

Social Quality and the Policy Domain of Employment

Hungarian National Report

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Defining flexibility and security

European labour market patterns tend to contain the increasing share of flexible employment, that deviates from the secure, life-long labour force careers. What do we mean by flexible work? *Dex and McCullogh* (1997) offered the following definition:

“Flexible work ... is a description of a change in the distribution of labour market jobs, away from standard full-time permanent employee contracts, and towards a growth in various types of non-standard employment forms.”

Pollert (1988) argued that flexibility refers to a combination of the different factors. It involves the firms being flexible enough to be able to respond efficiently and quickly to the technological and economic changes; as well as it means the organisations that are flexible in terms of number of employees. In addition, it refers to a workforce that is multiskilled and/or flexible with regard to time. This may result in the trend for firms to retain the “core” employees who are flexible in their labour, and a periphery of employees who are flexible because they are irregularly employed. The result of this process that employment is no longer as stable as it was. The development of the new, flexible labour market undermines the security leading to the so-called “risk society” (*Crompton et al.*, 1996).

The accelerating diffusion of technological innovations increases the pace of changes in job as well as industrial distribution in modern societies. The structural changes will result in mobility flows from declining sectors and mobility flows into expanding occupations (*DiPrete et al.*, 1997). However, employees leaving the declining industries are not necessary the same who can take a job in expanding ones. Thus, the same process of structural changes may induce diverse employment mobility patterns within various societies. Thus, it is important to investigate the impact of nation-specific institution on the individuals’ employment opportunities.

Labour markets differ in the nature of the industrial relations between employers and employees. These differences may produce national variations in employment structures. There are countries where employees are relatively unprotected against the uncertainties of the market (the industrial relations are decentralised and based on the free market). The consequences of this unconstrained competition may be as follows: For youngsters the process of entry into labour force is rather smooth; the rate of job mobility is relatively high; short duration of unemployment spells; the different forms of precarious employment (jobs with fixed-term contract, part-time employment, temporal work) are quite evenly spread among various social groups.

Another group of the modern societies may be characterised by the so-called “closed employment relationship”, where labour market mechanisms are centralised. In such system the “core” employees are relatively shielded against the uncertainties of the market. Thus, the increasing economic risks may concern the social groups outside the labour force (young people who want to enter the labour market, mid-career unemployed persons who want to find a job, women who would like to re-enter the labour market after childbearing, etc.). So, the main consequences of the “closed” employment system are as follows: for youngsters the entry into labour force is problematic; the rate of job mobility is quite low; the duration of unemployment is relatively long; the precarious forms of employment are concentrated in specific groups seeking access to the labour market.

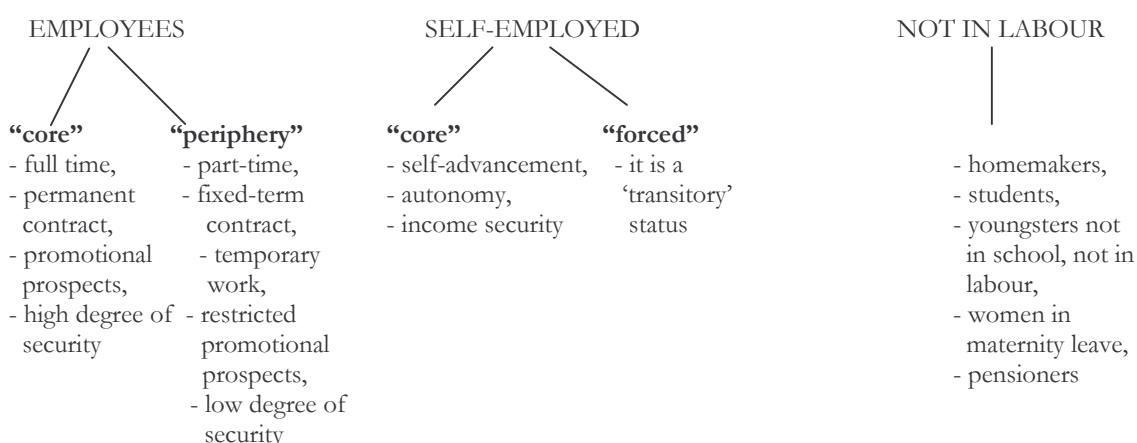
The spread of the different forms of flexible employment may result in a relative increase in social inequalities (*Breen*, 1997). Employers may try to shift their market risks

increasingly back to those groups of employees who have profited from the spread of long-term labour contracts during the period of the economic growth (for instance routine non-manual employees, lower grade technicians, supervisors of manual workers). A further effect of flexibility could be that indicators of the employment relations typical for the working class – poor promotion prospects, higher risk of unemployment and so on – now may be applied to the specific non-manual, intermediate occupations (*Rubery, 1996*).

There is another set of problems to be considered: the nature of self-employment. According to the empirical evidences, self-employment is a growing and diverse sector (*Winch, 1994*). On the one hand, self-employment provides opportunities for entrepreneurship, self-advancement, autonomy; on the other hand, it is necessary to distinguish those who choose self-employment in a situation where regular employment is not available.

Summarising the above-mentioned arguments, the different employment forms can be captured as follows:

Figure 1. The structure of the flexible labour market



Flexibility and security in Hungarian context

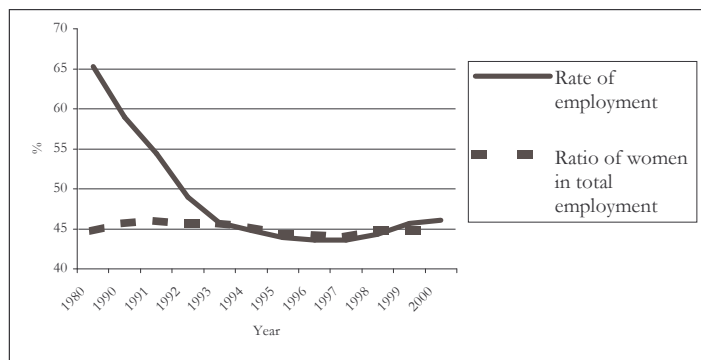
Employment

The institutions of the labour market in Hungary have undergone significant changes during the 1990s. These institutional changes were embedded in an economic depression. In fact, economic difficulties started already in the 1980s but the collapse of communism has brought about a further significant fall in the economic performance of the country. The economic problems resulted in a decline in labour force participation (Figure 2.), an increase in unemployment (especially among young adults), and a drop in GDP with obvious consequences for the state budget and welfare spending.

Whereas the proportion of women in the Hungarian population has been permanently higher than that of men, the female participation rate has been lower. In 1999, the share of woman participating in the labour force was 45 percent (Figure 2.). The low female

participation rates are partly due to the temporary withdrawal of women on childcare leave from the labour market and partly to the lower retirement age of women. However, these facts cannot fully explain the modest labour market participation of females. Another explanation may be the low incidence of flexible working forms in Hungary.

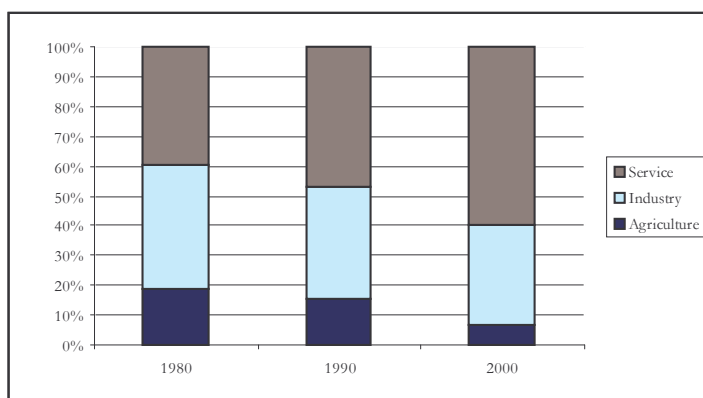
Figure 2. Employed persons as percentage of population aged 15-74



Source: Hungarian Labour Force Surveys

Structural changes in the Hungarian economy over the last decades have strongly influenced the demand side of the labour market. Agricultural employment decreased continuously and, on the whole, the country moved in the direction of an industrial society. Whereas these processes took place mostly during the 1960s and 1970s, employment in the service sector only started to increase in the 1980s and 1990s when more and more jobs became available in the tertiary sector compared to the traditional secondary (or even primary) sector (Figure 3.). However, it is important to note, that the increase in the share of service sector workers over the 1990s was not caused by higher living standards and an increasing demand for services but was due to the transformation-related crisis. This is to say that the massive job losses of the early 1990s affected mainly agriculture and industry. Some jobs were lost in the services sector, but its share in total employment increased throughout the transformation period.

