L A B O U R   R E S E A R C H   I N S T I T U T E

LABOUR MARKET REPORT
1996
MAIN TRENDS IN LABOUR DEMAND AND SUPPLY

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POPULATION DISTRIBUTION BY GENDER AND AGE
1 January 1996

Male

Female

Over working age, under 75

Working age

conscript working abroad

on child-care leave student

absent from the labour market

other non-earner/pensioner

Under working age

age

000

C O N T E N T S

I

INTRODUCTION

We have surveyed the development of the Hungarian labour market and analysed the impacts of the major demographic and economic processes and legislative changes on its size and structure every year since 1993.

Processes exerting a fundamental, incidentally dramatic, influence on the economy and hence the labour market seem to have slowed down in 1995-1996. However, their consequences, favourable and unfavourable ones alike, may well be with us for a long time to come and determine, as *fait accompli*, possible ways and means of progress.

Employment decline going back several years is expected to come to a halt now: job creation due to foreign investments, the activity of the small private sector based on individual initiative and the slowly strengthening entrepreneurial sector will hopefully counter-balance the losses.

Employment, however, has stabilised at a very low level: the ratio of the 3.6 million persons in employment registered at end-1996 to the total adult population is among the lowest in Europe. Stability, moreover, is a fragile phenomenon: liquidation procedures are still under way, technical modernisation implying inevitable lay-offs has just begun in many branches (e.g. public services), and the state finances (state administration, education and health care etc.) reform is still ahead.

Nevertheless, unemployment has abated. Although the gradual steady decline of the number of the unemployed is an important indicator, the improvement is obviously due, to a large extent, to numberless efforts, past and present actions, to promote subsidised employment, while the number of those giving up job search is still very high. As for the registered unemployed, on the other hand, the proportion of the long-term unemployed having had no job for years keeps rising and, despite a slight decline, youth unemployment is also quite significant.

Limited employment opportunities have led to a rise in the proportion of the economically inactive, i.e. persons not in employment and not registered as unemployed, in the past years. Nearly one-quarter of the active-age population (students not included) is absent from the labour market. Half of this population totalling more than 1.3 million enjoys a modest but regular income thanks to one of the social allowance programmes (child-care aid/fee, pension), but the other half can only rely on family support. Active-age people forced or volunteering to remain in the household are more numerous by fifty per cent than the registered unemployed. It is to be assumed that, the same as part of the unemployed, they earn at least an irregular income in the unorganised economy.

One of the major tasks in the years to come is obviously the integration of work performed in the unorganised economy or on atypical conditions (part-time/casual employment, self-employment) into Hungarian labour law, not in the least to harmonise Hungarian practice with that of the member states of the

European Union. The establishment of the appropriate legislative framework of these activities will probably result in the legal employment of many more.

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The research grant covered part of the costs only. The project could not have been finished without the kind and unselfish support of the staffs of several institutions. Data and analyses, including unpublished, in-house documents, were made available to us by CSO, the Hungarian Central Statistical Office, and by NLC, the National Labour Centre, accompanied by the invaluable assistance, comments and explanations of our colleagues there. All the ministries and national organisations we contacted kindly provided us with data collected under their auspices; moreover, thanks to years of close co-operation, we share many interpretation criteria that will hopefully promote the indispensable harmonisation of data collected separately by each institution for its own purpose, incomparable so far.

As before, we relied on the studies and recent research findings of several researchers. We shall make explicit reference to these at their places of occurrence.

My special thanks are due to my two patient and conscientious readers, Judit Lakatos (CSO) and János Tímár (Budapest University of Economics) for having redressed the many weaknesses of my manuscript once again, after several consecutive years. I would like to thank János Gállos (Ministry of Labour) for his unselfish help and the careful reading of the manuscript. Any errors still in the paper are solely due to the Author's negligence.

My thanks are due to my two indefatigable assistants, statistician Ms Kozma, Edit Takáts, responsible for data collection and the thorough and careful collation and checking of the calculations, and Ms János Sinka who ensured the smooth progress of my work by typing and re-typing the corrected and supplemented versions of the manuscript and preparing it for publication.

Finally, let me thank the appreciation and encouragement of those who urged me to continue the analyses of the previous years, considering the annual surveys authentic documents of the labour-market impacts of economic transformation. I sincerely hope that those who are interested in the developments of the labour market, whether out of professional or personal curiosity, will consider the present volume a useful summary contributing to their understanding of it.

Budapest, April 1997.

III

Teréz Laky

IV

M A I N S T A T E M E N T S

Unless explicit reference is made to other sources, 1995 (1 January 1996) data originate from the Labour Account (LA) and 1996 data from the Labour Force Survey (LFS) of the Hungarian Central Statistical Office (CSO).

Labour market, 1996

Labour market processes in 1996 were essentially characterised by stagnating employment and unemployment and growing inactivity.

This was the first year since 1990 when the level of employment did not decrease (or, rather, registered decline was within the error limit). The fact that there were 3.6 million earners, however, means that employment has fallen to an exceptionally low level, especially considering the fact that the figure includes casual and subsidised employment as well. Of a total population of approximately 6 million qualifying as active-age persons under Hungarian labour law, some 60% were in employment.

Calculated by the international methodology, the ratio is even more modest than that.

According to the criteria of the ILO, of a population of 15 to 74 year-old persons totalling some 7.8 million, some 45% were in employment. According to the European accounting practice, setting the upper limit of active age at 64, approximately half of a total of 7.1 million potential earners were in employment.

(In 1995, the average active-age employment rate was 60.4% in the member states of the European Union)

Although the number of the unemployed has decreased somewhat, the decline in the number of the registered unemployed (by 18.4 thousand) borders on stagnation. (CSO data indicate a decline by 34 thousand for the same age group over one year.)

The quasi-stagnation of employment and unemployment was accompanied by the persistent growth of the number of the economically inactive, i.e. active-age persons not in employment. Within that group, the number of voluntary or forced absentees from the labour market, household dependants and beneficiaries of social allowance only, i.e. persons remaining in the household, 667 thousand in 1995, exceeded significantly that of the registered unemployed. Inactivity is, to a large extent, due to hidden unemployment, but it may also indicate employment without the organised economy, unregistered (casual) labour.

Labour supply

Given the fact that by 1995 the large generations of the early eighties had already reached active age and the number of those attaining retirement age conformed to the usual trend, the active-age population, i.e. the potential labour supply, no longer increased (even declined slightly) in 1995. That is to say that demographically motivated labour-market tension aggravating the employment situation in previous years, at exactly the time of massive job losses, has eased somewhat.

