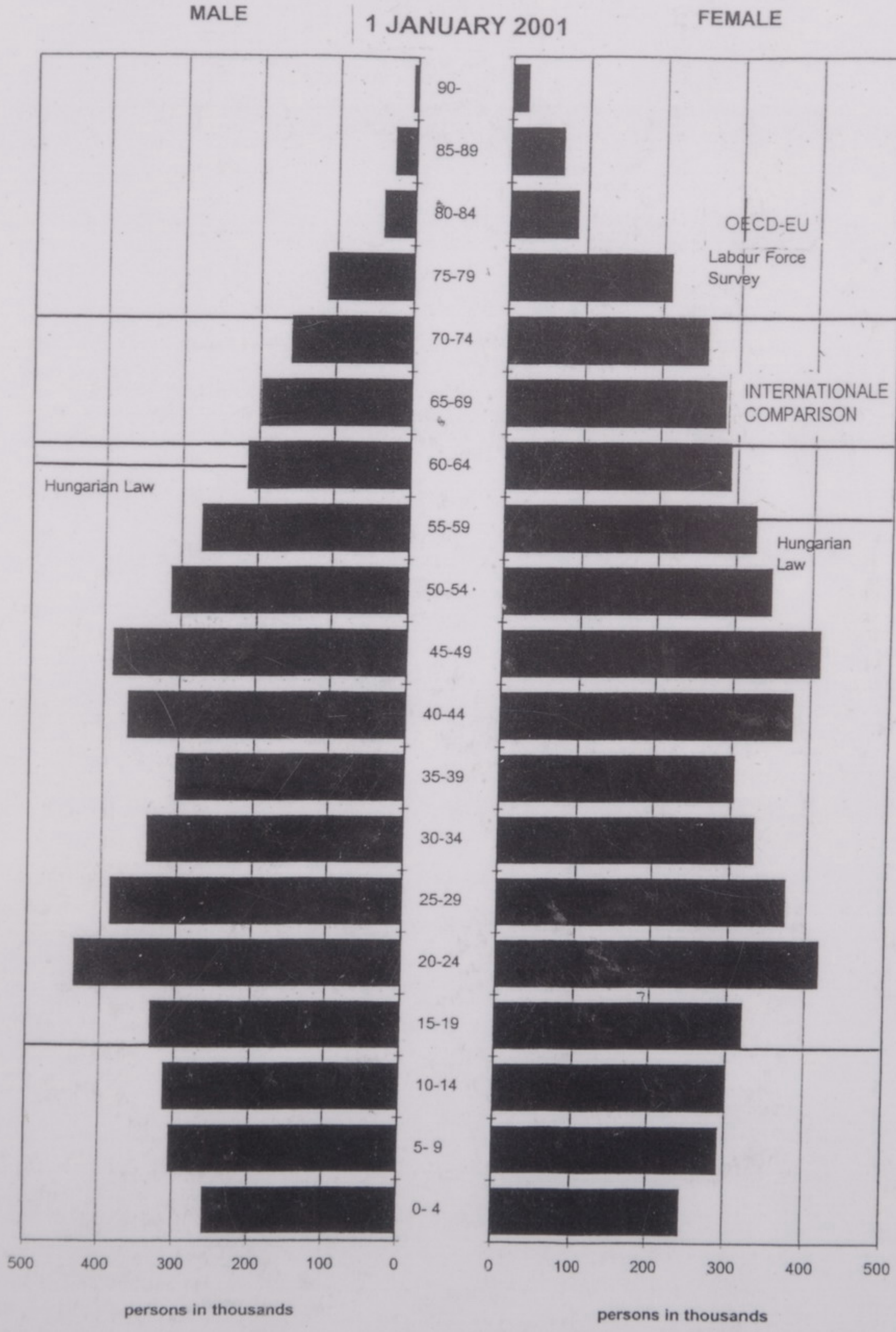
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LABOUR MARKET REPORT, 2001

MAIN TRENDS IN LABOUR MARKET DEMAND AND SUPPLY



Budapest
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Author
TERÉZ LAKY

Co-authors
Ilona **GERE** (Chapter 4.3.3)
Károly **FAZEKAS** (Chapter 6.)
Judit **LAKATOS** (Chapter 7.)
Béla **FALUSSY** (Chapter 8.)

Read by
Judit **LAKATOS**
and
János **TÍMÁR**

Statistics
MS **KOZMA** Edit TAKÁTS

Text editor
MS János **SINKA**

Translated by
Fruzsina **BALKAY**

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INTRODUCTION

According to the *Joint Assessment of the Employment Policy Priorities of Hungary* compiled by the European Union and Hungary in 2001, the Hungarian implementation of the EU Employment Strategy will be subject to regular review in the future as part of the preparation of Hungary's accession to the EU.

The *Joint Assessment* and the prospect of assessment on equal footing with the EU Member States have intensified our efforts, present in the previous annual labour market reports as well, to compare the achievements of Hungarian employment policy to those of the European Union and its Member States.

The present survey is extended to include an overview of the accession candidate countries – beside Cyprus, 10 East and Central European, former socialist, countries, including the Baltic States that used to be part of the Soviet Union. Despite the many diversities, information collected over the same period and according to the same methodology as in the Member States of the European Union (all of them based on the Labour Force Survey system adopted initially in the OECD countries) ensures comparability and gives a precise indication of the relative position of Hungary among the accession candidates. The Hungarian version of the present Report gives a multi-faceted presentation of the relevant data, of which we shall present here those required for the comprehensive, comparative survey of the labour markets and for providing foreign readers more detailed information on the Hungarian labour market.

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The results of the national census of January 2001 alter the weight of part of the Hungarian labour market data yielded by the annual Labour Force Surveys carried out since 1992. The change in headcount in several age-groups due to the increase of the previously known population number, the reference base, by 200 thousand, requiring a posteriori modifications, limits somewhat the validity of the present overview as well. For example, certain time-series will be quoted without a presentation of development of the distribution by age groups; we shall return to these after the release of the corrected, fine-tuned data. Furthermore, the preliminary population census data released so far, serving as the basis of the LFS of 2001, may also change yet. (Unfortunately, there is no reason to believe that the Hungarian labour market situation in 2001 will seem better in the light of the corrected base data.)

The analysis covers developments having taken place by the end of 2001. The preparation and publication of the Labour Market Report of 2001 was supported by the National Employment Foundation.

The manuscript was closed in March 2002.

Budapest, April 2002

Teréz Laky

KEY POINTS

Economic Activity of the Population

⇒ According to the annual average data of the Labour Force Surveys, employment, having shown growth with fluctuations since 1998 (1998: 51 thousand; 1999: 114 thousand; 2000: 37 thousand) stagnated in 2001: "the number of persons in employment essentially remained level; its growth by around 10 thousand over the previous year is within the sampling error margin (±36 thousand) associated with the data concerned". *{Employment Status Report, 2001., KSH 2002.}*

⇒ On the basis of the preliminary population census data, the population of the 15-64 year-old, the working-age limits used in international comparisons, was 6.9 million in 2001, including 3.4 million men and 3.5 million women.

Calculated according to the annual averages demonstrated by the Labour Force Survey, 3,841.7 thousand among them were in employment (55.2%), including 2.1 million men (62.1%) and 1.7 million women (48.5%). Within the generations of those past 64, another 17.8 thousand (almost 11 thousand men and 7 thousand women) were still at work, hence a total of 3,859.5 thousand had an earning job.

⇒ 233 thousand (3.3% of the working-age population) qualified as active job seekers according to the internationally accepted definition –; 143 thousand men (4.2% of the total male population) and 90 thousand women (2.5% of all women).

⇒ Hence the economically active (employed and job-seekers together) totalled 4 million (58.5% of the population of the 15-64 year-old), 2.2 million men (66.3% of the male population) and 1.8 million women (51% of the female population).

⇒ Consequently, 2.9 million – 41.5% of the population of the 15-64 year-old, including 1.15 million men (33.7%) and 1.74 million women (49%) – were economically inactive, that is, absent from the labour market.

⇒ In terms of economic activity, Hungary ranks among the last in the groups of both the Member States of the European Union and the accession candidate countries. (According to the latest data allowing to compare all the countries concerned, in 2000, it was last with Italy.)

The backlog is especially marked with respect to the medium-term economic policy objectives of the EU pertaining to the labour market presence of women and of the members of the older generations.

⇒ The low labour market participation rates of Hungary could be partly explained by the lower working age limit (male: 15–61; female 15–57)

than the typical European one (years 15–64); approximately 100–120 thousand men and women exit the labour market annually upon reaching retirement age, several years earlier than their Western European peers. The higher activity rates of the former socialist accession candidate countries based on working ages similar to that in Hungary, however, highlight the partial nature of the above explanation.

⇒ Of course, the Hungarian working-age limit implies a somewhat higher activity rate, but one that is still well below that in the advanced countries. According to the preliminary population census data, the population to be taken into account in this respect was 6.28 million in 2001, including 3.3 million men and 3.05 million women. Within the working-age population concerned 64.2% (69.7% of men and 58.4% of women) was active.

The relatively high inactivity rate among those of working age according to the Hungarian definition is indicative of a significant reserve pool for employment.

The employed

⇒ As employment expansion in the previous years changed into stagnation in 2001, Hungary's employment rate is still among the lowest in Europe: calculations based on the preliminary census data yield a rate of 55.2%, 8 percentage points lower than the EU average of 63.2% in 2000.

⇒ Hungary is in the lower employment brackets among the accession candidate countries; it was below the average of the former socialist countries in 2000 (58.4%) in both 2000 and 2001.

⇒ Within the overall rate, the *male* employment rate of 62.1% in 2001 was more than 10% points lower than the 72.5% average of the EU in 2000 (the male employment rate was higher than the Hungarian one in every EU Member State), and somewhat lower than the corresponding average of the former socialist EU accession candidates (although in this latter group the majority is on a similar level). The *female* employment rate of 48.5% in 2001 was lower by 5,5 percentage points than the EU average of 54% in 2000; in several EU countries, the employment rate of women was either lower or only slightly higher than in Hungary. Hungary's backlog is smaller relative to the 52.8% female employment rate of 2000 of the accession candidate former socialist countries as efforts to promote the employment of women have not met with more success in the majority of the cases there either.

⇒ The relative proportions of the broad sectors of the economy have kept modifying in 2001. In line with the long-term trend, the number of agricultural employees decreased further; its share compared to the other sectors fell from 6.5% in the previous year to 6.2%. On the other hand, the number and share of industrial employees went up from 33.8% in the previous year to 34.2%. As for the largest sector, the services, the

number of the employed showed no change of merit, but the share of the sector moderated a little (from 59.7% to 59.6%).

⇒ Within the sectors, the industries and especially their branches were subject to marked staff changes, with losses in some offset by gains in others. The expansion was most pronounced in the manufacturing industry (+24.5 thousand). Industry overall, on the other hand, grew somewhat slower, by 22.6 thousand only, as a result of smaller or bigger losses in several branches.

⇒ The significant increase in minimum wages, from HUF25,000 to HUF40,000, no doubt made its effects felt, albeit to different extents, on the branch-specific rates of employment.
The wage increase, clearly a positive development for the employees, affecting some 480 thousand in the business sector and 186 thousand in the public one, implied higher public burdens for the employers. Large multinational companies were the least sensitive to the increase in labour costs, but some branches characterised by low average wages were forced to implement lay-offs. Postponements of staff expansion had a more forceful effect: a significant proportion of companies actually cancelled such projects due to the increase in minimum wages.

⇒ 86.8% among the employed, somewhat more than one year earlier, are employees. For years, sole proprietors have represented some 10% and members of co-operatives and of partnerships and persons not in regular employ around 4%.
The increase in the number of employees was essentially due to the decrease in the number of the self-employed and of co-operative members.

⇒ The proportion of manual workers among the employed is stable at 60%, but only hardly more than one third of physical workers are women. As for the 40% of non-manual workers, on the other hand, women represent the majority; office and administrative jobs are typically filled by women. The proportion of women is much more modest in the highest, managerial, jobs.

⇒ Around one third of earners is employed by the public sector and two-third by the business sector. 2001 was the first year when the number of business sector organisations declined instead of increasing, breaking the trend of a decade, due primarily to the reduction of the number of sole proprietors.

⇒ Some 70% of earners work at organisations with more than 5 staff; more than one million work alone or at entities with a maximum of four staff.

⇒ The decisive form of employment is still full-time employment for an indefinite term. Other forms of employment still carry a small weight. Some 5% worked *part-time* – that is, in a smaller number of hours than the usual one; in trade in the first place and in some other services

branches. Another 5% worked under *fixed-term contracts*; primarily those mediated by job exchange agencies focusing on seasonal work. Some multinational companies hired their entire staff through labour exchange agencies, under fix-term contracts. Persons employed at subsidised jobs, such as those doing public benefit work, were also employed this way.

One of the main hindrances to the spread of the forms of flexible employment facilitating the labour market entry of those not in employment is the high tax and contribution payment burden imposed without differentiation on all forms of employment.

⇒ As for the *self-employed*, the numbers of members of (unincorporated) partnerships and of sole proprietors alike declined in 2001. Within the latter category, the number of working pensioners increased (due probably to the tax relief, exemption from the itemised health contribution payment obligation, acting in their favour).

⇒ The number of persons pursuing no business activity but selling their professional skills or labour force alone with the help of the so-called Casual Employee's Booklet (CEB) institutionalised for that purpose has also remained very small, in spite of the fact that in the second half of 2001, their employers could request a relief from the relevant public burdens. The Employment Office registered some 18 thousand persons employed with CEB, and CSO's Labour Force Survey reported 22 thousand temporary employees on annual average.

⇒ There were several subsidised programmes to promote the employment of the unemployed and the inactive in 2001, too. Their most significant funding source was the mandatory contribution of employees and employers to the Labour Market Fund, totalling HUF160.5 billion in 2001. The mission of the Labour Market Fund is to provide funding for employment promotion and unemployment reduction.

⇒ From the revenue of the Labour Market Fund, HUF82.4 billion was allocated to provide financial assistance to the unemployed, 78.1 billion to the promotion of employment expansion and 42 billion within that to the so-called active programmes.

The state budget appropriated another HUF3 billion on the basis of the proposals of the competent ministries for public works programmes announced nationally. Employment growth was promoted – especially in the deprived regions and the strata in the most disadvantageous position – by several foreign and Hungarian foundations as well.

⇒ The programmes provided jobs of a shorter or longer duration to hundreds of thousands of those in need of it during the year; more than a hundred thousand took part in programmes organised through the labour market service.

⇒ Some 28-30 thousand Hungarians work legally abroad annually; most among them in Germany and Austria, under quotas defined annually on the basis of the demand ever of the host country. One way of receiving foreign workers is the exchange scheme for young people on training; the agreements for this purpose were joined as of 2001 by the one concluded with France ensuring the mutual reception of 300 trainees.

⇒ According to a decision taken at the accession negotiations in 2001, Hungarian citizens will enjoy full freedom of work seven years after the country's accession to the EU. Several EU countries, however, decided to open their labour markets to Hungarian employees right after the accession.

⇒ The propensity of Hungarians to undertake work abroad, however, has remained as modest as it used to be. According to TÁRKI's survey carried out for the fourth time since 1993, although interest in employment abroad intensified somewhat in 2001, it is still degree-holders who would engage in such work for a longer period of time seeing the actual demand.

⇒ The population census of 2001 highlighted the increase of the Hungarian population by an annual 10-18 thousand immigrants in the preceding ten years, some three-quarter among them of working age and hence presumably pursuing an earning activity in Hungary, too.

⇒ Beside the immigrants, Hungary hosts foreign workers representing around 1% of its earners annually under fix-term employment contracts. Despite the lower rate of employment, the quota of foreign employees in demand to remedy local, temporal or occupational labour shortages was extended as of 2002 to around 2% of earners – on the assumption that this will facilitate the employment in Hungary of citizens, ethnic Hungarians in the first place, of the neighbouring countries.

⇒ In 2001, as before, the majority of foreigners working in Hungary under individual labour permits came from the areas of the neighbouring countries populated by ethnic Hungarians to work in diverse manufacturing branches, in construction, trade, catering and to do seasonal agricultural work.

⇒ The experience is that the illegal employment is still of a significant extent, although inspections revealed a somewhat smaller number of foreigners working without permit than in the previous year.

⇒ Despite the stagnation of the overall employment level, the year was characterised by forceful labour movements; major lay-offs (re-organisation of production, factory closures) co-existed with lively demand. Two types of demand manifested itself at the labour organisation: the demand of investments funded by foreign capital for larger numbers of staff (as those accompanying the larger-scale FDI investments, still on the rise in 2001), and individual demand of many

kinds, often associated with vocations in shortage regionally, involving occasionally thousands of jobs every month. Part of the demand is satisfied very quickly, while another part cannot be met, at least not from the stock of job-seekers, for months. In 2001, the labour service placed 84 thousand (almost 7 thousand on monthly average), filling around 20% of announced vacancies on monthly average. From among the vacancies registered at the end of the year, a mere 2.5 thousand (6.7%) jobs have been unoccupied for more than 180 days. Simultaneously, counties indicated demand for skilled and unskilled labour of different kinds.

Unemployment

⇒ In Hungary, the number of unemployed active job-seekers has been declining steadily since 1994; in 2001, a total of 233 thousand (143 thousand men and 90 thousand women) qualified as unemployed. Consequently, the unemployment rate based on the number of the economically active decreased, from 6.4% in 2000 to 5.7% in 2001.

⇒ This is better even than the corresponding 8.2% rate of the European Union in 2000, although 8 of the 15 member states produced a lower rate than the Hungarian one. In the accession candidate countries, on the other hand, unemployment rates in excess of 10% are not a rarity, and in 2000, the unemployment rate of Cyprus alone was lower than that of Hungary.

⇒ The trends in unemployment decline having manifested themselves in the course of the years include the following:

* almost three-quarter of job-seekers is 25-54 year-old, that is, they are persons of "prime employment age", while those under 20 and especially those above 55 are represented sporadically only;
* the rate of men is permanently higher among job-seekers than that of women (61% and 39%, respectively).
* In recent years, the majority of job-seekers (2001: 58%) have lost their job within twelve months. The job-seeking period has declined somewhat further, but it still exceeds 15 months on average.
* More than half of the previously employed unemployed exited one of three branches of the national economy: manufacture, trade and repair and construction.

⇒ More than 80% of the unemployed had had a manual occupation; mostly in one of the unskilled occupations mastered by fast training (e.g. machine operator, assembly worker etc.), or performed a simple activity requiring no qualification. Women represent around two-third of former non-manual workers, partly having filled jobs requiring higher educational qualification.

⇒ Almost 70% of the unemployed is unqualified or has low-level qualification only.

⇒ In more than half of the cases, job loss is the main reason for job-search (in 1992, this was the main reason for three-quarter of the unemployed); in 2001, the second largest group consisted of persons intending to enter/re-enter the labour market (after having completed a period of education, child care, military service of temporary work).

⇒ More than half of the unemployed looked for full-time work, but another approximately one third would have accepted part-time work as well. Ten thousand men and six thousand women (7% in all) were ready to accept any kind of work.

⇒ As for the wage demands, these usually reflected a realistic assessment of the chances (note than women calculated with lower expected wages than men).

⇒ Hungarian regulations applying to the unemployed and deviating to some extent from the relevant international definitions, codified under the Employment Act, were last amended in 2001 with a view to extend somewhat, among others, the circle of the registered unemployed.

⇒ The number of the registered unemployed – permanently higher than that of the active job-seeker unemployed – has also declined steadily; in 2001, it was 26.4 thousand less than one year earlier (2000: 390.5 thousand; 2001: 364.1 thousand).

⇒ Women make up less than half of the registered unemployed (46.1%); fresh school-leavers contribute more than 25%.

⇒ The change in the number of the registered unemployed was the result of two developments with contrasting effects. On the one hand, as a result of the restrictions imposed on unemployment provision and to a smaller extent of placements among others, more than 710 thousand unemployed were cancelled from the register during the year. On the other hand, however, major lay-offs increased the population of the registered unemployed by some 680 thousand.

⇒ Despite the large-scaled exits and entries, the composition of the registered unemployed by demographic and other criteria remained essentially unchanged. More than half of the unemployed are of "prime working age"; more than 40% finished elementary school at most and almost half used to work as unskilled/semi-skilled workers.

⇒ A growing proportion of the unemployed entering the register (in 2001, almost three-quarter) are recurrent unemployed. More than half of those registered for the first time was made redundant in the services.

⇒ From among those leaving the register, in 2000 91.5 thousand and in 2001 84 thousand were placed with the help of the labour service. The groups concerned were equivalent to 1.2% of the registered unemployed in 1999 and to 1.9% in both 2000 and 2001.

⇒ Approximately one third of the registered unemployed received unemployment benefits in 2001, and more than one third – somewhat less than in the previous year – income-supplementing allocation, cancelled in the meantime, or regular social aid replacing it. Some 25 thousand more received cash benefits of some sort in 2000 than in 2001, but the proportion of those eligible to provisions hardly changed due to the decline in the number of the population concerned (2000: 70.5%; 2001: 68.8%).

⇒ The amount of the unemployment benefits relative to the average earnings of the employed continued to decline: in 2001, it was less than one quarter of the average earnings, hardly more than one third of the average earnings of manual workers and 64% of the minimum wages.

⇒ For those receiving social benefits, the assistance amount is HUF10,254, less than 10% of the average earnings.

⇒ Under the combined effect of provision cuts (enjoying large-scale public opinion support) and job shortage, exclusion intensified.

⇒ As for the most sensitive social groups, in line with the general decline in unemployment, the number of the unemployed shrank among the *youth*, too. The total of almost 56 thousand active job-seeker youth still contribute almost one quarter of the total unemployed population, and the 23 thousand passive unemployed more than 20% of those who would like to work but refuse to looking for a job actively, urging measures to facilitate the placement of young people.

⇒ From among the registered school-leavers, a monthly 18-19 thousand took part in training courses of different duration, in public benefit work, or received employment subsidy. (Programme participants are not included among the unemployed.)

⇒ In 2000, in the European Union, *women* represented 40% of those in employment and more than 50% of the unemployed, that is, men were more numerous among workers and women among job-seekers. On the majority of the contracted labour markets of the former socialist countries, female employment lags but slightly behind that of men, and a high proportion of women is on the look-out for a job. The low female unemployment rate is mainly indicative of the fact that masses of women deem their chances too poor even to make an attempt to enter the organised labour market. 70% among them are of prime working age, and very few 54 plussers look for a job.

⇒ Three-quarter of women looking for a job in 2001 used to work prior to having become unemployed, 10% had worked for the last time more than 8 years earlier, and 14% had had no earning job yet.

⇒ The school education of women looking for a job does not differ markedly from that of the unemployed men, but the largest group is that of skilled workers among men and of GCSE holders among women.

⇒ The situation of *persons with changed working ability* changed but slightly in 2001. Rehabilitation is more often than not a slow process, and neither has the economy had more/more suitable jobs to offer than before. Beside the almost 1,800 persons with changed working ability having acquired a job lately, some 2,400 studied at courses to acquire new skills or qualifications of some sort.

⇒ The conditions of living and employment of the *Rom*, the largest ethnic minority in Hungary, also make slow progress. Despite diverse social initiatives, their long-term employment problems essentially prevail unchanged.

⇒ From among the factors shaping the extent of unemployment, massive job losses in economic branches exposed to the negative world market developments played a decisive part, but new jobs created in the first place, as before, mainly through significant foreign investments, with the re-organisation of production activities, offered new opportunities, mainly to those having been employed earlier as well.

The economically inactive

⇒ In the European Union, the rate of inactivity, highly different by country and nation, tends to reduce slowly but gradually under the impact of activity growth. The main characteristics of the would-be accessor countries are similar to those of the EU Member States, but the country-specific differences are less marked. The discrepancy is greatest in the case of the inactivity of the population of the 15-64 year-old in Hungary and in Bulgaria.

⇒ In Hungary, the said population is characterised, in accordance with the low activity rate, by the high proportion of inactivity. In 2001, 32.2% of men and 47.6% of women, altogether 40% of the population concerned, was inactive. Calculated on the basis of the Hungarian regulations, on 1 January 2001, 26% of men, 38% of women, altogether almost one third of the population concerned was inactive.

⇒ The inactivity of more than 80% among them is explained by staying in education (34%), absence due to child-care (15%) and retirement at (Hungarian) working age (31%). Some 20%, however, are absent from the labour market for other than the above, socially justified, reasons.

⇒ Women represent a growing proportion of those inactive for unknown reason (1990: 27%; 1 January 2002: 65%). The multitude of women in dependent status is a significant deficit of Hungarian employment policy and represents a major reserve pool for employment expansion.

⇒ Most among those who are inactive for no known reason are of prime working age, the same as in previous years. Presumably, part of them undertake work in the unorganised economy.

⇒ Almost 400 thousand among those who are inactive for some explicit reason (including 200 thousand women) would like to have a regular, paid job, but did not look for one actively for diverse reasons.

⇒ One of the main hindrances to employment promotion and especially the job acquisition of the inactive is the high level of taxes and contributions imposed on labour. According to a comparative international survey prepared in 2001, in Hungary, taxes to be paid by the employers on wages are among the highest; and in recent years, the aggregate tax burdens of employers and employees have been *the* highest.

⇒ In order to make employment expansion a priority national objective and to have a chance to attain it, Hungarian taxation policy should be reviewed and taxes imposed on labour be reduced.

Regional differences

⇒ Regional differences typical of the economic activity of the population did not change in 2001 either.

The unemployment rate of the two regions in the best position (Western Transdanubia and Central Hungary) was less than 5%; that of the two in the worst one (Northern Hungary, Northern Great Plain) attained 11-12%.

⇒ Regional-level analyses, however, conceal multiple differences between the relatively small, often closed, segmented local labour markets.

⇒ Inter-regional levelling mechanisms are not efficient. Internal migration has remained weak, and domestic and especially foreign investments creating new jobs keep concentrating, despite the relevant state incentives, in the more developed areas boasting better infrastructure and more qualified labour, and companies in foreign ownership tend to hire from the stock of those having been employed already.

Earnings in 2001

⇒ In the circle of earners subject to the statistical monitoring of earnings, including some two-third of the population of those in employment, the gross earnings of those employed full time increased by 18% in 2001. Given the significant decline in inflation, this implied an increase in real earnings by 6.4%.

⇒ Gross average wages increased to HUF103,600, equivalent in net value to a monthly HUF64,900 approximately.

⇒ Dynamic growth was the result mainly of central wage policy measures, resulting in a wage increase outpacing that in the business sector especially in areas funded by the central budget (public institutions: 22.4%; business sector: 16.3%).

⇒ One of the central wage measures affecting both sectors was the increase in minimum wages from HUF25,500 to HUF40,000. This decision implied a wage increase of merit in traditional low-pay areas.

⇒ Changes manifest themselves in the branch-specific development of earnings with phase shifts; in 2001, earnings increased by at least 20% in six branches of the national economy.

⇒ Earnings increased fastest in the circle of the smallest business units (5-9 staff) subject to monitoring; and slowest in the category of the largest ones (1,000+ staff). The standstill in employment growth is probably due among others to the labour-cost-swelling effect of the increase in minimum wages.

⇒ The earnings gap between men and women narrowed, essentially because the increase in minimum wages affected a larger circle of women.

Income-complementing work

⇒ According to CSO's time balance data for 1999/2000, in a population of more than 8 million of those aged 15-84, some 800 thousand (almost 10%) worked to complement their income either regularly or occasionally. Some 60% among them were active earners, 20% pensioners and the others members of social groups having no main job (pensioners, unemployed persons, persons on child-care, students, other dependents).

⇒ Almost 30% of those concerned (earners, pensioners, non-earners of active-age) worked as (second job holder) entrepreneurs or under work contracts; more than one third regularly, on a continuous basis, while one third was engaged in seasonal and one third in casual work.

⇒ Most paid work activities targeting the market responds to local demand. Those committing themselves to income-complementing work represent the constant, flexible reserve pool of the first economy.

⇒ Most – more than 40% of the population concerned – worked in agriculture; almost 30% in industry/construction. The proportion of those employed in the services is 15%, and that of the non-manual workers is on a similar scale.

⇒ Time spent on earning a complementary income was 23% of their total (average) monthly work-time.

⇒ Men contributed 69% of time spent on earning a complementary income.

⇒ Analyses by diverse individual, household, residential criteria make it absolutely clear that the most general objective of engaging in extra work is daily subsistence. Extra income to satisfy higher-level needs is the motivating force almost exclusively behind non-manual (and to a smaller extent skilled manual) work.

I. LABOUR MARKET, 2001.

1. DECISIVE CIRCUMSTANCES

The year 2001 brought many premeditated and other, unanticipated, changes shaping the everyday life of Hungarian economy and society. Although the present survey is restricted to the analysis of the developments of the Hungarian labour market in 2001, it is inevitable to note *in passim* a few circumstances having had a decisive influence on recent developments.

1.) The world economy – world politics in the first place – is likely to undergo modifications in the longer term in the wake of the terrorist attack of 11 September against the United States of America. This event, having shocked (and to some extent divided) global public opinion, together with the growing opposition between the advocates and opponents of globalisation, has made more obvious than ever a legion of issues to be reconsidered in the context of the interrelationships and coexistence of advanced and developing, rich and poor, countries.

Simultaneously, the standstill of the American economy, observed already in 2000, also had a major effect on the economy of many countries the world over; including, beside the most advanced ones, the Hungarian economy as well, integrated to a growing extent in the international division of labour. Recession has many components, including, pre-eminently, the backlog of consumption compared to the fast development of the most up-to-date branches, having led to deceleration in the latter involving the elimination of hundred thousands of jobs, and to the deceleration of economic growth overall via the rippling effects.

The annual growth rate of the GDP, considered the most general indicator of economic development, dropped to a smaller or greater extent in every one of the advanced countries.

In Hungary, after a dramatic drop in the beginning of the nineties, the GDP started to increase dynamically in 1997 (by more than 4% annually), to attain 5.2% in 2000. Under the effects of the external economic circumstances, growth became more moderate at 3.8% in 2001. (Beside the growth rate, the essential indicators include the volume and per capita value of the national income. This value, expressing the well-being of a nation by converting the national currency to diverse currencies and to purchasing power parity, is rather low in Hungary compared to the corresponding indicators of the OECD countries – in 2000, at purchasing power parity, it corresponded to 51% of the average of the 29 OECD countries.[1] According to the estimate of

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[1] According to the calculations of the World Bank, in 2000, the per capita GDP at purchasing power parity in USD was as follows: US: 34,100; Japan: 27,800; Austria: 26,330; Italy: 23,470; Slovenia: 17,310; Portugal: 16,990; Czech Republic: 13,780; Hungary: 11,990. The values for the other former socialist countries are lower, although Slovakia, ranking after Hungary, has a small backlog only (11,040). Romania, Bulgaria and Ukraine come last with 6,360, 5,560 and 3,700, respectively. *{Quoted in Világgazdaság, 22 April 2002}*

the Ecostat (Hungarian Institute for Economy and Informatics) prepared in 1999, Hungary will need 30 years at an annual growth rate of 4-5% to attain the per capita GDP level of the more developed countries.)

Despite the more manifest recession in 2001 – involving the elimination of thousands of jobs by large multinational companies active in the branches concerned in the first place, and the postponement of several Hungarian investment projects – the economy has proved successful and capable of reliable operation.

2.) <u>As for the European Union</u> – whose developments are of direct relevance to Hungary, an accession candidate country –, authentic and comprehensive economic and labour market data are available for the year 2000 only as yet.[2]

From the point of view of employment, 2000 was the most successful year of the past decade: more than 3 million new jobs were created, raising the employment rate of the 15-64 year-old from 62.3% in 1999 to 63.2%, and reducing the unemployment rate from 9.1% to 8.2%.

The attainments have brought within reach the common objective identified in 1997 in Luxembourg: to raise the overall employment rate to 70% by 2010 (and than of women to more than 60% within it).

Moreover, several other ambitious decisions were taken in 2001, specifying the measures decided upon in Lisbon in spring 2000 and subsequently in Nice in December 2000.

⇒March 2001, Stockholm: the most important decision-making body of the Union, the European Council, agreed to complement the employment targets for 2010 with intermediary targets for 2005 for the overall employment rate (67%) and the employment rate for women (57%), as well as the target of 50% for the employment rate of older persons to be reached in 2010. It was agreed that the general objectives should include, beside the creation of a higher number of jobs, the improvement of their quality as well as the modernisation of the labour market, the stimulation of labour mobility and the elimination of the existing barriers for that purpose.

⇒<u>June 2001,</u> Göteborg: the Council recognised that the objective of sustainable development implied that employment, economic reforms, social and environmental policies had to be addressed in a mutually

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According to the preliminary estimates released in mid-March 2002, despite the slowdown of global economic growth, the European Union succeeded in improving its employment policy results: the employment rate continued to increase in 2001 and it may attain 64%. (Simultaneously, the employment rate for 2000 published earlier was corrected from 63.3% to 63.2%.) It is estimated that, despite the alarming news on the massive lay-offs by multinational companies throughout the year, Europe has managed to decrease its unemployment rate as well, from 8.2% in 2000 to 7.7%. *{europa.eu.int/comm/employment_ _social/news/2002/mar/042_en.html}* Although these are only estimates as yet, they indicate the likely – modest – further improvement, instead of deterioration, of the European labour market situation.

reinforcing way; agreed that NAPempl was to be accompanied by the preparation of NAPincl programmes to prevent social exclusion, and launched the revision of the national systems of education and practical training among others.

In September 2001 – as a matter of fact, in the days prior to the terrorist attack on the USA –, the European Commission issued a warning to the Member States that, irrespective of the cooling of the global economy, the governments, employers and trade unions should not give up their commitments to reform the European labour market, to create new jobs and implement a job-friendly policy in any of the Member States.

Year-end data suggest that, even though the successes of 2000 were perhaps not repeated, the EU has not given up for a moment its common programme to raise the level of employment.

The most significant event, of direct relevance to Hungary, is that, as of 2001, the country, an EU accession candidate, officially joined the employment policy efforts of the EU. In November 2001, Anna Diamantopoulou, European Commissioner for Employment and Social Affairs and István Stumpf, Minister of Prime Minister's Office signed a jointly prepared document summing up the most important short-term labour market tasks of Hungarian employment policy *{Joint Assessment of the Employment Policy Priorities of Hungary}*. Hungary committed itself to make its labour market suitable for joining the single, common market of the EU in accordance with the requirements specified under the European Employment Strategy. In the future, the EU shall assess on a regular basis the fulfilment of the commitments of the Hungarian government, the same as that of the commitments under the annual action plans of the Member States.

In order to make the Hungarian labour market suitable for accession to the single European market, Hungarian employment policy should undergo significant changes, in spite of the fact that the main employment regulations have for a long time adhered to the recommendations of the International Labour Organisation (ILO). However, the establishment of the conditions promoting employment growth especially require new solutions in several areas. Their establishment is a task of the coming years brooking no delay.

3.) Hungary took several types of decisions of direct relevance to the labour market in 2001, and the impact of some measures taken in 2000 or even earlier has also intensified that year.

Suffice it to provide a list here of the main changes and their consequences perceptible already, to be presented in more detail later on.

⇒ The amendment of the Employment Act meant to stimulate the placement of the unemployed by tightening the conditions of eligibility to unemployment benefits and reducing the benefit extension period came into force in February 2000.

⇒The income supplement – allocated to registered long-term unemployed persons no longer eligible to benefits, but unable to find a job – was cancelled as of May 2000. In the absence of new beneficiaries, their number decreased month by month. Persons having lost the allocation may be granted regular social allowance by the local self-governments in case of need.

By the end of 2001, the beneficiaries of the income-supplementing allocation had essentially "given out". Simultaneously, the number of regular social aid recipients rose to 86,000.

⇒As of January 2001, the minimum wage was increased from HUF25,500 in 2000 to HUF40,00, that is, from less than 30% to 42.3% of the gross average earnings. The wage increase, no doubt significant and advantageous from the point of view of employees, coupled with the reduction of the period of entitlement to unemployment benefits ought to have encouraged the faster placement of the unemployed. However, although the number of the unemployed declined further in 2001, the employment rate failed to increase, in spite of the fact that the Ministry of Economy tried to offset the other assumed effect, namely the decline in demand due to the increase in labour costs, by compensation (accessible by application) covering part or all extra contributions.

⇒The amendments of the Labour Code, preceded by the lengthy and acute debates of those concerned, came into force on 1 July 2001. The amendments, targeting those subject to an employment relationship already and granting more flexibility in terms of working time, are expected to spread slowly only. The first applications of merit will appear in the collective contracts in effect in 2002.

⇒In June 2001, the Hungarian Parliament passed the act governing preferences to be granted to the ethnic Hungarian residents of the neighbouring countries, including among others the facilitation of their employment in Hungary. Persons documenting their ethnic Hungarian status by claiming a so-called "Hungarian Certificate" can be employed for three months per calendar year without an examination by the competent labour organisation of the labour market situation (viz. whether there are any Hungarian unemployed persons available for the given job). The employment preference granted under the Act approved with great majority by Parliament was extended under the Hungarian/Romanian memorandum of understanding signed in December at Budapest to all Romanian citizens. This step divided the political parties, forcing the issue of the necessity of foreign labour for the economy on the one hand and the presumed necessity of job protection on the other to the level of political debates instead of the objective professional assessment of the labour market status ever.

The Preference Act came into force on 1 January 2002. The government set the upper limit of valid labour permits in 2002 at 81 thousand, instead of the 39 thousand or so in effect at the end of 2000.

In many respects, the regulations in effect/having come into force during the year, of relevance for the labour market, had a different effect from that intended originally (e.g., stimulation of the placement of the unemployed), or even acted against employment growth (increase in minimum wages in the period of recession).

Under the combined effect of the international economic developments and the domestic measures, the unemployment rate has kept declining in 2001, but the employment rate could not be raised.

2. *ECONOMIC ACTIVITY OF THE POPULATION*

2.1 The position of Hungary in international comparison

Every country surveys the economic activity (that is, labour market presence or absence) of its population, an important economic and social indicator, on a regular basis.

A definition is adopted for persons of working age (to date typically those between 15 and 64 years of age) whose participation, while ensuring their subsistence, is necessary and desirable (primarily but not exclusively) to enhance economic development and social welfare.[3]

Within the age groups concerned, the economically active represent the available labour supply. They include earners (persons in employment) and those among the unemployed who – presumably – are jobless temporarily and not of their own free will, and would take up work again if an opportunity presented itself. For this purpose, they are looking for a job actively themselves.

The economically inactive are persons who are not working and not looking for a job either, whatever the reason.

Hence the concept of economic activity provides a comprehensive picture of the labour market situation of the entire adult (working age) population. The relative proportion of the groups of the active and the inactive is indicative of the employment capacity of the economy, the employment chances of those wishing to work and, from another point of view, the proportion of those depending on the family/on society and of the earners.

Of course, within the group of the economically active, special attention is paid to job-seekers (for, the activity rate may increase the high number of the unemployed, whereas one objective is to reduce unemployment).

The general overriding objective today is not simply to reduce unemployment, but to ensure that the largest possible segment of the adult population of a given country have an earning occupation "the most efficient capital of every society is its prepared, educated, healthy and well-motivated labour force, and it is a loss to society if it lets it go unutilised, lets it be wasted".[4]

The economic activity of the adult population is influenced, beside the state/development level of the economy, by many other circumstances as well; including, in the first place, the relevant national regulations imposing limits on

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[3] Economic activity is surveyed, in accordance with the relevant recommendation of the ILO, up to the age of 74, for people are considered capable and able to work until that age, but given the typical working age in Europe, the comparisons use data for the age groups of 15-64 only. The quarterly surveys of CSO, participating in the international labour force surveys since 1992, also cover those aged 15-74.

[4] The idea underlying the employment policy of the European Union since 1997, namely to focus on the rate of employment instead of the rate of unemployment, was expressed by Pádraig Flynn, then Commissioner of Employment and Social Affairs of the Commission, at the time of his Budapest visit to the Hungarian Parliament. *{9 December 1997.}*

labour market participation in many ways, according to the national social/political agreements, including those applying to working age, to the conditions of employment, to independent status, taxes imposed on employment etc..

Beside their common features, national legislations are different in many respects, and the European Union has been urging for years under the Employment Guidelines that the Member States should alter their national regulations hindering employment.[5]

The alteration of the framework conditions of employment policy is a difficult issue almost everywhere, given the multitude of related tasks in the competence of the economic and social subsystems requiring corresponding amendment in turn. The difficulties are reflected by the hardly changing economic activity results of several of the European countries.

In what follows, we shall give a summary of the data of the would-be accessor East and Central European countries and of Hungary on the basis of the findings of the Labour Force Surveys governed by uniform principles and methods in every member state of the OECD (including 30 countries, and Hungary as well since 1996).

Let us note in advance that the data of the Hungarian population census dated, theoretically, 1 January 2001, imply a certain imprecision in many details, although not in main lines in terms of the adjustment of the Hungarian data for 2001 to the international trends. For the census revealed that, compared to the calculated state of 1 January 2000, the population of Hungarian residents increased by almost 200 thousand. The difference must have been accumulating, in different degrees by age groups, since the census of 1990 (due essentially to the practice of the annual extrapolation of the data of the census of 1990 on the basis of the natural decrease/increase in population count, ignoring migration and immigration, insignificant in the beginning of the decade yet). Our description of individual sub-topics will touch upon this problem. Before the review of the developments concerned, however, let us call the attention to the following:

a) As before, our comparative analysis relies in the first place on CSO's Labour Force Surveys based on the internationally adopted definitions and a uniform methodology in all of the participating countries. We consider the survey results valid. Their weight may be altered but their authenticity is not

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[5] Apart from the main guidelines of the jointly approved employment policy, the development of common, uniform regulation systems is not an agenda item yet, given the current differences in the economic development level of the Member States and their social traditions different in many respects. So far in employment policy – and in social policy treated with it – the application of a few hundreds of specific legal regulations only is mandatory. In the course of the legal harmonisation activity to prepare accession to the EU, Hungary must collate a little more than a hundred legal regulations on occupational safety and health and providing for the cases of mandatory information provision to workers, to be applied on a mandatory basis in every country, with its own, existing regulations, to implement the necessary amendments or codify new ones instead of them. Legal harmonisation, however, does not replace employment policy setting the targets to be attained.

questioned by the modification of the reference base (viz. the headcount and proportion of individual age groups).

b) The specific rates, however, will have to be corrected. Experts calculate in retrospect annually the size of the individual age groups, including data pertaining to changes in economic activity. With the passing of time, as we progress from 1990 to 2001, the data concerned may have to be modified to a growing extent. At the level of the highest aggregates (e.g., population of the 15-64 or 15-74 year-old) the differences are smaller; however, there is no reason to assume that they imply significant improvement over the rates known so far (on the contrary).

While focusing on the available data, we shall call the attention to expected corrections wherever that is necessary.

2.1.1 2000: A fruitful year in the European Union

In 2000, of the total population of 372 million of the Member States of the European Union, those of working age (ages 15 to 64) numbered 248.6 million. With significant differences by country, the Union average of the economically active was 69%; including 63.2% employed and 5.7% unemployed.

The number of those in employment increased by around 3 million (1%) compared to one year earlier, and the number of the unemployed fell from 15.7 million to 14.2 million. The activity rate increased by 0.3 percentage point.

This modest positive result was produced in a period when the global economy came to a standstill. This is the reason why the European Commission judged 2000 a good year of European employment growth. (Anna Diamantopoulou: "The European Union can be pleased with its employment performance in recent years. Total employment is now 10 million higher than it was 5 years ago, including 3 million jobs created last year {in 2000 }". - *Employment in Europe 2001. – Foreword by the Commissioner, p.3.)* [6]

The evaluations published in 2001 *{Joint Employment Report 2001, Commission of the European Communities, Brussels, 12.9.2001 COM (2001) 438 final and Assessment of the implementation of the 2001 Employment Guidelines, Supporting document to the Joint Employment Report 2001 Brussels}*, attribute the increase in employment and the record decrease in unemployment in the course of the decade to the joint efforts of the Member States. The EU deems the annual 1.1% increase in employment sufficient to attain the average employment target of 70% set for 2010. This target, higher by 7 percentage points than the current rate, implies the creation of 17 million new jobs.

Although the EU seemed to stand a good chance to raise its employment level to 65% in 2001 after the successful year of 2000, it was still at a disadvantage

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[6] The present Report relies to a large extent on the statements of *Employment in Europe 2001*, surveying the annual developments/development trends of the labour markets of the EU and its Member States on the basis of the assessment of the Commission of Europe (although not necessarily in agreement with that).

compared to the higher employment and lower unemployment rate of the United States.

Economic activity rates differ quite significantly by member state; in 2000, the two extremes were 63% for Greece and 80% for Denmark.

Table 2.1.

Economic activity in the Member States of the EU, 2000

%

Country	Employed	Unemployed	Economically active	Inactive
	% rate to the population of the 15-64 year-old			
Belgium	60.5	4.6	65.1	34.9
Denmark	76.3	3.7	80.0	20.0
Germany	65.4	5.6	71.0	29.0
Greece	55.6	7.3	62.9	37.1
Spain	55.0	9.0	64.0	36.0
France	62.2	6.7	68.9	31.1
Ireland	65.1	3.0	68.1	31.9
Italy	53.5	6.4	59.9	40.1
Luxembourg	62.9	1.5	64.4	35.6
The Netherlands	73.2	2.0	75.2	24.8
Austria	68.3	2.5	70.8	29.2
Portugal	68.3	3.0	71.3	28.7
Finland	67.5	7.3	74.8	25.2
Sweden	73.0	4.5	77.5	22.5
United Kingdom	71.2	4.2	75.4	24.6
EU average:	**63.2**	**5.7**	**68.9**	**31.1**

Source: *Employment in Europe 2001*, pp.110-125.

Remark: Unless specified otherwise, data based on *Employment in Europe 2001* here and below refer to the QII (spring) data of the annual national labour force surveys; they differ from the annual averages.

Three of the factors underlying the significant differences in economic activity are relatively easy to identify: the working age limit, and the labour market presence of women and that of persons past the age of 55.

a.) *The working age limit*

As is well-known, thanks to the efforts of several decades of the ILO, practically every country of the world included the prohibition on child labour in its national legislation, acknowledging that those under 15 qualify as children. Hence in the second half of the 20th century, 15 years of age became the generally accepted bottom limit of working age.

The upper limit was also set in the second half of the 20th century, in the years following World War II, by the general and mandatory pension systems, a great achievement no doubt in the developed countries. Retirement age was set, in connection with the preconditions of eligibility to

full pension, at 55 to 60 years, depending on the country concerned. Consequently, the previous year, the last one to be spent at work, was identified as the upper limit of working age.

The upper limit, occasionally significantly different by country, has been increasing steadily for some decades, due at least to two important reasons. One is the increase in life expectancy, quite easy to assess, the other is the closely related issue of the sustainability of the pension systems.

Pension reforms generating acute social tension are taking place in almost every country concerned the world over. Most reforms have the following in common: they encourage (or make mandatory) novel forms of saving for old age in active age, and the further, gradual raising of retirement age – and hence of working age, too.[7] (Both are often concurrent with the cancellation of many previous relief option, and tighter conditions for retirement prior to having reached retirement age.)

As a result of the pension reforms, launched for the most in the nineties – and the approximation of diverse regulation systems in the unifying European Union – retirement age and the upper limit of working age will become more and more uniform, at 64 years of age for men and women alike. In case of any differences (as in the case of Italy where women may retire at the age of 57 despite the reform launched already), an effort will be made to adjust the system to the others.

The current differences, however, still make their effects felt, albeit to a diminishing extent. This is most obvious in the case of Denmark where working age is longer than usual in Europe: the upper limit is 66 years of age for both men and women, and retirement age is 67. The high working age limit is obviously one of the reasons why the economic activity of the population is highest there: in 2000, 80% of the 15-64 year-old were present on the labour market.

In most countries, whatever the age limit, people are turned out of the world of labour upon having reached retirement age, and in countries where the upper limit is lower, those concerned may transfer to the group of the inactive years earlier than members of the same generation in other countries.[8] (The options of early retirement instituted at times of crises in the past decades to ease the tensions of the labour market have already been curbed to a large extent in most countries.)

The welcome increase in life expectancy and the dramatic decline in birth numbers experienced in Europe from the end of the sixties makes it

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According to the OECD publication providing a thorough analysis of this topic, the United Kingdom, Germany and Italy have already put the issue of raising the retirement age of women, too, to 65 years on their respective agendas. The United States plans to raise retirement age from 65 to 67 years of age in 2022. *{Ageing and Income: Financial resources and retirement in 9 OECD countries, OECD, 2001. p.85. }*

According to the OECD publication quoted above, a Swedish act subject to preparation intends to make it the right of workers to remain in employment up to the age of 67. *{Op.cit., p.85. }*

imperative to seek new solutions matching the new situation if only to maintain the pension systems as such. These will obviously include changes affecting the definition of working age, having had a significant influence already on the development of economic activity previously, too.

b.) Female employment

Economic activity in the Member States of the European Union is shaped to a decisive extent by the labour market participation of women.

The earning career or active job search of women depends on countless factors different by country, social stratum and even individual life situations, including national traditions, one's sense of mission, the structure of the economy, the demand for or need of earning an independent income and, not in the least, an earlier retirement age than the generally accepted one or the one applying to men.

In 2000, in the Member States of the European Union, 54% of women were in employment and 5.9% were active job-seekers, while 40% were not present on the labour market. (Over the same period, nearly 80% of men were economically active!)

While the labour market participation rate of men in Europe is equally high in every country, the corresponding rate for women occasionally shows extreme differences. In the prosperous Nordic countries (Denmark, Sweden, Finland), women are present in the economy almost to the same degree as men, while in the less developed, less well-to-do southern ones (Spain, Italy, Greece), their presence is much less marked: half of women is absent from the labour market there.

Beside the already mentioned Nordic states, the activity rate is high in the United Kingdom (68%) and in the Netherlands (66%), but it exceeds 60% in Germany, France, Austria and Portugal as well.

Moreover, the traditional setup may also change, as demonstrated by the example of Ireland and Spain: in Ireland, over one decade, from 1990 to 2000, the proportion of economically active women increased from 42.4% to 56.4%, while in Spain it went up from 41% to 51%.

The "formulae" for mobilising female labour depend on the specific features, social and economic position of the given country –and may differ considerably in function primarily of the capacity of social policy to adapt to the changing world of labour. The economic activity rate of women, however, is obviously on the rise: on the average of the Union, it was 45.6% in 1975; 51% in 1985; 54.8% in 1990; 56.9% in 1995; and 60% in 2000. The tendency of growth is likely to be related to the general development trends of the European economies, their structural adjustment, especially the contraction of agricultural production and the steady increase in services offering an extensive array of jobs to women. Within that context, the spread of part-time work, well-suited to the tasks concerned and gaining ground in

several services branches, played a decisive role. In the European Union, in 1985, 3.4% of men and 27.3% of women worked part-time; in 2000, the corresponding rate was 6.2% for men and 33.3% for earning women.

All in all, however, the EU still considers the labour market participation rate of women low.

The objective set for 2010 and defined in more detail in 2001 in Stockholm with a deadline of 2005, quoted already, namely that the employment level of women should attain first 57%, then 60%, should be asserted in the national action plans of the Member States, and, moreover, in accordance with the principles of the Union: without discrimination, by overcoming gender segregation and gender gaps (in terms of payment, for example).

c.) *Preservation of the activity of older people*

In Europe, many become inactive prior to retirement age triggering exit from the labour market: in the Member States of the European Union, 37.7% only of the 55-64 year-old on average were in employment in 2000, and few among those who are no longer employed look for a job actively.

Around half of men in these age groups also exited the labour market, and only 27.9% of women were in employment in 2000. The modest average was raised by the rates of a few countries (Sweden: 62.5%; Denmark: 46.6%; Portugal: 41.1%; Finland: 41%); in five countries, the typical rate is 17-20%, in the rest, it is around 25%.

In some countries, the low labour market presence of older people is due among others to their lower retirement age limits, or the lower retirement age limit of women than of men, as well as to a shorter working age granted in many countries to certain groups of workers. (In the United Kingdom, for example, in around half of the private sector, 65 is the "regular" retirement age limit, while for public servants it is 60. The majority of the pension schemes - 60% in the private sector and 90% in public service – makes it possible to retire earlier, at the age of 60 in the private sector and already at the age of 50 in one fifth of the cases.) Early retirement has been encouraged in most European countries by the already mentioned preferential options (restricted in many respects in the meantime).

Hence the pension systems encourage flight from an unfavourable labour market situation, especially if it offers no jobs to those of older age and the amount of old-age pension is reassuringly high.

Specific pension systems, however, themselves the products of social consensus in the given country, can encourage exit from the labour market or further activity. In Japan, for example, the pension system, significantly different from the European one, encourages to stay at work as long as possible, as the amount of old-age pension depends to a decisive extent on earnings at the age of 65 and afterwards and the labour income of the adult members of the household. This in itself would be enough to explain the

higher rate of employment at old age there than in any of the European countries..[9]

In Italy, on the other hand, where the employment rate of the 55-64 year-old is the lowest, the pension system plays a special role. In the absence of a comprehensive system of unemployment provision and social allowance system, old-age pension may be the single source of income in families of elderly parents living with their children. (The examples originate from the OECD publication quoted above several times already.)

To date, almost every Member State makes something or plans to make something to make early exit from the labour market less attractive. Ten of the fifteen countries encourage the old to keep working. So far, however, six only encourage employers, too, to keep older people in employment.[10]

Part of the initiatives targets the training of older people, but with the exception of Denmark and the United Kingdom, they do not cover either the unemployed or the inactive. In several countries (e.g. Belgium) a special labour exchange service is provided to assist the job search of the old.

The EU, however, urges further efficient measures, especially in those Member States where the employment rate of older workers is very low (Belgium, Austria, France, Italy, Luxembourg). *{Assessment ..., pp.59-61.}* – the further employment of older people is necessary to make the pension systems sustainable, and also because in Europe, the proportion of the young is decreasing fast and that of the old is on the rise. In the context of the new migration policy, referred to with increasing frequency, the employment potential of the old, capable of/wishing to work represents an untapped reserve pool as of now.

According to the critical assessment of the EU taking stock of attainments in 2000, the essential employment problems have prevailed – hence efforts to counter them should continue in every area and in every Member State.

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[9] According to the research of the Japanese Ministry of Health, Labour and Welfare carried out in autumn 2000, the decisive majority of men and women aged 55-69 remains in employment for "economic reasons", and their decision to that effect is "closely related to the pension system". *{Japan Labour Bulletin, March 2002, Vol. 41., No 3.}*
According to the same source, the Ministry of Health, Labour and Welfare convened a conference of experts to prevent the fast-growing depression, mental illnesses and suicides. In Japan, in the economic crisis period since 1998, an annual 30 thousand fatal suicides are committed, by men aged around 50-60 in 70% of the cases. (An annual ten thousand approximately die in traffic accidents.) The experts solicited the help of employers and professional organisations, too, to ensure early therapy.

[10] Austria introduced a bonus/malus system to alter the attitude of employers. In Spain, social security contributions on employment are reduced in case of the employment of persons aged 55-64 and it is cancelled for those of 65 or older as of 2002. The Netherlands encourages the employers, under a package including several types of programmes, to employ older unemployed workers and they help make the further employment of older workers more attractive financially, too.

2.1.2 *Economic activity in the East and Central European countries*

From among the 11 accession candidate countries, all but Cyprus are former socialist countries. The common denominator of many a common trait of the countries concerned, of different economic structure and having developed at different paces since the change of regime, is their shared recent past: a socialist economic regime for around four decades and subsequently its collapse. One of their common features today is the result of the steep drop in previously high employment levels during the past decade, in the difficult transition years. Although in 1994 the level of employment still exceeded the corresponding EU average, and in 1994-1997 employment increased at approximately the same pace in both groups, after 1997, according to the analysis of *Employment in Europe 2001*, while employment in the EU increased, that in part of the East and Central European countries decreased again, partly as a result of the Russian crisis of 1998. In 1999, the average employment rate of the ten countries concerned fell below the EU average, and the gap continued to widen in 2000.

According to the assessment, the East and Central European countries intending to join the EU face serious employment problems: their employment and activity rates are low and their unemployment rate is well above the EU average. Some 3 million new jobs would be necessary to attain the employment level of the EU, but in agriculture and manufacture, the number of jobs is decreasing still. In the services – where the proportion of workers is equivalent to around three-quarter of the EU average -, jobs in the financial, business and personal services in the first place should multiply.

Of course, Hungary is assigned to this country group owing to its position. (After the presentation of the aggregate data, however, we shall evaluate its position separately as well.)[11]

Data concerning the accession candidate countries include those on Cyprus, but given the different position of this country, the averages and the assessment are mostly restricted to the ten former socialist countries. (Table: 2.2.)

In 2000, the proportion of employed/active job seekers within the population of the 15-64 year-old was much smaller – and consequently the inactivity rate much higher – in the former socialist countries than in the European Union.

The rate of the employed to the economically active attained at best – in the Czech Republic and Romania boasting the best rates – the results of the medium-bracket Union countries, and in 5 of the 10 countries (Bulgaria, Poland, Hungary, Slovakia and Latvia) that of the Union Member States with the lowest rates.

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[11] Hungarian data for 1999 and 2000 used in international comparisons are based on the population numbers used prior to the population census of 2001. Retrospective data correction is in progress, but it will take time for the relevant details – e.g., age-group-specific results – to be released.

Table 2.2.

Economic activity in the accession candidate countries, 2000

%

Country	Employed	Unemployed	Ec active	Inactive
	(%population aged 15-64)			
Bulgaria	51.5	10.1	61.6	38.4
Czech Republic	64.9	6.3	71.2	28.8
Estonia	60.6	9.4	70.0	30.0
Hungary*/	55.9	4.0	59.9	40.1
Latvia	58.2	9.8	68.0	32.0
Lithuania	60.1	11.4	71.5	28.5
Poland	55.1	11.0	66.1	33.9
Romania	64.2	5.4	69.6	30.4
Slovakia	56.3	13.2	69.5	30.5
Slovenia	62.7	4.7	67.4	32.6
Average	**58.5**	**8.5**	**67.0**	**33.0**
Cyprus	65.5	3.5	69.0	31.0

*/ The rates above and hereinafter will probably be modified somewhat once the data of the population census of 2001 are taken into account.

In our last year' report, we published the annual average data provided by CSO's LFS, which differ slightly from those used for international comparisons.

Source: *Employment in Europe 2001*, pp. 126-136.

Let us highlight here a few circumstances exerting a direct influence on current economic activity rates beside a multitude of other reasons such as the relative backwardness of the former socialist countries due to their historical development, the much lower levels of national incomes implying a scarcity of resources to be mobilised for the purpose of economic development, the failure of development efforts separated from the global economy in the second half of the 20th century etc.

a.) Working age

As we have seen in the case of some EU countries, a working-age definition setting a shorter period than what is becoming the standard (ages 15-64) inevitably implies a disadvantage in comparisons.

With a few exceptions, the former socialist countries were characterised by much shorter working age: ages 15-59 for men and 15-54 for women.[12] That is, in general, men retired 4 years earlier and women 10 years earlier than

[12] With the exception of Poland, where working age was defined at 18-64 for men and 18-59 for women, and Romania, where the bottom limit was the age of 16. *{Employment Observatory, Central and Eastern Europe, Employment Trends and Developments, No 7 1995, European Commission, Directorate-General for Employment, Industrial Relations and Social Affairs.}*

persons of the same age in Europe. The ongoing pension reforms – as in Hungary – have so far eliminated the difference in part only.[13]

A more marked correction, however, requires extreme caution, due mainly to life expectancy growth in this group being below the European average.

Life expectancy has shown a welcome improvement the world over, but the majority of the former socialist countries has a considerable backlog compared to Europe in this respect. In Hungary, for example, life expectancy at birth was 70.6 years in 1999 and 67.1 years for men and 75.6 for women in 2000. (In the neighbouring Austria, those born in 1998 could expect to live 77.7 years.)[14]

According to the relevant demographic calculations, in Hungary, average life expectancy at birth rose from 1876 to 2000 from 28 to 70 years (!), calculated for both sexes. A more detailed examination of the 125-year trend reveals that in Hungary life expectancy has not exceeded for long and does not exceed markedly the general working-age limit of 62 years and the current average European working-age limit of 64. The life expectancy of men has been higher than 65 year since 1946-50 and that of women since 1936-40.

