prior to the ministerial decree on providing labour market services, on the official vacancy registration formula in use until the autumn of 2000 there were two openly discriminatory questions: the age and gender of the desired applicants. In an interview-based survey conducted shortly afterwards, job centre staff asserted that employers continued to verbally specify these wishes, a practice with which job centre staff could find no fault (Bódis, 2002).

6 The ‘disappearance’ of one of the services (providing labour market and employment-related information) from among the activities registered with the MBO also seems to point to that. This is the service with the most flexible boundaries; its recommended duration was not even specified. It may take place over the span of a short conversation or within the framework of a job fair. The exclusion of the service from the list of indicators may be explained by a reluctance to include as a motivational indicator an activity that is so hard to measure. The local job centres subsequently lost interest in updating their records, though it is reasonable to suppose that they continued to share information regarding the labour market conditions and chances of employment in the region. The demonstrated intensity of information provision on the labour market declined in 2007, as did all other services. In 2008 it saw the smallest growth rate of all the services – a phenomenon that Berde (2010) attributes to a lack of motivation.

7 Cf. pre-MBO results indicators, which varied by county (Kaucsek et al., 2006), may have contributed to the variety of tools used for sending notifications.

to the right kind of service. Nevertheless, this element slowly died away with the implementation of the programme. In the daily routine, they rarely use even its simple form incorporated into the new information system (Cseres-Gergely and Scharle, 2010).

The reliability of information regarding vacancies would be of primary importance, too, its main assurance being that the employers and jobseekers take responsibility for it themselves by uploading and (if necessary) modifying their data. Major errors can be screened out if the PES renounces its right to directly supervise the input of information and allows participants to do that (as they have an interest in having accurate data). What is needed for that is the deliberate development of a nationally unified system and the intervention (as needed) of a few resident specialists in the PES headquarters.

The modernization programme, however, introduced a results indicator that rewards the rapid placement of jobseekers and fast response times to manpower needs. This motivates the job centre staff to refrain from entering the vacancy into the system until they have some assurance that the jobseeker they have identified as suitable for the position really is going to be employed by the company. In the meantime, those jobseekers who would be identified (possibly earlier) as suitable by a competence test are not informed about the existence of this position (Hasen, 2003). Research data demonstrate that the average lifespan of vacancies decreased in supported and unsupported workplaces alike throughout almost the entire period (Berde, 2010),<sup>8</sup> which suggests that the indicator is indeed prompting job centre staff to withhold information.

Finally, several job centres reported that the self-service computer kiosks are rarely used, which is obviously at odds with the recommendation of the PHARE project (Hansen 2003). The fact that the typical clientele of the employment service (people with elementary schooling or vocational training) usually perform worse at reading and writing tasks than their western counterparts of the same age may play a part in this (Köllő, 2008). This is why they may have an increased need for a user friendly interface (cf. [Chapter 6.1](#)) and to be provided with assistance in using the terminal to find information for themselves; however, the conditions necessary for that are not present. Another potential explanation may be that uploaded information relating to vacancies is incomplete (we will return to the reasons for this later), which casts doubt on the point of using public access internet databases.

## THE LOCAL EMPLOYMENT CENTRE AS A PLACEMENT AGENCY

Hansen (2003) emphasizes that the ill-considered organizational solutions may damage the efficiency of the service provider model. Only a limited number of jobseekers should be involved in the cases that merit individual treatment, since these are time consuming and staff capacity is finite. Hansen provides the example of pre-screening for the employer as a critical activity, where professional treatment is as important as thorough knowledge of the job description and the skills of the applicants. These significant staff needs constitute a reason for targeted use, in only a few important cases.

The efficiency of placement service is damaged not only by lenient pre-screening practices (and consequently low willingness to cooperate on the part of the

8 The exception is the 2009 launch of the so-called Way to Work programme, when the changes in criteria posed greater organizational difficulties to the local job centres than before. Admittedly, they tried to locate suitable applicants for all vacancies on offer in a little over a month, or vacancies ceased to exist within that time frame (Berde, 2010).

employer) but also by overly strict practices (and consequently, a low number of vacancies). From the employer's point of view, the PES may be an attractive choice for those who can only afford less (or who are only willing to pay less) for admissions testing. The prevalence of pre-screening using inadequate individual methods and the insistence on the direct influence of job centre staff may result in a low level of information distribution regarding the services and clientele of the PES.

However, job centres traditionally ascribe great importance to pre-screening, viewing it as the ultimate assurance that an employer's needs will be met (Bódis, 2002; 2008). Apart from a general strategy of favouring employers' needs, one explanation could be that pre-screening has always been a fundamental part of PES employees' skill set and job perception. This mindset can only be changed by persistent efforts on the part of the management, and with considerable spending on training, monitoring, etc.

During the economic boom in the second half of the 1990s, ambitious managers and experts in the county employment centres were the engines for the provision of information services aimed at companies.<sup>9</sup> This was especially true of the western counties, where the first multinational companies appeared and where the job centre's ability to respond to increasing manpower demand had a direct impact on the social appreciation of the services. They failed to realize that this degree of involvement in the recruitment campaigns of multinationals could not be sustained, and in later years they had no faith that another service model could bring them similar appreciation.

Pre-screening is an important element of the strategy favouring employer needs. The two characteristic types of clients are mass producers either just starting up or in a state of rapid expansion, and small and medium-sized enterprises that need financial assistance beyond recruitment services. They often require the job centre to pre-screen applicants. The exact job description is often composed with the involvement of a job centre administrator, thus presenting an opportunity for screening. The cases we looked at seem to suggest that some companies applying similar technologies are not willing to spend a large amount on admissions screening and prefer to rely on the experience of job centre staff instead. Whether a job offer is made is often down to simple methods based on the administrator's own experience.

According to accounts shared in the interviews, employers with wage-subsidized vacancies are even more likely to require pre-screening by employment officers. Typically, these are small companies with modest recruitment resources at their disposal, often comprising informal methods. Public works organized by the local authority is a special case where self-servicing and self-selection are not really an option. Prior to the 2009 introduction of the Way to Work programme, it was not uncommon for employers to have personalized requirements, whether the public works scheme was organized by the local government or by the local job centre (Bódis and Nagy, 2008).

Between the partly conflicting goals and the clashing principal-agent relations, jobseekers' access to relevant information suffered damage. In the middle of the 1990s, for instance, individual mentoring to aid the employment of permanently unemployed people was first administered in the region where the first multinational companies took root (Berzsenyi, 2000; Bódis, 2002; Rimányiné,

<sup>9</sup> Chapter 3.3 delves deeper into the capacities of county employment centres and local job centres, while the leeway for local policymaking is addressed in [Chapter 2.4](#).

2005). In order to satisfy labour needs, the local employment centre performed gender-based pre-screening as well, unreasonably narrowing down the scope of vacancies for jobseekers, including permanently unemployed people (Bódis, 2002). Instead of reforming the procedure in use with disadvantaged applicants, it tried to aid their placement through additional expenditure. A type of bargain seemed to drive the practice of mentoring: in exchange for favours done in the past or promises for the future, the employer let the job centre convince it to accept a number of jobseekers that belonged to disadvantaged groups. It is easily imaginable that, with selection based on group traits, the duration of employment is shorter and public expenditure is higher than if the job centre had prompted the employer to screen applicants individually.

Finally, extensive pre-screening places high demands on administrators working at understaffed job centres. At the same time, they themselves contribute to the perception that they are indispensable, making it doubtful that they are in favour of, or would actively support, the spread of self-service information kiosks.

### SELF-SELECTION AND PRE-SCREENING

The importance attached to pre-screening also has an impact on further means of providing information, such as the method of registering jobs or informing jobseekers about job vacancies.<sup>10</sup> Job centres are aware that pre-screening performed without tests and other methodical procedures leaves much to be desired, which is why they are keen to rely on the self-selection of jobseekers. The official operating procedures<sup>11</sup> allow for this by using non-obligatory notification forms (ie. where refusal of the job offer is not sanctioned). The continuing increase in these channels and the differences between the practices of job centres also indicate that the mechanism is an important one.

The jobseeker typically receives a placement form (which it is compulsory to return) only if recruitment is assured. That has two advantages: first, jobseekers who are unsuitable or unwilling to work do not damage relations with the companies in question, and, second, job offers are rejected less frequently (for which jobseekers would otherwise be penalized). The methods of informing jobseekers, which have been used for some time, are as follows in the order of increasing self-selection:

- *A recruitment form is posted to the address of the client.* Pre-screening is only possible based on the database, and both non-appearance and rejection of the job offer (if no adequate reason is given) are usually penalized. This method is used in the case of urgent need for manpower and clear expectations as to the competencies required. It occurs if there is pressure from above or if the job centre wishes to penalize the jobseeker for another failing that is difficult to prove.
- *A recruitment form is given to the jobseeker at the job centre.* Pre-screening is also possible during the personal meeting. It stands to reason that this is only used in the case of those who have already fulfilled the requirement of appearing in person at the job centre.
- *Letter informing the jobseeker of an offer.* The jobseeker is called into the job centre to clarify mutual expectations and to decide whether or not

<sup>10</sup> On international trends and the conceptual and practical problems associated with mandatory job registration, see [Chapter 6.1](#). The forms of notification used are discussed in this chapter because of the links to organizational structure.

<sup>11</sup> Currently: Standard Operating Procedures on Placement Service (FH 2011).

a recruitment form should be issued. Non-appearance is frequently not penalized, although in some cases it may be. This method is used when there is an urgent need for manpower. It qualifies as a special case if the job centre is not convinced that the employer will deliver on his promises with regard to working conditions, and if the job centre is therefore reluctant to apply penalties if the jobseeker rejects the offer.<sup>12</sup>

- *Letter informing the jobseeker about a group information session.* The information session is held by the employer (which can also be a temporary work agency) with the cooperation, to a greater or lesser extent, of the job centre; the venue tends to be the job centre, a hired room or the site of the employer. Non-appearance or rejection of the offer is rarely sanctioned, but it is not out of the question for the job centre to use more coercive means later.<sup>13</sup>

Self-selection plays a key role in the concept of Hansen (2003), discussed earlier in this chapter. This involves self-service that requires no administrative input (rather than placement performed by the job centre staff). The division of capacities proposed by Hansen is in line with the comprehensive modernization of placement, such as activating jobseekers and combining the monitoring of independent job-seeking with support services (Larsen and Vesan, 2011). By contrast, the practices of job centres described above tend to impede the activation of jobseekers, since it is not clear when acceptance of the job offered is mandatory for the unemployed person, and when it is left to their own discretion.<sup>14</sup>

## RECOMMENDATIONS

International best practice does not provide clear guidance with regard to the dilemma of combining or separating the tasks of an authority and those of a service provider on an organizational level. Both solutions are used in many countries, and both can be regarded as hybrid institutions, because the two roles need to be harmonized. In reality, the main point is that of encouraging cooperation. There are numerous specific institutional forms in which that can be carried out, but the choice of a single structure does not guarantee cooperation.

A clear development concept supported and supervised by the government is needed in order to promote information services more efficiently. When monitoring implementation, it is worth supplementing quantitative measurements and the management evaluation with qualitative observations and feedback from experts and peers. If assessments are performed only on the basis of numerical data collection and management evaluations, then there may be a strong incentive to manipulate the procedure, administrators may not receive professional assistance, and there may be a lack of collective selection and dissemination of good practice.

In the strategy for information services, it would be worth clarifying what role pre-screening, which has thus far been quite important, should play in placement. Based on Hansen (2003), a significant reduction in interventions by administrators would be justified, even if that entails a change in some of

12 Some companies competing to cut costs (such as the garment shops that performed contract work, which played a significant role in women's employment in the countryside in the 1990s) for the purpose of filling jobs requested that unemployed people refusing jobs be excluded from unemployment benefit on the grounds that they had not satisfied the requirement of accepting a suitable job.

13 Self-selection of jobseekers – by definition, allowing them total freedom – would mean their being able to upload their CVs to the database of the PES. However, despite plans to that effect, there is no such function on the [www.munka.hu](http://www.munka.hu) website.

14 Chapter 4.1 addresses the problems of activating jobseekers.

the company clients. If we do not regard the widespread application of pre-screening as problematic, then it should be performed more methodically, based on central and local developments to date.

If it is indeed true that the company clients of the PES apply poorer screening procedures than their competitors, it would be advisable to focus on perfecting them in order to improve matching and increase competitiveness. Similarly, if the company clients rely more heavily on PES screening than their competitors, then group-based discrimination may be attributable to the job centres. It is worth analysing the placement process from this angle, since certain excessively subjective and unprofessional practices may endanger fairness and efficiency. The more general dilemma underlying the issue of pre-screening is the role of self-service, a practice that is currently barely accessible to the clients of the PES (especially employers). That employment policy ascribes great importance to company relations is in stark contrast to the cumbersome procedure of job registration from a legal (upholding mandatory registration, legal guidelines) as well as a technical point of view (no self-service or electronic administration). Several components of the procedure could, in all likelihood, be improved independently from addressing the more complex conceptual issues.

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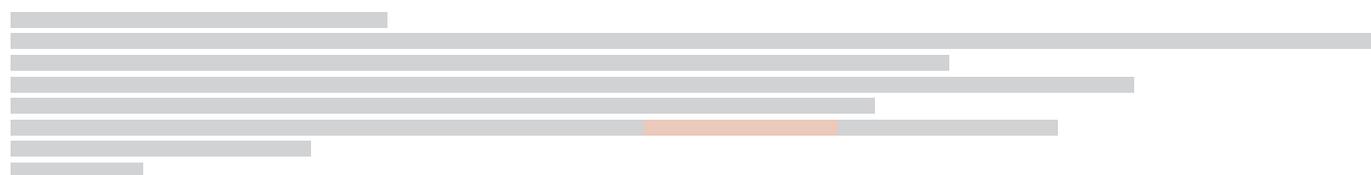
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## 6. REDUCING TRANSACTION COSTS

### 6.3. RECONCILIATION OF WORK AND FAMILY LIFE – THE IMPACT OF CHILD ALLOWANCES

JÁNOS KÖLLŐ



#### INTRODUCTION

Hungary is one of those countries where, after giving birth, only a small proportion of women permanently leave the labour market (or do not even enter it), instead devoting their whole lives to their children and housekeeping. According to the Labour Force Survey of the Central Statistical Office, in the first quarter of 2008 overall only 14.5 per cent of mothers with (last-born) children aged 0–2 years stated that they had never worked. However, the rate is only significant for women with just primary (or lower) schooling (39 per cent); for better-qualified women the figure is only 3.6 per cent. Later on, the majority of these mothers also start working: this is demonstrated by the fact that, of those women over the age of 35 and with dependent children, only 15.3 per cent (of unqualified women) and 1.6 per cent (of qualified women) said they had never had a job. In Hungary, the prevalent strategy – indeed virtually the only strategy among better educated groups – is to have a shorter or a longer break after giving birth.

The optimal period for staying out of work is determined by the *relative* values of work and of staying at home. The first depends on the salary, the cost of childcare and whether parents believe a kindergarten will have a positive impact on the child's cognitive and emotional development. The option of staying at home depends on the amount of child benefit, the value of the household production, the benefit gained from the increased amount of spare time, and the utility associated with home childcare.

The costs of childcare decrease significantly as the child gets older (e.g. because the network of kindergartens is denser than the network of day nurseries or because it is cheaper to organize the supervision of older children privately), and the relative benefits of formal versus home care for the development of the child also tend to increase significantly with age. In most cases, the point is reached when the net gain derived from a parent getting a job is higher than from staying at home. However, if the child cash benefit is generous; if the costs of getting to work and of child day-care facilities are high (or the quality of the childcare institutions is poor); if the return on household production is considerable; or if the expected salary level has decreased because of the time spent out of work, then this point may be reached quite late on.

The factors influencing the duration of the stay at home also have an impact on fertility – and through this also increase or reduce the supply of labour in the

long term. If the system does not favour employment alongside child-rearing, then those women who appreciate professional success, who enjoy working, who derive self-esteem and a sense of purpose from work, who value the independence offered by having an income of their own and who relish the social relationships at work may decide to forgo motherhood.

As is widely known – and later on we will deal with this question in more detail – in Hungary the time a woman can spend at home and claim cash benefits after giving birth is extremely long by international standards. According to Bálint and Köllő (2008), mothers spend an average of 4.7 years at home before leaving the child support system (insured maternity leave called *tygás* and *gyed*, and flat rate parental leave benefit *gyes* and *gyet*), which amounts to approximately 12 per cent of their active careers. In a back-of-the-envelope estimate, if this period were only half as long, it might increase aggregate employment by approximately 2.5–3 per cent. Or, consider that the employment rate of mothers with children aged 0–6 is 35 percentage points less than the rate of women without children (for women aged 20–49, Nagy, 2009: 87). In the EU-27, the gap is only 12.6 per cent, that is, roughly 25 percentage points smaller. The number of women aged 20–49 who have children aged 0–6 (i.e. wives, unmarried partners, single parents) is around half a million in Hungary. Taking 25 per cent of this number yields 125 000, which would correspond to a 3.3 per cent increase in aggregate employment. Since all efforts to increase the employment rate of those below retirement age have failed for a decade and a half – the rate remains at the 1998 level – we must regard as significant the aggregated employment loss due to the long stay at home.

Shorter maternity leave could also stimulate a salary increase, as the earnings of mothers returning to work (controlling for other factors) are lower (proportionate to the length of stay at home). Later on we give more details on this. In the long run, a further loss in terms of employment occurs if the conflict between employment and maternity results in lower fertility rates – this question is still open, and we will return to this topic, too.