The "natural" additional supply of labour, i.e. those past retirement age, has contracted significantly. In 1995, 134 thousand among them were employed; in the last quarter of 1996 104 thousand only. Owing to the deterioration of employment chances in this group, there are only a few thousand job-seekers among them (the respective figures for the last quarters of 1995 and 1996 being 6.9 and 4.7 thousand).

Labour supply, on the other hand, expanded considerably owing to the group of re-patriates, immigrants, refugees and labour-permit holders representing a legal supply estimated at 100 thousand.

All in all, that is to say, additional labour supply was around 262 thousand in 1994, 221 thousand in 1995 and 209 thousand in 1996.

However, in 1994 2 million and in 1995 2,022 million active-age persons were absent from the statistically measurable labour market. Fortunately, the number of student absentees is on the growth, and somewhat more are on child-care leave than earlier. Conscripts and workers abroad, on the other hand, are somewhat less numerous than they were in 1995. The number of early retirements has grown, the same as that of the household dependants, albeit to a smaller extent than that. The steady decline of the calculated real supply is, to a large extent, due to the contraction of demand.

Labour demand

The economy still claims almost exclusively people of active age: in 1995, more than 95% of those in employment belonged to that group.

Whereas earlier men and women were represented among the active earners proportionately, the proportion of female earners has been declining steadily ever since 1990 (in 1989, 84%, in 1995 61.8% of the active-age women were in employment).

Jobs created in 1996 by and large compensated for those lost over the same period of time.

Calculations suggest that most jobs were created by foreign greenfield investments and developments by foreign-owned and joint companies. Job creation in the small private sector operating on individual initiative has decelerated perceptibly (although computations and comparisons are rendered rather uncertain by the practice of the previous years, i.e. statistical accounting registering no longer existing enterprises as active. Reliable data are expected to be provided by CSO's prospective 1997 survey.)

Job losses in the course of the year were mainly due to the rationalisation and sometimes the technical development of the businesses in question.

However, the same as earlier, contraction of employment was essentially due to lay-offs triggered by shrinking demand, to bankruptcy and liquidation procedures and cut-backs at state-owned organisations and in the budgetary sector.

Subsidised employment partly or fully without the market sphere has played an important role in employment. In 1995, of a total of somewhat less than 4 million persons considered employees in the statistical sense some 160 thousand had subsidised jobs; in 1996, some 240-250 thousand obtained work in the framework of one or another of the employment promotion schemes.

The real employment level probably exceeds the statistical one restricted to employment on the regular labour market, including as it does unorganised employment such as casual household work and unregistered self-employment. These latter forms, however, cannot be mapped by the accounting system so long as definitions of so-called atypical labour are absent from Hungarian labour law.

Unemployment

Both standard statistical systems monitoring the development of unemployment (i.e. NLC: registered unemployment; CSO: LFS) suggest that the number of the unemployed has decreased somewhat – or at least stagnated – relative to the previous year.

Decline in the number of the registered unemployed was accompanied by a more marked turnover than in the previous years: 45,278 entries and 45,476 exists were registered on a monthly average. New entrants came from all over the country, the majority from the aggregate industry group of "non-material services". As for the seasonal branches, especially agriculture and construction, a considerable part of those becoming unemployed were "recurrents". The proportion of those who revert to unemployment after subsidised employment is also significant.

Re-employment is responsible for 1-2 per cent of the exits only on a monthly average. Participation in subsidised programmes of a few months for the most is somewhat more frequent, the same as the expiration of entitlement to unemployment provision.

Of a total of 477 thousand unemployed registered at the end of the year, 44% were long-term unemployed benefiting of income supplementing allocation.

In 1996, the proportion of the long-term unemployed was as high as 53%.

More than 40% of the registered unemployed finished elementary school only and another 33% vocational training. Some 20% of the unemployed have a higher educational qualification than that.

In December 1996, some 34% only of the registered unemployed were receiving benefit, less than ever before. The monthly average allowance was HUF13,461, i.e. less than 30% of the average earnings of those employed by organisations with a staff of more than 10, indicative of the fact that the majority of the beneficiaries belonged to the lower pay brackets.

Youth unemployment has declined somewhat: in 4th quarter 1996, according to the LFS of CSO, it fell to 14.1% from 15.9% in the same period of the preceding year. Nevertheless, more than a hundred thousand of those aged 15 to 24 were looking for a job, while another 25 thousand did not even try or have given up search.

The same as before, female unemployment has remained relatively lower than the corresponding rate for men in 1996. (In fourth quarter 1996, the proportion of males and females within the 9.2% average calculated by CSO was 10% and 8.2%, respectively.)

Withdrawal from the labour market, on the other hand, is more typical for women: on 1 January 1996, 7.2% of the active-age female population was unemployed, but more than 30% became economically inactive; the majority of the latter retired or became family dependants.

1996 brought no significant change in the territorial distribution of unemployment.

Changes in the employment structure of the economy

The relative proportions of the three broad employment sectors, as set by 1995, have modified but slightly.

In 1995, the employment roles of agriculture and industry both declined a little, with the services sector employing 60% of all the earners.

Fluctuation in the relative employment weights of the branches, aggregate categories themselves, making up each sector was statistically insignificant, a sure sign of the normal functioning of the economy.

One of the most noteworthy changes relates to business size. The new organisational structure that had evolved by 1996 parallel with the disintegration of the former large organisations required by plan economy due to capital shortage above all, has generated new employment relations as well.

Active organisations (registered by CSO separately since 1996) differ markedly by size. The overwhelming majority, 97%, consists of micro-enterprises with a staff of under 11. Micros play a significant employment role, too: they employ 1.1 million (mostly self-employed persons), i.e. approximately 30% of all the earners. (Average staff number, however, is but 1.7 in this category.) The largest units, those with a staff of more than 300, employed 46% of all the earners (average staff number: 1,260.3). In 1996, average staff numbers increased at the large companies above all.

Trends in earnings

CSO data cover the earnings relations of business organisations having a staff of more than 10 and of the budgetary institutions.

Within this circle, real earnings dropped by more than 12% in 1995, i.e. faster than in any of the past 6 years; in 1996, real earnings fell by 5%.

The earnings gap between the competitive and the budgetary sector has kept widening in 1996.

The earnings ranking of the economic branches, on the other hand, has changed little: the financial sector where average earnings exceeded by some 90% the national average retained its top position, to be followed, the same as earlier, by the chemical industry. Neither did the traditionally badly paid areas/branches of the past years change much: textiles, clothing and leather production still provide the lowest average earnings within the competitive sector, hardly exceeding twice the 1996 annual minimum wage.

The average earnings gap between manual and non-manual workers has kept increasing, and the difference in the earnings ratio of men and women is also significant: in the competitive sector, men have an earnings advantage of nearly 13% over women, the corresponding rate in the budgetary sector being 6%.