Figure 3. Distribution of employed population according to the branch of industry



Source: Hungarian Labour Force Surveys

The emerging cleavage between the growing private and shrinking public sector is another new development of the post-communist era. Trends of employment in these two spheres have moved in opposite directions, with employment in the public sector down to 36 per cent while that in the private sector up to 58 per cent by the year 2000 (6 per cent of employment cannot be entirely classified according to this scheme). The private sector dominates in manufacturing, construction and a large part of services, whereas typical public employers can be found in administration, education and health. Although the private sector is more selective, in public employment there are strong budget constraints, new job openings are scarce and, consequently, fixed-term employment is more frequent.

Globalisation evidently leads in all modern societies to a decline of the national character of the economy, and this process was especially rapid in Hungary during the 1990s. Starting from nothing (considering the socialist period before 1990 as a baseline), the share of partially or totally foreign-owned enterprises was already 43 per cent in 1995, and 65 per cent in 1997 (*Árva*, 1999). This means that young job seekers are entering a labour market where both local and foreign multinational employers exist with different expectations and wage compensation offers.

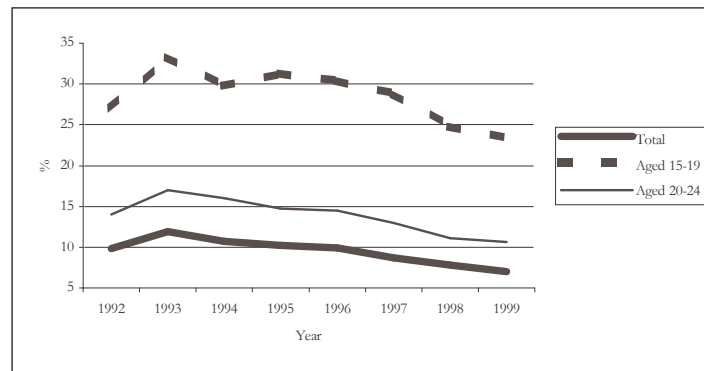
Unemployment

As mentioned above, due to the economic depression there was a strong decline in employment possibilities in Hungary in the first part of the 1990s. Under socialism unemployment had been completely unknown, and it is no wonder then that the society was shocked by two-digit unemployment rates which reached their highest level (13 per cent) in 1992. During the second half of the 1990s, however, the unemployment rate dropped to one-digit figures (around 7-8 per cent). In contrast to most EU Member Countries, male unemployment (7.5%) in Hungary was somewhat higher than female unemployment (6.3%). However, it would be a mistake to conclude that women enjoy a more favourable labour market position than men. When assessing the situation of women, economic activity should also be considered (*Labour Research Institute*, 1998).

Figures of the Labour Force Survey indicate that the ratio of long-term unemployed showed a modest decline over the second half of the 1990s. The share of those being out of job for more than one year was almost 50 percent of the unemployed in 1999. This means a drop of about 5 percent relative to 1996. In the EU long-term unemployment has been measured as a percentage of the economically active population since 1998. The so-calculated Hungarian ratio of long-term unemployment – in the population aged 15-64 – was 3.1 percent, as opposed to the EU average of 4.9 percent (*Labour Research Institute*, 2000).

Youth unemployment in the EU fell from 21.5 percent of 1995 to 17.9 percent in 1999, but is still more than twice as high as the overall unemployment rate. A similar tendency was observed in Hungary over the same period. By 1999 unemployment rate dropped to about 23 percent among the 15-19 year-old, and about 10 percent in the age group of 20-24. The youth unemployment rates are still significantly higher than the 7 percent overall unemployment rate (for the 15-74 year old labour force) (Figure 4.). The relative situation of young people seems apparently worse than the average and it is particularly so for those aged 15-19. The proportions of teenagers and young adults among those being out of labour for more than 6 months showed an increasing trend over the 1990s.

Figure 4. Youth unemployment

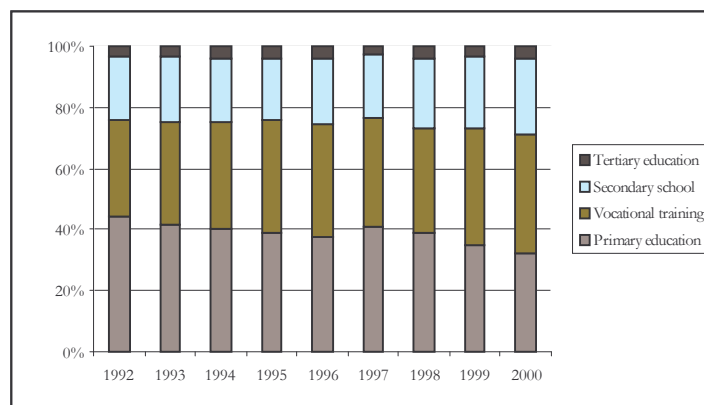


Source: Hungarian Labour Force Surveys

It is well known that low qualification levels are associated with labour market disadvantages. However, as reported by OECD, higher levels of education indicate significant differences between countries in the relative labour market advantage. The Thematic Review of the Transition from Initial Education to Working Life, launched by the OECD's Education Committee in 1996, has involved Hungary of the 14 participating countries. According to its findings, Hungary is one of the four OECD countries, in which, the gap in labour market outcomes between the highly educated and the poorly qualified is the greatest (OECD, 2000b).

In Hungary, 32.4 percent of the unemployed had maximum eight years of primary school (Figure 5.), while the corresponding ratio for active earners was 18.5 percent in 1999 according to the Labour Force Survey. The unemployment rate among those who have completed no more than elementary school was 16 percent compared to only 3 percent for those who have completed tertiary education.

Figure 5. Proportion of unemployed persons according to educational attainment



Source: Hungarian Labour Force Surveys

Unemployment benefit system

In Hungary the unemployment insurance is available for a limited period for an unemployed person. The maximum benefit is 65 percent of the average income for the past 4 years spent in employment. A minimum of 200 working days is required to access to this insurance. The maximum duration of it was gradually reduced from the initial 2 years to 9 months, as unemployment increased drastically in the early 1990.

Hungary provides unemployment assistance for those whose eligibility for unemployment insurance has expired. Unemployment assistance is a long-term unemployment benefit offered to those having a per capita household income below 80 percent of the minimum old-age pension. This assistance was of unlimited duration until 1995, when a 2-year limit to entitlement was introduced. In 2000, a new one replaced the old scheme: Those who are eligible for this benefit, or whose entitlement was approved by 30 April 2000, will receive it for 2 years under the old conditions. Those who are terminated from the benefit system and do not have access to public work schemes can apply for local social assistance. Under the new scheme, which is also means-tested, eligibility can be withdrawn if the unemployed person refuses an appropriate public works job.

The share of unemployed individuals receiving unemployment compensation of any kind has always been above 70 percent since 1991. However, it has been slightly declining in the past few years. Since 1994 the number of those receiving unemployment assistance has been growing, while the number of unemployment insurance recipients has fallen.

Over the 1990s, the average monthly amount of unemployment benefit has decreased steadily relative to the gross average earnings. In 1999, the ratio of average unemployment benefit to average gross earnings was almost 30% (*Labour Research Institute*, 2000). As a result of the decline in the generosity of unemployment benefits, coupled with recent minimum wage increases, the difference between the minimum wage and unemployment compensation has been increasing. Thus the present system of unemployment benefits is unlikely to reduce the job search incentive of the unemployed persons.

In response to the sharp rise in unemployment among young people in the early 1990s, a school-leavers' unemployment benefit scheme was introduced to help young people with at least secondary or tertiary education. The scheme was in operation between 1992 and 1996. Afterwards, the emphasis shifted toward more active labour market policies for youth. Three types of labour market assistance are now available for young persons: training courses, subsidized employment, and public works programs.

