

# ADMINISTRATIVE BURDEN OF EMPLOYMENT IN HUNGARY

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The impact of red tape on employment is of particular importance in Hungary. The low level of employment and the closely related problem of the chronic budget deficit, along with the weakening competitiveness and growth potential of the economy provide a strong incentive to study all possible circumstances and policies that may contribute to the demolition of the barriers which hinder employment.

The administrative burden hits twice: first via its restraining effects on the growth of small businesses, and second, via its direct effects concerning employment. In Hungary, one of the main causes of low employment is the long-lasting decline in the demand for unskilled labour, which can be largely attributed to the fact that the small business sector, which could provide work for the unskilled masses dismissed by the downsized socialist industry, did not revitalize after the change of system, or at least not fast enough. With the current level of average productivity, full employment could only be achieved if the small business sector were three times the size as it is now, as suggested by Maloney (2004). One of the significant restrictions on the expansion of small businesses and family businesses is administration: the administrative burden, which is particularly large for smaller businesses, and which raises the expenses of new entrants, and the operating costs of incumbent enterprises alike.

Administrative duties also have a direct influence on employment. Even though regulations and their administration concerning the hiring, firing, wages, working hours, safe working conditions of the employees are mostly socially useful and reasonable, they also involve expenses greater than the price measured in the wage costs of form-filling. The raising of relative labour costs distorts the decisions of economic actors, the administrative restraints on market entry restricts competition (and hence the efficiency that stems from it), and the administration that raises transaction costs can slow the allocation of resources and divert them from what would be optimal.

The chapter begins with a brief review of the relevant theoretical and empirical literature, which is followed by an analysis of the Hungarian situation, based on a corporate survey conducted in 2009. The next section explores the main mechanisms that bring the burdens into existence, using interviews made with a few high level actors in public administration. The chapter ends with recommendations on reducing the administrative burden.

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