Gross average monthly wages differ very much by age and especially by educational qualification.

Impacts of the emerging private economy

Until 1995, private enterprises including sole proprietorships and unincorporated partnerships, of which hundreds of thousands were launched on individual initiative every year against the background of massive job losses, exerted a decisive influence on employment in the private economy.

The enterprise foundation rush had largely subsided by 1997. (As a matter of fact, active enterprise numbers cast some doubt retrospectively on statistical data published earlier.) There exists but one reliable data source: tax returns presented to APEH, the Tax Office. The trend discernible from data collected over several years suggests that the number of main job holder sole proprietor-entrepreneurs did not increase in 1995, but that of their employees and the employees of unincorporated partnerships did, albeit at a modest rate.

Anyway, it seems reasonable to assume that of the 1.1 million micro-enterprise earners, some 900 to 950 thousand work in the private sector, either as entrepreneurs or as unpaid family workers or employees, the rest being employees of small but non-private units.

In 1996, job creation by the small private sector was taken over by the greenfield investments of foreign companies and especially developments implying staff expansion by foreign- and joint ownership companies.

At the same time, the sales of state assets continued, albeit at a slower pace than in 1995. Ownership changes have exerted little or no impact on the number of those in employment. As for the companies or viable company units purchased in the course of liquidation procedures, the majority of the jobs are expected to be preserved there.

According to our estimates, by 1996, some 60% of the earners had already been employed in the private/co-operative sector, not in the public one. The process, however, is a dual one: branches including a high proportion of state-owned companies and the significant employment weight of the budgetary sector make transformation slow as the majority of those working there are still public employees. The growth of the employment role of the private sector was due decisively to foreign- and jointly owned companies and small enterprises with a staff of under 10. (Our estimate, however, is somewhat dubious given the fact that the relevant statistics indicate no ownership status and data relating to the masses of sole proprietorships and unincorporated business partnerships are rather uncertain.)

Bankruptcy and liquidation

Economic re-structuring – and a decisive part of privatisation – takes the form of bankruptcy and liquidation procedures. Partly owing to changes in legislation, the number of companies subject to bankruptcy procedure has kept decreasing, but liquidations have become more numerous.

The staffs of the approximately 15 to 18 thousand companies subject to bankruptcy or liquidation is estimated to total 170 to 180 thousand. (The uncertainty of the estimate is due to some companies being "empty" ones and others still working at top speed.)

The same as earlier, a significant proportion of those made redundant in 1996 lost their job as a result of the procedures in question; the thousands of bankrupt companies may well boost unemployment for years to come. Part of the jobs, however, may be saved by successful sales.

Transformation of agriculture

Stabilisation going back to 1994-1995 is reflected in the agrarian employment relations as well. Whereas in 1995 employment in the sector declined, although not significantly, at end-1996, for the first time in years, CSO's Labour Force Survey reported a growth by 18.7 thousand over the same period of 1995.

Although the number of exits is still high in agriculture, unemployment has become a typically seasonal phenomenon. The same as before, nearly 40% of the unemployed lost their jobs between November 1995 and February 1996, too, to be re-employed at the beginning of the agrarian season.

Several facts suggest that our knowledge of the employment capacity of agriculture is deficient (whether the focus is on main job holder farmers, casual workers, regular household workers or others). It is to be assumed that the real number of agrarian workers exceeds that shown by the taxation or social insurance data. Significant labour demand in this domain is obviously due to lack of capital among other things.

I. STATISTICAL LABOUR MARKET INDICATORS

1. EMPLOYMENT, UNEMPLOYMENT AND INACTIVITY IN 1996

Favourable and unfavourable employment tendencies have both intensified in 1996. Changes are most obvious in the re-proportioning of the three major groups of the adult population, viz. persons in employment, the unemployed and the inactive.

It is to be considered a good omen that the number of those in employment is no longer declining, but stagnating at least as compared to 1995. The number of the unemployed fell slightly. Unfortunately, the number of household dependants and/or the economically inactive in need of support by the various social allowance systems has kept increasing.

The evolution of the labour market situation of the adult population, i.e. the flow between the major groups (employee, unemployed, inactive) can be examined in several ways.

a) On the basis of the current active-age definition of the national legislation (from 1996 on, 15 to 55 for women and 15 to 59 for men): CSO's annual labour accounts are based on that.
b) According to the statistical accounting practice of the European Union and the OECD countries investigating the labour market situation of the 15 to 64 age group, irrespective of the provisions of the national legislations.
c) According to the criteria elaborated by the International Labour Organisation (ILO) considering people aged 15 to 74 potential labour market actors. This Labour Force Survey (LFS) method based on questions addressed to the population is used in the majority of the European countries parallel with other investigations; CSO's so-called Labour Force Survey adheres to this practice.

The following chapters of our overview will present the Hungarian processes, wherever possible, from all three accounting perspectives.

As for the 1996 processes, however, the same as in the majority of the other countries, at present only the data of CSO's Labour Force Survey providing comprehensive information on the development of the labour market situation of the adult population are available to us.[1]

According to CSO's Labour Force Survey, at the end of 1996, of a total population of 10.2 million some 7.8 million belonged to the 15 to 74 age group to be taken into account from a labour market point of view.

In 1996, 3,648.1 thousand of them were in employment, i.e. approximately half of the generations assigned to this category. Some 400 thousand considered themselves active job-seeker unemployed. Their number together with those in

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[1] Ever since 1992, CSO has been publishing data based on its population survey on a quarterly basis. This survey differs in many respects from other statistical summaries, not only in its definition of "active age", but also of "employment" and "unemployment". The relevant definitions will be introduced in detail and more precisely later on and under Methodology.

employment was 4,048.2 thousand. This is the group that international statistical practice considers the economically active (assuming that the unemployed are without a job for a transitory period of time). That is to say that hardly more than half of the population in question, 51.8%, was active, while the rest were either forced out of the labour market or had never entered it at all.

As compared to 1995, the sizes of the three groups developed as follows:

The number of those in employment stagnated (as a matter of fact, it declined somewhat, but to an extent within the error margin of statistical sampling). Note, however, that the survey considers those performing a minimum of one hour's income-generating work as employed.

Anyway, after 1992 the former dramatic pace of job losses slowed down (the number of those in employment dropped by as much as 255.4 thousand in 1993, by 85.1 thousand in 1994, 33.5 thousand in 1995 and 13.8 thousand in 1996). Or, from another aspect: although ten thousands of jobs were lost even in 1996, job creation essentially compensated for these. After years of incessant and massive job losses, employment clearly stagnated at least in 1996.