Part-time employment

Under the state socialist regime, incidence of part-time employment was extremely low, especially in the working age population. Although, part-time work could have played an important role in employment enhancing policies in course of the transformational crisis, no effort was made by the government to promote this form of employment. Instead, the government created incentives to leave the labour market (*Frey*, 2001). At the same time, attractiveness of part-time jobs was substantially reduced by the declining real wages.

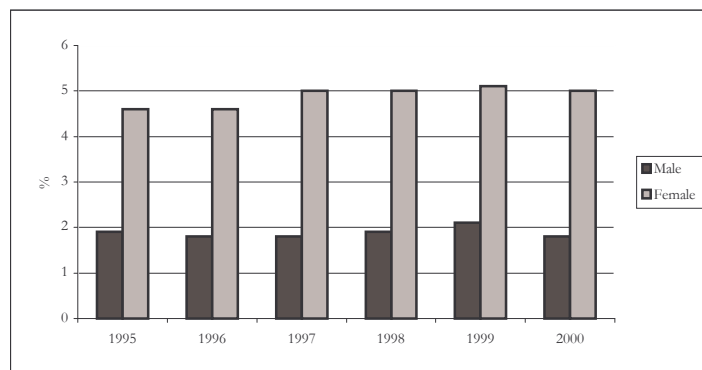
The incidence of part-time work in Hungary is very low compared to the EU countries. In 1999, the EU average for part-time employment was 16.4 per cent (*OECD*, 2000a). Employers in Hungary are reluctant to employ part-time workers mainly because of the

equal tax and social security contribution liabilities applying to full-time and part-time workers (Laky, 2000). A growth in part-time employment would provide an opportunity for the inactive to re-enter the labour market. (However, currently neither women on child-care leave, nor those on old-age pension are encouraged to return to the labour force.) The unemployed would also benefit from spread of part-time work. The 2000 Labour Force Survey shows that only a little more than half (53%) the unemployed insisted on full-time employment, while the rest would be ready to undertake a part-time job (Laky, 2000).

Surveys carried out by the Labour Research Institute among enterprises (including legal entities only) present data on part-time employment on a regular basis. According to the 1997 survey, the proportion of employees working shorter hours was around 2.1 percent of total employment, with 1.8 percent part-time workers among them. No significant difference was observed in the following year. In 2000, the share of those working less than the usual hours went up to 2.8 percent, including 2 percent part-time employees (Laky 2001).

Labour Force Surveys data—according to the ILO recommendations—indicate somewhat higher shares of part-time employment for the period 1996-2000 (Figure 6.). Part-time work in 2000 accounted for 3.5 percent of total employment, less than one-quarter of the EU average (16.4%). Similarly to the EU member countries, women's share in part-time employment was remarkably higher than that of men, fluctuating around 70 percent from year to year.

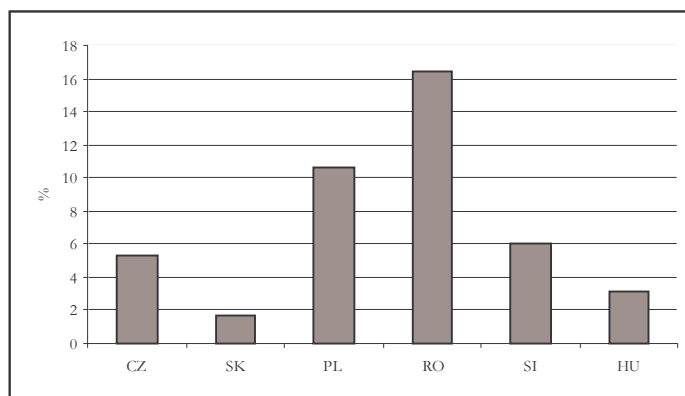
Figure 6. Part-time employees as percentage of employed population



Source: Hungarian Labour Force Surveys

Part-time employment is not very widespread in other Central European societies either. In 2000 less than 10% of the employed worked under such arrangements (Figure 7.). The extent of part-time employment varies substantially between countries, ranging from a share of 16% in Romania to 2% in Slovakia. However, there is no important relation between the level of part-time employment and either employment or unemployment rates.

Figure 7. Part-time employees as percentage of employed population
in several Central European countries



Source: European Commission (2001)

In 2000 Labour Force Survey respondents were asked to declare themselves as full-time or part-time workers. Figures show that only 3.9 percent of employers declared themselves as part-timers (2.9 % of men and 5.1% of women). Interestingly, almost half of them (47%) worked more than 30 hours per week.

In 2000, 6.3% of the employed (not including those working flexible hours) worked less than 40 hours per week. It is important to note, however, that this segment is not identical with part-timers. Almost half (44%) of those working shorter hours hold a job in which the regular working time is less than 40 hours. Only the other half can be considered as voluntary or involuntary part-time workers. One in five respondents indicated that they did not intend to work full-time. The share of those working shorter hours because either they could find no full-time work or could not be employed full-time was 13.4% (Frey 2001; Laky 2001).

Flexibility of the working time

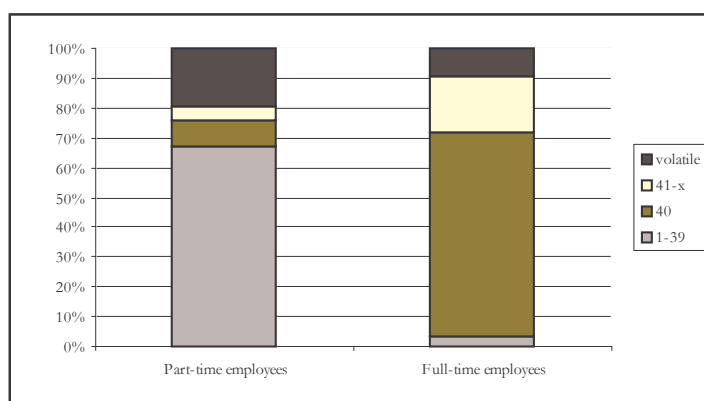
The recent frameworks of legal working time evolved in the 1980s. The 40 hour-working week became general and was legalised by the 1992 Labour Code (Frey, 2001). Overtime hours were limited by the Labour Code to 4 hours on two consecutive days, with a maximum of 144 hours per year. However, this could be raised to 200 on the basis of collective agreements. A 50 percent premium was set for overtime work, and a 100 percent premium if it was performed on rest days. In 1995, the Labour Code was amended. The normal daily hours were not changed, but they had to be met over a much longer period (4 months in case of enterprise level collective agreements and 6 months in case of multi-employer collective agreements). Overtime hours were modified to 8 on four consecutive days, with an annual limit of 300 hours in case of multi-employer collective agreements. These measures can be assessed as reflecting the intentions of both the government and social partners to serve the interests of the employed rather than of the unemployed (Frey, 2001).

Hungary has recently introduced reforms to legislation on working time. As 2001 amendments to the Labour Code introduced a ceiling on maximum weekly hours. Accordingly, weekly hours are limited to 48, including overtime. It is important, however,

that under certain condition it should be met over a period of 12 months providing higher flexibility for the employers. Overtime hours remained limited to 4 on two consecutive days, but from now on, with an annual maximum of 200 hours. Further, no multi-employer collective agreement is needed to extend this to 300 hours per year. Although these measures were taken as part of the EU law harmonization process, the goal of enhancing the country's competitiveness was of great account as well. (EU legislation on working time stipulates that weekly hours, including overtime, should not exceed 48 hours.)

According to the data of Labour Force Survey, 31% of the full-time employees work in a work schedule which deviates from the "traditional" one, i.e. 40 hours per a week (Figure 8.). As for the volatile work is concerned, about 10% of the full-time workers have no stable working schedule. The majority (67%) of the part-time employees work less than 40 hours per a week, and almost 20% of them have changing working hours.