As for those born later, their life expectancy had shown definite deterioration for a long time (1970-1995), and it was only in the last few years that it started to improve. True, the Hungarian population forecasts expect, in agreement with those of the UN, the long-term persistence of significant life expectancy growth in the future. Hence for 2025, they presume an average life expectancy of 80 years instead of the current 70.[15] To date, however, the life expectancy at birth of Hungarian men – similarly to that of Turkish and Romanian men – is definitely low yet.

That is to say that, at least in Hungary, the increase in life expectancy could hardly justify a further increase in the working age ceiling. (Even though this

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[13] Several countries have started to reform their pension systems – first and foremost in order to ensure their sustainability – in the nineties. Poland, for example, intends to raise the retirement age of men and women, 59 and 55, respectively, providing many options for early retirement, to 65 for men and 60 for women. Slovakia has been increasing retirement age gradually since 1992: in 1992, men became eligible for pension at the age of 56.2 and women at 52.5 (provided that they met the other relevant conditions as well); in 2000, the corresponding limits were 59.2 for men and 55.4 for women. In Czech Republic, from 1995 to 2007, the retirement age of men and women rose from 60 to 62 and from 57 to 61, respectively *{Pension Reform in Central and Eastern Europe, Vols 1-2, ed: Elaine Fultz, ILO Central and Eastern European Team, Budapest, 2002.}*

[14] Source: "Az életkilátások és halandóság földrajzi különbségei" (Differences in life expectancy and mortality); *CSO Reports*, 2001/6, pp.49-52. and "A népmozgalom fő mutatószámai 2001 I-III. negyedévében" (Main indicators of the demographic movement in QI–QIII 2001); *CSO Reports* 2001/9, pp.43-45.

[15] Source of calculations: László Hablicsek: "A népesség-reprodukció alakulása, a 20-21. században" (Development of the reproduction of the population in the 20th and 21st century) *{Institute for Demographic Research, Research Papers 68, 2001/3. p. 28. and p. 63., Table 5.}* and complementary information kindly provided by László Hablicsek.

may become necessary for other reasons.)

In view of the hardly easing tensions of the labour market, one can expect those reaching retirement age earlier than members of the same age group elsewhere in European to exit the labour market and turn inactive on a mass scale in the future, too.

b.) *Female employment*

It is well known that the employment rate of women was high in the former socialist countries.[16] (All the more so since eligibility to social allowances was limited to the employed and to co-operative members.)

Although the reason why the majority of women in West and in East and Central Europe, respectively, became employed or unemployed in the decades following World War II was due to different reasons and circumstances, in 2000, both groups were present on the labour market to almost the same extent. However, while in Western Europe most of their jobs, part-time ones in the majority of the cases, were created in the expanding services sector, in the former socialist countries, part-time employment has remained insignificant with the exception of Romania (18.6%), Poland (13.2%) and Latvia (12.2%), a circumstance indicative of the absence of conditions different from those of the traditional full-time employment.

The rate of (unemployed) active job-seeker women is high in Slovakia and in Poland; it is close to the EU average in four countries (Estonia, Hungary, Slovenia, Romania), and it is definitely low in another four. The Hungarian experience, however, is that the low rate mostly reflects the forced abandonment of job search deemed hopeless, especially by members of the older generations.

c.) *Activity of the 55-64 year-old*

With the exception of Cyprus where almost 70% of the men aged 55-64 are still working, that is, in the former socialist countries among the prospective accessors, as a result of the upper limit of working age being set at 60 in general, those in employment are usually persons under retirement age.

The labour market demand for those of older age – especially those close to retirement age – is weak. More precisely, the schemes that would encourage their employment – including significantly reduced tax burdens to promote part time work – are missing. In Hungary, as of 2002, the labour income of pensioners is taxed irrespective of the amount of the pension. This solution,

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[16] According to the ILO, in 1990, the employment rate of women aged 15-64 was 76.3% in Estonia, 75.4% in Latvia, 74.1 in Slovakia, 74% in Lithuania and in the Czech Republic, 72% in Bulgaria, 65% in Poland, 64.8% in Slovenia, 63.5% in Romania and 59.2% in Hungary. *{Key Indicators of the Labour Market (KILM) 2001-2002, ILO, Geneva, 2002.}*

however advantageous to the (modest number of) pensioner employees, would only boost the relevant demand if it implied advantages to the employer. Employers, however, pays the same – very high – amount of tax and contributions on pensioner as on other employees.

Although, most people keep working in inactive status if and when an opportunity presents itself, their income-generating activity is seldom covered by the relevant statistics. In the majority of the former socialist countries, for example, great masses of people are still active in agricultural production in the small household economies to supply the household and earn a complementary income. Their aggregate number is estimated at several millions, but they consider themselves inactive (pensioners), and not "persons in employment". In the countries concerned, earning activity, a labour relationship, is associated with different concepts. Consequently, activity data tend to reflect organised, registered, taxed activities in the economies concerned rather than the labour in general, especially in the case of inactive persons having exited the labour market at a relatively young age. To put it differently, this state of affairs is yet another argument in favour of the adjustment of the systems of labour market regulations to the joint objectives of the EU.

In summary: the relatively low economic activity and employment levels of the East and Central European countries intending to join the EU are indicative of the fact that, in the decade-long process of political, economic and social transformation, they have not succeeded so far in implementing regulations conforming to changes in the world of labour in their own country. Regulations adjusted to the employment demands of mass production and big co-operatives as well as insistence on the same are still very strong indeed.

Hopefully, accession will make it easier to make headway with the European Union urging changes in every country.

The table below provides a summary of the above survey of economic activity.

Table 2.3.

Economic activity in the EU Member States and the 11 accession candidate countries, 2000

	EU Member States		Accession candidates *		of which: Hungary **	
	'000	%	'000	%	'000	%
Population aged 15-64	248,640.0	100.0	70,819.9	100.0	6,784.4	100.0
of which:						
in employment	157,351.0	63.2	41,393.3	58.5	3,825.7	55.9
unemployed	14,185.0	5.7	6,023.6	8.5	261.9	4.0
ec. active (empl. + unempl.)	171,536.0	68.9	47,416.9	67.0	4,087.6	59.9
inactive	77,104.0	31.1	23,403.0	33.0	2,696.8	40.1

* Hungary included

** Data known before the population census

Source: *Employment in Europe 2001*, summary based on data on pp. 110-136.

As for Hungary, the economic achievements of the country – remarkable in several respects – are reflected partly and contradictorily only by the international comparisons.

As the Labour Market Report on the year 2000 presented the state of the Hungarian labour market that year in detail as usual, suffice it to review here briefly the main characteristics analysed above for the sake of comparability.

In international comparison, the economic activity of the Hungarian population was the lowest among both the EU and the accession candidate East and Central European countries, hence the rate of inactivity was highest in Hungary.

The low labour market participation rate is improved slightly only by the proportion of the employed/unemployed. In terms of employment rates, Hungary ranked 21st among the 26 countries concerned (15 EU Member States, and 11 accession candidates including Cyprus), before Poland, Spain, Italy and Bulgaria, in terms of the unemployment rate, it was 10th, preceded by the countries having the lowest unemployment rates (2.4-5.9%), and followed by 8 countries with rates under 10% and another by rates above 10%, including, with the exception of Italy and Spain, 6 former socialist countries.

The main characteristics of economic activity/inactivity have been essentially unchanged for years: the number of persons in employment is low and it is increasing but slowly; unemployment has been declining steadily and significantly for years, but the majority of the unemployed join the large and undiminishing population of the inactive, not that of the employed.

(This tendency persisted in 2001, as will be discussed in more detail below.)

Despite the decisively good performance of the economy and the gradual increase of working age, the labour market participation of the population has increased very slightly (by a few decimals in the relevant statistics).

The three factors shaping the extent of activity discussed above exerted a strong influence on the Hungarian labour market.

a.) Among those past the age of 64, the typical upper limit of working age in Europe, only 24 thousand were active (13.9 thousand men, 10.1 thousand women). There were 13.6 thousand male and 9.8 thousand female earners, and 300 active job seeker men and women each in the same population. No doubt, they all qualified as being of retirement age –in Hungary, those continuing their previous earning activity are almost exclusively heads or active participants of renown (family) enterprises, freelance intellectuals, scientists and artists, while job-seeking is limited to those who really need it.

b.) From among those past Hungarian retirement age (men older than 62, women aged 58 or more), the number of those remaining in employment or looking for a job (persons past 64 included) was 61 thousand (24 thousand men and 37 thousand women). The majority had a job and a thousand

approximately looked for a job actively. As for those past retirement age, calculated up to the theoretical limit of 74 years, less than 4% among them was present on the labour market.

Within the group of the economically inactive, numbering more than one million, a much larger number than that of the active job-seekers would have liked to work but refused to look for a job on account of the circumstances.

With the exception of a very modest number, those reaching Hungarian retirement age, a hundred thousand men and women approximately annually, simply disappear from the labour market.

c.) Activity rate of women. As indicated already by the above, by the nineties, the number of women on the labour market had already shrunk by the nineties; in contrast with the high activity (actually employment) rate of women in the majority of the former socialist countries, in Hungary, less than half of women aged 15-64 were in employment. (Neither is the rate better if we disregard the low retirement age of women – similar, however, in the other former socialist countries – and consider the activity of those of prime working age (25-54).)

In the nineties, the decade of the in-depth transformation of the economy, the multitude of women becoming jobless fled to inactivity instead of active job search. And although from 1998 on, with the commencement of slow employment growth, women started to ooze back to the labour market, in 2000 men still represented 55% of the economically active, while the proportion of women is higher than that of men in the population overall at 52.48%.

According to the annual average data of the LFS (slightly different from the above-presented data for QII used for comparisons), in 2000, hardly more than half (52.7%) of women aged 15-64, and 58.7% of those of Hungarian working age (15-57) was economically active. That is, even among those of working age, more than 40% remained absent from the labour market, either voluntarily or under some constraint (the majority of them with good reason – studies, child-care, early retirement –, but whatever the reason, a large proportion of women has actually become dependent on the family).

Given the low economic activity rate of women, Hungarian employment policy will have to make special efforts to realise the objective set by the EU for 2005, namely the increase of the Hungarian employment rate of women, less than 50% in 2000, to 57%.

d.) In Hungary the same as in the majority of the nearby or more far-away European countries, the outflow of men and women from the labour market starts prior to their reaching retirement age.

In 2000 – according to the data released in *Employment in Europe 2001* – while the employment rate of those aged 25-54 was almost 73%, the corresponding rate for the 55-64 year-old was only 22%, with a male rate of

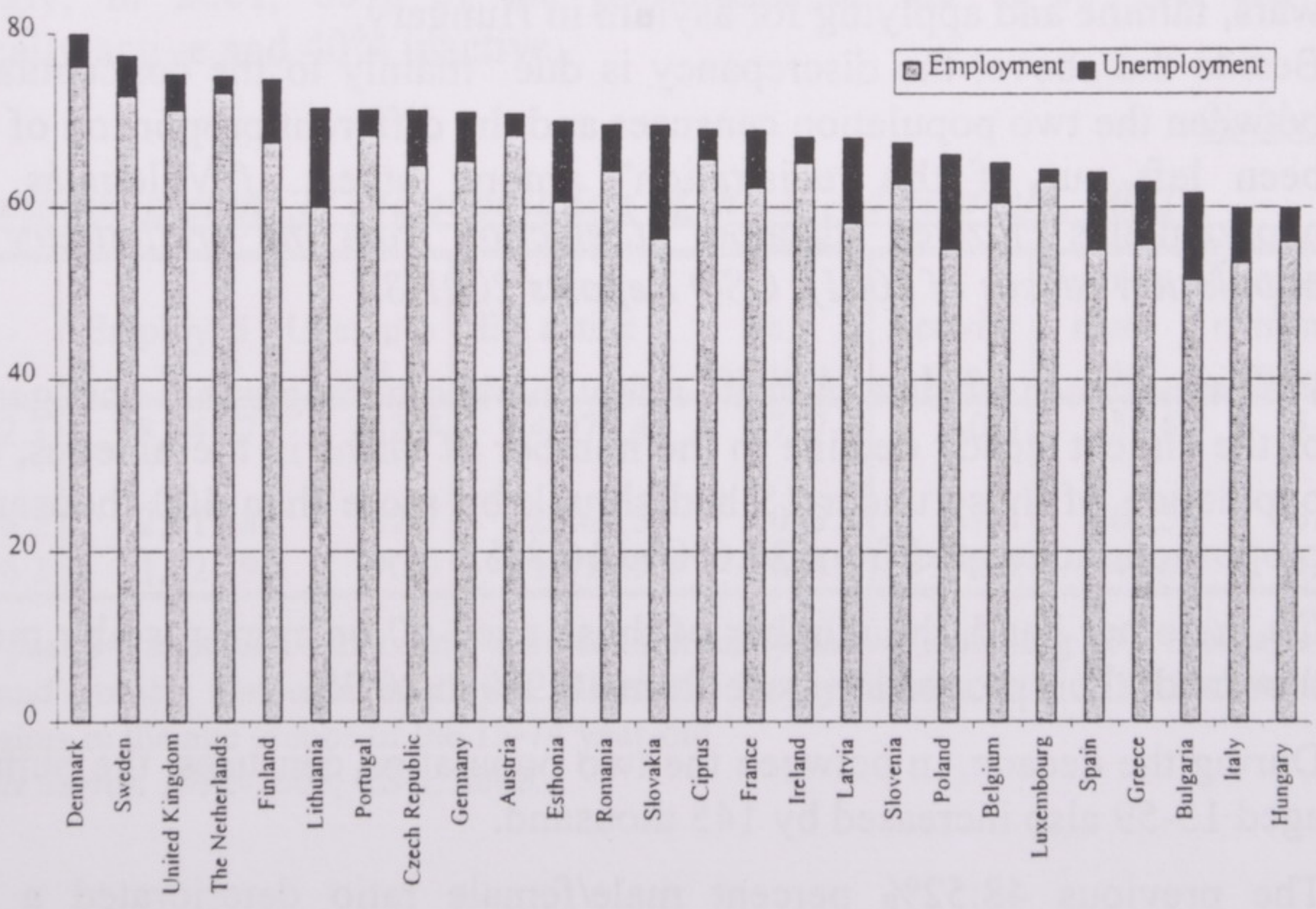
33% and a female one of 13%. The age groups in question, including retirement age, too, are not really suitable to characterise the Hungarian situation.

The problem, however, is a very real one indeed, as indicated by the more detailed age-group-specific data of CSO's Labour Force Survey (known prior to the population census): in 2000, hardly more than half (51.8%) of men aged 55-59 – that is, in the age groups under retirement age – was active; the corresponding rate for women was around one fifth of that (20.7%), despite the fact that three generations of women were also of active age.

The Hungarian experience, however, is that although many leave the labour market prior to having reached retirement age, the critical year is the relatively low retirement age limit – the turning point from the point of view of labour market participation. As discussed already, those present on the labour market are almost exclusively those of working age, with a very few exceptions.

Figure 1.

Population of economic activity in Member States of the EU and in Candidate Countries, 2000



2. Economic activity in Hungary in 2001

Given the fact that in Hungary preliminary data for the year 2001 based on the population census of 1 January 2001 are available already, let us call the attention

to a few major changes, of relevance for the assessment of the labour market situation of the population.

As indicated already, the census registered almost 180 thousand less inhabitants than the headcount relating to the previous, theoretical, date of 1 January 1990, but some 200 thousand more than that known in 2000.

According to the experts, the gap between the data regarded as valid in 2000 and the results of the population census is explained by several factors, Hence, for example, as indicated already, immigration, having gathered speed during the decade. While the first half of the century was characterised by several larger waves of emigration, following the revolution of 1956, in the decades of the sixties to the eighties, both immigration and emigration was insignificant. In the nineties, on the other hand, immigration from the areas of the neighbouring countries populated by ethnic Hungarians, from Transylvania in the first place, became more lively. Another significant group of immigrants, repatriating persons, several thousand annually, is that of pensioners returning to live in Hungary. According to the evaluation prepared at the Institute for Demographic Research, "the number of persons of older age, pensioners repatriating after having migrated to the West is estimated at tens of thousands already ..." *{Illés Sándor-Lukács Éva (eds.) "Migráció és statisztika'" (Migration and Statistics), Institute for Demographic Research, research papers, 71, 2002/1.}*

The annual average increase by 18 thousand includes those having fled from wars, famine and applying for asylum in Hungary.
Beside the above, the discrepancy is due "mainly to the conceptual differences between the two population censuses and the different proportion of those having been left out of the registration" among others. *{*"Válogatás a 2001 évi népszámlálás előzetes adataiból" *(Selection from the preliminary data of the population census of 2001), CSO Reports 2001/8.}*

Preliminary census data indicate a few marked demographic changes. As a result of the almost steady decline in the number of births in the nineties, by 2001, the population of those under 15 had shrunk by more than 400 thousand, and their proportion moderated from 20.6% to 16.8%.

On the other hand, the number of those aged 60 or more rose by more than 100 thousand; their proportion rose from 18.9% to 20.3%.

During the decade, in between the two population censuses, the number of those aged 15-59 also increased by 145 thousand.

The previous 48:52% percent male/female ratio deteriorated a little (men: 47.6%).

The more detailed (as yet preliminary) age-group-specific data modified at several points to a smaller or greater extent.

Table 2.4.

Age distribution of the population, 1990 and 2001

Age group (year)	1990		2001		Change	
	'000	%	'000	%	'000	1990=100%
0-14	2,130.5	20.6	1,716.4	16.8	- 414.1	80.6
15-19	766.9	7.4	664.9	6.5	- 102.0	86.7
20-29	1,298.9	12.5	1,582.8	15.5	+ 283.9	121.9
30-39	1,621.8	15.6	1,317.1	12.9	- 304.7	81.2
40-49	1,391.6	13.4	1,540.6	15.1	+ 149.0	110.7
50-59	1,205.2	11.6	1,309.9	12.9	+ 104.7	108.7
60-69	1,115.6	10.7	1,018.3	10.0	- 97.3	91.3
70-74	267.8	2.6	436.2	4.3	+ 168.4	162.9
75-X	576.5	5.6	609.3	6.0	+ 32.8	105.7
Total	**10,374.8**	**100.0**	**10,195.5**	**100.0**	**- 179.3**	**98.3**

Source: Census of 1990, preliminary data of census of 2001, CSO, 2002.

The Labour Force Survey data for 2001, corrected with the results of the population census, will only be available later (in 2003 according to the expectations).[17]

Therefore, we shall present the annual average data of the Labour Force Survey of 2001 as of now according to the data known prior to the census.

Accordingly, in 2001, 60% of the population of the 15-64 year-old was economically active and 40% inactive.

Table 2.5.

Economic activity of the population of the 15-64 year-old, 2001

Population '000		Employed *	Unemployed	Ec. active	Ec. inactive	Activity rate	Employment rate	Unemployment rate
of which:	6,792.3	3,841.7	232.7	4,074.4	2,717.9	60.0	56.6	5.7
male	3,336.2	2,119.8	142.7	2,262.5	1,073.7	67.8	63.5	6.3
female	3,456.1	1,721.9	90.0	1,811.9	1,644.2	52.4	49.8	5.0

* Among those past 64, another 18 thousand were economically active, including 10.8 thousand men and 7.2 thousand women; almost all employed. Hence the survey found a total of 3,859.5 thousand employed persons in the age groups of the 15-74 year-old.

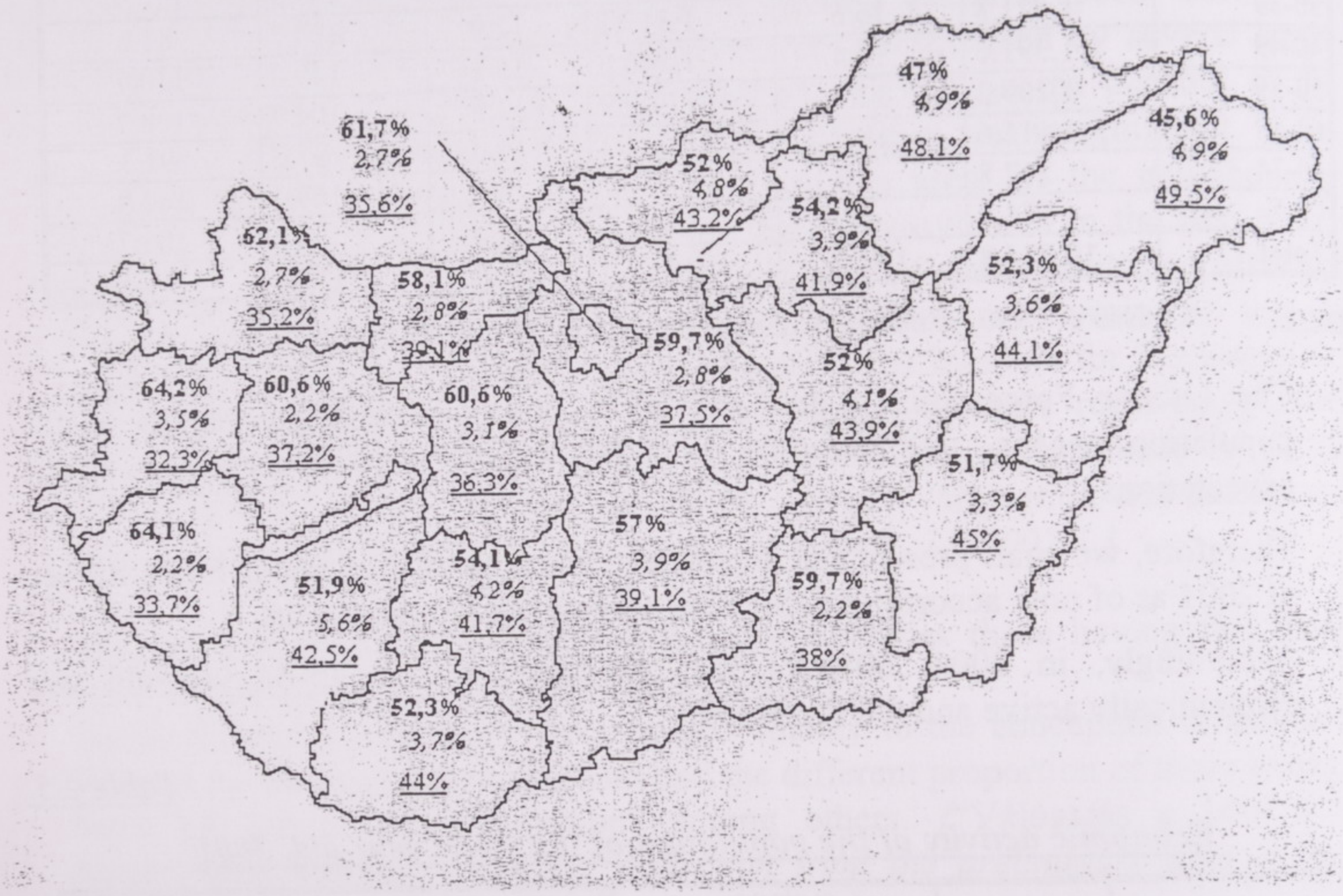
Source: *LFS Time Series, 1992-2001*, CSO, 2002.

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[17] The quarterly labour force surveys of 2001 covered every member aged 15-74 of some 33 thousand households, a total of around 66 thousand persons. Given the specific features of the sampling technique, the change in the population number identified by the census affected the LFS to a smaller extent only than the labour account assessing the labour market situation of the entire population according to the Hungarian legal regulations, although some modifications are to be expected in the case of certain age groups,. especially that of persons past the age of 60.

Figure 2.

Economic activity of 15-64 population, 2001



Employed = 56,6%
Unemployed = 3,4%
Economically inactive = 40%

Source: LFS, time series 1992-2001, CSO, 2002.,

The Labour Account referring to 1 January (reflecting essentially the processes of the previous year) already takes into consideration the preliminary data of the population census. (As it is known, the Labour Account, too, covers the labour market activity of the Hungarian working-age population; it takes employment into account on the basis of the data of diverse agents subject to mandatory data provision – business organisations, social security, tax authority -, and unemployment on the basis of the data of those registered with the public employment authority.)

The labour account provides important pieces of information on the economic activity of the population, but its close connection with the national regulations makes it hardly suitable for international comparisons (e.g., due to the different interpretation of working age, employment and unemployment than in the majority of the European countries).

Table 2.6.

Economic activity of the working-age population according to the data of the Labour Account, January 2001 and January 2002

Working-age population	*Of which:*							
	Employed*		Unemployed		Economically active		Inactive	
	'000	%	'000	%	'000	%	'000	%
01.01.2001.								
Men aged 15-60 3,234.6	2.172.0	67.1	202.2	6.3	2,374.2	73.4	860.4	26.6
Women aged 15-56 3,050.8	1,726.2	56.6	170.2	5.6	1,896.4	62.2	1,154.4	37.8
Total* 6,285.4	**3,898.2**	**62.0**	**372.4**	**5.9**	**4,270.6**	**67.9**	**2,014.8**	**32.1**
01.01.2002.								
Men aged 15-61 3,232.0	2,199.3	68.1	188.7	5.8	2,388.0	73.9	844.0	26.1
Women aged 15-57 3,041.5	1,722.5	56.6	154.1	5.1	1,876.6	61.7	1,164.9	38.3
Total* 6,273.5	**3,921.8**	**62.5**	**342.8**	**5.5**	**4,264.6**	**68.0**	**2,008.9**	**32.0**

* Including: Workers employed abroad: 32 thousand (23 thousand men, 9 thousand women) on both 01.01. 2001. and 01.01.2002..

Note: In the population of those past working age, on 01.01.2001, 80.7 thousand, and on 01.01. 2002 63 thousand were employed.

Source: Labour Account (preliminary data), CSO, 2002.

3. *EMPLOYMENT, THE EMPLOYED*

3.1 Progress in the Luxembourg process

As it is well-known, there has been a significant change in emphasis in the employment policy of EU Member States in 1997: efforts focusing on reducing unemployment were replaced by the primary objective of increasing employment. The common aim adopted by the Luxembourg Summit with the approval of Member States wishes to achieve the goal of having at least 70% of the population between the ages 15 and 64 being employed by 2100, and the meeting of the „medium-term" objectives set for 2005 by securing a job/earning occupation to the largest possible proportion not only of the unemployed, but also of the inactive.

In 2000, all Member States took their share of meeting the common goal increasing employment, even if not equally. The level of employment increased compared to the previous year in all Member States. In most cases, the increase was only a few tenths of a per cent, especially in countries where the level of employment was already high. (The greatest increase, of 2.3 percentage points, was attained by Spain, which nevertheless continued to rank last also in 2000.)

3.2

The year 2000 was the third consecutive year in which the number of full-time jobs exceeded that of part-time ones among the new jobs.

The level of employment of men between the ages 15 and 64 increased from 71.8% in the previous year to 72.5% in 2000 on the average of the European Union. That is: in the European Union, nearly three-quarter of working-age men earn an income; 7 of the 15 Member States attained or exceeded this level. (In 1999, the proportion of employed men was highest at 80.8% in Denmark; in 2000, in the Netherlands, at 82.4%; the lowest rate was reported from Italy at 66.7% and 67.5%, respectively.)

The employment rate of women also increased in all Member States; from 52.8% to 54% on the average of the Union, with extreme differences by country depending mainly on national characteristics. In Denmark and Sweden, over 70% of women between aged 15 to 64 were employed.

Gender differences are accompanied by significant age group differences: nearly 77% of those of prime working age (25 to 54) were employed in 2000. Within that, 87.2% of men earned an income; their proportion exceeded 90% in Luxembourg, the Netherlands, Austria and Portugal, but was over 85% everywhere except for Italy, which had the lowest rate (84.7%). In these age groups the average female employment rate was 65.9%, with significant scatter (Sweden: 81.7%; Spain: 50.7%).

All in all, the ranking of Member States by employment results changed slightly in 2000. Of the 15 Member States

⇒ seven countries continue to lead, with four (Denmark, the Netherlands, Sweden and the United Kingdom) having attained the 70% rate set as the

objective for the entire European Union for 2100 already in 1998; and another three (Austria, Portugal, Finland) being close to it;

⇒ the „medium range" has also remained unchanged: as before, the level of employment exceeds the EU average in two countries (Germany, Ireland), and it is close to it in another two countries (France, Luxembourg);

⇒ the order of the countries in the weakest position changed somewhat: Belgium crossed the rate of 60% and Greece and Spain that of 55%, and although the employment rate improved slightly in Italy as well, it had remained the only country with a result of below 50% by 2000.

Hungary – again, without a change – would belong to the last group of the EU Member States, slightly ahead of the three EU Member States with the lowest employment rates.

3.2 Acceding countries: low level of employment

As stated by *Employment in Europe, 2001* cited already: in the majority of the former socialist countries that wish to accede to the European Union, the employment level, low already in 1999, continued to decrease in 2000. (We shall not cover the employment rates of Cyprus here, aligned in all respects to those of the EU Member States.)

After 1990, the labour markets of former socialist countries were affected by the requirements of transition in different years and measures. According to the figures of the ILO, while employment increased in Romania (by 3.7 percentage points) and Lithuania (0.2 percentage point) between 1990 and 1995, it decreased to a smaller or greater extent in the other countries. During this period, the greatest loss was suffered by Hungary (9.7 percentage points), and the loss was almost as great in Slovakia (9.3 percentage points). The previous high level of employment, approximating 80%, decreased by 6.7 percentage points in Estonia and by 5.8 percentage points in the Czech Republic, but the decrease was only a few percentage points in Latvia, Lithuania and Bulgaria.

The employment rate of the ten countries considered in the calculations decreased from the level of nearly 75% in 1990 by 1995, but still remained over 70%. *{ILO, KILM, pp. 26-27}*

The level of employment changed with the reorganisation of the economies, at a slower or faster pace by country. Between 1995 and 2000, the decrease persisted and accelerated in most countries, and it was replaced by slow growth subsequently only in Hungary and Slovenia.

In Hungary, in the population of the 15 to 46 year-old, the employment nadir was reached in 1997 (3,646.3 thousand earners); to climb to 3,849.1 thousand in 2000. The drop was smaller in Slovenia (1990: 70.7%, 1996: 61.7%), and it was from this level that the country regained 62.5% by 1999, and 62.7% by 2000. The modest increase in employment in Hungary and Slovenia may be considered hopeful at best, signifying a reversal of the nearly ten-year-old trend rather than

substantial change; it appears that the other countries have not yet passed the bottom point.

The male employment rate is much lower even within the generally low level of employment than in the European Union: the average 72.5% of the Member States for 2000 is exceeded only by the employment of Czech men, and this proportion is much lower in the other countries. The averages of the accession candidate countries in terms of employment of women is much less behind the (also low) average of the Union, though – with the exception of Hungary, Latvia and Slovenia – this also decreased slightly in all former socialist countries between 1999 and 2000.

Despite its economic achievements, Hungary is among the last three countries with Bulgaria and Poland also in this comparison; it ranks fifth in terms of the employment of men and eighth in that of women.

Within this group, the lower level of employment in Hungary cannot be justified by the shorter working age: pension reform in the other former socialist countries is not ahead of those in Hungary. Neither are the other Hungarian regulations (e.g. the unemployment benefit system) more lenient.

3.3 Employment in Hungary in 2001

As indicated already, the increase in employment by about 200,000 persons between 1998 and 2000 was followed by stagnation in 2001 when the number of the employed remained basically unchanged.

Given the economic cooling having reached Hungary as well, one may perhaps even be happy that the situation, although it has not improved, has not got worse either. In the context of Hungary's very low employment rate in European comparison, requiring to increase the number of jobs by about one hundred thousand annually to reach the (slowly but steadily increasing) level of the EU, stagnation is considered more as a lack of results.

Out of a population of 7,888.5 thousand of those aged 15 to 74 registered by the census of 1 January 2001, 3,859.5 thousand, i.e. 49%, were employed according to the average annual data of the Labour Force Survey; 56.4% of men; and 42.1% of women.

The relevant rates for the population aged 15 to 64 were the following: out of the population of 6,964 thousand, 55.2% was employed, 62.1% of men and 48.5% of women. Within the population of those of working age according to the Hungarian definition, 6.34 million persons, on 1 January 2002, 61.4% was employed, 66.9% of men and 55.6% of women [18]

According to the concept used in international comparisons, introduced on the basis of ILO's recommendation, an employed person is someone having

[18] We note that, as of 1 January 2001, the census indicated 167,200 less employed than the annual average figure of the Labour Force Survey for 2001 due primarily to the different interpretations of the period investigated (census = date, LFS = average of 12 months) and of the term "employed".

performed at least one hour of earning (income-generating) work during the weak preceding the questionnaire survey.

Despite having been in use for several years, considering one hour of paid work as employment still often meets with incomprehension in Europe where most people interpret employment in a much more restricted sense.[19] In Hungary – and in the other former socialist countries where, for decades, most income-earners used to be employed by state enterprises, offices or co-operatives – people are especially apt to consider work done according to uniform rules the near-exclusive form of employment.

Consequently, many among those not in permanent, regular employment with fixed working hours in the organised (documented, taxpayer) economy or are not (reportedly) self-employed do not consider themselves to be employed and do not indicate any possible income-earning activity they may have in the course of the Labour Force Survey.

In Hungary, it may be assumed that the members of two distinct social groups work more extensively than shown in statistics.

One group is that of students, mostly in higher education, who earn some income by undertaking employment on a temporary or regular basis for shorter or longer periods if they can. According to the estimates, at least 60-70% of the over 180,000 students in higher education have some sort of income-earning work, completely legally, mostly through student co-operatives.[20]

In Europe – and especially in the United States – working students make up a significant proportion of documented part-time employees. In Hungary only a few of them report on such income-earning activities.

The other group, much larger than the previous one, is that of retired persons or persons inactive for some other reason living in villages or small cities, having some arable lend. Members of such households produce mostly for their own needs, but part of them also for sales. In 2000, agricultural production was pursued in nearly half (46.8%) of the households of the population aged 15 to 74, and almost one third among them also produced for sales. Two-third of people pursuing such activity in villages were retired persons, and their proportion was over 40% even in small cities. Such activities provide work to 38% of housewives or parents home for child-care living in villages and to 28% of those living in smaller cities.

The production of goods is actually „income-earning work", even though it would be difficult to determine how much of the time spent by the persons

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[19] On the other hand, this term has become suitable for assessing the employment conditions of the developing world as it uses the smallest accepted time unit of paid work.

[20] According to data from student co-operatives, the rate of their employment reaches five million working hours at the annual level. *{Világgazdaság, 24 August 2001}*
Student work was popular because employers did not have to pay social security and pension contribution for employing members of student co-operatives. During the amendment of the Labour Code in 2001, student co-operatives lost their exemption from contributions. Since then they found a new solution for retaining the preferred contribution. *{Figyelő, 13-19 December 2001}*

concerned was required for producing the products sold. According to data of the time-balance analyses, those who performed such activities spent a daily average of 218 minutes working if they sold only plants; 184 minutes if they sold only animal products; 190 minutes if they sold both, i.e. they always worked more than three hours a day. *{Életmód-időmérleg. A részidős mezőgazdasági munka, (Lifestyle-time-balance. Part-time agricultural work) CSO, 2001 pp. 41-45.}*

However, the persons concerned do not consider this to be income-earning employment. The number of those employed in agriculture decreases year after year in statistics; while small agricultural production continues to mean several hours of work every day and some income for several hundred of thousands of people. However, this method of earning an income is not the same as "employment" for them.

Most of the income-earning activities that exist in other groups of especially the inactive population do not appear in the employment data. (In this volume, Béla Falussy's study gives an overview of various works done for pay for others.)

The cases in which the rules make this possible without reporting income earning (making activities taxable) vary by country.

In Hungary – as it will be presented in the other contexts – presumably several tens of thousands work without a trace of their working (and particularly their income) in the organised economy. Among the many reasons for tax evasion, tax and contribution liabilities on labour, extremely high also in European comparison, come first. It is these burdens that make the persons involved – especially those in the groups with lower incomes, most concerned by these circumstances – want to hide.

An employment-friendly tax policy would probably render many types of work not registered until now measurable in statistical terms.

Most income-earners appearing in statistics (2001: 86%) are employees. The proportion of sole proprietors has been around 10% for years. That is, the group of those who are not employed, members of co-operatives, members of business companies and those who are not regularly employed – at least of those, who have reported on such earning occupations – is about 4%.

3.3.1 *The rate of employment by broad sectors and by branches of the national economy*

Despite the stagnation of employment, the processes of economic transition continued in 2001. The main trends of economic modernisation persisted with slight modifications.

The relative proportions of employment by broad sector (agriculture, industry/construction, services) hardly changed.

The number of (registered) earners continued to decrease in agriculture, in line with the hundred-year trend. Thanks to the development of science and technology, agricultural production is able to produce the quantity of products that Hungary is able to export in addition to covering domestic consumption with

less and less human labour. However, it is a recurring problem year after year how much of the product surplus the world is willing to absorb (and at what price) – despite the shrinking agricultural employment of developed countries, the range of plant and animal products supplied there has been significant for decades.[21] The unstoppable reduction of agricultural employment, however, is one of the gravest problems of adaptation also for Hungary (see also the weight of undocumented agricultural employment mention already) which may be mitigated only by an increase in other sectors, primarily in services.

The number of people employed in industry and the construction industry increased at a greater rate (by 22,600 persons) than the rate of decrease in agriculture (12,300 persons) in 2001. The maintenance (slight increase) of employment was the result of its increase in industry/construction. However, the industry is subject today to the same transition and adaptation processes as other sectors of the economy. Production facilities relocated from developed countries to the less developed ones or new production investments in countries offering favourable conditions may bring new jobs to Hungary as well, but the relative weight of industrial employment has typically been decreasing in the longer run (on the average of the European Union, it was 39.5% in 1975, 28.6%; in 1995, 26.9% in 2000, exceeding 30% in 2000 only in Portugal and Spain).

With the modernisation of the economies, the steady decline in the labour demand of production activities, and the increase in individual and social welfare, the proportion of those working in services increases; in most developed countries over 70% of earners are employed in services. In Hungary in 2001 the proportion of those working in services remained constant.

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[21] Excess supply has led to restrictions on supplied and mutually introduced protective duties in 2001 between Hungary and a number of its neighbours, also former socialist countries in the transition phase. However, such restrictions – as is well-known – are against the EU's principles declaring the free movement of goods, so the countries concerned will be forced to find different solutions in the longer run; with particular regard to the strict measures of the EU on restricting agricultural production.

Table 3.1.

Changes by employment sector, 1900-2001

Year	Agriculture, forestry		Industry, construction		Services		Employed
01.01.	persons	%	persons	%	persons	%	persons = 100%
1900*	1,734.6	61.1	422.5	15.0	684.2	23.9	2,841.3
1910*	1,684.7	59.7	558.1	18.3	810.1	26.5	3,053.0
1920*	2,127.2	59.7	562.9	15.8	875.3	24.5	3,565.4
1930	2,030.2	54.3	754.5	20.2	952.8	25.5	3,737.5
1941	2,165.1	51.5	919.3	21.8	1,118.7	26.7	4,201.9
1949	2,197.5	53.8	884.0	21.6	1,003.4	24.6	4,084.9
1960	1,830.0	38.5	1,617.7	34.0	1,311.9	27.5	4,759.6
1970	1,246.0	23.2	2,379.2	44.3	1,747.5	32.5	5,372.7
1980	1,109.0	19.3	2,386.1	41.6	2,238.5	39.1	5,733.6
1990	955.0	17.5	1,976.8	36.1	2,540.1	46.4	5,471.9
2001	205.3	5.6	1,225.4	33.1	2,266.3	61.3	3,696.9
Annual average **							
1992	460.1	11.3	1,431.0	35.0	2,191.6	53.7	4,082.7
1993	349.4	9.1	1,292.2	33.8	2,185.7	57.1	3,827.3
1994	327.6	8.7	1,237.3	33.0	2,186.6	58.3	3,751.5
1995	295.1	8.0	1,198.1	32.6	2,185.6	59.4	3,678.8
1996	302.4	8.3	1,190.1	32.6	2,155.6	59.1	3,648.1
1997	287.8	7.9	1,207.9	33.1	2,150.6	59.0	3,646.3
1998	278.8	7.5	1,264.3	34.2	2,154.6	58.3	3,697.7
1999	270.4	7.1	1,296.1	34.0	2,245.0	58.9	3,811.5
2000	251.7	6.5	1,298.4	33.8	2,299.0	59.7	3,849.1
2001	239.4	6.2	1,321.0	34.2	2,299.1	59.6	3,859.5

* Data applicable to the present territory of Hungary

** Population aged 15-74.

Source: 01.01.1900-2001: Population census data; annual average: *LFS Time Series, 1992-2000,* CSO, 2001, 2001: *Employment and unemployment, 2001*, CSO, 2002.

In Hungary in 2001 a minor restructuring occurred within the branches of the three sectors: employment decreased in nine branches, involving a total of 51.2 thousand jobs and it increased in five branches by a total of 61.6 thousand jobs.

Table 3.2.

Number and proportion of the employed by branch

Branch *	1992		1995		2000		2001	
	'000	%	'000	%	'000	%	'000	%
A-B	460.1	11.3	295.1	8.0	251.7	6.5	239.4	6.2
C	52.7	1.3	34.0	0.9	19.2	0.5	13.0	0.3
D	1,054.6	25.8	850.2	23.1	931.3	24.2	955.8	24.8
E	108.0	2.6	96.6	2.6	80.1	2.1	79.5	2.1
F	216.8	5.3	217.3	5.9	267.8	7.0	272.7	7.1
G	480.4	11.8	459.9	12.5	540.9	14.1	548.4	14.2
H	115.6	2.8	116.6	3.2	133.3	3.5	143.0	3.7
I	346.4	8.5	319.6	8.7	311.8	8.1	310.9	8.1
J	68.7	1.7	82.2	2.2	83.7	2.2	78.9	2.0
K	140.3	3.4	130.6	3.6	204.6	5.3	219.6	5.7
L	293.7	7.2	318.1	8.6	299.0	7.8	289.6	7.5
M	311.8	7.6	335.4	9.1	317.8	8.3	309.8	8.0
N	236.3	5.8	231.4	6.3	241.7	6.3	234.9	6.1
O-Q	198.4	4.9	191.8	5.2	166.2	4.3	164.0	4.2
Aggregate:	**4,082.7**	**100.0**	**3,678.8**	**100.0**	**3,849.1**	**100.0**	**3,859.5**	**100.0**

*__A-B__ = Agriculture, hunting, forestry, and fishing; **C** = Mining; **D** = Manufacture; **E** = Electricity, gas, steam, and water supply; **F** = Construction; **G** = Wholesale and retail trade, repair and maintenance of motor vehicles; **H** = Hotels and restaurants; **I** = Transport, storage and telecommunications; **J** = Financial intermediation and support services; **K** = Real estate, renting and business support; **L** = Public administration, compulsory social security; **M** = Education; **N** = Health care, social care; **O-Q** = Other services

Source: *LFS Time Series, 1992-2001*, CSO, 2002, *Employment and unemployment, 2001*, CSO, 2002.

In agriculture there were 12 300 persons less working than one year before.

In industry, the increase in staff, a minor one compared to the 1.3 million stock of industrial employees, actually concealed intensive transformation processes: mass redundancies on the one hand (according to an economic daily, the Hungary economy suffered the greatest wave of redundancies since Russian crisis *{Napi Gazdaság, 22 November 2001.})* and continuing capital influx, relocation of new activities and expansion of old ones on the other.[22]

The products that have been terminated, removed or reduced in volume were replaced by new ones. (General Motors and Fiat established a joint Hungarian company; IBM was increasing its staff in Hungary; Flextronics raised the number of its employees to 10,000 again between December 2000 and 2001, etc.)

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[22] GE turbine factory at Veresegyháza, Triumph Holding at Dunaújváros, Robust Plastik of Austria in Győr, Hermann Vogt GmbH of Germany at Nagyatád, Elanders AB of Sweden at Zalalövő, U-Shin of Japan at Kisbér; Japanese, Dutch, American and German companies at Rétság etc., creating several thousands of jobs; sometimes at the price of shutting down plants of the company in another country (for instance, Zanussi is moving its production from Italy and SMK of Japan is moving production from England, etc.).

The most significant staff changes were caused by a more permanent decline than expected in some modern sectors having shown outstanding growth previously (electronics, vehicle manufacture). Several among the multinational companies having introduced such activities in Hungary, too, and having become major employers in the manufacturing branches concerned passed decisions to minimise losses and improve competitiveness, ranging from the immediate stopping of production through the re-organising of the product structure to relocating production to countries promising cheaper production.

The most significant changes – partly already in 2000 – took place among these companies and their suppliers having settled here as well. The greatest movement of staff –, although on a smaller scale than in their units operating in other parts of the world – occurred at these companies.

In Hungary, especially in the electronic industry, there were examples of nearly all types of adaptation decisions of multinational companies.[23]
Simultaneously with the effects of the global market developments, the strengthening of the Hungarian forint in international money turnover had an unfavourable impact on the market positions – and in the longer run the employment position – of a number of exporter manufacturing companies.

In summary, the balance on staff changes having occurred in all branches of the industry, at both domestic and foreign companies, is modestly positive: despite an overall loss of 6.8 thousand jobs in different branches, industrial employment increased by a total of 22.6 thousand (within that, manufacturing earned 24.5 thousand jobs).

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[23] For instance, at the Philips plant in Győr, staff was reduced by 2,600 persons; while the production of CD drives was moved to Asia, the production of mechanic components of cars radios was moved from Mexico to Győr. Out of the 1,000 employees of Fonyton Kft, a supplier to Philips – and the largest employer on the southern shore of Lake Balaton – 600 had to be dismissed due to the moving of the Philips production. Flextronics, which has become one of the largest employers of the country within a few years with its factories established in the country's regions that are in a backward position in terms of employment, changed its production program, sites and staffing several times over the year. In December 2000 it employed 10,000, in March, 8 500, in June, 7,800, in September 8,800, and in December again 10,000 persons; this is where its started to manufacture Xbox, Microsoft's video game console. The product did not have the expected success – therefore a decision was made to move the plant, opened in November 2001, to China in 2002 where the manufacturing of the products is calculated to be cheaper. This decision will terminate over 1000 jobs in Hungary.*{The examples are quoted from news published in Figyelő, HVG, Napi Gazdaság, Népszabadság and Világgazdaság}*

Table 3.3.

Staff developments in manufacturing

thousand persons

Branch	Employed			Change (±)	
	1996	2000	2001	1996-2000	2000-2001
Food, beverages, tobacco	165.1	152.2	155.9	- 12.9	+ 3.7
Textiles, clothing, leather products	155.3	162.9	155.4	+ 7.6	- 7.5
Wood, paper, printing	80.3	80.3	83.1	-	+ 2.8
Chemical industry	93.9	101.2	91.9	+ 7.3	- 9.3
Non-ferrous mineral products	31.4	32.5	36.3	+ 1.1	+ 3.8
Metallurgy, processing	84.3	92.9	99.9	+ 8.6	+ 7.0
Engineering	211.6	263.6	287.7	+ 52.0	+ 24.1
Manufacture, other	28.9	45.7	45.6	+ 16.8	- 0.1
Aggregate	850.8	931.3	955.8	+ 80.5	+ 24.5

Source: *LFS, Time Series, 1992-2001*, CSO, 2002.

Staff changes were moderate in the nine **services** branches employing 2.3 million persons, too: employment decreased in six by 32,100 altogether, and increased in three by basically the same number (32,200).

Three of the six sectors with decreased headcount are public administration, education and healthcare, financed basically out of the budget; over two-third of the staff reduction (24,200 persons) occurred in these sectors. One of the main items was the continuous and significant decrease in the number of professional officers and drafted soldiers in connection with the reform of the military. (The total number of persons employed by the Ministry of Defence will have to be reduced from 61,000 to 45,000 from August 2000 to the end of 2003 *{HVG, 14 April 2001}*.)

Presumably the reason for a part of the decrease in staff in education and health care, moderate compared to their total number of employees, is the significant increase in minimum wages having generated serious wage tension in both.

In the increasing sectors, most jobs were created in the combined sector indicated in international statistics under the heading of 'Real estate, renting and business support'. The many unincorporated business partnerships and individual entrepreneurs, extremely popular in Hungary, appeared in this branch (in 2001, 246 thousand enterprises operated in this sector, nearly 30% of all enterprises; over 70% among them limited partnerships, general partnerships and sole proprietorships). They perform a variety of activities ranging from advertising to planning, from business consulting to accounting for business companies. This branch has been increasing for a decade, just as the other two branches in which employment rose in 2001, viz. commerce and accommodation and catering.

However, the standstill in services employment growth overall is indicative of the prevailing absence of regulations to promote the dissemination of forms of employment typically required here – such as part-time work, shorter working hours –, in addition to the deceleration of several processes in the economy.

The extent of employment was affected – to different degrees by branch – by the significant increase in minimum wages from HUF25,500 to HUF40,000.

According to the preliminary calculations of KOPINT-DATORG this involved a quarter of income-earners in the competitive sectors. In 2000, the proportion of employees with base salary of less than HUF40,000 was 40.8% in agriculture, 25.5% in the food industry, 46.9% in the manufacture of textiles, textile products, leather and footwear, 32.6% in construction, 35.7% in commerce and repairs; 43.3% in accommodation and catering and 26.7% in real estate and business services. According to the relevant calculations, the increase involved about 480 thousand persons in the competitive sectors and 186 thousand employees in the public sector.

The wage increase, no doubt significant and advantageous for the employees, entailed an increase in public burdens that were high as they were, which the public sector had to fund out of public money, and companies in the competitive sector out of their revenues. According to the calculation published in the annual report of the Institute for Small Enterprise Development (covering about 800,000 entities involved), the increase in minimum wages implied a surplus expenditure of altogether HUF106 billion, of which HUF80 billion was to be borne by the competitive sector.[24]

The Institute for Economic Research (Gazdaságkutató Rt, GKI) made a survey of the reactions of companies in spring 2002.

Accordingly, the increase in minimum wages caused no substantial problem for 43% of companies. It was felt least by large multinational companies where even the lowest salaries had reached or exceeded HUF40,000 already. In addition to the branches mentioned above as having been strongly affected, the business management of smaller employers (employing no more than 50 persons) and self-employed entities working with one or two employees became more difficult – mostly because of the increase in the burdens implied by the increased wages. The most important negative effect was the deterioration of profitability for 38% of companies; and that of salaries management for 32% and of competitiveness for almost one quarter. Employment impacts – partly foreseeable ones – occurred at 16%.

Altogether 8.7% of companies, widely scattered by business sector, enterprise size, region, etc., stated that they were forced to dismiss employees because of the increased burdens (within that, 14% of agricultural companies and 8.8% of commercial enterprises; in manufacturing, 23.3% of textile and clothing industrial companies; in the timber and paper industry, 15.2% of companies; 13% of food industry companies; 9.8% of industrial companies working with 21–50 persons, etc.).

Redundancies concentrated in a few branches and less than 10% of companies, but the cancellation of plans to increase staff was a much more widespread phenomenon: as a result of the increase in minimum wages, 17.4% of companies waived the intention to increase their staff. (28% of companies with 21-50 staff, 32% of companies with less than 20 staff, one third of agricultural companies,

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[24] Situation of SMEs, 2001; annual report *{Institute for Small Enterprise Development, Bp, pp. 31-32.}*

28% of industrial and commercial enterprises respectively; in manufacturing, 45.5% of timber and paper industrial companies, 39% of food industrial ones; 31% of communications technology companies, 29% of companies in the electric machinery and equipment sector, 37% of companies operating in the Northern Great Plains, 23% of companies operating in the Southern Transdanubian region, etc. By the way, János Köllő demonstrated the effect of the increase in minimum wages causing a necessary reduction in demand for low-wage employees by mathematical–statistical methods.)[25]

The government launched a programme with a budget of HUF2 billion out of the Labour Market Fund, with support of the social partners, already in 2001 to balance unwanted effects: labour-intensive enterprises – with even one employee – were allowed to apply for the refunding of the surplus amount of public burdens for the year. Following a mitigation of the conditions of application that proved to be too strict, as a result of a substantial increase of the subsidy amount, nearly 4,200 applicants were granted the refund in question.[26] *{Report on the performance of the budget for the Labour Market Fund for the year 2001}*

It is impossible to measure the employment increase that smaller and larger companies put off due to the increase in minimum wages (and the relevant public burdens). As the balance of staff changes (recruitment and dismissals/redundancies) forecast by the Ministry of Economic Affairs for the year 2001, in the first half of 2001 there was an increase of 32,000 persons and during the second half of the year there was a decrease of 26,000 persons; i.e. an overall increase of 6,000 persons was expected throughout the year; the companies indicated at least stagnation in advance.

3.3.2 *Employment status, major employment groups*

People in income-earning occupations can be assigned to a few typical groups according to the nature of their work, its directed or independent status.

As we have already indicated, the largest group – growing year after year – is that of employees.

Employee status, having shown massive growth, historically, as a result of the transformation economic activities – the product mostly of the second half of the 20th century in Hungary –, is as attractive and even more so as it used to be. Its popularity derives from a number of factors, not in the least the many accomplishments institutionalised as worker's rights that achieved by trade union movements the world over, ranging from regulated working hours through paid holiday to working conditions protecting the health and safety of workers.

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[25] Köllő J.: "Hozzászólás az elmaradt minimálbér-vitához", (J. Köllő: Contribution to the unheld debate on minimum wages) *Közgazdasági Szemle*, December 2001, pp. 1064-1080

[26] Except for the initial experience of some minor investigations of other unwanted effects, there are mostly only assumptions. For instance, according to the survey of the Trade Union of Commercial Employees, commissions, bonuses and shift allowances were terminated at part of the companies – all these were built into the minimum wages. Or: employees are employed for shorter working hours. Or – mainly in construction industry, agriculture and other seasonal jobs – undocumented employment increases, etc.

Those who are not able or do not want to become independent and take the numerous risks of creating a living for themselves are happy to find refuge under the large umbrella of these accomplishments, more or less uniform throughout the more developed countries.

Between 2000 and 2001, in Hungary, the number of employees increased by 29 thousand and that of the self-employed decreased by 19 thousand. The number of co-operatives members continued to decrease, too, as it did throughout the decade. (Most industrial co-operatives were transformed into enterprises, and in agriculture there were less co-operatives in 2001 (1,808) already than in the services (3,221; of which 1,952 in real estate and business services).

Table 3.4.

Number of persons in employment * and their distributon by the nature of the employment

Nature of employment		1992	1995	1996	1997	1998	1999	2000	2001
Employed	'000	3,203.4	2,978.9	2,961.2	2,989.7	3,088.5	3,201.3	3,255.5	3,296.3
	%	79.6	82.2	82.1	82.8	84.0	84.4	85.0	85.7
Co-op, memb.	'000	225.0	84.2	79.0	68.9	55.8	42.5	37.1	30.7
	%	5.6	2.3	2.2	1.9	1.5	1.1	1.0	0.8
Member of partnership	'000	257.9	167.9	151.8	137.4	132.5	111.8	129.4	119.1
	%	6.4	4.6	4.2	3.8	3.6	2.9	3.4	3.1
Sole entrepr	'000	290.1	351.7	372.2	373.3	369.1	407.7	381.0	372.1
	%	7.2	9.7	10.3	10.3	10.0	10.8	9.9	9.7
Family memb.	'000	49.3	40.1	40.9	41.0	28.8	28.2	26.1	26.3
	%	1.2	1.1	1.1	1.1	0.9	0.7	0.7	0.7
Total	**'000**	**4,025.7**	**3,622.8**	**3,605.1**	**3,610.3**	**3,674.7**	**3,791.5**	**3,829.1**	**3,844.5**
	%	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Ages 15-74, conscripts not included

Source: *LFS Time Series, 1992-2001*, CSO, 2002.

CSO has been using the classification system aligned to that valid in the European Union (National Uniform System of Occupations – Hungarian Abbreviation = FEOR) for investigating the structure of employment since 1994.

The classification ranks each occupation on the basis of the peculiar characteristics of the job. In most cases, there is a specific education qualification requirement for a given job, so the relationship between school qualification and occupation is strong. However, the occupation of each person should be determined on the basis of the job done rather than their educational attainment.

The employment structure changes only slightly from year to year; the move in the proportion of those belonging to main employment groups is no more than a few decimals.

However, certain trends are noticeable in the longer run.

Again, we will use the starting data of the analyses published by CSO in 2000 on the changes of the employment structure since 1994 for comparison.

Between 2000 and 2001, despite the modest increase in the number of manual workers, the proportion of manual to non-manual employees was modified only by a few tenths of a percent, and the change is slow in the longer term as well.

In 2001, the number of those at the top of the employment hierarchy decreased slightly compared to 2000, and the number of those working in jobs requiring higher and secondary education, but no independent application of knowledge increased slightly. The number of those employed in office and administration jobs also decreased somewhat.

However, the trend according to which a predominant part of white-collar jobs – except for the highest, top positions – is filled by women and at an increasing rate as one progresses downwards in job hierarchy has remained unchanged. Office and administration jobs are by now occupied almost exclusively by women.

Within the category of manual jobs, in 2001 the number of those assigned to the major employment groups of machine operators, assemblers and drivers increased fastest, indicating that new jobs in industry and construction typically required labour that could be trained quickly (often working in an assembly line system). Simple physical occupations requiring no skills continued to decrease slightly; the decrease is over one fifth since 1994.

Table 3.5.

Number of the employed by major employment groups, 1994-2001

Major job groups	1994			2000			2001		
	all		women	all		women	all		women
	'000	%	%	'000	%	%	'000	%	%
Legislators, senior officials and managers	240.8	6.4	36.8	265.4	6.9	33.9	260.2	6.7	34.4
Professionals	383.3	10.2	56.7	450.0	11.7	58.2	450.8	11.7	57.3
Technicians and associate professionals	448.6	12.0	64.5	509.5	13.2	64.3	514.1	13.3	64.5
Clerks	318.9	8.5	91.2	261.3	6.8	92.2	257.4	6.7	92.6
on-manual workers, total	**1.391,6**	**37.1**	**63.7**	**1,486.2**	**38.6**	**61.9**	**1,482.5**	**38.4**	**61.9**
Service workers and shop and market sales workers	517.0	13.8	56.8	585.1	15.2	55.4	600.5	15.6	54.7
Skilled agricultural and forestry workers	132.4	3.5	31.3	133.6	3.5	27.3	133.0	3.4	28.3
Craft- and related workers	852.3	22.7	21.3	841.4	21.9	19.3	838.3	21.7	18.0
Plant and machine operators and assemblers	390.1	10.4	21.1	440.4	11.4	27.0	460.9	11.9	28.7
Elementary occupations	359.9	9.6	57.1	297.6	7.7	53.2	287.7	7.5	54.4
Ianual workers, total	**2.251,7**	**60.0**	**35.7**	**2,298.1**	**59.7**	**34.8**	**2,320.4**	**60.1**	**34.7**
Armed forces	108.2	2.9	5.6	64.8	1.7	9.4	56.6	1.5	3.5
Iational economy, total	**3.751,5**	**100.0**	**45.2**	**3,849.1**	**100.0**	**44.9**	**3,859.5**	**100.0**	**44.8**

Source: *LFS Time Series, 1992-2001*, CSO, 2001; 2001: *Employment and unemployment, 2001*, CSO, 2002.

Note that, according to the data of the Labour Force Survey, nearly 60 thousand employed persons reported *secondary employment,* 35.4 thousand men and 23.3 thousand women.

Only 7.5 thousand (13%) of those working in agriculture reported secondary employment, a fraction only of those performing several hours of agrarian work per day and not in agricultural jobs; however, the persons concerned do not consider this as "secondary employment". The proportion of those who have secondary employment in industry is only 15% (8.9 thousand persons). Over 70% of activities of an assistance/supplementary nature performed in less than the usual daily working hours was performed in the services, pre-eminently in business activities assigned to the category of real estate business (9,300 persons), education (8,200 persons) and commerce (7,400 persons).

The number of those who pursue these activities does not amount to half of the individual entrepreneurs who pursue this activity in secondary employment and have been licensed as such (134 000 persons in 2001); this is estimated as being much lower the number of members or employees of limited partnerships in secondary employment.