The number of the unemployed declined slightly in 1996 (from 416.5 thousand to 400.1 thousand). The 16.4 thousand drop can also be construed as stagnation, but the survey indicates steady decline since 1993 (1994: -67.7 thousand; 1995: -34.7 thousand). Since unemployment in the given case means active job search, irrespective of age or registration, the figures actually reflect a decrease in unemployment. This is corroborated by the slow but steady fall in the number of the so-called passive unemployed. The survey in question considers passive unemployed those who would like to work, but have given up job search owing to their earlier, futile, attempts, due to their unfavourable labour-market endowments (in 1992 153 thousand, in 1993 115.6 thousand, in 1994 107 thousand, in 1995 105.4 thousand, in 1996 101 thousand qualified as passive unemployed).

The number of the passive unemployed adds to the so-called inactive population, i.e. those who withdrew from the labour market or were forced out of it. In Hungary, 15 to 20 of the generations taken into account according to the criteria of the ILO are already past retirement age. The real problem, however, is that despite an active age definition covering 5 to 10 years less than is usual in international practice, the proportion of the economically inactive is still very high and keeps rising every year among members of these age groups.

In 1996, some 6 million male and female members of the 15+ population belonged to the active age groups. According to the age-group specific data of the Labour Force Survey, in fourth quarter 1996, 3,884.3 thousand among them (and an additional 104,7 thousand people past retirement age) were in employment.

That is to say that somewhat less than two-third of the active age population was working, some 6% were unemployed (370,5 thousand) and, according to the relevant data, some 30% were absent from the labour market. The proportion of the absentees has kept increasing every year (in fourth quarter 1992 it was 27.3%, in 1995 29.6%).

Hence stagnating employment and declining unemployment was accompanied by the further growth of inactivity among members of the active age groups. By the fourth quarter of 1996, the number of the inactive (3,721.3 thousand) in the 14 to 74 age-group had already exceeded somewhat that of those in employment (3,712.2 thousand). A positive change can only be expected from the growth of the number of those in employment.

2. LABOUR MARKET STATISTICS

Employment, unemployment and inactivity trends are discernible from the Labour Accounts of CSO published annually (and reflecting the 1 January status ever).

Labour Accounts cover the age groups considered active under the Hungarian legislation.

According to the data reflecting the 1 January 1996 status, i.e. changes in the course of 1995, both the positive and the negative tendencies of the previous years continued with respect to both the demographic framework of the labour market and the characteristics of labour demand and supply.

As for the demographic changes, the further decline of the population of the country, from 10,245.6 thousand on 1 January 1995 to 10,212.3 thousand, by 33.3 thousand (males: 19.7 thousand, females: 13.6 thousand), on 1 January 1996, is obviously an important phenomenon from our point of view.

The population has been decreasing for one-and-a-half decade. After 1949, it was largest in 1980 at 10,709.5 thousand. One decade later, on 1 January 1990, it was 334.7 thousand less, totalling 10,374.8 thousand. From 1990 on, the annual decrease was as follows: -20, -17.6, -27, -33.2, -31.4 and -33.3 thousand, i.e. a total of 162.5 thousand.

Decline is mainly due to falling birth rates: on 1 January 1996, the 0 to 14 age group numbered 33.4 thousand less than one year earlier. The several years long decline, however, has been moderating steadily (1991: -66.8 thousand; 1992: -53.9 thousand; 1993: -51.8 thousand; 1994: -47.2 thousand; 1995: -40.9 thousand). Continuous decline has reduced the proportion of the age group in question from 20.8% in 1989 to 18% by 1 January 1996.

As a matter of fact, the fast decline of the number of births is a typical feature all over Europe. The demographic forecast until 2025 of the European Union showing average numbers of children per woman in four groups based on earlier children numbers indicates a fast decline ever since the sixties, and predicts the persistence of this trend.

Chart 1.

Average number of children per woman

Source: *Demographic Situation in the European Union, 1995,* Luxemburg Office for Official Publications of the European Communities, 1996.

In Hungary, gender proportions have not changed significantly: women and men represent 52 and 48%, respectively, of the total population, although since 1992 the proportion of men has been slightly lower than 48% (1996: 47.8%).

Within the shrinking population, the proportion of the active age groups, i.e. men of 15 to 59 and women of 15 to 54, has been increasing slowly but steadily since 1991 (1989: 58.3%; 1995: 59.4%; 1996: 59.5%). This also means that the growth of the active age groups, by a total of 125.2 thousand from 1990 to 1995, coincided with the years of massive job losses and recession. Growth stopped in 1995 and actually reversed in 1996, when the number of the active population fell slightly (by 1.3 thousand).

On 1 January 1996, the active-age population (6,080.7 thousand) consisted of 3,164.4 thousand men making up 52% and 2,916.1 thousand women corresponding to 48% of it. (The inverse proportion of males and females in the total and the active-age populations, respectively, is due to the differences in retirement age.)

The ratio of those past employment age (men aged 60 or more, women aged 55 or more) has remained by and large identical for years, with a slight fluctuation, at 22.2 to 22.5%. Slight growth until 1992 was replaced by stagnation until 1995 and mild growth in 1995 by 1.4 thousand, from 2,293.7

thousand to 2,295.1 thousand. Women make up a decisive segment, two-third, of the age-group in question.

Changes in economic activity

The Labour Account considers as economically active active-age earners, people on parental leave (child-care aid/ fee) and retired persons in employment. Persons in employment belong to one of these three groups. Moreover, the registered unemployed also qualify as economically active in case they solicit the assistance of the labour service to be re-employed.

As in the previous years, the number of those in employment continued to decline in 1995, to less than 4 million, unprecedented except for a short period of time after World War II. (According to the 1949 census, publishing the number of active-age earners only, this was 3.5 million then; in 1960, the corresponding figure was 4.1 million.)

According to the 1 January 1996 Labour Account, there are a total of 3,974.3 thousand persons in employment (3,615 thousand active earners, 230.6 thousand on child-care leave and 128.7 thousand employed pensioners). This figure hardly exceeds two-third of the 5,733.6 thousand registered on 1 January 1980. The dramatic pace of the job losses observed since 1990 slowed down significantly in 1995 (annual decrease from 1990 to 1995 being -168, -507.7, -444.2, -215.6, -91.2 and -70.9 thousand, respectively, in that order), but the process had not come to an end yet by 1 January 1996.

The decline affected the active-age population most seriously. From 1989 to 1996 300 thousand pensioners lost their jobs, too, but the corresponding number for the active-age population was more than 1.2 million. Of a total of almost 6 million active-age people on 1 January 1989 (5,968.7 thousand), 83% was in employment (those on child-care leave included); in 1996, the corresponding figures were more than 6 million (6,080.7 thousand) and 63%, respectively.