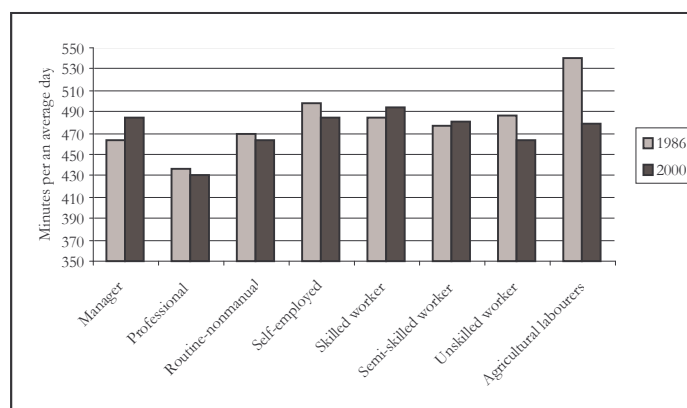
Figure 8. Composition of the employees by weekly working hours in 2000



Source: Hungarian Labour Force Surveys

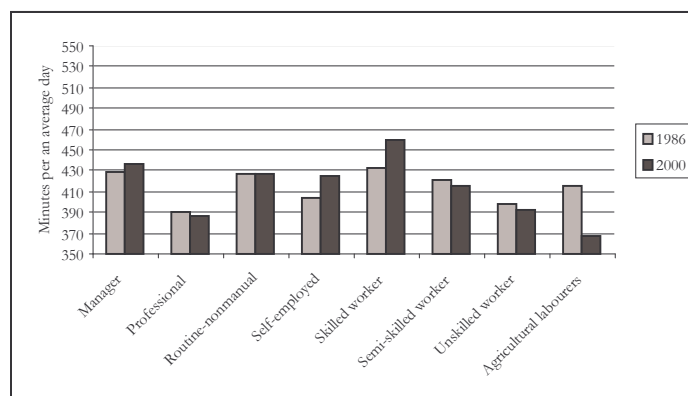
The Figure 9.1 and 9.2 shows the time spent with work – including paid work at the main workplace as well as in the second job – in an average day for employed individuals in different occupational classes. The working 'burden' is not distributed evenly among occupational groups, and this distribution also changed between 1986 and 2000. As for men are concerned, in the mid-eighties manual workers – particularly agricultural labourers – spent the most time in their first and second job. However, by 2000 the actual working time has decreased substantially in agriculture, while for managers – and slightly for skilled workers – it has increased. For females the tendency is similar.

Figure 9.1. Actual working time of employed males by occupational class



Source: Way of Life and Time-use Survey, 1986, 2000

Figure 9.2. Actual working time of employed females by occupational class



Source: Way of Life and Time-use Survey, 1986, 2000

Temporary employment

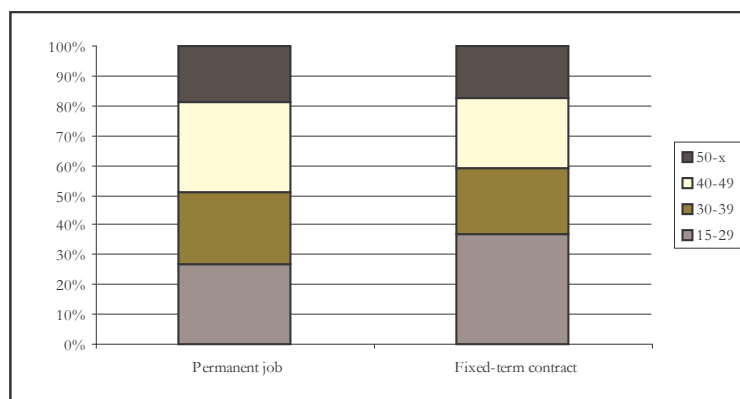
Labour Force Surveys have registered very small, though slightly increasing, numbers of temporary workers. Experience shows that mainly those being not in regular employment and performing seasonal work declared themselves as temporary workers in the surveys (Laky 2001). For employees, temporary employment implies a certain degree of instability or insecurity insofar they are faced to the necessity to look for a job in a foreseeable future.

Regarding the spread of fixed-term contract, there are various statistical figures. According to Laky (2001), in 2000 17% of the non-pensioner employees worked under fixed-term contract. However, the Labour Force Survey claims that only 6,5% of the employees had fixed-term contract in 2000. Among the individuals with fixed-term jobs about every second have 3-12 months long contract while about one third of them have shorter contract (Vukovich, 2000).

In the case of fixed-term jobs the gender differences are not pronounced: The proportion of workers with fixed-term contract is about 6-7% of the employees for both sexes.

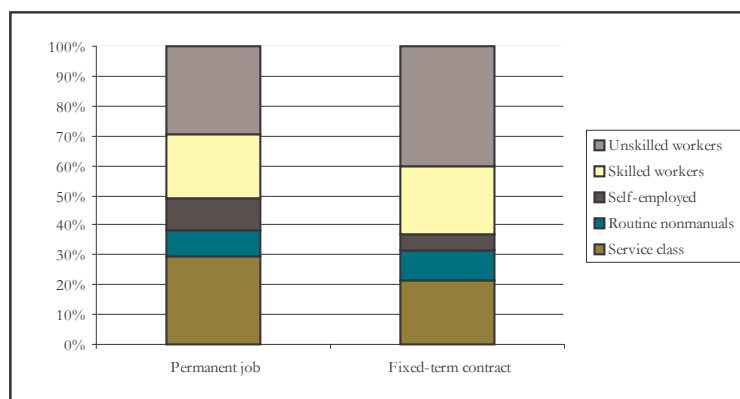
However, the age differences are greater: Individuals in fixed-term jobs are overrepresented among young people. It is supported by the fact that 37% of the employees with fixed-term contract are aged 29 or below (Figure 10.). As for the socio-economic composition of fixed-term employees is concerned, this type of working arrangement is the most widespread among less educated unskilled workers. However, even in the well-educated service class more than 20% of the employees have no permanent job contract (Figure 11).

Figure 10. Age composition of the employees with different job contract in 2000



Source: Way of Life and Time-use Survey, 2000

Figure 11. Socio-economic composition of the employees with different job contracts in 2000



Source: Way of Life and Time-use Survey, 2000

Self-employment

As being a communist country, state-ownership and planning system dominated the economy in Hungary. Proportion of self-employed was during the communist era, cca. 3 percent of the labour force. Proportion of self-employment did not increase in the 1970s yet, if defining this group on the basis of primary occupation. Instead, entrepreneurial work activity appeared to a growing extent as a side job, occasional part-time work, moonlighting

after finishing full-time job as an employee. The phenomenon, labelled as “second economy” (*Gábor* 1989), became widespread first in the agriculture (*Szélényi* 1988). From 1982, workers had the legal opportunity to establish so-called business work partnerships (known in Hungary by the Hungarian acronym: GMK) within the state companies, especially in manufacturing and construction. As the political environment became even more liberal in the 1980s, participants of the second economy, part-time entrepreneurs began to move to full-time self-employment. In this sense, part-time participation in the second economy served as a “stepping stone” for increasing self-employment in Hungary under communism and after 1990.

Since private economy worked more rational than the centralized economy with respect to employment, a general shrinking of the labour market was a consequence of system-transformation (as mentioned before). The safety of life-time jobs persisted only in the public sector, the uncertainty of employment has strongly increased in the private sector where privatisation of the firms was usually followed by a “rationalization” of the work force. The expectations that people who have lost their jobs in the privatised state firms will find new ones in other segments of the growing private sector were not verified.

Unemployment can definitely be considered as a possible pushing factor into self-employment in Hungary. If entries into self-employment from unemployment have occurred, this move has probably led to unskilled self-employment. And, it may be expected that the exit from self-employment is also more feasible for unskilled self-employed who were much more forced into private business.

For characterising the changing environment around self-employment in Hungary, it cannot be left out its juridical and fiscal elements that were part of the pulling mechanisms. First, juridical barriers and constraints disappeared after 1990. Second, different measures aiming to support self-employment, to establish new business and to channel the unemployed back to the labour force have been introduced. For supporting new business activities, government funds were established to provide loans with lower interest rates as compared to the regular bank loans.

The tax system has probably worked as a pushing factor as well. In Hungary, only business people can deduct costs in their tax declaration or apply for the return of VAT. This regulation has possibly contributed to motivating people to move to self-employment as “own account workers”. In Hungary, companies also have to pay about 30 percent of social security tax after employees. Consequently, firms are less interested in hiring labour force and pay people as employees but in contracting the same persons as self-employed and pay them after an invoice, they provided for their work.