### CASH SUPPORT FOR HOME CHILDCARE IN HUNGARY

The flat rate parental leave benefit (*gyes*), which is the basis of the system supporting the paid stay at home, was introduced in 1967, partly for population-policy reasons and partly with the aim of siphoning off some of the unemployment expected to be generated by the elimination of central economic planning. The insured parental leave (*gyed*) was introduced in 1985 (and in 1986–87 was extended to two years) and the flat rate parental leave benefit for large families (*gyet*) came into being in 1993 – we assume that both the labour market and population policy aspects were taken into consideration. The first phase of the insured parental leave (*tygás*), which covers a period of six months after (or around) giving birth, was established in its current form in the early 1990s (though it has a long history). See the comprehensive overview by Tárkányi (2001/02) of the establishment of these systems and the study by Blaskó (2010) of recent regulations. In the past 20 years there have been at least seven benefit regimes, which have differed from one another in important aspects – as Table 1 shows. The following events marked the

turning points: the introduction of gyet (1993); the elimination of gyed, the introduction of means-testing for gyes and the loss of its insurance aspect (1995); the universal entitlement to gyes and gyet (1999); the reintroduction of gyed (2000); full-time employment permitted while claiming gyes (2006); a reduction in the duration of gyes to two years (2009); followed by its prolongation to three years (2010).

Table 1: The conditions of entitlement to parental leave benefits (gyed, gyes, gyet)\*

Year	Insured maternity leave (gyed)	Flat rate parental leave – gyes	Flat rate parental leave – gyet**	Regime type
1992	I, 2 years***	I, PT, 3 years	–	1
1993	I, 2 years	I, PT, 3 years	I, M, PT, 8 years	1
1994	I, 2 years	I, PT, 3 years	I, M, PT, 8 years	1
1995	I, 2 years	I, PT, 3 years	I, M, PT, 8 years	1
1996	–	M, PT, 3 years	I, M, PT, 8 years	2
1997	–	M, PT, 3 years	I, M, PT, 8 years	2
1998	–	M, PT, 3 years	I, M, PT, 8 years	2
1999	–	U, FTH, 3 years	U, PT, 8 years	3
2000	I, 2 years	U, FTH, 3 years	U, PT, 8 years	4
2001	I, 2 years	U, FTH, 3 years	U, PT, 8 years	4
2002	I, 2 years	U, FTH, 3 years	U, PT, 8 years	4
2003	I, 2 years	U, FTH, 3 years	U, PT, 8 years	4
2004	I, 2 years	U, FTH, 3 years	U, PT, 8 years	4
2005	I, 2 years	U, FTH, 3 years	U, PT, 8 years	4
2006	I, 2 years	U, FT, 3 years	U, FTH, 8 years	5
2007	I, 2 years	U, FT, 3 years	U, FTH, 8 years	5
2008	I, 2 years	U, FT, 3 years	U, FTH, 8 years	5
2009	I, 2 years	U, FT, 2 years****	U, FTH, 8 years	6
2010	I, 2 years	U, FT, 3 years	U, FTH, 8 years	7

Notes: We can distinguish seven periods with significantly different regimes; the last column shows their sequence (For data on take-up, see [Table 6.2 of the Statistical Annex](#)).

U: universal (non means tested), flat rate; I: insurance based (conditional on employment before childbirth) and proportional to prior income; M: means tested (although with a very high income threshold), flat rate; PT: allows part-time employment; FTH: allows full-time employment at home, after 1.5 years; T: allows full-time employment after 1 year.

\* Beside the above-mentioned benefits, there is an insurance-based maternity leave of 168 days (tgyás), proportional to prior income (until 1996 a maximum of 100 per cent, from then on max. 70 per cent).

\*\* gyet is a benefit after three or more children.

\*\*\* The periods of entitlement shown (2 years, 3 years, etc.) are valid until the child reaches 2, 3, etc. years of age. When someone receives Tgyás, other benefits can be received only after its termination.

\*\*\*\* The changes announced by the Bajnai government would have become effective only from 2012.

Sources: Tárkányi (2001/02); Ignits and Kapitány (2006); Blaskó (2010) and internet sources.

Even during the period of budgetary cuts known as the ‘Bokros package’ this seemingly ever-changing system remained essentially the same generous system as at the beginning of the 1990s, and after the turn of the century it definitely again became one of the most generous systems. According to a study by the OECD (2007), when the calculations are made for a single child and the expenditure is measured in *percentage of GDP per capita*, then, of all its member states, Hungary spends the most on cash benefits for parents staying at home with a small child. The Hungarian expenditure level was three times more than the OECD average, double that of Austria and one and a half times the Swedish level in 2006. Hungary had the highest full-time equivalent parental leave – i.e. the number of weeks multiplied by the proportion of the monthly benefit and the average wage.

However, the Hungarian system is unbalanced: it gives benefits usually in cash and rarely in kind. An extremely small number of children under 3 years of age go to crèche (as with Eastern and Southern European, Turkish and Mexican children): 7.5 per cent of under-2s went to crèche in 2005 and 2006, while the EU-27 average is 25 per cent – and in Barcelona the target was set at 33 per cent (Fazekas, 2008). As for children aged 3–6, Hungary is not that far behind the others: a quarter of such children go to kindergarten (just a few per cent less than the EU-27 average and 15 percentage points less than the target value set in Barcelona) (Fazekas, 2008).

The majority of eligible parents (with few exceptions, usually the mother) claim for child benefits, and the employment figures accord with these data. While female employment levels are not far behind the OECD average, the employment rate for mothers in Hungary is the lowest of all member states. The Hungarian employment rate for mothers who have children aged below 2 is the worst of all developed countries; the employment rate for mothers who have children aged 3–6 years is the second lowest, after Slovakia.<sup>1</sup> Apart from that, Hungary has the widest gap between the employment rate of mothers who have a small child (under 2) and that of mothers who have an older child (6–16).<sup>2</sup>

Several measures have been introduced in the last 20 years to ease the ‘child or career’ conflict: these included the right to work from home during flat-rate parental leave (gyes and gyet) – at first part time and later full time; the right to work full time and to receive parental leave benefits (gyes); child benefits for grandparents; the right to work when a child is 12 months old (instead of the former 18 month threshold); and the introduction of the ‘Start-plusz’ card to help reintegration. At the same time, women are still not allowed to work while on insured maternity leave (gyed) and – what is more important – at the time of the ‘Bokros package’ and later, as a result of measures taken by the first Orbán administration, the insurance aspect of the flat-rate parental leave (gyes and gyet) have disappeared: no former employee status is needed for entitlement to child benefits. Dissolving the link between employment and child benefits produced a tangible transformation: the proportion of those who finished their primary schooling, had no previous work experience but claimed flat-rate parental leave increased in a single decade from 10 per cent (mid-1990s) to 40 per cent, and the figure for those who were without even primary schooling rocketed to over 70 per cent (Bálint and Köllő, 2008; Labour Force Survey of the Central Statistical Office, 2008, first quarter).

<sup>1</sup> In the former Czechoslovakia – partly following the Hungarian example – a benefit system was created that favoured support in cash (Haskova 2010). In terms of the child benefit, family allowance and employment statistics cited above, the Czech and Slovak figures are similar to those for Hungary.

<sup>2</sup> OECD data: OECD (2007) Charts: PF 7.2, PF11.1, LMF 2.1 and LMF 2.2.

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Under the second Gyurcsány administration and the Bajnai administration, the regulations changed and tended to support and encourage work and child-rearing: it became possible to hold a full-time job while being on flat-rate parental leave; the duration of flat-rate parental leave was reduced to two years; and a plan was drawn up to expand the crèche system (partly in the form of family day nurseries and by reducing the age limit for kindergarten) (see Reszkető et al., 2011).

The second Orbán administration implemented (or, as this book is in preparation, is planning to implement) measures that again are designed to promote long, supported parental leave and childcare that remains within the family, in a way that shifts the burden onto female family members. Flat-rate parental leave can again be claimed for three years; women can retire after 40 years of work without any age limit in order to help out as grandparents; and the government is planning to give priority support to the part-time employment of *women*. The five-day paid 'paternity' leave is to become unpaid leave – though a symbolic move, it says a lot about the preferred family model.

In this chapter we deal only with the benefits that can be claimed for the period when employment is interrupted because of pregnancy; we do not discuss other types of benefit that are independent of labour-market status and that can be claimed for every child (e.g. universal, flat-rate child benefit, educational benefits, benefits to support kindergarten and school attendance) nor child tax credits. The reason for this is practical, rather than theoretical. Benefits that are independent of employment status depress female employment in the same way as benefits that are only available to people with inactive employment status; child tax credits can have either a positive or a negative influence – but in Hungary there are no empirical data on the labour-market effect of these measures. The only exception to this is a comparative study written by Scharle (2007), which examined the influence of child benefits in cash and in kind on female employment; the results confirm that the former reduce female employment, while the latter increase it.

## THE EFFECT OF PARENTAL LEAVE BENEFITS ON EMPLOYMENT

First of all, there is not much information available on the effect of parental leave benefits on employment – only a small number of studies have been conducted on this topic; moreover, no comprehensive, targeted data collection (which could help in analysis of the 'child or career' dilemma) has taken place since 1972. The only exceptions in this respect are the additional data collections of the Labour Force Surveys conducted by the Central Statistical Office (Lakatos, 1996; Frey, 2002), in which mothers on paid maternity leave were asked about their career plans and the obstacles to returning to work. These are extremely important pieces of information; however, they are not suitable for a proper analysis of the decision to have a child or to return to work. Studies like Bálint and Köllő (2008), Chapter 8 of Köllő (2009b) and Szathmáry (2007) are based on data from the Labour Force Surveys of the Central Statistical Office, while Szabó-Morvai (2011) used data collected by the 'Milestones of Our Life' research, whose database is more suited to these purposes.

The study by Bálint and Köllő (2008) examined those factors that influenced the duration of parental leave benefit claims between 1993 and 2005 and the salaries of those who returned to the labour market. The result most relevant for employment policy-making was that regulation changes reduced employment rates. Mothers who went on paid maternity leave during the ‘Bokros package’ period were 25 per cent less likely to return to work than previous benefit recipients, and the situation deteriorated during and after the first Orbán administration. This ‘deterioration’ might be partly specious: the root cause is not simply that the system encouraged the same people to take longer paid parental leave in 2005 than in 1993, but that the groups entitled to parental leave benefits became loosely connected to the labour market.

Estimates show that the length of time spent at home is shorter if there is more than one family living in the same flat; if the town or village has a low unemployment rate and good transport; and if there is at least one functioning crèche in the settlement. In the case of a non-working adult who does not live alone, the likelihood of claiming parental leave benefits in the child’s first year is 16 per cent less – controlling for all other factors – and this remains at 11–12 per cent in the child’s second and third years as well. A local crèche does not significantly influence the take-up of benefits in the child’s first year, and in the second year the estimated effect depends on the specification of the regression model; however, in the child’s third year the coefficients of the crèche availability indices used by Bálint and Köllő (2008) show a significant negative effect. While it is hard to say much about the real extent of these effects (because they are based on ‘noisy’ data), what can be said is that the lack of childcare institutions has a negative effect – more and more pronounced as the child becomes older – on the employment of mothers with small children.

Lastly, the study found that those who return to work from parental leave (on average after 3.7 years of staying at home) face an 8–10 per cent income loss, which is almost equal to the earnings gain of 3.7 years of work experience estimated in empirical earnings models. The loss is the equivalent of an extra hour of work per day, and therefore counts as significant income loss.

Köllő (2009b) and Szabó-Morvai (2011) analysed the consequences of abolishing and reintroducing parental leave benefits. Data from the CSO Labour Force Surveys for the period of the Bokros package show an accelerating tendency to return to work among mothers with high qualifications (who might have been entitled to parental leave benefits according to the previous regulations); however, these results are not statistically significant, so it can be said only for 1997 that the abolition of parental leave benefits encouraged employment. Women with high qualification levels chose paid maternity leave – at the same rate as in previous periods – despite the substantially lower amount of parental leave benefits; or else they postponed or gave up the idea of having a child. (Among these women the number of children dropped considerably and returned to previous levels only once the parental leave benefits were reintroduced.) The reintroduction of parental leave benefits did not influence the probability of employment during the child’s first two years, but it did reduce the probability in the third and fourth year. Szabó-Morvai (2011) interpreted this as an income effect (meaning that high levels of parental leave benefits served as savings for the later years, when no benefits were received), but

it is also possible that it is their plans to have another child – which was not asked in the survey – that reduces the likelihood of returning to work among gyped recipients in the third and fourth year after child birth.

Köllő (2009b) used administrative data to examine how allowing women to take full-time employment while claiming parental leave benefits influenced the duration of the claim, and arrived at the result that a large number of already working mothers applied for benefits and that the tendency to combine work with benefits also increased, but that employment after the end of benefit receipt dropped significantly; consequently the pace of return to work did not accelerate.

In the case of minor alterations to the regulations governing benefit systems (for instance unemployment benefit systems), the weak income effect might explain why no significant acceleration is observed in the pace of return to work; however, in the case of large-scale upheavals – like the abolition and reintroduction of parental leave benefits, or the doubling of the amount that could be earned while claiming benefits – it cannot serve as an explanation. The absence of an effect on employment suggests that there are costs and obstacles that make returning to work impossible or that considerably decrease the net gain from having a job, even though the people involved receive a small amount or no benefits.

Another question is how the childcare benefit system can influence employment in the long run by encouraging women to have a child. Estimates by Gábos (2003) and Gábor et al. (2008) show that benefits in cash significantly increase fertility in Hungary, and this is supported further by the above-mentioned consequences of abolishing parental leave benefits in 1995 (Köllő, 2009b). However, this means neither that Hungary has a pronatalist policy, nor that an increase in benefits would lead to a replacement-level birth rate. On the one hand, while Hungary has spent more money on cash child benefits than any other developed country, its fertility rates – in terms of level and dynamics – are poor: fertility rates dipped below the replacement level as early as 1980, and after the transition they continued to drop; since 1997 the rate has remained at between 1.25 and 1.35. On the other hand, according to estimates by Gábor et al. (2008), the following is clear: if the aim is to increase the rate to 1.6 (which is still a long way from the ‘2 plus’ range that would be the replacement level) only by means of cash incentives, then the amount should be doubled, and that would cost six times more than the OECD average.

## POLICY DILEMMAS

Hungarian social policy is apparently still based on the belief that there is an unavoidable negative link between fertility and female employment. This was true 30 years ago, when the birth rate was high in those countries where female employment was low; however, this negative correlation first disappeared and then turned positive: nowadays high female employment goes hand in hand with high fertility rates and vice versa (see the Hungarian charts, for instance, in the study by Nagy, 2009). Obviously, there has been no change in the relations of cause and effect – it is still hard to return to work when one has a small child, and it cannot be said that encouraging female employment automatically

leads to a rise in the average number of children; but it is certainly true that deteriorating population trends have been reversed (or at least arrested) in places where it is easier for women to reconcile work and professional life. These countries did not have to trade lower female employment for higher fertility rates.

There is a degree of narrow-mindedness in public opinion, too, and this could be an obstacle to policy changes, even if the politicians themselves were ready to change. However, research conducted by Blaskó (2011) has revealed that public backing for long-term stay-at-home motherhood is not as solid as might be suggested by the results of surveys over the past two decades. If the question is asked not in general, but by referring to specific conditions (like accessibility to a crèche, financial aid for commuting, or a more flexible work schedule) 36–73 per cent of those who previously insisted on a three-year period at home after birth are willing to change their minds and accept a shorter stay at home.

In order to improve accessibility to childcare, it would be sensible to make the opening hours of childcare facilities more flexible (see also [Chapter 2.4](#)) and to expand their capacity. The cost of this latter move would probably be covered by the tax revenues earned from the salaries of mothers who return to work (Köllő, 2009a: 274–75); meanwhile, thanks to the improved education and health of disadvantaged children, social and healthcare expenditure would decrease, which would help balance the budget in the long run. Implementation is thwarted not so much by budgetary constraints as by the decision-making mechanisms of government: the cost of such an expansion places a burden on one ministry (or one level of government), while the benefit is reaped by another. This – in the absence of smooth conciliation procedures – can stop any move to expand capacity in its tracks.

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## 6. REDUCING TRANSACTION COSTS

### 6.4. COMMUTING AND SPATIAL VARIATION IN EMPLOYMENT

TAMÁS BARTUS



The spatial differences in terms of economic and social development are well known: in Southern Transdanubia, Northern Hungary, and in the sub-regions of the Northern Plain close to the border, unemployment is significantly higher than, for example, in the vicinity of Budapest (Ábrahám and Kertesi, 1998; Kertesi and Köllő, 1998; Faluvégi et al., 2005; Lőcsei, 2010). There is no obvious explanation for these spatial differences: the inhabitants of sub-regions and villages could easily commute or move to more advanced regions or cities; it is even possible, at least theoretically, that crisis-stricken regions could attract new jobs. Thus commuting is one of the mechanisms – besides migration and the relocation of jobs – for smoothing out regional differences. Since in Hungary most housing is owner occupied, and since buying a house or a flat involves serious costs and risks (Hegedüs, 2003), commuting (rather than moving) is the means that will more probably even out spatial differences in employment.

How has the number of commuters changed in the past twenty years? What policy measures might explain this change? Is there a connection between the change in the number of commuters and the change in spatial inequalities? In this chapter we try to answer these questions.<sup>1</sup>

#### ENCOURAGING COMMUTING – IN THEORY

The state can encourage commuting in order to smooth out regional differences and to cut the welfare costs of structural unemployment. The measures might include administrative orders and regulations, transport compensation for employees, employers or transport companies, or a combination of these. Generally, a subsidy is appropriate if, without it, fewer people commute or commute over a shorter distance than is optimal for the public good. Are employers interested in contributing to the commuting costs? It is clear that the real wage is the sum of the nominal wage and the compensation, and thus any regulations may compel an employer to pay a higher wage. Without state regulation, the contracting parties could negotiate the compensation of travel expenses the same way as they do wages. Theoretically, state regulation of compensation for travelling expenses gets in the way of the free bargaining process. It is surprising that the effectiveness and consequences of this have not yet been examined, given that state intervention in the field of wages – for example the regulation of the minimum wage – has been thoroughly studied.

<sup>1</sup> See also [Chapter 5.1](#) on migration.

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International literature on commuting indicates that state intervention in compensation for travel expenses probably does have unintended consequences. In international – primarily American – literature, research into the economic consequences of commuting was motivated by the ‘spatial mismatch hypothesis’ (Kain, 1992; Ihlanfeldt and Sjoquist, 1998). According to this, in downtown ghettos unemployment is high partly because vacancies are far from the city centre, it is too expensive for people to move to the distant workplaces, and migrating from the ghetto is difficult because of discrimination on the housing market. The issue of commuting is originally linked to the problem of job seeking and discrimination: for those who live far from the available workplaces, getting a job is complicated not just by the cost of travelling to work, but also by the difficulty of finding far-away vacancies – partly because of the travelling costs – and by the fact that employers consider commuters to be worse employees (Gobillon et al., 2007).

