From Pensions to Public Works - Hungarian employment policy from 1990 to 2010

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 harmonizing labour market demand and supply, and the sixth with reducing the indirect costs of hiring and employment. After the core parts comes a Statistics section 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, 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.

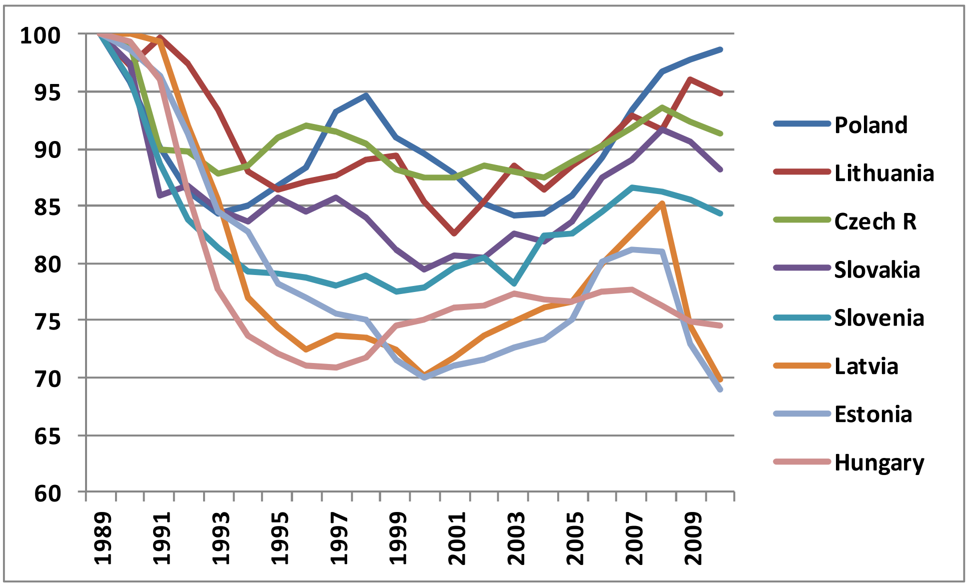
1. Diagnosis and lessons

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.

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 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,[1] 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 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.[2] 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.

The majority of the long-term unemployed are unqualified or middle-aged/elderly people, and those living 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

[1] From 52.4 per cent in 1997 to 57.3 per cent (*Source*: Labour Force Survey of the Central Statistical Office, annual data).
[2] Controlling for composition effects does not modify the findings, i.e. the characteristics mentioned have their own impact on employment (Scharle, 2008).

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.

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, 2007).

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 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 to real wages. 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 network of roads (see Chapter 5.1 and Chapter 4.4). 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 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.).[3]

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 also the main causes of the reproduction of poverty. Not only does the average Hungarian school not reduce the

[3] 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.

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 that 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).

1.2. 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,[4] 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 (*s*tabilization, *l*iberalization, market-compatible *i*nstitutional transformation and *p*rivatization)

4 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).

promoted by Western economic and business 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[5] 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.[6] 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

[5] 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.)

[6] The Visegrád region includes the Czech Republic, Hungary, Poland and Slovakia.

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 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 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.

1.3. 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 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.

1.4. 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.

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 3.3).

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 Chapters 4.1 and 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. 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.

References

Balogh, Anikó–Róbert, Péter (2008): Foglalkozási mobilitás Magyarországon, 1992–2007. In: *Kolosi Tamás-Tóth István György* (ed.): Társadalmi riport, 2008. Tárki, Budapest, pp. 46–65.

Bartha, Attila (2010): Kormányzati hatékonyság és üzleti környezet: adalékok a növekedés intézményi magyarázatához. In: *Kolosi Tamás–Tóth I. György* (ed.): Társadalmi Riport, 2010. Budapest: Tárki, pp. 176–191.http://www.doktori.econ.unideb.hu/download/pdf/kutatasiforum/2011jan/BarthaAttilaKF.pdf

Bartha, Attila (2011): A gazdasági-politikai stabilitás, a vállalkozói kultúra és az oktatás kiemelt szerepéről. Kisvállalkozások és gazdasági növekedés Magyarországon. Körkérdés a kis- és közepes vállalatok gazdaságélénkítésben betöltött szerepéről. Külgazdaság, vol. 55. no. 1–2. pp. 3–6.

Berde, Éva–Scharle, Ágota (2004): Akisvállalkozók foglalkozási mobilitása 1992 és 2001 között. Vol. 51. no. 4. pp.346–361. http://epa.oszk.hu/00000/00017/00103/pdf/3bsch.pdf

Csaba, László (2002): A magyar modell. Tündöklés és bukás. Competitio, vol. 1. no. 1. pp. 2–12. http://www.econ.unideb.hu/userfiles/File/tudomany/competitio/folyoirat/1evfolyam_1szam/Csaba_Laszlo%20 2_12%20old.pdf

Csák, Roland (2007): Családsegítők és a munkanélküliség problémája. In: Kapocs Kutatás Fejlesztés, különszám, 1. pp. 40–48.