Figures show that Hungary has seen an increase in self-employment over the 1990s. In 1999, the number of self-employed (including assisting family members) was 411.5 thousand, accounting for 11.1 percent of total employment. The real number and share of self-employed are substantially higher, since agricultural self-employed people without tax identification number are not registered by statistics.

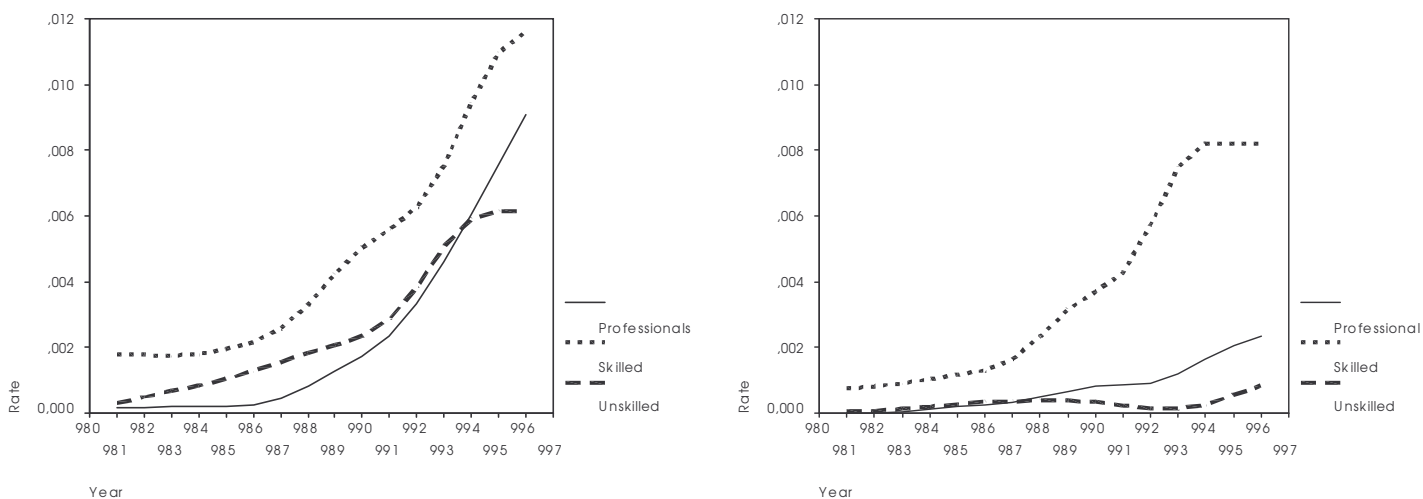
Trends of transition into the different kinds of self-employment between 1980 and 1997 are displayed by historical years separately for men and women (Figure 12.1 and 12.2.) These figures indicate that 1990, the formal year of the collapse of communism, was not a strong cleavage for this process. Although entry into self-employment was less frequent event in the 1980s and it became much more common in the 1990s, the trend turned out

to be quite regular, more for men than for women. A somewhat stronger rise starts already around 1986-87, especially for male skilled self-employment.

With further gender-differences for entry into self-employment, the event was more frequent for men as compared for women. The most characteristic transition for men is entry into skilled self-employment; it indicates a continuous rise after 1987. The male self-employed skilled workers are cabinet-makers, bricklayers, painters, shoemakers, locksmiths, electricians, plumbers, mechanics, as well as restaurant owners, shopkeepers, retail-trade proprietors. Entry into professional self-employment was very rare before 1987 but it started to grow quite steeply thereafter. Lawyers and building engineers are the typical male occupations in this field. From 1994, this transition became more frequent for men than entry into unskilled self-employment. Most of the male unskilled self-employed jobs are in sales and catering but there are many truck drivers among them. Entry into these jobs was quite steep in the 1980s, it speeded up after 1990, but it halted after 1994.

For Hungarian women, transition to professional and unskilled self-employment lags especially behind to the same moves for men. Entry into unskilled self-employment (unskilled service jobs in sales and catering or cleaning jobs) indicate only a very moderate increase between 1980 and 1997. More inflow occurred into professional self-employment, where the typical female jobs are artist and translator. Skilled self-employment among women started to grow already in the second part of the 1980s, it speeded up in the first part of 1990s, but it halted thereafter. The typical jobs in this field are hairdresser, tailor and shopkeeper.

Figure 12. The observed rate of entry into self-employment according to historical year
Figure 12.1. Males Figure 12.2. Females

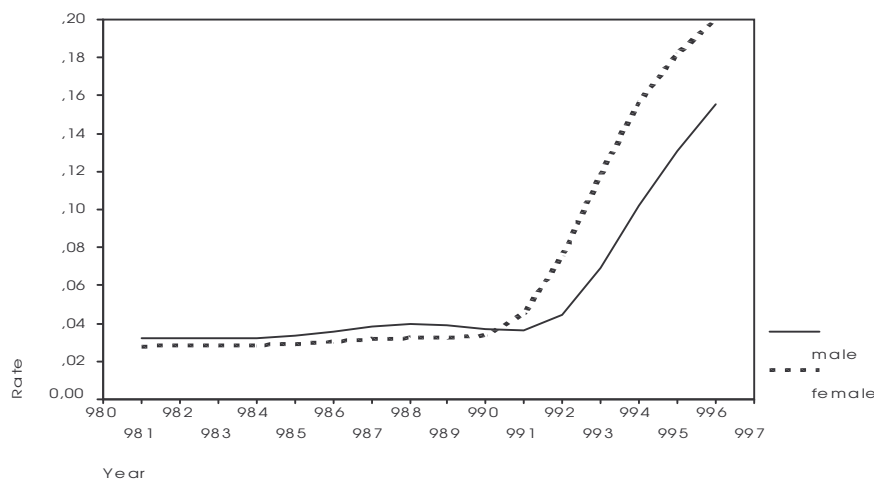


Source: Róbert and Bukodi (forthcoming)

Figure 13. displays the trends for exit from self-employment in Hungary between 1980 and 1997 for men and women, according to historical years. The investigated event was quite rare in the 1980s when self-employment was low in Hungary and it was a highly selected group. Consequently exit from self-employment was not frequent between 1980 and 1991. However, exit from self-employment started to increase after 1992 and we can observe a steep rise in this respect. More women have left self-employment in this period than men

have done. The growing exit from self-employment in the 1990s is probably a consequence of the fact that many of these people were forced to move into self-employment due to economic reasons and they left this state when they could find a job as an employee.

Figure 13. The observed rate of the exit from self-employment according to historical year



Source: Róbert and Bukodi (forthcoming)

Economic inactivity

As a response to labour market tensions in the beginning of the 1990s, the government pursued policies that allowed an increase in the economically inactive population (Laky, 2000). Between 1990 and 1994, more than half of those dismissed from their jobs left the labour market through various channels (Timár, 1995). The number and share of the economically inactive kept on growing throughout the decade, though, at a decreasing rate. This unfavourable tendency apparently reversed or at least came to a halt in 1998, the first year when the rate of inactive declined by around 0.5 percent. The proportion of inactive in the population aged 15-64 was 40.1 percent. Based on the national legislation, the share of non-earners was 34.9 percent: 40.9 percent for women aged 15-56 and 29.3 percent for men aged 15-60. When analysing economic inactivity, it is more reasonable to consider the national working ages, since half of the inactive aged 15-64 and two-thirds of those aged 15-74 is explained by the Hungarian statutory retirement ages (Labour Research Institute, 2000).

One factor explaining for the large stock of the inactive is the low retirement age. In 1999, those of retirement age, women aged more than 56 and men older than 60, accounted for 40 percent of the more than 3.6 million inactive. In the course of the transformation-related crisis many withdrew from the labour force opting for early retirement or becoming disability pensioners.