### **THE HUNGARIAN TOOLKIT – SUBSIDIZED PUBLIC TRANSPORT AND COMPENSATION FOR TRAVEL EXPENSES**

In Hungary, the measures to encourage commuting over the past two decades have been few and far between. We might mention the partial exemption of employer tax and social insurance contributions on the compensation in kind of employee travel expenses (for example, season tickets for public transport); the temporary reimbursement of travel expenses for someone registered unemployed who starts a job; or the harmonization of local transport schedules. Many employers utilize the tax exemption on transport subsidies – depending on the fluctuating scale of the exemption and the amount of red tape involved. According to Horváth et al. (2006), in 2003 around 17 per cent of employees received such benefits in kind, and (in contrast to other forms of compensation) the figures for the proportion of skilled workers (17 per cent) and trained workers (14 per cent) who received it were close to the average. However, there is no information about how many of these are commuters and how many just travel within the boundaries of a settlement. There are also no data on what percentage of commuters receives travel compensation. A survey conducted in spring 2001 of those coming off the unemployment assistance register (Köllő, 2002) tried to determine the costs of commuting; however, the amount of compensation remains unknown. The data suggest that, even if most commuters do receive some kind of compensation, the probability is positively correlated to the distance of the travel involved (Bartus, 2011).

The unemployed have been able to apply for travel compensation since 1994, but in the last two decades or so only a few thousand job seekers have taken the opportunity. Compensation can be claimed either individually or for a group. In the last ten years both types of claim have dropped. One plausible reason for this is the long-winded application procedure, and the relatively small gain, since only registered unemployed (new entrants) can receive it – and then for a year at most.

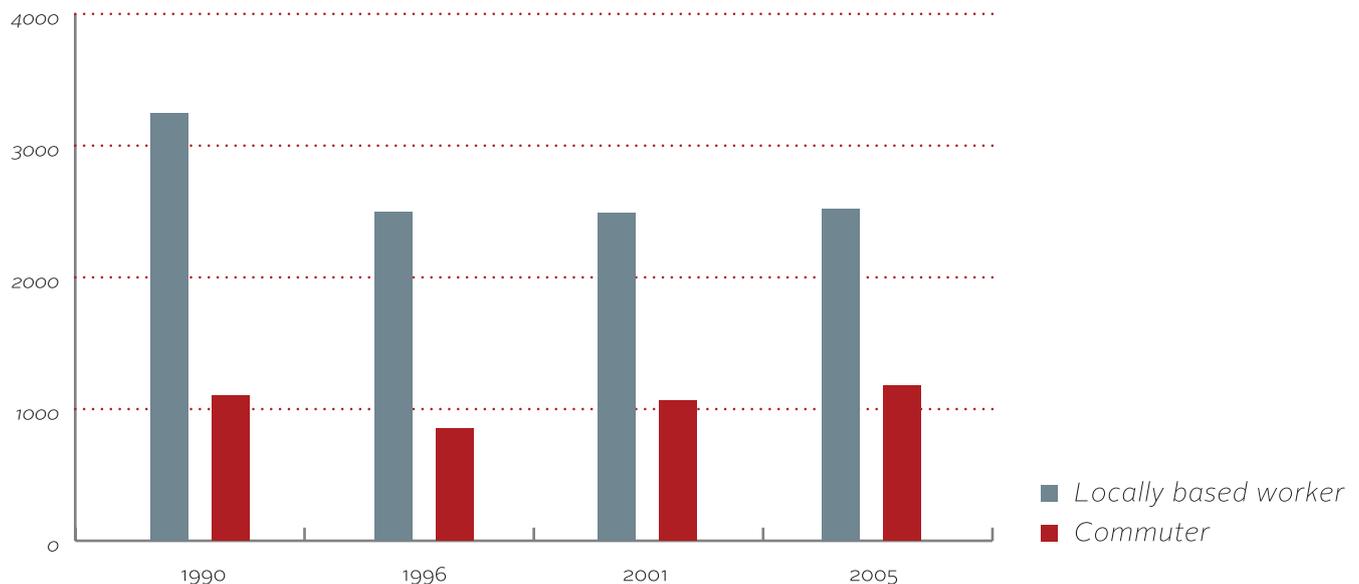
The length of time involved in travelling (counted as a cost) can be shortened by harmonizing the transport schedules. We have only scant information about government efforts in this direction (based on interviews with experts),

according to which the earlier informal and haphazard negotiation procedure was replaced in 2007 by the use of *regional transport organizing offices*, whose duty it is to draw up proposals for schedules, to cut out parallel (duplicate) routes, and to harmonize local and intercity transport. The way in which these offices function varies from region to region, and there has been no study of their effectiveness.

## EVOLUTION OF COMMUTING IN HUNGARY

Data on commuting are available from the censuses of 1990 and 2000, and from the micro-censuses of 1996 and 2005. These data are shown in Figure 1. The number of commuters in the year of the political transition was 1.114 million. By 1996 it had dropped to 886,000. After this low point, the number began to climb again: in 2001, it was close to the figure for 1990, and by 2005 it was higher. (The number of commuters in 2001 was 1.102 million; in 2005 it was 1.221 million.) Among those with a job, the proportion of commuters has never declined: the stagnation between 1990 and 1996 was followed by a surge of 5 per cent after the turn of the millennium.

Figure 1: The number of locally based workers and commuters, 1990–2005  
(thousand people)



Source: CSO censuses of 1990 and 2001, micro-censuses of 1996 and 2005.

A possible explanation for the growth in the commuting population is that many people working in Budapest have moved to outlying settlements, but have continued to work in Budapest. Between 2001 and 2005, the population of Budapest dropped by some 60,000; however, the number of commuters grew by double that – 120,000. Thus suburbanization around Budapest in itself provides no explanation for the growth in commuter numbers.

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The issue of commuting is closely connected to long-term rural unemployment, and so we now deal with the possibility of commuting from a village to a town. It is a well-known fact that the highest unemployment rates are in the villages of the Northern Plain, Northern Hungary and Southern Transdanubia. According to our calculations, in the villages of these regions in 2005 some 55–62 employees out of every 100 commuted, while the rest worked locally. This commuting rate is behind the 66–69 per cent in the more developed regions. Yet we must add that the inhabitants of the villages in Middle Hungary mainly commute to Budapest, and the high rate for Western Hungarian villages should probably be attributed to the proximity of the Austrian labour market.

### THE LABOUR MARKET INCENTIVES FOR DAILY COMMUTING

How can we explain the increasing number of commuters in a period when the number of those working locally has stagnated or even decreased? To answer this question, we might start with the financial motives. Let us look at the situation facing an unemployed man who cannot find work in his local village. If he remains unemployed, his legal form of income is unemployment benefit; once that ceases, he will receive regular social assistance. If he gets a job in another village, he will receive a wage, but commuting is expensive. The overall costs include not only the direct cost of transport (a season ticket for the bus or train, fuel costs), but also the income losses due to time spent travelling to and from work (the commuter has less time for household work and casual labour). Thus commuting will be profitable only if the wage received minus the costs of commuting comes to more than the amount of social assistance. As far as we know, there is no database that includes data on all of the following: the wages offered for non-local work, the costs of commuting to that work, the income received as an unemployed person, and the actual rates of employment and commuting. Therefore, in order to assess the circumstances surrounding a daily commute, we can only work with estimated figures. We will seek to locate those villages where daily commuting is profitable.

Given the lack of individual-level data, we rely on three assumptions about the factors that influence the decision to commute. Our first assumption is that the wage on offer for non-local work equals the minimum wage. This claim is supported by the fact that the working population of a village is largely uneducated and unskilled. Our second assumption is that the income of the unemployed individual equals the average amount of social assistance (*jövedelem pótló támogatás*). Finally, we assume that commuters use long-distance bus routes, and that the cost of the monthly bus pass is paid in full by the employer. The last two assumptions are clearly unrealistic: some unemployed people do occasional work, and compensation for travel expenses is governed by regulations. Yet these assumptions are suitable for our purposes: since it is a precondition for commuting that the wages received should exceed the sum of the commuting expenses plus benefits, we need a reliable estimate of this sum if we are to identify the most disadvantaged villages. This estimate remains valid even if we underestimate one component and overestimate another. And this is what we are doing: we overestimate the cost of travelling, at the same time as we underestimate the value of benefits.

Based on our assumptions, we can calculate the threshold value that indicates the greatest distance at which commuting is still profitable. We calculate the values for 1994 and 2006, because for these years we have available settlement-level data on accessibility. The results are shown in Figure 1. The difference between the net minimum monthly wage and the average amount of social assistance was HUF 4,482 in 1994 and HUF 28,104 in 2006. In 1994, HUF 4,482 was enough to buy a monthly pass for the Volán bus and coach company for up to 30 kilometres; in 2006, HUF 28,104 would buy a pass valid for up to 45 kilometres. If we suppose that vacancies are to be found only in towns and cities, then the most disadvantaged villages are those that are more than 30 or 45 kilometres by road from a town.

Table 1: The threshold value of profitable daily commuting

	1994	2006
Net minimum wage (HUF)	10 375	51 875
Social assistance (HUF)	5 893	23 771
Difference between minimum wage and assistance (HUF)	4 482	28 104
Threshold value of daily commute (km)	30	45

Source: Munkaerőpiaci tükör 2009. Statistical data, Tables 9.8 and 10.3. The source for season ticket prices: 48/2007 (IV.26) GKM order, and the accessibility dataset of János Köllő.

Thus, from 1994 to 2006, the boundaries of the labour markets of towns have expanded significantly. The most reasonable explanation for this is that in this period the minimum wage rose more than social benefits: the net minimum wage (at current prices) increased five-fold, while social assistance increased only four-fold. (The rise in the minimum wage is largely attributable to a one-off dramatic jump in January 2001.) Another reason is that the costs of commuting rose more slowly than the net minimum wage: in 2006, Volán season tickets for 30 and 45 kilometres cost approximately 4.6 times more than they did in 1994. We may conclude that the real value of social assistance did not change, while both the cost of season tickets and the minimum wage rose, but the surge in the real value of the minimum wage outstripped the increase in the real cost of season tickets. So it is possible that the daily distance for profitable commuting rose in the period under examination. As far as we know, the aspect of commuting played no part in the decision to raise the minimum wage or to set the fares on Volán. Thus, the improved conditions for commuting can be regarded as an unintended consequence of the minimum wage policies. How did the accessibility of villages change between 1994 and 2006? For these calculations we use, on the one hand, the transport database of 1994 compiled by János Köllő, and, on the other hand, the transport database of the Hungarian Academy of Sciences (MTA) for 2006. Both databases examine the transport available from villages to nearby larger settlements (called 'centres'). The definition of a centre has changed over time: in 1994, any settlement with an employment office was considered a centre; in 2006 centres were regarded as towns and cities.

As a first step, we classified settlements into three groups, according to *accessibility*: we deemed a village to be *accessible* if the village was at most 30/45 kilometres by public road from a centre, and if it was possible to get from the village by Volán bus to the centre by the start of the morning shift, i.e. between 6.00 and 7.30 (Köllő, 1994). *Non-accessible* villages are those that, although 30/45 kilometres from a centre, did not offer the possibility of getting in for a morning shift by Volán. Finally, *isolated* villages are those that are more than 30/45 kilometres by public road from a centre. When interpreting the results, the reader should keep in mind that accessibility is a relational characteristic, meaning the accessibility of a village to a given centre. Note that we do not examine the *same* village–centre relationship. This is partly because in 1994 data collection did not include relations where the village is more than 40 kilometres from the centre. Since, in 2006, only villages more than 45 kilometres from a centre were considered isolated, none of the relations in our 1994 database can be termed ‘isolated’ in 2006.

Since the threshold for being regarded as isolated grew by 15 kilometres between 1994 and 2006, it is not surprising that in this period the number of isolated village–centre relations dropped significantly – though in the more disadvantaged regions there were still some isolated villages even in 2006. Depending on the region, between 1994 and 2006, the number of *accessible* village–centre relations grew from 34–42 per cent to 72–87 per cent. In spite of these favourable trends, the proportion of isolated village–town relations was still 12 per cent in Northern Hungary and 3 per cent in the Northern Plain. In Southern Transdanubia it was under 1 per cent. It is worth noting that the figure was less than 1 per cent in Central Hungary and Western Transdanubia as well, while the regions of Central Transdanubia and the Southern Plain had no isolated villages at all.

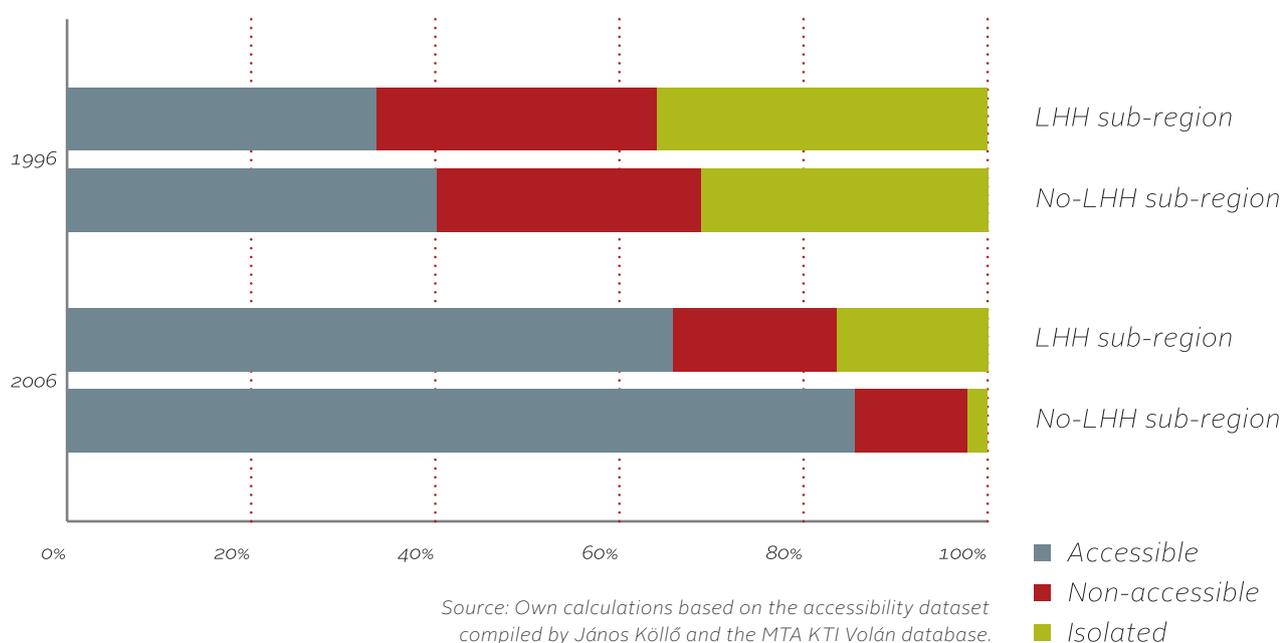
In parallel with the decreasing isolation, the accessibility of towns advanced significantly. The likely explanation is that, in the period examined, there was a silent revolution in the organization of transport: the timetables of the bus lines became better aligned to the start of the morning shift. Nevertheless, before we reach this conclusion, we must consider the fact that the accessibility data for 1994 may not be reliable: 2006 data were collected via the internet, but for 1994 printed timetables were used to decide whether it was possible to get in for a morning shift by bus. In the data collection of 1994, it was thus considerably more difficult to determine all the routes that involved a change of bus, and so there was a relatively high chance that a village–city relation would be classified as *non-accessible*. Because changes of bus are more important for villages that are further from a centre, it is possible that a relation was classified as non-accessible solely because a town could be reached from a given village only with a change of bus, and this route has not been identified.

There are two arguments in favour of assuming that accessibility did indeed improve in this period, and that the trends indicated above should not be explained by problems with the 1994 data collection. On the one hand, Volán timetables were continually adapted to the start of the morning shifts – because this was in the basic economic interests of the companies concerned. On the other hand, most public transport from the villages to the towns was

in the form of a bus route, and the vast majority of routes reached the towns with no need of a change of bus. Thus the incompleteness of the bus routes identified for 1994 cannot wholly explain the improved accessibility between 1994 and 2006.

We examined changes in accessibility at sub-regional level, too. The Central Statistical Office has created the concept of the ‘most backward and disadvantaged’ (LHH) regions. Of the 35 LHH sub-regions, 8 are to be found in Southern Transdanubia, 12 in Northern Transdanubia, 9 on the Northern Plain and 6 on the Southern Plain. It is worth noting that 17 LHH sub-regions are in Borsod and Szabolcs counties – they make up most of the sub-regions in these two counties. Figure 2 shows the change in accessibility according to the sub-regional classification.

Figure 2: The distribution of accessible, non-accessible and isolated villages (per cent) according to the type of sub-region, 1994 and 2006



Between 1994 and 2006, the number of available transport relations enabling daily commuting grew from 34 per cent to 68 per cent in LHH sub-regions, and from 40 per cent to 83 per cent in non-LHH sub-regions. At the same time, the proportion of isolated village–town relations dropped in the LHH sub-regions from 36 per cent to 9 per cent, and in other sub-regions from 31 per cent to 1 per cent. Thus, in LHH sub-regions the proportion of isolated relations was 5 per cent and 8 per cent higher.

#### DAILY COMMUTING AND SPATIAL DIFFERENCES

Research examining the potential of daily commuting aims to answer the question of whether commuting is able to alleviate the spatial differences in unemployment. If commuting really has such an equalizing effect, and if the

number of commuters is higher in villages that are accessible and closer to towns, then unemployment should be higher in villages that are further from a centre or are not accessible.

We examine the supposed equalizing effect of commuting through the relative unemployment in villages. The indicator is thus the quotient of the unemployment rates in a village and in a centre: it shows how much higher the unemployment rate is in the village than in the centre. We use the relative rural unemployment rate instead of the absolute rate, in order to render comparable villages that are in areas with different levels of economic development. We do not calculate the unemployment rate according to the International Labour Organization (ILO) standard, but by dividing the number of registered unemployed by the size of the population aged 15–64.