The decline in the number of the registered unemployed observed since 1993 continued in 1995. Annual decrease was rather small this time at 23.7 thousand, and on 1 January 1996, there were still nearly half a million (495.9 thousand) active-age persons seeking jobs.

The economic activity of the population is measured by the rate of the labour source (active age people and employed pensioners) to the economically active (persons in employment and the registered unemployed). Accordingly, the economically active made up 85% of the population on 1 January 1980, 85.3% in 1990, 73% in 1995 and 71.9% on 1 January 1996.

The decline in economic activity is accompanied by growing economic inactivity among the active-age population. The number and proportion of those staying away from, never entering or being forced out of the labour market keeps rising every year. Within that context, the only positive phenomenon is the steady growth of both the number and the proportion within the respective age groups of students aged 15 or more. A few (some 5%) are still at elementary school, but the great majority continue their education at various other types of schools. On 1 January 1996, there were 605.3 thousand students, 15.7 thousand more than a year earlier and 154.7 thousand more than in 1989. Their proportion within the active age population grew from 7.5% in 1989 to almost 10% on 1 January 1996.

The growth of the stock of those retiring at active age from 272.7 thousand in 1989 to 404.4 thousand, i.e. nearly twice as much, by now, on the other hand, is not a positive phenomenon. With growth in 1995 by 19.4 thousand, by 1 January 1996 this group had already represented nearly 7% of the active-age population.

The Labour Account assigns those on parental leave (child-care assistance) and mothers raising three or more children in the household to the category of the economically inactive (as opposed to those benefiting from child-care aid or allowance, considered persons in employment). A total of 44.6 thousand received child-care assistance in 1995.

Beside students and beneficiaries of one of the pension or social provision schemes, another phenomenon causing growing social concern is the steady annual growth of the number of absentees from the labour market, i.e. active-age persons not looking for a job for some other reason, a total of 667.3 thousand altogether on 1 January 1996. Nearly 60% (58.5%) are women, 390.6 thousand altogether, corresponding to 20.7% of the female earners. Although the growth of the number of absentees from the labour market slowed down considerably in 1995 (to 13.3 thousand as opposed to 130 thousand in the previous year and 167 thousand at the time of the 1993 peak), a significant proportion of those who are not earners for various reasons are actually hidden unemployed. Their aggregate number together with the registered unemployed actually exceeds one million, and providing for them implies burdens for the families and partly the social provision system on a scale with provision for the registered unemployed not entitled to allowance.

All in all, of a total of 6 million active-age people, more than 1.7 million (1,721.6 thousand) are absent from the labour market, corresponding to nearly 30% (28.3%) of the age groups in question.

Table 2.1.

Key indicators of the Labour Account, 1 January 1996

	Total population		*Of which* female	
	OOO	%	*OOO*	%
Population	**10,212.3**	**100.0**	**5,328.4**	**100.0**
of which				
0-14 year old	1,836.5	18.0	897.0	16.8
Active age (males 15 to 59, females 15 to 54)	6,080.7	59.5	2,916.1	54.7
Persons past working age	2,295.1	22.5	1,515.3	28.5
Working age population		**100.0**		**100.0**

of which				
economically active	4,336.1	71.3	2,014.1	69.1
working abroad	23.0	0.4	5.0	0.2
economically inactive	1,721.6	28.3	897.0	30.7
of which:				
student	605.3	10.0	301.1	10.3
retired	404.4	6.6	160.7	5.5
beneficiaries of child-care assistance	44.6	0.7	44.6	1.5
other inactive N.E.C.*	667.3	11.0	390.6	13.4
Economically active	**4,470.2**	**100.0**	**2,097.9**	**100.0**
Employed**	3,974.3	88.9	1,887.3	90.0
Activity rate		71.9		69.9
Registered unemployed		11.1		10.0

*   Not elsewhere classified

** Active earners, persons receiving child-care aid/fee and employed pensioners are included.

Source: CSO Labour Account, 1 January 1996, CSO

Chart 2

Active-age earners and persons in employment, 1980-1996

'000'
pers.

_ _ _ _ persons in employment

______ active earners

Let us sum up the typical data of the Hungarian labour market in the standard international format as well.

Table 2.2.

Key employment indicators (1 January 1996)

000

	1949	1970	1980	1990	1993*	1994	1995	1996
Total								
Total population	9204.8	10322.1	10709.5	10374.8	10310.2	10277.0	10245.6	10212.3
Working age pop.	5608.2	6029.4	6175.0	5956.8	6056.5	6071.6	6082.0	6080.7
Employed**	4084.9	5372.7	5733.6	5471.9	4352.0	4136.4	4045.2	3974.3
Employed as % of working age pop.	72.8	89.1	92.9	91.9	71.9	68.1	66.5	65.4
Registered UE	-	-	-	24.2	663.0	632.1	519.6	495.9
UE rate	-	-	-	0.4	13.2	13.3	11.4	11.1
UE rate, ages 15 to 24 ***	-	-	-	-	19.2	17.6	16.6	15.7
Employed								
-agriculture	2197.5	1246.0	1109.0	955.0	432.8	371.8	348.2	326.5
- industry	884.1	2379.2	2386.1	1976.8	1446.0	1341.0	1313.7	1261.8
- services	1003.3	1747.5	2238.5	2540.1	2473.2	2423.6	2383.3	2386.0
% rate of employment in								
- agriculture	53.8	23.2	19.3	17.5	10.0	9.0	8.6	8.2
- industry	21.6	44.3	41.6	36.1	33.2	32.4	32.5	31.8
- services	24.6	32.5	39.1	46.4	56.8	58.6	58.9	60.0
Males								
Population	4423.4	5003.7	5188.7	4984.9	4943.4	4923.0	4903.6	4883.9
Employed**	2892.1	3102.5	3026.7	2810.8	2193.5	2095.8	2080.8	2087.0
Registered UE	-	-	-	14.2	390.0	376.1	302.6	285.3
UE rate	-	-	-	0.5	15.1	15.2	12.7	12.0
Employed								
- agriculture	1545.9	750.1	650.6	560.1	283.6	245.1	239.8	218.6
- industry	697.9	1462.4	1363.5	1172.9	874.5	804.5	788.7	789.3
- services	648.3	890.0	1012.6	1077.8	1035.4	991.0	1052.3	1079.1
% rate of employment in								
- agriculture	53.4	24.2	21.5	19.9	12.9	12.0	11.5	10.5
- industry	24.1	47.1	45.0	41.7	39.9	39.4	35.1	37.8
- services	22.5	28.7	33.5	38.4	47.2	48.6	53.4	51.7
Females								
Population	4781.4	5318.4	5520.8	5389.9	5366.8	5354.0	5342.0	5328.4
Employed**	1192.8	2270.2	2706.9	2661.1	2158.5	2040.6	1964.4	1887.3
Registered UE	-	-	-	10.0	273.0	256.0	217.0	210.6
Rata of UE	-	-	-	0.4	11.2	10.9	9.9	10.0
Employed								
- agriculture	651.6	495.9	458.4	394.9	149.2	126.7	108.4	107.9
- industry	186.2	916.8	1022.6	803.9	571.5	516.7	490.8	472.5
- services	355.0	857.5	1225.9	1462.3	1437.8	1397.2	1365.2	1306.9
% rate of employment in								
- agriculture	54.6	21.8	16.9	14.8	6.9	6.2	5.5	5.7
- industry	15.6	40.4	37.8	30.2	26.5	25.3	25.0	25.0
- services	29.8	37.8	45.3	55.0	66.6	68.5	69.5	69.3