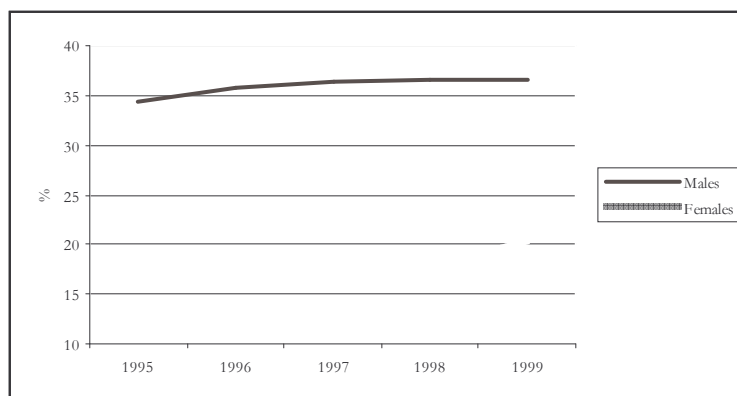
The early retirement schema was introduced in 1991 to serve the interests of unemployed approaching the retirement age (less than 3 years below the retirement age). During the period of massive job losses in Hungary, many people left the labour market opting for early retirement or becoming disability pensioners. In 1998, the old early-retirement

scheme was replaced by a special pre-retirement unemployment benefit scheme for unemployed persons approaching the retirement age (less than 5 years below the retirement age). Eligibility conditions for the new scheme are substantially stricter. It pays an amount equivalent to 80 percent of the minimum old-age pension. Nevertheless, the widespread use of early-retirement incentives over the 1990s, coupled with the low retirement age, largely explain why only 16 percent of the population aged 55-64 work (*OECD, 2000*).

Disability benefits have increasingly been used as an alternative to early retirement. By 1999 there were 360,000 working-age disabled (*World Bank, 2001*), constituting the largest group of under-retirement age transfer recipients. In the second half of the decade, the government tightened regulations and financing for disability pensions. Today only those whose health status has deteriorated by 100 percent have access to long-term disability pensions. All others whose health status has diminished by less than 100 percent (but more than 67 percent) qualify for temporary disabled. The Health Fund is responsible for financing their benefits and for reevaluating claims on a regular basis. As a result of the tightened approval procedures, the number of new disability pensions granted has fallen significantly (*OECD, 2000*).

Figure 14. shows the changes in the proportion of pensioners – including persons in early retirement as well as the disabled – among inactive persons in the working age population.

Figure 14. Pensioners in inactive population of working age



Source: Labour Research Institute (2000)

Persons in education above the age of 15 are considered the second largest category of the economically inactive. Educational statistics show that a growing number of persons older than 15 remains in education every year. Despite the improving trend, Hungary lags far behind the OECD countries in this respect. Up to the age of 17 Hungary's enrolling rates are equal or close to the OECD average, but after that age they are substantially lower, being less than half the OECD average by the age of 24 (*OECD, 1999*).

Individuals receiving childcare benefits also qualify as inactive in accordance with international conventions. Despite the decline in the number of births, the number of those receiving childcare benefits of any kind—mainly women—kept rising every year. The Labour Account registered nearly 300 thousand (mainly mothers) recipients (27% of the females' inactive population of working age) in 1999. The bulk of them received child-care

fee (GYED) or child-care aid (GYES), while the rest obtained child-raising support (GYET).

Care and leave forms

Family and child benefits in Hungary include child-care benefits (GYED, GYES, and GYET), child-raising benefits (family allowance and schooling allowance), maternity benefits (pregnancy benefit, one-time birth allowance, and sickness benefit for the term of caring for a sick child), and other benefits (e.g. child protection benefit). (While the family allowance and child protection benefit are considered the income of the child, the rest are considered the income of parents caring full time for their children.)

During the 1990s, eligibility conditions for child and family-related benefits were changed several times. In 1990, the system of child and family benefits were well developed by European standards either considering as a percentage of GDP, or as a share in total welfare benefits (Gábos, 2000). At that time, all the important elements of the system were already in operation: the family allowance, pregnancy benefit, child-care aid, child-care fee and one-time birth allowance. The introduction of both the child-care fee (1967) and the child-care aid (1985) was largely motivated by demographic considerations (Gábos, 2000). In 1990, the most important child and family-related benefit, the family allowance was made universal. No significant changes in the system occurred between 1990 and 1995, apart from a lost in real value of benefits. Then, in 1995 part of the fiscal consolidation package, family and child benefits were made means-tested and the child-care fee (GYED) was abolished. The government currently in office restored the system in operation until 1994 and went even further in some respects. In 1999, general eligibility for family allowance and child-care benefits were reintroduced. Further, the childcare fee was restored as of January 2000.

The *family allowance* is currently a universal benefit paid for children until the age of 6. Recently it has accounted for the largest share of family and child benefits. (2.3 million children are eligible for family allowance.) After the age of 6, eligibility to family allowance expires and is replaced by the *schooling allowance*. This is also universal (payable until the age of 16, or 20 for those studying full-time). It is supplemented by the *child protection benefit* in the case of low-income families (families with net per capita monthly income below the minimum old-age pension). In addition, child raising is supported through the personal income tax system. A *tax credit for children* was reintroduced in 1999. This measure was taken partly to compensate (families) for the real decline in the value of the family allowance. Despite some modifications to tax credit for children, it is favourable to families with higher taxable income.

Child-care fee (GYED) is an insurance-based benefit, available for the first two years of a child's life to those parents who have paid social security contributions for at least 180 days in the last 2 years prior to the birth. The benefit is equal to 70 percent of the parent previous wages (but no more than twice the minimum wage) and can be paid to either parent who takes care of the child full-time.

Child-care aid (GYES) is currently a universal support, first introduced in 1967 as an insurance-related benefit. It is available for those parents who do not qualify for GYED (who has less than 2 years of insurance payment) for the first three years of a child's life and equivalent to the minimum old-age pension. During the period of entitlement the

parent is not allowed to be in employment until the age of 1.5 of the child. After that time, the recipient is permitted to work part-time or even full-time if he/she works at home.

Child-raising support (GYET), introduced in 1993, was designed to serve the interests of families with three or more children in their own households, as long as the youngest child is aged 3-8. The monthly amount of benefit, irrespective of the number of children raised, is equal to the minimum pension. Parents receiving child-raising support can work part-time. Full-time employment is allowed only if the parent works at home.

Despite the numerous types of family and child benefits, the new system does not favour the poor. Although universal access to family benefits minimises exclusion, it also provides considerable benefits for families with higher income. Tax credit, the most important pillar of the current system, favours those parents who have relatively good labour market positions (Gábos, 2000).

Active labour market policies

Training programs

Spending on training programs in Hungary accounts for a lower share (22 percent in 1997) of the total expenditure on active measures than in most OECD countries. Candidates eligible for training schemes may be unemployed or expected to become employed. Training programs focus on the unemployed with favourable labour market characteristics. Because of their relatively higher education, young people appear to be over represented in these programs.

Subsidized employment

The National Labour Center offers several subsidized employment programs. One is targeted on the long-term unemployed. Under the program, the employer gets a wage subsidy of up to 50 percent for up to one year in return for hiring people who have been unemployed for over 6 months (provided the employer has not laid off anyone doing the same work during the previous 6 months). Another program is oriented toward school leavers. It was introduced to replace the career beginners' unemployment allowance in 1996. Under this scheme, the employer receives a wage subsidy for providing employment at no less than 4 hours per day to school leavers for at least one year.

Start-up schemes

The start-up scheme is provided to unemployed persons wishing to start their own businesses. It includes an allowance for a period of 6 months and the reimbursement of up to 50 percent of the costs of business services (e.g. counselling or training).

Public work programs

Public work schemes are the most common tool for keeping people in the work-related benefit system, covering one-quarter of the participants in active schemes. Public work programs may last no more than 12 months and are usually organized by local authorities.

In its 1997 review, the OECD recommended that existing active labour programs in Hungary are subject to reevaluation, since evidence from other OECD countries suggested that similar programs did little to facilitate the entry of young people or reentry of the unemployed to employment. A recent assessment (*O'Leary, 1998*) of the active labour programs concluded that:

- Participation in training programs resulted in a significant increase in the share of those obtaining unsubsidised work or self-employment. There was no significant impact on earnings.
- Wage subsidy for the long-term unemployed was estimated to have a negative net impact on reemployment, lowering the proportion of those entering an unsubsidised job or self-employment.
- Self-employment assistance is appropriate for only a small share of all the unemployed. Although, participation in such schemes raised the probability of entering an unsubsidised job or self-employment, it led to lower monthly earnings. This may reflect the underreporting of wages as part of participants' tax avoidance strategy.