Figure 3: The average of relative rural unemployment according to distance and accessibility, 1996–2006



Source: Own calculations using the accessibility dataset of János Köllő and the regional databases of MTA KTI Volán.

Figure 3 shows the relative unemployment in villages categorized by distance from a centre, in 1996 and 2006. Since any improvement in the relative rural unemployment figures can be explained by a drift of town employees into villages, we excluded from the analysis the Central Hungarian region, where suburbanization is highest. According to this figure, relative rural unemployment was higher in 2006 than in 1996 in all distance categories, irrespective of accessibility. Despite the generally better accessibility, far from decreasing, unemployment in villages rose compared to towns. Another important fact is that relative rural unemployment in 1996 was lower in the non-accessible

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villages, while in 2006 this was true of the accessible ones – when we compare villages the same distance from centres. Another clear trend is that, in accessible villages, the unemployment rate is positively correlated to the distance from a centre, while in non-accessible villages relative unemployment shows no (or negligible) correlation with the distance. The data for 2006 clearly show that the difference between the unemployment rates in accessible and non-accessible villages narrows with increasing distance, and in the 26–45 kilometre zone it disappears altogether. It is especially this last point that supports our initial hypothesis: the costs of commuting reduce the chances of employment, and without public transport connections the costs of commuting are especially high.

If inactivity or failure to register as unemployed is partly due to the inaccessibility of the town's labour market, then the number of registered unemployed underestimates the number of unemployed and the previous results are due to the presence of measurement error. We therefore repeated the analysis, this time replacing the ratio of registered unemployed in the working-age population with the ratio of taxpayers in the working-age population. The results are in line with the results of our previous analysis: in 1996, the relative rate of taxpayers was higher in the non-accessible villages, while in 2006 it was higher in the accessible villages. But the differences are negligible: in those villages that are 11–45 kilometres from a centre, the relative rate of taxpayers is around 86–91 per cent, while in the accessible villages the taxpaying rate compared to the centre is only 2–3 per cent higher than in non-accessible villages. Thus the distance from a centre and accessibility have only a weak correlation with the rate of legal employment. Based on this, it would seem that the differences in the relative unemployment rates can partly be explained by the fact that the unemployed in non-accessible villages are less willing to register with the employment offices – because of the high anticipated costs of travel.

If commuting does indeed equalize spatial differences, and the number of commuters is higher in villages that are accessible and close to the towns, the transport infrastructure should smooth out spatial differences in unemployment, thus the spatial dispersion of rural unemployment rates should be relatively low in accessible villages. Thus we also examined how relative unemployment is dispersed in relation to distance and accessibility. We found that, in 2006, in non-accessible villages, the relative unemployment rate was more dispersed than in accessible villages; however, the difference decreased with distance, and indeed at a distance of 35–45 kilometres the dispersion was higher in accessible villages. The data for 1996 show a similar pattern: the dispersion of relative rural unemployment was greater in non-accessible villages between 0 and 15 kilometres from a centre, whereas between 21 and 30 kilometres this was the case in accessible villages. However, the relative taxpayer rate showed no great diffusion. Thus, if the probability of a person registering at an employment office is reduced by the distance from the centre and the lack of public transport, then our conclusion is that poor accessibility is a barrier not only to economic activity, but also to the detection of unemployment – in terms of someone being registered as unemployed.

We also examined the change in relative rural unemployment in those village–town relations that were isolated in 1994 but were accessible by 2006.

Surprisingly we found that relative unemployment was higher in 2006 than it was in 1996. However the relative taxpayer rate had not changed; better accessibility is not associated with better employment prospects.

Our analysis thus suggests that despite better accessibility, the employment prospects of unemployed people in villages did not improve substantially. To explain this fact (which contradicts our expectation), let us reiterate that the conditions for daily commuting improved between 1994 and 2006 because the minimum wage had increased by more than social benefits and the cost of a season ticket. The enduring spatial differences can be attributed to the fact that, with the rise in the minimum wage, the demand for work dropped off (Kertesi and Köllő, 2004). This explains the negative results: the lower demand for labour had a greater impact on potential employees who lived (relatively) far from the jobs, while those employees who lived nearer were less affected. In short, though the rise in the minimum wage expanded the geographical boundaries of labour markets, it also have reinforced 'spatial discrimination', and thereby spatial inequalities..

## SUMMARY AND RECOMMENDATIONS

After the political transition, the number of commuters first declined, but then from 1996 onwards it began to rise again. In 2005, it exceeded the number in 1989. The rise in the number of commuters coincided with better accessibility of the towns and cities. This was partly caused by the significant jump in the minimum wage and the ensuing expansion of the boundary of the labour market of the towns from 30 kilometres to 45 kilometres. On the other hand, it seems that there was a silent revolution in the organization of public transport: there was a significant rise in the number of villages from where public transport allowed workers to get into the centre in time for a morning shift. However, the employment rate in villages did not rise significantly with these positive changes. Better accessibility did not reduce spatial differences. The explanation for this contradiction is that accessibility and a more advanced transport infrastructure are a necessary but not sufficient condition for the mobility of labour. The first and most important explanation is that the number of vacancies did not increase with the improved accessibility. Commuting can smooth out regional differences if, in the vicinity of villages, there are nearby towns that are suffering from a labour shortage. However, if the labour markets of the towns are also beset by unemployment, then better accessibility merely means that more job seekers have to compete for the scarce vacancies on the urban labour market. Daily commuting will reduce regional differences significantly only if urban unemployment drops. It is worth noting that in the centres of developed regions, not only is the unemployment rate smaller, but also average wages are higher; thus, paradoxically, it is the centres of more developed regions – not the nearest centres – that will prompt the unemployed of surrounding villages to commute (Bartus, 2010).

A second explanation for the situation is that better accessibility does not mean that the costs of commuting become negligible. The overall cost of commuting includes not only direct financial cost of transport, but also the time cost: commuters have less time available for 'informal' work around the

house, and as a result less income from such activities. Due to a lack of data, we cannot determine the relative proportions of these two kinds of cost. To better understand the circumstances of villages that are far from towns, we might refer to the studies of the downtown ghettos of American cities: commuters tend to be those who were long-term unemployed before. Better accessibility in itself will not mitigate village unemployment, since employers in the city will not employ someone from the country, who needs to be paid a higher wage to cover their travelling expenses. Better accessibility in itself will reduce unemployment in the villages only if rural job seekers, on average, are far better trained and more productive than their urban counterparts.

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The Statistical Annex was edited by Ágota Scharle. The data for all the tables were calculated by Mónika Bálint, Zsuzsanna Sinka-Grósz and Zsuzsanna Szabó (Databank, Institute of Economics, Hungarian Academy of Science), except for Tables 4.4 (Ágnes Hárs), 5.3. (Attila Bartha and Gábor Kocsis), 5.4-6, 6.1-2 and 7.1 (Ágota Scharle), 7.2 (Lajos Bódis) and 7.4 (Vera Balogh).

## 1.1. Employment rate by age group

	Aged 15-64			Aged 20-64			Aged 15-24			Aged 55-64		
	men	women	together									
1990	78.5	63.5	71.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1991	72.2	59.1	65.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1992	64.0	52.3	58.0	70.7	56.9	63.6	37.1	33.7	35.4	33.3	14.3	22.9
1993	60.3	49.4	54.7	66.8	53.6	60.0	36.2	32.7	34.4	26.5	9.5	17.1
1994	59.8	48.0	53.7	66.5	52.2	59.1	35.5	31.9	33.7	24.1	8.0	15.2
1995	59.8	46.0	52.7	66.8	50.3	58.3	34.4	29.0	31.7	24.4	7.5	15.0
1996	59.8	45.5	52.4	66.6	49.9	58.0	35.5	27.1	31.3	23.6	8.4	15.1
1997	60.0	45.2	52.4	66.3	49.4	57.6	37.1	28.2	32.7	23.5	8.4	15.1
1998	60.3	47.3	53.6	66.3	51.3	58.6	37.5	30.6	34.1	25.9	9.6	16.7
1999	62.2	48.9	55.4	68.2	53.1	60.4	37.8	30.4	34.1	29.6	11.3	19.3
2000	62.7	49.6	56.0	68.8	53.9	61.1	36.0	28.8	32.5	32.8	13.1	21.9
2001	63.0	49.8	56.2	68.9	54.1	61.3	34.4	26.9	30.7	34.1	14.9	23.5
2002	62.9	49.8	56.2	69.0	54.3	61.4	31.2	25.8	28.5	35.4	17.6	25.6
2003	63.4	50.9	57.0	69.6	55.5	62.4	29.7	23.7	26.7	37.9	21.8	29.0
2004	63.1	50.7	56.8	69.2	55.3	62.1	26.3	20.8	23.6	38.4	25.0	31.1
2005	63.1	51.0	56.9	69.2	55.6	62.2	24.4	19.2	21.8	40.5	26.8	33.0
2006	63.8	51.1	57.3	69.9	55.7	62.6	24.5	18.8	21.7	41.4	27.1	33.6
2007	64.0	50.9	57.3	70.2	55.5	62.6	24.2	17.8	21.0	41.7	26.2	33.1
2008	63.0	50.6	56.7	69.0	55.1	61.9	23.2	16.8	20.0	38.5	25.7	31.4
2009	61.1	49.9	55.4	67.0	54.4	60.5	19.9	16.3	18.1	39.9	27.0	32.8
2010	60.4	50.6	55.4	66.0	55.0	60.4	20.0	16.6	18.3	39.6	30.1	34.4

Source: 1990-1991: *The Hungarian Labour Market – Review and Analysis 2002*. IE-HAS, 2002, Budapest pp. 277-278.  
1992-2010: CSO LFS

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto1\\_01](http://www.bpdata.eu/foglpol20/2012huto1_01)

## 1.2. Employment rate of the population aged 20-64 by education, %

	Lower secondary or below			Upper secondary or above		
	men	women	together	men	women	together
1990	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1991	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1992	65.7	46.7	56.3	80.1	71.5	75.3
1993	60.7	42.7	51.8	78.2	69.5	73.4
1994	61.1	41.1	51.2	76.6	68.1	71.9
1995	61.1	39.4	50.4	77.3	65.5	70.7
1996	61.0	38.9	50.3	76.7	64.4	69.8
1997	60.6	38.9	50.0	77.1	63.9	69.7
1998	61.3	40.2	51.2	75.0	64.9	69.3
1999	63.4	41.5	53.1	76.1	65.8	70.2
2000	64.3	42.1	53.9	75.8	66.1	70.3
2001	64.9	42.8	54.6	75.4	65.7	69.8
2002	65.3	43.2	55.0	74.9	65.4	69.4
2003	65.3	43.8	55.3	75.7	66.4	70.4
2004	64.5	43.4	54.8	75.6	65.6	69.9
2005	64.9	43.3	55.1	75.1	65.9	69.8
2006	65.8	44.1	55.9	75.2	65.0	69.3
2007	66.2	44.1	56.2	75.3	64.3	69.0
2008	64.6	43.1	54.9	74.4	64.1	68.5
2009	62.0	42.2	53.1	72.6	63.0	67.2
2010	60.8	43.9	53.3	72.0	62.6	66.6

Source: 1992-2010: CSO LFS

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto1\\_02](http://www.bpdata.eu/foglpol20/2012huto1_02)

1.3. Share of part-time employment by gender and pension receipt,  
% of total employment

	Men	Women	Pensioner	Not pensioner	Total
1990					n.a.
1991					n.a.
1992	6.7	11.6	49.6	6.6	8.9
1993	5.7	10.0	52.0	5.8	7.7
1994	5.6	9.8	51.7	5.8	7.6
1995	5.4	10.4	53.3	6.1	7.6
1996	5.6	10.7	53.1	6.4	7.9
1997	5.8	11.4	57.4	6.7	8.3
1998	5.8	11.0	53.8	6.6	8.2
1999	5.6	11.1	45.8	6.5	8.1
2000	5.1	10.5	47.0	6.1	7.6
2001	5.2	9.8	50.8	5.9	7.3
2002	5.0	9.7	53.9	5.6	7.1
2003	6.0	10.9	55.2	6.4	8.2
2004	5.9	11.0	55.4	6.2	8.3
2005	5.8	11.0	54.1	6.2	8.2
2006	5.6	9.9	52.4	5.6	7.5
2007	5.4	9.9	52.5	5.5	7.5
2008	5.9	9.9	53.7	5.6	7.7
2009	7.0	11.4	58.2	6.9	9.0
2010	6.7	11.9	61.6	7.1	9.1

Source: 1992-2010: CSO LFS

Note: Part-time was defined as regular weekly working hours below 40, or for those reporting variable hours, actual working hours during the reference week.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto1\\_03](http://www.bpdata.eu/foglpol20/2012huto1_03)

## 1.4. Employment rate of the population aged 15-64 by county, %

	Szabolcs-Szatmár-Bereg	Heves	Borsod-Abaúj-Zemplén	Nógrád	Hajdú-Bihar	Jász-Nagykun-Szolnok	Békés	Komárom-Esztergom	Bács-Kiskun	Tolna	Somogy	Baranya	Veszprém	Fejér	Pest	Zala	Csongrád	Győr-Moson-Sopron	Vas	Budapest
1990	n.a.																			
1991	n.a.																			
1992	50.1	51.4	52.4	52.6	52.9	55.1	55.2	55.4	56.4	56.5	57.4	57.5	58.5	58.6	59.4	60.4	62.2	62.2	63.5	63.7
1993	45.0	49.4	49.1	51.0	49.6	51.9	51.6	53.9	52.3	54.5	52.3	53.2	57.9	54.5	56.3	59.8	57.4	59.7	63.0	59.7
1994	43.7	49.1	47.3	48.0	48.6	52.1	51.1	53.9	53.1	52.5	52.5	52.3	56.8	53.8	55.6	57.8	55.0	59.5	63.6	58.3
1995	43.8	49.1	45.4	45.4	48.5	47.9	51.0	50.4	52.7	51.7	48.5	47.5	55.9	53.2	54.0	57.6	55.3	58.3	61.4	58.8
1996	42.7	46.3	45.9	45.0	47.4	47.5	49.5	50.1	53.2	51.4	50.7	49.7	54.0	54.2	54.7	57.7	55.8	58.6	63.5	58.1
1997	41.5	47.5	44.6	46.1	46.7	48.9	49.6	51.0	54.8	51.1	50.9	48.6	54.6	55.0	55.0	57.6	56.6	58.7	64.1	57.5
1998	43.6	49.3	44.3	49.9	48.4	48.6	48.8	53.7	55.5	53.4	50.6	51.3	56.8	56.3	55.4	60.0	57.8	61.0	64.1	58.5
1999	44.0	51.5	46.1	50.9	52.0	51.2	50.8	56.1	56.2	55.0	51.4	52.4	59.6	58.5	57.7	62.7	58.1	63.0	63.8	60.2
2000	44.1	54.2	46.7	52.6	51.2	52.7	51.1	58.1	56.6	54.8	53.1	52.6	60.2	58.3	58.8	63.0	58.5	62.3	65.2	60.9
2001	45.4	53.9	47.2	52.1	52.1	51.9	51.3	57.6	56.3	53.8	51.3	52.3	60.3	59.5	59.4	64.1	59.3	61.8	63.9	61.3
2002	45.4	53.5	48.0	53.2	51.6	51.6	50.5	59.7	56.0	52.5	51.1	51.5	60.2	60.0	59.6	63.3	55.5	63.3	64.8	61.8
2003	47.9	54.2	48.6	55.2	53.0	54.9	50.1	62.4	55.7	55.1	55.6	50.7	61.7	62.7	59.3	60.3	53.0	61.2	64.7	63.3
2004	46.6	53.6	49.1	50.8	52.9	52.4	49.9	61.6	56.0	57.4	52.8	48.8	60.1	59.5	59.5	63.0	53.9	59.2	63.3	65.1
2005	47.2	52.7	47.8	50.6	51.7	52.3	50.1	60.8	55.1	55.5	51.7	53.4	60.6	59.4	60.2	63.7	55.5	61.0	62.0	65.3
2006	47.6	52.1	49.0	52.4	52.9	53.8	50.7	61.4	54.2	55.4	51.0	54.6	60.9	61.9	60.7	64.4	57.6	61.9	62.4	64.1
2007	46.8	53.2	49.1	53.2	51.3	55.0	53.1	62.5	54.6	53.2	49.8	51.2	62.1	61.2	61.3	64.0	57.8	63.7	62.4	63.7
2008	45.2	53.3	47.6	50.3	50.8	55.5	51.2	62.7	55.2	53.1	50.8	49.9	58.9	59.7	60.3	61.9	56.4	63.0	61.0	64.5
2009	44.8	51.6	47.3	48.6	48.4	52.5	49.9	59.2	53.2	53.1	50.4	53.0	56.7	57.6	59.1	59.0	56.0	61.4	57.4	63.3
2010	46.4	51.8	47.4	48.4	49.7	53.1	52.1	59.9	54.2	53.9	51.5	54.0	56.1	56.4	58.7	56.0	56.6	61.4	58.1	61.5

Source: 1992-2010: CSO LFS

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto1\\_o4](http://www.bpdata.eu/foglpol20/2012huto1_o4)

## 1.5. Employment by sector, %

	Agriculture	Industry	Services	Public Administration	Total
1990	17.6	38.4	25.7	18.2	100.0
1991	n.a.	n.a.	n.a.	n.a.	
1992	11.5	35.7	33.3	19.6	100.0
1993	9.3	34.4	34.3	22.0	100.0
1994	8.9	33.6	34.7	22.8	100.0
1995	8.2	33.1	35.8	22.9	100.0
1996	8.4	33.1	36.1	22.5	100.0
1997	8.0	33.5	36.7	21.8	100.0
1998	7.4	34.3	35.8	22.4	100.0
1999	7.2	34.2	36.6	22.0	100.0
2000	6.6	33.8	37.5	22.1	100.0
2001	6.3	34.3	37.9	21.5	100.0
2002	6.2	34.1	37.9	21.7	100.0
2003	5.5	33.3	38.4	22.7	100.0
2004	5.3	32.9	38.8	23.1	100.0
2005	5.0	32.4	39.9	22.7	100.0
2006	4.9	32.3	40.1	22.7	100.0
2007	4.7	32.7	40.7	22.0	100.0
2008	4.4	32.4	41.4	21.8	100.0
2009	4.7	31.2	41.3	22.8	100.0
2010	4.6	30.7	41.1	23.6	100.0

Source: 1990: *The Hungarian Labour Market – Review and Analysis 2002*.  
IE-HAS, 2002, Budapest p. 292.; 1992-2010: CSO LFS

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto1\\_05](http://www.bpdata.eu/foglpolzo/2012huto1_05)

## 2.1. Unemployment rate of the population aged 15-64

	In proportion to the economically active population			In proportion to the population aged 15-64		
	men	women	together	men	women	together
1990	1.4	1.1	1.4	1.1	0.7	0.9
1991	6.0	5.1	5.6	4.4	2.9	3.7
1992	11.1	8.8	10.0	8.0	5.0	6.5
1993	13.6	10.3	12.1	9.5	5.6	7.5
1994	12.1	9.3	10.8	8.2	4.9	6.5
1995	11.7	8.7	10.3	7.9	4.4	6.1
1996	10.9	8.8	10.0	7.3	4.4	5.8
1997	9.7	7.7	8.8	6.4	3.8	5.1
1998	8.5	6.9	7.8	5.6	3.5	4.5
1999	7.6	6.3	7.0	5.1	3.3	4.2
2000	7.0	5.7	6.4	4.7	3.0	3.8
2001	6.3	5.0	5.7	4.3	2.6	3.4
2002	6.2	5.4	5.8	4.1	2.9	3.5
2003	6.1	5.6	5.9	4.2	3.0	3.6
2004	6.1	6.1	6.1	4.1	3.3	3.7
2005	7.0	7.5	7.2	4.8	4.1	4.4
2006	7.2	7.9	7.5	4.9	4.4	4.6
2007	7.2	7.7	7.4	4.9	4.2	4.6
2008	7.7	8.1	7.9	5.2	4.5	4.8
2009	10.3	9.8	10.1	7.0	5.4	6.2
2010	11.6	10.8	11.2	8.0	6.1	7.0

Source: 1990-1991: *The Hungarian Labour Market – Review and Analysis 2002*.  
IE-HAS, 2002, Budapest pp 277-278. (data for the registered unemployed)  
1992-2010: CSO LFS

Note: economically active population = employed or looking for work. The unemployed are defined by the ILO/OECD standard (those looking for work and available to take up employment).