* A new classification of economic activities was introduced in 1992, identical to NACE Rev 1 and ISIC Rev 3 (two-digit level). 1993 data according to the new classification system.

** 1949: active earners only. There was no child-care allowance at that time, and the number of employed pensioners was insignificant.

*** The number of the unemployed relative to the economically active; base data: annual aggregates, CSO LFS

Source: Census of 1949; Labour Accounts, 1970 to 1996

3. COMPONENTS OF LABOUR SUPPLY

3.1 Changes in the working-age population: demographic entries and exits

3.1.1 New entrants: school-leavers joining the labour force

The generation reaching the age of 15, i.e. active age, constitutes 2.4 to 3% of the active age population ever.

This generation had been increasing from 1989 to 1991, to become ever less numerous thereafter.

Table 3.1.

Persons entering working age, 1949 to 1996

000

1 January	Male	Female	**Total**	% rate to working age population
1949	76.8	75.4	**152.2**	2.7
1960	81.8	79.8	**161.6**	2.8
1970	107.4	100.3	**207.7**	3.4
1980	66.4	62.0	**128.4**	2.1
1990	93.3	88.6	**181.9**	3.1
1991	97.5	92.5	**190.0**	3.2
1992	91.7	86.8	**178.5**	3.0
1993	87.6	83.6	**171.2**	2.8
1994	83.1	79.1	**162.2**	2.7
1995	79.0	75.7	**154.7**	2.5
1996	73.4	70.4	**143.8**	2.4

Source: *CSO Census*, *1980*,. Vol.36., pp.195-198; *CSO Yearbooks*, Tables: "Numerical distribution of the population by sex and age".

Demographic data project a further steady decline of the potential youth labour supply in the years to come. (Nevertheless, the total active age population will not decrease if the usual demographic trends prevail, since the more numerous generations having entered the labour market since 1990 will remain active for another 45 years or so.)

3.1.2 Exits due to retirement

A total of 113.3 thousand persons, 47.5 thousand men and 65.8 thousand women representing 1.9% of the active-age population attained retirement age in 1995. This proportion is in good agreement with the long-term trend. (Parliament passed an act on raising retirement age in 1996. According to that, by 2009, retirement age will be 62 for both men and women. Retirement age will be raised to 57 for women in 1997; as for men, the process begins in 1999. Consequently, the provisions of the new Act exerted no impact at all in 1995 and 1996 yet.)

Table 3.2.

Persons entering retirement age, 1949-1996

000

1 January	Males aged 60	Females aged 55	**Total**	% rate of retired to active-age population
1949	35.4	52.8	**88.2**	1.6
1960	49.9	61.7	**111.6**	1.9
1970	58.7	73.1	**131.8**	2.2
1980	51.4	69.1	**120.5**	2.0
1990	54.6	64.0	**118.6**	2.0
1991	55.8	63.3	**119.1**	2.0
1992	51.7	62.3	**114.0**	1.9
1993	51.3	62.2	**113.5**	1.9
1994	50.6	63.2	**113.8**	1.9
1995	49.0	62.3	**111.3**	1.8
1996	47.5	65.8	**113.3**	1.9

Source: *CSO Census, 1980*, Vol.36., pp.195-198, CSO *Yearbooks*

The number of those past retirement age has remained practically unchanged for years (1991: 2,293.7 thousand; 1996: 2,295.1 thousand). Neither did their rate to the total population, 22.5%, change significantly. That is to say that, despite the general decline of the population, demographic processes indicate that the rates of those having reached retirement age to both the total population and the active age groups is stagnating. Hence the growth of the inactive segment of the population and the growing social costs it implies is the consequence of labour market, not demographic processes.

According to the relevant international forecasts, the proportion of 65 plussers relative to the total population keeps rising in the developed countries, basically as a result of the growth in average life expectancy.

In the countries of the European Union, in 1960 the life expectancy of men was 65, that of women 74 years; in 1993, the first grew to 72, the latter to almost 80. According to calculations by demographic experts, within three decades' time, the 80 to 90 age group will be thrice as numerous as it is now (*The demographic situation in the European Union, 1995*, European Commission, Luxemburg, Office for Official Publications of the European Commission, 1996).

In Hungary, life expectancy at the time of birth has been close to 70 years for a relatively long time. According to Hungarian demographic experts, the average life expectancy of the older generations has improved:

Table 3.3.

Further average life expectancy in Hungary in 1995

Age in 1995	Men	Women
60	14.8	19.5

65	12.1	15.8
70	9.7	12.3

Source: *CSO Reports, 1996*, No.7., pp.46-47.

On 1 January 1996, 14% of the Hungarian population was older than 65; this ratio is identical to that of the previous year.

3.1.3 Active-age mortality

Demographic forecasts of higher life-expectancy for members of the older generations must not make us forget the sad fact that the mortality rate of the 15 to 60 years old, very high for several years, did not improve in 1995 either.

Table 3.4.

Active-age mortality by gender, 1985-1995

000

Year	Males, 15 to 59	Females, 15 to 54	**Total**	% rate to working age population
1985	22.0	6.5	**28.5**	0.47
1986	21.7	6.5	**28.2**	0.47
1987	21.0	6.3	**27.3**	0.46
1988	22.5	6.2	**28.7**	0.48
1989	22.2	6.6	**28.8**	0.48
1990	22.7	6.6	**29.3**	0.49
1991	22.8	6.6	**29.4**	0.49
1992	24.6	6.9	**31.5**	0.52
1993	25.0	7.2	**32.2**	0.53
1994	24.9	6.9	**31.8**	0.52
1995	24.1	6.6	**30.7**	0.50

Source: *CSO Yearbooks* and publications

3.1.4 The working-age population

As mentioned already, as a result of the demographic trends of the preceding, relatively long, period, both the number of the active age group and its rate to the total population have been growing since 1990, i.e. in the period of persistent recession. Although the rise stopped in 1995, the relative weight of the generations in question did not change owing to the decline of the population: active age groups make up approximately 60% of the population.