3.3.3 *Employment by legal form of the organisation*

As in all economies that react sensitively to changes in demand and supply, the number of business organisations and the proportion of different legal forms changes year after year in Hungary as well.
However, some durable trends may also be observed amidst the changes.

⇒ The formation and dissolution of new organisations is lively year after year. Following the explosion-like organisational restructuring period in the first half of the decade, although the pace of changes slowed down (between 1995 and 1996, over 92 thousand new organisations were formed, but in 1997 only 36 thousand, and in 1998 and 1999 about 23 thousand, respectively), the number of new organisations rose again to 45 thousand in 2000.
2001 was the first year when the number of units in the business sector decreased (by 6,449), and the reduction of the number of all organisations was mitigated only by the significant increase in the number of non-profit organisation.

Table 3.6.

*Number of active organisations **

	31.12.1995.		31.12.2000.		31.12.2001.		Change (2000 = 100)	
	org. no.	%	org. no.	%	org. no.	%	org. no.	%
Companies *of which*	188,207	28.2	359,325	38.7	371,778	40.2	+ 12,453	+ 3.5
–incorporated	94,948	14.2	157,981	17.0	163,824	17.7	+ 5,743	+ 3.6
-- unincorp. (partnership)	93,259	14.0	201,344	21.7	207,954	22.5	+ 6,610	+ 3.3
sole proprietorship	417,587	62.6	487,699	52.6	468,797	50.8	- 18,902	- 3.9
Total	**605,794**	**90.8**	**847,024**	**91.3**	**840,575**	**91.0**	**- 6,449**	**- 0.8**
Public and social insurance organisation	14,992	2.2	15,436	1.7	15,615	1.7	+ 179	+ 1.2
Non-profit organisation	46,804	7.0	65,335	7.0	67,153	7.3	+ 1,818	+ 2.8
ESOP organisation	303	-	263	-	228	-	- 35	- 13.3
Total	**667,893**	**100.0**	**928,058**	**100.0**	**923,571**	**100.0**	**- 4,487**	**- 0.4**

*Inland Revenue Office and CSO record registered and active organisations differently. The data quoted above correspond to the registration system of CSO.

Source: CSO, *Monthly Statistical Bulletins*, 2001/12.

There is, however, no close relationship between the number of registered organisations and the level of employment. Several organisation work without main job holder participants (most non-profit and ESOP organisation; individual enterprises and partnerships operated by persons in secondary employment).

About one fifth of earners are employed by 15.6 thousand organisations of the public sector, and four-fifth of earners belong to 840.6 thousand organisations in the competitive sector.

⇒Less than 20% of organisations in the business sector have legal personality and may be considered independent business enterprises in a legal sense. In Hungary, this group includes companies limited by shares, limited liability companies and co-operatives. As it is well-known, at least the minimum amount of capital specified under the law is required for establishing such companies. (The capital may originate from private individuals or institutions such as pension or social security funds, etc.; the company manages the investment.) The company is liable for its business activities up to the amount of its assets. The company employs – in all positions from the CEO to the doorman – all workers as employees subject to an employment relationship. Although the majority of incorporated companies are small, they include the largest Hungarian employers.

About 80% of Hungarian businesses, although definitely indispensable actors of the economy, have no legal personality, and hence are different from the above companies in some important respects. For instance, there is no minimum amount of capital to be invested on a mandatory basis – companies and individual enterprises are based typically on the sales of certain special skills. A number of employment relations are possible in the company:

working owner, member, employee, helping family member; individual entrepreneurs may work alone, with family members or with employee. As the assets, income and liabilities of business activities cannot be separated from those of the family household, these enterprises are not subject to corporate taxation – the persons working in them are taxed as private individuals (they pay personal income tax).

Working owners (members) of enterprises without legal personality are considered to self-employed for employment purposes, using the definition proposed by ILO.

In 2001 in Hungary, individual entrepreneurs made up 56% of organisation working in the competitive sector (in 2000 nearly 60%, in 1995, 69%); companies without legal personality provided another 19% in 2001 (their proportion in 1995 was 16% and in 2000 also 19%).

Table 3.7.

Distribution of active enterprises by legal form

%

Legal form, staff category	1995	2000	2001	Change (±) 1995-2001	Change (±) 2000-2001
	31 December				
Incorporated company	88,455	148,494	154,153	+ 65,698	+ 5,659
of which:					
LLC	85,349	144,656	150,194	+ 64,845	+ 5,462
CLS	2,903	3,800	3,926	+ 1,023	+ 126
Co-operative	4,879	5,922	5,715	+ 836	- 207
Other	1,189	3,511	3,907	+ 2,718	+ 396
Business org. subject to mandatory transformation	425	54	49	- 376	- 5
Incorporated partnership	*94,948*	*157,981*	*163,824*	*+ 68,876*	*+ 5,743*
Unincorporated company	83,885	174,486	181,772	+ 97,887	+ 7,286
of which:					
general partnership	2,935	7,052	7,230	+ 4,295	+ 178
limited partnership	80,950	167,434	174,542	+ 93,592	+ 7,100
Other	1,077	25,184	25,611	+ 24,534	+ 427
of which:					
building community, condominium	957	24,771	25,137	+ 24,180	+ 366
Terminating legal form	8,297	1,674	571	- 7,726	- 1,103
of which:					
business partnership	7,690	1,596	539	- 7,151	- 1,057
Unincorporated partnership	*93,259*	*201,344*	*207,954*	*+ 114,695*	*+ 6,610*
Partnerships, total	**188,207**	**359,325**	**371,778**	**+ 183,571**	**+ 12,453**
Sole proprietorship	**417,587**	**487,699**	**468,797**	**+ 51,210**	**- 18,902**
Enterprise, total	**605,794**	**847,024**	**840,575**	**+ 234,781**	**- 6,449**

Source: 1995-2000: Number of active business organisations, CSO; 2001: *Monthly Statistical Bulletins*, CSO, 2001/12.

The enterprises of the self-employed are typically small, especially in less well-off countries where both solvent demand and the capital available for investment into the

activity are of a more moderate dimension. A longer period of time is required for establishing the conditions for growth.
However, the small size of enterprises is not typical only in the case of the self-employed. The general downsizing of organisations is a natural concomitant of economic transformation, including the decline in the demand for products of mass-producing big industry and the continuous growth of demand for services.
In connection with the Hungarian organisation of structure including a massive number of micro-enterprises, experts are usually unhappy about the low proportion of small and even more so of medium-sized organisation. However, the change in organisational dimensions – which assumes the expansion of employment together with an increased capital strength – depends on diverse factors, as it is well-known.

Table 3.8.

Distribution of main forms of active business organisations * by staff category, 31.12. 2001

Legal form	Staff category						Aggreg.
	0 **	1-9	10-19	20-49	50-249	250 +	
	micro		small		medium	large	
Incorporated							
LLC	44,977	83,602	10,929	6,956	3,235	495	**150,194**
CLS	727	932	360	486	903	518	**3,926**
co-operative	2,667	1,307	402	684	623	32	**5,715**
Total	**48,371**	**85,841**	**11,691**	**8,126**	**4,761**	**1,045**	**159,835**
in %							
LLC	29.9	55.7	7.3	4.6	2.2	0.3	**100.0**
CLS	18.5	23.7	9.2	12.4	23.0	13.2	**100.0**
co-operative	46.7	22.9	7.0	11.9	10.9	0.6	**100.0**
Total	**30.3**	**53.7**	**7.3**	**5.1**	**3.0**	**0.6**	**100.0**
84%							
Unincorporp. partnership							
general	2,548	4,417	199	58	8	-	**7,230**
limited	78,235	93,288	2,321	559	119	20	**174,542**
Total	**80,783**	**97,705**	**2,520**	**617**	**127**	**20**	**181,772**
in %							
general	35.2	61.1	2.8	0.8	0.1	-	**100.0**
limited	44.8	53.5	1.3	0.3	0.1	-	**100.0**
Total	**44.4**	**53.8**	**1.4**	**0.3**	**0.1**	-	**100.0**
98.2%							
Sole proprietorship	384,603	81,988	1,760	402	44***	-	**468,797**
in %	82.0	17.5	0.4	0.1	-	-	**100.0**
99.5%							
GRAND TOTAL:	**513,757**	**265,534**	**15,971**	**9,145**	**4,932**	**1,069**	**810,404**
in %	**63.4**	**32.8**	**2.0**	**1.1**	**0.6**	**0.1**	**100.0**
96.2%							

* Not including forms/enterprises subject to mandatory transformation/termination, of a total number of 30,171,including 25,137 building communities, condominiums

** Business units operating without employee, on a one-man basis by the owner, and entities of unknown staff number

*** 50 staff and more

Source: CSO, *Monthly Statistical Bulletins,* 12/2001.

About 70% of employed persons in the economy work for organisations with more than five persons; that is, over one million work on their own or at a workplace where no more than four persons are employed. The CSO observes the changes in the number of employees in organisations with five employees and above. In the group observed, the number of those working at micro- and small enterprises decreased, the proportion of those working for medium-sized enterprises increased slightly, and the proportion of those working for large organisations increased most over one year. (Naturally, if the self-employed and people employed in organisations with 1-4 staff were taken into account, that would modify the said proportions severely.)

3.4 Atypical jobs

Within the modifying structure of employment adapting to the constant change in demand, the different components of labour, including working time, the duration of employment, the place of work as distance work spreads, etc., change as well.

Economic development has brought about more or less uniform forms of employment, merging the modifications achieved by trade union movements decade after decade. The gradual institutionalisation of the process until after World War II, especially the regular reconciliation of interests between associations of employers and employees, stabilised several components of what we call today "traditional" employment, ranging from the rules for recruitment and dismissal through fixed working hours and salary systems to the extent of paid holidays.

In the economy, the transformation and decline of industrial production – especially mass production – and the increase of services brought about new types of employment needs. The conditions had to (should) be created for meeting the new demands – most European countries are just going through the difficult period of adaptation, which entails the re-forming of several components of traditional employment, mostly by giving up part of the previous achievements, which creates a division in the social democratic parties that have been in power in most European countries over recent decades. In view of the quickly changing employment needs of the developed world, the ILO, one of the first organisations to have addressed atypical work in the early eighties, put the issue of the comprehensive settlement of the situation of those who are employed non-traditionally on its agenda, claiming decent work and employment conditions for all who work in a form that is not/not sufficiently covered by labour law (considered to be informal in this respect). At the same time, the re-interpretation of the term "atypical" started as well[10].

The main line of distinction among the employed is whether they are employees or self-employed. Atypical forms of employment (not covered yet by Hungarian

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[10] The issue is included in ILO's annual conference in the summer of 2002, and will be discussed by the joint conference of UNECE, Eurostat and ILO.

labour law and covered imprecisely or not at all by statistical accounting) exist – and are on the rise – in both main categories.

The new forms emerge in the most variegated shapes. Researchers of Cambridge University launched a widespread and in-depth empirical investigation in 1998 to identify some forms of employment classified with uncertainty.

Although there remained some borderline cases impossible to classify even after the investigation, it was found that some forms not adequately covered by labour law and hence not providing efficient protection to workers can be distinguished quite clearly. For instance, within the category of the self-employed, a distinction was made between enterprise-runners (using the Hungarian terminology: individual small entrepreneurs) and self-employed "workers" not in employment (individuals). The latter may be casual workers, workers of a mediating agency, or workers having a contract with an agency without employment obligation (zero-hour) waiting for casual assignments.

According to the numerical results, about 86% of employed persons considered themselves employees and 13% self-employed in the United Kingdom. Within the latter group, 6% were actually self-employed entrepreneurs and 7% were self-employed workers according to the research. Atypical, non-standard work – including employment for a specified time or task, casual work, home-working, seasonal work, work done at agencies, or apprentice or trainee work – is much more frequent among self-employed workers than among those subject to standard employment, and more frequent among part-time workers than those employed full-time.

Specifications performed by diverse tests (previous work activity), the existence of an independent enterprise, etc. broadened or narrowed the categories derived by quantitative analysis, but the proportion of those in non-standard employment, significantly underestimated by the labour surveys according to the researchers, should definitely be considered significant, especially among those who are employed for a fixed term. *{B.Burchell, S.Deakin, S.Honey: The Employment Status of Individuals in Non-standard Employment, University of Cambridge, 1999.}*

In the course of this significant transformation process, the spread of three forms of employment is monitored in the European Union: part-time work, fixed-term employment and self-employed work. According to the data of labour surveys, their proportion increases year on year, at different rates by country. More precisely: the proportion of the self-employed is constant overall, or decreases slightly; fixed-term employment appears in new forms and areas of applications and is spreading.

In 1999, altogether 45.3% of earners in the European Union worked in one of these forms; in 2000, 43.9%.

Owing to a number of factors, compared to the respective European averages, in the accession candidate countries much less people work part-time, a bit less people work under fixed-term contracts, and more people work as self-employed.

The high proportion of the self-employed is explained in the case of several countries (such as Romania and Poland) partly by the significant weight of individual (family) farming in agriculture, and partly by repair services in small industry, and in recent years by the proliferation of enterprises providing business services. The proportion of persons working part-time is low with the exception of Romania, Latvia and Poland – especially in Slovakia and Hungary. The proportion of people employed with contracts for definite periods is low almost everywhere.

Hungary took practically no steps to promote the spread of non-standard forms of employment in any area in 2001, despite the fact that this could be one of the possible ways leading to employment and the labour market re-integration of the inactive.

a.) <u>Part-time work</u>

Part-time work still has no universally accepted definition, mainly because of the different length of statutory working hours in each country. In general, people employed for shorter hours than the lawful (daily, weekly, monthly) working time are considered to be part-time employees, who, however, have rights – according to the collective bargaining agreements valid in most countries – identical to those employed full-time.

Part-time work is typically widespread in different services branches, allowing career beginners to gain working experience, providing possibilities for a multitude of women who wish to work shorter hours while taking care of the family, and for those facing retirement and those already retired for working and for earning[11]. Its popularity is due to the employment of people in these groups. (According to the findings of international research, the vast majority of people working part-time agreed to employment for shorter hours voluntarily, and only a smaller proportion of them considered it a forced choice accepted in the absence of full-time jobs.)

The spread of part-time working is promoted by government measures in several countries, giving it a stimulus via co-ordinated elements in the social allowance system, the pension system and mainly the tax system.

In Hungary, part-time employment is scarce for the time being. According to the research conducted by Mária Frey – partly together with Ilona Gere – going back several decades, interest in part-time work has always been lively, primarily among women, and a part of employers would also have liked to use it, but the discouraging conditions, especially low wages and high public burdens, have always been more dominant. Part-time work was used primarily in the case of the low number of retired people who were

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[11] According to the survey conducted in the OECD countries, part-time employment becomes significant in terms of proportion following the retirement age among men: of men employed at and over the age of 65, 67.3% in the United Kingdom, 54.5% in Finland, 48.1% in the United States, 48% in Germany and 40.7% in Japan continue to work part-time. The proportions for women employed at the same age are: United Kingdom 88%, Germany 72.1%, United States 61.5%, Finland 60%, Japan 55%. *{Ageing and Income, OECD, 2001. p. 92.}*

employed. A certain breakthrough occurred in trade with the spread of large shopping centres where employers needed a staff level aligned exactly to the well-observable fluctuation in daily, weekly, monthly turnover (cashiers, sales staff, shelf loaders, etc.).[27]

The relative degree of development of a number of branches of services, the close association of Hungarian labour law regulations to the standard forms of employment, and, not in the least, the fixed amount of health contribution payable on each employee (the amount of which has been increasing year after year since its introduction; from HUF3,900 per month in 2000 to HUF4,200 per months in 2001) all hamper the spread of part-time work that could boost employment.

CSO's Labour Force Survey covers the length of regular weekly working hours as well among others. In 2001, less than half a percent of the employed worked no more than 14 hours a week; this is less than in 1995. Nearly 5% worked 15-36 hours, but that includes those who work shorter hours in general due to health, security, etc. reasons. (On the other hand: three times as many people worked hours that were longer than 40 hours a week.)

Table 3.9.

Employment in reduced working time, 1995-2001

%

Usual working time	1995			2000			2001		
	Men	Women	All	Men	Women	All	Men	Women	All
Changing	12.8	6.0	9.5	14.0	5.3	10.0	13.1	5.4	9.6
Constant	87.2	94.0	90.5	86.0	94.7	90.0	86.9	64.6	90.4
of which:	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1-14 hours	0.6	0.6	0.6	0.3	0.4	0.3	0.2	0.4	0.3
15-35 hours	2.5	7.5	4.8	2.2	7.6	4.6	2.5	6.1	4.7
36 hours	0.6	1.1	0.8	0.5	0.9	0.7	0.4	0.8	0.6
37-39 hours	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<40 hours	3.8	9.3	6.3	3.1	9.0	5.7	3.2	7.4	5.7
40 hours	65.1	72.3	67.9	61.5	72.5	66.4	76.0	79.7	77.8
40+ hours	31.1	18.4	25.8	35.4	18.5	27.9	20.8	12.9	16.5
Employed, '000*	**2,049.6**	**1,629.2**	**3,678.8**	**2,102.4**	**1,726.7**	**3,829.1**	**2,115.6**	**1,728.9**	**3,844.5**

* Conscripts not included

Source: Annual data of CSO's Labour Force Survey *in* : M. Frey : " A munkaidőrendszerek rugalmassá válása", (Increasingly flexible working-time systems), *Közgazdasági Szemle*, Dec. 2000, pp. 1008-1026.; supplemented with Labour Force data for 2000 and 2001.

All in all, 2.5% of earners worked for no more than 29 hours a week. Only 20% of the over 200 thousand men and women who worked shorter hours than the usual weekly working hours in 2001 considered this part-time work chosen

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[27] {See also e.g.: Seres Antal: Foglalkoztatás a kereskedelemben, (Antal Seres: Employment in trade) in: EU-konform foglalkoztatáspolitika, szerk.: Frey Mária, EU-könyvek, (EU conform employment policy, ed.: Mária Frey, EU books) OFA, 2001.}

voluntarily ("I do not want to work full-time"), while the others worked less for different reasons.

Table 3.10.

Reasons for working shorter hours, 1996-2001

%

	1996			2000			2001		
	Men	Women	All	Men	Women	All	Men	Women	All
The regular working time is less than 40 hours	39.6	48.8	46.1	41.3	45.1	44.0	33.9	39.5	37.8
Cannot be employed full-time for lack of work	19.0	17.0	17.6	13.3	13.3	13.4	15.3	13.6	14.1
Will not work full time	17.0	17.2	17.1	20.4	20.4	19.3	16.9	20.6	19.5
For reasons of health	7.7	3.8	5.0	7.5	7.5	9.3	15.0	7.8	10.0
Due to participation in education/further ed.	-	-	-	2.2	2.2	2.3	4.3	1.6	2.4
For other reason	16.6	13.3	14.3	11.5	11.5	11.6	14.6	16.9	16.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
'000 persons:	**61.1**	**143.0**	**204.2**	**62.6**	**155.8**	**218.4**	**59.8**	**140.1**	**199.9**
% rate to the employed:	**3.0**	**8.9**	**5.6**	**3.0**	**9.0**	**5.7**	**2.8**	**8.1**	**5.2**

Source: Annual data of CSO's Labour Force Survey *in*: Frey (2000), *op.cit.* under Table 3.9., supplemented with data for 2000 and 2001.

The semi-annual short-term labour market forecast, prepared on the basis of questionnaires addressed to about 4,700 companies initially at OMK and then at he Ministry of Economic Affairs regularly reports on part-time employment. The forecast for the second half of 2001 presented the state of affairs in March: according to this, only 2.3% of statistically recorded staff was employed part-time at companies in agriculture, in manufacturing, in construction, trading as well as transport, storage, post and telecommunications.

According to the study, the weight of part-time employment continues to be small similarly to previous years. The proportion of part-time employees continued to increase basically only in commerce compared to the previous year, where it reach 9.1% by 2001.[28]

13,700 persons (17%) of job seekers (unemployed) looked expressly for part-time jobs in 2001.

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[28] Székely Judit: Rövidtávú munkaerőpiaci prognózis 2001. II. félév, GM, Foglalkoztatási Hivatal, 2001. (Judit Székely: Short-term labour market forecast, 2nd half 2001, Ministry of Economic Affairs, Employment Office, 2001)

b.) <u>The self-employed</u>

As discussed already, persons living out their work, pursuing individual activities, but not having a company with a legal personality are considered self-employed for employment purposes, in accordance with the relevant recommendation of the ILO. This group typically includes in Hungary those who pursue activities subject to an entrepreneur's registration or license – craftsmen, retailers, (white-collar) freelancers, and members of unincorporated business companies or partnerships.

The number of the self-employed increased explosively in Hungary in the years around the change of the political system. Grabbing the first opportunity after decades of prohibition and bare tolerance, masses of people have become self-employed, hoping to find their success that way. In the early nineties, with the collapse of the economy, the loss of hundreds of thousands of jobs prompted may people to try to make a living on a self-employed basis. In agriculture, the dissolution of co-operatives brought about the massive, wanted or forced, appearance of individual farms. (However, a significant portion of these – as mentioned already – are farms operated for own consumption by small producers, who are retired.)

The relatively high proportion of the self-employed among those in employment is a characteristic and important phenomenon of the transformation of the former socialist countries. It differs significantly in terms of dimensions and trends from the more developed countries of the European Union where it is mostly members of specific groups of society who chose self-employment; small farmers, those who pursue a variety of activities related to tourism in major tourist destination countries, white-collar freelancers (from photographers and journalists to actors who do not have a permanent contract, from artists to private investigators), or immigrants (e.g. street vendors). In better-off countries those who are able to, will establish incorporated business units sooner or later (most of the repair services, but also white-collar services are performed by firms). In addition, especially in recession periods, many prefer the employee status offering a regular income to uncertain success. Therefore, the proportion of the self-employed is constant and tends to slightly decreased in the countries of the European Union. (The average of the EU was 15.6% in 1991 and 15.8% in both 1995 and 1996; in 2000, in was 14.8%.)

In Hungary in 2001, the proportion of the self-employed (2000: 14.6%) decreased slightly, while that of employees increased. As of now, statistics can show exclusively changes in the number of members of unincorporated partnerships and of sole proprietors, but there is no similar data on persons subject to other forms of employment in unincorporated partnerships.

Surveys of business organisations consider as independent entity also independent activity pursued as second job in possession of an entrepreneur's license in conjunction with a main job; this form, originally intended to earn

an income supplement, has made up 25-30% of sole proprietorships since the early nineties (and, in 1993-94 nearly 37% of the same).

From the perspective of employment, main job holder and pensioner entrepreneurs may be taken into account.

Starting from the beginning of the nineties, 2001 was the first year when the number of individual entrepreneurs in primary employment decreased by nearly 19 thousand, over two percentage points, following the nearly unbroken trend of growth until then. (The number of those in secondary employment also decreased, by about 10 thousand.) The decrease is offset to some extent by the increase in the number of pensioner entrepreneurs (who were exempted from the obligation to pay a tax-type health contribution in 2001).

Table 3.11.

Number of sole proprietors by employment status

Year	Main job holder		Pensioner entrepreneur		Second job holder		Total
	'000	%	'000	%	'000	%	**'000 = 100%**
1990	159.0	65.7	21.5	8.9	61.4	25.4	**241.9**
1991	184.5	58.2	28.8	9.1	103.9	32.7	**317.2**
1992	184.2	54.4	30.5	9.0	124.1	35.6	**338.8**
1993	218.2	54.2	36.7	9.1	148.0	36.7	**402.9**
1994	258.9	54.1	44.3	9.3	175.6	36.6	**478.8**
1995	257.0	58.6	39.9	9.1	141.8	32.3	**438.7**
1996	259.5	56.4	47.0	10.2	153.6	33.4	**460.1**
1997	276.7	59.5	56.3	12.1	132.0	28.4	**465.0**
1998	270.7	59.1	55.6	12.1	132.1	28.8	**458.4**
1999	278.7	59.6	54.0	11.6	134.8	28.8	**467.5**
2000	279.7	57.3	64.5	13.2	143.5	29.5	**487.7**
2001	260.9	55.7	74.0	15.8	133.9	28.5	**468.8**

Source: 1990-1995: Inland Revenue Office; number of tax payers in the given year;
1996-2001.: CSO, number of sole proprietorships active on 31 December of the given year

Except for education, the number of main job holders decreased in all branches of the economy, to the greatest extent in the field of commerce and repairs of articles of public needs.

In order to expand employment, the European Union continues to propose to the governments that they encourage the emergence of business activities pursued in the form of self-employment. It appears that the conditions having prevailed so far are not favourable.

Table 3.12.

Number of sole proprietorships by branch, 2000-2001

Branch	Total		of which:					
			main job holder		second job holder		pensioner	
	2000	**2001**	2000	2001	2000	2001	2000	2001
Agriculture, forestry, fishing	**26,595**	**24,583**	15,219	13,734	7,274	6,481	4,102	4,368
Mining	**32**	**42**	22	26	5	4	5	12
Manufacture	**41,397**	**39,575**	26,127	24,008	9,448	8,634	5,822	6,933
Industry	**41,429**	**39,617**	26,149	24,034	9,453	8,638	5,827	6,945
Construction	**42,765**	**41,255**	31,021	29,805	8,720	7,627	3,024	3,823
Trade, repair	**110,903**	**101,342**	70,371	62,125	24,649	21,538	15,883	17,679
Accommodation, catering	**27,665**	**26,700**	18,316	17,269	5,230	4,717	4,119	4,714
Transport, storage, post, telecom.	**33,502**	**31,009**	24,991	23,100	6,316	5,292	2,195	2,617
Financial intermediations	**18,490**	**17,862**	11,023	10,370	5,631	5,370	1,836	2,122
Real estate, business support	**124,062**	**124,818**	47,392	47,185	55,241	53,086	21,429	24,547
Education	**12,397**	**14,161**	3,803	3,952	7,672	9,066	922	1,143
Health care, social care	**11,814**	**10,769**	4,162	3,667	6,197	5,244	1,455	1,858
Other communal, personal service	**38,047**	**36,590**	27,261	25,607	7,111	6,846	3,675	4,137
Other activity	**30**	**91**	11	32	12	33	7	26
Total	**487,699**	**468,797**	**279,719**	**260,880**	**143,506**	**133,938**	**64,474**	**73,979**

Source: CSO, *Monthly Statistical Bulletins*

c.) Temporary employment

A typical component of standard employment, employment for an indefinite term – or, more precisely, the conditions for dismissing persons employed this way – is becoming a topic of increasingly heated debates between employers and employees all over Europe. In most European countries, the employer has to pay the employee dismissed because of the company's changing position (and not for reasons of discipline) for a definite notice period and/or provide severance pay. Employees understandably insist on this benefit that has existed for a long time. Employers, however, argue that the costly nature of dismissals makes it difficult for companies to adopt to the changing economic situation – they are over-cautious when it comes to recruiting during booms, because they can only part with their employees if they are forced to reduce their activities at an excessively high cost. That is, the labour market becomes inflexible under such circumstances.

European trade union associations insist on the rules applied until now: companies may engage employees for a fixed term, without severance pay and paid notice period once the contract expires, only in certain well-defined cases.

However, the needs of the economy have led to the spread of many old and new forms of fixed-term employment. In the countries of the European Union, adopting highly varied forms, the rate of fixed-term employment rose from an average of 9.2% in 1991 to 11.1% by 2000. (The already cited

Cambridge University research project identified many forms, from employment for the specific task to engagement for the season right from the start and to casual work contracted through a mediating agency.)[12]

The spread of fixed-term employment, however, does not affect the stability of employment for an indefinite period of time. Findings of two studies completed recently under the auspices of the ILO witnessed that the changes of the last ten years provide no reasons for concern. Although flexible forms are spreading in a number of countries, the forms of employment show much greater stability than it is usually assumed.

Although the duration of the period of employment currently varies depending on a number of factors in the most developed countries (it differs by gender, by age and by economic sector, etc.), in the investigated EU member states, as well as in Japan and the United States, the average period of employment was 10.5 years in 1998; somewhat longer than in 1992 (10.2 years). 41% of employees spent at least 10 years at the same workplace; in 1991, this was true for 35.1% of them. An average of 16.1% were employed for a period of less than one year (1991: 18.2%).

Fixed-term employment concentrates in some well-defined segments of the labour market, especially the group of young persons where the "turnstile effect" between a fixed-term contract and unemployment is frequent. On the other hand, temporary contracts may provide a gateway to entering the general system of employment *{P.Auer-S.Cazes: The resilience of the industrialized countries, International Labour Review, Vol. 139 (2000), No. 4, pp. 379-408.}*

The study covered a number of former socialist countries in transition: in 1999, in the Czech Republic the average length of employment was 8.2 years, in Estonia, 6.9 years, in Hungary 8.8 years, in Lithuania, 7.6 years, in Poland, 11.9 years, in Slovenia, 12.1 years and only 32.1% of employed spent at least ten years working at the same workplace. The calculated average of 9.3 years is not much shorter than in developed countries despite the numerous obvious differences between labour markets concerned.

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[12] In the United Kingdom, according to the data for the year 2000 published in *Employment in Europe, 2001*, 6.2% of employees were employed with fixed-term contracts. According to the labour market monthly magazine in the United Kingdom, 1.8 million men and women, 7.4% of those in employment (7% men and 8% women) worked in this form in the summer of 2000.
The proportion was lower than average in the manufacturing industry, the construction industry, commerce, catering, transport and communication, but was higher in agriculture, public administration, education and health care, and mostly in the services classified in the "other" category.
The employment group that was most concerned by this was that of highly qualified experts – at least one in every nine employees had a contract for a definite period of time. (According to the findings of a study made in the United States, in the famous Silicon Valley earlier the highest qualified and most sought-after professionals refused to commit themselves for longer periods than for individual, attractive tasks.) The lowest number of contracts for a definite period of time was found among managers and administrators. *{Labour Market, Trends, January 2001. p. 10.}*

Yet, the popular assumption is that fixed-term employment increases dramatically in the period of transition, because employers would like to have a free hand for dismissing employees who become redundant. However, the concerns expressed mainly by trade unions – which led to the tightening of employment conditions in, for instance, the Russian Federation and Czech Republic – did not prove to be true, at least in the organised (legal) sector of these economies. Except for Slovenia, the proportion of persons in temporary employment is rather low in the transition economies. *{S.Cazes-A.Nesporova: Towards excessive job insecurity in transition economies? ILO, Geneva, Employment Sector, Employment Paper, 2001/23.}*

On the other hand, there is not doubt that, given the high diversity of new forms of employment, statistics are unable yet to register precisely the number of those working in such forms for definite periods of time.

Hungary, too, has partial data only on persons employed for a fixed term.

Fixed-term employment

According to the Hungarian Labour Force Survey, 79.3% of the population in employment, about 3.3 million persons, was employed for an indefinite period of time, and some 20% in fixed-term jobs.

Nearly 90% of the latter 246,500 persons had contracts for a period of less than one year.

According to their responses to the questionnaire, 10% worked at subsidised jobs, performing public benefit work. An additional more than 20% was on trial or employed only for the period of training. Less than 5% wanted exclusively fixed-term employment. 38%, however, was not able to find any other job, and 21% identified no special reason for doing seasonal or casual work.

A significant proportion of the more than 100 thousand persons employed under fixed-term contracts are workers mediated for seasonal work by mediation agencies. The food industry (canning, sugar production), construction, and commerce at the time of sales, discount sales at the end of a season, Christmas sales, etc. satisfy their need for more labour for a short period by employees engaged for the season. The semi-annual forecast of the Ministry of Economic Affairs regularly found about 17% of employees with fixed-term contract at the companies questioned. Most of them (65-70%) are unskilled. *{Short-term labour market forecast, second half of 2001, pp. 40-43}*

According to the forecast, earlier, smaller companies tended to conclude fixed-term contracts more often, but in 2001 no substantial differences were found by company size. Some multinational companies recruit all their staff from mediating companies which typically conclude fixed-term agreements. (By the way, starting from 1 July 2001, the registration and conditions for labour-lending and private job exchange agency are regulated by new

legislation, Government Decree No. 118/2201 (VI.30); the Labour Code provides for tax and contribution payment obligations.)

Casual work

In 1997 in Hungary, the casual employee's booklet (CEB) was introduced by Act LXXIV specially for certifying casual work undertaken for short periods. The primary objective of this provision was to make the over 200 thousand people no longer eligible to unemployment benefits or income supplementing allowance but still without a job entitled again to unemployment allowance and health and accident care by certified work. The CEB – following several amendments of the Act – provided the possibility to legalise work done at any employer for a short time (for no more than five consecutive days, for a max. of 15 days by calendar month, and for altogether 90 day in one year). Income was linked to the minimum wages or, rather, the employer was to pay contributions at this level, by so-called public burden stamps in the CEB.[29]

However, the use of CEB spread only slowly, in spite of the fact that, starting from 1 January 1998, employers of people having CEB or people permanently unemployed and without care were able to request that the state assume the payment of the healthcare contribution, and private employers could also request a subsidy for public burdens.

In 1997, following the date of coming into force of the Act, 11 thousand people requested CEB in the last four months of the year; in 1998 21 thousand; in 1999, nearly 18 thousand; in 2000, 26.8 thousand and in 2001 32.1 thousand. However, only half of the CEBs, available free of charge at the labour organisation, was actually used (55% in each of 2000 and 2001).

In 2001, altogether 17,818 people worked with CEB; 9,800 among them were registered unemployed, 6,200 were inactive for some reason, and 1,760 were in employment.

About 60% of CEBs used to be requested by registered unemployed persons (and beneficiaries of income supplementing allowance among them), and a smaller portion was requested by jobless unregistered people, students, retired persons, housewives, parents on child-care leave, and even some in employment.

As could be assumed, interest towards the CEB designed to sustain entitlement decreased with the cancellation of the income supplementing allowance. Among those in need who receive regular social aid, which

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[29] The amendment that came into force on 1 January 2001 classified daily wages between HUF1,200 and HUF4,000 into five tiers; it determined the daily amount of the related public burden stamp at HUF1,200 – HUF3,000. The public burden stamp includes social security contribution, pension contribution, health care contribution as well as the employer's and employee's contributions that serve as cover for unemployment benefits, in addition to the personal income tax advanced by the employer.

replaced the income supplement, the number of those working with CEBs decreased by about 20%.

The increase of the number of CEB users by 3.8 thousand over 2000 despite this reduction was primarily due to the amendment of the Employment Act taking effect on 1 July 2001 allowing employers to request a waiving of wage-related public burdens or, more precisely, their assumption by the labour centres. Beforehand, employers were able to request this only in the case of employing unemployed persons eligible to income supplementing allowance; from the second half on, this subsidy could be granted for the employment of any unemployed person having a CEB.

Through the assumption of wage-related contributions, the labour centres, paying an amount of HUF621.4 million, contributed to the employment of 9,700 persons with CEB *{Report on the performance of the budget of the Labour Market Fund for the year 2001, Ministry of Economic Affairs, 2002. p. 45.}*

For those who were familiar with the provision and applied it quickly enough, CEB became a useful tool for employing the unemployed. Therefore, the proportion of the registered unemployed among those working with CEB decreased only slightly (to 57%).

All people employed with CEB worked on 4.7 occasions on average, 1.7 days each time, 7.9 days altogether over the year. More than three-quarter (76.5%) received the lowest daily wages; wages in the highest brackets were paid to 3.8%.

In spite of the assumption of public burdens, this form of employment has not proved a real success in 2001 either; only a fraction of the unemployed, and especially a fraction only of the 2 million inactive under the age of 60 used it. Clearly, one of the reasons for this – especially in the case of private employers – is, beside the amount of the public burdens involved, the application procedure and the uncertainty of the relevant decision. In the lowest wage category, public burdens payable on daily wages of HUF1,200 represent an additional HUF1,200, and in the highest category of HUF3,100 per day an additional HUF3,000. Public burdens multiplying wage costs by two and waived (assumed), if at all, after an application procedure divert the multitude of casual work opportunities to the domain of unregistered and untaxed activities.

Casual work is subject to regular monitoring by CSO.

The Labour Force Survey registered a slightly increasing number of casual employees, representing just a fraction of income-earners, between 1992 and 1998, and their number has decreased a little since then. In the course of the survey, persons doing mostly seasonal work and not in employment with any employer tended to classify themselves as casual workers: their work was usually related to the seasonal needs of agriculture, travel or commerce.

Table 3.13.

Number of casual workers, 1992-2001

persons

Year	QI	QII	QIII	QIV	Annual average
1992	4,866	9,083	10,479	9,824	8,563
1993	12,740	14,637	18,391	14,758	15,132
1994	13,148	17,611	19,956	18,415	17,283
1995	13,782	17,949	20,805	19,001	17,884
1996	17,825	23,842	27,866	24,363	23,474
1997	20,450	25,232	27,667	29,472	25,705
1998	25,903	31,332	31,332	29,505	28,524
1999	22,484	26,407	27,369	24,974	25,315
2000	19,385	24,375	28,407	24,680	24,212
2001	-	-	-	-	21,918

Source: CSO, Labour Force Survey

We are not able to determine whether there is an overlap between casual workers registered by the labour service and those included in the Labour Force Survey. However, the proportion would be extremely modest at barely more than 1% of the employed even if the figures in the two types of registers were added. It may be assumed that this kind of employment is much more widespread – especially among the inactive – and meets a number of the needs of households, family farms and micro enterprises; in hiding until the conditions of employment change substantially.

3.5 Subsidised employment

The permanently low level of employment in itself justifies the provision of social help of some form, of an employment opportunity to members of groups with disadvantageous labour market characteristics: the persons concerned are the unskilled, the youth without work experience, the Rom living in regions with high unemployment, especially in small settlements, etc.[30]

The assistance is funded predominantly by direct payments by working members of society, employees and employers. Starting from the end of the eighties, the Employment Fund, generated out of the central budget and later from privatisation proceeds, served to fund various aids promoting employment (re-training, job creation, re-starters, enterprise loan for new self-employed, training, public benefit work). In July 1991, the Solidarity Fund was established – initially to cover the unemployment benefits –, out of the 1.5% contribution paid by employers on monthly gross wages and the 0.5% contribution on gross income earned in primary employment paid by employees. (The rate of the contribution change several times until 1999. It was the highest in 1994, when employers paid 5.3%, and employees 2%; starting from 1999,

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[30] A detailed review of legislation for promoting employment is set out in a study by Dr Ildikó Bánsági entitled „Jogszabályok és intézmények" (Legislation and institutions) *in*: Munkaerőpiaci Tükör, 2000 (*ed.*: Károly Fazekas) Economics Research Centre, 2000. pp. 149-226; and on changes that occurred in 2000: Mária Frey: Munkaerőpiaci Tükör 2001. pp. 177-197

employers have been paying 3%, but on a number of other income components also in addition to wages; employees pay 1.5%.)

The Employment and the Solidarity Fund were combined in 1995, and have been operating since then under the name of Labour Market Fund (Hungarian Abbreviation: MPA), covering both benefits to the unemployed and programs to promote employment[31]

In addition to direct payments by employers and employees, the budget provided separate funding for a special programme, the organising public works and, in combination with instruments earmarked for tenders under the Széchenyi Plan, for job-creating investments.

Programs promoting employment were supported by a number of foundations abroad and in Hungary on a case-by-case or regular basis (e.g. the British Know-How Fund, Phare tenders, Autonomy Foundation that helps the Roma to catch up, etc.).

a.) <u>Programs covered by the Labour Market Fund</u>

In the year 2000 the Labour Market Fund managed about HUF156 billion, and in 2001, HUF183 billion. In 2001, the Fund's main source of revenue was contribution paid by employers (HUF110.5 billion) and employees (HUF50.5 billion).(In addition, a specified group of enterprises paid an additional HUF2.5 billion to support the rehabilitation of those with changed working abilities, and HUF15.8 billion as vocational training contribution. The last two objectives constitute individual segments of the fund; their revenue may be spent only on rehabilitation and vocational training.)

Of the above amount, HUF82.4 billion was used for providing cash support to the unemployed (unemployment benefits, unemployment aid before retirement, income supplementing allowance, regular social aid), and HUF78.1 billion was used to promote employment (including vocational training, rehabilitation programmes, training for the unemployed and various assistance programmes for getting jobs). In addition, the fund transferred HUF3.4 billion to the target appropriation of the Ministry of Economic Affairs for job-creating programmes.

In 2001, of the HUF78.1 billion, nearly 42 billion was spent on training and job-securing programs (the so-called active measures) designed to improve the labour market situation of the unemployed directly organised partly in a centralised manner and partly initiated and organised in the counties.[32]

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[31] The right of disposal over the Labour Market Fund belonged to the Minister of Economic Affairs from the year 2000 after the modification of the roles and responsibilities of ministries, when government control over employment policy was assigned to the Ministry of Economic Affairs. The minister decided on the allocation appropriations of MPA on the basis of the recommendation from the body composed of delegates of the interest representation associations of employers and employees (MAT).

[32] *Report on the performance of the budget of the Labour Market Fund for the year 2001*, Ministry of Economic Affairs, MPA Planning, Analysis and Supervision Department, 2002.

Note that in addition to the planned programme-like forms of assistance, additional support actions became justified in the course of the year; primarily to counter the impact of public burdens, having increased together with the increase in minimum wages and threatening the already low level of employment. Hence the funds of the Labour Market Fund were used to assume the public burdens of those employing unemployed persons with CEB, as mentioned already, in which case the parties concerned were able to reclaim surplus public burdens – by application – for a specific group of employers employed at minimum wages.

The different labour market programmes also included the assumption of contributions; under this title, the Labour Market Fund paid altogether nearly HUF1 billion to the central budget and to social security

a.1 Programmes implemented through the labour service organisation

Ever since the emergence of massive unemployment, employment policy has been trying to provide work and earnings to members of different groups society in need by different types of programmes.

With time, almost every programme known in Europe has been adapted, and there were attempts to align them to Hungarian particulars, to the economic situation ever. There were successful and less successful, short lived and enduring programmes. These helped the job acquisition of 200-300 thousand, mostly registered, unemployed and school-leavers annually in some form.

Table 3.14.

*Number of participants in active programmes **

persons

Active measures	1994	1995	1996	1997	1998	1999	2000	2001
Public benefit employment	69,674	86,496	141,258	101,208	116,113	120,575	93,441	80,742
Wage subsidy	47,772	37,214	29,700	38,497	49,596	51,741	50,971	48,089
Subsidy to job-creating investment**	26,115	25,459	25,518	23,418	17,498	17,462	12,420	9,086
Subsidy to start entrepreneur's career	12,621	5,609	4,619	4,674	4,343	4,364	4,979	5,016
Employment in reduced working time	9,418	3,397	5,663	1,375	-	-	-	-
Travel expense reimbursement***	3,414	4,624	4,820	6,000	8,062	10,973	10,094	9,356
Programmes for school-leavers			5,850	15,565	23,330	21,073	18,288	16,758
Job creation by self employment				1,209	3,027	4,450	5,325	6,025
Job preservation****				2,299	4,587	9,953	7,157	653
Assumption of contribution payment obligation				574	1,805	2,339	3,876	3,702
Other	2,014	-	-	-	-	-	-	-
Total	**171,028**	**162,799**	**217,428**	**194,819**	**228,361**	**242,930**	**206,551**	**185,427**
Labour market training	93,927	71,182	71,980	75,993	79,604	84,764	88,173	91,519
Retirement with age exemption	7,222	6,562	5,382	3,576	1,914	828	133	-
Total	**272,177**	**240,543**	**294,790**	**274,388**	**309,879**	**328,522**	**294,857**	**276,946**

* Including everybody having participated in the program for at least one day in the given year.

** Number of those employed at jobs created with subsidy. As of 2000, the programme is assigned to the competence of the Ministry of Economic Affairs.

*** From 1998 on: mobility subsidy (reimbursement of local travel expenses, group transport, residential supplement, support to labour recruitment).

****The option of job-preservation support was cancelled as of 2000.

Source: Employment Office

A conversion of multiple participation by the same persons or attendance for one or two day at a time to annual average headcount shows that social solidarity helps about 100,000 people in need every year.

Table 3.15.

Annual average number of active programme participants

persons

Active measures	1994	1995	1996	1997	1998	1999	2000	2001
Public benefit employment	27,021	24,971	34,094	30,780	30,877	28,867	23,705	23,185
Wage subsidy	20,422	14,371	12,268	25,762	29,313	31,369	27,524	26,547
Subsidy to job-creating investment*	23,051	23,123	20,694	16,195	12,291	9,433	3,192	6,943
Subsidy to start entrepreneur's career	3,668	1,289	1,378	1,410	1,307	1,374	1,506	1,616
Employment in reduced working time	1,781	363	899	269	-	-	-	-
Travel expense reimbursement (mobility subsidy from 1998 on)	1,147	1,955	1,747	2,618	2,926	3,765	4,091	3,483
Programmes for school-leavers			2,314	6,096	10,302	8,685	7,816	7,094
New measures introduced in 1997**				2,056	4,076	7,149	8,789	8,697
Other***	760	-	-	-	-	-	-	-
Total	**77,090**	**60,072**	**73,394**	**85,186**	**91,092**	**90,642**	**76,623**	77,565
Labour training	30,662	24,059	20,829	22,750	23,039	25,004	26,307	27,187
Retirement with age exemption	6,283	5,934	4,406	2,791	1,348	449	45	-
Total	**114,795**	**96,065**	**98,629**	**110,727**	**115,479**	**116,095**	**102,975**	104,752

* Number of jobs filled during the year (in accordance with employment obligation)

** See: contribution assumption, job preservation, self-employment subsidy

*** A number of measures included in our earlier publications (e.g. several ways of providing mobility support, group redundancies and support to organisations of public benefit, etc.) are not registered among the active measures starting from 1999.

Source: Employment Office

The employment organisation has analysed the efficiency of the programmes with a help of a computer-aided monitoring system since 1994. One criterion for effectiveness is the proportion of programme participants getting non-subsidised (normal) jobs or working in their own enterprise three months after having completed the programme.[17]

In 2000, nearly 83 thousand completed the programmes in question, and the analysis involved nearly 174 thousand including those participating in work of public benefit.

According to the findings of the analysis, nearly half (49.7%) of the unemployed having completed training in 2000 were able to find a job, which is a bit more than one year before (47.9%).

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[17] A 2000. évben befejezett munkaerőpiaci programok hatékonyságának értékelése, a monitoring-vizsgálat eredmény mutatói alapján, Foglalkoztatási Hivatal, (Evaluation of the efficiency of labour market programmes completed in 2000, based on the indicators of the monitoring analysis, Employment Office) 2001.
The evaluation looks at the rate of expenditure (cost-efficiency), and other conditions, but here only the employment impacts are discussed.

Out of the 3,100 unemployed having started their own enterprises, nearly 90% were still in operation three months after the subsidy provided for five months had expired.

Wage subsidy for an average of 7.5 months to promote the employment of the permanently unemployed and the employer's commitment to continue the employment (without subsidy) expired in 16.2 cases in 2000. Subsequently, employers finalised the employment of over 60% of the people involved, mostly skilled workers below the age of 30, half of them women.

Two-third of people employed in work of public benefit work (2000: 93 thousand) are men, and nearly half of them are older than 40-50 years. Over three-quarter among them performed communal work. Major employers were the municipalities, which also have to ensure on a mandatory basis the possibility of one month of public benefit work to those having lost their income supplementing allowance and eligible to social aid. (The persons concerned are largely the same, as a part of the permanently unemployed became entitled to regular social aid; however, mandatory employment for them is provided out of different resources.)

Barely over 1% of persons taken into account here (1,307) continued to be employed without subsidy after public benefit work.

The condition for employing school leavers with subsidy is that the employer shall provide practical training to the skilled young person for at least one academic year, for at least six hours a day. In addition to the 270 days for which financial support is granted, the employer also has to agree to an employment obligation for another 90 days.

Interest in this form of subsidy is decreasing year after year; in 2000, only 505 persons were released from this programme which is barely more than half of the figure for the previous year. However, almost three-quarter of persons involved were finally employed by their employers. In 2001, a number of programmes started earlier were completed (for instance, training of regional development experts and their employment with wages subsidy; training programme organised for the degree-holder unemployed aged around 50 organised in two counties, involving language courses for the most; promotion of the employment of those dismissed due to the streamlining of (Diósgyőr Steelworks, DAM) through the Employment Foundation ,etc.).

The most important of the programmes continuing in 2001 are the mediator-consultant system providing assistance in the development of the EURES system in Hungary and in employment abroad, and the works of establishing and developing the institutional system of EUROFIT organised on a regional basis, as well as employment subsidy for labour-intensive occupations (mainly by the possibility of reclaiming the compensation amount for the tax and contribution charges having

increased together with the increase in minimum wages, which may be reclaimed by application).

Out of the new central programmes, the programmes to prepare social partners and employment-oriented non-profit organisations for accession to the European Union promise to be important initiatives.

In addition to the above, a programme was launched – through the OFA, the National Employment Foundation – for promoting the job transition of middle-aged and less skilled employees working in agriculture, in a threatened position on the labour market. The labour market training programme (which provides partly vocational training) aims to assist in the re-integration of those who have been detained in penal institutions after their release; the four regional training centres have special training programmes to assist in the integration of persons living with different disabilities; under the Phare programme, young persons in an extremely disadvantageous situation, primarily the Rom, are provided training; there is a programme to re-integrate the homeless into society –mainly through their employment –; and a programme to assist in the re-training of those who are forced to change a career as a result of the military reform among others. *{Report on the performance of the budget of the Labour Market Fund for the year 2001, Ministry of Economic Affairs, 2002.}*

a.2 OFA programmes

The Labour Market Fund supports the pilot programmes organised by the National Employment Foundation (Hungarian abbreviation: OFA) established in 1992 concerning social groups in disadvantageous situations year after year. The most competent programmes conducted partly with the participation of other non-profit organisations may become general, national programmes. (This activity is also a "rehearsal" for organising the programmes to be launched in Hungary out of the European Union's Social Fund following accession.) In line with its mission, most of OFA's programmes take several years, and embrace the period of planning through the creation of conditions to practical application and evaluation.

The HUF1.4 billion received for implementing the programmes for the year 2001 were supplemented by OFA's own resources and co-financing from different partners (partly the county labour centres).

Participation in the programmes is possible by successful application.

One of the ways of measuring the competence of the programmes that are supposed to give support to those who are in the most disadvantageous situation and require special help is the rate of re-integration or entry of the persons concerned among the employed. In 2001, assistance to some 20 thousand persons was undertaken in the framework of the different programmes.

Table 3.16.

Target groups of OFA's programmes, 2001

persons

Programme name	Unempl-school-leaver	Reg. unempl.	Long-term unempl.	Endan-gered youth	Of Rom origin *	Changed working ability	Other	**Total**
Economic development, job-creating, enterprise stimulating activity								
SE development		110					385	**495**
Rom programme		150			150			**300**
Permanent employment in the non-profit sector			92		30	102		**224**
Total	**-**	**260**	**92**		**180**	**102**	**385**	**1 019**
Activities to improve employability, to develop human resources								
Alternative lab. market services (adjusted to special situations)		2,650	80			1 678	1 230	**5 638**
P-Transit** (training + employment)	96	120	24	96	20			**260**
"New Opportunity" Local employment			85		75			**160**
To work anew		1,980	5,460				360	**7 800**
Job identification			2,272					**2 272**
Prevention of the exclusion of the youth from the labour market	1,210	700		1,210				**1 910**
Professional assistance system of non-profit organisations							400	**400**
Rehab. progr. to persons with changed working ability						84	91	**175**
Other						18	129	**147**
Total	**1,306**	**5,450**	**7,921**	**1,306**	**95**	**1,780**	**2,210**	**18,762**
Grand total, persons	**1,306**	**5,710**	**8,013**	**1,306**	**275**	**1,882**	**2,595**	**19,781**
%	**6.6**	**28.9**	**40.5**	**-**	**1.4**	**9.5**	**13.1**	**100.0**

* based on the individual's declaration

** registered in more than one categories

Source: Report on OFA's activity in 2001.

b.) Programmes funded by the Labour Market Fund and the central budget

b.1 Job-creating investments

The government undertook to support job-creating investments under the Széchenyi Plan, its multi-faceted economic development programme announced in 2001. Applicants could apply for non-refundable subsidy in connection with different development projects. As one of the sources of the subsidy was the Active Employment Target Appropriation (Hungarian abbreviation: AFC) earmarked from the Labour Market Fund on a regular basis for job-creating investments and later included as a separate budget item, MAT, the tripartite Steering Committee of the Labour Market Fund, evaluated the relevant applications as well.

One of the important criteria for evaluation was the mitigation of regional imbalances. Although investors continued to make developments in one of the

most developed regions, in Mid-Transdanubia, this time northern Hungary and the northern Great Plain were given better development opportunities[18].

Table 3.17.

Job-creating tenders granted AFC assistance

Region	Approved tender	Staff no. of current business sites	Extra staff hired as a result of the develop.	Requested AFC support	AFC support proposed by MAT
		(persons)		(HUF million)	
Central Hungary	-	-	-	-	-
Central Transdanubia	18	1,585	1,120	1,111,5	1,092,5
Western Transdanubia	4	90	223	193.0	193.0
Southern Transdanubia	15	602	328	342.0	341.7
Northern Hungary	27	1,525	610	646.5	624.0
North Great Plain	18	2,519	641	620.0	615.0
South Great Plain	13	886	201	201.0	201.0
Aggregate	**95**	**7,591**	**3,177**	**3,114.0**	**3,067.3**

* Of a total of 113 applications, the evaluation board rejected 11 and returned 7 requesting supplements

Source: Ministry of Economic Affairs

b.2 The public works programme

As indicated in last year's review, there have been three types of programmes in Hungary for similar purposes and under similar names since 2000:

* *public benefit work,* aimed to promote the employment of the unemployed at least for certain periods, organised by municipalities primarily for performing local communal tasks but financed out of the Labour Market Fund;
* *public works*, which also aim to employ the unemployed, and are organised for tasks determined on a nationwide basis, considered to be important on the basis of the relevant proposals of ministries (flood or ground water protection, afforestation, etc.), financed out of the central budget;
* *public purpose works,* organised for those who cannot be placed and have dropped out of the unemployment benefit system and are entitled to regular social benefits, required as a condition for obtaining the said benefits, which are organised by municipalities but funded out of a separate amount disbursed through the Ministry of the Interior, which exercises professional control over municipalities.

We have already talked about work for public benefit funded out of the Labour Market Fund; here, we are going to describe the results of the

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[18] The Széchenyi Plan provided significant assistance to investments by foreign companies – that create a high number of jobs, among others – in Hungary out of other resources. Such investments are, according to press news, GE, Samsung, Sanyo, Nokia, Audi and Flextronics, which were not included in the table 3.17.

public works programme in the year 2001, based on information provided by the Ministry of Social and Family Affairs to MAT[19].

For 2001, HUF3 billion was separated from the budget for public works; 20% of this had to be spent on developing the micro-regions of five counties in an economically backward and extremely poor position (Borsod, Szabolcs, Békés, Somogy and Nógrád).

In 2001, the organisations, municipalities, regional development councils and municipality associations could apply for participating in eleven programmes announced by the Ministry of Social and Family Affairs. Application criteria included the employment of at least one hundred persons and the allocation of 80% of the subsidy exclusively to cover wages and related public burdens. The regional development councils concerned and the Ministry of Environmental Protection and Rural Development joined a part of the programmes as co-financiers.

In addition to specific tasks (e.g., restoration of flood protection facilities damaged by the serious flood and ground waters of previous years, weeding out of weeds that cause allergy, weeding around railways, development of rainwater, water and sewer networks in settlements inhabited by the Rom, development and maintenance of roads in residential areas, renovation of welfare homes, cleaning of the Pilis, the forests around Visegrád, and the main tourist areas of the mountains around Buda, etc.), the programmes also contained other objectives. For instance, the conditions for one of the programmes included the acquisition of secondary-level social worker vocational qualification by at least 15% of persons employed in the programme; the employment of a given number of Rom persons in most programmes, etc.

Over the year, 12,531 persons participated in the programmes; most of them were registered unemployed (6,882 persons) and recipients of income supplementing allowance and social aid (4,180 persons).

We do not have comprehensive data on the employment effects of *public-purpose work* during the year 2001, but a later section of the present volume will describe the rather contradictory findings of the investigation conducted by Károly Fazekas and his co-authors at municipalities. (Note that the general experience is that municipalities organise works under different financing schemes and conditions for by and large the same population, in accordance with the opportunities and accounting options ever; hence it is possible that some worked more or less continuously – under different forms of subsidy –, while others could work occasionally only or not at all.)

It is obvious nevertheless that , for the time being, for many people, especially at smaller settlements, these forms of support represent by and

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nformation on government programmes for the year 2001 for the Steering Committee of the Labour arket Fund *{Ministry of Social and Family Affairs, February 2002}*

large the only possibility of an earning activity beside occasional casual work.

c.) Non-profit organisations

In 2000, there were over 65 thousand and in 2001 over 67 thousand non-profit organisations registered in Hungary. Part of these organisations pursuing the most varied aims and designed to meet some social or community needs of some sort undertook to help members of the socially disadvantaged groups in gaining employment (for instance, young criminals having completed their sentence, people living with disabilities, the Rom, older unemployed persons or the long-term unemployed, etc.).

In addition to the larger foundations that are known nationwide, the volunteers of several thousand organisations known only locally work for the success of the goal they set for themselves; they try to secure new supporters, seek application opportunities to increase their funds, try to develop new methods, etc. (The application of OFA that provided the opportunity for employing full- or part-time staff helped a number of these; the organisations concerned were able to employ 224 long-term unemployed people. According to the figure included in OFA's annual report, civil associations employ 7.7% of employees in the EU; this proportion is currently 2.2% in Hungary.)

As mutual dependence is recognised more and more widely, and as the mutual learning process progresses, co-operation between the labour market organisation and non-profit organisations is gaining strength year after year, although their relationships are encumbered by too many circumstances. However, their co-operation is made indispensable by the common goal: the necessity of increasing employment, and preventing the decline and exclusion of a number of groups of society.

3.6 Hungarian employees abroad – foreigners in Hungary

3.6.1 International trends of employment migration

According to OECD's annual report, the proportion of foreigners or people born abroad has increased significantly over the last five years within the working-age population of several countries, especially in southern Europe, Luxembourg and the United States. At the same time, their proportion slightly decreased in France, Germany and the Netherlands.

Host countries may be assigned to three groups according to the proportion of foreign employees. In 1999, the highest proportion of foreigners (between 57 and 18%) was found among employees in Luxembourg, Australia, Canada and Switzerland. The second groups consists of the United States, Austria, Germany, Belgium and France, with corresponding rates of 12-6%. in the third group of countries (United Kingdom, Ireland, the Netherlands, the Nordic and the southern European countries) the proportion of foreigners was no more than 5%, and in some cases, 1-2%. (Hungary figured in this comparison with a rate of 0.7%.)

It is a characteristic phenomenon that while the issuing of permanent work permits is rather limited, the proportion of casual employment increases especially in European Union Member States belonging to the OECD. This enhances labour market flexibility in the host countries, supplying the labour force that is missing primarily in the new technological sectors.

Depending on the needs of individual countries, foreigners are sought after in different economic sectors. In Austria, Germany, Italy, Norway, Sweden, and Switzerland as well as in Australia and Canada the greatest proportion of foreigners are employed in mining and in the manufacturing industries; in several other countries, in the construction industry.

However, foreign workers are concentrated more and more in services; in the fields of commerce, catering, training, health care, as well as household help. (The greatest proportions of undocumented foreigners are found in agriculture, construction, at small enterprises, in travel, catering, and household help, but also in business – e.g. computer – services. Outsourcing also favours the undocumented employment of foreigners in most OECD countries, especially in the textile and clothing as well as construction industry. Practice resulted in the spreading of fake independent labour – formally independent labour –; employers avoid applications for permits and taxes on employment.)