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_01](http://www.bpdata.eu/foglpol20/2012huto2_01)

## 2.2. Registered unemployment in the population aged 15-64

Year	Registered unemployed, thousands			In proportion to the population aged 15-64, %		
	men	women	together	men	women	together
1990	na.	na.	47.7	na.	na.	0.7
1991	135.2	92.1	227.3	4.0	2.6	3.3
1992	328.0	228.9	556.9	9.9	6.5	8.1
1993	395.3	276.4	671.7	11.9	7.9	9.8
1994	333.0	235.3	568.3	10.1	6.7	8.4
1995	293.8	213.8	507.6	8.9	6.1	7.5
1996	284.1	216.5	500.6	8.7	6.3	7.5
1997	267.1	203.0	470.1	8.3	5.9	7.1
1998	233.4	189.7	423.1	7.0	5.4	6.2
1999	221.4	188.1	409.5	6.7	5.4	6.0
2000	209.7	180.8	390.5	6.3	5.2	5.7
2001	196.4	167.7	364.1	5.9	4.8	5.3
2002	184.6	160.1	344.7	5.5	4.6	5.0
2003	188.0	169.2	357.2	5.7	4.8	5.2
2004	193.3	182.6	375.9	5.8	5.2	5.5
2005	210.4	199.5	409.9	6.3	5.7	6.0
2006	200.9	192.5	393.4	6.1	5.5	5.8
2007	219.9	207.0	426.9	6.6	6.0	6.3
2008	228.3	214.0	442.3	6.9	6.2	6.5
2009	297.9	263.9	561.8	9.0	7.7	8.3
2010	305.0	277.7	582.7	9.2	8.1	8.6

Source: registered unemployed: Employment Office, *The Hungarian Labour Market – Review and Analysis 2012*. IE-HAS, 2012, Budapest, Table 5.11  
 1990-1991: population aged 15-64: CSO on-line database  
 1992-2010: population aged 15-64: CSO LFS

Note: annual average; the registered unemployed may in theory include some people aged over 64 but their actual number is zero or negligible.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_02](http://www.bpdata.eu/foglpol20/2012huto2_02)

## 2.3. Unemployment rate of the population aged 15-24, %

	Men	Women	Together
1990	n.a.	n.a.	n.a.
1991	n.a.	n.a.	n.a.
1992	21.98	15.02	18.79
1993	25.94	17.85	22.30
1994	23.78	16.04	20.29
1995	23.28	15.04	19.69
1996	20.38	15.93	18.50
1997	18.23	13.58	16.30
1998	15.80	11.66	14.01
1999	13.95	11.48	12.88
2000	13.74	11.30	12.68
2001	12.16	10.02	11.25
2002	13.26	11.79	12.61
2003	13.72	12.88	13.35
2004	16.19	14.52	15.47
2005	19.64	19.13	19.42
2006	18.54	19.75	19.06
2007	17.64	18.54	18.03
2008	19.12	20.88	19.85
2009	28.14	24.20	26.44
2010	27.93	24.84	26.58

Source: 1992-2010: CSO LFS

Note: unemployment defined by the ILO/OECD standard.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_03](http://www.bpdata.eu/foglpol20/2012huto2_03)

## 2.4. Job search activity of the non-working population aged 20-64

	Looking for work, %			Wants a job but not looking for work, %		
	men	women	together	men	women	together
1990	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1991	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1992	27.9	11.7	18.0	14.3	14.6	14.5
1993	28.5	11.8	18.5	13.5	12.7	13.0
1994	24.8	10.0	15.9	13.6	12.4	12.9
1995	24.0	9.1	14.8	14.2	12.9	13.4
1996	22.8	9.0	14.3	14.2	12.5	13.2
1997	20.9	8.3	13.1	13.4	10.0	11.3
1998	18.9	8.4	12.5	13.9	10.8	12.0
1999	17.0	7.6	11.2	17.4	13.7	15.1
2000	16.1	7.0	10.5	17.5	14.3	15.6
2001	14.8	6.1	9.5	17.5	13.1	14.8
2002	14.3	6.8	9.7	17.7	13.8	15.3
2003	14.7	7.5	10.3	17.2	12.5	14.4
2004	14.0	8.3	10.5	17.0	13.1	14.6
2005	16.4	10.2	12.6	16.2	12.6	14.0
2006	17.0	10.7	13.2	14.7	12.1	13.1
2007	17.5	10.5	13.2	14.2	11.3	12.4
2008	17.8	10.8	13.5	14.0	11.5	12.5
2009	22.7	12.8	16.9	13.8	11.7	12.6
2010	25.1	14.7	19.0	13.5	12.4	12.9

Source: 1992-2010: CSO LFS

Note: Those looking for work include the unemployed as well as those who are actively looking for work but are not available to take up employment. Those wanting a job but not actively looking are also called discouraged workers.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_04](http://www.bpdata.eu/foglpol20/2012huto2_04)

## 2.5. Registered unemployed visiting the job centre in the previous month

	Men			Women		
	visited the job centre	registered unemployed	ratio	visited the job centre	registered unemployed	ratio
	thousands		%	thousands		%
1999	106.1	195.6	54.3	83.2	157.2	53.0
2000	69.1	170.1	40.6	53.8	129.4	41.5
2001	62.0	173.4	35.7	46.8	139.3	33.6
2002	59.6	161.2	37.0	52.7	142.0	37.1
2003	61.7	173.6	35.6	55.2	164.4	33.6
2004	57.6	142.8	40.3	55.1	133.1	41.3
2005	63.1	159.9	39.5	62.7	153.8	40.8

Source: CSO LFS

Note: Those giving a positive answer to the question "Have you visited the local job centre during the past month?" The CSO Labour Force Survey (LFS) included this question only between 1999 and 2005.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_05](http://www.bpdata.eu/foglpol20/2012huto2_05)

## 2.6. Registered unemployed or out of work in the population aged 15-64

	Men			Women		
	registered unemployed	out of work	ratio	registered unemployed	out of work	ratio
	thousands		%	thousands		%
1992	328.0	1199.5	27.3	228.9	1677.0	13.6
1993	395.3	1316.2	30.0	276.4	1775.4	15.6
1994	333.0	1324.8	25.1	235.3	1821.0	12.9
1995	293.8	1319.6	22.3	213.8	1887.9	11.3
1996	284.1	1307.9	21.7	216.5	1882.1	11.5
1997	267.1	1294.6	20.6	203.0	1869.4	10.9
1998	233.4	1317.7	17.7	189.7	1849.5	10.3
1999	221.4	1252.6	17.7	188.1	1788.4	10.5
2000	209.7	1239.1	16.9	180.8	1761.3	10.3
2001	196.4	1233.8	15.9	167.7	1759.4	9.5
2002	184.6	1234.0	15.0	160.1	1757.2	9.1
2003	188.0	1213.7	15.5	169.2	1716.7	9.9
2004	193.3	1223.6	15.8	182.6	1719.8	10.6
2005	210.4	1223.8	17.2	199.5	1704.5	11.7
2006	200.9	1202.7	16.7	192.5	1699.4	11.3
2007	219.9	1190.4	18.5	207.0	1705.0	12.1
2008	228.3	1225.4	18.6	214.0	1712.5	12.5
2009	297.9	1286.0	23.2	263.9	1726.3	15.3
2010	305.0	1312.7	23.2	277.7	1699.1	16.3

Source: registered unemployed: Employment Office, out of work: CSO LFS

Note: out of work = unemployed or economically inactive

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_o6](http://www.bpdata.eu/foglpol20/2012huto2_o6)

## 2.7. Long-term unemployment (ILO)

	Thousands			%		
	men	women	together	men	women	together
1990	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1991	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1992	48.9	31.4	80.2	18.2	17.5	17.9
1993	94.8	64.2	159.0	30.2	31.8	30.8
1994	114.1	63.0	177.1	41.9	36.0	39.6
1995	120.5	63.7	184.3	46.5	41.4	44.6
1996	125.4	65.4	190.8	52.3	42.9	48.6
1997	96.4	53.8	150.1	46.1	41.3	44.3
1998	97.7	65.8	163.5	52.0	52.7	52.3
1999	86.8	55.9	142.6	51.2	48.6	50.1
2000	82.3	50.4	132.7	52.1	48.1	50.5
2001	70.8	41.7	112.5	49.8	45.6	48.2
2002	67.2	43.7	110.9	48.8	43.6	46.6
2003	59.2	45.5	104.7	43.2	43.1	43.2
2004	64.1	49.4	113.5	47.1	42.7	45.1
2005	77.4	66.5	143.9	48.7	46.1	47.5
2006	76.3	66.6	142.8	46.5	43.9	45.2
2007	78.3	71.3	149.7	47.9	48.5	48.2
2008	85.4	72.7	158.1	49.2	47.1	48.2
2009	100.9	79.4	180.3	43.3	42.6	43.0
2010	129.9	103.3	233.3	49.4	49.3	49.4

Source: 1992-2010: CSO LFS

Note: those looking for work for over a year, the unemployed are defined by the ILO standard.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_07](http://www.bpdata.eu/foglpol20/2012huto2_07)

## 2.8. Long-term unemployment (registered) by small region

	Balatonfüredi (Veszprém)	Csornai (Győr- Moson-Sopron)	Soproni (Győr- Moson-Sopron)	Budaörsi (Pest)	top decile	top quintile	median	bottom quintile	bottom decile	Encsi (Borsod- Abauj-Zemplén)	Szerencsi (Borsod- Abauj-Zemplén)	Hajdúhadházi (Hajdú-Bihar)	Gönci (Borsod- Abauj-Zemplén)
2000	9.4	14.0	12.1	9.5	16	19	25	31	35	42.4	43.8	41.5	38.8
2001	10.3	13.4	9.7	9.3	14	16	23	30	34	41.6	37.1	44.3	40.0
2002	6.9	8.6	5.8	5.4	9	12	19	27	30	38.6	36.8	44.2	36.5
2003	8.2	8.9	5.7	5.5	10	12	19	28	33	40.0	42.8	47.5	43.8
2004	11.8	9.3	8.0	7.1	11	13	21	28	33	38.7	42.1	48.7	43.1
2005	10.4	11.7	8.1	8.2	11	14	22	30	34	39.0	42.3	44.2	38.5
2006	9.0	11.9	10.8	10.7	13	15	24	31	35	36.5	36.7	48.3	40.4
2007	11.1	9.1	9.3	10.9	12	16	27	34	39	42.5	38.5	45.9	44.8
2008	13.1	7.3	6.8	12.4	13	18	30	40	44	48.6	43.7	54.5	49.5
2009	10.1	4.9	6.1	10.3	10	14	25	34	38	47.2	31.7	46.3	48.9
2010	12.2	12.3	11.9	15.9	17	20	28	34	38	35.1	32.2	38.7	45.9
2011	13.5	13.9	14.8	19.4	19	22	25	29	31	24.9	27.7	35.1	42.5

Source: IE HAS Databank calculation based on Employment Office data.

Note: proportion of those in the register for over 12 months,  
based on the annual average of monthly stocks.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_o8](http://www.bpdata.eu/foglpol20/2012huto2_o8)

## 2.9. Composition of the unemployed (ILO) by gender and education, %

Year	Men					Women				
	primary or less	lower secondary vocation*	upper secondary	tertiary	together	primary or less	lower secondary vocation*	upper secondary	tertiary	together
1992	41.1	38.9	16.1	3.9	100.0	49.1	21.1	26.7	3.1	100.0
1993	39.0	40.8	17.3	2.8	100.0	45.8	22.6	27.4	4.2	100.0
1994	37.3	42.7	15.8	4.3	100.0	44.4	23.1	29.4	3.1	100.0
1995	37.7	44.0	14.7	3.6	100.0	41.0	24.3	29.7	5.0	100.0
1996	37.6	44.0	15.1	3.3	100.0	38.2	24.9	31.6	5.4	100.0
1997	38.9	43.7	15.4	2.0	100.0	44.2	23.2	28.4	4.2	100.0
1998	37.4	42.0	17.2	3.4	100.0	41.6	22.7	31.4	4.3	100.0
1999	34.5	45.3	17.4	2.8	100.0	36.2	26.2	33.8	3.8	100.0
2000	32.9	45.8	17.9	3.4	100.0	31.8	28.2	35.0	5.0	100.0
2001	36.5	43.2	17.5	2.8	100.0	33.7	28.0	32.2	6.1	100.0
2002	36.7	43.3	16.7	3.3	100.0	33.2	26.0	32.2	8.5	100.0
2003	34.0	44.7	17.2	4.1	100.0	32.7	28.3	32.0	7.0	100.0
2004	33.9	42.6	18.6	4.9	100.0	27.8	27.4	34.2	10.6	100.0
2005	32.1	43.1	19.0	5.8	100.0	28.2	27.1	35.2	9.5	100.0
2006	33.4	40.0	20.0	6.6	100.0	31.5	27.5	32.5	8.5	100.0
2007	34.9	38.8	20.3	6.0	100.0	31.2	26.6	31.7	10.5	100.0
2008	35.2	39.4	19.8	5.6	100.0	32.2	24.3	33.3	10.2	100.0
2009	31.0	40.1	21.9	7.0	100.0	32.1	26.1	30.3	11.4	100.0
2010	30.1	40.2	21.5	8.2	100.0	30.5	24.3	34.0	11.2	100.0

Source: CSO LFS. The Hungarian Labour Market – Review and Analysis 2012. IE-HAS, 2012, Budapest Tables 5.3. and 5.5.

\* Completed a vocational secondary school that does not offer a school leaving (A level) certificate.

Note: using weights based on the 1990 census until 2000. The classification of levels of education was slightly modified in 1999.

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto2\\_09](http://www.bpdata.eu/foglpolzo/2012huto2_09)

## 2.10. Unemployment rate (ILO) by gender and education, %

Év	Men					Women				
	primary or less	lower secondary vocation*	upper secondary	tertiary	together	primary or less	lower secondary vocation*	upper secondary	tertiary	together
1992	16.4	12.0	7.6	3.2	11.1	12.5	10.6	6.6	2.0	8.9
1993	20.3	15.0	9.7	2.9	13.5	14.6	12.8	8.1	3.2	10.4
1994	18.4	13.3	7.9	4.0	12.1	13.9	11.0	7.6	2.0	9.4
1995	18.8	13.1	7.0	3.1	11.6	12.7	10.4	7.1	2.8	8.7
1996	18.3	12.1	6.8	2.8	10.9	12.6	10.9	7.5	2.9	8.8
1997	16.9	10.6	5.9	1.6	9.6	12.6	8.7	6.0	2.2	7.8
1998	14.6	9.1	5.9	2.2	8.5	11.6	7.8	5.8	1.8	7.0
1999	14.3	8.2	5.0	1.5	7.5	10.5	8.0	5.2	1.3	6.3
2000	13.4	7.7	4.8	1.6	7.0	9.1	7.4	4.9	1.5	5.6
2001	13.6	6.4	4.3	1.2	6.3	8.4	6.4	4.0	1.6	5.0
2002	14.1	6.2	4.0	1.4	6.1	9.3	6.5	4.4	2.4	5.4
2003	13.6	6.6	3.9	1.6	6.1	10.5	7.2	4.4	1.9	5.6
2004	14.3	6.4	4.1	1.7	6.1	10.3	8.0	5.3	2.9	6.1
2005	15.6	7.4	4.9	2.3	7.0	13.0	9.8	6.7	3.1	7.5
2006	17.3	7.0	5.2	2.7	7.2	15.8	10.1	6.4	2.8	7.8
2007	18.4	6.8	5.1	2.4	7.1	16.0	9.4	6.2	3.3	7.6
2008	19.8	7.6	5.3	2.3	7.6	17.5	9.5	6.9	3.2	8.1
2009	24.4	10.6	7.7	3.8	10.3	21.6	12.4	7.7	4.1	9.7
2010	26.9	12.1	8.4	4.9	11.6	22.8	12.6	9.5	4.5	10.7

Source: CSO LFS. The Hungarian Labour Market – Review and Analysis 2012. IE-HAS, 2012, Budapest Tables 5.2. and 5.4.