The role of trade unions

In the early 1990s compulsory trade union membership was abolished and new independent trade unions were introduced in Hungary. The partly reformed former union confederation managed to keep its dominance in the multi-union structure, while the newly emerged independent unions failed to recruit a sizeable membership. The overall rate of unionisation declined substantially during the last decade. Different factors have contributed to the marginalisation of trade unions in Hungary: For instance, mass unemployment due to the collapse of large state companies, and then the rise of self-employment, as well as, the expansion of informal employment.

Until 2001, the Labour Force Survey did not include questions concerning unionisation. According to the data of the latest survey, 19.7 per cent of the population aged 15-64 indicated that they were union members. Unionisation among women (22.4%) was somewhat higher than among men (17.3%). This is due to the fact that female employment tends to concentrate in the traditionally unionised sectors, such as health and social work. The age composition of union members shows that union membership is the most widespread among older people. Non-manual employees are more likely to be members of unions than manual workers.

Income inequalities

Although nominal monthly gross average earnings increased significantly all over of the 1990s, the inflation rate exceeded the growth of earnings and as a result gross real earnings declined. Net real earnings dropped by 26 percent between 1989 and 1996 and afterwards started to grow again, by a total of 11 percent to 1999. Average monthly wages vary substantially across sectors of employment. Forms of ownership, legal form and size of the company also influence gross monthly earnings (*Laky, 2000*).

Minimum wage setting

In 1990s central wage regulation was gradually replaced by a three-tier system of wage bargaining (national, branch and company level). At macro level, the trade union confederations and employers' associations are supposed to reach a bipartite agreement, while the role of government, at least in theory, is limited to implementing this by decree (*Neumann 1997*). Although the legal frameworks of collective bargaining are in place, the asymmetry in industrial relations –with an over-powerful state and weak or only emerging employers' associations and unions– does not favour collective bargaining (*Koltay, 1998*). Multi-employer collective agreements are very rare; largely limited to sectors in which representatives of a small number of employers' associations enter into negotiation with relatively strong trade union confederations (e.g. electricity supply industry, chemical industry). Most bargaining takes place at the enterprise level (*OECD, 2000*).

In the first years of the 1990s, the minimum wage declined significantly relative to the average wages. Over the second half of the decade it was kept at about 30 percent of average wages. For 2001, there was an agreement to raise substantially the gross monthly minimum wage. As a result, the minimum wage reached about 43 percent of the average wage. Experience in other OECD countries shows that this is well above the level at which the minimum wage may constrain employment among the less skilled individuals (*OECD, 2000*). It has recently been proposed by the government a further 25 percent increase in the minimum wage for 2002.

The economic influence of minimum wages, especially on employment, has been a controversial issue. Minimum wage may create a pressure for wage increases among higher educated employees and thus may have an adverse effect on employment. However, in Hungary, the actual unemployment effect of the minimum wage may be of secondary importance. More significant are the effects of the minimum wage in promoting the expansion of informal employment (*Kopits, 1998*).

Labour market participation has largely determined the earning possibility of households. Over the 1990s, the share of households earning market income fell sharply, while the proportion of those receiving old-age pensions and disability pensions increased. Due mainly to the fiscal stabilization package of 1995, the proportions of child-care benefits and family allowance recipients tended to decline over the second half of the decade (*Szívós and Tóth, 1998*).

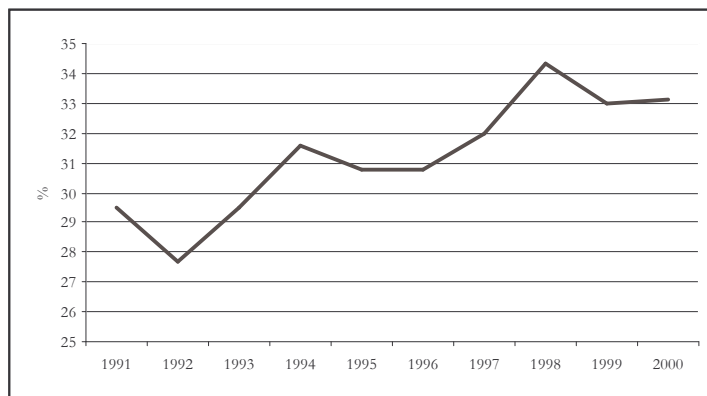
Poverty

A notable increase in household income inequalities occurred between the late 1980s and early 1990s. After a short period of stagnation, the Gini coefficient began to rise at the second half of the decade, reaching a maximum rate of 34 %, and after 1998 it was levelled off at 33% (Figure 15.). This is similar to the level of income inequalities characterizing other continental European countries, at lower levels of GDP (*Szívós and Tóth, 1998*). Despite the significant increase in market income dispersion, total household incomes (including public social transfers and social insurance benefits) display a lower level of inequality. This is due to the inequality reducing effect of social policy (*Szívós and Tóth, 1998*).

Hungary's social protection system consists of social assistance programs and labour-related social insurance benefits such as pensions and unemployment benefits. The basic

elements of the social safety net are pensions, public health care, unemployment benefits, family support and social assistance. In general, the central government is responsible for universal benefits, while local governments for means-tested benefits. In addition, local governments are free to launch social assistance benefits.

Figure 15. The Gini-coefficients of the household income



Source: *Tóth*, (2001)

The effect of flexibility and insecurity on the process of the entry into labour market¹

As far as the transition from dependent “child” to independent “earner” is concerned, this process has become much longer and more flexible during the last decades. As it is increasingly difficult to consider a large variety of options, educational and employment choices have become much harder to make. More and more information needs to be processed for an optimal selection among the many alternatives nowadays offered by the labour market. Since individuals have serious doubts about the necessary amount of information to be collected before making a good decision, they feel that the selection of their first job become more and more risky. In such a “risk society”, it is ever more difficult to calculate the different possible outcomes of any decision concerning type of job, sort of occupation, kind of employer, etc.

In order to find a better job, youngsters may follow different strategies. One of the possibilities is to stay in the educational system as long as possible. Another is to postpone final decisions, which makes the transition from school to work only longer. During this search period young adults are in a state of “not in education, not in the labour force”. A third possibility is when youngsters start to work already during their years of (higher) education, thus combining the role of a full- or part-time student with that of a labour force participant. The whole process of the transition from school to work becomes in this way more flexible and, with emerging forms of flexible employment (fixed- term contracts, part-time work, self-employment), so does the labour market.

Figure 16 shows the proportion of individuals who attend school and who are not in labour force, according to their year of birth. In line with the expectations about the

¹ This part of the report is based on the paper of *Róbert* and *Bukodi* (2002)

educational expansion, the percentages of these individuals when they are 19 years old increase slightly for the cohorts born between 1931 and 1970 but steeper for the cohort born thereafter. The proportion of the same individuals at the age of 23 indicates more stability between 1931 and 1970, and the increase is less steep for the young cohort. Indeed, expansion of tertiary education under socialism was not as much as that of secondary education; it only sped up in the 1990s.

Figure 17 exhibits the proportion of individuals who neither attended school nor worked at those ages. These percentages are falling, and steeper so for women. This proves that school enrolment and labour force participation increased to a higher degree for women, and that differences in levels of schooling between men and women diminished. This whole process was more pronounced during the first part of the socialist era, becoming less pronounced later. Data for the youngsters indicate a slight upswing in the proportion of these individuals, which demonstrates that this cohort faces growing difficulties with finding a job.

Individuals not attending school and being at work, as presented in Figure 18, represent an inverse pattern compared to individuals in Figure 13. That is, the trend is upward first, especially for women, but downward for the cohort born after 1970, although this is more marked at the age of 19.

Next we investigate the proportion of individuals attending school and being in the labour force at the same time (Figure 19.). At less than 7 per cent, this is a rather small group, even for the globalisation cohort. The increase in this state is steeper at the age of 23, which reflects a normal aging effect: the combination of learning and working occurs mostly at older ages, namely, during tertiary education.

Figures 20. and 21. outline the changes over time in the type of first employment for those members of the cohort born after 1970 who do not attend school but who are in the labour force. Data indicate a steep and steady decline of permanent employment, especially at the age of 19. This result is the outcome of three developments: educational expansion, rising unemployment and increased flexibility in the job market. There is not much change over time in fixed-term employment for individuals aged 19. However, it increases for those aged 23, especially men. This is also an indication of growing uncertainty surrounding first employment.