At the beginning of the nineties, mostly the ethnic minorities of certain Central and East European countries left for Western Europe – for economic, political or ethnic reasons (for instance, about 620 thousand people from Poland, Russia and Romania went to Germany). Over 100 thousand people went to Turkey from Bulgaria, some 20 thousand went from Russia and Estonia to Finland, and over 100 thousand to Hungary from Romania, Slovakia, the Ukraine and from the Voivodina. Since then, the number of people from East and Central Europe looking for permanent jobs in Western Europe has not increased significantly. (Germany is the exception; it receives tens of thousands of contracted and casual employees every year in the framework of bilateral agreements.) *{Trends in International Migration, SOPEMI Report, 2001., OECD pp 53-76.}*

The rate of migration between Member States of the European Union has not changed significantly despite the declared principle of the freedom of movement of workers, the elimination of internal borders and the creation of the Euro-zone, the introduction of the common currency: no more than 2% of the working-age population of the EU Member States work in a different member state, and most of these commute over (regional) borders.

Even though it is not a completely new phenomenon – experts have been providing warning data for years confirming that the decrease in the number of births for several decades on the one hand and the increase in average life expectancy on the other will

lead to the ageing of Europe – that the proportion of older people is high and increasing within the populations of individual countries[20], the need for a new migration policy is just about to be formulated in the EU. Besides a number of other measures, the goal of sustained economic growth (to cover old-age pensions, among others) put the necessity of receiving labour force from abroad into the focus. The EU, too, has included this on its agenda with the support of the majority of Member States, urging for a new, positive immigration policy.

The signs of this are already perceptible in the Hungarian accession negotiations, even though the issues concerning the free movement of labour have already been closed.

3.6.2 Employment of Hungarians abroad

In 2001, the disputes that have been going on for several years, often in an unfriendly tone, between some EU member states (mainly: Germany and Austria) and the accession candidate East and Central European countries, including Hungary, on the free employment of the latters' citizens have basically subsided. The EU's decision made in June 2001 was reached following a number of positions for and against (a part of which predicted a massive invasion of labour force from East and Central Europe, and another part denied it) based on several dozens of studies and analyses: citizens of Hungary, Slovakia and Latvia may exercise the right to free employment after seven years starting from the accession of their countries to the EU. At the same time, a compromise agreement was drafted on that Member States may open up their labour markets at once to Hungarian workers individually after the country's accession.

Four countries - Sweden, the Netherlands, Denmark and Ireland – almost immediately announced their intention to do so, and they were soon joined by the United Kingdom. During the year, rather encouraging talks have been conducted on this issue with a number of EU Member States.

However, according to the applicable rules, Member States will receive Hungarian labour force primarily in the framework of bilateral agreements until accession.

Several tens of thousands engage in legal employment abroad from Hungary[21], most of them in Germany and Austria. There are a number of quotas in both countries. For instance, legal employment possibilities in Germany are individual employment, as guest (contract) worker (mainly in catering); employment by contracting agreement; on a seasonal basis (both skilled and unskilled workers are accepted, mainly in

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[20] W.M. Mercier provides data on the population of EU Member States over the age of 65 in proportion to the active population: it is 26.6% in Sweden; 25% in Italy, and – with the exception of the Netherlands (18.8%) and Ireland (16.7%) – it is over 22% in the other Member States. The amount spent on state pensions in Ireland is 2.7% of GDP, but exceeds 15% in Italy and Finland. *{European Pension Fund Manager Guide 2000, Merrill Lynch, Watson Wyatt – quoted by Andrea Tálas, HVG, 23 December 2000.}*

[21] It is possible to form a picture on existing undocumented employment mostly based on the cases disclosed during inspections. In January 2001, the Austrian, Italian and German police found several thousands of eastern European drivers employed illegally by transport companies, and the check conducted in Austria also revealed Hungarians at another company. *{HVG, 9 February 2002.}* In Germany, the police arrested fifty Hungarian workers employed illegally.*{Népszabadság, 17 January 2002.}*

agriculture and in catering); as home-care nurses (vocational qualification is not required); and as highly qualified IT professionals.

The quotas in Germany have not been exhausted for years due to the conditions set out under the relevant agreements (age, language skills, limitation to one-time or one year of employment, etc.).

In Austria – where the missing labour force of about 300 thousand is replaced by foreign workers – about 9-10,000 Hungarians work every year on the basis of different quotas (individual employment, seasonal work, trainee exchanges, commuters). Of these, 600 obtained work permits in the framework of trainee (inter-governmental) agreements in 2001.

The actual needs of the economy are in conflict with the policy that is anxious for Austrian jobs and is often very much against foreigners. Therefore, while the quotas were restricted again in 2001, the number of licenses that may be issued for seasonal workers was increased by nearly 1,500 for the summer tourist season, and provinces along the borders may conclude separate agreements with neighbouring countries for hosting the missing labour force. An agreement was reached in the framework of an inter-governmental agreement on increasing the quota for daily commuters from three Transdanubian counties (Győr-Moson-Sopron, Vas and Zala) by an additional 200 persons; this quota was 500 in 1999, and then increased to 1,200 after continuous increases.

In 2001, the agreement concluded with France on the mutual reception of 300 trainees every year also came into force, and the agreements concluded with several European countries over the nineties for receiving a few or even as many as 200 or 300 persons, intended to promote mostly young professionals in gaining experience and learning languages, are also in force.

The many types of special labour force needs in Europe offered new employment possibilities for Hungarians as well, independent from inter-governmental agreements. About 150 miners from Komló, who were left without a job due to the closing of Hungarian mines, went to work to Leon, Spain; Hungarian professionals undertook to open a mine in Turkey. (The organisers do not expect Hungarian hewers to be employed in Turkey because the wages there are not attractive enough. *{Népszabadság, 24 August 2001.}* About 1,000-1,500 Hungarian IT professionals work abroad, partly in Germany, but partly in other European countries and the United States. (The positions offered in Germany have not been filled even after one year. *{Napi Gazdaság, 17 October 2001.}* Norway – in the framework of an inter-governmental agreement – receives Hungarian doctors; and it is ready to receive Hungarian employees from other professions immediately after Hungary's accession to the European Union. *{Népszabadság, 29 August 2001.}* Sweden offered 18 positions also for Hungarian doctors. *{Világgazdaság, 19 December 2001.}*

Although the departure of doctors would be disadvantageous for Hungarian healthcare (according to the experts, there is a deficit of specialists who are being sought by these countries), there is no need to worry about a significant migration for the foreseeable

future. European workers – as it has already been mentioned – are not really mobile. Neither are Hungarians, as has been shown by a number of opinion polls in 2001[22].

After 1993, 1994, 1997, TÁRKI surveyed the propensity of Hungarian people to be employed abroad (and to migrate) for the fourth time in 2001. This time, interest was somewhat stronger than before (short-term employment abroad was selected by 8.5% in 2001, compared to the 4.3% in 1993, and 6.8% instead of the 2.7% opted for more permanent employment abroad). According to one of the findings of the variegated analysis, the propensity for employment abroad increases with school qualification: it is zero among those who did not complete elementary school, and is the highest among those who completed secondary school and college. Most of the people who planned to work abroad on a more permanent basis were university graduates, perceiving that today it is mostly highly skilled who have a chance to be employed in the positions offered abroad[23].

3.6.3 Foreign workers in Hungary

In Hungary – just as in other countries – the domestic labour force and working-age population is increased by two external sources: immigrants and people who stay in the country with work permit.

As a result of the revival of immigration from the nineties on, Hungary received nearly 200 thousand foreigners between 1990 and 2001, of whom 40 thousand left the country in the meantime. In the early nineties, the waves of refugees caused higher figures in immigration. At about the middle of the decade, immigration declined, and after that, the number of foreigners settling in Hungary started to grow again, thanks to the attraction of the country.

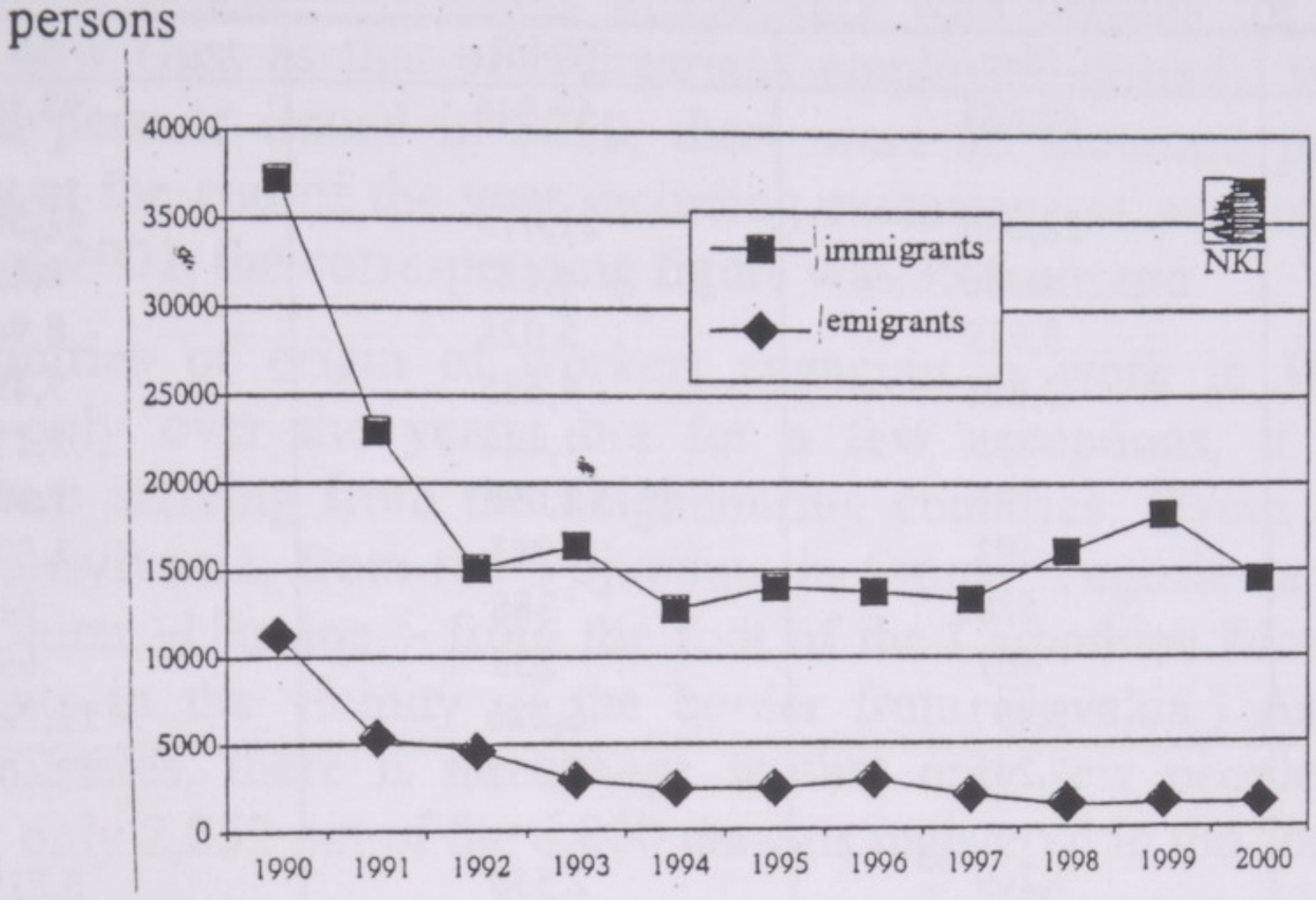
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[22] The vast majority of Hungarians, the Polish and the Czechs still fail to show a big propensity for employment in Western Europe after the respective countries' accession to the European Union – this was the finding of a Central European Opinion Research Group (CEORG) survey. 13% of the Polish, 4% of the Czechs and 7% of Hungarians are certain that they would accept to be employed in the West. *{Világgazdaság, 25 May 2001.}*
The opinion poll of Pricewaterhouse-Coopers found proportions that were higher than those cited above, with the proviso that one third of those interested in working abroad were younger than 25. *{Népszabadság, 30 October 2001.}*

[23] Sik Endre: Migrációs potenciál Magyarországon 1993 és 2001 között, MTA Nemzetközi Migrációs és Menekültügyi Kutatások Központ, 2002. *(Endre Sík: Migration potential in Hungary between 1993 and 2001. Hungarian Academy of Sciences, International Migration and Refugee Research Centre, 2002)*
Many people are concerned in Hungary (as well) about the "brain drain". OECD studies looking at the topic in detail found that although professionals preferred to work in the host countries offering substantially better conditions than those available domestically, the data indicate a high proportion of such professionals returning. *{International Mobility of the Highly Skilled, OECD, 2002.}* On the other hand, the willingness to migrate depends to a large extent on the domestic circumstances.

Figure 3.

Immigration and emigration in 1990 and 2000



Source: *Demográfiai Évkönyv* (Demography Yearbook) 2000, CSO; quoted *in*: KOR FA, Népesedési Hivatal, CSO, (Population Office, Central Statistics Office) 2002/1.

The detailed data show that about three quarters of immigrants were of working age as defined by Hungarian legislation.

Table 3.18.

Number of immigrant and emigrant foreigners by age group

	- 14		15-59		60-		Total		
Year of	year-old								Change
entry/exit	entry	exit	entry	exit	entry	exit	**entry**	**exit**	(±)
	number of persons								
1991	3,536	369	17,438	4,725	2,000	282	**22,974**	**5,376**	+ 17,598
1992	2,412	204	11,947	4,044	754	346	**15,113**	**4,594**	+ 10,519
1993	2,660	315	12,688	2,379	1,049	207	**16,397**	**2,901**	+ 13,496
1994	1,339	361	10,709	1,817	704	200	**12,752**	**2,378**	+ 10,374
1995	1,043	35	11,842	2,212	1,123	154	**14,008**	**2,401**	+ 11,607
1996	1,209	48	11,368	2,345	1,157	440	**13,734**	**2,833**	+ 10,901
1997	1,301	49	10,742	1,579	1,240	300	**13,283**	**1,928**	+ 11,355
1998	1,884	49	12,400,	1,142	1,768	104	**16,052**	**1,295**	+ 14,757
1999*	2,067	52	14,226	1,246	1,923	107	**18,216**	**1,405**	+ 16,811
2000*	1,528	71	11,208	1,363	1,748	38	**14,484**	**1,472**	+ 13,012

*Preliminary figure
Source: *Hungarian Statistical Pocketbook, 2001,* CSO, 2002, p.18.

At the time of the population census, there were altogether 110 thousand foreigners, mostly of working age, in Hungary.

Table 3.19.

Foreign residents in Hungary by continent and main countries of origin, 01.01.2001

Continent, country	Men	Women	All
Europe	**43,651**	**49,546**	**93,197**
of which:			
Romania	20,086	21,475	**41,561**
Yugoslavia	4,486	4,137	**8,623**
Ukraine	3,919	5,028	**8,947**
Germany	2,808	4,685	**7,493**
Poland	835	1,444	**2,279**
Russia	795	1,098	**1,893**
Slovakia	593	983	**1,576**
Croatia	529	388	**917**
Austria	461	233	**694**
EU Member St.	**5,497**	**6,226**	**11,723**
Asia	**7,245**	**5,358**	**12,603**
of which:			
China	3,269	2,550	**5,819**
America	**1,377**	**1,111**	**2,488**
of which:			
USA	932	704	**1,636**
Africa	**1,031**	**202**	**1,233**
Other continents*	274	233	**507**
Total	**53,578**	**56,450**	**110,028**

* Including persons of unknown citizenship

Source: *Statistical Pocketbook, 2001* CSO, 2002.

Currently there is no consistent information on the labour market position of this population due to the non-harmonised statistical monitoring of foreigners and domestic citizens. However, it may be assumed that the greater proportion of those of working age are employed (e.g., those who have moved from settlements in neighbouring countries populated by ethnic Hungarians) or work as members of the diplomatic corps, as teachers or artists in the framework of cultural exchange or are self-employed (owners or key personnel of enterprises, e.g. those who moved from China).

The other source is people having a work permit for a definite period of time. Despite the low level of employment, the economy needs foreign labour force – recruited primarily from the neighbouring countries – in a number of fields.

The number of people arriving to Hungary is regulated by quotas specified in inter-governmental agreements. In 2001, the number of work permits that could be issued under the agreement concluded with Slovakia was increased: 800 persons may be received every year, and an additional 200 persons may come for seasonal work. According to the agreement that was prepared, Hungary will host 8,000 seasonal workers from Romania (for no more than six months), and 700 trainees for a period of one year. (The exchange of trainees is a mutual

possibility.) The agreement with the Czech Republic on the exchange of 300 trainees is also being prepared[24].

The number of people working in Hungary with permits for shorter or longer times is low (just as that of Hungarians employed abroad). With the about 40 thousand permits issued in 2000, there were 35 thousand people working in Hungary at the end of the year including extensions of previous permits, and at the end of 2001, the corresponding figure was 39 thousand.

The countries of origin of workers engaging in work in Hungary modified slightly only over the years: but for a few exceptions, it is mostly ethnic Hungarians arriving from the neighbouring countries. (From Romania, mainly from Transylvania, from the Vojvodina in former Yugoslavia, from the former Soviet Union –Ukraine – from the foot of the Carpathian Mountains; and from settlements in the vicinity of the border from Slovakia.) As regards the EU Member States, there is no change in that only few people apply for work permits; only 2,852 out of the 6,000 persons registered in the "other" category.

Table 3.20.

Number of individual work permits by year of issue/citizenship, 1995-2001

Worker's citizenship	Number and distribution of individual permits								
	1995	1996	1997	1998	1999	2000		2001	
	persons	persons	persons	persons	persons	persons	%	persons	%
Romanian	13,171	9,218	10,909	11,862	16,982	19,774	49.2	26,931	57.0
Polish	2,163	1,252	1,449	1,057	641	357	0.9	299	0.6
Chinese	982	544	773	1,190	1,739	2,374	5.9	1,332	2.8
former Yugoslav	1,623	1,044	1,192	1,114	1,431	1,602	4.0	1,487	3.1
Former SU	2,930	3,047	3,852	3,544	4,896	5,783	14.4	7,696	16.1
Czech	26	25	28	47	68	81	0.2	123	0.3
Slovak	859	696	1,140	803	1,254	3,508	8.7	2,955	6.3
Vietnamese	141	115	229	324	465	764	1.9	451	1.0
other	4,190	4,355	4,672	6,369	6,662	5,960	14.8	6,095	12.9
Total	**26,085**	**20,296**	**24,244**	**26,310**	**34,138**	**40,203**	**100.0**	**47,269**	**100.0**

Source: Employment Office

Most foreigners are employed in the different branches of the manufacturing industry (demand for them is especially great in dressmaker's shops); also in the construction industry as well as in commerce and catering.[25] In some professions where labour has been short for years, such as in the case of nurses, the shortfall

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[24] The quotas do not include employees contracted on a temporary basis for a specific task. This is how, for instance, IBM Storage Product Kft employed about 500 workers from Slovakia for meeting an unexpected order at its Székesfehérvár plant, who were dismissed after fulfilling the order. This type of employment may be permitted – depending on the situation of the local labour market – by county labour centres. *{Népszabadság, 14 July 2001.}*

[25] The demand for seamstresses is characterised by the fact that they have been recruited from as far as Mongolia. There have been fifty workers from Mongolia working at Tiszaföldvár since 1999. *{Népszabadság, 9 May 2001.}*

could not be substantially reduced – about four thousand nurses are still missing from Hungarian hospitals. *{Világgazdaság, 5 February 2002.}*

The Act on Preferential Status for ethnic Hungarian residents of neighbouring countries adopted by Parliament in June 2001 was meant to facilitate among others their employment in Hungary. Accordingly, the beneficiaries may be granted the possibility of employment for three months each calendar year in accordance with the procedural rules in force but without a preliminary analysis of the Hungarian labour market situation (i.e., whether there are unemployed persons available to be engaged for the given work).

The Act, which met with strong objections in both the neighbouring countries concerned and in internal policy, for different reasons, came into force on 1 January 2002. Initial experience has not confirmed either the pessimistic expectations ("cheaper labour will invade the Hungarian labour market") or the optimistic ones (concerning the "whitening" of illegal employment). It is primarily the significant increase in minimum wages that acts against the more extended employment of foreigners than before (this increase slows down the increase in employment in general, given the Hungarian wage-related public burdens); the same prompts the extension of illegal employment.

In 2001 – as shown by the experience of inspections – unreported employment of foreigners (disclosed by inspectors) decreased only slightly.[26]

Inspections by the National Occupational and Labour Safety Chief Directorate (Hungarian abbreviation: OMMF) held in 2001 – which investigated compliance with the legal requirements for employment on a broad basis – revealed altogether 1,876 foreigners employed without permit. (In 1998, 1,956; in 1999, 1,774; in 2000, 2,363 similar cases were revealed.)

Control is especially difficult in respect of seasonal agricultural workers and those employed on arable lands and in horticulture, especially if they use only a low number of helpers. (According to the experience, this is a widespread practice, especially on the small farms of older people.) The construction industry, black dressmaker's shops, catering trade, commerce – that is, primarily small units where inspectors almost never go – continue to be attractive venues.

3.7 Registered labour demand

One of the constant topics of the already quoted short-term forecasts produced in the Ministry of Economic Affairs (earlier under the auspices of the National

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[26] In the first half of 2001 in Budapest, the number of inspected employees tripled compared to 1999 (from about 7,000 to over 21,000 persons). Inspectors found foreigners working without permit at every eighth company. *{Népszabadság, 29 May 2001.}* Experience in County Békés shows that employers of foreigners keep together and notify one another about the arrival of inspectors by mobile phone. Foreign employees have also become "trained", they hide out in the land or tell the inspector that they are visiting relatives or participating at an information exchange. In 2001, 200 foreigners – mostly Romanian citizens - employed without a permit in the county were prohibited from coming to Hungary for ten years. *{Világgazdaság, 8 January 2002.}*

Employment Office) is capacity utilisation and, out of the reasons for inadequate capacity utilisation, the extent of the shortage of labour.

In the first half of 2001, 35.6% of companies and in the second half 33.6% indicated the inadequate utilisation of their capacities. As for the underlying reasons, in the first half 75% of companies concerned and in the second 83% indicated three main reasons: decline in domestic demand (48.9–51.2%), shortage of foreign demand (15.4–19.6%) and the lack of capital (10.6–11.3%). Additional reasons (with a weight of 6% and 8%, respectively) was the shortage of labour, primarily of skilled labour.

As in the previous years, labour shortage prevented the better utilisation of capacities primarily in the manufacturing industry and, within that, typically in the textiles and clothing industry, where the average wages are the lowest.

At the same time, applicants were sought at the county labour centres for over a hundred different professions, while there was surplus supply of labour in barely a dozen professions. (It was presumably these two pieces of information that generated the opinion in government circles referred to by the Prime Minister several times that the Hungarian economy will need several millions of employees in the next years, who may be provided presumably only from abroad.) *{Világgazdaság, 13 June 2001.}*

The development of the employment structure, changing of necessity incessantly with the transformation of the economy, may be estimated only in the long run; it is barely possible to do that in the short term due to the swift changes in demand matching the booms and declines.

The present Report highlights demand concerning at least 150 persons nationwide and occupations that are not demanded in 2001 out of the data collected by the Employment Office. The extent of the supply and demand may be significantly different by county and by region; demand and surplus depend on the momentary condition of the local labour market, etc.

In any case, the list of professions sought in 2001 was significantly extended compared to the lists published in previous years:

Vocations, occupations in demand

Manual, unskilled

unskilled worker, cleaner, garbage collector, street cleaner; construction labourer; kitchen help; transport worker and docker

Manual, skilled

Manufacture:

Food industry

meat processing, canning industry, baking and pasta industry, tobacco production, food production, machine operator

Textiles, clothing, leather products

textile machine operator, tailor, seamstress, model-maker, clothing industry machine operator and assembly-line assembler, knitter, shoemaker machine operator

Wood industry

timber processor, carpenter, upholsterer, machine operator

Chemical industry

plastic processing, rubber product manufacturing, chemical base material and product manufacturing workers

Metallurgy

foundry jobs

Engineering

fitter, machine maker for light industries, cutter, welder/blowtorch operator, electric technician, operator of metal machining equipment

Construction

mason, carpenter-scaffolder, electrician, road worker, railway worker, building joiner, pipe network fitter

Transport

bus driver, lorry driver, forklift operator, switchman, railway maintenance worker, yard-master

Personal services

shoemaker, shoemaker-repair, curing services, occupations related to baths

Commerce and catering

sales person, warehouse manager, waiter, cook

Non-manual occupations

civil engineer, mechanic technician, specialised doctor, nurse, caretaker, teacher for institutions of higher education, tutor

Jobs with deteriorating position:

Manual, skilled

poultry keeper and breeder, navigation jobs

The extensive list cannot make one forget that a) shortages were registered typically in low-wage and low-prestige jobs among unskilled manual jobs; in these, the significant increase in minimum wages may cause an increase in labour supply (unless employers withdraw their demand due to the significant increase in the cost of the labour force in question); b) a dominant portion of jobs that require vocational skills are such as requiring skills training only, and the relevant demand and supply also depend very much on the cost of labour and the attainable income. This – as indicated by research and calculations of earlier years – depends significantly on the employing organisation: in 2000, large

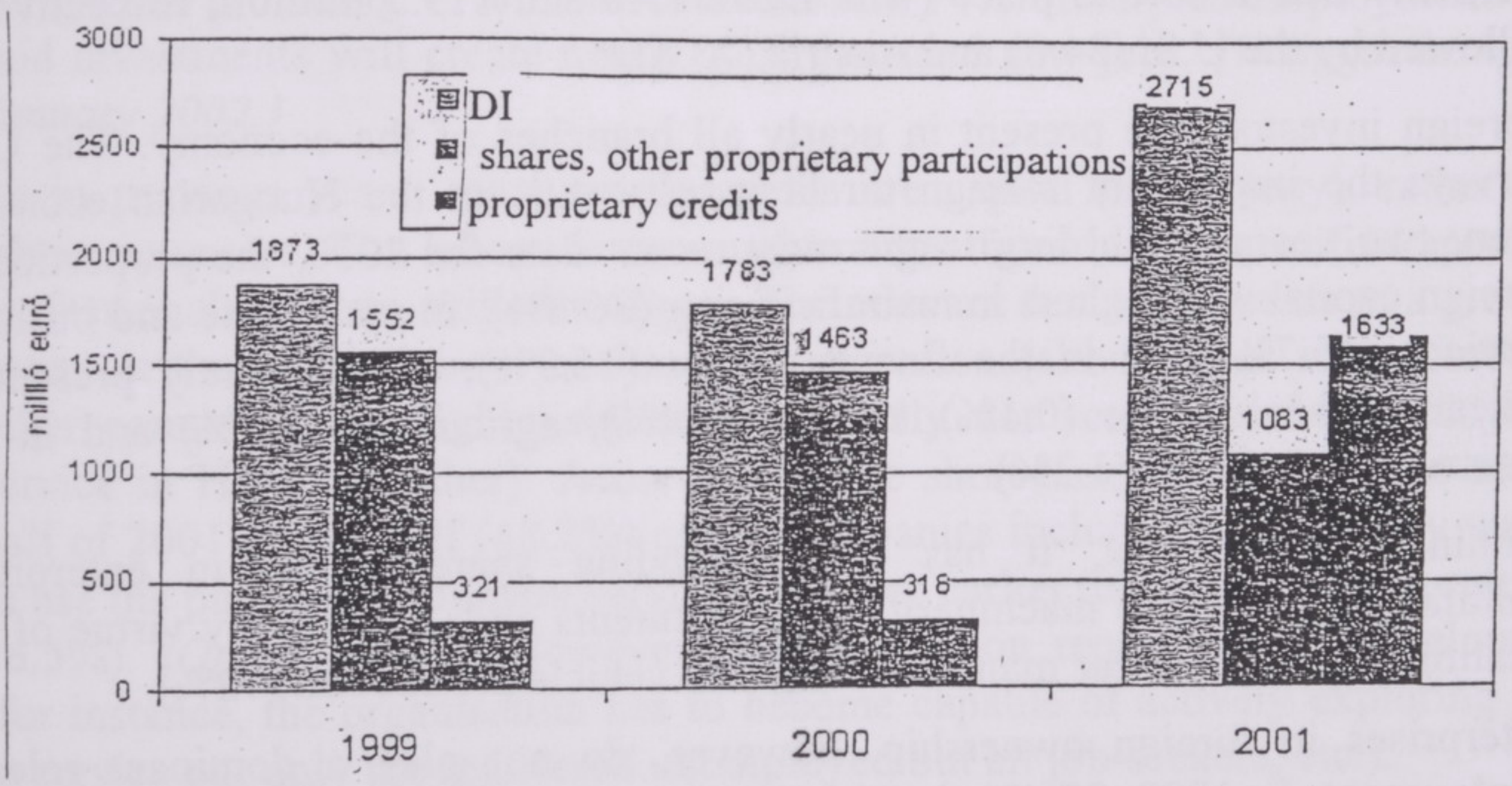
companies paid about double the amount paid by micro-enterprises *{Report for 2001, p. 149.}*; foreign companies paid about one and a half times the Hungarian average wages in a number of sectors already in 1995[33] This tendency prevailed also in 2001. *{A külföldi működő tőke Magyarországon 1999-2000., (Foreign working capital in Hungary 1999-2000) CSO, 2002. pp. 44-45.}*

3.7.1 *Labour demand associated with development projects*

As in past years, the predominant portion of demand was linked to the development projects of companies in foreign ownership; partly to extend their existing sites, and partly to launch new investments. Although smaller or larger domestic companies also make developments, the majority of new jobs are generated by foreign investment in Hungary.

Figure 4.

Direct capital investment in Hungary



Source: National Bank of Hungary
Data source: Ministry of Economic Affairs.
//www.gm.hu/gyorsmenu/statisztikak/htm/capital/capi-01. 2002. //

According to official data, direct capital investment in Hungary amounted to EUR2,715 million in 2001, which exceeds the value measured in the previous year by 52.3 per cent. Within that, shares and other participations reached an amount of EUR1,083 million, and proprietary credits amounted to EUR1,632

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[33] {Fazekas K.-Köllő J.: A külföldi érdekeltségű vállalatok munkaerő-keresletének jellemzői Magyarországon, 1995-ben (Characteristics of the labour force demand of companies in foreign ownership in Hungary in 1995) (In.: Relokáció: A munkahelyek áttelepülése Nyugat-Európából Magyarországra, Európai Tükör, Műhely-tanulmányok, 59. Integrációs Stratégiai Munkacsoport kiadványai, [Relocation: Moving jobs from Western Europe to Hungary, European Mirror, workshop studies, publications of the 59th Integration Strategic Workgroup] 1999.)

million. In contrast with the trends of the world economy, the influx of capital accelerated significantly in 2001[27].

The volume of foreign direct investments to Hungary reached EUR25,898 million on 31 December 2001, which is 21.7% more than the corresponding volume a year earlier.

According to figures from the Ministry of Economic Affairs, over the past ten years, the most significant investor countries in respect of Hungary included the U.S., Germany, the Netherlands, France, the United Kingdom, Canada, Belgium, Austria, Sweden, Switzerland, Japan, Luxembourg and Italy. There are a number of other investor countries present such as Korea, Israel, Finland, etc. The ranking of investors changes continuously; in one year, it is the U.S. that invests most, while in another year it is Germany and in yet another year the Netherlands. During the first half of 2001, the rank order of foreign investors was headed by Japan, with the investment of EUR251.5 million. The Netherlands and Germany tied at second place (with EUR119.6 and 119.5 million, respectively), followed by the U.S. (84.0) and Austria (73.8).

Foreign investors are present in nearly all branches of the economy. The CSO surveys the impacts of foreign direct investments on the Hungarian economy every two years. According to the most recent data for 2000, the proportion of foreign capital was highest in manufacturing (36.8%), in real estate and business services (15.7%) and in the finance sector (11.3%); it was barely present in education, health care (0.1%), mining (0.4%), agriculture (1.1%) and in the construction industry (1.2%).

Within manufacturing, it has an outstanding share (76%) in enterprises manufacturing electric machinery and instruments and – mostly by virtue of the location of passenger car manufacturing – in vehicle production (72%).

Enterprises in foreign ownership, however, do not play a dominant role in employment. In 1999, 27.4%; in 2000, 27.6% of the employees worked at such companies, most of them (383 thousand, equivalent to 47% of people working in this sector) employed in manufacture. Within that, nearly 110 thousand (70% of workers in this sector) were employed in the manufacture of electric machinery and instruments. (The greatest proportion of people, 81%, over 40 thousand, was employed by foreign-owned companies active in the branch labelled "manufacture of other non-ferrous mineral products" which employs about 50,000 persons.)

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he development of capital investment was significantly influenced by the Deutsche Telekom-áv-Westel transaction in the course of which in December 2001, Matáv purchased the 49% icipation in Westel from DT for an amount of EUR920 million. This reduced the FDI influx by R920 million (without proprietary credits). MATÁV financed the transaction out of a credit nded by DT. Without this inter-company transaction, the increase in shares and other cipations for the year 2001 would have amounted to EUR2 billion, while the increase in rietary credits to EUR700 million.

Foreign capital having entered the country in 2001 promised additional jobs – several hundred or just a few dozens depending on the nature of the planned investment, the target sector and the activity concerned.

In the course of the year – as indicated already – some of the scheduled investments came to a halt as a result of recession[28] and a number of companies removed their production, occasionally relocated not long before, from Hungary, but a number of companies continued to relocate their manufacturing operations to Hungary from Western Europe.[29]

Press news on the launching of expansion and construction projects or the start-up of new investments in nearly all sectors of the economy do not allow to deduce the relevant employment impacts. However, some support is provided by the data on job-creation subsidies granted under the Széchenyi Plan[30] awarded by the Ministry of Economic Affairs: two-thirds of the altogether HUF16.3 billion subsidies for investment purposes were awarded to 100% foreign-owned companies providing 79% of investments and 74% of surplus employment. The said investments will create nearly 12.8 thousand new jobs. *{Világgazdaság, 15 January 2002.}*

As in previous years, most developments are capital (technology), rather than labour intensive. The labour force sought ranges from highly qualified specialist professionals to semi-skilled workers. The relevant demand appears to a growing extent at the public labour exchange organisation (although, as in a number of other countries, the highly skilled are usually not sought at the employment service in Hungary either). According to the short-term forecast, in the second half of 2001 nearly half (48.2%) of the companies included in the survey wanted to use the public employment service (one year earlier the corresponding rate was 36.5%). *(Op.cit., p. 77.)* However, state mediation requires great development (for instance, the organisation has to become capable of actively exploring jobs; to service not only the registered unemployed but all job-seekers, etc.).

Currently, the greatest hindrance to mediation focusing on the placement of the registered unemployed is that – as it is well-known and as we shall discuss in detail – the current characteristics of a significant part of this labour force does not meet the requirements of employers. Therefore, it is reasonable to extend to scope towards all people who wish to work (e.g. inactive).

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[28] Some examples from the press news:
U.S. company Avery Dennison will not build a factory in Tiszaújváros after all *{Napi Gazdaság, 17 April 2001.}*; Wienerberger may postpone investment in the brick factory at Tiszavasvár *{Napi Gazdaság, 12 June 2001.}*; ART-Technology gave up on building a factory in Nógrád *{Napi Gazdaság, 12 June 2001.}*; U.S. printer production company Lexmark postponed the construction of a factory at Tatabánya although construction – at least in a symbolic manner – started early in July *{Napi Gazdaság, 1 October 2001.}*; Quick Restaurants, the company with Belgian majority ownership, stops investments in Hungary *{HVG, 17 November 2001.}*; Faurecia of France will not build the planned exhaust pipe factory at Vasvár, claiming a reduction in orders from the vehicle industry *{Napi Gazdaság, 14 February 2002.}*

[29] For instance Philips, Zanussi, Carrier, and Elanders of Sweden.

[30] In the framework of the Széchenyi Plan, the subsidy programme announced by the government for economic revival promotion purposes in 2000, 233 enterprises received subsidies in 2001

3.7.2 *Discrepancy between (registered) labour demand and supply*

Despite the stabilisation and improving results of the economy and even the growth in employment, the number of vacancies reported to the employment service has been decreasing since 1999 (from a monthly average of 51,300 in 1999 to 41,300 in 2001). Furthermore, the demand includes those aspiring for subsidised jobs. All in all, the rate reported vacancies to the registered unemployed was lower at 11.4% in 2001 than one year before (12.8%), despite the significant decrease of the number of the registered unemployed in the meantime.

Nearly 90% of demand applies to manual labour. Data for December are shown to demonstrate this point.

Table 3.21.

Registered labour demand

Year, Dec.	Demand *persons*	*of which*, %:				
		skilled	semi-skilled	unskilled	**manual total**	**non-man.**
		worker				
1993.	28,089	45.8	23.5	7.2	**76.5**	**23.5**
1994.	30,806	49.0	27.3	8.2	**84.5**	**15.5**
1995.	26,756	52.1	24.3	11.8	**88.2**	**11.8**
1996.	35,540	51.7	22.5	10.2	**84.4**	**15.6**
1997.	36,307	51.0	26.4	8.9	**86.3**	**13.7**
1998.	40,952	46.5	31.6	10.6	**88.7**	**11.3**
1999.	42,579	47.0	30.3	11.9	**89.2**	**10.8**
2000.	39,183	38.3	36.8	14.0	**89.1**	**10.9**
2001.	37,327	38.8	30.8	18.6	**88.2**	**11.8**

Source: Employment Office

The experience of previous years is that part of the registered demand is not real (e.g., the company had filled the position in some other way, but failed to notify the employment service of this). There is also demand reported on a permanent basis, typically by employers with excessive staff fluctuation due e.g. to low wages or bad working conditions to whom the service keeps sending new unemployed candidates as a duty, but not very willingly.

In general, most of the real demand is satisfied quickly, unless there is a shortage of candidates among the unemployed in the given region who would meet the special requirements (in terms of occupation, practice, language skills, etc.) of the employer. On the other hand: some unemployed find a job on their own, without the assistance of the labour service.

The registers give reliable information on the placement of unemployment benefits recipients. As the number of persons entitled to benefits decreased in 2001 (partly due to the reduction of the period of eligibility), a somewhat greater proportion of jobs was filled than in 2000 (19.9% vs. 15.3%). In absolute terms, however, fewer benefit recipients were placed (in part at subsidised jobs) during the year: 83,900 in 2001 as opposed to 91,500 in 2000.

Table 3.22.

Monthly average number of registered vacancies, of the registered unemployed, of the beneficiaries of unemployment benefits and of the re-employed among them, 1995-2001

Year	No. of vacancies *	Registered unemployed (persons)	Vacancies in % of the unemployed	Closing stock of Unempl. benefits recipients**	Re-employment		
					no.	% rate to job vacancies	% rate to benefit recipients
1995	28,680	507,695	5.6	182,788	8,569	29.8	4.7
1996	38,297	500,622	7.7	171,737	8,228	21.5	4.8
1997	42,544	470,112	9.1	141,743	7,312	17.2	5.2
1998	46,624	423,121	11.4	130,724	7,110	14.7	5.4
1999	51,271	409,519	12.5	140,717	6,933	13.5	4.9
2000	50,000	390,492	12.8	131,665	7,628	15.3	5.8
2001	41,331	364,140	11.4	119,210	6,993	19.9	5.9

* Closing stock; job vacancies at the end of the month.

** Not including beneficiaries of income supplement.

Source: Employment Office, monthly reports.

We are still unaware of the rate of placements to permanent jobs. The demand for skilled workers probably represents real vocational demand; just as the demand for unskilled workers on the part of mass-production plants mushrooming thanks to foreign investments. It may also be detected that potential employees for non-manual work are typically sought outside of the scope of the employment service.

As mentioned already, a part of the registered demand cannot be met out of the stock of the registered unemployed due to the difference between the requirements specified in the demand and the characteristics of the unemployed.

The employment service is making significant efforts to fill the reported vacancies as soon as possible. For instance, in December 2001 there were 67,700 vacancies – including new reports – and on the closing date at end-December, 37,300 vacancies remained. Out of these, only 2,500 were not filled out of the given volume of the unemployed on a permanent basis (in more than 180 days).

Table 3.23.

*Number and rate of job vacancies registered for more than 180 days, December 1993- December 2001**

Year (December)	Total no. of registered vacancies	*of which:* registered for more than 180 days	
		no.	%
1993	28,089	2,918	10.4
1994	30,806	4,719	15.3
1995	26,756	931	3.5
1996	35,540	4,487	12.6
1997	36,307	5,895	16.2
1998	40,952	4,851	11.8
1999	42,579	4,134	9.7
2000	39,183	2,894	7.4
2001	37,327	2,505	6.7

* Closing stock
Source: Employment Office

Over 90% of the demand, modest in absolute terms, that cannot be satisfied in the given regions relates to manual jobs. It may be assumed that an advantageous change in wages and working conditions would quickly solve the labour shortage problem for a part of these jobs (as in the case of seamstresses replaced partly by foreign labour).

Table 3.24.

*Number and rate of vacancies registered for more than 180 days, by employment status, December 1999- December 2001**

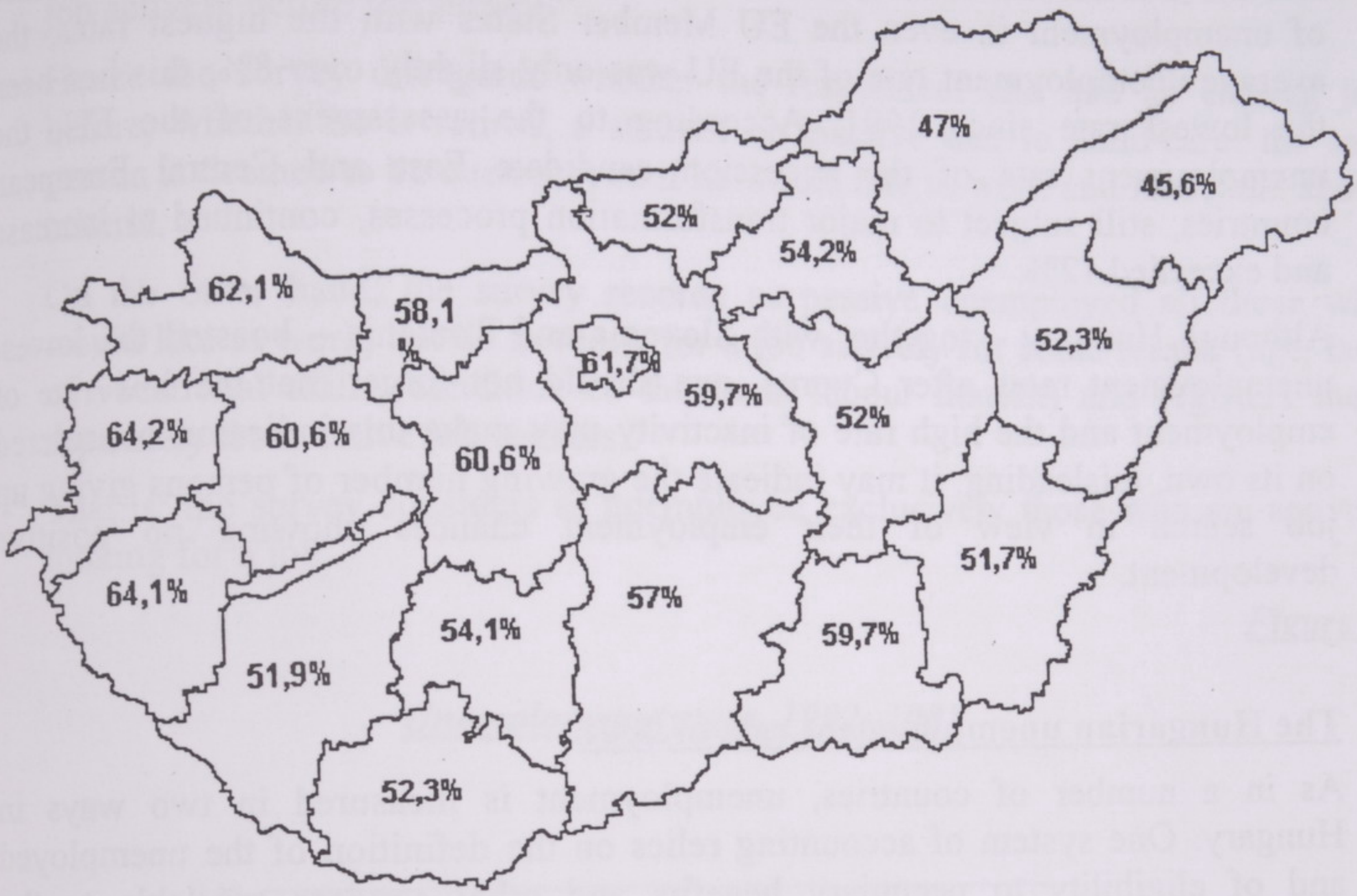
Status	1999			2000			2001		
	Demand	*of which:* 180+ days		Demand	*of which:* 180+ days		Demand	*of which:* 180+ days	
	no.	no.	%	no.	no.	%	no.	no.	%
Skilled	20,009	2,393	12.0	15,003	1,383	9.2	14,478	1,373	9.5
Semi-skilled	12,912	1,271	9.8	14,422	862	6.0	11,515	866	7.5
Unskilled	5,083	150	2.8	5,485	155	2.8	6,945	74	1.0
Manual, total	38,004	3,814	10.0	34,910	2,400	6.8	32,938	2,313	7.0
Non-manual	4,575	320	7.0	4,273	494	11.6	4,389	192	4.3
Total	**42,579**	**4,134**	**9.7**	**39,183**	**2,894**	**7.4**	**37,327**	**2,505**	6.7

* Closing stock
Source: Employment Office

The decline in demand in 2001 was probably related to the significant increase in employment costs due to the increase in minimum wages; but that is another issue. Although this has not led to the dismissal of labour in employment already except for a few places, employers tended to postpone their staff extension projects. This was especially unfavourable for the employment chances of manual workers with lower/no qualification, representing a large segment of the registered unemployed.

Employment rate of the 15-64 year-old by county, 2001

National ratio: 56.6%



Source: *LFS, Time Series, 1992-2001*, CSO, 2002.

4. *UNEMPLOYMENT*

After nearly a decade, 2000 was the first year when the European Union was able to evaluate the reduction of unemployment in a more optimistic manner than before: the number of the unemployed decreased by 1.5 million in one year; this was the greatest reduction in the course of the decade. As a result of the decrease of unemployment in even the EU Member States with the highest rates, the average unemployment rate of the EU was only slightly over 8%; this has been the lowest rate since 1991. According to the assessment of the EU, the unemployment rate of the accession candidate East and Central European countries, still subject to major transformation processes, continued to increase and exceeded 12%.

Although Hungary – together with Slovenia and Romania – boasted the lowest unemployment rates after Cyprus, one should not forget that the low rate of employment and the high rate of inactivity may make this indicator, considered on its own, misleading: it may indicate the growing number of persons giving up job search in view of their employment chances showing no positive development.

4.1 The Hungarian unemployment rate of 2001

As in a number of countries, unemployment is measured in two ways in Hungary. One system of accounting relies on the definition of the unemployed and of eligibility to pecuniary benefits and other services available to the unemployed under the national legislation – based on Act IV of 1991 on Employment Promotion and Provisions for the Unemployed in Hungary's case. Persons who qualify as unemployed are registered according to the requirements of this Act; the number of registered persons at all times is the number of unemployed. Despite a number of common features, national rules may different significantly from one another in a number of respects.[34].

In order to ensure the comparability of different quantitative rates deriving from different national regulations, countries of the OECD, including the Member States of the European Union, introduced a single interpretation for the term "unemployed" based on the relevant recommendation of the ILO, as well as a uniform survey system. Although the resulting number of the unemployed may be significantly different from that calculated according to the national rules, the EU's evaluation are based exclusively on these. International comparisons contain such data on Hungary as well, given that the CSO has been measuring the number of the unemployed in the framework of the Labour Force Surveys according to the said common principles and methods since 1992.

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[34] The essential features of national rules are presented in a comprehensive manner in Mária Frey's "The rules of entitlement and rates of unemployment benefits in developed countries", and in Ágota Scharle's "Justification conditions for unemployment benefits", *in Munkaerőpiaci Tükör, 2001* (Labour Market Mirror, 2001, *ed.*: Károly Fazekas), HAS, Economics Research Centre (OFA), Budapest., 2001. pp.50–62.

Let us present the results of this survey first.

4.1.1 *LFS data*

For the purpose of the survey, with some simplification, the unemployed are people aged 15 to 64 who have no job but would like to work and looked for a job actively before the survey.[35]

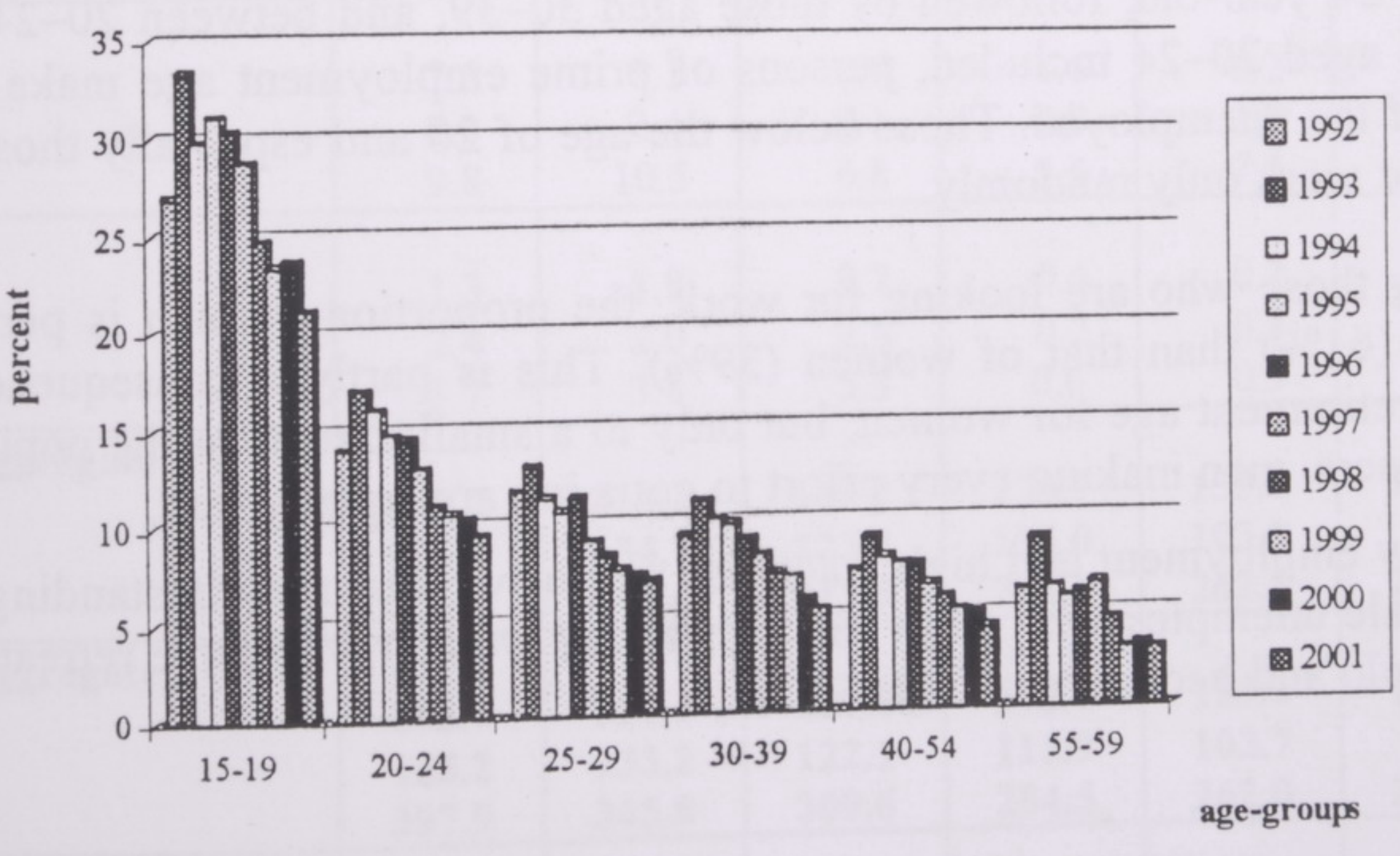
Hence the survey disregards whether the respondent had had an earning job before, whether he is retired, a student or inactive due to child-care: the said person is deemed to be unemployed if he would like to work and meets the above criteria.

On the other hand, the survey records as passive unemployed all those who would like to work, but do not look for a job actively for some reason (age, lack of vocational skills, condition of the local labour market) and registers them separately from active job-seekers.

That is: the survey considers as unemployed exclusively those who are actively looking for a job.

Figure 6.

Unemployment rates, 1992–2001



Source: **LFS Time Series, 1992-2001, CSO, 2002.**

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[35] The definition is more detailed than cited here. On the one hand: people between the ages 15 and 74 are questioned, but only the data of those between ages 15 and 64 are taken into account for the comparisons. On the other hand: according to the definition, those who are "available", i.e. would be able to take the position within two weeks; and those who have found a job where they may start working within 30 days, are also classified here.

In 2000, 262 thousand and in 2001 233 thousand (143 thousand men and 90 thousand women) qualified as persons who wanted to work and were looking actively for a job, i.e., as unemployed. The unemployment rate – 5.7% – is close to that of the European countries characterised by relatively lower unemployment rates.[36]

Despite the continuous decrease in the number of the unemployed, unemployment concerned nearly 213 thousand of the 3.728 thousand households of the country, which is 5.7% of households. The number of the unemployed was one in 194 thousand households (5.2%), two in 16 thousand (0.4%), and three or more in nearly 2000 (0.1%). Unemployment hit harder families with more members. While there was at least one unemployed person in less than 5% of single-member households, the corresponding rates for households with 2, 3, 4 and 5 or more members were 20%, 27%, 29% and 20.5%, respectively.

Following 1997, it was reasonable to assume that the steady decline in the number of the unemployed was due to the strengthening of the economy and its increasing employment capacity. However, in 2001, while the number of active job-seekers decreased by 30 thousand over 2000, that of the employed grew by no more than 10 thousand. In addition to demographic reasons, this also implies that more people have given up active job search then before to become passive unemployed, or simply inactive, dependent on their family or on society and – presumably – more sought their living outside the organised economy.

In terms of age-group distribution, as in earlier years, most of the unemployed are 40–54 year-old, followed by those aged 30–39, and between 20–24. That is, people aged 20–24 included, persons of prime employment age make up about 90% of the unemployed. Those below the age of 20 and especially those past 55 look for work only randomly.

Among those who are looking for work, the proportion of men is permanently higher (61%) than that of women (39%). This is partly a consequence of the lower retirement age for women, but only to a small extent: in the population of 55 plussers, men making every effort to get a job are equally rare.

The low employment and high inactivity rate of women notwithstanding, figures on female unemployment show that it is rather women who have retreated to the household and became dependent.

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[36] The unemployment rate is the most generally used indicator for the extent of unemployment; it is calculated by comparing the number of unemployed to the number of the economically active (the employed and the unemployed). However, other comparisons are also frequent, for instance, to the number of the population that belongs to the corresponding age group, etc. However, in these cases we use the phrase "proportion" instead of "rate".

Table 4.1.

Distribution of the unemployed by age group and gender

thousand persons

Age group	1996	1997	1998	1999	2000	2001
	January/December					
15–19						
male	23.8	19.0	16.1	12.6	10.3	7.1
female	15.3	13.5	12.2	8.7	7.3	5.4
all	39.1	32.5	28.3	21.3	17.6	12.5
20–24						
male	43.7	42.1	40.0	36.0	33.8	27.6
female	23.5	21.3	19.3	21.3	19.3	15.6
all	67.2	63.4	59.3	57.3	53.1	43.2
25–29						
male	33.4	29.8	26.7	25.7	25.5	26.3
female	21.1	15.2	16.6	14.9	15.3	16.2
all	54.5	45.0	43.3	40.6	40.8	42.5
30–39						
male	61.9	50.3	42.0	42.6	35.4	33.3
female	39.1	34.7	29.2	28.9	24.4	22.0
all	101.0	85.0	71.2	71.5	59.8	55.3
40–54						
male	72.1	63.0	57.0	48.8	48.1	41.6
female	52.7	45.6	41.8	39.2	35.1	29.4
all	124.8	108.6	98.8	88.0	83.2	71.0
55–59						
male	7.5	8.1	4.7	4.6	6.2	6.0
female	2.3	2.4	2.1	0.8	1.3	1.1
all	9.8	10.5	6.8	5.4	7.5	7.1
60–74						
male	1.3	1.8	2.7	0.4	0.2	1.8
female	2.4	2.0	2.6	0.2	0.3	0.5
all	3.7	3.8	5.3	0.6	0.5	1.3
15–74, aggregate						
male	**243.7**	**214.1**	**189.2**	**170.7**	**159.5**	**142.7**
female	**156.4**	**134.7**	**123.8**	**114.0**	**103.0**	**90.2**
all	**400.1**	**348.8**	**313.0**	**284.7**	**262.5**	**232.9**
15–64, aggregate						
male	**242.7**	**212.6**	**187.5**	**170.6**	**159.3**	**142.7**
female	**155.2**	**133.2**	**122.1**	**113.9**	**102.7**	**90.0**
all	**397.9**	**345.8**	**309.6**	**284.5**	**262.0**	**232.7**
Persons of Hungarian working age						
male	**242.4**	**212.3**	**186.5**	**170.3**	**159.0**	**142.1**
female	**151.7**	**131.0**	**119.8**	**113.6**	**102.4**	**89.4**
all	**394.1**	**343.3**	**305.3**	**283.9**	**261.4**	**231.5**
Passive unemployed	**101.0**	**93.7**	**110.4**	**109.1**	**106.9**	**108.0**

Source: *LFS, Time Series, 1992–2001*, CSO, 2002.

It is a permanent trend indicative of restructuring in unemployment that most of the active job-seekers (1996:50%; 2001:58%) lost their job within one year and

wanted to work as soon as possible, or started looking for a job one year earlier. Only a few among those having been unemployed for more than two years gave up job search. There are long-term unemployed in all age groups, roughly at a proportion of 13–16%.

Table 4.2

Number of the unemployed* by duration of the job-search period

thousand

Period of job search	1996		1999		2000		2001	
	no.	%	no.	%	no.	%	no.	%
less than 1 month	19.9	5.1	14.9	5.2	16.7	6.4	14.7	6.4
1– 3 months	46.4	12.0	43.6	15.4	38.5	14.7	36.9	16.0
4– 6 months	49.3	12.7	38.7	13.7	35.0	13.4	33.1	14.3
7–11 months	61.5	15.8	45.7	16.1	42.8	16.4	38.3	16.6
12 months	18.2	4.7	13.2	4.7	12.7	4.9	11.3	4.9
Less than 12 months:	**195.3**	**50.3**	**156.1**	**55.1**	**145.7**	**55.8**	**134.3**	**58.2**
13–18 months	56.1	14.4	38.0	13.4	36.9	14.1	31.4	13.6
19–24 months	37.1	9.5	26.8	9.5	23.7	9.1	20.9	9.1
25 months or more	100.2	25.8	62.2	22.0	55.0	21.0	44.1	19.1
Long-term unemployed	193.4	49.7	127.0	44.9	115.6	44.2	96.4	41.8
Total	**388.7**	**100.0**	**283.1**	**100.0**	**261.3**	**100.0**	**230.7**	**100.0**
Average period of job search (month)	18.8		17.5		16.8		16.1	

*Not including those starting a new job within 30 days

Source: *LFS, Time Series, 1992–2001*, CSO 2002.

The duration of the period of job search continued to decrease slightly, but is still over 15 months on average.

13% of those who actively looked for a job in 2001, 31 thousand persons, have never worked before; most of them are presumably career beginners. (In 2000, their number was 38 thousand and their proportion 14.5%.)

Nearly the same number of people (30.6 thousand, 13.1%) worked for the last time five or more years earlier; and 15.8 thousand among them eight or more years earlier. (The number of the latter was 20 thousand in 2000.)

Only 2,380 persons (1%) among the unemployed indicated that they had hopefully found a job and might start working within 30 days.

94.1% of those having had a job within eight years used to work as employees. This proportion has barely changed for years, and the same is true for the other who became unemployed from other circles the employed.

Table 4.3.