\* Completed a vocational secondary school that does not offer a school leaving (A level) certificate.

Note: using weights based on the 1990 census until 2000. The classification of levels of education was slightly modified in 1999.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto2\\_10](http://www.bpdata.eu/foglpol20/2012huto2_10)

## 3.1. Monthly wage of the average production worker, thousand HUF\*

	Men	Women	Together
1986	7.2	5.3	6.3
1989	11.4	8.2	10.0
1992	21.6	15.5	19.3
1993	22.6	22.7	22.7
1994	31.3	22.2	27.8
1995	37.0	26.5	32.9
1996	45.9	32.3	40.5
1997	55.3	37.9	48.4
1998	64.1	45.0	56.6
1999	73.8	51.6	65.1
2000	81.3	59.5	72.8
2001	92.6	67.6	82.8
2002	101.6	75.5	91.7
2003	107.9	80.2	97.1
2004	117.1	84.8	104.5
2005	130.3	93.0	115.9
2006	133.1	97.1	119.5
2007	148.5	107.0	133.0
2008	155.4	112.9	139.4
2009	158.8	115.3	143.1
2010	165.1	120.5	148.5

Source: Calculation of the IE HAS Databank based on data from the Wage Survey of the Employment Office.

\* Manual worker in Manufacturing, similar to the OECD average production worker (APW).

Note: average gross monthly earnings. The data refer to May in each year.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto3\\_01](http://www.bpdata.eu/foglpol20/2012huto3_01)

## 3.2. Estimated wage advantages for gender, level of education and age group

	Men	Incomplete primary	Primary	Lower secondary vocational	Tertiary	Aged 15-24	Aged 55-64	Public sector
1986	0.2920	-0.2840	-0.2090	-0.0893	0.3180	0.0182	0.0414	-0.0473
1989	0.2900	-0.3000	-0.2940	-0.1600	0.4170	0.0702	0.0878	-0.0436
1992	0.1990	-0.5240	-0.4080	-0.2550	0.3990	0.0615	0.0889	-0.1130
1993	n.a.							
1994	0.1840	-0.4830	-0.4300	-0.2660	0.5080	0.0269	0.0966	-0.0722
1995	0.1730	-0.4640	-0.4370	-0.3010	0.4120	0.0103	0.1250	-0.1380
1996	0.1760	-0.5550	-0.4480	-0.3000	0.4660	0.0197	0.0948	-0.2510
1997	0.1750	-0.6300	-0.4580	-0.3170	0.4890	-0.0012	0.0852	-0.2040
1998	0.1720	-0.5970	-0.4640	-0.3120	0.4830	-0.0144	0.0668	-0.1780
1999	0.1780	-0.6020	-0.4630	-0.3210	0.5250	-0.0153	0.0378	-0.2010
2000	0.1570	-0.5740	-0.4080	-0.2780	0.5490	-0.0377	0.0430	-0.1250
2001	0.1580	-0.4870	-0.3590	-0.2530	0.5220	-0.0472	0.0636	-0.1160
2002	0.1380	-0.4610	-0.3590	-0.2730	0.5360	-0.0233	0.0607	-0.0605
2003	0.1460	-0.4100	-0.3520	-0.2550	0.6120	-0.0430	0.0482	0.1090
2004	0.1470	-0.3890	-0.3630	-0.2650	0.5810	-0.0274	0.0550	0.1560
2005	0.1480	-0.4780	-0.3670	-0.2750	0.5860	-0.0167	0.0699	0.1080
2006	0.1500	-0.3970	-0.3740	-0.2830	0.5730	-0.0112	0.0866	0.0870
2007	0.1790	-0.4260	-0.4090	-0.2920	0.5580	-0.0057	0.0783	-0.0009
2008	0.1700	-0.3940	-0.3980	-0.2780	0.5540	0.0039	0.0760	0.0178
2009	0.1430	-0.5460	-0.4400	-0.2990	0.6170	-0.0169	0.0897	-0.1360
2010	0.1460	-0.3590	-0.3660	-0.2420	0.5720	-0.0218	0.0708	-0.0646

Source: Calculated by Zsuzsanna Sinka-Grósz (IE HAS) based on the Wage Survey of the Employment Office.

Note: Coefficients of a regression on log earnings, which show the earnings advantage of each group on a logarithmic scale (roughly equal to percentages) compared to the reference group. The estimates also included six region dummies and imputed years of tenure, which were omitted from the table for lack of space.

Reference categories: women, upper secondary education, Central Trans-Danubia, Private sector employee, aged 25-54.  
The estimates could not be computed for 1993 as in the 1993 Wage Survey there is no information on the education level of public sector employees.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto3\\_02](http://www.bpdata.eu/foglpol20/2012huto3_02)

## 4.1. Population aged 15-64, thousands

Year	Men	Women	Together
1990	3367.0	3503.3	6870.4
1991	3383.1	3515.4	6898.5
1992	3328.1	3515.3	6843.5
1993	3312.4	3509.5	6821.9
1994	3299.0	3500.5	6799.5
1995	3283.6	3493.5	6777.1
1996	3253.2	3454.6	6707.8
1997	3235.9	3413.2	6649.1
1998	3321.7	3511.0	6832.7
1999	3316.0	3501.3	6817.3
2000	3325.1	3497.4	6822.5
2001	3330.6	3502.5	6833.2
2002	3329.3	3502.9	6832.1
2003	3320.8	3496.6	6817.4
2004	3320.4	3488.2	6808.6
2005	3319.7	3478.1	6797.8
2006	3319.8	3479.3	6799.1
2007	3311.0	3472.6	6783.6
2008	3314.0	3465.0	6779.0
2009	3307.9	3447.7	6755.7
2010	3314.0	3440.3	6754.2

Source: 1990-1991: population aged 15-64: CSO on-line data.  
1992-2010: population 15-64: CSO LFS

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto4\\_01](http://www.bpdata.eu/foglpol20/2012huto4_01)

## 4.2. Population aged 20-64 by education, thousands

	Men					Women				
	lower secondary or below	upper secondary	tertiary	together	lower secondary or below, %	lower secondary or below	upper secondary	tertiary	together	lower secondary or below, %
1992	1898.8	666.2	360.2	2925.2	64.9	1834.4	952.5	332.9	3119.7	58.8
1993	1893.5	670.0	336.3	2899.8	65.3	1846.2	922.3	332.6	3101.1	59.5
1994	1874.6	678.9	327.1	2880.6	65.1	1809.8	941.8	323.4	3075.0	58.9
1995	1850.0	671.6	338.4	2860.1	64.7	1786.8	945.0	341.2	3073.0	58.1
1996	1837.3	668.7	336.8	2842.8	64.6	1736.5	957.3	358.8	3052.6	56.9
1997	1854.3	692.9	301.3	2848.6	65.1	1752.7	960.2	323.8	3036.6	57.7
1998	1884.0	729.3	348.9	2962.3	63.6	1737.8	1036.4	390.2	3164.3	54.9
1999	1852.2	769.7	350.5	2972.3	62.3	1645.7	1116.2	406.1	3168.0	51.9
2000	1837.2	784.2	371.0	2992.4	61.4	1614.4	1134.0	425.1	3173.4	50.9
2001	1855.0	780.9	369.4	3005.2	61.7	1610.9	1143.2	430.4	3184.4	50.6
2002	1835.7	792.5	382.0	3010.2	61.0	1593.5	1154.2	441.9	3189.6	50.0
2003	1769.1	826.4	410.6	3006.2	58.8	1527.3	1179.2	480.5	3187.1	47.9
2004	1724.0	843.5	440.2	3007.7	57.3	1473.4	1179.7	529.0	3182.1	46.3
2005	1728.1	841.1	440.1	3009.3	57.4	1444.9	1182.3	548.2	3175.5	45.5
2006	1699.4	860.2	452.2	3011.9	56.4	1403.3	1206.0	570.3	3179.6	44.1
2007	1674.5	873.4	456.6	3004.5	55.7	1384.5	1202.9	586.9	3174.3	43.6
2008	1646.8	881.2	482.3	3010.3	54.7	1358.5	1183.4	627.8	3169.7	42.9
2009	1611.5	910.6	486.1	3008.2	53.6	1313.8	1187.7	656.9	3158.4	41.6
2010	1606.4	920.7	493.8	3020.8	53.2	1278.7	1207.7	670.0	3156.3	40.5

Source: CSO LFS

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto4\\_02](http://www.bpdata.eu/foglpol20/2012huto4_02)

## 4.3. Life expectancy at age 60 by gender, years

	Men	Women	Together
1990	14.7	19.0	17.0
1991	14.7	19.2	17.1
1992	14.5	19.1	17.0
1993	14.5	19.2	17.0
1994	14.7	19.3	17.2
1995	14.8	19.5	17.3
1996	14.9	19.4	17.4
1997	15.0	19.7	17.6
1998	15.0	19.8	17.6
1999	14.9	19.6	17.5
2000	15.3	20.0	17.9
2001	16.0	20.7	18.6
2002	16.0	20.7	18.6
2003	15.8	20.6	18.5
2004	16.1	20.9	18.7
2005	16.0	20.9	18.7
2006	16.3	21.1	19.0
2007	16.3	21.2	19.0
2008	16.6	21.4	19.3
2009	16.6	21.5	19.3
2010	16.8	21.6	19.4

Source: 1990-1999: Demographic Yearbook 2000, CSO and 2000-2010: Demographic Yearbook 2010, CSO

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto4\\_03](http://www.bpdata.eu/foglpolzo/2012huto4_03)

## 4.4. Immigrants in Hungary by sender country, thousands

	EU15	Romania	Ukraine	Serbia	Slovakia	Other European	China	Other	Together
1990-1994	n.a.								
1995	11,8	68,4	3,5	15,3	0,2	23,7	3,5	11,7	138,1
1996	13,0	65,7	4,4	16,2	0,5	22,6	4,3	13,3	140,0
1997	14,7	61,6	5,6	15,4	0,6	22,6	6,6	15,3	142,5
1998	16,4	62,1	7,2	14,3	1,0	23,0	7,8	16,5	148,3
1999	17,3	57,4	9,9	15,2	1,6	22,7	8,3	17,9	150,2
2000	17,9	57,3	11,0	15,6	1,7	22,2	8,9	18,5	153,1
2001	11,7	41,6	8,9	12,7	1,6	16,7	5,8	11,0	110,0
2002	12,2	45,0	9,8	12,0	2,2	16,5	6,8	11,9	116,4
2003	11,6	47,3	9,9	11,7	1,5	16,2	6,4	11,2	115,9
2004	12,1	55,7	13,1	12,4	2,5	15,2	6,8	12,4	130,1
2005	9,7	67,5	13,9	13,6	1,2	16,2	6,9	13,0	142,2
2006	18,4	66,2	15,3	12,1	3,6	15,0	8,6	15,3	154,4
2007	25,4	67,0	15,9	12,6	4,3	15,7	9,0	16,2	166,0
2008	25,5	65,8	17,3	17,2	4,9	15,4	10,2	18,3	174,7
2009	30,7	66,4	17,6	17,0	6,1	16,6	10,7	19,3	184,4
2010	33,6	72,7	17,2	17,2	6,4	17,5	11,2	21,9	197,8
2011	36,5	76,9	16,5	16,3	7,3	18,4	11,8	23,2	206,9

Source: CSO Demographic Yearbooks based on Home Office data.

Note: Data for January. Figures were revised between 2000 and 2001 and invalid residence permits were deleted from the database.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto4\\_04](http://www.bpdata.eu/foglpol20/2012huto4_04)

## 4.5. Emigrants from Hungary by destination country, thousands

	Germany	Austria	UK	Italy	Ireland	Sweden and Denmark	Other EU
1990-1997	n.a.						
1998	52.0		6.6			3.3	3.8
1999	51.9		5.9			3.3	6.8
2000	53.2		7.1	2.8		3.4	4.1
2001	54.4	12.7	4.3	3.1		3.4	5.7
2002	56.0	13.1		3.2		3.2	6.3
2003	56.0	13.7	6.6			2.9	9.1
2004	54.7	14.2	6.0			2.8	4.8
2005	47.8	15.1	5.2	3.7		2.8	8.4
2006	49.5	16.3		4.1		3.0	6.6
2007	56.1	17.4		4.4		3.3	9.4
2008	60.2	19.3		5.5		4.1	15.5
2009	63.8	21.5		6.2	5.9	5.2	14.6
2010	65.4			6.9	5.5	6.1	16.8

Source: Compiled by Ágnes Hárs based on Eurostat's 'population by citizenship' on-line database (<http://epp.eurostat.ec.europa.eu/portal/>)

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto4\\_05](http://www.bpdata.eu/foglpolzo/2012huto4_05)

## 4.6. Demographic and economic dependency ratio

	Demographic	Economic
1980	0.54	0.96
1990	0.51	1.13
1991	0.50	1.29
1992	0.49	1.54
1993	0.49	1.71
1994	0.48	1.76
1995	0.48	1.81
1996	0.48	1.83
1997	0.47	1.82
1998	0.47	1.78
1999	0.47	1.69
2000	0.47	1.66
2001	0.46	1.63
2002	0.46	1.62
2003	0.46	1.59
2004	0.46	1.59
2005	0.45	1.59
2006	0.45	1.56
2007	0.45	1.56
2008	0.45	1.59
2009	0.45	1.65
2010	0.46	1.65
2011	0.46	1.62

Source: Demographic: *The Hungarian Labour Market – Review and Analysis 2012*. IE-HAS, 2012, Table 2.1.;  
Economic: employment: *ibid.* Table 4.1., population: *ibid.* Table 2.1.

Note: Demographic dependency ratio = (population aged 0–14 + population aged over 64) / (population aged 15–64)  
Economic dependency ratio = (non working population) / (employed population)

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto4\\_o6](http://www.bpdata.eu/foglpol20/2012huto4_o6)

## 5.1. GDP and consumer price index

	GDP (1960=100)	CPI (previous year=100)
1989	317	117.0
1990	306	128.9
1991	269	135.0
1992	261	123.0
1993	259	122.5
1994	267	118.8
1995	271	128.2
1996	271	123.6
1997	280	118.3
1998	291	114.3
1999	301	110.0
2000	313	109.8
2001	325	109.2
2002	340	105.3
2003	353	104.7
2004	370	106.8
2005	384	103.6
2006	399	103.9
2007	400	108.0
2008	403	106.1
2009	376	104.2
2010	381	104.9

Source: CSO Statdat

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto5\\_01](http://www.bpdata.eu/foglpol20/2012huto5_01)

## 5.2. Self-employment

	Thousands	%
1992	597.3	14.8
1993	548.6	14.6
1994	544.0	14.7
1995	559.7	15.4
1996	564.9	15.7
1997	551.7	15.3
1998	530.4	14.4
1999	547.7	14.4
2000	536.5	13.9
2001	523.3	13.5
2002	510.9	13.2
2003	514.1	13.1
2004	544.4	14.0
2005	528.4	13.5
2006	493.9	12.6
2007	482.1	12.3
2008	472.0	12.2
2009	470.0	12.4
2010	460.7	12.2

Source: CSO LFS

Note: sole proprietors, family help, and owners of unincorporated businesses. In percentage of the employed population.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto5\\_02](http://www.bpdata.eu/foglpol20/2012huto5_02)

## 5.3. Business environment

	Hu	Cz	Pl	Sk	Hu	Cz	Pl	Sk	Hu	Cz	Pl	Sk
	Global Competitiveness Report ranking											
1990	59											
1991	59											
1992	55											
1993												
1994	56	52	59									
1995												
	Doing Business ranking, World Bank				Overall Competitiveness ranking (IMD)				Government Efficiency ranking (IMD)			
1997					42	47	55		46	45	58	
1998					47	36	56		31	41	55	
1999					46	33	50		29	43	53	
2000					46	34	50		35	49	53	
2001					42	36	57	49	36	45	58	46
2002					39	36	54	46	33	36	54	45
2003					36	35	54	44	37	36	54	45
2004					42	40	56	38	43	47	57	28
2005					35	36	56	39	36	43	54	20
2006	61	48	64	44	31	39	56	37	39	32	56	24
2007	69	54	78	38	34	38	56	36	43	44	56	40
2008	46	58	76	33	30	41	47	32	50	35	53	33
2009	41	76	77	36	30	47	46	34	52	32	46	35
2010	52	82	73	40	30	43	33	50	52	34	37	42
2011	46	63	70	41	30	47	34	48	52	28	35	42

Source: World Bank, GCI and IMD.

Note: Cz= Czech Republic, Hu= Hungary, Pl= Poland, Sk= Slovak Republic

Each index shows the rank of the particular country among all countries surveyed in the given year, rescaled to the number of countries in the last year surveyed (so that ranks are comparable across years). GCI 1994 and IMD 2011 both covered 59 countries, DB 2011 covered 183. Rescaling distorts ranks (adds a downward bias) especially in the GCI ranking which covered only 23 countries in 1990. IMD 1997 covered 46 countries, while the World Bank Doing Business survey covered 155 countries in 2006.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto5\\_03](http://www.bpdata.eu/foglpol20/2012huto5_03)

5.4. Subsidies for regional development projects, at current prices,  
million HUF

	Ear-marked funds (címezett)	Targeted funds (cél)	Themed target appropriations (célelőirányzat)				Agriculture (agr)	Regional compensation fund (teki)
			spatial development (tfc)	economy (gfc)	water	tourism		
1990	n.a.							
1991	38 335	11 757						
1992	6 354	24 358	4208					
1993	6 171	47 403	4859					
1994	15 056	3 672	6856			69 779		
1995	7 524	8 606	4863	1829		71 892		
1996	18 129	27 124	5790	3078	2	1137	6545	
1997	18 982	30 830	8578	5075	3	1163	8862	
1998	35 321	41 021	7121	3327	4	1392	840	
1999			9065					
2000-2010	n.a.							