Finally, Figure 22. displays the change in the length of time devoted to searching for a first job. This length of time, measured in years, first decreased for those who left the educational system between 1950 and 1985 but it increased again thereafter. This reversal started earlier for men, and theirs was also more pronounced than for women.

Figure 16. Proportion of individuals enrolled in school and not working at different ages (persons born in 1931-1981)

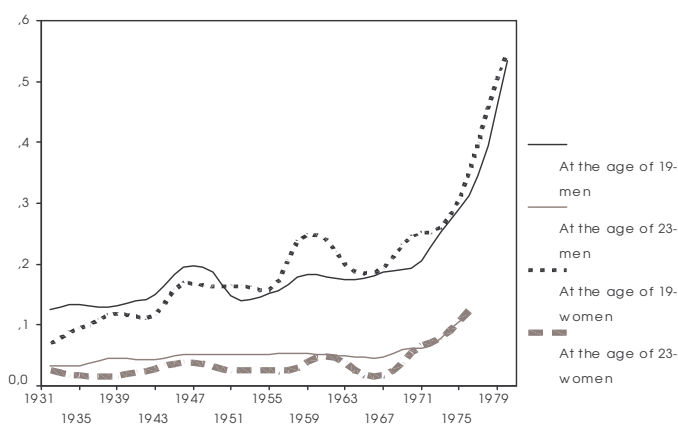


Figure 17. Proportion of individuals not enrolled in school and not working at different ages (persons born in 1931-1981)

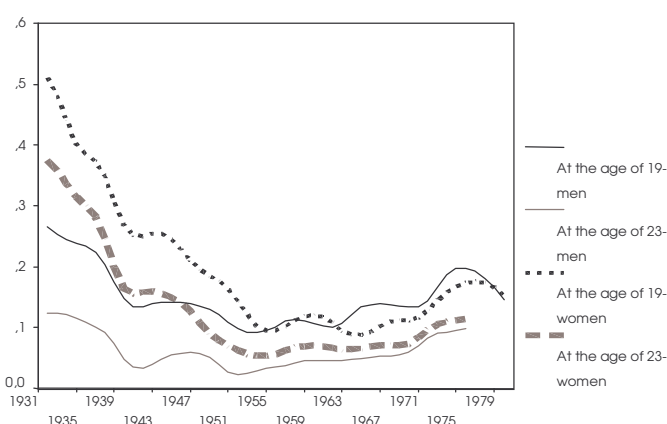


Figure 18. Proportion of individuals not enrolled in school and working at different ages (persons born in 1931-1981)

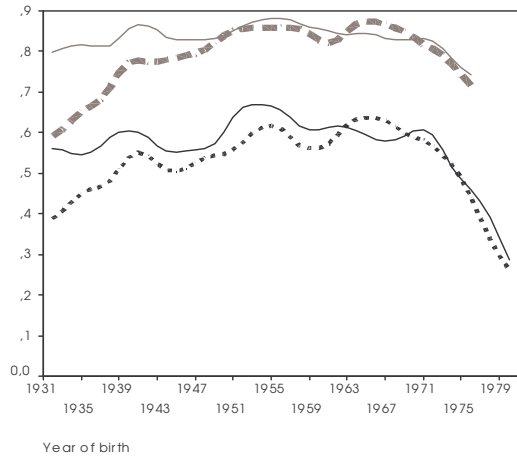


Figure 19. Proportion of individuals enrolled in school and working at different ages (persons born in 1971-1981)

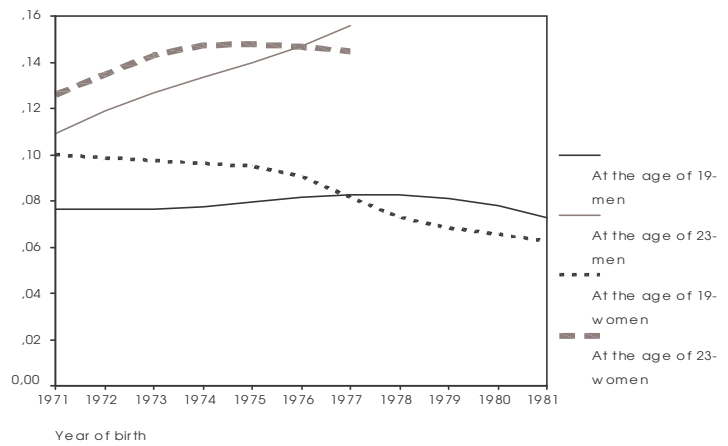
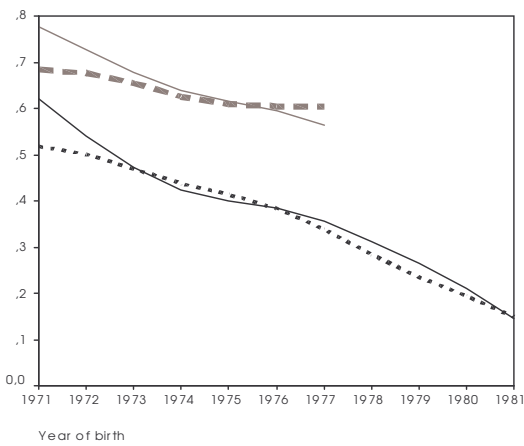
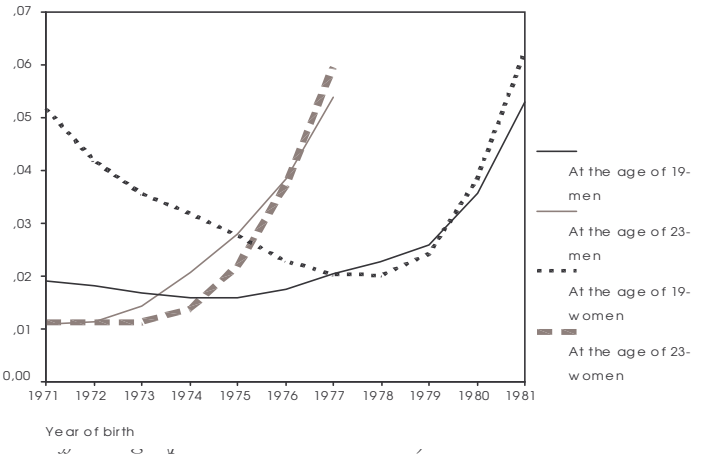
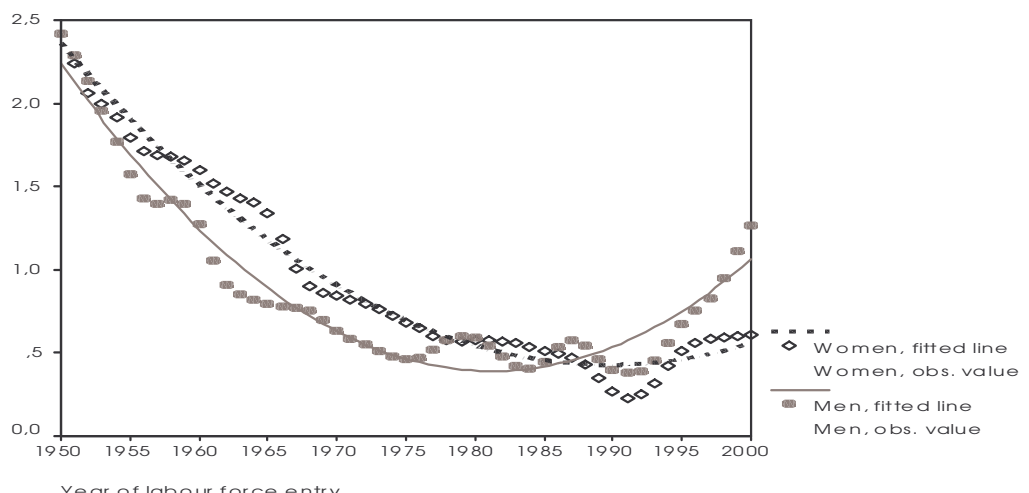


Figure 22. Time elapsed between the first exit from day-course education and the entry into labour force (in year)



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