Number and distribution of the unemployed by nature of last job*

Employment status		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Employee	'000	347.1	391.7	336.5	320.8	312.0	262.4	230.2	217.4	193.6	175.1
	%	86.9	89.4	90.6	91.9	93.0	92.7	93.4	95.4	94.3	94.1
Co-op. member	'000	24.5	21.2	14.0	11.0	6.9	4.3	3.8	1.8	1.7	1.6
	%	6.1	4.8	3.8	3.1	2.1	1.5	1.5	0.8	0.8	0.9
Member of partnership											
	'000	15.9	10.9	9.3	7.6	3.8	5.4	3.9	1.1	1.7	1.7
	%	4.0	2.5	2.5	2.2	1.1	1.9	1.6	0.5	0.8	0.9
Sole proprietor	'000	9.6	12.6	11.0	9.3	12.1	10.1	8.2	7.4	7.7	6.9
	%	2.4	2.9	2.9	2.7	3.6	3.6	3.3	3.2	3.8	3.7
Family member	'000	2.0	1.5	0.7	0.4	0.7	0.8	0.3	0.3	0.6	0.7
	%	0.5	0.3	0.2	0.2	0.2	0.3	0.1	0.1	0.3	0.4
Total	'000	**399.1**	**437.9**	**371.5**	**349.1**	**335.5**	**283.0**	**246.4**	**228.0**	**205.3**	**186.0**
	%	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Exclusively persons having had a regular job earlier

Source: *LFS, Time Series, 1992–2001*, CSO, 2002.

7.4% of those who have not worked for a maximum of eight years had had their last job in agriculture, 42.8% in industry and nearly half in services.

Table 4.4.

Number of the unemployed by industry*

thousand persons

Industry **	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
A – B	53.4	66.9	48.8	40.9	35.7	26.9	21.8	18.2	13.3	13.8
C	5.2	7.8	8.8	5.0	3.2	3.8	2.8	2.6	2.7	1.7
D	140.7	144.1	115.9	106.8	99.4	87.7	72.7	69.1	62.6	55.1
E	7.3	7.4	6.0	7.0	5.7	5.6	4.7	4.4	3.4	2.6
F	48.5	50.0	43.2	43.2	38.8	30.3	26.9	23.6	22.1	20.2
G	43.9	48.4	49.9	44.9	44.1	35.2	34.6	30.5	28.8	25.4
H	17.0	23.0	18.6	15.9	16.3	14.5	11.4	10.8	11.2	10.8
I	21.5	27.2	24.4	22.7	23.9	16.5	13.2	13.7	10.6	9.7
J	1.5	2.9	2.9	3.0	3.6	2.7	3.8	3.3	3.7	3.0
K	11.7	12.4	11.4	8.8	9.4	6.5	8.9	9.1	7.8	7.5
L	13.0	13.6	12.7	16.3	19.8	20.2	18.4	19.2	17.8	17.1
M	7.7	8.1	8.3	11.2	12.3	9.2	7.4	8.2	5.0	3.9
N	10.3	8.4	9.0	9.8	7.9	7.4	9.3	6.9	6.8	5.8
O – Q	17.4	17.7	11.6	13.6	15.4	16.5	10.5	8.4	9.5	9.4
Total	**399.1**	**437.9**	**371.5**	**349.1**	**335.5**	**283.0**	**246.4**	**228.0**	**205.3**	**186.0**

* By previous employment terminated within 8 years.

**A-B = Agriculture, hunting, forestry and fishing; C = Mining and quarrying; D = Manufacture; E = Electricity, gas, steam and water supply; F = Construction; G = Wholesale and retail trade; repair of motor vehicles; H = Hotels and restaurants; I = Transport, storage and telecom.; J = Financial intermediation; K = Real estate, renting, business support; L = Public administration, mandatory social security; M = Education; N = Health and social care; O-Q = Other services

Source: *LFS, Time Series, 1992–2001*, CSO, 2002.

In 2000, 55%, in 2001, 54% among the of the recently or less recently unemployed came from the same three sectors: manufacturing (2000: 30.5%; 2001: 29.6%), trade and repair (2000: 14%; 2001: 13.7%), and construction (2000: 10.7%; 2001: 10.9%).

According to the industry-specific rates of unemployment (compared to the population of the economically active) having emerged in the wake of the powerful transformation of the economy, job losses were most frequent and job search most intensive in 2001 in mining, in the food industry and in accommodation and catering.

Table 4.5.

Unemployment rate by broad sectors and branches, 2001

Sectors, branches	Unempl. *	Empl.	Ec active	Unempl. rate
	'000			%
Agriculture, forestry, fishing	13.8	239.4	253.2	5.4
Mining	1.7	13.0	14.7	11.7
Manufacture	55.1	955.8	1.010.9	5.4
of which:				
foodstuffs, beverages, tobacco	12.5	155.9	168.4	7.4
textiles, clothing, leather products	10.8	155.3	166.1	6.5
wood-processing, paper and printing	4.8	83.2	88.1	5.5
chemical industry	4.7	92.0	96.7	4.9
non-metallic mineral products	2.0	36.3	38.3	5.2
metallurgy, metal processing	4.9	99.9	104.8	4.7
engineering	12.9	287.7	300.6	4.3
other	2.5	45.5	48.0	5.2
Electricity, gas, steam, water supply	2.6	79.5	82.1	3.2
Construction	20.3	272.7	292.0	6.9
Trade, repair	25.4	548.4	573.8	4.4
Accommodation, catering	10.8	143.0	153.8	7.0
Transport, storage, post, telecom.	9.7	310.9	320.6	3.0
of which:				
transport	6.9	229.2	236.1	2.9
post and telecom.	2.8	81.7	84.5	3.3
Finance, business services	3.0	78.9	81.9	3.7
Real estate, renting, business support	7.5	219.6	227.1	3.3
Public admin., defence, mandatory soc. sec.	17.0	274.6	291.6	5.8
Education	3.9	309.8	313.7	1.2
Health and social care	5.8	234.8	240.6	2.4
Other communal, social and personal	9.3	160.3	169.6	5.5
Private households with employees	0.1	2.5	2.6	3.2
Extra-territorial organisations and bodies	–	1.3	1.3	-
National economy, total	**186.0**	**3,844.5**	**4,030.5**	**4.6**

* Last employment terminated within 8 years.
Source: CSO, LFS

The vast majority of persons looking for a job in 2001 (84.1%) had had a manual job. Approximately one half used to work in industry/construction, as machine

operators, assemblers or drivers, and another quarter pursued (simple) activities requiring no vocational skills. Out of the nearly 30 thousand unemployed who had done non-manual work before, about 13 thousand (mostly women) had had a job requiring higher education qualification; 8 thousand (including 7,500 women) pursued office and administration work.

The composition of the unemployed by level of educational attainment has changed slightly over the years. The most obvious tendency is the decrease in the proportion of those with the lowest qualification compared to the early nineties; however, the reason for this is probably the higher propensity of members of this population to give up job search deemed hopeless. The proportion of persons with higher qualifications barely changed.

Table 4.6.

Distributionof the unemployed by educational qualification

%

Education	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Incomplete primary ed.	6.8	5.8	4.5	4.1	4.9	4.4	4.5	3.4	2.5	2.8
Primary education	37.4	35.9	35.6	34.9	32.9	36.5	34.6	31.8	29.9	32.6
Apprentice school	30.3	32.6	33.9	35.5	35.1	34.5	32.8	36.1	37.5	35.8
Vocational school	1.5	1.1	1.1	1.2	1.4	1.3	1.5	1.6	1.4	1.4
General sec. school	8.4	8.2	7.8	7.9	8.6	8.7	9.8	7.3	7.7	6.5
Vocational sec. school	12.0	13.1	13.3	12.4	12.9	11.7	13.1	16.7	16.9	16.8
College	2.1	2.4	2.7	3.0	2.7	2.0	2.5	2.2	2.8	3.0
University	1.4	1.0	1.1	1.1	1.4	0.8	1.2	0.9	1.3	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *LFS, Time Series, 1992–2001*, CSO, 2002.

The continuous decrease in unemployment is reflected in the reasons for becoming unemployed and for active job search as well as in the changing weight of such reasons.

Job loss continues to be the main reason. However, while ten years ago this was the major reason for three-quarter of persons becoming unemployed, in 2001, it applied to barely more than half among them.

The figure for job loss due to the worker's resignation hardly changed; and although over 10% indicated the voluntary surrender of their job as main reason of unemployment, their number is in fact negligible compared to the number of those in employment. Whatever the general employment situation and the chances of finding another job, there have always been and there will always be working conditions that are unacceptable for the worker at the given workplace, or salaries considered to be unfair, tensions that appear to be impossible to resolve, or simply family circumstances that prompt people to give up a particular job.

A few years ago, the number of persons looking for a job (again) on completion of temporary work increased. Temporary work may be seasonal work contracted by mediating companies, subsidised (e.g. public benefit) employment, or casual

work. In this group, about 20 thousand people have carried out active job search for the third year in a row.

The multitude of those who wish to enter or re-enter the labour market has decreased in number, but has not changed in weight. In 2001, the rate of the 50 thousand persons concerned among the unemployed was higher than in 1993 when many more people gave this reason for looking for a job.

Table 4.7.

Distribution of the unemployed* by primary reason of job search

thousand

Year (Jan.-Dec.)	Job loss '000	Job loss %	Quitting	Termination/ suspension of independent business act.	Termination of temporary employment	(Re)entry to the labour market **	Total
1992	317.8	73.5	35.3	9.0	2.8	67.7	432.6
1993	353.0	71.6	34.5	10.6	9.5	85.3	492.9
1994	294.4	68.5	34.6	9.5	7.9	83.1	429.5
1995	273.0	67.4	33.2	7.2	8.2	83.2	404.8
1996	252.6	65.0	32.1	10.4	10.8	82.8	388.7
1997	198.6	60.4	31.2	8.6	14.9	75.4	328.7
1998	174.4	59.4	29.2	7.1	14.7	68.0	293.4
1999	161.1	56.9	31.5	5.7	19.5	65.3	283.1
2000	146.3	56.0	27.2	7.6	19.5	60.7	261.3
2001	121.3	53.9	28.5	5.4	19.8	50.0	225.0

* Not including those starting a new job within 30 days
** After study, parental leave, military service
Source: *LFS, Time Series, 1992–2001*, CSO, 2002.

The most general method of active job hunting for the 225,000 unemployed is watching job ads and mobilising friends – over 80% of them have done this. 38% have posted ads themselves and responded to advertisements. 65% have contacted employers directly, over 60% inquired at the labour service and 20% at private job exchange agencies. Only 2% of the unemployed relied exclusively on the labour service.

55% of unemployed persons sought exclusively and another 32% primarily full-time work, but the latter would have accepted part-time work, too. Only 6% inquired about part-time jobs; over 9 thousand women and 5.6 thousand men. About ten thousand wanted exclusively part-time work, and five thousand primarily part-time work, but would have been ready to accept full-time work. 10 thousand men and 6 thousand women (together, 7%) were ready to engage in any kind of work.

Salary requirements may not be considered excessive – the persons concerned weighted the chances arising out of their individual characteristics and the potential jobs in their vicinity more or less realistically. (It is remarkable that women calculated with salaries that were lower than men's'.)

During the year, while salaries increased by an average of 18% in the country overall and the gross average salary increased to over HUF100,000 (in net, to HUF64,900) and the HUF40,000 minimum wage came into force, the unemployed calculated with an average increase of 15.5% (men with 15%, and women with nearly 16%).

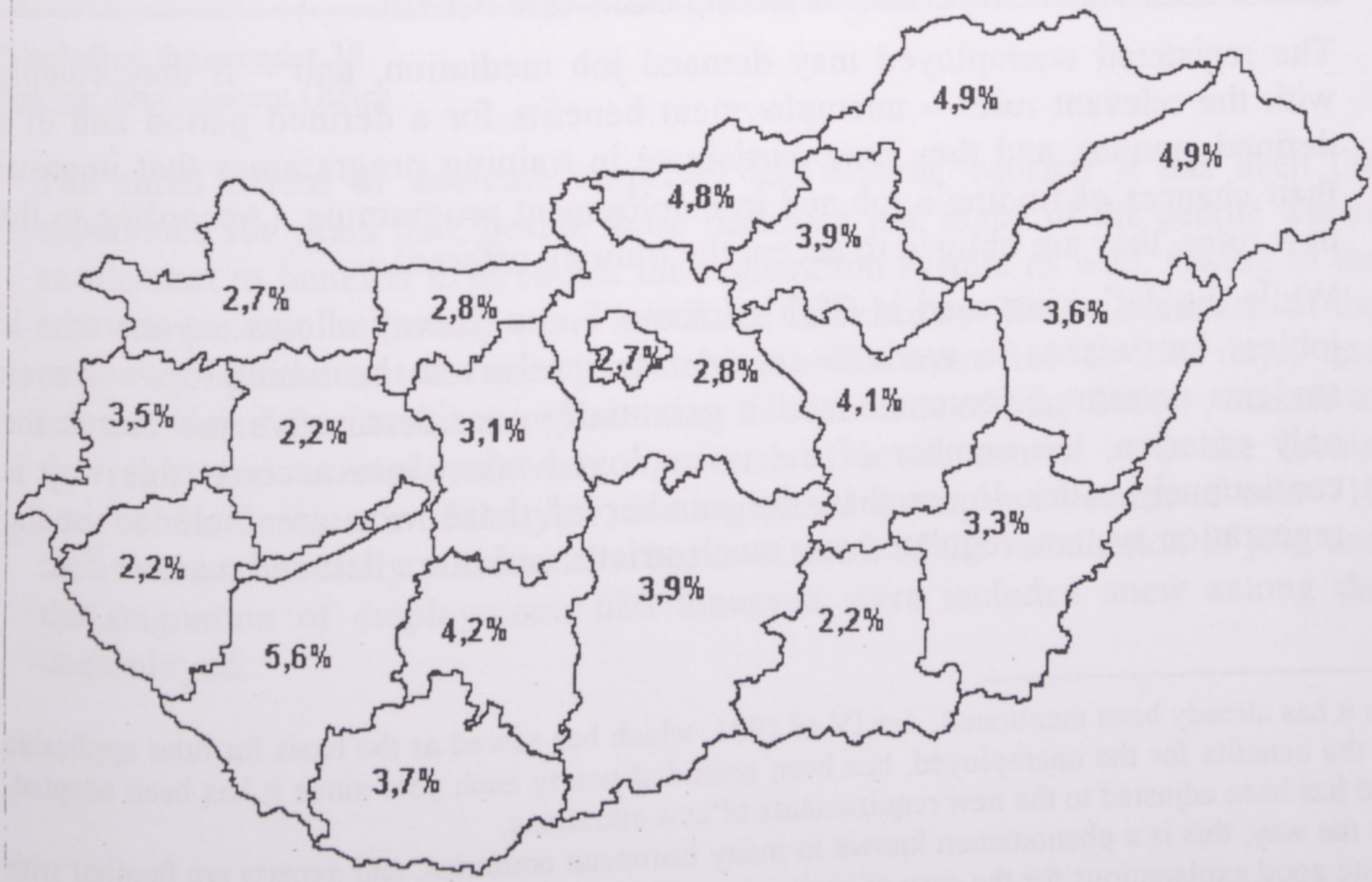
The net salary hoped for and expected among the unemployed amounted to HUF48,500 (2000: HUF41,000), of which men's' to HUF50,800 (2000: HUF43,300) and women's to HUF44,800 (2000: HUF37,500).

Of course, the expected salaries showed significant scatter depending on the level of qualification, the job held earlier and other factors. The lowest measured value was a salary of less than HUF10,000 – 84 women would have taken on a job for this amount. The highest was over HUF100,000 – 2,000 men and 500 women would have required this much. Half of the unemployed had expectations that fell in the first third of the tiers between these two extremes, expecting a salary between HUF10–40,000 (49.3%, but 58% of women), 42.9% (37% of women) to the second-third, with a salary between HUF40–70,000; while in the third third – including those who required more than HUF100,000 –, and less than 8% hoped for more than this.

Figure 7.

Rate of the unemployed to the population aged 15–64, 2001

National ratio: 3.4%



Source: *LFS, Time Series, 1999–2001,* CSO, 2002.

4.1.2 *Unemployment according to the Hungarian regulations*

The definition of "unemployed" and of eligibility on that ground to social support is codified by the relevant national regulations, some more severe, others more lenient. Although the definitions are based on roughly the same principles, there may be lots of national differences and, moreover, the rules may modify time and again, according to the changes in circumstances. In Hungary, the most recent amendments[37] – re-regulating, among others, the definition of the unemployed – came into force on 1 July 2001

Accordingly, an unemployed person is a person who
⇒meets the conditions necessary for creating an employment relationship, and
⇒is not studying at the day courses of any education institution, and
⇒is not entitled to old age pension, and
⇒is not in employment, with the exception of a legal relationship that qualifies as temporary employment, and does not pursue other earning activities, and
⇒co-operates with the office of the labour centre, and
⇒is registered as unemployed by the office of the labour centre.

The Act still imposes the obligations to co-operate with the office of the labour centre, to contact the office at least once every three months, to consider jobs offered, etc. Lack of co-operation may entail exclusion from the system.

Those among the registered unemployed who take part in some employment promotion programme (training, public work, etc.) are not considered to be unemployed – temporarily – until the programme is completed; and the same is true of conscripts and persons receiving child-care benefit.

The registered unemployed may demand job mediation, and – if they comply with the relevant rules – unemployment benefits for a defined period and of a defined amount, and they may participate in training programmes that improve their chances of finding a job and in employment programme. (According to the new rules, they are obliged to accept the training offered).

While the definition used in CSO's Labour Force Survey allows anyone who is jobless but wishes to work to consider themselves to be unemployed – even students or retired persons – and it essentially considers active job search the only criterion, the number of the unemployed taken into account this way is continuously much lower than the number of those who are included in the registration system, regulated in a much stricter and more detailed manner.[38]

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[37] As it has already been mentioned, Act IV of 1991, which has served as the basis for rules applicable to the benefits for the unemployed, has been amended nearly each year since it has been adopted, and has been adjusted to the new requirements of new situations.

[38] By the way, this is a phenomenon known in many European countries, and experts are familiar with quite good explanations for the case of each country beyond the known differences in interpretation and methodology. For instance, an explanation in Hungary may be that a part of those registered are not actively looking for a job, but rely on job mediation. A difference may be caused by the given system of taking account of the number of those who exit and then re-enter the group of those registered, etc.

The difference between the two systems was significant also in 2001: the annual average number of the registered unemployed was 131 thousand more than the number of those included in CSO's Labour Force Survey. (The difference was 125 thousand in 1995 and 128 thousand in 2000.) Note that the difference becomes small if the "passive" unemployed (who would like to work but are not actively searching for a job for reasons that may be attributed to the condition of the labour market) are also taken into account; their number is permanently about 100–110 thousand and the LFS assigns them to the category of the inactive.

In 2001, the number of the registered unemployed decreased at about the same rate as the number of those included in the Labour Force Survey.

Table 4.8.

Number and rate of the registered unemployed, 1993–2001

Year	Registered unempl. '000	*of which:*			Unemployment rate
		% rate of women	pers. aged 15–25, '000	% rate of career beginners*	
1993	671.7	41.2	174.8	34.2	12.9
1994	568.4	41.4	153.3	40.5	11.3
1995	507.7	42.1	134.2	40.6	10.6
1996	500.6	43.3	124.0	37.3	11.0
1997	470.1	43.3	106.8	39.7	10.5
1998	423.1	44.8	89.9	36.2	9.5
1999	409.5	45.9	85.4	35.0	9.7
2000	390.5	46.3	79.1	32.9	9.3
2001	364.1	46.1	75.6	26.8	8.7

* Including those under 30
Source: Employment Office

The small extent of decrease surprised the experts, because it has been the experience for years that, beside those finding a job, many of the people whose entitlement to benefits expired left the registration system as well. Owing to the restrictive measures having come into force in February 2000 – reduction of the period of entitlement to unemployment benefits from 360 to 270 days, and termination of the income supplementing allocation as of May 2000 –, masses of the registered unemployed were expected to break contact with the labour service. In the course of the year, the registered unemployed status of over 710 thousand was actually terminated – but as a result of the termination of jobs and the stagnation of employment, 680 thousand were included anew among the unemployed.

The latter, estimated at a min. of 30–35 thousand per month – including former conscripts and persons returning from child-care leave – are in fact long-term unemployed, who are given an opportunity to work or study from time to time by the solidarity of society.

Table 4.11

Monthly average number of the newly registered unemployed, 1999–2001

Year	Entrant unemployed						Total
	school-leaver			other			
	total	*of which:*		total	*of which:*		
		new entrant	re-entrant		new entrant	re-entrant	
	no.						
1999	**9,284**	4,121	5,163	**47,930**	8,692	39,238	**63,673**
2000	**8,014**	3,753	4,261	**46,122**	7,621	38,501	**54,136**
2001	**7,737**	3,649	4,137	**49,185**	7,598	41,587	**56,971**
	%						
1999	**16.2**	7.2	9.0	**83.8**	15.2	68.6	**100.0**
2000	**14.8**	6.9	7.9	**85.2**	16.1	69.1	**100.0**
2001	**13.7**	6.4	7.3	**86.3**	13.3	73.0	**100.0**

Source: Employment Office

In line with the employment policy requirements of the European Union, Member States have to offer some opportunity to work or study to all young persons before their unemployment reaches a duration of six months; and before it reaches 12 months in the case of adults, in order to improve their position in the labour market, in a manner specified by their national action plans.

Actually, this is what happens to a significant part of the unemployed when they leave registered status, at least temporarily.

It is a different issue that the given system of registration does not make it possible to determine the actual duration of time spent without work. In the OECD countries, unemployment for more than one year is considered to be "long-term". This is shown for the registered unemployed in Hungary as well, but only for those who have been included in the registration continuously throughout the year. Re-entrants – no matter how long they have been unemployed – are not considered to be – long-term – unemployed as a consequence of the literal interpretation of the definition of the term. (The labour organisation calls them "permanently registered".) This should also be taken into account when evaluating the fact that the number of the long-term unemployed, which was over 100 thousand in December 2000, decreased by nearly 30%, to about 74 thousand, by December 2001.

The largest segment of the 7,600 new unemployed persons (not school-leavers) registered for the first time was dismissed from jobs that provided non-material services (36%); about a quarter of them (26.5%) from the manufacturing industry; another 20% from sectors of material services. 12% of new unemployed came from agriculture and slightly over 4% from

construction (altogether 326 persons). The proportions have been basically unchanged for years:

Table 4.12.

Monthly average number and distribution of the newly registered unemployed* by sector of origin

Sector **	1999		2000		2001	
	no.	%	no.	%	no.	%
Agriculture, forestry	1,009	11.6	914	12.0	909	12.0
Industry	2,518	29.0	2,052	26.9	2,016	26.5
Construction	337	3.9	290	3.8	326	4.3
Material services	1,810	20.8	1 505	19.7	1,571	20.7
Non-material services	2,988	34.4	2 829	37.2	2,741	36.0
Not classifiable	31	0.4	31	0.4	36	0.5
Aggregate	**8,692**	**100.0**	**7,621**	**100.0**	**7,599**	**100.0**

* Exclusive of school-leavers

** Classification different from CSO's detailed economic branch classification system

Source: Employment Office

The rate of registered unemployment is shaped by exits, i.e. exits from registration, to the same extent as by entries. (The number of the unemployed decreasing year after year since 1993 is one of the most important indicators for this.) During the year, the balance of possible multiple exits and entries is indicative of the turnover. In 1999, the number of those exiting the registration was on basically the same scale as the number of newly registered (or returning) persons. In 2000, the number of exits exceeded that of entries by 32,100 and in 2001 by 29,600.

There may be several reasons for exiting registration. The most fortunate one for both the individual and society is if the unemployed finds a job. As mentioned already, in 2000 and 2001, 91.5 and 84 thousand, respectively, exited this way.

Placements through the labour service affected 1.2% of the registered unemployed in 1999, and 1.9% in both 2000 and 2001. (The rates concerned include placements to subsidised jobs.)[40]

In addition to persons cancelled from the registry on account of employment, there are exits – temporary ones at least – due to participation in training or further training (this involved 26,300 in 2000 and 27,200 in 2001; cf. Table 3.15.); and to change in benefits (as in the case of persons reaching retirement age, or going on child-care leave or being drafted into the army). An annual

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[40] Analysing the Hungarian outflow data of recipients of unemployment benefits, György Lázár found that barely one third among them found a job. A significant part of those entitled to the benefits "have a temporary break because of finding work only for a short time (casual work, seasonal work for a definite period, public benefit employment, etc.), after which they return to the group of benefit recipients (and, also, unemployed). Thus, the proportion of those who exit from the group of the unemployed by securing non-subsidised work is actually very low". *{György Lázár: A munkanélküli ellátásokban részesülők létszáma és jellemzőt (The number and characteristics of recipients of unemployment benefits). In.: Munkaerőpiaci Tükör 2001. (ad.: K Fazekas) pp. 81–91.}*

1–2% of those who exit the group of benefit recipients are excluded by the labour service due to the lack of co-operation.
In 2000 and 2001 – as a consequence of the termination of the income supplementing allocation – several tens of thousands of unemployed people not entitled to regular social aid or unable to meet its conditions exited both the benefit system and the group of registered unemployed. (Persons in need of regular social aid keep up their registered unemployed status. This issue will be discussed in further detail.)

The experience of the labour service is that typically those among the jobless have themselves registered who actually need support, and they remain customers of the labour service as long as they are able to count on the subsidy. Job mediation, the outcome of which is uncertain, keeps only a few people in registration – others break contact with the organisation. The shortening or termination of the period of benefits accelerates exits – it also reduces the number of the registered unemployed without improving the labour market situation. (Therefore, the European Union has been considering employment data instead of unemployment data to be the primary characteristic of the labour market for years.)

In the course of 2001, as we have indicated, altogether 713 thousand were cancelled from the registry (occasionally due to temporary exit); nearly 90%, 629 thousand, for various other reasons than finding employment.

Table 4.13.

Monthly number of the registered unemployed, 1995–2001

no.

Year	Population	Entries	Exits from registration					
			placement*		other reason		**Total**	
			no.	%	no.	%	**no.**	%
1995	506,495	45,659	8,569	17.9	39,064	82.1	**47,633**	**100.0**
1996	499,086	52,811	8,395	15.4	45,952	84.6	**54,347**	**100.0**
1997	468,987	56,140	7,395	12.9	49,900	87.1	**57,265**	**100.0**
1998	418,132	55,388	7,110	11.8	53,267	88.2	**60,377**	**100.0**
1999	409,493	57,213	6,933	12.1	50,246	87.9	**57,179**	**100.0**
2000	393,167	54,136	7,628	13.4	49,183	86.6	**56,811**	**100.0**
2001	366,610	56,971	6,993	11.8	52,447	88.2	**59,440**	**100.0**

From among persons receiving unemployment benefits
ource: Employment Office

2.2. *Registered unemployed and unemployment benefit recipients*

ddition to regulating who among the non-earners qualify as "unemployed" in the n country, national legislation also specifies who among the unemployed are tled to pecuniary and other support, as well as the conditions of benefit allocation.

three main components of the provision systems are the following:

ob mediation;
ecuniary (aid-like) benefits (passive measures);

c.) programmes to promote the (re)employment of the unemployed and the enhancement of their employability (active measures).

The task of the labour service is to make available all forms of support to the registered unemployed, according to the rules of the relevant legal procedures.

Earlier, we have reported annually on both the emergence of the provision system and its developments, its modifications almost every year and their effects. Now, we shall deal only with the impacts of the changes affecting pecuniary benefits having come into force in 2000, on the basis of studies devoted specifically to this issue in the volume entitled *Munkaerőpiaci Tükör 2001* (Labour Market Mirror, 2001) in addition to the available data.[41]

Hungarian research unanimously states that the Hungarian system for providing pecuniary assistance to the unemployed has never been a generous one.[42] (Apart from a brief period at the end of the eighties, when unemployment was still a rarity.)

The changes having come into force in 2000 and described already in part[43] continued to restrict the previous conditions. According to a summary by Mária Frey *{op.cit., pp.179–182.}*:

⇒ The limit of the period of disbursement of unemployment benefits was reduced from 360 to 270 days. The condition for being included in the system of benefits is at least 200 days of employment. This entitles people to 40 days of unemployment benefits – the bottom limit of the disbursement period. (Previously, the corresponding figures were 180 days and 45 days, respectively.)

⇒ The exceptionally tough time requirement of eligibility – four days of contribution payment for one day of benefits – was further restricted to five days of work covered by contributions for one day of benefit.

⇒ It is a new element of awarding unemployment benefits that unemployed persons starting training subsidised by the labour centre during the benefit period, but no later than the 180th day of benefit disbursement, may receive benefit for the duration of the training, but for no more than one year (i.e. for 365 days from the initial date of the training period).

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[41] The purpose of *Munkaerőpiaci Tükör* (Labour Market Mirror) is to publish research findings related to some important topic year after year. The first volume (*Munkaerőpiaci Tükör, 2000*) described research that analysed the relationship between wages and employment headed by János Köllő. In the volume for 2001, the central topic was income subsidy to the unemployed, directed by István Gábor R. and Gyula Nagy. Out of the compilation prepared with the participation of well-known Hungarian researchers (some of which we have already cited before), we shall present here the main findings of the studies on the most recent changes in income subsidy. The volumes are published by the Economics Research Centre of the Hungarian Academy of Sciences and OFA, and are edited by Károly Fazekas.

[42] The income subsidy system of developed market economies is reviewed by a study of Mária Frey and Ágota Scharle, *in: Munkaerőpiaci Tükör, 2001*, pp. 50–62.

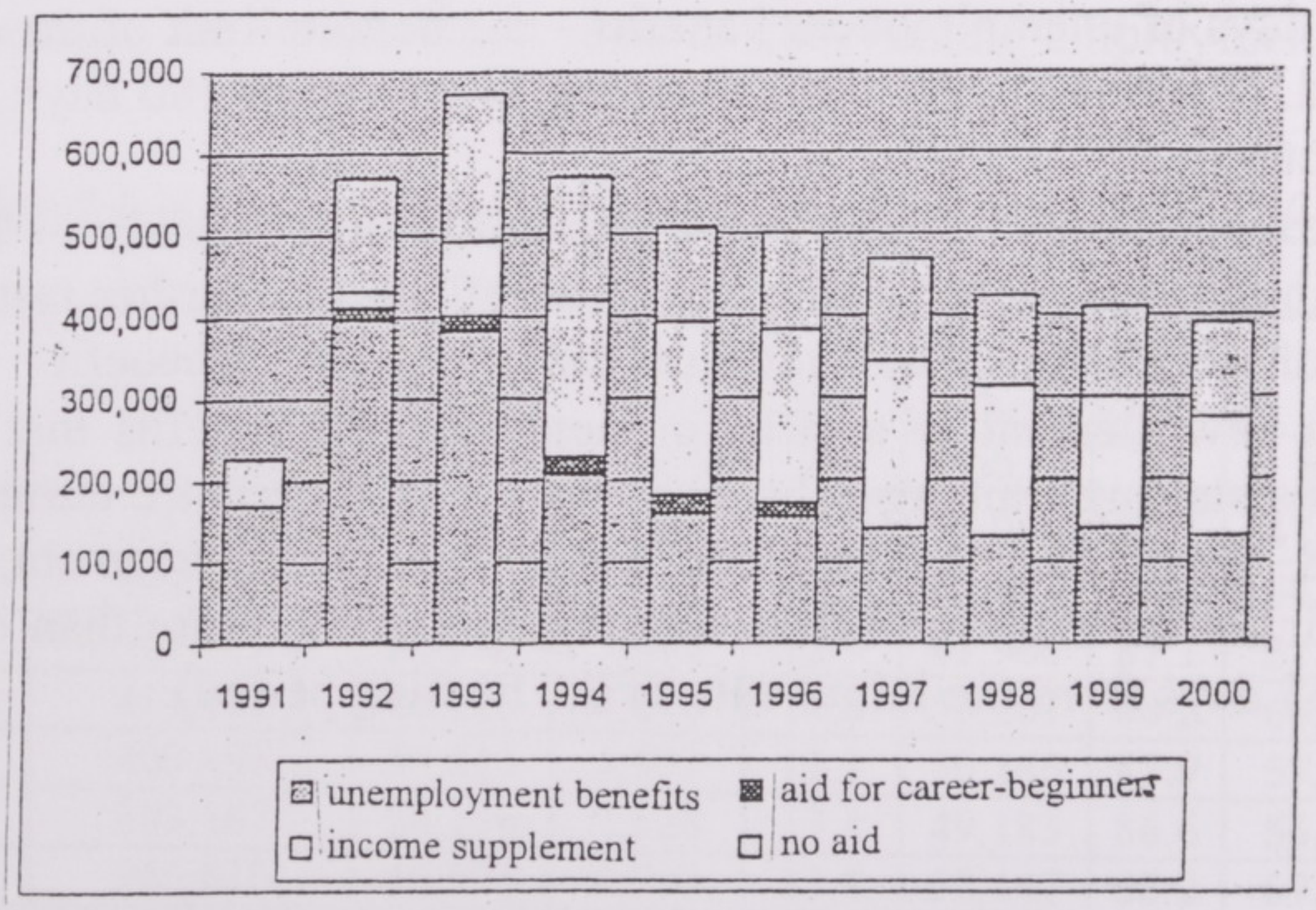
[43] In the section on the rules and financing for income subsidies for the unemployed, Gyula Nagy describes the forms, entitlement conditions and rates prior to the changes in the year 2000 (*op.cit.*, pp. 70–75.).

As of May 2000, the income supplementing allocation introduced in 1992 at the time of the emergence of massive unemployment was cancelled (that is, no new entitlement could be established any longer). This form of aid, motivated explicitly by welfare considerations, was due – for another two years – to those among the registered unemployed whose eligibility to unemployment benefits expired, but who could not be placed. Following the termination of the subsidy system, municipalities may grant regular social aid to those in need. The amount of the aid is less than that of the income supplementing allocation – the latter corresponded to 80% of the lowest amount of old-age pension ever (HUF13,280 in 2000 and HUF14,648 in 2001), while regular social aid corresponds to 70% of the same (HUF10,254).

According to the CSO's calculations, in 2000, the per capita average subsistence minimum of households was HUF25,581, and an amount of HUF19,794 was considered to be necessary even in (poor) households below the income average. *{Létminimum (Subsistence minimum) 2000., CSO, 2001.}*

Figure 8.

Provisions for the registered unemployed



e: Employment Office, in: Labour Market Mirror, 2001, p.85.

Tighter provision criteria have led to the restructuring of the population of beneficiaries. György Lázár found that, despite frequent changes in the system, about three-quarter of the registered unemployed received some sort of benefit each year between 1992 and 1998. 2001 was the first year in a decade when their proportion fell below 70%, because the decrease in the number of beneficiaries of income supplement was faster than the increase in the number of those receiving social aid.*{Op.cit., p. 82}*

Table 4.14.

Monthly average number of registered unemployed and unemployment benefit recipients

Year	Registered unemployed	Recipients of							
		unempl benefits		income suppl.		regular social aid *		Total	
		no.	%	no.	%	no.	%	no.	%
1990	47,739	30,302	63.5	–	–	–	–	30,302	63.5
1991	227,270	174,641	76.8	–	–	–	–	174,641	76.8
1992	556,965	412,945	74.1	18,408	3.3	–	–	431,353	77.4
1993	671,745	404,823	60.3	89,329	13.3	–	–	494,152	73.6
1994	568,366	228,924	40.3	190,303	33.5	–	–	419,227	73.8
1995	507,695	182,788	36.1	209,982	41.3	–	–	392,770	77.4
1996	500,622	171,737	34.3	211,309	42.2	–	–	383,046	76.5
1997	470,112	141,731	30.1	201,304	42.8	–	–	342,833	72.9
1998	423,121	130,724	30.9	182,118	43.0	–	–	312,842	73.9
1999	409,519	128,184	31.3	159,825	39.0	–	–	288,009	70.3
2000	390,492	131,665	33.7	143,515	36.8	–	–	275,180	70.5
2001	364,140	119,210	32.7	61,157	16.8	70,335	19.3	250,702	68.8

* In December 2000, 36.1 thousand received regular social aid and in December 2001 85.9 thousand
Source: Employment Office

At the end of December 2001, 125.9 thousand received unemployment benefits (36.7% of the total population concerned); 26.7 thousand received income supplement (7.8 %); and over a quarter of the registered unemployed, 85.9 thousand (25.1 %) received regular social aid. The rules applying to benefit disbursement since February 2000 are obviously detrimental for the vast majority of the unemployed. Under the previous system, valid since 1997, eligibility to the minimum (three-month) benefits was conditional on one year of employment in the four years preceding unemployment and maximum entitlement (12 months of benefits) on continuous employment throughout that period. The benefit period changed between these two extremes in eight steps depending on time spent in employment. A separate rule applied to the unemployed having exhausted the benefit period: in order to be granted benefits for another six weeks, they only needed another six months of employment.

According to the new rules applicable from February 2000, the period of entitlement also depends on employment in the four years before unemployment, but the minimum is only fifty days, and the maximum is nine months; 200 days of employment entitle people to the former, and 45 months to the latter. Instead of the earlier categories, the period of entitlement is one-fifth of the total time spent in employment between these two limits.
The new rules – as shown by the analysis of Péter Galasi and Gyula Nagy – inflict primarily those who have been in employment for a longer period during the four years before unemployment. *{Op.cit., pp.130–138.}*

In addition to the reduction of the entitlement period, the benefit has been decreasing continuously in real value for years. In 2001, it was less than one quarter of the average earnings, and barely more than one third of the average earnings of manual workers.

Table 4.15.

Earnings of full-time workers and unemployment benefits (monthly averages)

Year	monthly gross av. earnings	*of which:* av. of manual workers	minimum wages	Monthyl av.unempl. benefits	% rate of benefits to		
					average earnings	av.earnings of man. workers	minimum wages
1990	13,446	11,137	4,800	5,845	28.6	34.5	80.1
1991	17,934	14,189	7,000	7,903	44.1	55.7	112.9
1992	22,294*	17,239	8,000	8,798	39.5	51.0	110.0
1993	27,173*	20,856	9,000	9,949	35.9	47.7	110.5
1994	33,939**	25,036	10,500	10,841	31.9	43.3	103.2
1995	38,900**	29,203	12,200	11,891	30.6	40.7	97.5
1996	46,837**	35,305	14,500	13,461	28.7	38.1	92.8
1997	58,002**	42,419	17,500	16,141	27.8	38.1	92.2
1998	67,764**	49,423	19,500	18,895	27.8	38.2	96.9
1999	77,187***	55,218	22,500	22,406	29.0	40.6	99.6
2000	87,645***	61,930	25,500	22,826	26.0	36.9	89.6
2001	103,558***	72,621	40,000	25,677	24.8	35.4	64.1

* Min. 20 staff

** Min. 10 staff

*** Business organisations with min. 5 staff and public organisations

Source: CSO Yearbooks, CSO and Employment Office, monthly statistical publications

The low average is, of course, related to the previous earnings of the unemployed who mostly have low qualifications and hence worked for lower payment while in employment.

The HUF40,000 minimum wages that came into force in 2001 rendered the low amount of unemployment benefits determined in previous years even more conspicuous – most unemployed persons would earn nearly twice as much if they had an opportunity to work.

Table 4.16.

Average amount of unemployment benefits, 20 November to 20 December 2001

Education	Recipients		Av. monthly amount HUF/pers.	Av. spell of benefit allocation (day/person)*
	no.	%		
Incomplete primary education	4,917	3.4	23,428	534
Primary education	43,327	30.0	26,711	389
Apprentice school	53,653	37.1	27,388	351
Vocational school	2,961	2.0	27,910	302
Vocational secondary school	17,271	11.9	28,806	268
High school for technicians	5,185	3.6	27,906	325
General secondary school	11,822	8.2	28,256	295
College	4,026	2.8	30,458	254
University	1,457	1.0	29,793	264
Total	**144,619**	**100.0**	**27,454**	**349**

* Including previous days on benefit of re-entrants

Source: Employment Office, monthly bulletins

The devaluation of unemployment benefits is testified by the calculations of Gyula Nagy who, taking the earlier wages of all unemployed as reference base, investigated how the benefits related to the wages that the unemployed could earn if they had not lost their jobs – assuming that their wages would have increased at the rate of the average increase in wages.

Table 4.17.

Average rates of unemployment benefits and indexed wages

%

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Men	68.5	56.0	50.7	53.5	44.8	46.3	49.4	52.5	50.8
Women	77.9	63.6	56.3	57.4	48.3	48.2	51.3	52.4	51.0
All	**72.3**	**59.1**	**53.0**	**53.5**	**46.4**	**47.1**	**50.2**	**52.5**	**50.9**

Source: Register of unemployment benefits, *in: Labour Market Mirror, 2001*, p. 89.

According to the calculation, the system of benefits became much less generous over the decade: the income substitution rate of 72.3% in 1992 dropped to around 50% after 1994. *{Op.cit., pp. 84–91. }*

The Government justified the tightening of benefit rules by employment promotion considerations. The analyses of Galasi and Nagy *{Op.cit., pp.131–139.}* , however, indicated once again – similarly to the findings of the 1995 research of Nagy and Micklewright on the impact of the reduction of benefit entitlements in 1993 – that such reduction has not led to faster placement, irrespective of the period of employment prior to unemployment.

János Köllő's investigation of the relationship between the amount of benefits and the chances of the individual to find a job yielded the same results. According to his model calculations, treating diverse factors in combination, exits have not accelerated as a result of the restrictions, but it was not the expected amount of the benefit that hindered this development.

Indications of the counter-incentive effect of unemployment benefits were identified primarily among members of educated groups, with the best chances of employment when their benefit is running out and the worst chances of being granted social aid after having exhausted the benefit period. (Despite their better chances of employment, over 90% of the population concerned do not engage in employment however close the termination of the benefit allocation period.) *{Op.cit., pp. 139–151.}*

The above restrictions were in fact made with the consent/support of public opinion. According to a poll taken before the Parliamentary debate on the draft amendment, 60–70% of respondents had heard about the planned measures, and altogether about 65% agreed with them. Although over half of respondents rejected the idea of the reduction of the period of unemployment benefits and the termination of the income supplementing allocation, a significant majority (66.5%) agreed that those who did not do public work should not be granted social aid.

Setting conditions for social aid shows that most respondents were unaware of its extremely low amount. Moreover, success reports on the reduction of unemployment published in the mass media from quarter to quarter, and the news on local shortages of skilled labour fostered the belief that there was an abundance of work opportunities in Hungary and only those did not work who did not want to. It was this atmosphere that made acceptable the point that social aid should not be given "free of charge", and those who did not accept the one-month work opportunity offered by the municipality on a compulsory basis should not receive it.

Having analysed the most important factors having influenced the opinions of the opinion poll participants, János Köllő *{op. cit., pp. 124–131.}* found that, had MPs mediating the preferences of voters appropriately decided on the unemployment benefit issue separately, and not in the framework of a reform package, the entitlement period would probably not have in shortened. However, the idea to oblige the long-term unemployed to do public work proved to be so popular that it earned support for the entire package.

Therefore, as of 1 May 2000, the income supplementing allocation (amounting to HUF13,280 at that time) could no longer be awarded to persons having exhausted their entitlement to benefits, but still without work, and beneficiaries having exhausted the two-year allocation period were cancelled from the system gradually.

The new form – regular social aid to persons of working age – was available to those in need who kept in touch with the labour service or the municipality in order to find employment, and agreed to do one month of public purpose work. (As indicated already, this is the term used to distinguish this form of work from public benefit work and public works, respectively; this scheme, too, is partly funded by the Labour Market Fund, but municipalities are subject to different accounting obligations in each case.)

Our Report published in 2001 reviewed the initial experiences of the regular social aid system on the basis of the report of the Ministry of Social and Family Affairs (pp. 62–64.). To our best knowledge, no similar report was prepared for 2001. However, research projects conducted in the meantime revealed that although tens of thousands transferred to the local aid system (as we have seen, their number was 86 thousand already at the end of December 2001), many are excluded from the group of aid recipients.

According the survey conducted in June 2001 at municipalities *{Károly Fazekas, op.cit., pp. 163–173.}*, out of the 3,156 settlements of the country, there was not a single recipient of regular social aid in 19.4%, and there was no public purpose employee in 46.5% of settlements providing regular social aid. The highest number of regular social aid recipients at the same municipality was 3,846, while the number of those in public purpose employment was 339.

Research found extreme differences between settlements in terms of the organisation of the provision of aid and of public purpose employment. In a part of the settlements, masses of the unemployed were excluded from aid system due

to the tighter assets/income criteria of entitlement, the practice of recording regular social aid at a charge to bequests, and occasional rejection of public purpose work implying what were considered humiliating conditions.[44]

Facts indicate that society is increasingly strict and thrifty with those who are permanently excluded from the labour market. While the number of jobs that may be offered to them is low, the conditions for temporary legal work opportunities have deteriorated. The increase in minimum wages, advantageous to the employed, further increased the already high public burdens imposed on employers and hence reduced the chances of legal employment. As for the jobless, society provided them support – legally – equivalent to less than half of the subsistence minimum, thereby intensifying the exclusion of the poor.

This is one of the reasons why the largest segment of the registered unemployed (beside those entitled to unemployment benefits) was that of long-term unemployed persons of active (working) age in need of welfare aid, who were able to get work at least from time to time in addition to the modest amount of the income supplementing allocation. The protective social welfare net, mentioned ever so often, became extremely loose for those who were excluded even from this group.

4.3 Groups in a special situations

Special attention is being paid throughout Europe to groups in a disadvantageous situation on the labour market with a view to improve the placement chances of young persons without work experience, women, persons with disabilities and members of ethnic minorities (including foreign workers recently received in the country). The common feature of the diverse programmes to assist their placement, adjusted to the different weight of these groups in each country, to different traditions and rules, is their intention to improve the labour market opportunities of those concerned. The European Union – in its evaluation of the realisation of the Member States' commitments under their national action

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[44] As the study explains: the municipality may award regular social aid to persons having exhausted their entitlement to unemployment benefits or income supplement for the unemployed. Such persons shall not pursue earning activities, and their monthly income shall not exceed 70% of the lowest amount of old-age pension ever, the *per capita* monthly income in his family shall be no more than 80% of the lowest amount of old-age pension ever, and neither the person concerned nor any other member of his household shall have any assets.
As a consequence of increasing minimum wages to HUF40,000, a part of those entitled to benefits earlier lost their entitlement in families where there was at least one family member earning minimum wages. Most of those above the income limit exit the provision system.
According to the survey, nearly one third of municipalities made use of the possibility granted by the Social Act that the amount of regular social aid disbursed may be recorded as a charge to bequests and maybe charged on the property owned by the aid recipient in the course of the bequest procedure. Only a fraction of the municipalities that used this practice investigated criteria other than the existence of property in the course of the procedure.
Rejecting public purpose employment is more frequent among those with vocational skills, or secondary and higher education qualifications, who consider it unfair and humiliating to perform typically semi-skilled and unskilled work in public areas.

programmes for 2000 – reproached a number of countries for having given inadequate assistance to groups in a disadvantageous position.

Although the emphases of the evaluations have modified significantly over the years, especially since the Luxembourg Summit (for instance in terms of the reduction of taxes and contributions associated with employment, the continued employment of older people and, more recently, the establishment of the conditions of lifelong learning have become general requirements), social groups in disadvantageous positions have remained in the focus of attention.

In Hungary – just as throughout Europe – the specific problems of the social groups concerned are rather different.

4.3.1 Youth unemployment

As it is known, the youth are persons aged 15 to 25 according to the Labour Force Survey, and career beginners (school-leavers) according to the Hungarian Employment Act and hence also the state employment service (up to the age of 30, as it has been mentioned, if they have a degree but have not been in employment for one year yet).

The age groups of the youth, which span 10–15 years, include young people in extremely different positions.

According to the figures of the Labour Force Survey, out of the around 600 thousand population of the youngest (ages 15–19), 550 thousand (90%) were assigned to the category of the inactive in 2001, mostly because they were still studying. Out of the remaining 10%, 8% worked and 2%, 12.5 thousand – mostly boys – were actively looking for a job. Of the inactive persons, another 8,800 would have liked to work, but did not look for a job actively for different reasons (they were passive unemployed).

Over half of persons belonging to the somewhat larger group of 810 thousand approximately of persons aged 20–24 were already working, about 5% were unemployed and 355 thousand (44%) were inactive, students or more often person on child-care. Of the 355 thousand, around 14 thousand would have liked to work and waited – as passive unemployed – for a job opportunity.

Hence, according to the Labour Force Survey, in these two groups of the youth, totalling more than 1.4 million, 56 thousand (0.4%) who were actively looking for a job and another around 22.6 thousand were passive unemployed. This does not seem to be too high a proportion considering the entire population of the youth.

On the other hand, however, while the youth represent 20% of the population of the 15 to 64 year-old, their rate to the active job-seeker unemployed is 24% (223 thousand) and they represent 21% of the passive unemployed (that is, every fifth of the 107 thousand passive unemployed was young). The rates concerned clearly indicate the detrimental labour market position of the youth.

No doubt, significant improvement is experienced in the longer run – just as among adults.

In the framework of the Labour Force Survey, CSO investigated the labour market position of the youth in the second and fourth quarter of 2000.[45] The findings were compared with those of the survey of 1996.

First and foremost, it became apparent that the weight of the age groups between 15–19 and 20–24 within the population overall changed significantly over the four years concerned. As a consequence of demographic processes, the number of those aged 15–24 decreased by 142 thousand, and the relative proportion of the two youth groups also changed considerably, from 53% and 47%, respectively, in 1996, to 43% and 57%, respectively by 2000.[46]

This time, young persons had to declare themselves whether they belonged in terms of main activity to the group of workers or students or, if they did not study and did not work, of unemployed or passive unemployed.

Over the four years, the proportion of both workers and students increased; consequently, the proportion of those who did not study and did not work decreased. Out of the latter, the number of unemployed (57,000) declined to nearly half of the corresponding number four years earlier. However, a large part of those in the other group would also have liked to work if an opportunity presented itself.

In 1996, 24% of all unemployed were between the ages of 15 and 24 – this proportion remained essentially unchanged until 2000. (As shown by data for 2001, their proportion decreased slightly with the general decrease in unemployment.)

The number of the long-term unemployed was also high among them: in 2000, 26 thousand, that is, over one third of all young unemployed, had been looking for a job for over one year.

Of the registered unemployed youth, approximately one third of those between 15 and 19 received pecuniary or training support; three-fifth of those between 20 and 24 received unemployment benefits, income supplement or re-training support.

However, similarly to the inactive adults, a large segment of the youth does not contact the labour service, although they are aware of its existence and services. In 2000, less than 15% of all young persons in the investigated age groups visited the office having competence by their place of residence, only 2% more than in 1996. For years, around 5% of the youth aged 15–19 and 22% of those aged 20–24 were in contact with the labour service, although applicants are usually registered.

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[45] The QIV 2000 survey was the fourth one devoted to this topic. In the second quarter, a supplementary survey was taken in the framework of the Labour Force Survey entitled "transition from school to work". The report reviewing the labour market position of those between ages 15–24 was prepared on the basis of the findings of these two surveys. *{CSO, 2001.}*

[46] The relevant calculations could not take into account the new age compositions revealed by the census of 2001, implying slight modifications only, by the way, in these age groups.

One quarter of young persons who work, 2% of those who are currently studying, 60% of the unemployed and one fifth of other inactive persons have already been registered unemployed.

Most persons registered with the labour office in the hope of finding work. Half of those who did not thought that they would receive no support anyway, or the office would not be able to offer them a job.

It is presumably due to lack of confidence that while the number of the unemployed youth halved in the longer run, over a period of ten years, that of the passive unemployed reduced to a much smaller extent; in 2001, it even increased slightly compared to 2000.

Similarly to the European trends, the unemployment rate of the youth calculated in the standard manner (the rate of the unemployed to that of the economically active) is still nearly double that of adults.

Table 4.18.

Youth unemployment in Hungary

thousand

Year	Age group	Unemployed	Unemployment rate (%)	Passive unemployed	Total
1992	15–19	50.3	27.0	18.6	68.9
1993		58.5	33.3	17.1	75.6
1994		48.2	29.8	14.5	62.7
1995		45.6	31.1	13.4	59.0
1996		39.1	30.4	13.4	52.5
1997		32.5	28.8	8.7	41.2
1998		28.3	24.8	9.6	36.0
1999		21.3	23.4	9.1	30.4
2000		17.6	23.7	9.3	26.9
2001		12.5	21.2	8.8	21.3
1992	20–24	69.5	14.0	13.8	83.3
1993		82.8	17.0	11.5	94.3
1994		76.9	16.0	12.4	89.3
1995		68.7	14.7	13.2	81.9
1996		67.2	14.5	13.4	80.6
1997		63.4	13.0	13.5	76.9
1998		59.3	11.1	14.8	61.3
1999		57.3	10.6	16.7	74.0
2000		53.2	10.4	12.5	65.7
2001		43.2	9.5	13.8	57.0
1992	**Both**	**119.8**	**17.5**	**32.4**	**152.2**
1993		**141.3**	**21.3**	**28.6**	**169.9**
1994		**125.1**	**19.4**	**26.9**	**152.0**
1995		**114.3**	**18.5**	**26.6**	**140.9**
1996		**118.2**	**18.0**	**29.1**	**133.1**
1997		**95.9**	**15.9**	**22.2**	**118.1**
1998		**87.6**	**12.6**	**24.4**	**107.3**
1999		**78.6**	**12.4**	**25.8**	**104.4**
2000		**70.8**	**12.1**	**21.8**	**92.6**
2001		**55.7**	**10.8**	**22.6**	**78.3**

Source: *LFS, Time Series, 1992–2001,* , CSO, 2002.

In 2001, 93.4 thousand school-leavers registered as unemployed (7,786 persons per month on average, including those returning to unemployed status). Nearly the same number, 92.8 thousand (a monthly 7,737) exited the registration system. In December 2001, the labour service registered 24.3 thousand school-leavers, about 200 less than at the beginning of the year. Career beginners made up an average of 7.3% of registered persons each month.

About 18–19 thousand young persons attended shorter or longer training courses each month (nearly half of programme participants); employment programmes providing work experience (almost 40%) or took part in public benefit work. A few hundreds receive the wages subsidy, travel cost reimbursement and employment support. (Unfortunately, the proportion of the youth covered by the programmes of the employment service before six months of unemployment cannot be determined yet.)

All assistance provided to young persons is necessary and useful. However, the most important thing is to create conditions under which it is worthwhile for employers to employ young persons who have no or slight work experience for part-time work, fixed-term work, etc. For the time being, the increased minimum wage and especially the public burdens on it act against the employment of young persons.

4.3.2 Unemployment of women

One of the indicators of the labour market position of women is the extent of female unemployment. However, this indicator – similarly to others referring to other social groups – is hardly possible to interpret on its own : the figures may be considered high or low, aligned with or behind the desirable objectives compared, firstly, to the total population of women in the given country and, secondly, to the corresponding position of men. International comparisons reflect national social, economic, traditional and value differences that may be very big and may have a predominant impact on the labour market position of women.

a.) As mentioned already several times, the objective in the European Union is to make an increasing portion of women income-earners, and integrate them into the quickly changing world of labour.

In the different Member States of the EU, in 2000, the rate of absence from the labour market varied between 16% and 26% for men aged 15–64, and between 25% and 54% for women of the same age.

Labour market position acts as a boundary between those who are present on the labour market (are economically active): some are employed and others are not, but would like to be. In the male population of the European Union, active men represented 78.1%, those in employment among them 72.5%, and the unemployed 5.6%, while for women the corresponding rates were 60%, 54% and 5.9%, respectively.

It follows from the above that men predominate among the employed. This is typical in every country of the European Union, with the exception of Sweden where the proportions of employed men and women are similar.

On the other hand, with only a few exceptions, women represented the majority of job-seekers. In 2000, 51% of the 14 million job-seekers were women. Their proportion was lowest in the United Kingdom characterised by a high level of employment (less than 40% of the unemployed were women); and h

ighest in Greece, where the level of employment is low, where over 60% of the unemployed were women.

The unemployment rate of women was higher than the corresponding male rate everywhere, except for the United Kingdom, Sweden and Ireland.

Despite a few common features of female employment/unemployment (such as a generally lower employment and higher unemployment rate, etc.), it is impossible to identify one or a few distinct patterns. National socio-economic characteristics and factors outside of the economy (e.g. traditions related to family roles, the family model accepted by the different age groups, and within that, the willingness to have a child, etc.) probably affect the employment/job-seeking intentions of women to the same extent as the level of the economy's development, the standards of living, etc.

b.) In comparison with the EU Member States, the labour market presence of women in the Central and East European countries wishing to accede to the EU is not low. Except for Hungary and Bulgaria, activity rates exceed 60% in all the former socialist countries. Although none of these countries boast results approximating the outstanding activity rates of Danish, Swedish and Finnish women, neither are there any such low points as those in Italy and Greece.

Despite the obvious increase in inactivity and exists from the labour market, the high activity rates are no doubt influenced by the fact that the majority of women used to work in the decades prior to change of regime, and families still need the earnings of women as well.

With the dramatic job losses of the economies of the region, women, too, were ousted from the workplaces together with the masses of men. Nevertheless, in these shrunken economies, the employment rate of women is only slightly lower than that of men, and the proportion of women and men in the employed population is roughly the same as in the EU. Furthermore, in the two groups of countries, Lithuania is the only country where the proportion of employed women exceeds that of men, albeit slightly.

The proportion of women among the unemployed – similarly high as in EU member States – indicates that they intend and are often forced to get a job. Although the male employment rate is somewhat below that found in the EU and, therefore, the male unemployment rate is high in most countries, the female unemployment rate is even higher in most former socialist countries. Where the rate of women is lower than that of men, we may assume on the basis of the Hungarian experience that the reason why the proportion of job-seeker women is smaller is that they deem their placement chances worse than those of men.

c.) In Hungary, the labour market position of women developed in a different manner than in the other former socialist countries in many respects. The female

activity rate is low: barely over half of working-age women were present in the labour market even in 2001, and the other half was inactive.
In 2001, men represented 55.2% of the employed and women 44.8%. According to the Labour Force Survey, job-seekers included 90 thousand women only, and their proportion among the unemployed was as low as 38.7%.

In the course of the year, many more (a monthly average of 167,718) registered at labour offices, and 46.1% of registered unemployed were women. (The data do not allow to distinguish between first registrations and returns.)

According to the age-specific data of the Labour Force Survey, 70% of women looking for jobs are of prime working age (ages 25 to 54). Only a few (1,600) of women past 54 were looking for jobs – after working age (currently 57 years for women), and even before that, masses of women exit the labour market, which does not provide too many opportunities anyway.

Three-quarter of unemployed women in 2001 had worked before they became unemployed; 10% of them worked for the last time more than 8 years earlier, and 14% of them have not had a job before.

Over 60% of women having worked before (within 8 years) and looking for a job had had their last job in the services sector; another one third used to work in industry, and less than 3% in agriculture. Most of them (62%) lost their job within one year.

Over 70% of the population concerned (and of 90% of men looking for jobs) had had manual occupations; and 28% (9% of men) worked in white-collar jobs, the majority of the latter in jobs requiring higher qualifications.

The most typical difference between the level of qualification of women and men looking for jobs is that while the largest group of men had skilled worker qualification, the largest group of women had GCSE. In addition, even if not in terms of numbers, but in terms of proportion, there are twice as many unemployed women with higher education qualification than men.

Table 4.19.

Some features of the labour market presence of women in the EU, the accession candidate countries and Hungary, 2000

%

Country	activity rate (ages 15–64)		Rate of women to		Unemployment rate *	
			the employed	the unempl.	male	female
	male	female				
EU average	78.1	59.9	40.8	51.5	5.6	5.9
Acc.candidates **	74.1	52.8	46.1	48.8	10.0	8.1
Hungary 2000	68.0	52.7	44.9	39.2	4.7	3.0
2001	67.8	52.4	44.8	38.7	4.3	2.6

* Among the economically active
** Not including Cyprus and Hungary
Source: *Employment in Europe 2001*, pp.110–136., Hungary: *LFS, Time Series, 1992–2001*, CSO, 2002.

Every country has a number of explanations rooted in their local conditions for the desirable and undesirable phenomena of the labour market – the main economic as well as non-economic reasons for the low labour market activity of women are quite well-known in Hungary as well.

In fact, the low unemployment rate of women, apparently a fortunate circumstance, is in fact an indication that masses of women do not even attempt to find a job, considering their chances very poor indeed, and if they engage in casual work, they do so mostly outside the organised economy.