Source: VÁTI OTO: Területfejlesztési országgyűlési jelentés 2. Pénzügyi eszközök.  
Háttéranyag, Magyar Regionális Fejlesztési és Urbanisztikai Kht, 2000

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto5\\_04](http://www.bpdata.eu/foglpolzo/2012huto5_04)

5.5. Spatial development target appropriation (tfc), at 1999 prices,  
million HUF

Year	Employment	Infrastructure	Other	Total
1991	3503	1 269	388	5 160
1992	3868	7 004	1162	12 035
1993	1515	10 337	539	12 390
1994	1450	12 626	803	14 879
1995	2138	6 161	113	8 413
1996	3503	1 965	2697	8 164
1997	5391	1 517	3385	10 293
1998	4491	810	2390	7 691
1999	5145	2 039	1881	9 065
2000	2082	668	1059	3 824
1996-2008, annual				9 066
2000-2010				n.a.

Source: NFGM: A hazai területfejlesztési támogatási rendszer átfogó értékelése 1996-2008.  
Nemzeti Fejlesztési és Gazdasági Minisztérium, 2009

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto5\\_05](http://www.bpdata.eu/foglpolzo/2012huto5_05)

5.6. Minimum wage and guaranteed minimum pension, at current prices,  
thousand HUF

	Minimum wage	Minimum wage, % of APW	Minimum wage for skilled workers	Minimum pension
1990	4.8	40.9		4.30
1991	7.0	n.a.		5.20
1992	8.0	41.4		5.80
1993	9.0	39.7		6.40
1994	10.5	37.8		7.37
1995	12.2	37.0		8.40
1996	12.2	30.1		9.60
1997	17.0	35.1		11.50
1998	19.5	34.4		13.70
1999	22.5	34.6		15.35
2000	25.5	35.0		16.60
2001	40.0	48.3		18.31
2002	50.0	54.5		20.10
2003	50.0	51.5		21.80
2004	53.0	50.7		23.20
2005	57.0	49.2		24.70
2006	62.5	52.3	68.8	25.80
2007	65.5	49.2	75.4	27.13
2008	69.0	49.5	86.3	28.50
2009	71.5	50.0	87.0	28.50
2010	73.5	49.5	89.5	28.50
2011	78.0	n.a.	94.0	28.50

Source: 1990: <http://www.mszosz.hu/files/1/64/345.pdf>  
1991-2011: *The Hungarian Labour Market – Review and Analysis 2012*. IE-HAS, 2012, Budapest table 10.3

APW: average wage of manual workers in Manufacturing, Wage Survey of the Employment Office.  
In 1990, we used data for 1989 adjusted for inflation, as there was no Wage Survey in 1990.

Note: Until 1999, the new minimum wage took effect a few months later  
in industries employing mostly unskilled workers.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto5\\_o6](http://www.bpdata.eu/foglpol20/2012huto5_o6)

## 5.7. Taxes on labour

	Taxes on labour, % of total tax revenues	Implicit tax rate	Tax wedge at 67% of the APW	Tax wedge at the minimum wage
1990				43.4
1991	52.4			46.5
1992	54.8			48.4
1993	54.4			49.0
1994	53.7			48.8
1995	52.1	42.3		52.1
1996	52.5	42.1		48.8
1997	54.2	42.5		51.9
1998	53.1	41.8		51.4
1999	51.5	41.9		57.2
2000	51.8	41.4	51.4	57.9
2001	53.1	40.9	50.9	55.9
2002	53.7	41.2	48.2	54.3
2003	51.8	39.3	44.5	43.2
2004	50.1	38.3	44.8	42.1
2005	51.1	38.4	43.1	41.4
2006	51.7	38.8	43.3	39.4
2007	52.0	41.0	46.0	42.6
2008	53.0	42.1	46.7	43.2
2009	51.4	41.0	46.3	42.0
2010	49.7		43.6	37.4

Source: 1991-1995: own calculation based on Finance Ministry data.

1996-2009: [http://ec.europa.eu/taxation\\_customs/taxation/gen\\_info/economic\\_analysis/tax\\_structures/index\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm)

2010: Eurostat online database

Implicit tax rate: Eurostat online database (gov\_a\_tax\_itr)

Tax wedge at 67% of the APW (average production worker): OECD: *Taxing wages 2010*, Paris 2011, tax wedge at the minimum wage: own calculation. In 2009, the tax wedge at the minimum wage is the simple average of two levels (there was a cut in contributions in June 2009.)

Note: Taxes on labour are given in proportion to all tax and excise revenues.

The implicit tax rate is calculated as a ratio of all revenues from taxes and social security contributions to total wage income (tax base).

Tax wedge = all taxes and contributions as a percentage of the total wage cost.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto5\\_07](http://www.bpdata.eu/foglpol20/2012huto5_07)

6.1. Unemployment benefit, social assistance and participation  
in active labour market programmes, thousands

	Insured unemployment benefit	Social Assistance	School leavers	Registered unemployed receiving no benefit	Training	Wage subsidy	Other programm	PES Public works	Municipal Public works	Total
1990	43	-	-	19	..	..	..	..	-	61.0
1991	236	-	9	73	..	..	..	..	-	317.7
1992	431	27	18	150	27	8	21	18	-	701.0
1993	312	123	24	196	30	15	45	26	-	771.1
1994	160	202	25	142	31	24	62	29	-	675.1
1995	151	193	26	109	20	11	65	22	-	596.8
1996	145	219	3	128	21	16	75	39	-	644.3
1997	134	194	0	122	25	30	96	39	-	638.9
1998	124	159	0	109	25	31	87	37	-	571.5
1999	136	147	0	107	28	31	61	36	-	544.7
2000	117	140	0	107	25	28	74	27	4	516.2
2001	112	113	0	105	30	26	37	29	7	452.2
2002	105	108	-	115	24	21	33	22	12	426.8
2003	105	110	-	125	23	20	37	21	15	440.0
2004	117	118	-	132	13	17	29	17	17	442.8
2005	126	128	-	140	15	21	31	22	17	481.6
2006	118	113	-	146	12	15	14	17	14	434.3
2007	128	133	-	152	15	23	7	19	15	477.0
2008	121	146	-	158	21	25	14	21	14	506.1
2009	203	152	-	215	14	18	54	7	60	790.5
2010	160	164	-	222	18	27	40	4	92	794.8

1991-2011: *The Hungarian Labour Market – Review and Analysis 2012*. IE-HAS, 2012, Budapest table 10.3

Source: 1990-1995: *The Hungarian Labour Market – Review and Analysis 2002*. IE-HAS, 2002, 1996-2010: *The Hungarian Labour Market – Review and Analysis 2012*. IE-HAS, 2012, Table 5.13, municipal public works: Hungarian Treasury.

Note: Data for October (stock), except for municipal public works figures which are annual averages (stock); the figure for October 2010 is 112 000.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto6\\_01](http://www.bpdata.eu/foglpol20/2012huto6_01)

## 6.2. Parental leave benefits and daycare for children

Year	Insured maternity leave benefit (gyed)		Flat rate parental leave benefit (gyes/gyet)		Children admitted to crèche	
	average monthly amount, thousand HUF	number of recipients, thousands	average monthly amount, thousand HUF	number of recipients, thousands	number of recipients, thousands	in proportion to children aged 0-2
1990	5.2	155	3.3	95	41	11.1
1991	6.6	151	4.5	111	36	9.7
1992	8.3	148	5.2	114	34	9.1
1993	10.0	143	6.0	126	41	11.0
1994	11.5	136	7.1	156	40	11.0
1995	13.2	129	7.9	176	38	10.8
1996	15.7	118	9.2	186	32	9.3
1997	18.7	57	11.8	250	31	9.3
1998	28.0	10	13.5	307	33	10.6
1999	–	–	14.9	314	32	10.7
2000	31.4	54	16.7	245	30	10.2
2001	39.3	63	17.8	234	29	10.2
2002	44.9	70	19.8	222	29	10.1
2003	48.7	78	22.1	215	29	10.2
2004	54.3	84	24.2	211	30	10.6
2005	58.5	87	25.7	209	30	10.7
2006	62.7	92	27.1	213	31	10.9
2007	68.4	94	28.5	208	32	11.0
2008	73.9	95	30.9	209	35	11.5
2009	78.7	95	30.3	214	37	12.4
2010	81.4	95	30.0	218	39	13.3

Source: CSO Welfare Statistics Yearbooks.

Note: annual averages, except for the number of gyes recipients in 1991-1994, which are for December. For children in crèche: end of year until 1993, end of May (stock) after that. After 2008, includes children admitted to family daycare centres. Number of children aged 0-2 is data for 1st January.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto6\\_o2](http://www.bpdata.eu/foglpol20/2012huto6_o2)

## 6.3. Pensioners and the average age at retirement

	Pensioners aged below the statutory retirement age, thousands		Average age at retirement, years		
	old-age and similar	disability	women	men	together
1990		232 617			n.a.
1991		252 103			n.a.
1992		288 966			n.a.
1993		294 812			n.a.
1994	99 235	313 049			n.a.
1995	64 207	332 332			n.a.
1996	66 889	352 032	52.4	54.1	53.1
1997	75 505	364 946	52.7	54.9	54.0
1998	69 723	380 148	52.1	53.1	52.6
1999	173 897	424 459	51.9	52.7	52.2
2000	148 381	418 746	52.1	53.2	52.6
2001	172 525	447 001	51.4	54.7	53.4
2002	169 633	453 203	52.6	55.0	53.9
2003	196 753	467 289	52.5	55.3	54.3
2004	181 485	462 228	54.5	56.0	55.3
2005	213 416	465 797	55.1	55.7	55.4
2006	222 916	454 348	55.2	56.1	55.6
2007	265 392	451 953	56.2	57.4	56.8
2008	297 861	432 840	56.1	57.4	56.7
2009	343 515	424 770	56.6	57.9	57.5
2010	312 465	393 184	56.4	58.1	57.5
2011	275 151	362 124	57.8	58.8	58.1

Source: Statistical Yearbooks of the National Pension Fund and The Hungarian Labour Market – Review and Analysis 2008 and 2012

Note: Data for 2011 are preliminary. The number of pensioners is for January each year, old age pensions include old age, widows, and miners pensions (öregségi, főellátásként folyósított özvegyi nyugdíj, elő-, bányász-, és korengedményes nyugdíj). Disability pensions include the rehabilitation benefit introduced in 2008. The average age of retirement applies to all types of old age and disability pensions, but excludes the rehabilitation benefit.

BPDATA  [http://www.bpdata.eu/foglpolzo/2012huto6\\_o3](http://www.bpdata.eu/foglpolzo/2012huto6_o3)

## 7.1. Expenditure on main employment policy measures

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Labour Market Fund and main EU funds, at current prices, billion HUF																				
Active measures	7.3	12.2	15.3	17.0	13.6	16.1	26.6	28.9	31.5	33.2	45.3	57.7	53.5	52.6	57.6	64.9	68.5	88.9	75.2	83.7
Vocational training	0.0	0.1	2.6	2.6	3.0	3.9	6.4	7.2	9.8	12.2	16.0	18.6	15.3	15.9	14.7	31.7	33.0	38.4	19.5	27.3
Insured unemployment benefit	20.4	66.3	78.4	56.5	53.3	54.1	56.5	64.1	64.4	61.7	56.6	63.2	68.4	78.2	86.8	85.9	91.5	98.9	145.5	138.3
Social assistance	0.0	0.0	5.4	13.3	16.9	19.2	24.8	21.1	22.4	18.9	8.5	1.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Wage Guarantee Fund	0.0	0.0	0.0	0.8	5.6	0.5	0.3	0.5	0.2	0.3	0.9	1.3	3.4	3.7	4.7	5.6	4.2	4.5	9.2	8.0
Rehabilitation			0.1	0.6	0.5	0.8	0.9	1.5	1.7	2.0	2.1	2.3	2.8	2.6	3.0	3.3	4.8	5.3	0.6	0.8
Payment into the national budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0	10.0	19.0	48.2	57.1	48.9	67.7	82.1	83.1	114.3	120.8	146.1	8.0
PES services and management	2.3	4.3	5.3	6.4	7.1	7.1	11.0	11.6	12.7	12.8	15.5	18.3	22.5	22.6	21.5	23.8	23.7	26.1	26.8	30.5
PES development							2.3	1.3	1.2	0.9	1.2	1.3	1.8	1.3	1.2	1.1	1.4	1.4	1.6	1.5
TÁMOP programmes*														0.0	4.6	5.9	9.7	12.8	26.1	32.9
Total	30.3	82.8	104.4	93.2	90.9	96.5	118.9	141.9	152.6	161.1	194.4	221.2	216.8	244.6	271.6	289.5	341.4	384.4	427.2	297.8
Ratios																				
active measures + training, % of GDP	2.9	4.2	5.1	4.6	3.0	3.0	3.9	3.7	3.8	3.6	4.2	4.6	3.8	3.4	3.6	4.5	4.6	5.5	4.7	5.4
LMF expenditures, % of GDP	1.2	2.8	2.9	2.1	1.6	1.4	1.4	1.4	1.3	1.2	1.3	1.3	1.2	1.2	1.3	1.2	1.4	1.5	1.8	1.2
payment into the national budget, % of LMF expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.9	6.6	11.8	24.8	25.8	22.6	27.7	31.9	30.7	36.3	34.8	40.3	13.7
active measures in proportion to the GDP and unemployment (ILO)	1.3	0.9	1.0	1.0	0.7	0.7	1.1	1.2	1.2	1.3	1.6	2.0	1.6	1.4	1.4	1.5	1.5	1.8	1.4	1.3
active measures / unemployment benefits and assistance	0.5	0.3	0.3	0.5	0.5	0.5	0.8	0.8	0.9	1.0	1.4	1.5	1.4	1.2	1.2	1.5	1.5	1.7	1.0	1.3

Sources: 1998-2010 communication by the Ministry for Labour / Ministry for the Economy and LMF budgets, 1991-2001: Data by Frey (2002) based on final accounts of the national budget, adding the expenditure on vocational training, WGF, rehabilitation and payment into the national budget.

Note: The Labour Market Fund (LMF) was established in 1995 by merging the Solidarity Fund, the Employment Fund, the Vocational Education and Training Fund, the Rehabilitation Fund and the Wage Guarantee Fund (WGF) (Frey 2002).  
The WGF provides advance payments to workers of firms that went bankrupt and have no cash to pay wages.

\* Based on the calculations of the National Audit Office (Source: A hazai és uniós forrásból finanszírozott munkahelyteremtést és -megőrzést elősegítő támogatások rendszerének értékelése, Annex)

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto7\\_01](http://www.bpdata.eu/foglpol20/2012huto7_01)

## 7.2. Staff and caseload in the public employment service

	Registered unemployed	PES staff	Of that: PES headquarters	Caseload
1991	227 141	1728	123	131
1992	556 965	3384	163	165
1993	671 745	n.a.	n.a.	n.a.
1994	568 366	n.a.	n.a.	n.a.
1995	507 862	n.a.	n.a.	n.a.
1996	500 622	n.a.	n.a.	n.a.
1997	470 112	4285	97	110
1998	423 121	4416	102	96
1999	409 519	4300	97	95
2000	390 492	4165	119	94
2001	364 140	4125	122	88
2002	344 715	4107	140	84
2003	357 212	4131	150	86
2004	375 950	4250	241	88
2005	409 929	4367	345	94
2006	393 465	4309	360	91
2007	426 915	3931	307	109
2008	442 333	4017	329	110
2009	561 768	4348	435	129
2010	582 664	4558	494	128

Source: Annexes to the Annual Final Accounts (relevant chapters of the Hungarian budget as implemented, which is presented according to ministries).

Note: Annual averages. No data available for 1993–1996. Data for 1997–1999 exclude the staff of the Labour Inspectorate, which we estimated to be around 500, who worked under the supervision of the county job centres, but were not involved in delivering services to the unemployed. The number of labour inspectors was estimated by Lajos Bódis based on the final accounts for 2003 and expert interviews. Registered unemployed: Employment Office data. We thank Judit Fejes, László Kajdi and Barbara Sziráki for their help in collecting the data.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto7\\_02](http://www.bpdata.eu/foglpol20/2012huto7_02)

## 7.3. Reemployment rates of active labour market programmes, %

	Training offered by the job centre <sup>c</sup>	Training chosen by the client <sup>d</sup>	In work training <sup>e</sup>	Subsidy for self-employment <sup>f</sup>	Wage subsidy <sup>g</sup>	Work trial <sup>h</sup>	Internship <sup>i</sup>
1996 <sup>a</sup>	44.5	50.2	92.8	90.2	70.1	-	-
1997 <sup>a</sup>	46.3	51.1	90.4	88.1	66.3	65.7	72.1
1998 <sup>a</sup>	46.8	51.5	94.7	91.7	59.1	59.1	75.1
1999 <sup>a</sup>	46.8	50.0	94.8	90.5	59.7	55.8	68.5
2000 <sup>a</sup>	48.4	52.0	94.9	89.4	62.3	57.9	73.8
2001 <sup>a</sup>	45.4	49.3	94.2	89.2	59.7	64.5	71.6
2002 <sup>a</sup>	43.3	45.8	92.7	90.7	62.9	66.9	78.4
2003 <sup>a</sup>	43.0	46.0	93.3	89.6	62.0	66.1	78.2
2004 <sup>a</sup>	45.5	45.6	92.1	90.7	64.6	66.5	71.5
2005 <sup>a</sup>	43.8	51.4	90.4	89.6	62.6	66.8	70.9
2006 <sup>a</sup>	41.1	50.9	..	86.4	62.3	66.6	65.0
2007 <sup>a</sup>	37.5	47.6	92.4	87.6	63.4	66.3	77.5
2008 <sup>a</sup>	42.2	48.0	93.9	83.6	65.0	74.6	-
2009 <sup>b</sup>	40.4	41.9	..	73.1	72.4	..	..
2010 <sup>b</sup>	49.4	48.8	59.9	76.4	90.9	..	..

Source: Employment Office.

*a* 3 months after completing the programme.

*b* 6 months after completing the programme.

*c* Training offered by the job centre: group training for jobseekers organised by the job centre (at small region or county level).