Table 3.5.

Working-age population: its number and rate to the total population

000

Year (1 January)*	Population no.	Working-age population		*of which* female	
		no	% rate	no.	%
1949	9,204.8	5,608.2,	60.9	2,818.7	50.3
1960	9,961.0	5,754.4,	57.8	2,831.5	49.2
1970	10,322.1	6,029.4,	58.4	2,902.1	48.1
1980	10,709.5	6,175.0,	57.7	2,947.9	47.7
1990	10,374.8	5,956.8	57.4	2,849.6	47.8
1991	10,354.8	5,997.4	57.9	2,872.0	47.9
1992	10,337.2	6,031.4	58.3	2,889.7	47.9

1993	10,310.2	6,056.5	58.7	2,903.9	48.0
1994	10,277.0	6,071.6	59.1	2,912.3	48.0
1995	10,245.6	6,082.0	59.4	2,918.5	48.0
1996	10,212.3	6,080.7	59.5	2,916.1	48.0

* Data on the working age population referring to 1949-1980 included in the 3rd volume of the 1990 Census according to the regulations in effect since 1982

Source: *Census 1980*, Vol. 4, p.22. (Years 1949-1980); *Labour Account*, 1 January 1996

4. ***REAL LABOUR SUPPLY***

Each country considers as potential labour supply its active-age population as defined by the national regulations in effect. In Europe, active age means ages 15 to 64, with the following exceptions: Denmark and Sweden: 15-66; Italy and France 15-59; for women: Austria and the UK: 62; Portugal: gradually raised to 64. In Belgium and Finland, people between 60 and 65 and 63 and 65, respectively, can opt for retirement. (*Employment Outlook*, July 1996). International statistics calculates labour supply on the basis of the 15 to 64 age limits.

Additional labour supply is provided by those past retirement age. (People under 15 are practically absent from the European labour market, first of all owing to compulsory elementary schooling lasting for eight years at least.)

Statistics indicate the supply of those past retirement age in two ways. Firstly, they figure among those in employment (covered, in Hungary, by the annual CSO labour account). Secondly, the Labour Force Survey considers, as mentioned already, retired people able and capable of work and thus potential members of the labour supply, up to the age of 74.

In Hungary, despite the growth of the number of the active-age population by more than one hundred thousand (112 thousand) from 1989 to 1996, both the active and the retired supply dropped markedly. The decline in supply since 1991 is due, in the first place, to the very marked fall in demand.

Let us survey first the factors that increase the supply of labour.

4.1. Labour-supply increasing factors

4.1.1 People above working age

The fact that in Hungary there are some 2.3 million people past retirement age is primarily due to a much lower active-age ceiling than in the other European countries. The strength of these generations, making up some 23% of the total population, has changed very little from year to year (1990: 2,287.5 thousand; 1991: 2,293.7 thousand; 1992: 2,296.0 thousand; 1993: 2,295.7 thousand; 1994: 2,294.6 thousand; 1995: 2,293.7 thousand and 1 January 1996: 2,295.1 thousand).

On 1 January 1996, more than 800 thousand (845.3 thousand) of those older than 55-60 belonged to generations qualifying as active in Europe (i.e. younger than 65), and another 938 thousand to the generations older than 64 but younger than 75. The total retired population under 75 would mean a potential labour supply source of 1,783.3 thousand; together with the active age groups, nearly 7.9 million people.

It would be impossible for the economy to employ this mass of people corresponding to nearly one third of the active population even in a period of marked upswing; moreover, many of the retired do not intend to go on working either. (It is a common feature in Europe overall that few only of those having reached the age of 65 wish to remain active. In 1995, the relevant averages in the European Union were 6% for men and 2% for women. This rate was higher than the average in Sweden, Greece, Portugal and Ireland. (*Employment in Europe, 1996.*) Many, however, would be willing to go on working if only to earn a supplementary income.

In the eighties, of a total population of 1 million and 700 thousand past retirement age but under 75, some 500 to 550 thousand were working. Their number was highest in 1980 at 571.4 thousand, and given the fact that the early eighties were characterised by a general shortage of labour, real employee number in this group can be assumed to be identical with the real supply.

The figure in question corresponded to 33% of the retirement age population under 75 at that time. This warrants the assumption that, in case of adequate demand, approximately one third of these generations would have to be considered potential employees.

Table 4.1.

Number of retired persons under 75

000

1 January	Male	Female	**Total**	% rate to working age population	*of which* in employment (males and females)	
					no.	%
1949	387.8	724.2	**1,112.0**	19.8		
1960	475.6	923.8	**1,399.4**	24.3		
1970	622.8	1,133.7	**1,756.5**	29.1		
1980	581.3	1,128.3	**1,709.6**	27.7	571.4	33.4
1990	587.6	1,123.4	**1,711.0**	28.7	488.4	28.5
1991	598.3	1,133.4	**1,731.7**	28.9	434.6	25.1
1992	608.7	1,150.1	**1,758.8**	29.2	334.2	19.0
1993	617.1	1,166.6	**1,783.7**	29.5	253.5	14.2
1994	624.2	1,182.9	**1,807.1**	29.8	200.1	11.1
1995	619.1	1,179.1	**1,798.2**	29.7	169.4	9.4
1996	610.5	1,172.8	**1,783.3**	29.6	134.1	7.5

Source: CSO *Yearbooks*, Tables: "Numerical distribution of the population by gender and age"; CSO *Labour Accounts*.

Members of these generations, however, have gradually been driven out of the labour market: in 1989 28.5%, in 1995 7.5% only among them were in employment.

According to the quarterly labour force surveys of CSO, in addition to them, in fourth quarter 1994, 13.2 thousand more were looking for a job actively, i.e. approximately one thousand more than one year earlier, the corresponding figures for fourth quarter 1995 and 1996 being nearly 7 thousand and a mere 4.7 thousand.

According to the Labour Force Survey, some 9.2 and 7.3 thousand would have been willing to enter the labour market, albeit not seeking a job actively themselves, at end-1995 and end-1996, respectively. (CSO's Labour Force Survey assigns them to the category of the "passive" unemployed, i.e. people willing and able to work, but considering job search hopeless in advance owing to their age, vocational qualification or the lack of it, or the given state of the labour market.) The gradual withdrawal of elderly people (1992: 28.6 thousand; 1993: 13.5 thousand; 1994: 10.1 thousand) is indicative of growing hopelessness and lack of perspectives on the labour market.