4.3.3 *Persons with changed working abilities*[*]

Information for tracing the employment of persons with changed working abilities – with detailed data suitable for comparison – is still available only in connection with the employment rehabilitation programme institutionalised in the labour service. No data suitable for evaluation are provided on permanently disabled persons who are present on the open labour market without the assistance of the labour service. In 2001, the number of workers with changed working abilities employed at target organisations – despite the increased number of organisations – has not shifted from the magnitude of 20 thousand. At the same time, the alternative employment of disabled people continued to broaden, although the relevant activity of civil associations mostly explores new possibilities and methodological novelties, and does not raise the employment proportion of this group.

It is of decisive importance that while the number of the registered unemployed decreases year after year, the proportion of customers with modified working ability appearing in the labour service increases continuously. This is partly explained by the fact that unemployed people with changed working abilities exit the system with more difficulty, and partly by the fact that composition of registered persons has restructured – more and more unemployed shift to the group to the people with changed working ability –, but subsidies activating more and more players, more extensive contacts and the more efficient rehabilitation activities of the labour offices also play a part.

In 2001, 27,852 new (or returning) unemployed persons with changed work abilities were registered in the labour register, and in the course of the year, demand for assisting the integration of nearly 43 thousand rehabilitation customers appeared. Out of them, 10,314 persons were provided with services promoting integration and 13,261 persons were activated (employed or involved in training).

Since 1998, more and more customers have found employment via employment rehabilitation (1999: 7,900; 2000: 9,800; 2001:10,866). Over the last four years, more than 30 thousand persons with changed work abilities were successfully placed. However, the labour registers provide no information on the quality, duration and rehabilitation value of such placements.

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[*] **Author of the section: Ilona Gere, Employment Office, Research Bureau**

79% of placements of persons with changed work abilities occurred with mediation, 7% without mediation and with support, while 14% without either. Considering the low degree of receptiveness of employers concerning this target group, it is understandable and acceptable that 56% of rehabilitation customers (6,088 persons) found employment with labour market subsidy in 2001.

Most frequently, public benefit work is the only employment option for the unemployed with changed work abilities. In 2001, 36% of those who found employment with support (2,200 persons) were employed this way.

In 2001, 1,216 persons were employed with wage subsidy for the promotion of rehabilitation employment, and 580 persons with wage subsidy for employment promotion.

The creation of new jobs is indispensable for employing people with permanent disabilities. The funds for this are provided by the rehabilitation fund segment of the Labour Market Fund, generated out of the contributions of employers who do not employ such people.[47] In 2001, HUF1,950 million of this fund segment was allocated for supporting rehabilitation job creation.

The objective continued to be to enable people with changed working abilities to find jobs in the business sector. According to the relevant recommendation – and in the practice of the labour centres – preference had to be given to applicants creating modern workplaces.

75% of subsidised entities were in the business sector, which created 1,792 new jobs using these funds in 2001, and preserved nearly six hundred. However, compared to the previous year, 19% less new jobs were created this way, the reason for which might be the significant increase in minimum wages putting the brakes on employment intentions.

One of the most important instruments for the real labour market integration of people with changed working abilities and with disabilities is training and development providing marketable and modern knowledge. A negative experience over the past years was that the counties were able to attract only a very low number of rehabilitation customers in training. This trend applied in 2001. Altogether 2,400 persons were schooled for some training course, which is only 5.6% of the number of persons concerned. (In 2000, this proportion was 6.5%).

There were both objective and subjective obstacles to this. The majority of persons with changed working abilities who appear in registration are older persons, have low qualifications and are not ready to assume extra burdens that they do not see the direct benefit of (viz. the possibility of a sure job at the end of the training). The technical and methodological set-up of training locations also needs development. In order to mitigate the problem, central rehabilitation training programmes were launched in 2001, funded by the Labour Market Fund. The Regional Centre for Labour Force Development and Training of Northern Hungary introduced software operation training for blind people and people with

[47] In 2001, the rehabilitation contribution was HUF27,800/person/year.

reduced vision; the corresponding centre at Debrecen delivered basket-weaving and woven furniture making courses for the deaf and hard-of-hearing; that of Pécs designed programmes with special curricula for people with slight mental disabilities, while the Székesfehérvár centre hosted training for students with physical disabilities.

In 2001 altogether 10,314 persons were provided labour market services (guidance, preparation and training). However, due to the significant increase (by nearly 7,000 persons) in the number of those having entered the registration system, there has been a serious decline in the proportion of persons concerned over the last year. In 2000, 54% while in 2001 only 37% of registered people with changed working abilities were provided with development and preparation services.

The labour service established several types of co-operation relationships with civil associations. In 2001, the most significant objective was to lay the foundations of, and operate jointly assistance services tailored to the individuals' needs (mentor service, work assistance service, transit employment, socio-economic model, etc).

Although the integrated employment of persons with changed working abilities is a fundamental objective, the current condition of the labour market and the low level of rehabilitation necessitates the establishment of a diverse, protected employment system that allows for the employment of person in different stages of rehabilitation and with different disabilities as soon as possible in addition to the development of subsidised employment and employer incentives, partly out of budget funds and partly from the rehabilitation fund segment.

In 2001, a new pilot model was launched for developing forms and conditions of protected employment for people with disabilities and with changed working abilities by strengthening the employment ability of the civil sector with funding from the Ministry of Social and Family Affairs and with participation of OFA.

4.3.4 The Roma population

The need to radically improve the social and economic situation of the largest ethnic minority living in Hungary, that of the Rom, has been formulated more and more firmly in Hungarian political life for years.[48]

As it has been found by the EU report investigating the conditions of Hungary's accession to the European Union, while the other twelve recognised minorities

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As described in our publication of 2001, in 1993, the government in power then adopted Act LXXVII on the Rights of National and Ethnic Minorities, and action programmes were prepared for the implementation of this Act year after year. In 1994, the socialist government programme put special emphasis on the necessity of providing special assistance to the Rom ethnic groups. In 1997, a package of medium-term measures was adopted for improving the living conditions of the Rom (Government Resolution No. 1093/1997 (VII.29.)). In 1999 the medium-term programme amended by the FIDESZ–MPP government came into force *{Medium-term package of measures for improving the living conditions and social positions of the Roma population, Government Resolution No. 1047/1999.(V.5.)}*, on that basis, several counties elaborated long-term information, employment and training task plans taking into account the local features.

have been well integrated into Hungarian society, the situation of the Roma minority has remained unsolved. Most of the Rom, representing about 6% of the population, live in poor conditions and suffer social discrimination, and a significant portion of them is unemployed. The mortality rate of the Rom is more than twice the national average; their life expectancy is 10–15 years less than that of the non-Roma population. They generally live in those parts of the country that are lagging behind in terms of infrastructure and are economically weak. Most of the Roma children complete no more than elementary school; less than one per cent of them obtain higher qualification.

The report, which analyses the situation of the Rom in Hungary from a number of aspects, and indicates that the government prepared a new, long-terms strategy for the more efficient social integration of the Rom in July 2001 (increasing the expenditure intended for this purpose in 2000 by 30% in July 2001), devotes only a short statement to employment, namely that the Rom actively participate in the public works program organised by the Ministry of Social and Family Affairs and about 40% of the fund allocated for this purpose went to Rom employees. *{2001 Regular Report on Hungary's Progress Towards Accession, Commission of the European Communities, Brussels, 13.11.2001., SEC (2001) 1748}*

The integration of the Roma population in society and their discrimination-free treatment in education, employment, justice and public service is expected to be the result of a longer process anyway, even if all steps are taken to accelerate the process. The experience is that, despite plans made with good intentions and partial results, not much has happened in this respect yet.[49]

Naturally, progress in different areas may be of different pace. For instance, the improvement of the employment conditions of the population concerned may take place much faster than increasing their number in secondary and higher education.

There is no doubt that the employment situation in 2001 did not favour the employment of people who were mostly without vocational skills and who have low qualifications. However, the trends of employment policy have so far been able to weaken to a small extent only the obstacles to employing people in a disadvantageous employment situation – primarily the high taxes charged on their employment. (For instance, the costs of employing Roma people who often get only casual work.)[50]

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[49] For instance, those who get information only from Hungarian mass media were surprised that since 1997, an increasing number of Hungarian citizens – 3,537 in 2001 –, mostly Roma people, applied for asylum in Canada (to which the Canadian government responded by introducing the visa obligations). *{Világgazdaság, 6 December 2001}* For that, this part of the public was aware only of the stories of few Roma families who applied for refugee status in Strasbourg. For the Roma, who considered their situation to be hopeless, leaving for abroad continued to appear to be the only choice left. *{Népszabadság, 3 April 2001}*

[50] It is a recurring statement in reports dealing with the situation of the Rom that they may expect mostly casual work, and even that only if they agree to work without being registered and being taxed. They can hardly do anything but accept this.

The local and central Roma employment program (such as the programmes of OFA mentioned above) that have existed for years are assisted by a number of municipalities and by local social co-operation.[51]

Local actions are absolutely necessary – but not sufficient. In the light of the general employment situation, it is already obvious that only government measures of an enhanced efficiency are able to promote the employment of those who have not found work for a long time – including the Roma – in the organised economy.

4.4 Key reasons leading to unemployment

As explained in detail above, amidst the reduction of unemployment in 2001, hundreds of thousands lost their jobs (of whom nearly 600 thousand had themselves registered as unemployed at the labour centres, a bit more than one year before). Beyond the individual, personal reasons of job loss, some changes indicative of the transformation of the economy are discernible as well.

In addition to the direct effects of global recession affecting primarily a few sectors of the manufacturing industry and causing the greatest movements in headcounts, which have already been discussed, the processes of modernisation and adaptation to the world market continued throughout the economy.

Beside the permanent reduction of employment in agriculture having lasted for several decades, a number of traditional industrial sectors that used to represent the backbone of the economy have also continued to shrink; for instance, coal-mining, or the food and textile industry that used to rely on Hungarian agriculture.

In 2001, the exploitation of coal, more expensive than the other energy resources, basically came to an end: coal mines not linked to power plants were closed down one after the other in the course of the downsizing that has been going on for more than one decade. The number of people employed in mining decreased by over 6,000 persons in 2001. The closing of a number of mines linked to power plants (AES Tisza Power Plant, Bakony Power Plant) was put on the agenda, together with the planned redundancy of several hundred workers; however, the relevant decisions justified by economic arguments were postponed to 2002.[52]

The steel industry was affected by the international steel crisis having renewed in 2001. Although in Hungary the number of people employed in the steel industry has decreased to about a quarter of the number employed in 1989, additional redundancies became necessary at a number of companies. (Following the

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In Szombathely, for instance, the municipality – in collaboration with the Roma Minority Self-Government, Labour Centre and the Assistance House –assessed the situation of Roma families. Half of the 146 families lived from one day to the next, only 12 families had regular income. In the framework of the programme launched in 2001, among others, permanent public benefit work was provided to one person from each of 30 Roma families. 90% of wage costs were covered by the labour centre and 10% by the municipality. *{Munkaügyi Szemle, June 2001, pp. 44–45}*

The information concerning companies comes from the daily and weekly newspapers already indicated.

continuous and sometimes drastic redundancies that have been going on for years, Diósgyőri Acélművek that has gone through a number of changes in ownership – by its last name: DAM Steel – reduced its staff by 250 persons in June, and by another 223 persons in November. The Steel Mill of Ózd, which has also gone through a number of crisis periods, was finally liquidated; production was stopped, part of the mills was taken off and removed, and 170 people were left without a job. The great questions of the future of the steel industry remain to be solved later.)

Declining sectors of the economy include the textiles and clothing industry, the timber and furniture industry, the leather and shoe industry; Hungary has worse features than a number of countries in international competition, for instance, it has to import raw materials on a permanent basis.

Many of the enterprises that made a living mostly on contract work done for foreign companies have dropped off in recent years. In 2001, the Pápa Textile Factory closed down (240 jobs); the Zalaegerszeg clothes factory decided to shut down its factory at Sümeg (230 jobs);[53] the Olip shoe factory of Körmend dismissed 88 workers. The furniture factory at Szolnok was liquidated and 60 of its employees have not received their salaries for one year. Agria Furniture Factory of Eger shut down (45 persons).

Part of the food industry has been suffering serious difficulties for years, though for different reasons: A number of companies have not been able to repay the credits granted to canning factories with state guarantee for the purpose of bridging the insolvency of Russian buyers in 1998. Thus, additional factories were liquidated after those that have gone bankrupt earlier (Szeged, 260 workers, Hatvan, 200 workers). Staff was reduced in other sectors in the food industry: Danone, which moved the production of biscuits to other factories dismissed 330 workers in Győr. As a result of more and more firm statutory inspections to ensure compliance with the strict hygienic requirements, 77 smaller slaughterhouses and meat processing plants were shut down; about the same number of plants gave up their activities on their own, acknowledging that they were not able to meet the new requirements. In the sugar industry – similarly to the Member States of the European Union, and for essentially the same reasons – the number of sugar factories is decreasing; the sugar factory at Ács, which employed 680 persons, processed sugar beet for the last time in 2001.

In addition to those mentioned above, factories have been shut down and redundancies took place in a number of sectors. (Tabac closed down its factory at Hódmezővásárhely, and dismissed 120 employees; Chemical and Nutreal Rt. dismissed 360 workers from its factory at Tiszavasvári; the Danish Lego toy factory shut down its factory in Hungary together with two plants in Switzerland, etc.).

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[53] In the course of the year, a decision was made to close down the Sümeg plant of the factory that has been generating losses for years, but the company was awarded a central job preservation subsidy of HUF60 million which may ensure the continued employment of the staff, reduced by 50 persons in the meantime, for about two years.

The voluntary or forced retreat of specific companies usually mix individual features and economic conditions arising out of the sector's situation in the world market (as in the case of the steel industry, or the manufacturing industries mentioned above). With the approach of the date of Hungary's accession to the European Union, the effects that have been apparent in the Union's developed countries are growing stronger (such as the gradual decline of several labour-intensive sectors – textile, shoe, clothing industry, etc. – primarily as a result of the competitive advantage of wages in Middle East and the Far East), and as the requirement of compliance with the rules applicable in the European Union prevails (meat industry: hygienic requirements; sugar industry: the guaranteed sugar prices in the Union coupled with production quota). At the same time, it is obvious that a number of foreign companies have lost hopes: in some respects, the European and especially the Central and East European market that had looked so promising failed to live up to the investors' expectations (from biscuit manufacture to toy production).

World-wide companies that react extremely quickly to the direct effects of the world economy (e.g. Solectron, Fastron, Natsteel, Elcoteq of Finland, etc.) dismissed hundreds of employees from the plants that they had opened up only a few years earlier.

The production of cable bundles, a sector having shown a boom for a few years in Hungary as a supplier to the vehicle industry, has been subject to similar redundancies and reorganisations as the electronic sectors. Similarly to other large companies, Videoton also shut down is cable production plant at Törökszentmiklós, which employed 600 workers, and about 200 workers will be dismissed from its plant at Enying with a similar profile in the spring of 2002.[54]

Despite the dramatically quick changes in some branches of manufacturing in terms of employment – with the establishment and development of activities that promise new market success –, new jobs have replaced those that have been lost, as we have seen. This facilitated re-employment and this time a modest increase in employment. (On the other hand, we must not forget that it was *not* as a consequence of increased employment that unemployment decreased.)

The increase in minimum wages – as it has been mentioned – affected unemployment to a smaller extent; rather, it tended to restrict the increase in employment. This was probably true primarily in the different services branches: the re-employment chances of the unemployed having lost their job in the services sector deteriorated.

The evaluation of the situation would not be complete without mentioning that those who lost their job – especially at larger companies and mainly a number of multinational companies – were able to count on many types of assistance. Wherever it was possible, companies offered jobs in other plants; they organised

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[54] The description of a newspaper on an important company fits a number of companies employing mostly unskilled workers in assembly-line production: they belong to the group of companies who were attracted to the country primarily by cheap labour, but if the situation changes, they will move on to another country with even lower wages. *{Napi Gazdaság, 2 March 2001}*

re-training, the labour centres tried to provide individual assistance by staying permanently with the company, etc. However, the most important thing was that many people were able to find another job immediately or very soon.

5. *THE ECONOMICALLY INACTIVE*

As indicated already in a number of respects, the economically inactive are those members of the adult working-age population who remain absent from the labour market voluntarily or under some constraint, that is, who are not employed and not unemployed either.

As a consequence of the slow increase in the labour market activity of the population of the 15 to 64 year-old in the European Union, the proportion of the economically inactive is decreasing (1991: 32.3%; 1999: 31.3%; 2000: 31%).[55]

The population of about 77 million of the inactive is distributed most unevenly by country and, within that, by gender. In line with the high activity rate of men, the proportion of inactive men is 16–17% in Denmark, the Netherlands and the United Kingdom, but even in the countries with the highest number of inactive men (Italy, Belgium, France), no more than a quarter among them remained absent from the labour market.

On the other hand, the proportion of inactive women is nearly twice that of men, and the difference by country is also much greater; in Denmark and Sweden less than a quarter of women, while in Italy and Greece over half of women did not work/look for a job actively in 2000.

In the countries that wish to accede to the European Union, the main characteristics of inactivity (the rate of inactivity, and the lower proportion of inactivity among men and higher proportion among women) are quite similar to those of the EU Member States. The most perceptible difference is that the discrepancies are less extreme in the accession candidate countries, partly as a consequence of the similarity of their recent history. It is the inactivity rate of the population aged 15–64 in Hungary and Bulgaria that differs most from the rates of the other countries, especially the proportion of Hungarian women, nearly half of whom were inactive in 2001.

In addition to the several personal and socio-economic reasons for inactivity, often the primary reasons of absence from the labour market, it has been known for a long time that part of the inactive persons are actually latent unemployed; they would be willing to work, but are not actively seeking jobs for various reasons.

In 2000, in addition to the 14.2 million men and women registered in the European Union who sought jobs actively, Labour Force Surveys registered 9.7 million inactive persons who wanted to work.

Although this is only 7.2% of the 135.6 million inactive and the large majority (118.9 million) do not wish to work (nearly 20 million among them because they are still studying), the 10 million figure of those who would like to work is definitely not low.

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[55] The 30.8% proportion for 1999 indicated in our summary for last year was modified by the publication entitled *Employment in Europe, 2001*.

Within this population, 8.1 million (two-third of them women, and a quarter below the age of 25) would like to work, but are not seeking jobs (700 thousand – women representing three-quarter among them –, because they do not think they could find one), and 1.6 million are looking for a job, but could not occupy it within 30 days for various reasons. *{Labour Force Survey, Principal Results, 2000, Statistics in focus, Theme 3-10/2001.}*

Those among the inactive who wish to work - especially women and men past 50 – are important target groups of the EU's efforts to expand employment.

5.1 Main characteristics of inactivity in Hungary

As indicated by the Hungarian data included in the international comparisons referred to above, the proportion of the economically inactive, especially of women, is high compared to both several Member States of the European Union and to the accession candidate countries.

Table 5.1.

Number and rate of the inactive among the 15-64 year-old

Year	15-64 year-old '000*	of which: Ec. active %	Inactive					
			Total		men		women	
			'000	%	'000	%	'000	%
1992	**6,898.3**	64.7	2,435.7	35.3	934.0	13.5	1,501.2	21.8
1993	**6,895.7**	62.3	2,601.6	37.7	1,018.8	14.8	1,582.8	22.9
1994	**6,885.5**	60.4	2,729.3	39.6	1,065.1	15.7	1,663.6	24.1
1995	**6,891.4**	58.9	2,830.9	41.1	1,082.0	15.7	1,747.9	25.4
1996	**6,877.4**	58.5	2,856.9	41.5	1,095.7	15.9	1,761.2	25.6
1997	**6,876.5**	57.8	2,913.4	42.2	1,133.7	16.5	1,779.7	25.9
1998	**6,831.7**	58.4	2,843.1	41.6	1,129.5	16.4	1,713.7	25.2
1999	**6,803.1**	59.9	2,729.4	40.1	1,075.1	15.8	1,654.4	24.3
2000	**6,784.4**	60.3	2,696.7	39.7	1,064.8	15.7	1,631.9	24.0
2001	**6,792.3**	60.0	2,717.9	40.0	1,073.7	15.8	1,644.2	24.2

* Data known prior to the population census of 2001.
Source: *LFS, Time Series, 1992–2001,* CSO, 2002.

One obvious explanation for the high inactivity rate – which appears as a mirror image of low employment and low unemployment – is the lower employment age limit in Hungary than in a number of other countries, mentioned several times already, which removed men five years and women ten years earlier from the labour market during most of the nineties than most of their European peers; this figure is now three years for men and seven years for women. (Note, however, that the situation was similar to the Hungarian one in all former Socialist countries.)

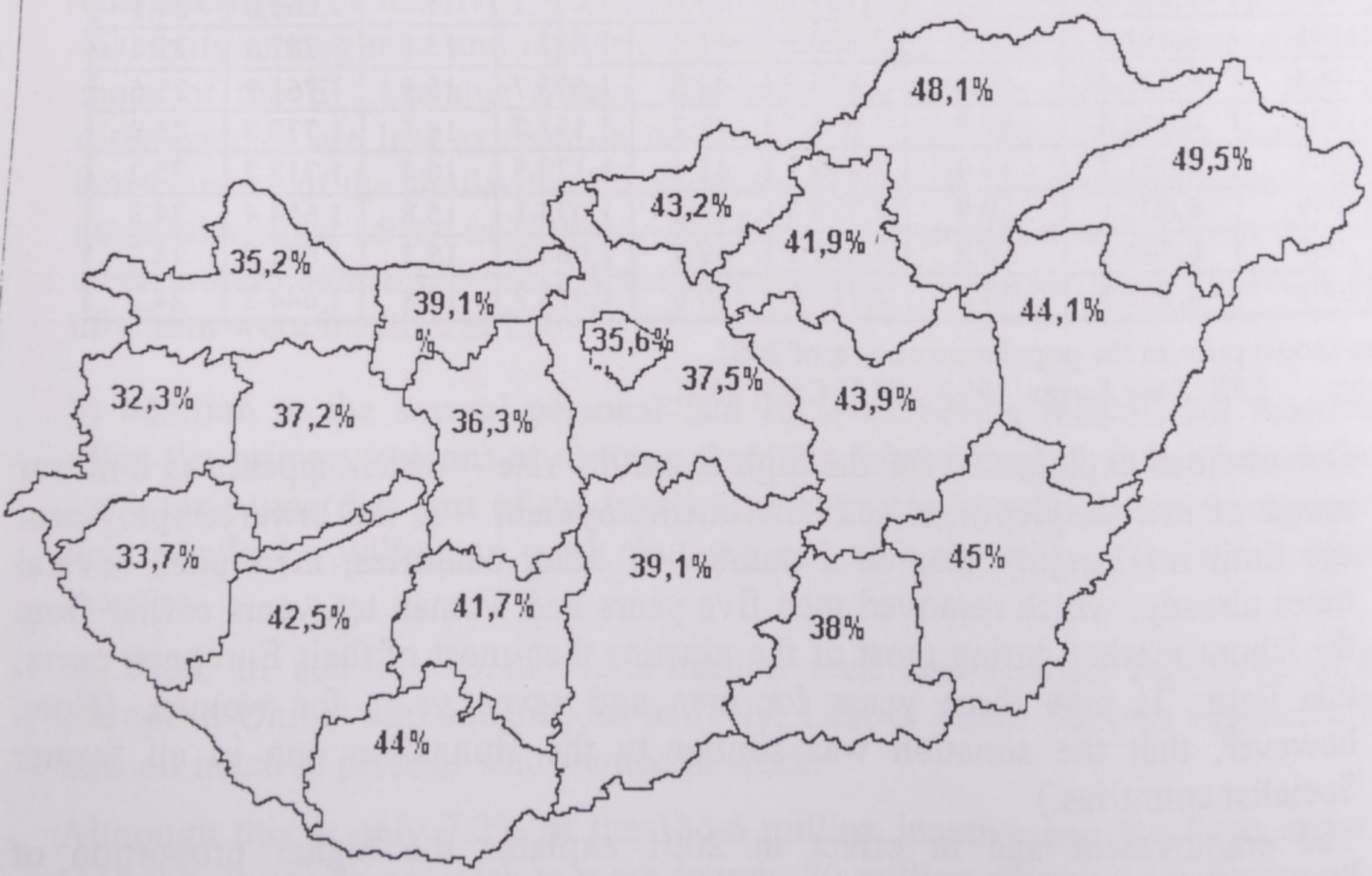
The employment age in effect in 2001 explains the higher proportion of Hungarian inactivity in the case of nearly 490 thousand men and women. (Calculating with the population of the 15 to 64 year-old, (as shown in Table 5.1.) 2,718 thousand persons, 1,074 thousand men and 1,644 thousand women were considered to be inactive; according to Hungarian employment age, 2,229 thousand, 962 thousand men and 1,267 thousand women.)

The more dominant reason, however is that the employment chances and job opportunities offered by the organised economy are barely increasing. In case of better options, many of those having reached retirement age would keep working, just as they did when they had the opportunity to do so. (The peak was in 1987, when 548.4 thousand people of retirement age were working; during the eighties – and even in 1991 – the corresponding figure was over 400 thousand. The relevant figures have been decreasing year after year: the Labour Account of 1 January 2000 indicated only 74 thousand, that of 1 January 2001 (modified with the data of the census, on a preliminary basis) 80.7 thousand and that of 1 January 2002 only 63 thousand.)

The possibilities of exit (occasionally escape) from the labour market with the help of society – such as retirement with age exemption and absence due to child care – appreciated due to the infinitesimal expansion of employment. (Naturally, such opportunities are available also in other countries, and often play a very similar role.)

Figure 9.

Proportion of the economically inactive in the population aged 15–64, by county, 2001
National ratio: 40%



Source: *LFS, Time Series, 1992–2001,* CSO, 2002.

The following sections review the main reasons of the inactivity of the working-age population as defined in Hungary. The survey relies primarily on the Labour Account prepared by CSO (this time, using preliminary data), taking stock of the labour market situation of the population using terms that are aligned to the relevant Hungarian legislation year after year. The data reflecting the state of 1 January actually portray the results of progress in the previous year.[56]

As several fundamental circumstances of inactivity – such as the age limits of employment/retirement, or the rules governing retirement during working age – are determined by Hungarian legislation, which also sets the framework of individual decision options for the population, it is reasonable to provide here an overview according to the Hungarian standards, different from the system developed for international comparisons.

As a consequence of the Hungarian definition of working age, the Hungarian inactivity rate is lower than the one yielded by international comparison.

Table 5.2.

Population of inactive persons of working age, 1990-2002

'000

Year 01.01.	Working-age			*of which:* economically inactive			% rate of the inactive to the population
	men	women	**All**	men	women	**All**	
1990	3,107.2	2,849.6	**5,956.8**	567.9	765.5	**1,333.3**	22.4
2001	3,234.6	3,050.8	**6,285.4**	860.4	1,154.4	**2,014.8**	32.1
2002	3,232.0	3,041.5	**6,273.5**	844.0	1,.164.9	**2,008**.9	32.0

Source: *Labour Account*, 1 January 2001 (preliminary data), CSO, 2002.

Inactivity reached its current level during the 90's: in 1990 it was as low as 22.4%. The absence of nearly one-third of the population has become permanent despite the retirement age that has been continuously increasing since 1997.

5.2 Reasons of inactivity

The decision to enter the labour market after the age of 15 as earner or unemployed person wishing to work, or to exit it and become dependant on one's family may be a voluntary one taken by the individual (even if his choice is shaped by his restrictive living circumstances).

As shown by the previous tables, the proportion of those who are absent from the labour market out of the population of the 15–64 year-old is 20–40% in all countries. Beyond the innumerable reasons underlying individual decisions (e.g., children aged 15–17 having completed elementary or secondary school and not remaining in education being considered too young to work by their families; wives staying at home until the children start going to school; obligations to care

[56] The Labour Account is different from the Labour Force Survey suitable for international comparison in a number of other respects, too; the main characteristics are summarised in the methodology description at the end of the present volume.

for sick family members, etc.), absence from the labour market is not only accepted but even supported by society in case of education, child-care or retirement with age exemption due to specific reasons.

In 2000 and 2001, society supported the absence from the labour market of 75% and 80% of the inactive, respectively.

Table 5.3.

Reasons of inactivity

'000

	01.01.1990				01.01.2000				01.01.2002			
	men	women	total	%	men	women	total	%	men	women	total	%
udent	276.5	255.1	531.6	39.9	345.1	345.3	690.4	34.3	340.4	340.6	681.0	33.9
ensioner	176.4	87.4	263.8	19.8	317.9	240.7	558.6	27.7	361.7	270.1	631.8	31.4
n child-re *	1.2	243.5	244.7	18.3	1.0	298.4	299.4	14.9	1.0	296.1	297.1	14.8
ther ason	113.8	179.4	293.2	22.0	196.4	270.0	466.4	23.1	140.9	258.1	390.0	19.9
ggregate	567.9	765.4	1,333.3	100.0	860.4	1,154.4	2,014.8	100.0	844.0	1,164.9	2,008.9	100.0

* Including persons on child-care fee or aid and beneficiaries of child-care support (the latter numbered, in 2000: 52.5 thousand; in 2001: 51.3 thousand)

Source: *Labour Account*, 01.01.2001, (preliminary data), CSO, 2002.

The following section discusses some typical socio-economic developments shaping the rate of absence from the labour market, by main reasons of inactivity.

5.2.1 Students[57]

The accelerating appreciation of knowledge (and typically, of knowledge confirmed by certificates earned in the schooling system) in developed countries has been shaping the intentions of completing more than the compulsory eight grades of elementary school in a number of groups of Hungarian society also for a number of decades.[58]

The number of persons remaining in education after the age of 15 (that is, after having completed elementary school) has increased by thousands annually throughout the nineties (01.01.1990: 531.6 thousand, 2001: 690.4 thousand; 2002: 681 thousand). In the population of the 15 to 24 year-old, 37% continued

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[57] At the end of 2000, in the framework of the annual professional conferences, the Committee on Labour Sciences of the Hungarian Academy of Sciences held a conference entitled "Education and prevailing on the labour market". The studies based on the presentations of the conference, substantive in terms of contents, were published by the Economic Research Centre of HAS in 2001, with support from the Ministry of Education (*ed.*: András Semjén). This section uses only a few statements and leaves other important statements by the authors in the background; we apologise for that.

[58] According to the research conducted by the Education Research Institute during the 1999/2000 academic year (headed by Gábor Havas, István Kemény and Ilona Liskó), 38.3% of Roma fathers working as skilled workers, and 24.5% of those working as unskilled or trained workers would like their children, currently attending elementary school, to graduate from secondary school and even 14.7% of unemployed Roma fathers plan to do so. *{Gábor Havas: in.: Oktatás és munkaerőpiaci érvényesülés (Education and prevailing on the labour market), p. 149.}*

their studies in 1990, and 47% in 2001 and also in 2002 according to the Labour Account data referring.

By the end of the nineties, the schooling proportion of each age group of secondary-school age had reached the average of developed countries (for demographic reasons).*{Gábor Halász, in.: Oktatás (Education) ...., p.100.}*

Nevertheless, in 1998, 24% of men aged 20–60 not attending school anymore, and 30.6% of women aged 20–55 had no higher school qualifications than eight years of elementary school; altogether 1,370,000 men and women, about 27% of the population concerned may be considered completely untrained in terms of useable knowledge in the labour market. In addition, their stock was increased from 1980 to 1992 annually by at least 20% of those reaching the age of 16 unskilled (having completed no more than eight grades). "That is, the reproduction of unskilled people at a basically unchanged rate continued until very recently. We shall feel the detrimental consequences of this for at least twenty more years". {*Gábor Kertesi, in.: Oktatás ... p. 184.}*

So, there is room for catching up in order to make life-long learning general and create a knowledge-based society, in line with European efforts.

For the time being, it is reassuring that an increasing proportion of those aged 15 to 24 is in education.

Table 5.4.

Number and proportion of full-time students in the school-years of 1959/1960-2001/2002

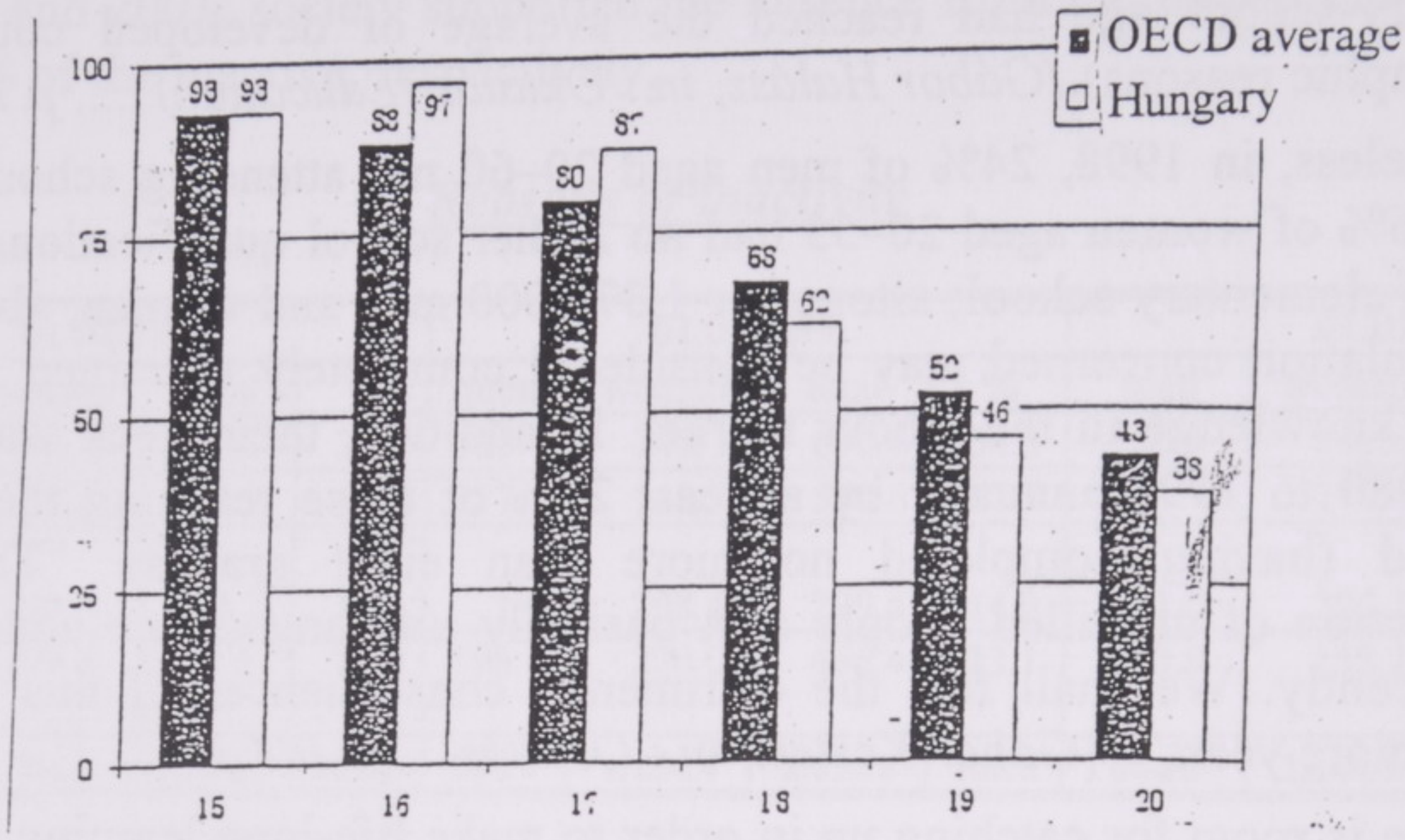
thousand

School-year	15–24 year-old no.*	*of which:*			
		students		female students	
		no.	%	no.	% rate to all students
1959/60	1,432.5**	267.1**	18.6	109.9	38.2
1969/70	1,696.4**	465.6**	27.4	200.2	43.0
1979/80	1,464.4**	371.8**	25.4	174.9	46.5
1989/90	1,445.5	531.6	36.8	255.1	48.0
1990/91	1,511.4	566.2	37.5	274.3	48.4
1991/92	1,561.0	590.2	37.8	289.2	49.0
1992/93	1,592.6	595.0	37.4	291.2	48.9
1993/94	1,609.4	615.9	38.3	307.9	50.0
1994/95	1,619.2	625.5	38.6	310.8	49.7
1995/96	1,618.9	635.9	39.3	317.2	49.9
1996/97	1,614.4	674.8	41.8	336.6	49.9
1997/98	1,596.5	675.9	42.4	338.6	50.1
1998/99	1,568.1	687.1	43.9	346.2	50.4
1999/2000	1,507.3	699.7	46.4	350.0	50.0
2000/2001	1,480.0**	690.4	46.6	345.3	50.0
2001/2002	1,437.6**	681.0	47.4	340.6	50.0

On 01.01. of the given year
* Population census data; 2001-2002; preliminary
ource: CSO Yearbooks and Labour Accounts

Figure 10.

Schooling rate of the 15–20 year-old in Hungary and in the OECD countries, 1998 (%)



Source: OECD (2000) and Halász–Lannert (2000) (*in: Oktatás*.... p.100.)

Following secondary education, the vast majority of Hungarian students leave the education system. Relatively few among them continue their studies in higher education, despite the rapid increase in the number of students at private colleges, traditional universities and colleges in recent years.

However, the difference between those remaining in education at the age of 15–19 and of 20–24, respectively, continues to be significant. In 2000 (according to the Labour Account of 1 January 2001), 76% of the 668 thousand in the first age-group and only 20% of the 809 thousand in the second did so. The good results of secondary education for younger persons compared to the average of the OECD countries are not complemented by the results of those aged 18 or older.

In its *Employment Guidelines for 2002*, the European Union sets the task of increasing the proportion of those remaining in education after lower secondary school significantly by 2010 for the Member States; no more than half of those between ages 18–24 should stop at this level. In Hungary, significant efforts are required to reach this level.

Table 5.5.

Distribution of full-time students aged 15–24 by age and school type in the school-year of 2001/2002

Age	01.01. 2002 population no.*	Students**		*of which, %*			
		'000	%	primary	vocational	secondary	Univ, coll.
				school			
15	**133.6**	125.7	94.1	12.0	18.4	63.7	
16	**128.1**	118.6	92.6	3.6	23.5	65.5	
17	**129.1**	107.2	83.0	0.7	23.0	59.2	0.1
18	**134.4**	87.2	64.9	0.1	14.8	40.1	9.9
19	**143.2**	68.1	47.6	-	6.4	19.9	21.3
15-19	**668.4**	506.8	75.8	3.3	16.9	49.0	6.6
20	**149.9**	53.2	35.5	-	3.0	9.6	22.9
21	**157.1**	41.5	26.4		1.3	4.2	20.9
22	**162.3**	32.2	19.8		0.6	1.7	17.5
23	**168.0**	21.1	12.6		0.3	0.7	11.6
24	**174.4**	13.0	7.5		0.1	0.2	7.2
20-24	**811.7**	161.0	19.8		1.0	3.0	15.8
25 +		21.8					
Total		**689.6**					

* Population census data, 01.01.2001 (preliminary)

** At the beginning of the school-year (15.09.)

Source: Ministry of Education data

The international experience –described in the study of P. Galasi – J. Tímár – J. Varga – is that the first ten years or so in the career of young persons exiting higher education is part of their transition to the world of labour. Interestingly, a significant part of young persons start their labour market career before leaving school, engaging in temporary part-time or full-time work. Hence their school and labour market careers "are mixed, or progressing in parallel also during the period of full-time studying. For instance, within the school-going population aged 15–29, 15% were employed in Germany, 26% in Denmark and 19% in the Netherlands in 1998. Secondly: the importance of interruptions in one's school career, returns from the labour market to education, and of studying while work is increasing. Third: the importance of life-long learning increases". The success of the transition period is measured by the extent to which education prepares the individual for life-long learning and integration. *{Oktatás ..., pp. 73-89.}*

Education and work may be combined in the most varied ways during the transition years. The conditions necessary to find successful solutions for transition from education to labour – described in detail in Gábor Halász's study *{Oktatás..., pp. 109-110.}* – should be provided by education, employment and economic policy together. There is hardly any reliable information available on the solutions that exists in practice in Hungary today.

5.2.2 *Persons on parental leave*

The system introduced in Hungary in 1967 – one of the first in Europe –allowed working women to stay at home for a definite period of time after having given birth to a child. Beyond the modest allowance (child-care aid – Hungarian abbreviation: GYES), they retained their employment, and were able to count on their old position and job upon return to work.

Over around 30 years, hundreds of thousands of mothers made use of this possibility, which was opened to fathers as well, under the sign of equal rights. The system – given its features – favoured primarily women doing manual work for a more modest pay. The previously more detrimental conditions of motherhood of more qualified women in higher positions and with higher income were compensated for by the introduction of a new system, the system of child-care fee (Hungarian abbreviation: GYED): instead of a fixed-amount benefit, they were able to receive a specified percentage of their average income, although for a shorter period.

In 1993, with mass redundancies at the largest employers, that is, state-owned enterprises and co-operatives, a new support system came into force: "full-time" motherhood to support women (families) raising three or more children. Accordingly, mothers may receive child-raising support (Hungarian abbreviation: GYET) until their children reach a specific age, and the years spent by mothers raising their children qualify as employment (service period) for the purposes of determining their old-age pension later on.

All three forms of support have gone through a lot of changes over the years; child-care fee was terminated for a number of years, while child-care aid escalated into a citizen's right, and was due also for those who had not been employed before. The period of mass redundancies brought a fundamental change in labour market status: the jobs of multitudes of women who were in principle in employment ceased to exist; they had nowhere to return after the supported period of child care. (In spite of this, those in employment earlier were included among the employed in statistics until 1997. Following the ILO recommendation of 1995, Hungarian statistics have classified persons leaving the labour market due to child-care as inactive – in accordance with reality – from 1998 on.)

In 2001 – as in previous years – all three forms of support existed; certain conditions and the amount of the allowance have changed slightly over the year.

The most widely used allowance is child-care aid, which is due on citizen's right. In 2001, the fixed amount of the benefit due until the child reaches the age of three was HUF18,310 per month; identical to the lowest amount of old-age pension. (The aid is subject to pension contribution liability.) Either parent is eligible to child-care aid.

When the Act on Family Allowances was amended, the possibility of receiving child-care aid was extended to grandparents after the child passed the age of one year on the proposal of the Ministry of Social and Family Affairs. However, a condition for this is that the grandparent should waive his/her own old-age

pension. No income-earning activities may be conducted until the child reaches 18 months by the parents and until the child reaches the age of three by grandparents – if they make use of the aid – and after that, both parents and grandparents may work for no more than four hours a day. According to the assumptions, this possibility allows the mother to start working again as soon as possible, and the aid may be collected by grandparents who either have no job or earn only little.

The amendment brought very modest results – presumably due to the strict conditions –; although the Labour Force Survey indicated some persons over the age of 50 among the nearly 300 thousand persons on parental leave.[59]

Child-care fee is conditional on the parent's insurance for 180 days in the two years before childbirth, and on raising the child in his/her household. The amount that may be used (by either parent) until the child reaches the age of two is 70% of average earnings, but no more than double than the minimum wage ever. As a result of the increase in minimum wages, the HUF51,000 allowance of the previous year increased to HUF80,000 in 2001.

The conditions of child-care support have not changed; its monthly amount – regardless of the number of children – is identical to the amount of child-care aid (HUF18,300 per month), and it is also subject to old-age pension contribution liability. The number of women granted child-care support has been approximately constant for years, at slightly over 50 thousand.

Owing to the differences in utilisation and allocation, statistics register those absent from the labour market by the form of parental leave, separately; for the purposes of this paper, however, all forms may be taken into account together as absence supported by the society.

Table 5.6.

Number of persons staying away from the labour market on parental leave,1980–2002

thousand

Year 1 January	Persons on parental leave (GYES, GYED)			GYET	
	men	women	**all**	women	**all**
1980	0.1	263.9	**264.0**	-	**264.0**
1990	1.2	243.5	**244.7**	-	**244.7**
1991	1.3	250.3	**251.6**	-	**251.6**
1992	1.8	260.3	**262.1**	-	**262.1**
1993	1.7	260.4	**262.1**	-	**262.1**
1994	2.2	252.4	**254.6**	24.1	**278.7**
1995	5.2	246.8	**252.0**	33.0	**285.0**
1996	4.6	226.0	**230.6**	44.6	**275.2**
1997	2.0	245.1	**247.1**	48.1	**295.2**
1998	1.0	238.0	**239.0**	52.0	**291.0**
1999	1.0	243.0	**244.0**	55.9	**299.9**
2000	1.0	242.3	**243.3**	53.8	**297.1**
2001	1.0	245.8	**246.8**	52.6	**299.4**
2002	1.0	244.8	**245.8**	51.3	**297.1**

Source: *Labour Account,* 1 January 2002, CSO (preliminary)

[59] As it was found later, the Ministry has not assessed the expected needs before submitting the proposal. *{Világgazdaság, 26 April 2001.}*

In 2001, the Labour Force Survey registered – on annual average – 267 thousand people on child-care aid and child-care fee; 4.9 thousand men and 262 thousand women. (The survey classifies beneficiaries of some form of child-care allowance by their activities performed in the survey week.) Despite the slight increase in the proportion of men, child care is a task assumed primarily by mothers, and this year was no exception in this respect. (According to the Labour Account, the proportion of men was perceptibly higher in 1995 and 1996.)

It is no surprise that the vast majority (85%) of persons absent from the labour market due to parental duties belonged to the age groups of 20 to 34 in 2001 (most of them, 38%, were aged 25–29; another 9% were between the ages of 35 and 39). Inactivity due to child care was very rare among those younger than 20 and especially those past 40.

Of the 267 thousand men and women concerned, 17.6 thousand considered themselves earners, too (obviously, having grasped the opportunities for at least temporary work to supplement the extremely low amount of child-care aid), and 2,600 as unemployed active job-seekers, who would like to find employment, perhaps even before the expiry of the period of supported absence. The number of active job-seekers was about the same as in the previous year (2,200 persons), but it was substantially lower than in 1999 (9,600 persons). The modest number of active job-seekers in this group, too, reflects awareness of the stagnation of employment, of job shortage and poor labour market possibilities for women with small children.

By the way, it may be considered an important characteristic of the employment situation, having shown hardly any improvement for years, that despite the permanent decrease in the number of births[60], by the end of the nineties, nearly 60 thousand more elected supported absence providing a possibility for exiting the labour market instead of the uncertainties of job search than in the beginning of the same decade.

5.2.3 Retirement at working age

Despite the continuous increase in retirement age, the number of persons retiring at working age increased by over 70 thousand (from 558,600 to 631,800) from 1 January 2001 to 1 January 2002 (in 2000, the increase was 33,000). It was mostly men who became pensioners (44 thousand men and 30 thousand women).[61]

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[60] In 1980, 148,600 while in 1999, 95,000 children were born; the number of births calculated for women between the ages 15–49 per 1000 women was 57.6 in 1980 and 37.3 in 1999; the total productivity ratio dropped from the 1.92 in 1980 to 1.30 in 1999.

[61] By the way, the average number of pensioners is over 3 million. Following the political system change, their number was the highest in 1998: 3,157,000, which is one quarter more than in 1990. According to data which comparable to a limited extent, the proportion of pensioners in the total population was the highest in Hungary in 2000 among the CEFTA countries: it was somewhat over three-tenths, while this proportion in Bulgaria was close to three-tenths, and in the Czech Republic, Poland and Slovenia, one quarter of the population. Pensioners made up 22% of the population in Slovakia and one fifth in Romania. *{A nyugdíjasok, nyugdíjszerű ellátásban részesülők egyes jellemzői A CSO jelenti .(Certain characteristics of pensioners and recipients of pension-like allowances. CSO Reports), 2001/9.}*

That is, the tendency of exiting the labour market at working ages, going back to the early nineties, continued and even accelerated: in 1990, it affected 4.4% and in 2001 (on 1 January 2002) already 10% of the population concerned.

It is possible to retire before the general retirement age on a number of legal grounds in Hungary:

* Workers in certain professions, drivers of public transport vehicles, miners, railway workers, people working in certain jobs in the army and in health care, currently about 100 thousand employed persons, are entitled to *retirement with age exemption*. The review of these jobs has been on the agenda for years, and changes are justified by the transformation of working conditions and of the structure of professions. However, decisions are being put off, because the social partners, the trade unions, the employers and the Government have not been able to reach a mutually acceptable agreement. Theoretically, the new rules on retirement with age exemption should come into force from 2003. At the beginning of 2001, about 41 thousand people belonged to the group of pensioners having chosen retirement with age exemption, available in certain cases from an age as low as 45.

* *Disability or accident*. The number of those with damaged health is unfortunately high, about 50-60 thousand, year after year.

* *Preliminary old-age pension*. Parallel with the increase in retirement age, it became possible for those who have no more than five years less than the service time required for eligibility to old-age pension and past the age of 55 to retire five years before the applicable limit. (The amount of the pension is proportionally lower as a consequence.) Since the pension system rewards work done over the age limit in a rather tight-fisted manner (it may be said to punish it by applying a degressive scale), many opted for preliminary retirement, because of the increasing retirement age limit, especially given the narrowed possibilities offered by the labour market. In early 2001, there were nearly 80 thousand having retired this way.

* Only a very low number of people have been pensioned for *employment policy* reasons since 1998. Between 1991 and 1997, about 40 thousand persons each year – if they met the conditions – could select retirement with age exemption instead of becoming unemployed. Since then, a significant part of them have been shifted to the group of people pensioned according to the standard age limit, and employers decide with utmost caution for how many people they agree to pay in advance a pension contribution occasionally for several years. Since 1998, older people not yet entitled to retirement may receive

unemployment aid before retirement, and are shown among the registered unemployed and not pensioners.[62]

Table 5.7.

Pensioners of working age

thousand

Year 1 January	working-age pensioner *			*of which,* in the given year, retirement due to	
				employment policy reasons	disability, accident
	men	women	**all**		
1990	176.4	87.4	**263.8**	27.0	61.3
1991	200.4	104.3	**304.7**	37.5	66.3
1992	236.9	129.5	**366.4**	46.1	64.4
1993	267.0	152.0	**419.0**	43.0	62.7
1994	275.9	161.8	**437.7**	41.1	62.4
1995	284.0	177.0	**461.0**	34.1	61.0
1996	296.5	184.6	**481.1**	44.0	62.0
1997	305.4	198.8	**504.2**	42.5	55.4
1998	304.6	207.5	**512.1**	16.0	49.3
1999	306.8	228.6	**535.4**	3.5	48.0
2000	322.0	246.8	**568.6**	3.6	53.2
2001	317.9	240.7	**558.6**	4.0	58.3
2002	361.7	270.1	**631.8**	n.a.	n.a.

* Not including employed pensioners of working age

Source: Working-age pensioners: *Labour Account,* 1 January 2002 (preliminary), CSO, 2002. Retirement with age exemption/preliminary pension: data released by the National Pension Office; unemployment prior to retirement: Employment Office

In 2001, the Labour Force Survey registered 416 thousand persons receiving old-age pension on their own right and 586 thousand beneficiaries of disability pension within the population aged 15–61 on annual average, altogether over one million men and women. (In 2000 the proportion of men – 54% – was slightly more than that of women; in 2001 the proportion of women – 57% – exceeded that of men.) Out of them, however, about 86 thousand qualified as economically active (80 thousand as employed and 6 thousand as active job-seekers); another approximately 5,000 qualified as passive unemployed.

5.2.4 *Other reasons of inactivity*

Throughout the nineties, an annual 20% or so of inactive persons, with some fluctuation in number and proportion, remained absent from the labour market for other reasons than the above, socially accepted and supported ones.

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[62] According to the provisions that have been valid since 1998 and narrowed the earlier retirement possibilities, those who register themselves as unemployed and have exhausted the disbursement period of unemployment benefit, and for whom there is no possibility of retraining or employment and who are no more than five years below retirement age may receive *unemployment aid before retirement*. Starting from 1 February 2000, the amount of the unemployment aid before retirement corresponds to 80% of the minimum old-age pension ever. At the end of 2001, about 600 persons received unemployment aid before retirement.

On 1 January 2001, the Labour Account found 466.4 thousand and on 1 January 2002, 399 thousand persons of working age who were inactive for no known reason. As the total number of inactive persons barely decreased, the reduction in the number of those absent for reasons unknown may be related to the internal restructuring of the groups of those with known and those with unknown reasons (e.g. those who became pensioners transferred to a group where the reasons of inactivity are known).

The majority of persons inactive for unknown reason is women (1990: 61%, 2001: 58%, 1 January 2002: 65%). The position of women left without any regular work or other income, however modest, depending completely on their family, is a significant deficit of Hungarian employment policy – at the same time, it also represents a significant reserve pool for prospective employment growth.

Persons inactive for unknown reason are present in all age groups; according to the data of previous years, their proportion is greatest among those of prime working age. (In 2000, according to the Labour Force Survey, their rate to the population of inactive persons was 30.6% among the 25–29 year-old, 39.2% among the 30–34 year-old, 50% (!) among those of 35–39, and 47% among those between 40–44; within that, there was no known reason for the absence from the labour market of 63% of inactive men between aged 25–29, 66.8% of those between 30–34, and 57.6% of those between 35–39. The corresponding rates for women were 46.9% between ages 35–39, and 51.5% between ages 40–44.)

No age-group data are known as yet for the year 2001. However, everyday experience continues to imply that in addition to the variegated individual reasons of absence from the labour market, removal from the organised economy is a strong motive: high taxes and contributions payable on labour divert many types of activities to the unregistered and hence untaxed economy.

5.3 Employment intentions of the inactive

In 2001, nearly 60% of the Hungarian inactive persons of working age registered by the Labour Force Survey, over 1.2 million out of a total population of 2.2 million had worked before; however, 198 thousand had lost their jobs, over 40 thousand stayed home after having completed seasonal, periodical or public benefit work, about 12 thousand had surrendered their individual businesses and some 60 thousand had terminated their employment themselves by notice. In addition to the altogether over 31 thousand persons who worked regularly or on a casual basis, another 260 thousand left the labour market due to child care and 644 thousand due to retirement on some legal ground.

Out of them, nearly 400 thousand would like to have regular paid work, including 204 thousand women.

Inactives waiting for work, 2001

thousand

Would like to work, but …	Men	Women	**All**	% rate to the working-age inactive
is discouraged from active job search (passive unemployed)	67.4	38.4	**105.8**	4.7
did not look for a job	118.8	160.9	**279.7**	12.4
did not look for a job actively/was not available	4.9	5.4	**10.3**	0.5
Total:	**191.1**	**204.7**	**395.8**	**17.6**

Source: *LFS, Time Series, 1992–2001,* CSO, 2002.

According to the experience of a decade already, 20-40% of the inactive would like to work in all the age groups of the working-age population, whatever the reason for their inactivity.

112 thousand people (70,000 men and 42,000 women) responded to the question why they were not looking for a job if they wanted to work; they said there was no appropriate job, or they could not find a job anyway, because they were too young or too old, or lacked the appropriate qualification. Somewhat more, 143,000, claimed bad health or family commitments – the latter was the reason given by 61,000 women of the 67,000.

A few respondents, about 18,000, were preparing for re-entering the labour market: they took part in retraining; waited to be called back to work (even if only seasonal or public benefit work); many were preparing to launch individual enterprises, etc.

Out of the nearly 400,000 persons who wished to work, as few as 8,000 were not looking for a job, because they thought there was only low-pay work available to them.

In addition to the above, another 8,700 persons were actively seeking for a job, but could not have started working if they happened to find one; 1,600 persons were looking for a job, but not actively.

Note that nearly 30 thousand more inactive persons who wanted to work were registered among those past Hungarian employment age, in the population extended up to the age of 74 in the Labour Force Survey. Most of them wanted to work, but have not sought jobs.

5.4 Employment of the inactive and labour costs

We have made references to the dominant role of labour costs in shaping employment in several contexts above: high taxes and contributions payable on labour are the main reason why some of the actually existing job opportunities do not appear in the organised economy.

First of all: this is definitely not only a Hungarian problem. Since the commencement of the Luxembourg process and the announcement of the employment expansion programme, the European Union has been calling the attention of governments emphatically to the necessity of reducing taxes and contributions charged on work. An evaluation of the employment programmes of Member States for the year 2000 reveals that this is included among the tasks currently on the agenda for most of the 15 Member States (in the case of the few exceptions such as Portugal it is not included because the tightest bottleneck of the labour market is the low schooling of the population and the slow speed of modernisation of labour organisations). The evaluation of the situation and the relevant recommendations specify such tasks even for countries with the highest rates of employment and lowest rates of unemployment.[63] However, Europe is slow to move. Although unit real labour costs have decreased by 0.2% compared to real incomes, the change, which is hardly demonstrable in statistical terms, barely affected employment. The governments, committed to improve community tasks in all areas – from education to environmental protection – are reluctant to waive the planned taxes, although they would mostly waive something that they would not receive anyway unless employment increased in the organised economy.

The assessment under the agreement concluded between Hungary and the EU in preparation for accession *{the Joint Assessment of the Employment Policy Priorities of Hungary, already cited}* also deals with tax burdens. It finds that although the average tax burden in somewhat lower than in the EU, the current level is significantly higher than it was in EU Member States when they were at the level of development corresponding to the current one in Hungary. The marginal tax rate imposed on the labour force is high (it was 44.5% in 1997 and 37.5% in 2000), and this may bring about the danger of promoting tax evasion

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[63] Denmark: reduce the provisions charged to work, especially the tax burdens of those with low incomes; Germany – where tax on work is among the highest in the EU despite the current reforms – "additional and direct observations are required to continue to reduce fiscal pressure on work, reducing taxes and social security contributions, especially at the end of the wages scale for the lowest wages"; Austria: tax burdens are higher than the average, and fiscal pressure on labour increased between 1994 and 1998. The reduction of non-wage-type labour costs projected for 2003 may be considered a moderate step forward. Austria has to reduce the heavy taxes charged on work in a much more significant way, especially in the case of groups that encounter difficulties in the labour market - etc. *{Recommendation for a Council Recommendation on the Implementation of Member States' Employment Policies (presented by the Commission), Commission of the European Communities, Brussels, 12.9.2001, COM (2001) 512 final.}*

and divert work to the non-organised economy, thereby reducing the reported employment of those with low qualifications. *{op.cit., p.10.}*

In the course of identifying the main objectives of the common employment policy, Hungary agreed in this respect among others that the government would review the tax and contribution systems, and eliminate the poverty trap in order to ensure that the unemployed and the inactive get good incentives for job seeking and taking up work. It is equally important to review the systems of taxation and social protection so that older workers may remain active. The government – having recognised the problem of the extended non-organised economy – wishes to assess the effect of the tax and labour inspection system in order to eliminate counter-incentives in the relationship between the taxation and the provision systems, and to take additional measures if necessary. *{op.cit., p. 12.}*

The taxes charged to work may be enumerated from a number of perspectives: from the perspective of the employer, of the employee and the combined taxation obligations of the two.

The most general approach is the measurement of the *employer's* tax burdens: the cost of employing one worker, beyond the wages, as a consequence of state tax liabilities. (Taxes and contributions are part of the labour costs.)

Following the recommendations of the International Labour Organisation formulated in 1966, the level and composition of the charges related to the labour force are assessed every four years in the European Union; Hungary has been taking part of these assessments since 1992.[64] In addition to wages and the benefits provided voluntarily by employers, the proportion of labour costs that employers pay on a mandatory basis as taxes required by the state (and contributions that operate as taxes, e.g. social security contribution) on the wages and benefits paid may be determined exactly.