Csillag, István (2009): Van-e visszaút? A gazdasági növekedés tényezőit felemésztő koraszülött jóléti állam. Közgazdasági Szemle, vol. 56. no. 7–8. pp. 648–672.http://web.kvif.bgf.hu/upload/subject/doc/20090922145107V_Csillag_Istvan_Van-e_visszaut.pdf

EBRD (2010): Transition Report 2009. Transition in crisis? European Bank for Reconstruction and Development, http://www.ebrd.com/downloads/research/transition/TR09.pdf

Elek, Péter–Scharle, Ágota–Szabó, Bálint–Szabó, Péter András (2009): A bérekhez kapcsolódó adóeltitkolás Magyarországon. Közpénzügyi füzetek, no. 23. ELTE TÁTK, Budapest. http://tatk.elte.hu/component/docman/doc_download/1462-a-berekhez-kapcsolodo-adoeltitkolas-magyarorszagon

Fazekas, Károly (2001): Az aktív korú állástalanok rendszeres szociális segélyezésével és közcélú foglalkoztatásával kapcsolatos önkormányzati tapasztalatok. BWP, 2001/9. http://www.econ.core.hu/doc/bwp/bwp/bwp0109.pdf

Gábor R., István (1997): Too Many, too small: Small entrepreneurship in Hungary. Ailing or prospering? In: *Grabher, G.–Stark, D.* (ed.): Restructuring networks in post-socialism: legacies, linkages, and localities. Oxford University Press, Oxford, pp. 158–175.

Gábor R., István–Galasi, Péter (1981): A második gazdaság. Közgazdasági és Jogi Könyvkiadó, Budapest.

Galasi, Péter–Nagy, Gyula (1999): Outflows from insured unemployment in Hungary, 1992–1996. Budapest Working Papers on the Labour Market. BWP 1999/3. http://www.econ.core.hu/doc/bwp/bwp/bwp993.pdf

Harasztosi, Péter (2011): Growth in Hungary 1994-2008: The role of capital, labour, productivity and reallocation. MNB Working Papers, 12/2011. http://www.mnb.hu/Root/Dokumentumtar/ENMNB/Kiadvanyok/mnben_mnbfuzetek/WP_2011_12.pdf

Havas, Gábor (2009): Equality of opportunity, desegregation, In: Károly Fazekas-János Köllő-Júlia Varga (eds.): Green Book for the Renewal of Public Education in Hungary. Ecostat, Budapest, pp. 131-149

ILO (2011): ILO LABORSTA Labour Statistics Database Table 2A Employment, general level http://laborsta.ilo.org

IMD (2009): World Competitiveness Yearbook 2009. Institute for Management Development, Lausanne.

Kármán, András (2008): A magyar költségvetés kiadási szerkezete nemzetközi összehasonlításban. Hitelintézeti Szemle, vol. 7. no. 6. pp. 665–678. http://www.bankszovetseg.hu/anyag/feltoltott/HSZ6_karman_665_677.pdf

Kertesi, Gábor (2005): A társadalom peremén. Romák a munkaerőpiacon és az iskolában. Osiris Kiadó, Budapest.

Kertesi, Gábor–Köllő, János (2003): Fighting “Low Equilibria” by Doubling the Minimum Wage? Hungary’s Experiment. IZA Discussion paper No.970. http://ftp.iza.org/dp970.pdf

Köllő, János (2009): A pálya szélén. Iskolázatlan munkanélküliek a posztszocialista gazdaságban. Osiris, Budapest.

Köllő, János–Scharle, Ágota (2011): A közcélú foglalkoztatás kibővülésének hatása a tartós munkanélküliségre. In: *Fazekas Károly–Kézdi Gábor* (ed.): Munkaerőpiaci Tükör, 2011. MTA Közgazdaságtudományi Intézet–Országos Foglalkoztatási Közalapítvány, Budapest, pp. 144–160. http://www.econ.core.hu/file/download/mt_2011_hun/kozelkep.pdf

Kolodko, G.W. (2000): Globalization and Catching-Up: From Recession to Growth in Transition Economies, IMF Working Paper No. 00/100 http://www.imf.org/external/pubs/ft/wp/2000/wp00100.pdf

Kopits, György (2008): Saving Hungary's Finances. Budapest's Four-steps Plan for Fiscal Alcoholics. The Wall Street Journal, december 4. http://online.wsj.com/article/SB122833696970376717.html

Kornai, János (1992): The Postsocialist Transition and the State: Reflections in the Light of Hungarian Fiscal Problems, In: American Economic Review, Papers and Proceedings, May 1992, Vol. 82, No. 2, pp. 1-21.