*d* Training chosen by the client: at the request of the jobseeker the job centre reimbursed all or part of the training costs.

*e* In work training: a subsidy to prevent dismissals, in cases where the training contributes to adapting to the new needs of the employer.

*f* Subsidy for self-employment: an allowance for jobseekers wanting to be self-employed, equivalent to the minimum wage, and a loan or grant of 3 million HUF.

*g* Wage subsidy: available to disadvantaged jobseekers who would otherwise have a difficulty finding a job.

*h* Work trials: for job seekers with no work experience, a subsidy for 6-9 months of 50-80% of the total wage costs. Phased out by 31 December 2006.

*i* Internship: available to jobseekers with no work experience aged below 25, for 9 month. Phased out by 31 December 2006.

BPDATA  [http://www.bpdata.eu/foglpol20/2012huto7\\_03](http://www.bpdata.eu/foglpol20/2012huto7_03)



## 8. APPENDIX

### 8.1. METHODOLOGY OF THE MEDIA ANALYSIS



Due to resource constraints, the media analysis for Parts 2 and 3 was limited to selected issues of two daily newspapers and one weekly news magazine. The sample was designed to be politically balance and to include the main messages of political campaigns between 1990 and 2010. *Népszabadság* was chosen to represent Socialists and *Magyar Nemzet* to represent Conservative views.<sup>1</sup> Lastly, HVG was chosen as the organ of independent economic commentators. In each case, we considered printed issues only.

The sampling procedure was designed by Ágota Scharle and Balázs Váradi, sampling and coding was done by András G. Szabó, and the analysis was done by Balázs Váradi.

The core sample was taken in the month preceding elections as follows.

Parliamentary elections:

January 1, 1990 – March 25, 1990

January 8, 1994 – May 8, 1994

January 10, 1998 – May 10, 1998

January 1, 2002 – April 7, 2002

January 1, 2006 – April 9, 2006

January 1, 2010 – April 11, 2010.

Local elections:

In 1990, 1998, 2002, 2006, and 2010: September 1 – December 31.

In 1994: November 1 – December 31.

Within the issues in the core sample, all articles were processed. Views concerning employment were encoded for all relevant articles using *Code sheet 1*. When the core sample contained no relevant article, we gradually extended the time frame (by two months preceding and following the core period) until we found at least one and coded views on employment using *Code sheet 1*. Where the sample included an interview with a politician representing the ministry for employment, we also examined expectations towards the ministry using *Code sheet 2*.

<sup>1</sup> Admittedly, this is a very crude approach. *Népszabadság* has been regarded a central left organ in the past 15 years or so, but not in the early 1990s, while *Magyar Nemzet* has gradually departed from its original central-right position, but no other paper took over its role.

*Number of issues and articles in the core sample*

	Issue	Article
HVG	183	31
Magyar Nemzet	517	43
Népszabadság	517	40

The core sample was supplemented by two additional samples. For the first one, we looked for interviews with high ranking politicians or civil servants involved in employment policy, focusing on detailed interviews outside campaign periods. This sample was taken from the first few month of non-election years (1992, 1995, 1999, 2003, 2005 and 2007) and we found two such interviews. For the second sample we looked for expert opinions and advice on employment policy in issues of HVG at the end of the decade (between April 15, 2006 and February 28, 2009) and found 15 such articles. Thus, altogether we examined 131 articles in 2135 issues.

*Code sheet 1. Opinions on employment*

Name, date and issue of the newspaper, page, length, author of the article				
Views to be identified	Number of paragraphs where it is mentioned	Weight of all mentions in article (tenths)	Place of first mention: (1) first quarter (2) middle (3) last quarter	Whose opinion is it? > see OP codes
Employment is a function of economic growth, thus it can only increase when the economy is growing.				
Employment policy (e.g. flexicurity, activation, targeted wage subsidies) may increase employment even when economic growth is slow.				
The main goal is to prevent the rise of unemployment so that social tensions do not lead to unrest.				
The decline of labour force participation and the rise in early pensions cost a lot, especially in the long run.				
Active measures (training, counselling, wage subsidies etc) are more efficient tools for reducing unemployment than unemployment benefits. We should spend more on active measures.				
Welfare to work type reforms (in 1998/9 or in 2008/9) help reduce social tensions at the local level.				
Employment is low OR unemployment is high mainly among the low educated.				

Views to be identified	Number of paragraphs where it is mentioned	Weight of all mentions in article (tenths)	Place of first mention: (1) first quarter (2) middle (3) last quarter	Whose opinion is it? > see OP codes
... the Roma minority.				
... older workers.				
Employment is also low among youth.				
... mothers with small children.				
An important cause of OR barrier to employment is slow growth or no growth in labour intensive activities.				
... is the unpredictable business environment.				
... are high taxes on labour / high minimum wages.				
... is that those receiving social assistance do not want to work.				
... is that welfare recipients (parental leave, disability pension etc) are not looking for work.				
... the small business sector, who could higher low skilled workers, is underdeveloped.				
... the services of job centres are too few / to low quality.				
Measures to promote employment growth (reduction of unemployment) should not distort the market				
Mentions other factors as a main cause of low employment, e.g.: .....				

OP codes:

1- reporter/journalist 2 – representative of the line ministry, as interviewee 3 – (representative of the) line ministry, quoted by the author or the interviewee (watch out for shifts in which ministry was responsible for employment policy) 4 - representative of another ministry, as interviewee 5 – representative of another ministry, quoted 6 – external labour market expert as interviewee 7 – external labour market expert, quoted 8 – representative of a local government or a mayor as interviewee 9 – representative of a local government, quoted 10 – representative of a union as interviewee 11 – union, quoted 12 – employer as interviewee 13 – employer, quoted 14 – representative of an international organisation as interviewee 15 – representative of an international organisation, quoted 16 – other, namely: .....

*Code sheet 2. Expectations of the ministry responsible for employment policy*  
*This sheet must be completed for all articles in which*  
*(a representative of) the ministry is mentioned or interviewed.*

Name, date and issue of the newspaper, page, length, author of the article, name and position of interviewee				
Views to be identified	Number of paragraphs where it is mentioned	Weight of all mentions in article (tenths)	Place of first mention: (1) first quarter (2) middle (3) last quarter	Whose opinion is it? > see OP codes
High unemployment is a grave problem.				
Unemployment is a natural phenomenon in a market economy.				
Low employment / high rate of inactivity is a grave problem.				
The main goal is to prevent the rise of unemployment so that social tensions do not lead to unrest.				
The decline of labour force participation and the rise in early pensions cost a lot, especially in the long run.				
The main task of the ministry responsible for employment policy is to reduce unemployment or prevent its further rise (e.g. by protecting existing jobs.)				
The main task of the ministry responsible for employment policy is to ease social tensions, provide unemployment benefit, reduce or prevent poverty.				
Employment growth depends on economic policy / external demand for exports / etc.				
Employment subsidies should be spent efficiently.				
The ministry responsible for employment policy should calculate the expected costs and benefits of employment measures.				
... evaluate the impact and the efficiency of policy measures.				
Mentions other tasks / expectations of the ministry, namely: .....				

## 8. APPENDIX

### 8.2. METHODOLOGY OF THE INTERVIEWS



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The interviews made for this volume were intended to gain some information on issues relevant to the past two decades of employment policy that are not available in existing sources. The supplementary material from the interviews was used especially in the following chapters:

- 2.1. The role and significance of labour affairs in the system of government institutions
- 2.2. Wage and taxation policies
- 2.4. Local government
- 3.1. Decision making at the national level
- 3.2. The information base of policy making, impact assessment
- 3.3. Organizational capacity, organizational learning
- 6.1. Informing jobseekers and employers – toolkit
- 6.2. Informing jobseekers and employers – interests

The interviews were made by Lajos Bódis, Zsombor Cseres-Gergely, László Neumann, Ágota Scharle and Balázs Váradi between June 2011 and February 2012.

As a basis for selecting the persons to be interviewed, we considered their past experience of the formulation of employment policies and the following criteria:

- their experience in the formulation of policies and decision making should cover all or most of the past twenty years, and especially the years not documented by other sources;
- they should include public servants, politicians and experts representing unions and employers in the tripartite negotiations;
- the public servants should have experience in various positions including positions in related ministries (finance, welfare, economy) that are involved in formulating decisions of employment policy;
- the politicians should include representatives of various parties;
- they should not be in a position at the time of the interview that would limit their ability to give sincere answers;
- for those interviewed about local level practices: they should have in depth experience of several relevant areas and of several years.

The interviews typically lasted 60 to 90 minutes (in two cases, we had two such sessions) and took the form of structured or semi-structured interviews

depending on the position of the interviewee and the nature of the issues we sought to explore. With a few exceptions, the interviews were recorded and we took written notes as well. We promised interviewees to keep all documentation confidential.

## INTERVIEWEES

	Name	Position(s) relevant to employment policy*
1.	Busch, Irén	public servant in the public employment service, 1990–2010
2.	Csizmár, Gábor	secretary of state, 2002–2004 and 2006–2010, minister, 2004–2006
3.	Dávid, Ferenc	expert and executive of employers' chamber, 1990–2010
4.	Garzó, Lilla	secretary of the employees' side of NCRI, 1991–1994, vice secretary of state, senior public servant, 1995–1998 és 2003–2010, expert to the parliamentary fraction, 2001–2002, MSZP
5.	Gyurcsány, Ferenc	prime minister, 2004–2009, MSZP
6.	Hanti, Erzsébet	expert of employees' union 1991–2010
7.	Herczog, László	public servant, senior public servant 1990–2009, minister, 2009–2010
8.	Kajdi, László	public servant, 1990–2010
9.	Nagy, Judit	public servant, 1990–2010
10.	Óri, János	public servant, 1990–2010
11.	Óry, Csaba	executive of employees' union, 1990–1994, expert of parliamentary fraction, 1994–1998, secretary of state, 1998–2002, member of parliament, vice president of the parliamentary committee for employment policy, 2002–2006, Fidesz
12.	Pataki, Péter	expert of employees' union, 1990–2004, executive of employees' union 2004–2010
13.	Pirisi, Károly	public servant, senior public servant, 1990–2010
14.	Pulay, Gyula	senior public servant, (vice) secretary of state, 1990–2006
15.	Szarvas, Sándor	senior consultant, project manager, 1990–2010
16.	Szalay-Berzeviczy, Gábor	member of parliament, 1990–2006, secretary of state of the ministry for the economy, 2002–2003, SZDSZ
17.	Zalai, Mária	expert of employees' union, 1990–1995, public servant, head of minister's cabinet, senior consultant, 2002–2010, MSZP

\*Dates refer to the periods spent in the given position, party affiliation is given only in the case of politicians.

Note: NCRI = National Council for the Reconciliation of Interests (OÉT).

Concerning local level practices (chapters 2.4., 3.3., 6.1., 6.2.) we interviewed 16 persons. Interviewees were granted anonymity, thus we only disclose their positions: five of them are heads of a local job centre, six of them have been senior executives of the public employment service at county or region level (three of them had been directors of a regional centre and two of them have retired); two of them have held senior positions in human resource management at the county level (one of them has retired since), three of them have held executive positions at the national headquarters of the employment service. The interviews typically covered several issues and on average lasted around 2-3 hours.

## ISSUES COVERED IN INTERVIEWS WITH EMPLOYEES OF THE LOCAL PUBLIC EMPLOYMENT SERVICE

These interviews focused on cooperation with local municipalities and services operated by them, especially concerning policies to increase employment, reducing the cost of commuting to the workplace, the interests of local agents, the role of local job centres (e.g. in collecting information to revise the time table of local public transport, determining the opening hours of the nursery or kindergarten, organising public works, establishing and managing local employment partnerships).

Concerning organisational capacity and learning, we focused on factors influencing staff numbers in the past twenty years, forms of contracting local staff, local conditions determining the allocation of tasks and caseload, recruitment, selection, training and re-training of staff, human resource conditions of methodological development, career development, the use of the internal quality assurance system, and the measurement of local performance indicators for the management by objectives system. For all these issues, we sought to explore local experiences, interests and interpretations.

As regards informing job seekers and employers, the interviews focused on the use of available information on demand for occupations, the practice of registering vacancies and placing job seekers and the related interests of the local job centre, the use of formal and informal procedures, and the priorities in the provision of information services.

## THE STRUCTURE OF INTERVIEWS WITH ACTORS AT THE NATIONAL LEVEL – ADJUSTED TO THE POSITION OF THE INTERVIEWEE AND TO TIME CONSTRAINTS

- o. Introduction: aim of the interview, introductions, explaining our invitation to the interview
  - o.1 Brief review of their career: positions held, time periods

[The following questions were repeated for each governmental cycle.]

1. Relations between the government and the line ministry
  - 1.1. In your opinion, what was/were the main goal(s) of the government regarding employment, if any?
  - 1.2. According the government's programme, their main goal was *<this and that >*. Was this maintained during the cycle, and if not, how did it change?
  - 1.3. What did the government expect of the line ministry and secretaries of state? Was there any change in this during the cycle?
  - 1.4. What was the political ambition of the minister(s)? What priority did (s)he give to reaching the policy goals of the ministry (cf the above mentioned goals of the government)?
  - 1.5. Which ministry / state secretariat did your views/interests conflict with? Who lost in these conflicts? Why?

- 
- 1.6. Where were these conflicts fought: at the meeting of state secretaries, the government, party leadership, party fraction, other?
  - 1.7. What sources and types of information did you use at each phase of the policy cycle (agenda setting, preparation, implementation, evaluation)
  - 1.8. The following questions were asked in relation to a concrete policy decision that was important during the given policy cycle.
    - What was the aim of the measure?
    - Who initiated it?
    - Who supported/opposed it and why?
    - How much did it cost? How was it financed?
    - How was it prepared (negotiations, *ex ante* impact analyses, previous or international experiences)?
    - How was the implementation planned?
    - Was it considered a success at the end of the cycle? If so, how was this success measured?
    - Retrospectively, to what extent do you consider it a success?
2. Relations between the minister and their staff
    - 2.1. Who was well informed of all details, who was politically a „strong man“ at the ministry?
    - 2.2. How much did the minister and the vice-secretaries understood policy issues?
    - 2.3. How adequately were they briefed?
    - 2.4. How competent was their staff at the ministry (public servants)? Please compare that to other ministries (if you have adequate experience)! Were there any attempts to increase the level of staff competence (e.g. by training or recruitment)?
    - 2.5. Did the ministry rely on external experts in decision making? Who, when, in what role?
    - 2.6. Did independent research by labour economists had any influence on the decisions of the ministry? If so, please mention some authors, papers, examples.
  3. Implementation
 

Please describe changes in the relations between the headquarters of the public employment service and the local offices.
  4. Wage bargaining and consulting social partners
    - 4.1. Please describe the wage policies and priorities of the unions since 1994. What were the main changes during this period?
    - 4.2. For each political cycle, for one particular measure: Who initiated it, what was the aim? Was it supported by the unions and the employers? Why? Why not?
    - 4.3. In your view, how did this measure affect employment?
    - 4.4. What was the role and content of NCRI wage negotiations in this cycle?
    - 4.5. What did you, and the parties you represented think of the following plans and measures?
      - Reducing the number of income tax brackets, valorisation
-

- (repeatedly since 1990)
- Reducing the top rate of the personal income tax (repeatedly since 1999)
  - Introducing a flat income tax regime (2011)
  - Reducing the personal income tax (PIT) for the average wage (2010)
  - Reducing or abolishing the low wage tax credit
  - Cutting social security contributions (repeatedly since 2000)
  - Introducing/increasing/abolishing the flat rate health contribution (various measures and recommendations since 1997)
  - Taxing perks (since 2009)
  - Reducing tax credits and exemptions in the tax system
  - Changes in the value added tax (2006–2008)
  - Introducing the regional differentiation of the minimum wage (OECD)
  - Introducing family taxation
  - Abolishing taxes that generate a negligible revenue
  - Simplifying the tax system, cutting red tape
  - Introducing a notional tax base so that PIT is levied on the total wage cost, rather than the gross wage

#### 5. Hypotheses in a closed form

Please fill in the questionnaire below. Line ministry refers to the ministry responsible for employment policy.

	Not true at all	To some extent - yes	Fully agree	Nea Don't know m tudom	Notes
The line ministry held some training course in statistics, econometrics, or economics during the past twenty years.					
The employment service held some training course in statistics, econometrics, or economics during the past twenty years.					
The level of competence of the ministerial staff was above average (compared to other ministries).					
The line ministry had difficulties in accomplishing complicated tasks, partly due to lack of expertise, partly due to weak coordination between ministries.					
In 1990–1994, the main goal was to curb the growth of unemployment and prevent social unrest, no matter what it cost.					
In 1990, almost nobody understood that the decline of labour market participation and early pensions would cost so much					
The benefits of employment policy are understood only by the experts – politicians do not really believe in it.					
The main concern of the line ministry was to reduce unemployment and they waited for economic policy to increase employment.					

	Not true at all	To some extent - yes	Fully agree	Nea Don't know m tudom	Notes
In the media, the performance of the line ministry was measured mostly in terms of the unemployment rate.					
The welfare to work reforms of 1998/1999 and 2008/2009 were urged/supported by local governments, so that they would have a tool for reducing social tensions at the local level.					
The line ministry tended to have a weak position in negotiations within the government.					
Most politicians did not trust civil servants: they regarded experts to be a barrier to implementing political decisions.					
In 1998–2002, the conservative government purposely aimed to restrict the role of public administration to designing implementation.					
In 2006, the abolition of the position of deputy state secretary was intended mainly to suppress the opposition of civil servants to unprofessional instructions of politicians.					
Employment is a function of economic development – it will only increase when the economy is growing.					
Flexicurity, activating the unemployed, targeted wage subsidies and other measures may increase employment even when economic growth is slow.					

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Turnpenny-Kozma, Ágnes	Chapter 4.2
Unger, Imola	Chapters 4.1 and 6.2

ISBN 978-615-5243-16-5

Publisher © Budapest Institute for Policy Analysis and Institute of Economics, Hungarian Academy of Sciences

Graphic design: anagraphic

Language editor: Clive Liddard

Photo credit: Attila R. Kovács (colour photo) and Ágota Scharle (black and white photo)



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