Similarly to several other previous assessments, an international comparison published by the staff of the World Bank in 2001 witnessed that taxes on wages

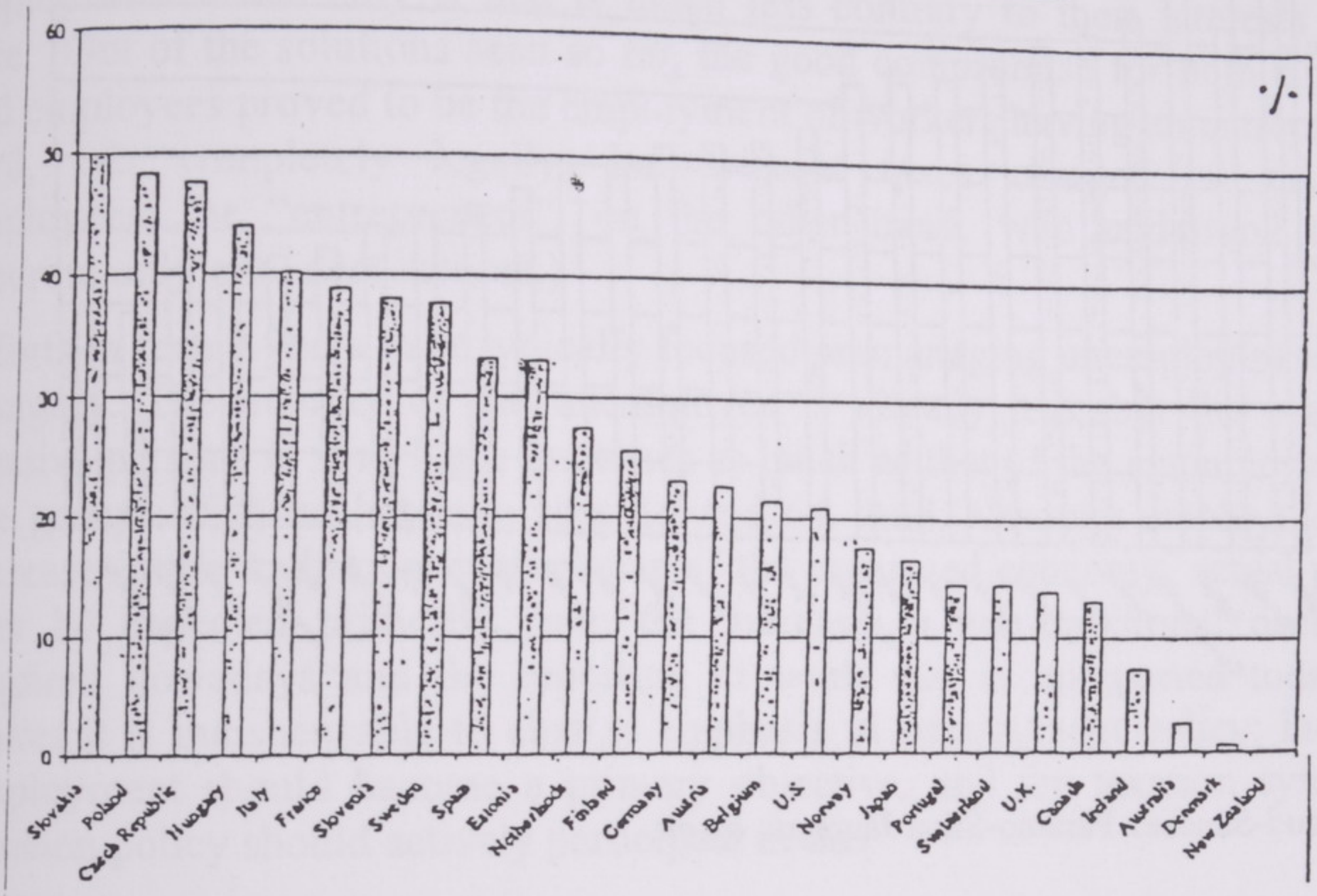
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Mrs Lindner dr. Erzsébet Eperjesi reported in detail on the findings of international assessments and the development of labour costs in Hungary in our publication for 1998 for the first time, followed by our publication for the year 2000. In 2001, she prepared a comprehensive study on the topic in the framework of the OFA's research programme; the article describing this study was published in the February 2002 issue of *Munkaügyi Szemle*: "Munkaerő- keresleti tényezők ágazati összehasonlítása az Európai Unió országaival" (Sectoral comparison of labour demand factors with Member States of the European Union) (pp. 16-19.).

are high in East Europe, even compared to the levels usually found in western Europe.[65] The taxes paid by employers in East Europe range from the 33% in Estonia to the 50% in Slovakia, while this proportion is higher than 30% only in France, Italy, Spain and Sweden, and it is not higher than 40% in any country.

Figure 11.

Tax burden on labour – Payroll tax rate (%)



Source: Riboud-Sánchez Páramo-Silva Jáuregui, *op.cit.*

Although, as stated by the study also, the process of reducing the employers' tax burdens on employment has started (for instance, in Hungary), taxes charged on labour have an impact on employment that goes well beyond the wages. Taxes charged on income and purchases also affect the income arising out of work, and there are tax wedges between labour costs and take-home pay, too. If we take sales and income taxes also into account, the total tax burden imposed on work differs very much by country, and East Europe – and within that region, Hungary – shows the highest tax values.

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[65] In fact, the authors of the study investigated a much broader topic: the impact of laws protecting employees, of the use of passive and active labour market measures, the strength of trade unions and the taxes charged on work in Eastern European countries on the flexibility of the labour market and the rate of unemployment/employment; to progress in these countries of the European illness known as "Eurosclerosis" which – from the U.S. perspective – renders the labour market of other European countries rigid. Here we shall use only those parts of the study that apply to taxes. *{Riboud-C.Sánchez-Páramo-C.Silva Jáuregui: Does Eurosclerosis Matter? Institutional Reform and Labour Market Performance in Central and Eastern European Countries in the 1990s. ILO conference, Budapest., 7 November 2001}*

Figure 12.

Tax burden on labour – Total tax rate (%)



Source: Riboud-Sánchez Páramo-Silva Jáuregui, *op.cit.*

The relationship between labour taxes imposed by the state on the one hand and the level of employment on the other is usually strong: high taxes – while they increase the tax revenues of the state – hold back the expansion of employment.

In 2001, employment barely increased in Hungary: according to an approximate calculation, each HUF100 of wages paid to an employee cost HUF168 to the employer due to tax burdens. (For the sake of simplicity, calculating with an average salary of HUF100,000 per month, which is quite close to the actual average salary: the employer paid an additional 31% as pension and social security contribution, 3% as employer's contribution, 1.5.% as vocational contribution, 0.5% to the wages guarantee fund, altogether 36%, that is HUF36,000. On top of this, there is an amount of HUF27,800 payable to the rehabilitation fund, and each month HUF4,200 of specific health care contribution; together with the salary, this makes altogether HUF168,000.) The existing exceptions naturally modify the general scheme; but they do not change the fact that labour is expensive for domestic employers, and especially for small companies.

Employees also return at least 35% of their salary to the state (11% pension and social security contribution, 1.5% employee's contribution, in addition to which there is a 20% personal income tax – in the lowest tax tier – even if they had no income other than their salary). Naturally, there are exceptions and reliefs also here – but the vast majority of employees is taxed according to these rules.

However, the state may expect taxes only from those who earn their income in the organised economy. Currently, employers and employees that do not appear in organised economy "save" 100% of tax burdens. Potential employers – typically *not* larger, but micro-enterprises, family farms and households that require external, casual assistance, which make up 97% of business entities in all sectors of the economy – will appear in the organised economy with their employment needs only if that is much less contrary to their interests than to date. (Out of the solutions seen so far, the good compromise for both employers and employees proved to be the employment of workers having an entrepreneur's card, i.e., completely legally, but without taxes charged on employing employees; the "entrepreneur", on the other hand, who undertook the job, reported only a modest income.)

Efforts in recent years have typically focused on managing unemployment also in Hungary. The number of the unemployed is already less, but the number of inactive persons is very high, ten times as much as that of the unemployed in the age groups of those between ages 15 and 64. And, although employment may increase in the traditional workplaces of the organised economy, actual progress may be expected primarily from the increase in non-traditional occupations required nowadays and the reporting of work that is unreported today. This makes it is indispensable to change emphasis in employment policy: increasing employment should become a primary objective, and the taxation system and taxation policy should actively participate in this.

II. SOME ADDITIONAL FEATURES OF THE HUNGARIAN LABOUR MARKET

6. *REGIONAL DISCREPANCIES* *

6.1 Regional differences in unemployment and employment

6.1.1 Differences by planning–statistical regions

Transition from the plan to the market economy was accompanied by the dramatic strengthening of regional disparities in the East and Central European countries. The increasing differences between the prosperous, winning regions on the one hand and the loser, underdeveloped ones on the other were reflected also in the fields of unemployment, employment and wages. International comparative analyses dealing with the issue usually look at regional disparities at the level of regions or medium-sized regions (counties). In Hungary's case, CSO publishes regional time series of the Labour Force Survey regularly at the level of large regions. These figures indicate that the decline in economic performance and employment was most perceptible in the underdeveloped regions in the Northeast and Southwest. The regions in the most favourable position following the political system change were the urbanised regions of Central and Western Hungary. Currently, the unemployment rate of the West Transdanubian and the Central Hungary region is below 5%, while that of Northern Hungary and the Northern Great Plain regions reaches 11–12%.

The disparities that may be observed in terms of unemployment rates at the level of large regions are not very great and have not shown an increasing trend in the years following the political system change. The problem is that in the case of Hungary, analyses conducted at the level of large regions and counties do not present a realistic picture of the state of the labour market, because the local labour markets in Hungary tend to correspond to the units at the level of small regions. The Hungarian labour market is segmented into relatively small and closed local labour markets. The predominant part of regional disparities manifest themselves *within* the large regions, between counties, micro-regions and settlements. [66]

Based on the labour market developments of the last decade, the seven planning–statistical regions of the country may be classified into three large groups: A) developed regions (Central Hungary, Central Transdanubia and Western Transdanubia; B) mediocre regions (Southern Transdanubia and South Grate Plains); C) backward regions (Northern Hungary and the Northern Great Plain). In the regions that belong to the first group, the employment rate of the working-age population exceeded 67% and the unemployment rate was below 4.4% in 2001. In the second

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*Author of the section: **Károly Fazekas, HAS, Institute of Economics**

[66] There are currently seven statistical-planning regions (NUTS-2 level), 19 counties and the capital, Budapest (NUTS-3 level), 150 statistical micro-regions (NUTS-4 level) and 3,200 settlements and municipalities in Hungary. The average size of micro-regions is 620.2 km^2, the average population is 77,279 persons, and the average density of inhabitants is 108.5 person/km^2 Considering the transport costs, OECD's last country report estimated the average size of the local labour force market that belongs to each settlement in underdeveloped regions at no more than 16 kilometres.

group, the employment rate was over 62 per cent. In the third group, the employment rate is below 55% and the unemployment rate exceeded 8% even in 2001.

The discrepancies, quite significant in the beginning of the decade, started to diminish in the second half of the nineties. In 1996, employment indicators started to improve in Western and Southern Transdanubia, and the other regions followed in 1998. Unfortunately, this trend did not continue in 2001. Although unemployment decreased everywhere with the exception of the Southern Great Plain, the employment rate also decreased in all of the regions. Territorial disparities in employment rates increased in 2001 also at the level of regions. The difference between the highest and lowest employment rate was 1.21-fold in 2000 and 1.26-fold in 2001. The regional differences in unemployment rates at the level of large regions have shown a decreasing trend over the past two years.

Table 6.1.

Regional differences in the employment and unemployment rates of the planning statistical regions

Regions	1993	1994	1995	1996	1997	1998	1999	2000	2001
Employment rate (%) of the working-age population									
Central Hungary	64.6	63.3	63.1	62.7	62.5	63.4	65.7	68.1	66.8
Central Transdanubia	61.4	61	59.5	58.8	59.5	62.3	65.1	66.9	66.1
Western Transdanubia	67.9	67.3	65.7	66.3	66.5	68.2	69.6	70.6	68.8
Southern Transdanubia	59.8	59.1	54.8	56.7	56.3	57.5	58.9	62.5	58.4
Northern Hungary	55.7	54	52.5	51.7	51.5	52.3	54.2	59.6	55.5
Northern Great Plain	54	53.2	51.7	51	50.4	51.4	53.8	58.2	54.8
Southern Great Plain	60	59.6	59.6	59.1	59.8	60.1	61.4	63.4	62.0
TOTAL:	**60.8**	**59.9**	**58.7**	**58.4**	**58.4**	**59.6**	**61.6**	**64.5**	**62.3**
Minimum	54	53.2	51.7	51	50.4	51.4	53.8	58.2	54.8
Maximum	67.9	67.3	65.7	66.3	66.5	68.2	69.6	70.6	68.8
Maximum/minimum	**125.7**	**126.5**	**127.1**	**130.0**	**131.9**	**132.7**	**129.4**	**121.3**	**125.6**
Development of the unemployment rate (%)									
Central Hungary	9.8	8.7	7.3	8.1	6.9	5.6	5.2	5.3	4.4
Central Transdanubia	12.4	10.6	10.8	10.3	8	6.7	6	4.9	4.4
Western Transdanubia	8.9	7.7	6.8	7.1	6	6	4.4	4.3	4.3
Southern Transdanubia	12.7	11.8	11.9	9.3	9.9	9.4	8.3	7.8	7.9
Northern Hungary	15.9	15	15.8	15.3	13.9	12.2	11.5	10.2	8.7
Northern Great Plain	14.6	13.6	13.6	13	11.9	11	10.1	9.3	8.0
Southern Great Plain	12.2	10.5	9.2	8.3	7.3	7.1	5.7	5.2	5.6
TOTAL:	**11.9**	**10.7**	**10.2**	**9.9**	**8.7**	**7.8**	**7**	**6.4**	**5.9**
Minimum	15.9	15	15.8	15.3	13.9	12.2	11.5	10.2	8.7
Maximum	8.9	7.7	6.8	7.1	6	5.6	4.4	4.3	4.3
Maximum/minimum	**178.7**	**194.8**	**232.4**	**215.5**	**231.7**	**217.9**	**261.4**	**237.2**	**202.3**

Source: *LFS, Time Series, 1992-2001*, CSO, 2002.

6.1.2 *Differences between counties, micro-regions and settlements*

The sample size of CSO's Labour Force Survey does not allow to analyse the regional indicators of employment and unemployment broken down at the level of small regions or settlements. Therefore, we shall use data originating from the

unemployment registers of the Employment Office to present differences at these levels. As shown by Table 6.2. below, the decisive majority of differences in registered unemployment at the level of the small regions occurs within the big regions. Over 83% of the variance of settlement-level unemployment data are explained by differences measured at the level of micro-regions. The same proportion in the case of differences between counties is only 34%, and 40% for the differences between large regions.

Table 6.2

Regional differences in registered unemployment (March 2002)

Regional level	No. of regional units	Average	Minimum	Maximum	Difference	Std. difference	Variance
Settlements	3135	5.46	0.46	53.33	52.87	4.29	18.41
Small regions	150	5.46	1.40	19.63	18.23	3.15	15.38
Counties	20	5.46	1.67	10.14	8.47	1.98	6.30
Regions	7	5.46	2.00	9.53	7.53	2.18	7.40

Source: HAS–IE, Regional database

The differences by county and small region, respectively, deviate from those identified for the large regions in terms of both their extent and tendency. Table 6.3. shows the development of the registered unemployment rates by county from 1990 to 2001.

As can be seen, since 1993, parallel with the decline in the average rate of unemployment, regional discrepancies have increased significantly instead of narrowing. From 1993 to 2001, the minimum rate dropped from 6.6% to 2.7%, but the maximum rate hardly changed over the same period, declining from 21.3% to 19.3%. The ratio of the maximum and minimum rates declined in the first years of transition, to increase from a three-fold to a nearly seven-fold difference in the second phase, from 1993 to 2001.

Table 6.3

Development of the rate of registered unemployment by county (1990-2001)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Budapest	0.14	1.2	4.6	6.6	5.9	5.7	5.7	4.8	4	3.7	3	2.7
Baranya	1.12	5.1	11.2	13.2	11.7	11.8	12.2	13.3	11.8	11.6	11.6	11.3
Bács-Kiskun	1.11	5.9	13.4	16	13.1	11	10.9	10.7	9.7	10	10	9.5
Békés	1.12	7.4	13.3	16.3	15.1	14	14	13.5	13	13	13.1	12.2
Borsod-A.-Z.	2.3	8	16.7	20.2	17.5	16.7	18	19	17.9	19.5	20.3	19.3
Csongrád	0.98	4.8	9.8	11.7	10.8	9.9	9.3	9.2	8.1	8.5	8.6	8.2
Fejér	0.97	4.1	10.1	12.5	11.3	10.6	10.4	9.4	8.4	8.3	7.2	6.4
Győr-M.-S.	0.54	2.9	6.9	8.2	7.7	6.8	7.4	6.4	5.1	4.8	4.6	4.2
Hajdú-Bihar	0.87	5	11.5	16.6	15.3	14.2	15.6	15	14	15.6	14.7	13.8
Heves	1.65	6.4	12.7	15.2	13.9	12.5	13.6	12.1	11.7	12.3	12	10.6
Jász-N.-Sz.	1.58	7	14.4	17.1	15.8	14.6	14.8	14.8	13.5	13.7	13.4	11.8
Komárom E.	1.04	4.1	11.5	14.4	12.6	11.3	12	11.4	9.8	10.1	8.3	7.2
Nógrád	2.39	9.8	16.8	21.3	17.2	16.3	17	16.3	15.6	16.2	14.9	14.5
Pest	0.5	4.4	8.1	11	8.1	7.6	7.8	7.3	6.3	6	5.2	4.3
Somogy	1.37	5.2	9.2	11.6	10.9	11.2	12.5	12.7	11.3	12.2	11.9	12.1
Szabolcs-Sz.-B.	2.64	10.7	18.9	20.6	19.3	19.3	19.7	18.9	17.2	18.7	19.5	17.8
Tolna	1.58	6.5	12.1	14.7	13.4	12.2	13.4	13.5	12.3	12.9	11.8	11.2
Vas	0.43	2.9	7.3	9.1	8.3	7.2	7.2	6.7	5.6	5.6	5.2	5.1
Veszprém	0.88	4.9	9.9	11.9	10.9	10	9.9	9.2	7.9	8.2	7.2	7.0
Zala	0.81	3.9	7.7	10.3	9.8	9.2	9.8	9.2	8.1	7.7	7.2	6.6
TOTAL	**1**	**4.7**	**10.3**	**12.9**	**11.3**	**10.6**	**11**	**10.5**	**9.5**	**9.7**	**9.3**	**8.7**
Minimum	**0.14**	**1.2**	**4.6**	**6.6**	**5.9**	**5.7**	**5.7**	**4.8**	**4**	**3.7**	**3**	**2.7**
Maximum	**2.64**	**10.7**	**18.9**	**21.3**	**19.3**	**19.3**	**19.7**	**19**	**17.9**	**19.5**	**20.3**	**19.3**
Max/Min	**18.9**	**8.9**	**4.1**	**3.2**	**3.3**	**3.4**	**3.5**	**4.0**	**4.5**	**5.3**	**6.8**	**7.1**

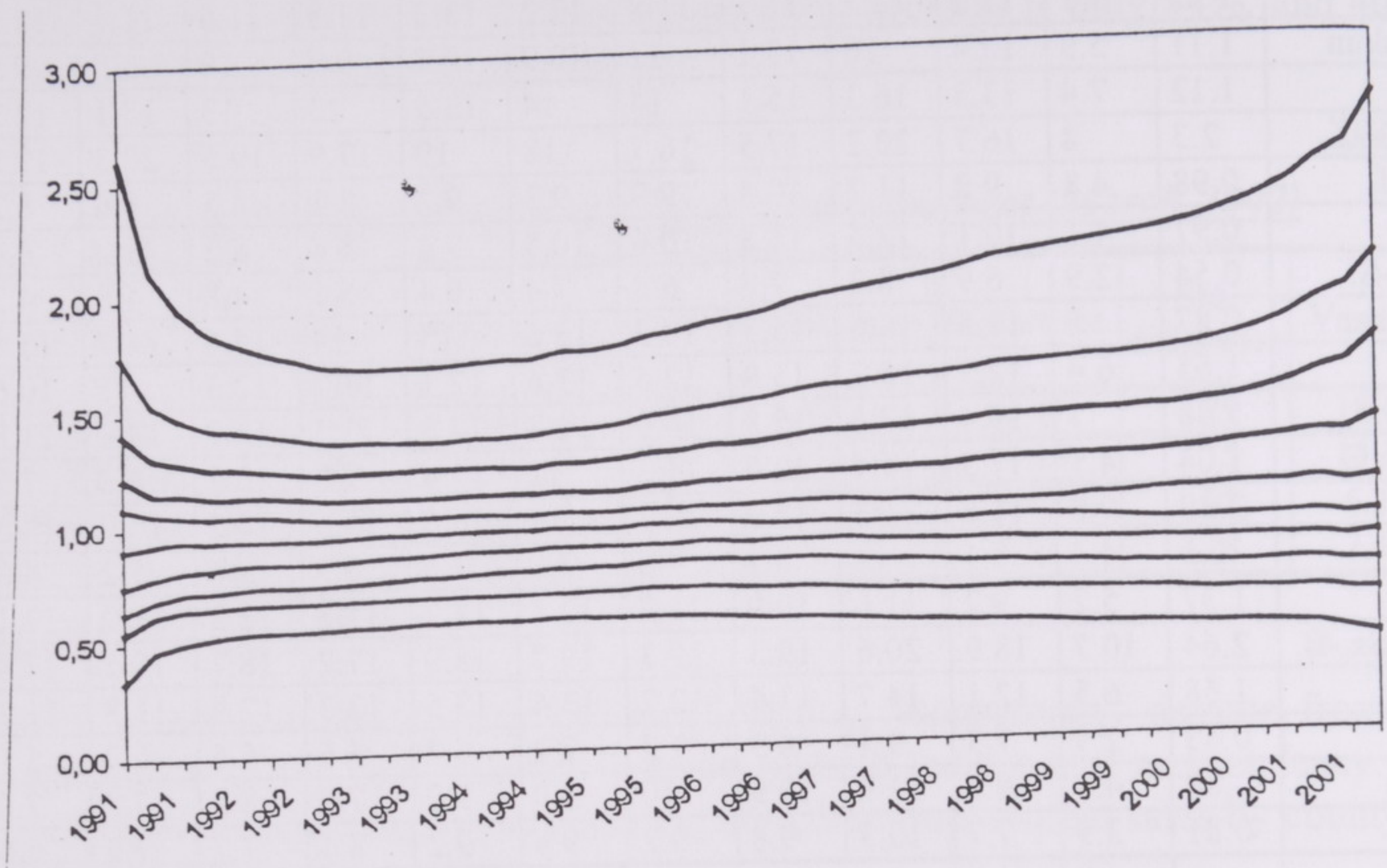
Note: Rates for 1990-2000 calculated on the basis of the number of the employed on 1 January of the given year; data for 2001 calculated with the average number of the employed in 2001.

Source: NEO database

An investigation of the discrepancies at the small-region level, matching the local labour markets closer in terms of size and geographical location, provides a more precise image of the development of the regional differences of unemployment. Figure 13. shows the chronological development of relative differences in the rates of registered unemployment. The curves indicate the chronological development of ratio of the average unemployment rate by decile and the median, cleared of the effects due to the change in rate size.

Figure 13.

Development of the relative differences in unemployment rates by small region



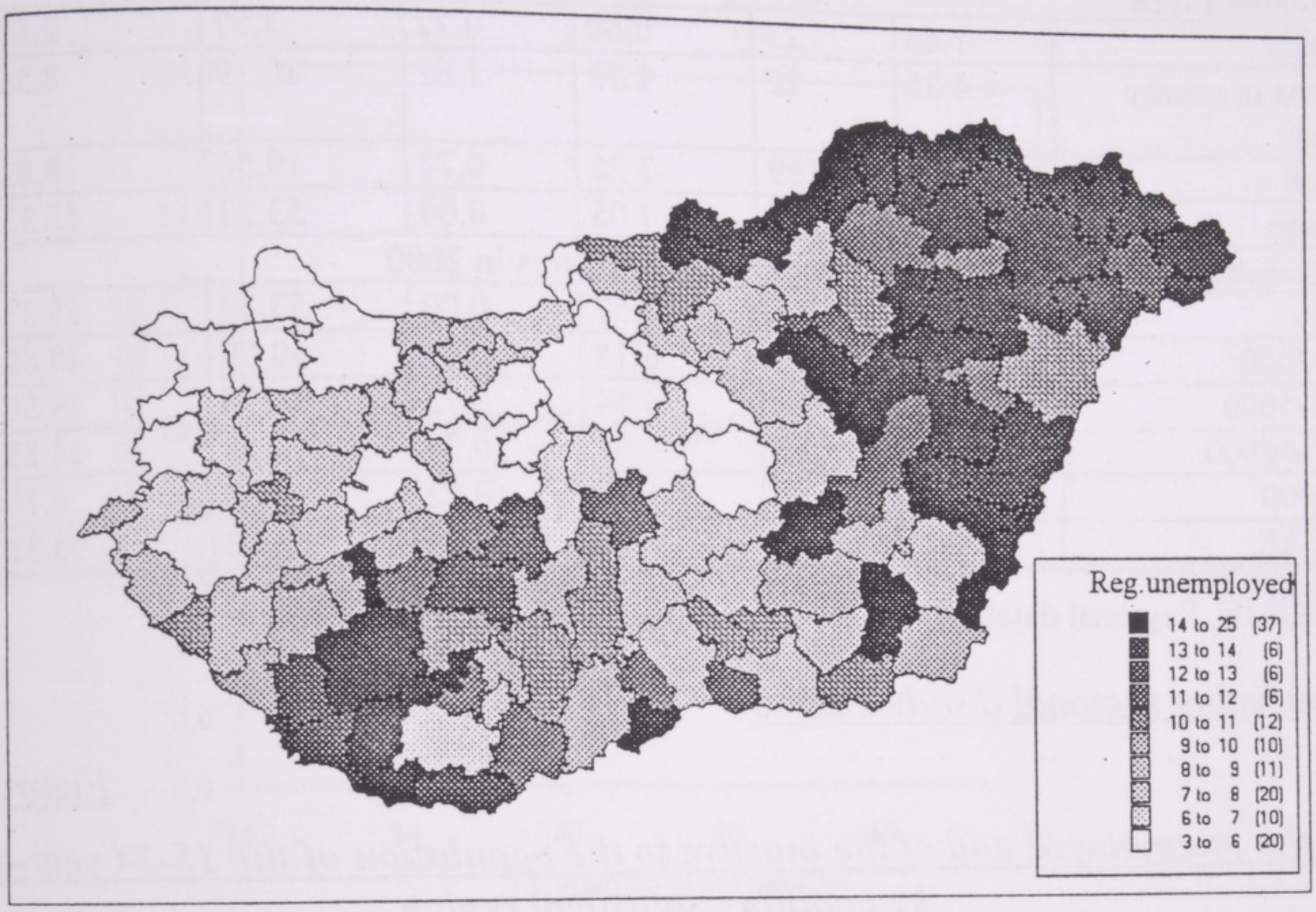
Note: Calculated from registered unemployment rates smoothed by fourth-degree polynomial functions for the 3rd, 6th and 12th months, respectively.

Source: HAS-IE, Regional database

As can be seen, the differences of the unemployment rates have been increasing steadily in recent years. Their growth is due to the increasingly serious situation of the regions characterised by high unemployment (upper two deciles), and not to the increasingly favourable position of those that are relatively better off. The rank order of small regions by unemployment rate is stable. The regions having occupied relatively favourable positions in the period following the change of the economic and political regime are still among the winners and the crisis regions of the first years are still among the most deprived to date. This state of affairs suggests that regional differences in unemployment have stable causes, changing but little in the short run.

Figure 14.

Development of the unemployment rate in the small regions
(March 2002)



Note: Rate of the registered unemployed = no. of registered unemployed in March 2001 (no. of registered unemployed, March 2001 + no. of employed, 1990)

Source: HAS–IE, Regional database

The map shows small regions grouped by unemployment rates registered in March 2001. The regions having the highest rates are located in the eastern, north-eastern parts of the country, in the regions along the eastern Slovakian and the Ukrainian border, but some can be found in the relatively developed Transdanubian counties, too.

Table 6.4. pictures the rate of the registered unemployed to the working-age population by different settlement groups. As can be seen, there are significant differences between settlements of different types and size. The highest rates occur in villages (9.4%) and small settlements with less than 500 inhabitants (11.3%). In the district of Budapest, in the most favourable situation, the unemployment rate is 1.6%, while in the settlement in the gravest situation it is 53.3%.

Table 6.4

Rate of the registered unemployed to the working-age population by settlements grouped by type and size, December 2001

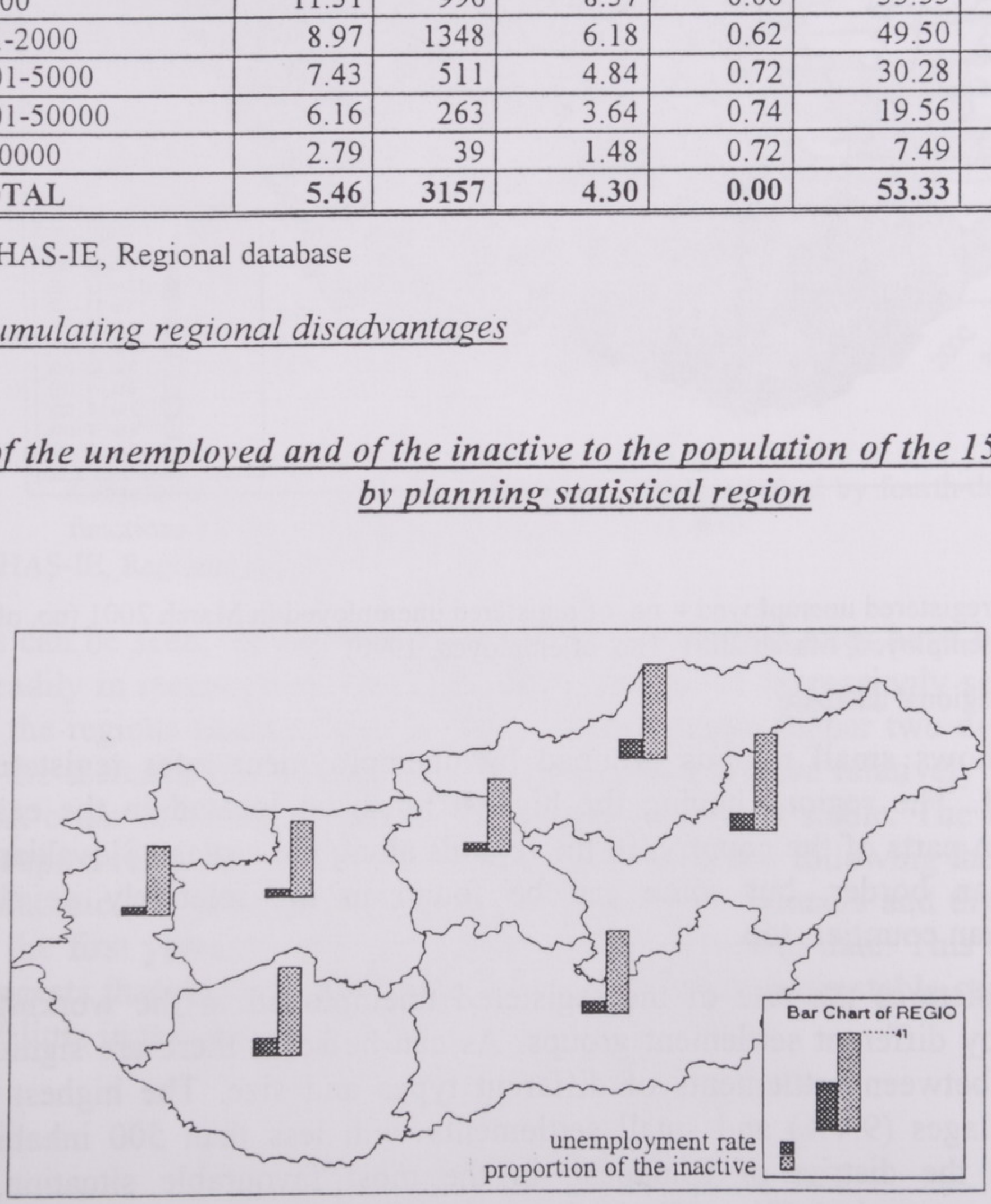
	Average	pc.	average difference	Minimum	Maximum	Gap
Settlement type						
Capital	1.66	23	0.60	0.72	3.57	2.85
Towns in county status	4.35	22	1.73	1.62	10.19	8.56
Town	6.51	199	3.25	0.74	19.56	18.82
Village	9.43	2912	7.05	0.00	53.33	53.33
Settlement size according to the number of inhabitants in 2000						
< 500	11.31	996	8.57	0.00	53.33	53.33
501-2000	8.97	1348	6.18	0.62	49.50	48.88
2001-5000	7.43	511	4.84	0.72	30.28	29.56
5001-50000	6.16	263	3.64	0.74	19.56	18.83
> 50000	2.79	39	1.48	0.72	7.49	6.76
TOTAL	**5.46**	**3157**	**4.30**	**0.00**	**53.33**	**53.33**

Source: HAS-IE, Regional database

6.1.3 *Cumulating regional disadvantages*

Figure 15.

Rate of the unemployed and of the inactive to the population of the 15-74 year-old by planning statistical region



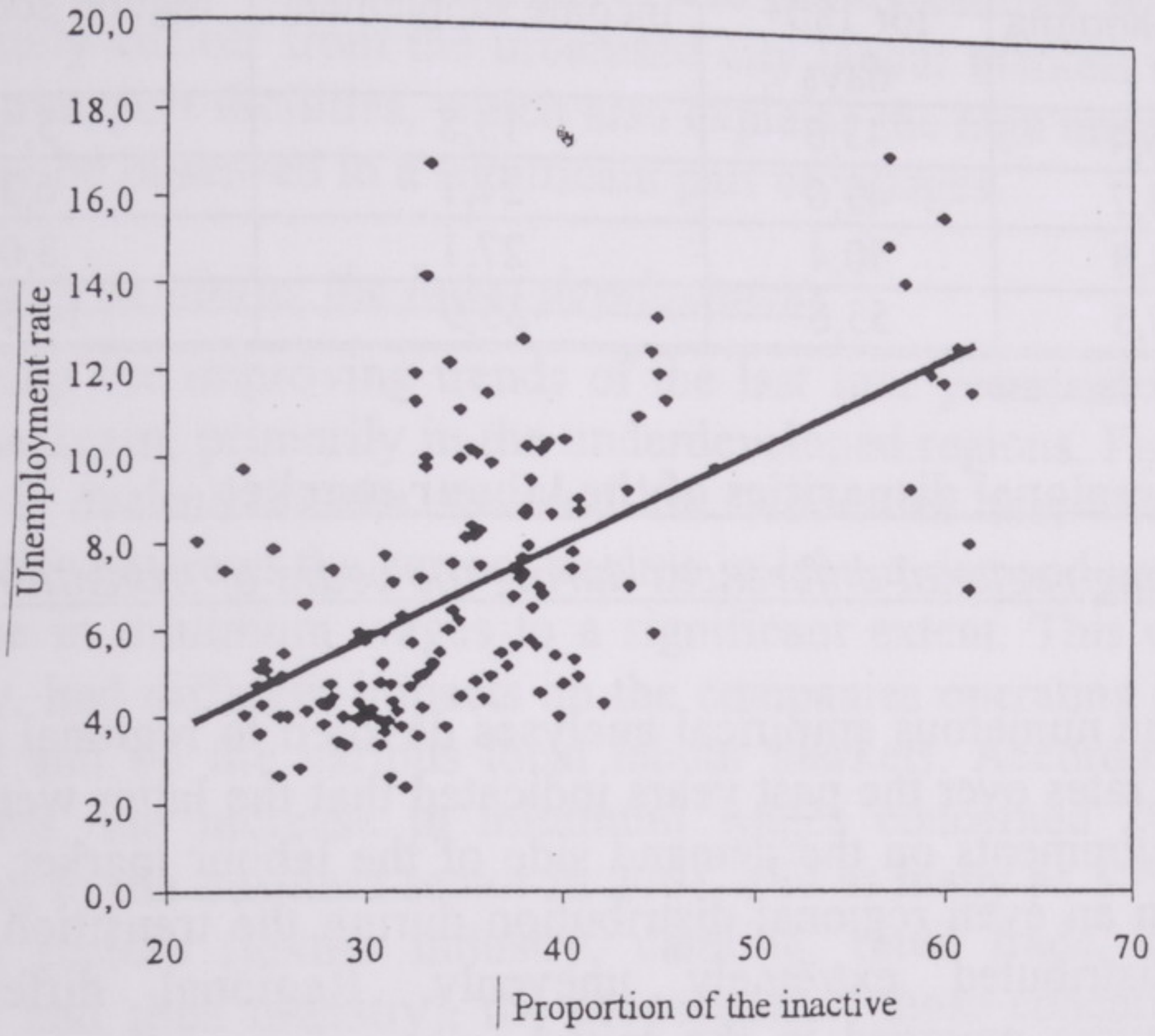
Source: HAS-IE, Regional database

The above map presents the development of the unemployment and inactivity rates, respectively, by planning statistical region. Higher-than-average rates of unemployment are concurrent with relatively high inactivity rates. The following

figure indicates the assertion of the same tendency at the level of the small regions.

Figure 16.

Correlation between the unemployment and inactivity rates by small region (QIII 2001)



Source: HAS-IE, Regional database

In the disadvantaged regions, beside the high rate of the unemployed and of the inactive, the composition of the first group is unfavourable. In small regions characterised by high unemployment, the proportion of those having finished eight-year elementary school at most, of the long-term unemployed and of the beneficiaries of regular income supplementing allocation or social aid, respectively, is also high.

Table 6.5.

Characteristic features of the registered unemployed in quartiles composed according to the rate of registered unemployment

(December 2000)

%

Quartiles	Max. eight-year schooling	registered for 180+ days	Beneficiary of income supplement	Beneficiary of regular social aid
Bottom	36,4	43,6	15,8	3,5
Second	38,7	45,0	21,1	6,3
Third	44,8	50,4	27,1	8,0
Top	50,5	55,6	35,9	14,6

Source: HAS-IE, Regional database

6.2 Reasons of the regional disparities of the labour market

6.2.1 Factors determining regional differences during the years of transition

The findings of the numerous empirical analyses devoted to regional differences in unemployment rates over the past years indicated that the latter were triggered primarily by developments on the demand side of the labour market. While job losses have shown an even regional distribution during the transition years, job creation was distributed extremely unevenly. Regional differences in unemployment having emerged in the initial years of transition were related primarily to two groups of factors: variables determining the entrepreneurial and the industrial capacities, respectively, of the regions. The dominance of large state-owned industries in itself was inversely proportional with the extent of regional unemployment; unemployment exceeding the average evolved following the political system change in those industrial regions where the dominance of large industries was coupled with underdeveloped entrepreneurial capacities. The volume of entrepreneurial capacities in a given region was defined primarily by the production infrastructure, the level of development of human capital, and the existence of absence of entrepreneurial traditions.

The analyses concerning the period following the transition years indicate that industrial capacity plays a smaller role, while geographical location and the distance from Budapest and the western border appreciates continuously. The post-transition labour market may be characterised by saying that unemployment is the highest in the peripheral rural regions, those with an underdeveloped infrastructure, an under-qualified labour force, low standards of background services and a high proportion of Roma population. The gaps between the indicators of the centre and the periphery are increasing throughout the country. The central agglomeration determined by Budapest and its vicinity, and the regions close to the routes proceeding along the Budapest – Vienna, Budapest – Graz axes have got over the consequences of the shock related to the political system change very quickly, attaining fast economic growth and low unemployment in recent years, primarily on the basis of the influx of foreign

direct investments. The losers, the underdeveloped regions are typically rural areas located along or close to the borders of Eastern Slovakia, Romania and the Ukraine.

There may be very significant differences within each micro-region by settlement type, e.g. between villages and cities. The level of development of the economic infrastructure in villages and small towns and the supply of human capital is very much behind the indicators of cities and county centres. A part of the villages is completely cut off from the urbanised city labour markets due to the absence of public transport facilities, which also explains the high unemployment proportion that may be observed in a significant part of villages.

6.2.2 *Factors determining the latest developments*

Following the improving trends of the last four years, unemployment started to increase again, primarily in the underdeveloped regions. Figures for the last year imply a decline in the demand for labour in these regions. The regional disparities between the current decline in labour demand are consequences of the increase in minimum wages to a significant extent. This change, as mentioned already, had different impacts on the companies operating in different economic sectors and on the various local labour markets. According to the most recent estimates, the increase in minimum wages concerned 26–31% of employees working in the business sector in 2001, and as many as 35% of them in 2002. In certain sectors (textile industry, catering, retail trade, construction industry, leather and shoe industry), the proportion of those concerned exceeded 50% in 2001 and was over 60% in 2002. According to the survey of the Economic Research Institute quoted already, 35% of the companies questioned was of the opinion that the increase in minimum wages significantly deteriorates the company's competitiveness. A direct relationship may be demonstrated between the increase in minimum wages and the increase in regional disparities. The relationship stems from the different wage elasticity of the demand for skilled and unskilled labour, respectively. Calculations indicate that in the period following the transformation crisis, the price elasticity of labour and capital stabilised in Hungary at a level that is generally found in market economies. The higher the wage elasticity of demand for a given labour force, and the more employees are concerned by the difference between the old and the new minimum wages, the greater the effect of the increase of the minimum wage on the demand for the given type of labour. The decline in demand concerns people with low school qualifications the most, because it is in this category that demand reacts to an increase in wages with the most elasticity.

The analyses that look at the regional impacts of the minimum wage increase in Hungary indicate that the new regulation concerned a part of the regions indeed only to a small extent, while its demand-curbing effect was considerable in others, primarily in the rural areas of the country's less developed eastern part. In certain regions, the estimated reduction in earnings in the group of those with no more than eight grades of elementary school exceeded 10% and in the group of skilled workers, exceeded 5%.

6.3 Mechanisms for levelling the regional disparities of the labour market

As the low activity rate in Hungary may be attributed mostly to reasons related to regional disadvantages, the methods for increasing employment are also associated primarily with regional factors. On the supply side of the labour market, regional differences may be reduced primarily by increasing commuting from the settlements and regions with high unemployment to areas of low unemployment, and by increasing the intensity of internal and external migration. On the demand side, regional disparities may be reduced by job creation aimed at high unemployment regions and the relocation of existing workplaces.

6.3.1 Commuting

According to the findings of the micro-census taken by CSO in 1996, one quarter of the employed were commuters. This proportion has not changed significantly over the nineties. The immense differences between the unemployment rates of urbanised centres of micro-regions and the rural settlements in their vicinity indicate that increasing the daily commuting from villages to towns may reduce regional disparities in this respect. However, commuting possibilities are largely restricted by the transport costs, which are extremely high compared to wages. The closed and fragmented nature of local labour markets in Hungary is a consequence of the effects of this factor in the first place. Analyses concerning the possibility of communing for village inhabitants and the probability of getting a job indicate that primarily for men, the possibility of commuting depends to a large extent on the school qualification of the person concerned. The higher the school qualification of the job-seeker, the more likely he will be able to find a job outside the given settlement by being able to assume the costs of daily commuting, as those with higher qualifications are able to pay the transport costs entailed by commuting out of their higher wages. While the same differences in transport costs may have a negligible effect on the placement possibilities of those with higher qualifications, their amount has a great impact on the probability of placement of unskilled employees. Transport costs generate a 35-50% difference in the placement possibilities of unemployed persons with low qualification.

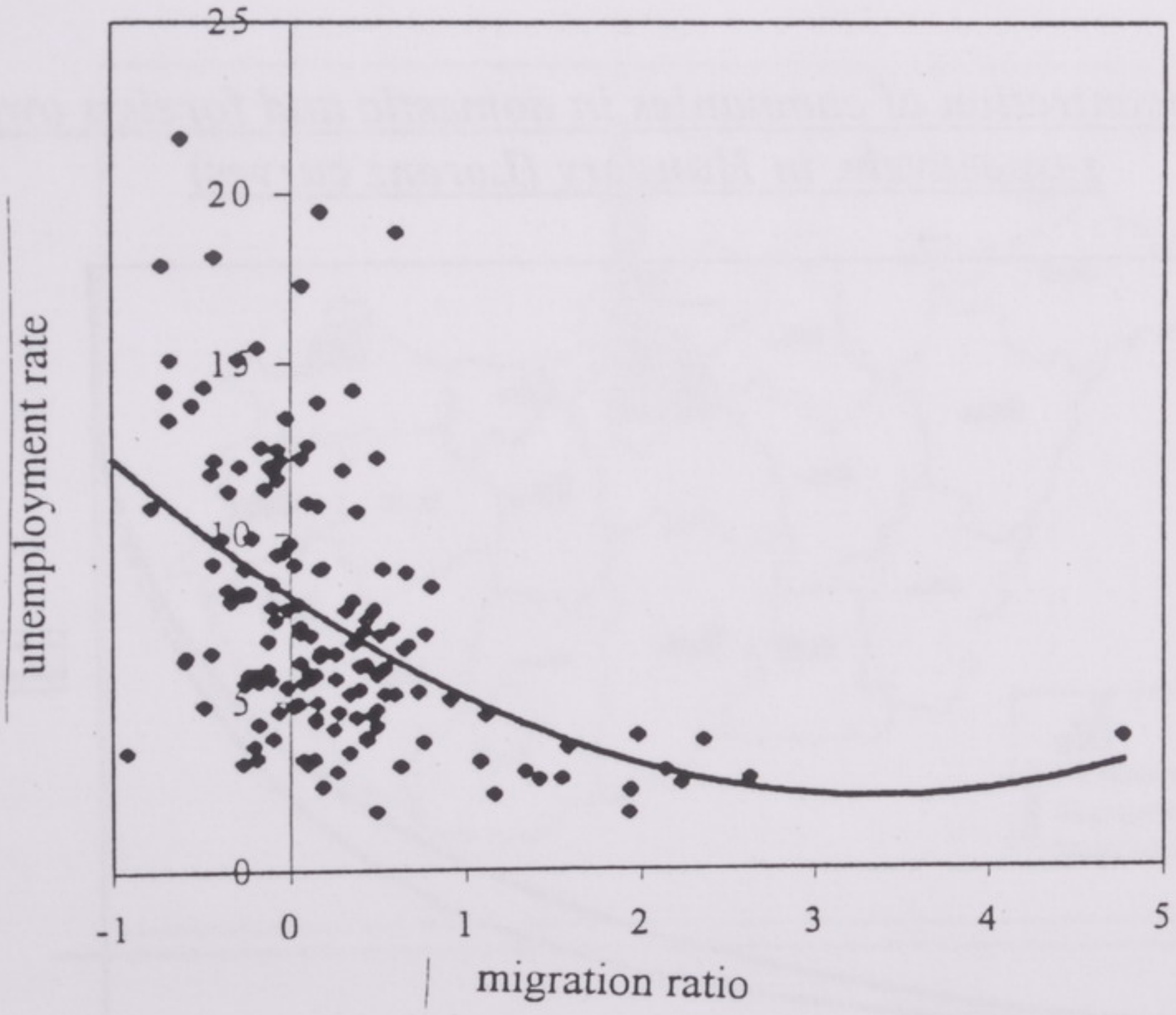
6.3.2 Internal migration

The increasing regional differences in unemployment and the chances of finding a job are related to the development of the migration balances of regions (see Figure 17.). Thus, at least in theory, the mobility of the labour force must have played an important role in the labour market adaptation processes related to the transformation crisis. Considering that, in the case of Hungary, the increasing regional differences in unemployment were coupled with the increase of regional differences in wages, it could be expected that internal migration would increase in the years following the system change. Unfortunately, this increase has not taken place. Similarly to other East and Central European countries, the intensity of migration flows remained at a very low level. Although there were migration losses in the regions with high unemployment rates, while migration gains have been accumulated in low unemployment regions over recent years, the extent of

this effect is not significant and it has shown no sign of intensifying over the years; even a significantly higher migration intensity compared to the existing one would not have a significant impact on the regional differences of unemployment rates in the coming years. The low migration intensity that may be observed in the East and Central European countries may be attributed to a number of reasons: the condition of the housing market, the absence of housing for rent, the significant regional differences between the qualification characteristics of labour demand and supply. The common characteristic of these reasons is that they will modify significantly only in the longer run.

Figure 17.

Correlation of regional unemployment rates and net migration ratios, 2000



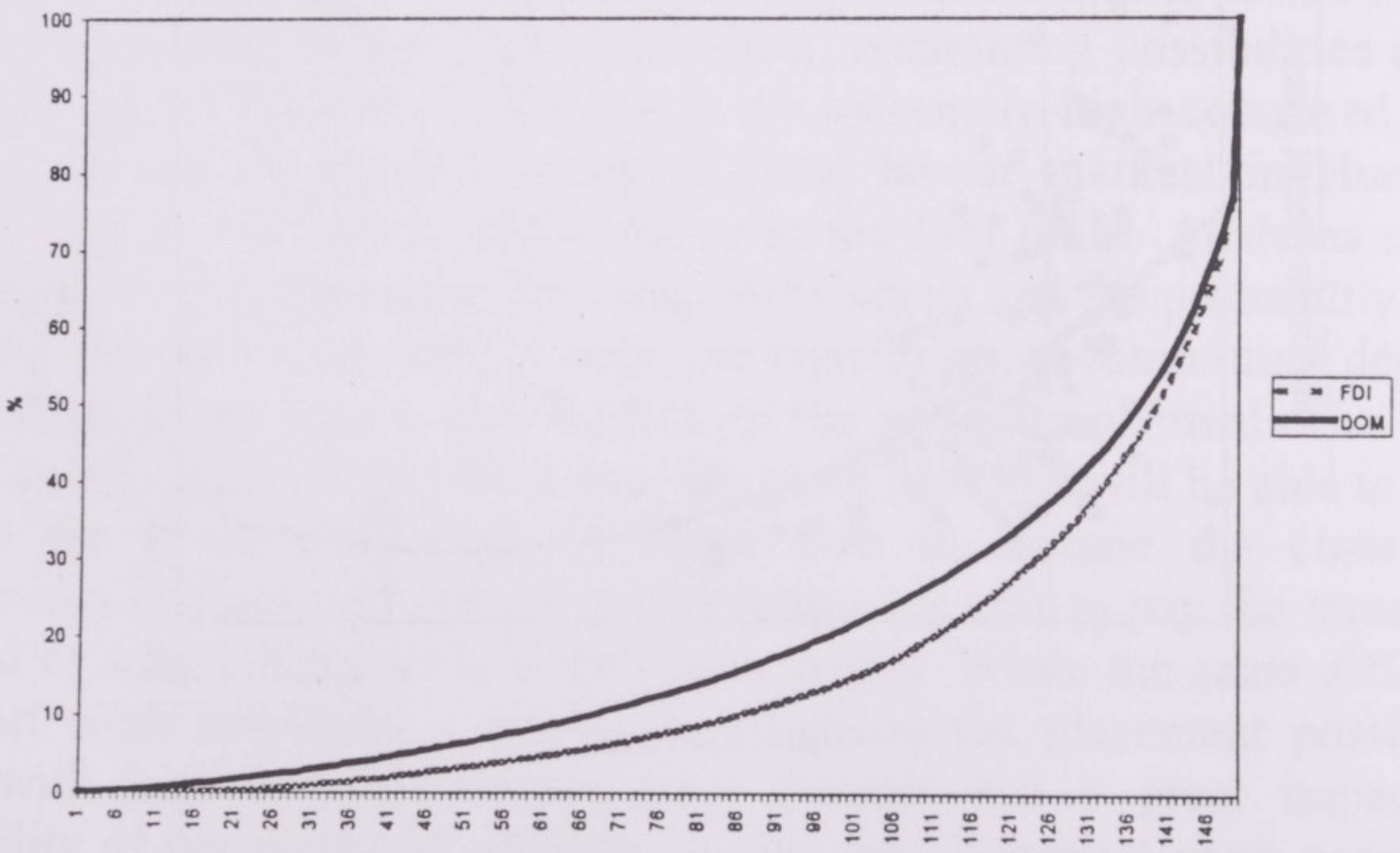
5.3.3 *Promotion of local employment – the effect of the FDI influx on local labour markets*

The preferences of investors concerning the selection of a business site have changed significantly over the years following the change of the economic and political system of Hungary. Data on job creation, the launching of small enterprises and the flow of domestic and foreign direct investments indicate the significant increase instead of decrease of regional disparities expressed in terms of enterprise density and capital supply indicators. Despite considerable regional differences in wage costs, investments have not shifted towards the underdeveloped regions. In this respect, the development of the regional distribution of foreign direct investments is extremely important. Several empirical analyses have confirmed that FDI in successful regions played a dominant role in putting the Hungarian economy on a path to growth. The

dominant role of foreign working capital in the restructuring of the local economy is obvious, as modern technologies and work organisation methods flow into the region this way. The given region is more closely integrated into global economy through enterprises in foreign ownership, and Hungarian enterprises that established relations with companies in foreign ownership acquired not only markets, but the knowledge required for their own development as well. As far as the employment effects of foreign direct investments are concerned, in recent years, the number of employed persons increased exclusively among companies in foreign ownership in Hungary. According to the employment data of the local labour markets, the high proportion of employment by entities in foreign ownership is usually coupled with a high employment and low unemployment rate in the given region.

Figure 18.

Regional concentration of companies in domestic and foreign ownership, respectively, in Hungary (Lorenz curves)



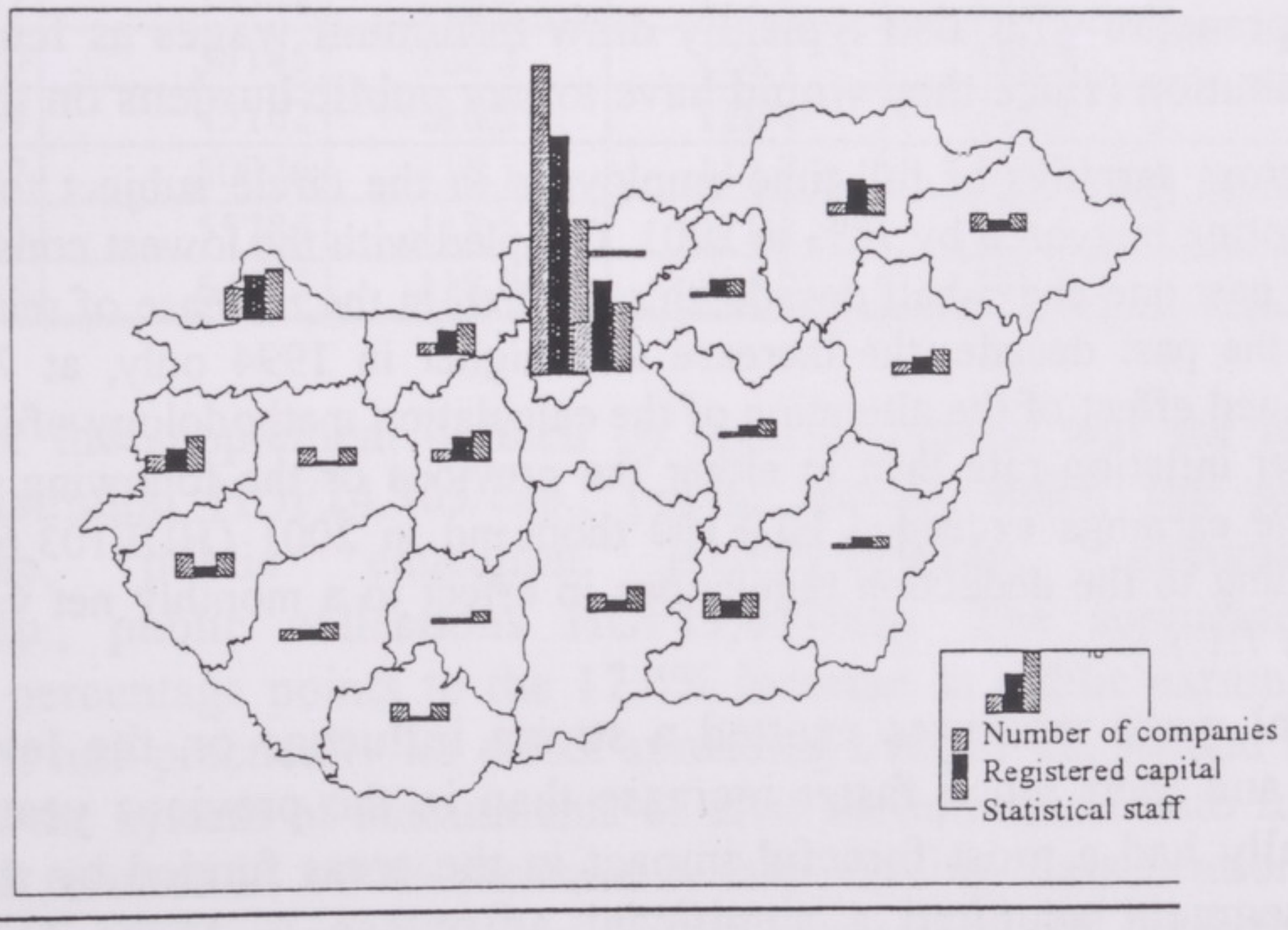
Source: HAS-IE, Regional database

The volume of companies, employed persons and capital invested show an extremely high level of regional concentration in Hungary. In this respect, there is no significant difference between companies in Hungarian and in foreign ownership, although the regional concentration of companies in foreign ownership exceeds the concentration of domestic companies (cf. Figure 18.) The question is to what extent the preferences of foreign investors in selecting their sites differ from those of Hungarian enterprises, and whether they have changed over recent years. The relevant analyses show that the regions boasting a labour force with higher-than-average qualifications and are closer to the western border have attracted more foreign capital and have higher employment proportions by foreign ownership companies than other regions. The urbanised regions closest to the Austrian border where skilled labour is available in relative abundance to enterprises are in the best position. Budapest and the agglomeration around the

city offer the most favourable conditions for foreign direct investments. Not only does the region have skilled labour, but also important external characteristics for investors: direct access to financial and political decision-makers, rich cultural life, favourable conditions for the flow of knowledge and know-how between companies. The latter factors are closely related to the density of enterprises and the co-operation relationships that evolved between universities, higher education institutions, research institutes and companies. Figure 22 demonstrates well the outstanding role of the Budapest agglomeration in the regional distribution of the influx of foreign working capital.

Figure 19.

Regional distribution of foreign-owned companies, 2000



The change in the proportion of employment by entities in foreign ownership is not closely related to the change in regional unemployment rates. Areas with low unemployment rates have attracted foreign working capital well over the average in recent years, but there is no significant relationship between the proportion of employment by entities in foreign ownership and the change in the unemployment rate. This may be explained primarily by the high proportion of corporate acquisitions compared to greenfield investments, and partly by the high productivity of companies in foreign ownership compared to Hungarian enterprises and the much greater proportion of those using capital-intensive technologies. The weak relationship between FDI and unemployment rates may also be explained by the fact that companies in foreign ownership utilise primarily the labour force already employed.

7. *DEVELOPMENT OF EARNINGS AND LABOUR INCOMES IN 2001*[*]

Labour statistics traditionally investigate the development of earnings in the so-called "stable" circle, including, currently, of enterprises with 5 or more staff and the entire public sector. In 2001, the entities concerned employed 2,559 thousand full-time workers, approximately the same number as one year earlier. Some 161.4 thousand of the remaining 1.2 million in the above circle of data suppliers were not employed on a full-time basis, while the rest consisted of entrepreneurs in sole proprietorships or partnerships and employees of companies with less than 5 staff in roughly identical proportions (50–50%). As minimum wage earners are over-represented among those employed by small companies, the significant increase in minimum wages in 2001, to be discussed in detail below, resulted in a substantial virtual earnings increase in their case, too, similarly to entrepreneurs who also typically draw minimum wages as fee for their personal contribution (since they would have to pay public burdens on these anyway).

The gross earnings of full-time employees in the circle subject to earnings statistical monitoring increased by 18% in 2001. Coupled with the lowest consumer price increase of the past one-and-a-half decade, this resulted in the increase of real earnings by 6.4%. Over the past decade, the increase was higher in 1994 only, at 7.2%, reflecting the combined effect of the alteration of the calculation methodology of income taxation and a lower inflation rate than in either the previous or the following years. Hence gross average earnings exceeded HUF100 thousand in 2001 (HUF103,600), corresponding according to the deduction regulations in effect to a monthly net value of HUF64,900 (Table 7.1.).