Kornai, János (2005): The Great Transformation of Central and Eastern Europe: Success and Disappointment, In: The Economics of Transition, 2006. Vol. 14, No. 2, pp. 207-244. http://www.kornai-janos.hu/Kornai2006%20The%20great%20transformation%20--%20EconTrans.pdf

Kőrösi, Gábor (2005): A versenyszféra munkapiacának működése; KTI Könyvek, no. 4. MTA-KTI, Budapest, http://mek.niif.hu/03600/03669/03669.pdf

Laky, Teréz (1998): A kisvállalkozások növekedésének korlátai. Szociológiai Szemle, no. 1. pp.. 23–39. o. http://www.mtapti.hu/mszt/19981/laky

Maloney, W. F. (2004): Informality revisited. World Development, Vol. 32. No. 7. 1159–1178. o.

http://natlex.ilo.ch/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/meetingdocument/wcms_161330.pdf

Molnár, György–Kapitány, Zsuzsa (2007): Welfare recipients' satisfaction with their lives and income position, In: Fazekas Károly-Cseres-Gergely Zsombor-Scharle Ágota (ed.): The Hungarian Labour Market. Review and Analysis, Institute of Economics, HAS, Hungarian Employment Foundation, Budapest, pp. 50-52. http://econ.core.hu/file/download/mt/4_infocus.pdf

Nagy, Gyula (2008): Önkormányzati szociális segélyezés. In: *Nagy Gyula* (ed.): Jóléti ellátások, szakképzés és munkakínálat. KTI Könyvek, no. 10. MTA KTI, Budapest http://www.econ.core.hu/file/download/ktik10/ktik10_3_onkormanyzat.pdf

NMIKK (2011): Konjunktúrajelentés, Magyarország 2011. Német–Magyar Ipari és Kereskedelmi Kamara (DUIHK) (Letölthető: http://www.ahkungarn.hu/fileadmin/ahk_ungarn/Dokumente/Bereich_CC/Publikationen/Konjunktur/2011/DUIHK_Konjunktura_2011_hu.pdf. Downloaded: july 20, 2011.)

OECD (2010): Supporting labour demand. OECD Position Paper, 2010. július http://www.oecd.org/dataoecd/13/37/45794539.pdf

Róbert, Péter (1994): Egyenlőtlenségtudat. In: *Andorka Rudolf–Kolosi Tamás–Vukovich György* (ed.): Társadalmi riport, 1994. Tárki, Budapest, pp 311–333.http://www.tarki.hu/adatbank-h/kutjel/pdf/a916.pdf

Scharle, Ágota (2008): Foglalkoztatás, intézményrendszer és foglalkoztatáspolitika. in: *Kolosi Tamás–Tóth István György* (ed.): Társadalmi riport, 2008. Tárki, Budapest, pp. 257–289. http://www.tarsadalomkutatas.hu/kkk.php?TPUBL-A-817/publikaciok/tpubl_a_817.pdf

Scharle, Ágota–Váradi, Balázs (2009): A területileg differenciált minimálbér indokoltságának vizsgálata. Budapest Intézet, Budapest, http://www.budapestinstitute.eu/uploads/BI_NFU_regiosminber_091021.pdf

Seibert, H. (2006): Locational Competition. A Neglected Paradigm in the International Division of Labour. The World Economy, Vol. 29. No. 2. 137–159. o. http://kms1.isn.ethz.ch/serviceengine/Files/ISN/102030/ipublicationdocument_singledocument/76dad573-3a00-44e8-b3e3-24340fb9a4b1/en/kap1258.pdf

Semjén, András–Tóth, I. János (ed.) (2009): Rejtett gazdaság. Be nem jelentett foglalkoztatás és jövedelemeltitkolás – kormányzati lépések és a gazdasági szereplők válaszai. KTI Könyvek, 11. sz. MTA Közgazdaságtudományi Intézet, Budapest http://www.wargo.hu/tij/news/ktik11_rejtett_gazdasag.pdf

Tarjáni, Hajnalka (2004): A szakképzettség-intenzív technológiai változás hatásának becslése a tényezőkeresleti rugalmasságokra Magyarországon, MNB Műhelytanulmány, 2004/3 http://www.mnb.hu/Root/Dokumentumtar/ENMNB/Kiadvanyok/mnben_mnbfuzetek/mnben_wp0403/wp2004_3vv.pdf

Varga, Júlia (2006): Humántőke-fejlesztés, továbbtanulás felnőttkorban, "skill"-ek és kompetenciák. In: Kolosi Tamás – Tóth István György – Vukovich György (Eds.): Társadalmi Riport TÁRKI. Budapest, 2006

WEF (2008): The Global Competitiveness Report. 2008–2009. World Economic Forum, Genf, https://members.weforum.org/pdf/GCR08/GCR08.pdf

WEF (2009): World Economic Forum: The Global Competitiveness Report. 2009–2010. World Economic Forum, Genf, http://www.ioe-emp.org/fileadmin/user_upload/documents_pdf/globaljobscrisis/generaldocs/gendocs_wefreport.pdf

WEF (2010): World Economic Forum: The Global Competitiveness Report. 2010–2011. World Economic Forum, Genf, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

WEF (2011): World Economic Forum: The Global Competitiveness Report. 2011–2012. World Economic Forum, Genf, http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

World Bank (1996): From plan to market. The World Development Report. Washington D.C. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/1996/06/27/000009265_3961214181445/Rendered/PDF/multi0page.pdf

WBG (2009): Doing Business 2010. Comparing regulation in 183 economies. World Bank Group, http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB10-FullReport.pdf