Central wage measures exerted a strong influence on the level of earnings in 2001 and their much faster increase than in the previous year, and since these naturally had a most forceful impact in the areas funded by the central budget, this segment acquired a significant advantage in terms of earnings growth compared to the business sector. In the latter, gross earnings increased at the annual level by 16.3%, as opposed to the 22.4% rate typical of public institutions. The gross annual average earnings of public-sector employees already exceeded, albeit slightly, the corresponding value typical of the competitive sector, although no similar levelling has occurred at the level of the basic skills groups (manual vs. non-manual) as yet.

The development of public sector earnings was influenced to a larger extent by one-off earnings supplements granted to employees in several special branches in the second quarter of the year in order to correct the difference in the paces of earnings growth in the previous year.

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[*] **Author of this chapter: Judit Lakatos, CSO**

Table 7.1.

Development of gross, net and real earnings

Year	Gross earnings (HUF/cap./month)	Net earnings (HUF/cap./month)	Gross earnings index previous year = 100.0%	Net earnings index previous year = 100.0%	Consumer price index previous year = 100.0%	Real earnings %
1989	10571	8165	117.9	116.9	117.0	99.9
1990	13446	10108	128.6	121.6	128.9	94.3
1991	17934	12948	130.0	125.5	135.0	93.0
1992	22294	15628	125.1	121.3	123.0	98.6
1993	27173	18397	121.9	117.7	122.5	96.1
1994	33939	23424	124.9	127.3	118.8	107.2
1995	38900	25891	116.8	112.6	128.2	87.8
1996	46837	30544	120.4	117.4	123.6	95.0
1997	57270	38145	122.3	124.1	118.3	104.9
1998	67764	45162	118.3	118.4	114.3	103.6
1999	77187	50076	116.1	112.7	110.0	102.5
2000	87645	55785	113.5	111.4	109.8	101.5
2001	103558	64915	118.0	116.2	109.1	106.4

The amount of the supplement defined by legal regulation was the following: public administration HUF24,303/cap., public security/order, fire protection: HUF12,893/cap, public education HUF23,869/cap., cultural areas HUF27,996/cap., public collections HUF19,617/cap. The supplement itself contributed 2 percentage points to the 17.4% increase in public earnings in the first half, but it had practically no effect spreading over to the second half. The amendment of the system of emoluments of civil servants came into force on 1 July 2001, and resulted in a 50% increase in their earning classification system, extending to the introduction/increase of certain bonuses as well (as in the case of the foreign language skill supplement). This being a retrospective measure, its income-raising effect manifested itself from September on, but quite forcefully at that time. The tariff system was corrected in the second half of the year in education as well, and this, too, was conducive to the increase of average earnings. In addition, several other job groups were also subject to wage policy measures that were significant from the point of view of the given group, but not of a decisive weight at the level of the entire budget. (One of the most important among these was the measure applying to the around 7,500 firemen, relating to the payment of overtime payment arrears accumulated over several years on court order, but the effect of this measure was not taken into account, for methodological reasons, in the calculation of the rate of earnings growth.)

While the development of earnings of public sector employees is influenced by a multitude of central measures, in the business sector, only two measures play a direct role (these are general measures exerting a similar influence on the development of public sector earnings as well). One is the amendment of the tax and contribution system, influencing the relationship between gross and net earnings. No change of merit occurred in this respect in 2001, but the growth rate of net earnings in 2002 will be influenced by this factor. The other is the

minimum wage level. In 2001, the minimum wage was raised from HUF25,500 to HUF40,000, and this exerted an influence of merit on earnings growth in traditional low-pay areas (e.g., agriculture, manual workers in the social sector, workers with low qualification in trade, catering or construction where registration at minimum wages was frequent).

The developments outlined above are obviously mirrored in the branch-specific differences of the development of earnings, more significant in 2001 than previously. The highest rates of gross earnings growth, of 26.3%, were attained in the branches of public administration, mandatory social security, decisively due to the alteration of the remuneration system of civil servants and the payment of 13th month wages in December, on a compulsory basis as of 1 July 2002 (as a result, most public institutions paid 13th month wages on two occasions in 2001). The second was construction with a rate of 24.1%, where earnings increased in manual jobs due to higher performance (the construction boom was coupled in January and February 2001 by extremely mild weather allowing outdoor construction activities, too), and the whitening of part of the remuneration owing to the increase in minimum wages, and in the non-manual ones owing to performance growth and participation in the favourable results. Another four branches produced earnings growth in excess of 20%. In accommodation and catering and in agriculture, forestry and fishing, the relatively high increase was generated by the increase in minimum wages, due to the high proportion of low-pay manual jobs, and in education it was due to the amendment of the wage classification system in September. (In education, the rate of earnings growth of the two main skills groups lagged somewhat behind the 20% rate, but the increase in the proportion of jobs requiring higher qualification raised it above that level.) Earnings grew to a relatively small extent in most areas of the manufacturing industry (with the exception of the textiles industry and such, where the increase in minimum wages had a substantial effect), in the supply of electricity, gas, steam and water, and in financial intermediation, that is, the branches and sectors where the development of earnings was shaped typically by market factors alone.

Table 7.2.

Gross average earnings of full-time employees, January to December 2001

Economic sector/branch	Manual jobs		Non-manual jobs		Employees, total	
	HUF/month	year-earlier =100.0	HUF/month	year-earlier =100.0	HUF/month	year-earlier =100.0
Agriculture, forestry, fishing	61 628	122.6	108 439	117.8	72 112	121.7
Mining	105 444	112.4	208 977	112.2	127 268	112.7
Manufacture	79 709	114.5	183 122	115.6	101 137	114.8
of which:						
foodstuffs, beverages, tobacco	73 014	114.4	184 439	115.7	97 836	115.1
textiles text. prod. leather, footwear	55 599	118.1	117 595	114.4	62 573	117.1
wood-processing, paper, printing	73 309	116.4	140 042	119.0	92 656	115.9
Chemical industry	104 810	114.7	235 267	114.5	146 530	113.8
Other non-metallic mineral prod.	88 453	114.9	177 046	111.2	106 398	113.9
Basic and fabricated metals	83 184	111.9	160 918	112.6	98 012	111.7
Engineering	89 741	112.0	199 177	115.8	111 521	113.8
Manufacture n.e.c.	59 885	119.6	121 883	111.6	70 112	117.6
Electricity, gas, steam, water sup.	107 765	113.7	187 627	111.7	135 660	113.5
Industry	81 840	114.1	183 900	115.0	104 195	114.4
Construction	60 899	119.4	138 938	127.4	79 750	124.1
Trade, repair	57 977	123.1	139 124	112.9	90 596	116.5
Accommodation, catering	52 902	122.5	112 125	115.4	68 125	120.4
Transport, storage, post, telecom.	83 996	115.1	158 002	115.6	114 445	115.8
Finance	91 678	114.5	218 802	113.9	215 971	114.0
Real estate, business support	63 414	120.3	170 435	119.8	121 821	120.6
Public administration, mandatory social security	78 548	124.8	165 102	126.3	131 724	126.3
Education	53 943	119.5	105 549	119.9	97 647	120.2
Health and social care	57 046	116.3	88 341	114.8	78 851	115.3
of which:						
human health care activities	59 690	116.6	94 184	115.8	84 779	116.2
social work activities	52 631	115.8	73 044	112.2	65 493	113.7
Other communal, personal services	64 618	118.9	123 178	113.0	91 680	114.9
National economy, total	**72 621**	**117.2**	**143 754**	**117.9**	**103 558**	**118.0**
of which:						
Business sector, total	**73 727**	**116.4**	**164 215**	**115.4**	**102 839**	**116.3**
Public sector, total	**67 515**	**122.3**	**122 388**	**121.9**	**105 944**	**122.4**

The branch-specific gross earnings of manual workers show a smaller scatter than those of non-manual workers, although it is possible to trace similar developments in terms of the qualification levels, nature of jobs and

proportion of women in this job group as well. The branches representing the two extremes in terms of earnings of manual workers are accommodation and catering (HUF52,900) and electricity, gas, steam and water supply (HUF107,800), showing a more than two-fold difference in gross nominal earnings. In 2001, the gross earnings of non-manual workers was nearly twice that of manual ones, signifying a smaller, 1.8-fold, net difference due to the highly progressive tax rates and rate limits deviating from earnings (income) growth. As before, non-manual workers in finance could expect the highest earnings (in 2001, the average was HUF218,800), while health and social care employing a significant number of degree-holders and a nursing staff typically with secondary level qualification and working in shifts still ranked last with HUF88,300.

The development of earnings in 2001 was much more balanced in the business than in the public sector. In the first, the highest growth rate was 20% (January) and the lowest 12.3% (December). The same two months represented the two extremes in nominal terms as well: the business sector produced gross average earnings of HUF92,800 in January and HUF122,600 in December, following more or less even growth. The public sector produced the lowest growth rate in January, at 7.7%, and the highest in October and November (at 33.8% and 34.1%, respectively), while gross nominal earnings were lowest in February at HUF86,700 (The HUF98,400 in January included at part of the institutions concerned the 13th month pay as well), while in December, gross earnings were raised to around HUF170,000 by the mandatory payment of 13th month wages and the usual conversion of wage savings into bonuses at the end of the year.

There exists no uniformly accepted evaluation for the labour market effects of one of the decisive earnings-shaping factors in 2001, the increase in minimum wages. What we know for certain is that it narrowed the elbow room of companies in terms of wage policy considerably, having led to "wage jams" in many respects. It is likely that the standstill of employment expansion in 2001 was due, albeit not decisively, to the labour-cost-increasing effect of the increased minimum wages. Also in relation with the increase in minimum wages, the dynamic of earnings growth by organisation size showed very special development: earnings grew fastest, well in excess of the average, in the smallest category subject to monitoring, that of companies with 5–9 staff and, what was even more unusual, the increase was smallest, hardly more than one third of that in the previous circle, at large companies (with a 1000 staff or more) employing more than half a million people. Hence the 2.3-fold difference between the two extreme size categories reduced to a 1.9-fold difference.

Table 7.3.

Development of staff number and earnings by staff category

Staff category	No. of active business org. 31.12.2001.	Employed, total '000	Year-earlier =100.0 %	Gross average earnings HUF/cap.	Year-earlier =100.0 %	Net average earnings HUF/cap.	Year-Earlier= 100.0 %
5– 9	33386	180.7	104.1	65708	132.8	44658	129.7
10– 19	18490	191.9	104.9	70684	119.4	47388	118.5
20– 49	12972	250.7	101.9	84785	118.5	55019	117.2
50– 99	5477	213.1	103.5	100744	118.7	63504	116.8
100–199	2244	216.9	103.7	110873	117.7	68898	115.6
200–249	422	69.9	98.6	113277	121.3	70054	118.7
250–299	290	60.9	90.8	113169	119.1	70004	117.0
300–499	508	275.1	97.3	131537	119.9	79394	117.4
500–999	392	215.9	95.5	121641	117.2	74470	115.3
1.000 or more	241	532.0	103.1	127788	113.6	77483	112.4

Another interesting development is the narrowing of the gender gap in earnings. This, too, was essentially due to the much higher proportion of persons with low earnings affected by the increase in minimum wages among women than among men.

The source of more detailed earnings structure data is the individual earnings survey of the Employment Office. According to its findings for 2001 (based on the collection of May earnings data typical for the year), the earnings advantage of those with the highest (university) qualification compared to those with the lowest qualifications was 3.5-fold, 0.3 less than in 2000. The difference was 3.2-fold for women filling proportionally less managerial jobs and more than 3.5-fold for men. The effect of age on the development of earnings increased in direct proportion with the increase in qualification level.

Table 7.4.

Gross average earnings by age group and educational attainment, 2001

HUF/cap.

Education	15-19	20-24	25-34	35-44	45-54	55 +	**Total**
Men							
Max. 8-year primary school	57231	64866	73514	72795	76659	71368	**73015**
Vocational + spec. voc. school	57668	71083	82584	84402	87938	86971	**83652**
Voc. secondary school	62133	80862	108209	113474	117466	119713	**109613**
General secondary school	69818	81852	108386	110004	116790	120533	**110264**
Technical school	42797	90019	121900	132391	143656	146086	**134012**
College	-	112758	192448	193724	195013	194034	**189909**
University		130302	233608	268243	272545	262013	**258115**
Total	57819	76566	109358	116356	122376	138325	**115044**
Women							
Max. 8-year primary school	53783	59937	63088	59848	61788	56468	**60809**
Vocational + spec. voc. school	53519	60304	64331	66018	69904	72756	**66174**
Voc. secondary school	61323	71360	87032	89502	101333	111300	**90837**
General secondary school	55841	70486	90940	84731	98759	106225	**91979**
Technical school	..	71502	102142	108909	119398	127662	**113514**
College	..	78366	118384	110831	132995	133806	**118713**
University		89856	173593	196502	206867	205435	**192272**
Total	54644	68538	91386	89477	97319	108677	**92034**
Aggregate							
Max. 8-year primary school	55671	62784	69155	64904	66826	64252	**66126**
Vocational + spec. voc. school	56030	67313	77623	78488	82404	84672	**78462**
Voc. secondary school	61648	74904	96638	99042	107242	115914	**98512**
General secondary school	59087	73775	96959	91743	102630	111899	**97081**
Technical school	42797	84565	117372	125931	134330	141556	**127708**
College		87390	147684	135210	153537	162966	**143273**
University	..	106947	208026	236635	244022	245060	**231020**
Total	56408	72509	101515	102186	108607	127129	**103610**

Source: Employment Office, Individual earnings survey (May earnings typical of the year)

In recent years, beside the development of earnings, institutional statistics have monitored the development of the so-called other labour incomes as well. Within income associated with labour, in 2001, gross earnings carried a weight of 95.5%, and the other constituents of 4.5%. Within the latter, the constituent carrying the largest weight, a general one of identical value for years due to the unchanged nature of the relevant tax relief regulations, is the meal contribution (companies typically provide their workers vouchers worth HUF1,400/month exchangeable for foodstuffs and hence functioning, essentially, as money), while minor constituents include reimbursement of travel expenses, accounted costs of company vehicles, residential contribution and the like. The weight of contributions beyond earnings was higher than the above average in the branches of electricity, gas, steam and water supply and in transport, storage, post and telecommunications, but the difference, between a monthly HUF3 to 10 thousand in absolute value, was not substantial at the level of the national economy anyway.

Table 7.5.

Earnings and labour incomes in the economy*, January to December 2001

Sector, branch	Monthly average gross earnings HUF	Monthly average labour incomes *(Earnings by SNA concepts)*		% rate of earnings to labour incomes
		HUF	year-earlier =100.0	
Agriculture, forestry, fishing	**72 112**	74 831	121,7	96,4
of which:				
forestry	**86 436**	92 384	122,5	93,6
Mining	**127 268**	135 664	112,5	93,8
Manufacture	**101 137**	105 600	114,7	95,8
of which:				
foodstuffs, beverages, tobacco	**97 836**	101 864	114,9	96,0
textiles, text. prod, leather, footwear	**62 573**	66 135	117,8	94,6
wood-processing, paper, printing	**92 656**	95 486	115,2	97,0
Chemical industry	**146 530**	152 609	113,6	96,0
Other non-metallic mineral products	**106 398**	110 672	113,6	96,1
Basic and fabricated metals	**98 012**	102 302	112,4	95,8
Engineering	**111 521**	116 752	113,6	95,5
Manufacture n.e.c.	**70 112**	72 511	117,3	96,7
Electricity, gas, steam, water supply	**135 660**	145 795	114,1	93,0
Industry	**104 195**	109 159	114,4	95,5
Construction	**79 750**	83 351	125,0	95,7
Trade, repair	**90 596**	93 201	116,1	97,2
Accommodation, catering	**68 125**	70 460	120,2	96,7
Transport, storage, post, telecom.	**114 445**	123 263	115,9	92,8
Finance	**215 971**	224 895	113,4	96,0
Real estate, business support	**121 821**	124 886	119,5	97,5
Public adm, mandatory social security	**131 724**	140 494	127,2	93,8
Education	**97 647**	101 361	120,9	96,3
Health and social care	**78 851**	81 351	115,5	96,9
of which:				
human health care activities	**84 779**	87 238	116,3	97,2
social work activities	**65 493**	68 066	114,0	96,2
Other communal, personal services	**91 680**	95 117	114,6	96,4
National economy, total	**103 558**	**108 420**	**118,1**	**95,5**
of which:				
Business sector, total	**102 839**	**107 444**	**116,1**	**95,7**
Public sector, total	**105 944**	**111 452**	**123,1**	**95,1**

* Business enterprises with at least 5 staff, public institutions and designated non-profit organisations.

The significant increase in earnings having taken place in 2001 (and: decided for 2002) made labour much more expensive – a justified development, by the way. Its employment-expansion-curbing counter-effect may be offset by a reduction of tax burdens.

8. *SUPPLEMENTARY INCOME EARNING: REPORT BASED ON CSO'S WAY-OF-LIFE TIME BALANCE SURVEY*[*]

The Central Statistical Office has been preparing representative data surveys to investigate the conditions of living and time allocation of the population since 1963, at irregular intervals. The last survey of the series was carried out in the course of 1999/2000, over a period of 12 months, on a sample of 11,000 persons. The subjects, aged 15–84, had to fill in a time balance diary (an account of their daily activities in chronological order, indicating time span and other circumstances) each season, and a questionnaire relating to their person and household, of different contents on each occasion. The latter (1st personal questionnaire, in the third, spring, period of the survey) included a block of questions querying whether the respondent did any supplementary income (SI) earning activity during the year, and if so, what its major characteristics (nature of work, regularity, legal framework, etc.) were. The answers to these questions were related to the time allocation data, to investigate the frequency of SI earning activities, the weight of such working time at the level of the national economy, and its main distribution features, social basis and correlation with the conditions of living of the population concerned.

For the purpose of the analysis, we consider as registered SI earners persons declaring under the personal questionnaire to have performed such activity in the previous 12 months.

Hungarian time-balance analyses distinguish two major circles of labour activities: *earning/production activities* on the one hand, and extra work performed *exclusively for the purpose of personal/family subsistence*. The first category covers all activities generating income in cash or in kind to the agent performing it or to others, resulting in payment or something exchangeable to payment, or occasionally in an expenditure-saving product/service.

Within the earning/production activities, a strict line must be drawn between main jobs (primary employment) representing the basis of subsistence on the one hand, and *SI earning* and assistance-type work done to others for free (e.g., voluntary work for institutions) on the other. The proportion of own consumption, market sales, barter basis generation and products given away as gift, respectively, within the SI earning activities, especially those of an agricultural kind, is more difficult to define precisely. The essential thing here is the productive activity itself which provides extensive strata of the Hungarian population income in cash or in kind or a means to save expenditure to the present day, a circumstance supported by the fact that the activities assigned to this category absorb a significant amount of working time at the level of society overall.

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[*] **Author of the chapter: Béla Falussy, Statistical Chief Consultant of CSO**

It is equally uncertain to what extent assistance-type work done to others for free (according to the declaration of the respondents) includes hidden cash earnings or is performed, for expenditure saving considerations, for counter-services. The essential thing here, too, is that the work concerned generates an income to someone or else saves expenditures.

In what follows, we shall discuss the following aspects of the issues of SI earning:

1. Social basis of registered SI earners, their social distribution by economic activity and typical features of the work concerned (legal framework, employment contract, regularity, type of work).
2. Distribution within *society's one-month time basis* of earning activities overall of time spent on *main job, SI earning and assistance-type work*. Contributions to the aggregate time amount are broken down by work type, by the worker's gender and by economic activity category.
3. Specification of the contribution to the monthly working time of the *10% of the population (nearly 800 thousand people) having declared to have performed such activity during the year* based on their daily time-allocation data.
4. We shall investigate whether there is a difference and if so in what respect between persons *declaring SI earning* openly, mostly performing such work *independently,* to a large extent regularly, under a contract of some kind, *for money* on the one hand, and those doing such work on an assistance-type, casual basis at the most, not for money (implying mostly minor agricultural activities not regarded as SI earning) or *not involved in such work at all* on the other.
5. We shall try to identify the general personal, residential, household and financial characteristics of persons engaged in SI earning during the year by

⇒nature of economic activity (working-age earners, old-age pensioners (pensioners in employment included), and working-age persons with no labour income: unemployed persons, disability pensioners, persons on child-care fee, students),
⇒gender, and
⇒type of work (non-manual, industrial, service, agricultural).

8.1 SI earners

Within the time-balance survey sample representing the Hungarian population aged 15–84, some 800 thousand persons, nearly 10% of the total population (12% of active earners, 8% of old-age pensioners and nearly 15% of the unemployed and benefit recipients), declared to have performed some kind of SI earning activity in the 12 months preceding the date of the questionnaire. Within the survey sample, they are considered *the population having performed registered SI earning activity*, as opposed to those, impossible to define exactly, who must have performed, according to the evidence of the daily time balance, some sort of extra work as well (probably on a casual basis, not undertaken

independently and for money), which, however, they did not register as SI earning.

Table 8.1.

Number and distribution of declared SI earners by economic activity group, 1999/2000.

Economic activity	Population aged 15–84		Earned SI within 12 months		% rate to the population group
	'000	%	'000	%	
Working-age earner	3802.3	46.7	451.1	56.9	**11.9**
Pensioner*	2058.3	25.3	156.8	19.8	**7.6**
Other, having no main job	2274.7	28.0	185.4	23.3	**8.2**
of which:					
disability pensioner	542.0	6.7	54.8	6.9	**10.1**
on unemployment benefits, social aid	373.3	4.6	54.3	6.8	**14.5**
on child-care aid/fee, other dependent	503.5	6.2	40.6	5.1	**8.1**
student	855.9	10.5	35.7	4.5	**4.2**
Total	**8136.2**	**100.0**	**793.3**	**100.0**	9.7

* Old-age pensioners including employed pensioners

As can be seen, 57% of SI earners are working-age earners, 20% old-age pensioners and another 23% have no income originating from a main job.

Among the registered SI earners, the proportion of the following is higher than their proportion to the population overall:

⇒active earners (12% of all active earners), and
⇒unemployed persons (15% of all the unemployed),

while the proportion of the following is lower than their rate to the population overall:

⇒pensioners and child-care aid/fee recipients (at 8% in each case)
⇒students in regular (day-time) education (4% of all students).

According to the *data referring to the circumstances of work,* among the almost 800 thousand supplementing their income through work performed for others

⇒9% worked in entrepreneur status,
⇒21% worked by employment contract. 36% of them on a regular, permanent basis, 31% did seasonal and 33% casual work.

Presumably, second job holder entrepreneurs and persons working on a regular basis, by employment contract, appear in the Labour Force Survey as second job holders.

Table 8.2.

Certain features of the work done by SI earners by economic activity group

%

conomic activity group	Aggregate '000	legal form: entrepreneur	employment contract: all	*of which:* fixed-term	*of which:* indefinite term	frequency: regular permanent	frequency: seasonal	frequency: casual irregular
Vorking-age earner	**451.1**	11.3	23.5	11.9	11.6	35.4	28.9	35.7
ensioner*	**156.8**	9.8	24.0	12.3	11.7	46.1	31.8	22.1
ther non-earner	**185.4**	1.2	11.7	3.4	8.3	27.1	33.3	39.6
cluding:								
disability pensioner	**54.8**	1.7	11.2	5.5	5.8	32.4	30.3	37.2
on unempl.benefits	**54.3**	0.0	7.5	1.9	5.6	19.7	33.9	46.3
on child-care aid/fee,	**40.6**	1.2	6.0	1.4	4.6	32.7	37.8	29.5
household dependent	**35.7**	1.9	25.6	4.9	20.6	20.1	30.4	49.5
student								
otal		*8.6*	*20.8*	*10.0*	*10.9*	*35.6*	*30.5*	*33.9*
otal, '000 persons	**793.3**	**68.5**	**165.3**	**79.2**	**86.1**	**282.2**	**242.0**	**269.0**

* Old-age pensioners including employed pensioners.

Almost one quarter of SI earners of working age and in pensioner status had an employment contract of some kind; more than one third of those of working age and half of pensioners worked on a regular, permanent basis. Nearly half of the unemployed engaged in casual, and one third in seasonal work.

The options available for earning a SI are influenced by several circumstances:

⇒ most opportunities for work – for remuneration, for the market – are generated by unsatisfied local demand (services);
⇒ special skills may also be in demand (non-manual work),
⇒ certain areas may show occasional or seasonal labour shortage (construction, agriculture).

The number of unknown factors is highest in the area of agricultural work affecting the largest number of people. There is no doubt as to the important income-supplementing and income-loss-saving role of extra work in the context of the fast decrease of the population employed in agriculture, the change in their status from unskilled industrial worker to unemployed person/pensioner. However, it is difficult to assess in what proportion the result of such work can be exchanged for money or used directly. Often the farmer himself does not know until the very end whether he will be able to produce a surplus to be sold on the market and whether the given product will cover the relevant demand of the household or make market purchases necessary. It is also difficult to find out and measure whether the activity produced a profit after the deduction of the expenses. Anyway, SI earned in agriculture is obviously the most labour-intensive activity associated with the least profit, highly dependent on the size of the farm and the professional skills of the farmer.

The population of SI earners represent a constant and flexible reserve pool of the first economy. Chronologically, its weight has increased significantly with the decrease in the real value of earnings (1986); in the period of the transformation crisis following the political change of regime, the number of the employed dropped radically and the demand for income-supplementing activities also shrank (1993); finally, with the increase in employment once again and the appreciation of primary employment, as well as the increase in the real value of earnings, by 2000, the role of a SI earning had reduced even further (see Figure 20.).

Considering the situation in 2000 (Figure 21.), while within the population of the employed the rate of services workers is the highest (60%), among SI earners, the corresponding rate is the lowest (15%). In the area of services, work performed in primary employment (and income available for that purpose) leaves little ground for service activities purchased individually. On the other hand, the contraction of the share of main job holder agricultural workers due to the structural transformation of the economy and the relatively small change in the labour demand of traditional activities in that domain mostly requires the contribution of helpers, whose proportion is the highest (43%) among SI earners. Small producers, too, are in need of such help, although a major part among them saves considerable expenses by producing for the household, the large family, occasionally exchanging products with acquaintances.

Figure 20.

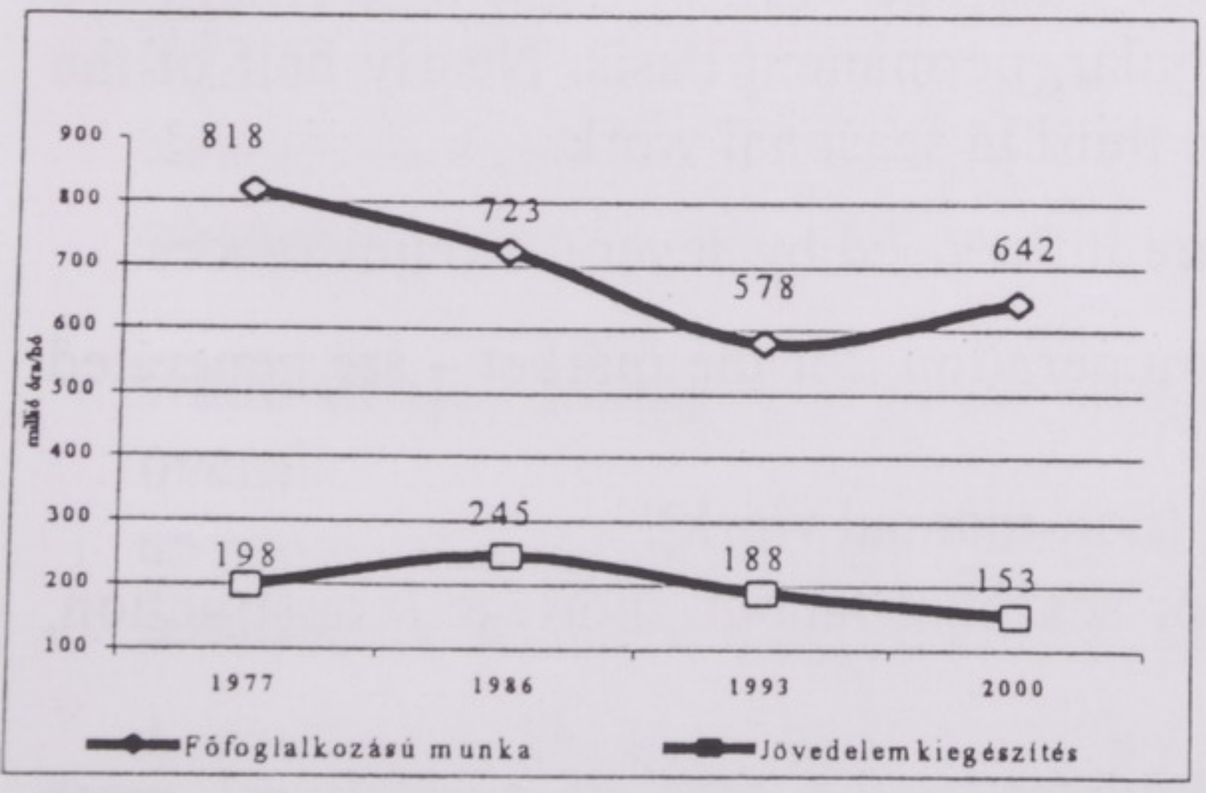


Figure 21.

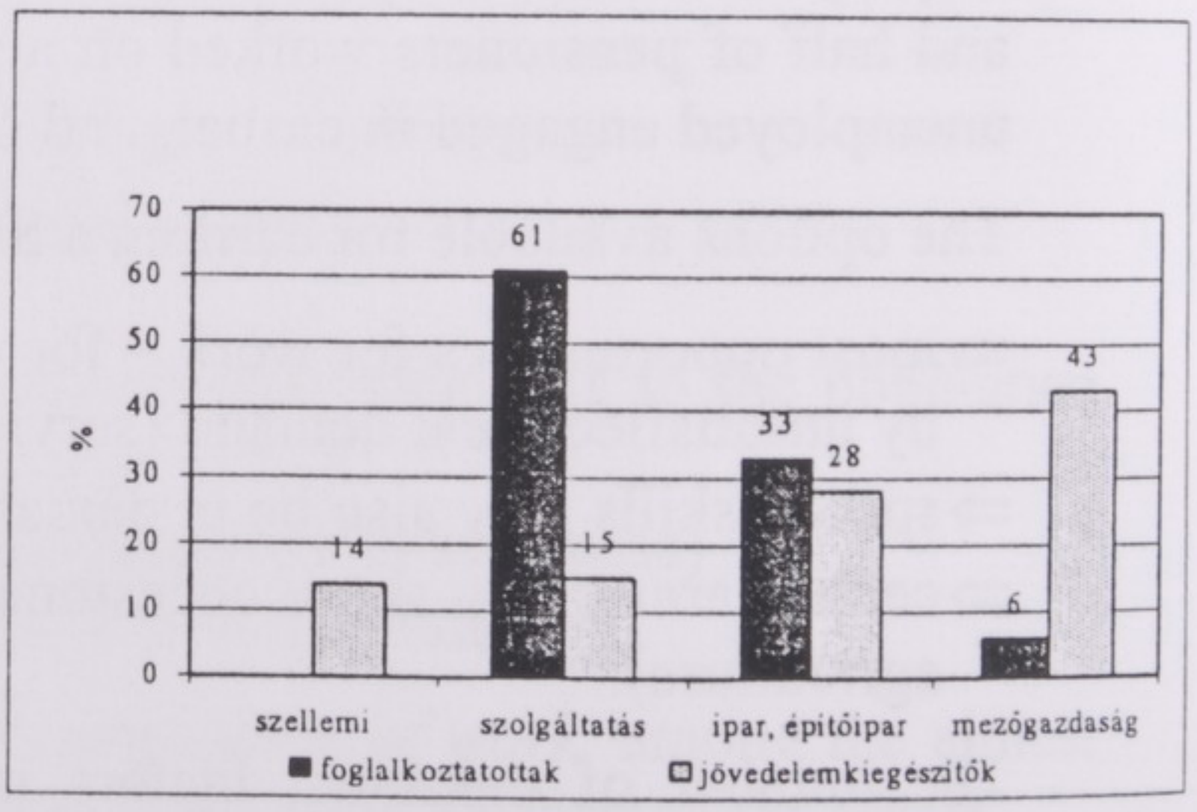


Figure 20. Structural change of the monthly earning/production activity of the 18-69 million hours/month --○-- main job --□-- extra work

Figure 21. Distribution of the employed by branches of economy and type of extra work
1.bar.non-manual 2. services 3. industry.constr. 4. agriculture ◙ employed ◘ SI earners

The distribution of SI earners by non-manual, industrial or agricultural work shows *substantial differences also according to the conditions of work* – its legal framework, regularity and contractual background.

Number and distribution of SI earners by features of the work, 1999/2000

Type of the SI earner's work based on the Personal Questionnaire	Total		Legal framework	Employment contract (%)			Frequency (%)		
			entrepr.	all	*of which:*		regular permanent	seasonal	casual irregular
	'000	%	(%)		fixed-term	indefinite term			
1. Non-manual	**112.5**	**14.2**	**16.7**	**54.4**	**23.4**	**31.0**	**51.9**	**6.9**	**41.2**
Qualified	**78.3**	9.9	20.7	51.1	22.6	28.5	53.2	8.0	38.8
Other (e.g., typing)	**34.2**	4.3	7.6	62.0	25.4	36.6	48.8	4.4	46.7
2. Service	**118.8**	**15.0**	**19.1**	**30.4**	**15.8**	**14.6**	**50.5**	**10.3**	**39.1**
Service	**86.0**	10.8	24.5	27.4	15.7	11.8	52.0	11.6	36.4
Household, family care	**32.8**	4.1	4.8	38.0	16.0	22.0	46.6	7.1	46.3
1. Industry, constr. household industy	**222.8**	**28.1**	**7.6**	**26.1**	**13.1**	**13.1**	**23.6**	**17.0**	**59.4**
Industrial skilled work, household ind.	**92.5**	11.7	12.0	26.5	15.6	10.9	21.6	9.4	69.0
construction work	**38.0**	4.8	4.2	9.0	0	9.0	10.1	27.4	62.6
Other	**50.5**	6.4	8.3	36.5	13.7	22.9	37.0	17.3	45.7
Other (semi-skilled)	**41.8**	5.3	0	28.3	18.5	9.8	24.2	24.1	51.7
4. Agriculture	**338.0**	**42.6**	**3.0**	**2.9**	**1.5**	**1.4**	**32.9**	**54.4**	**12.6**
Total	**793.3**	**100.0**	**8.6**	**20.9**	**10.0**	**10.9**	**35.6**	**30.5**	**33.9**

⇒ The majority of non-manual workers (two-third) are qualified persons, in a position to supplement their earnings/pension by profitable activities. Such activities represent the highest proportion of work performed by employment contract (54%), on a permanent, regular basis (52%). The proportion of non-manual activities performed in the framework of an enterprise is also relatively high (17%).

⇒ The activity of service providers is also relatively highly regulated: 20% are second job holder entrepreneurs, 30% have an employment contract, 50% work on a regular and permanent basis.

⇒ Entrepreneurs represent 8% only of skilled or semi-skilled workers in industry and construction, 26% among them have an employment contract and the majority work on a temporary, irregular basis.

⇒ SI earners in agriculture include a minimum proportion of entrepreneurs and contracted workers (3–3%), one third work on a regular basis and 54% do seasonal work.

8.2 Weight and composition of SI earning in the economy

The 10% rate of self-declared SI earners is significantly smaller than could be expected on the basis of the daily time-balance data. They are the persons interpreting income and pecuniary income, playing an important role among the sources of subsistence: the engage in work themselves, independently, watch out for the opportunities and take them into account consciously. Beyond this narrower circle, there is a much larger one of persons who, according to the time-balance data, grasp ad hoc, casual opportunities, not necessarily on an independent basis, or – especially in agriculture – are remunerated in kind only, or their income earned this way was not substantial. The latter do not rank themselves among the SI earners, but their monthly aggregate working time allocated for this purpose is highly significant given the high number of people involved.

The aggregate amount of time spent on earning/production activities in the economy overall depends both on time allocated per person over the given period and on the relevant headcount. In what follows, we shall call the attention to the distribution of working time spent on earning/production in an average month of the year by activity and by population group.

Within the monthly time basis (in an average month of the year) of the sample population, of the 767 million hours spent on earning/production activities, 72% originates from primary employment, 23% from SI earning and 4% from assistance-type work done for others for free.

⇒ Of the total amount of time spent on SI earning, 93% is spent in agriculture and only 7% elsewhere (non-manual, industrial, services activities).

⇒ Half of agricultural work involves plant cultivation.

⇒ More than two-third of assistance-type work done to others is household work and child care, and one third involves repair and maintenance or construction activities.

Table 8.4.

Distribution of earning/production activitiers within the average monthly time basis, 1999/2000

Activity	Population, total		SI earning in the course of the year	
			none	registered
	million h/month	%	%	
1. Earning/production activities, total million hours/month	**767.5**	**100.0**	**655.6**	**111.8**
of which:		100.0		
1.1 Primary employment, total	**554.9**	**72.3**	**73.9**	**63.1**
1.2 SI earning, total	178.5	23.3	21.7	32.6
1.3 Assistance-type work	33.0	4.3	4.4	3.9
SI earning total million hours/month	**178.5**	**100.0**	**142.0**	**36.5**
of which:				
1.2.1 Non-agricultural	13.1	7.3	5.7	14.2
1.2.2 Agricultural	165.3	92.6	94.3	86.3
1.2.2 Agricultural SI earning, total million hours/month	165.3	100.0	133.9	31.5
of which:				
- Animal farming	53.5	32.4	31.6	35.6
- Plant cultivation	83.3	50.4	51.3	46.7
- Preserv. foodstuffs, other work	28.4	17.2	17.2	17.5
1.3 Assistance-type work, total million hours/month	**33.0**	**100.0**	**28.6**	**4.4**
of which:				
- Renewal of building, construction		22.7	23.1	20.5
- Other repair, maintenance		8.2	7.3	11.4
- Household work		41.2	40.6	45.5
- Child-care		27.9	28.7	22.7

* Here and hereinafter, the analysed sample does not represent the entire population of the 15–84 year-old. The investigation covers the following three circles of the population and their aggregates:

a) Working-age earners (not including pensioners, persons on child-care aid and student in day-time education in employment; their living is based on what they earn in their main job),

b) working-age persons having no labour income (students, mothers on child-care aid/fee, , women in the household, benefit-recipients, disability pensioners, including those in employment belonging to the respective groups),

c) including beneficiaries of old-age pension beside employed pensioners.

The aggregate of categories b) and c) is labelled the "non-active".

The 10% registering SI earning contributes, within the monthly total,

⇒ 15% of working time spent on earning/production activities,
⇒ 13% of working time spent in main employment,
⇒ 20% of all working time allocated to SI earning,
⇒ within that, 40% of non-agricultural type SI earning activities,
⇒ 13% of assistance-type work,

⇒59% of persons supplementing their cash income by extra work are men and 41% among them are women,
⇒men contribute 69% of all working time spent on SI earning,
⇒76% of working time spent in animal husbandry.

Table 8.5.

Distribution of earning/production activities in the average monthly time basis of SI earners, its % rate by gender and economic activity group

Activity	**Total million hour/month =100%**	%			
		men	women	working-age earner	inactive
1. Earning/production	**111.8**	66.9	33.1	72.3	27.9
1.1 Primary employment, total	**70.6**	66.6	33.4	90.9	8.9
1.2 SI earning, total	**36.5**	69.0	31.0	38.9	61.1
1.2.1 Non-agricultural	**5.2**	65.4	34.6	59.6	38.5
1.2.2 Agricultural	**31.5**	69.5	30.5	34.9	64.4
- Animal farming	**11.2**	75.9	24.1	32.1	69.6
- Plant cultivation	**14.7**	67.3	32.7	36.7	62.6
- Preservation of foodstuffs, other work	**5.5**	61.8	38.2	38.2	61.8
1.3 Assistance-type work	**4.4**	54.5	45.5	47.7	52.3

Registered SI earners are distributed by economic activity as follows: 42% are pensioners or working-age non-earners, whose work represents

⇒61% of the total amount of time spent on SI earning,
⇒64% of agricultural work and 70% of animal farming within it.

Working-age earners perform 60% of non-agricultural activities, representing one fifth (22%) of their total SI earning time, while for the inactive, the corresponding rate is below 10%.

As for the composition of the sources of living, there are significant differences also in terms of the type of SI earning activity registered in the first place by various groups of the sample population.

Table 8.6.

Composition of earning/production activities in the average monthly time basis of SI earners by nature of the registered activity

Name of activity on the basis of the daily time balance	million hours/month				%			
	Non-manual	Industry constr. house-hold ind.	Services, house-hold	Agri-culture	Non-manual	Industry constr. house-hold ind.	Services, house-hold	Agricul-ture
1. Earning/production activity	14.7	31.0	14.9	51.1	100.0	100.0	100.0	100.0
1.1. Main job	12.1	22.2	11.1	25.1	82.3	71.6	74.5	49.1
1.2. SI earning	2.0	7.2	3.1	24.1	13.6	23.2	20.8	47.2
1.3. Assistance-type work	0.5	1.3	0.7	1.9	3.4	4.2	4.7	3.7
1.2. SI earning, total	2.0	7.2	3.1	24.1	100.0	100.0	100.0	100.0
1.2.1. Non-agricultural	1.4	1.9	1.3	0.4	73.7	26.4	41.9	1.7
1.2.2. Agricultural	0.5	5.3	1.8	23.7	26.3	73.6	58.1	98.3

⇒ The proportion of working time in primary employment is highest and that of agricultural-type working time is the lowest among those indicating non-manual work in the first position of SI earning activities. *That is, non-manual extra work is strongly related to active earner status, and it is also one of the most efficient types of SI earning activities.*

⇒ Persons having registered service-type activities spent one fifth of their total working time on SI earning, but 43% of that originated from non-agricultural work and the rest from agricultural-type work.

⇒ Persons having registered industrial/construction type activities already allocated nearly one fourth of their total working time spent on earning/production on SI earning, but according to the daily time-balance data, three-quarter of work performed this way is of an agricultural type.

⇒ Finally, the largest group, having indicated work in agriculture as primary source of SI earning *ab ovo*, has hardly any other opportunities: only half of their total working time is spent in primary employment, that is, a decisive proportion among them are pensioners of working-age non-earners (disabled or unemployed persons).

The lower the share of working time spent on the main job within the total working time allocated to earning/production, the higher the need for an extra income, and the higher this need, the greater the proportion of agricultural work demanding the highest investment in terms of money and time and generating the least profit.

Motives of SI earning: who will undertake what type of SI earning activity?

In order to identify the circumstances stimulating SI earning, its conditions and limits, we have investigated, on the one hand, the typical social and demographic features of the persons concerned and, on the other, the characteristic features of their place of residence, household, assets/income status, the distinctive features

of the various groups. A distinction was made among the latter by type of residential area (Budapest, city, village), and the seven regions.

In order to assess the financial/social status of respondents, we used the indicators provided by their answers to the questions "How do you manage on what you earn?", "Did you receive social support in the past 12 months?", "How many times did you go away on holidays in the past five years?", and the assets index generated on the basis of the supply of machinery and cultural appliances in the household.

The indicators in question were used to identify typical differences between SI earners and others, between SI earner men and women; working-age earners, pensioners and working-age inactive persons and, finally, those undertaking work of different types (non-manual, services, industrial, agricultural).

Suffice it to present some of the more outstanding differences here.

On the basis of individual features, in the group of registered SI earners as opposed to that of others, the proportion of men is higher (59% and 46%, respectively); the proportion of those aged 40–64 is higher (51% vs. 41%); in terms of family status and number of children, the difference is greatest between families with two or more children (26% vs. 18%); and while 59% of those doing extra work are active earners, 13% of unemployed and of benefit recipients, and also 13% of disability pensioners do some kind of extra work to supplement their income.

As for the distribution by place of residence between the groups of registered SI earners and others, village inhabitants represent 45% of the first and 36% of the latter; *among the regions,* the proportion of the inhabitants of the Southern Great Plain, the Northern Great Plain and of Northern Hungary is higher, and these three regions contribute 53% of those in the first and 39% of those in the second group.

It is indicative of the poverty-easing function of decisively agricultural type SI earning activities that in the regions where the rate of this population is high, other important economic and social indicators, too, witness an unfavourable situation. In the period under study, average earnings were the lowest in the Southern and Northern Great Plain regions, the unemployment rate was the highest and the per capita GDP the lowest on the Northern Great Plains and in Northern Hungary (see Table 8.7. below).

Table 8.7.

Regional indicators in decreasing order, 2000

Region	Value				Rank order			
	% rate of SI earners in the region	Net av. earnings, HUF/month	Rate of reg. unempl.	GDP (1999) 1000 HUF/cap.	SI earner	Net av. earnings	Rate of reg. unempl.	GDP (1999)
1. Central Hungary	6.9	68353	5.2	1710	1	1	4	1
-- *in which:* Budapest	6.6	72064	5.3	2159				
2. Central Transdan.	7.5	53586	4.8	1061	2	2	2	3
3. Western Transdan.	8.2	51840	4.2	1301	3	3	1	2
4. Southern Transdan.	9.0	47585	7.8	880	4	5	5	4
5. Northern Hungary	12.1	48051	10.1	751	6–5	4	7	6
6. Northern Great Plain	11.9	46348	9.2	726	5–6	7–6	6	7
7. Southern Great Plain	14.0	46469	5.1	843	7	6–7	3	5
National, total	**9.7**	**55634**	**6.4**	**1132**				

It is indicative of the role of unfavourable financial circumstances in undertaking extra work that the proportion of those receiving social aid under some title during the year was higher among SI earners (24%). (The corresponding rate was 18% for those earning no SI; and 21% and 14%, respectively, in the group of those of working-age, too.) Part of the population does not wait for social assistance to ease their needs, but take individual action to that effect. *Whenever SI earning is associated with benefits, its main objective is to ensure (minimum-level) daily subsistence.*

The high proportion of working-age earners and persons raising children among those engaging in extra work follows from the insufficient level of average earnings accessible by primary employment compared to the needs of the family. The working-age unemployed, benefit recipients, disability pensioners lost a previous higher earning with the termination of their earner status, and the resulting income loss – especially if the family includes a dependent child – stimulates SI earning.

Appropriate non-manual or manual skills give a better chance to engage in extra work, as indicated by the higher proportion of degree-holders and skilled workers among SI earners. Degree-holders are obviously motivated in part by the higher level of their demands.

The place of residence, the structure of the household and financial status play a decisive role in engagement in SI earning.

Within the population of pensioners, for example,

⇒ the proportion of those characterised by "bad" (33%) or "very bad" (21%) assets index is high and that of those having a "very good" index (11%) is low, and the proportion of those who have not been on holidays in the preceding five years is highest (79%) in this stratum.

⇒ Village-dwellers are most numerous among working-age non-earners (52%); and the rates of those with a "very bad" (28%) assets index, and those living "with great difficulties" (17%) and "difficulties" (32%) is the highest among

them, the same as the proportion of social aid recipients (37%), and 69% have not been on holidays in the preceding five years.

There is a significant difference in the distribution by personal traits of SI earner men and women.

Among working-age earners, SI earning is motivated primarily by the wish to provide for children as best one can, and the favourable composition of the population concerned in terms of schooling and vocational skills makes it suitable to undertake more profitable activities. (In terms of educational attainment, 43% of men have skilled worker qualification, 38% of women have GCSE; 18% of men and 26% of women have higher education qualification.)

Among those having no labour income, SI earning is motivated in the first place by the low level of pensions and the need to replace lost earnings. Given the generally lower educational qualification of members of this population, a major part has no other option but work in agriculture characterised by low profitability. (By educational attainment, most men have skilled worker qualification (36%), and most women eight-year primary education at most (58%). (The proportion of the latter among men is 38%.)

Place of residence, household structure and financial status indicators also show significant differences in the *circumstances motivating men and women to supplement their income*. Within the population concerned,

⇒the proportion of village dwellers is higher (49%) among men and that of urbanites is higher (60%) among women,

⇒more men live in households having three or more members (71%), and more women in households including one or two persons (42%),

⇒*In the case of male SI earners, the proportion of those living "relatively easily" is higher (13%) than the corresponding rate for women, whereas in the case of female SI earners, the proportion of those living in benefit-recipient households is higher (27%) than in the other category.*

8.3 Situation of SI earners by type of work

The distribution of men and women by personal characteristics is highly different in the four categories of registered work. Among those involved in registered SI earning,

⇒most working-age male earners do industrial/construction work (40%) and agricultural work (37%), but almost the same proportion undertake non-manual (28%) and agricultural activities (31%);

⇒the proportion of agricultural workers is lower and that of non-manual workers higher among earning men and women than in the non-active strata.

⇒The majority of men and women having no labour income tend to supplement their income by agricultural work in the first place (51% and 54%, respectively), while the second most frequent activity is industrial/construction industrial work for men (31%) and services for women (18%).

⇒The majority of *SI earners involved in non-manual work* do qualified work (almost all men and around two-third of registered active earner women do qualified work, and the corresponding rate is almost half also for women who are not active earners);

⇒46% of those registering non-manual work are younger than 40, and only 5% are aged 65 or more (for agricultural workers, the corresponding proportions are 32% and 15%, respectively.)

⇒72% of non-manual workers and only 49% of agricultural workers are working-age earners.

⇒The proportion of the unemployed and of pensioners excels at 34% and 25%, respectively, among those supplementing their income by *agricultural work.*

By educational qualification:

⇒61% of those registering non-manual work have higher education qualification (the majority, 36%, a university degree), the corresponding rate is 17% for those working in the services, 7% of those working in industry and 3% of those in agriculture. A major part of graduates doing extra work in industry and especially in the services have college degree.

⇒40% of SI earners in agriculture and 28% of those in industry and 24% of those in the services finished eight-year primary school or less;

⇒skilled worker qualifications predominate among those doing industrial activities (43%) and agricultural ones (37%).

Assuming that *the profitability of work undertaken to earn a SI depends, on the basis of the personal indicators, both on educational and vocational qualifications, economic activity and age, we arrive at the following rank order: non-manual, services, industrial and agricultural work.*

Adding the type-of-work criterion to the investigation of SI earners by place of residence, structure of the household, financial status reveals major differences. *In the rank order of non-manual, services, industrial and agricultural work, most of the investigated indicators decrease or increase consistently.* Accordingly, in this order,

⇒the proportion of those living in the capital is decreasing (non-manual: 37%; agricultural: 0%), and that of village-dwellers is increasing (11% — 71%);

⇒the proportion of workers from Central Hungary is decreasing (42% – 7%), and that of workers from the Northern and Southern Great Plain regions is increasing (7% –31%),

⇒the proportion of those living in one-member households is decreasing (16% – 8%) and that of those living in multi-member households is increasing,

⇒the proportion of those with a very good assets index is decreasing (51% – 18%), and that of those with a bad one (10% – 22%) is increasing,

⇒the proportion of those living relatively easily is decreasing (23% – 8%), and that of those living with difficulties is increasing (16% – 31%),

⇒the proportion of aid-recipients is increasing,

⇒ the proportion of those having had no holidays in at least three of the previous five years is decreasing (30% – 4%), and the proportion of those having had no holidays at all is increasing (28% – 73%).

⇒ Most people at the negative pole of the two financial status indicators are SI earners working in industry/construction, not in agriculture, including

⇒ 22% characterised by a very poor assets index,

⇒ 17% living with great difficulties.

Summary

The wish to attain higher consumption and living standards than those warranted by low wages is a minor motive of SI earning – the majority want to supplement or replace extremely low wages, pensions, social allowances in order to be able to maintain a decent poverty. The strongest and probably most widespread motive for SI earning is to earn a living for dependent children, and a major part of work by women is made necessary by the loss of earnings of men. In terms of the social basis and profitability of work performed to earn a SI, the greatest difference was found by type of work.

EXPLANATION OF TERMS

The Report uses the main terms of employment and unemployment as interpreted by the Labour Account and the Labour Force Survey of the Central Statistical Office, and those concerning registered unemployment according to that of the Employment Office.

Several terms are explained in detail upon their first occurrence in the main text.

In what follows, we shall provide a definition of the essential generally used terms.

CSO'S CONCEPTUAL FRAMEWORK

Labour Account terminology

The source of Labour Account data is the annual institutional labour statistical report covering undertakings with a staff of more than 5 and the whole circle of public and social security organisations, irrespective of staff size.

The Labour Account refers to the state on 1 January of the given year.

Labour supply: working-age population plus active earners over working age, and pensioners in employment and over working age.

Working-age population: Men: until 1999, ages 15–59, in 2000, ages 15–60, in 2001: ages 16–61. Women: until 1996, ages 15–54, in 1997–1999, ages 15–55, in 2000, ages 15–56, in 2001, ages 15–57.

Active earner: person pursuing earning activity, earning a salary/income, employed as main job holder by a partnership or sole proprietorship or other organisation, including pensioners in employment suspending pension and conscripts engaged in an employment relationship. Working members of collective partnerships, sole proprietors and their assisting family members, assisting family members in agriculture and casual and day workers also belong to this category.

Economically active population: aggregate of persons in employment and of the registered unemployed.

Person in employment (the employed): active earners and working pensioners. (Until 1997, Hungarian labour statistics included persons receiving child-care fee or aid among the employed.)

Economically inactive population: persons outside the economically active population, including persons on child-care aid/fee or receiving child-care assistance; pensioners/benefit recipients pursuing no earning activity; persons living on capital income (real estate or principal); students above the age of 15; household dependants; public dependants; persons under social care.

Labour Force Survey terminology

The representative Labour Force Survey carried out on a quarterly basis, conforming to the recommendations of the International Labour Office (ILO) covered approximately 28 thousand households until 1998 and 37 thousand households since 1998. In 2000, data were collected quarterly on 33 thousand households among these and the economic activity of 66 thousand persons aged 15–74. The survey refers to the week (Monday to Saturday) including the 12th day of the month.

The survey assigns the population investigated by it into two major categories on the basis of activity:

* economically active (the available labour supply) and
* economically inactive (the inactive).

The category of the economically active (available labour supply) includes all persons having appeared on the labour market as employed or unemployed in the week of the survey.

Employed : an employed person is someone having performed at least one hour if income-generating activity during the survey week, or having had a job from which he/she was temporarily absent (due to sickness, leave, conscription etc.) at that time.

As of 1 January 1998, persons receiving child-care fee or aid are classified according to their activity during the reference week, in accordance with the recommendation of the ILO, and contrary to previous Hungarian practice.

Unemployed: an unemployed person is someone having performed no earning activity in the survey week and having had no job from which he/she was temporarily absent either; who looked for a job actively in the four weeks preceding the survey and could have taken up work within 2 weeks in case of finding an appropriate job or who had already found a job where he/she could start work within thirty days.

Economically active: the employed and the unemployed.

Economically inactive: someone who cannot be assigned to the groups of the employed or the unemployed, including, among others, seasonal workers out of season, not looking for a job and the so-called *passive unemployed*, who would like to work but make no effort to find a job deeming their placement chances unfavourable.

The following main indicators are used to describe the extent of unemployment and of economic activity:

* unemployment rate: % rate of the unemployed to the economically active population;
* activity rate: % rate of the economically active to the population of the corresponding age group
* employment rate: the rate of the employed to the population of the corresponding age group.

Earnings

Gross earnings: aggregate amount of basic wages including personal income tax, health insurance and pension contribution and employee contribution and components of earnings paid under other titles (wage supplement, supplementary salary, bonus, reward, 13th and further month payments).

Net earnings: indicator based on gross average earnings after deduction of employee contribution, personal income tax, health insurance and pension contribution calculated on the basis of the contribution thresholds established for the given year.

Business organisation

Registered business organisation: unit existing in the legal sense, according to the administrative registrations, and possessing a tax identification number at the time of the survey, including units subject to bankruptcy/liquidation/final settlement procedure at that date.

Active business organisation: enterprise having filed tax returns in the given year or in the previous year (corporation tax, VAT etc.), having met its statistical data provision obligation or established in the given/previous year.

The following shall not be regarded as active:

* enterprise liquidated but not registered as such due to administrative reasons, due to omission of the reporting obligation;
* enterprise subject to liquidation for several years, pursuing no business activity, having suspended/not started yet its activity;
* unit performing entrepreneurial activity occasionally only;
* unit figuring in the pre-registration records under the "single-window" registration system until the passing of the registration decision.

APEH, the Inland Revenue Office, considers as active a business organisation with a tax number not subject to liquidation/bankruptcy/final settlement procedure and not having announced the termination of its activity.

Registered budgetary (public), social insurance, non-profit and ESOP organisations and from 1998 on registered organisations of housing co-operatives, building communities and condominiums also qualify as active.

Sole proprietorships include, in addition to those subject to the Act on Sole Proprietorships, private individuals pursuing business activity and having a tax identification number of their own (e.g., freelance intellectuals).

The number of *business partnerships* includes both incorporated and unincorporated business partnerships.

The number of *other business partnerships* includes other enterprises with legal personality and other enterprises without legal personality.

TERMINOLOGY OF THE EMPLOYMENT OFFICE

Registered unemployed: those among the job-seekers who meet the conditions of the establishment of an employment relationship, are not day-time students of an educational institution, are not entitled to old-age pension, not subject to employment relationship except for that qualifying as casual employment, and not pursuing other earning activity either, who co-operate with the office of the labour centre to promote their employment and are registered as unemployed by the same

Registered unemployed school-leavers: from 1 July 1996 on, unemployed persons not receiving/entitled to unemployment benefits after having finished their elementary school, general or vocational secondary school, college or university studies, under 25 years of age – or under 30 for graduates – meeting the necessary conditions for the establishment of an employment relation but having no job and registered as unemployed by the labour exchange office of the county (capital) labour centre.

Unemployment benefits: allowance having been due as of February 2000 to unemployed persons having fulfilled their contribution payment obligation for at least 200 days in the four years preceding unemployment, not eligible to pension, if the competent labour centre cannot offer them a suitable job, who co-operate with the labour centre or its local office in the interest of their placement. The amendment of the Employment Act defined the period of disbursement at a minimum of 40 days and a maximum of 9 months (270 days), conditional on 200 days and 45 months of employment, respectively. In between these two limits, the eligibility period corresponds to one fifth of the total amount of time spent in employment.

Income supplementing allocation to the unemployed: allowance granted on the basis of the social situation of the family after the expiry of unemployment benefits until May 2000, replaced by regular social aid to the unemployed in case of need as of 1 May 2000.

Regular social aid to the unemployed: aid granted to those among the unemployed who are of working age, not in employment, no longer entitled to unemployment benefits or income supplement, having a monthly income not exceeding 70% of the minimum old-age pension ever and a per capita income in the household not exceeding 80% of the minimum old-age pension ever. Social aid is disbursed by the competent municipality on the basis of an assessment procedure. A person receiving regular social aid for the unemployed is assigned to the category of the registered unemployed.

Unemployment rate: rate of the registered unemployed on the closing day of the month to the economically active (employed and registered unemployed). (This figure is considered a source index by CSO's Labour Account as well.)

Employment promotion subsidies *(from among the "active" employment policy measures):*

⇒ *Number of participants of subsidised labour-market training:* job-seekers not subject to employment relation having participated in (group) training offered or (individual) training approved by the labour centres in the period under scrutiny and, moreover, trainees in employment whose employment relation is

expected to be terminated within a period of twelve months or whose regular employment cannot be ensured without training. Participants of labour market training may receive income supplementing allocation or income substituting allowance and costs reimbursement.

⇒ *Unemployed persons receiving self-employment promotion subsidies*: formerly unemployed persons receiving allowance equivalent to max. six months' unemployment benefits, reimbursement of max. 50 % of the costs incurred in connection with professional counsel or training required to launch the enterprise or credit cover guarantee (max. 50 %) on loans.

⇒ *Number of beneficiaries of wage promotion for the purpose of employment expansion*: employers providing employment for long-term unemployed in accordance with the provisions of the Employment Act permanently (for a min. of 6 months and a min. of 3 months for school-leavers) in the period under scrutiny *and* employees affected by wage subsidies for the employment of long-term unemployed: the actual number of the former long-term unemployed in subsidised employment in the period under scrutiny.

⇒ *Number of jobs created by job-creating investment*: jobs to be created in the period under scrutiny with the help of assistance granted via tenders and jobs created/filled with assistance, irrespective of the tender approval date.

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