According to the Labour Force Survey and CSO's Labour Account, of a total population of 1,800 thousand past active age (according to the Hungarian criteria) and under 75, in 1993 215 thousand, i.e. 11% of the generations in question, at end-1996 only 7.5% appeared as real supply on the labour market.

4.1.2 Foreign labour supply

The Labour Account covers the labour market participation of Hungarian citizens only, but citizens of several other countries also seek employment there.

Foreigners are assigned to two distinct categories: legal and illegal workers, the latter having no labour permit (or other legal title to undertake work in Hungary). The former are registered (in what follows, we shall introduce the relevant data), and statistics publishes regular stock and flow data on them. The number of illegal workers, on the other hand, is anybody's guess; we must content ourselves with estimates, some of them more cautious, others more daring. Data concerning the stock of resident aliens originate from a survey prepared by Judit Juhász (CSO) for international organisations.[2]

Registered foreign labour supply

According to the Central Statistical Office, in 1995 there were some 140 thousand foreigners having lived in Hungary for more than one year, some 120 thousand among them between the ages of 15 and 74, i.e. qualifying as active-age people according to the definition of the ILO. Another more than 40 thousand, also between the ages of 15 and 74, came to Hungary within the past ten years and have been granted Hungarian citizenship in the meantime. Hence a total of approximately 150-160 thousand appear on the Hungarian labour market as potential (extra) labour supply.

Of the 120 thousand 15 to 74 year-old, some 60 thousand are permanent residents holding a residence (immigration) permit. Those who want to work among them can do so without special permit, the same as Hungarian citizens. The same applies to those having been granted refugee status under the Geneva Convention.

In 1995, there were another approximately 60 thousand active-age alien temporary residents (who, however, have lived in the country for more than twelve months). Normally, these people can only undertake work legally if they have a labour permit. The circle includes labour permit holders registered by NLC, some 20 thousand people each year. No labour permit is necessary for

[2] Judit Juhász (CSO) "Hungary", *in*: *International Migration in Central and Eastern Europe and the Commonwealth of Independent States*, United Nations Economic Commission for Europe, United Nations Population Fund, UN, New York - Geneva, 1996, pp.69-79; and *SOPEMI Report for Hungary*, 1996, MS.

instance for managers of foreign-owned companies or invited researchers, lecturers and artists. (A growing proportion of the resident aliens are students. In 1990, less than 3% of the new legal residents were university or college students; in 1994 and 1995, almost every tenth.)

Migration statistics does not tell the exact proportion of workers among permanent and temporary residents, respectively (only the number of labour permit holders). Nevertheless, their presence obviously increases the potential labour supply.

Main forms of legal migration

Aliens and immigrants entitled to undertake work in Hungary have one of the following permits/titles:

a.) citizenship;
b.) residence (immigration) permit;
c.) refugee status;
d.) temporary residence permit, labour permit.

a.) Citizenship

Prior to 1989, citizens of other countries seldom applied for Hungarian citizenship, the majority of those who did being former emigrants intending to spend their retirement years here. The former amount of repatriation applications, not exceeding one thousand on annual average, however, grew to ten thousand by 1990 and more than 13 thousand per annum in the next three years. After the enactment of the Act on Citizenship of 1994 making eight years of legal residence in Hungary a pre-condition of citizenship, the number of applications dropped suddenly.

Table 4.2.

Citizenship applications, 1988-1996

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Applications*	2,300	2,800	9,500	13,400	13,300	13,281	3,775	3,430	1,247
Applications granted	-	927	1,981	3,409	11,288	6,497	5,444	5,948	6,442
Number of naturalisation (pers.)	-	1,123	3,170	5,893	21,880	11,605	9,905	10,021	12,126

*One application usually covers more than one person (a family).
Source: Juhász, *SOPEMI Report*, p.10.

85 to 90 per cent of the subjects applying for Hungarian citizenship are of Hungarian nationality and the overwhelming majority want to transmigrate from Romania.

The acquisition of citizenship, however, takes a long time: the applicant usually has to wait three years. (According to the Ministry of Interior Affairs, there are 11 thousand applications awaiting judgement now, and the number of refused (re)patriation applications (1994: 787, 1995: 1,120, 1996: 2,046) of also keeps rising (*Népszabadság*, 29 Jan. 1997).

b.) Residence (immigration) permit

Persons intending to stay in Hungary for more than one year must apply for a permit of long-term residence or a permanent residence (immigration) permit. Some 30 thousand such applications are filed every year, but the number of approvals is much less than that.[3]

[3] Prior to 1989, Hungarian legislation qualified as settled aliens persons entering Hungary with the intention to stay for more than one year or permanently. Under the Act of 1989 on Inward and Outward Migration, they are considered immigrants.

Table 4.3.

Long-term and permanent residence permits, 1992-1996*

	1992	1993	1994	1995	1996
Permanent residence permits					
Number of applications	14,000	14,800	10,600	5,600	4,000
Number of approvals**	8,700	7,700	3,400	2,200	2,000
Long-term (12+ months) residence permits					
Number of applications	16,600	11,500	17,800	23,500	15,300
Number of approvals	16,500	11,500	17,700	23,300	15,400

* New permits and extensions.

** Government defines a permit quota every year; usually, less permits are issued than that: 118 in 1995 and 300 in 1996

Source: Juhász, *SOPEMI Report*, p.12.

The number of residence applications has fallen sharply, probably because, although the Government put the ceiling at 2000 in 1996 as well, the high number of refusals deterred potential applicants. (The quota does not include permits granted to citizens of Hungarian nationality and those granted under the title of family reunion.) Government set the permit quota at 2000 for 1997 as well (*Népszabadság*, 13 Jan. 1997).

c.) Asylum seekers and refugees

The two big waves of refugees, first from Romania in 1988-1992, then Yugoslavia 1991-1995, are over. In 1991, more than 53 thousand refugees entered the country; in 1995 less than 6 thousand, and in 1996 their number hardly exceeded one thousand. The majority of these people having sought asylum in Hungary have left the country already. At the end of 1996, 4.7 thousand among them were still in Hungary; 913 at the so-called host stations, Békéscsaba, Nagyatád and Bicske. Those among them who want to work can have a legal earning job with a labour permit or launch their own independent business with the assistance of the international organisations.

Refugee status can be granted to persons applying for refuge in Hungary meeting the criteria of the Geneva Convention (e.g. persecution for political reasons in the home country). From 15 October 1989 to end-1996, a total of 4,284 persons were granted refugee status and some 2,700 of them remained in the country.

Refugee status implies conditions of labour identical to those applying to Hungarian citizens, i.e. no labour permit is required. According to the relevant estimates, the majority of these people are in employment.

d.) Labour permit holders

Conditions of foreign labour in Hungary were tightened in direct proportion with the growth of unemployment. The number of labour permit holders fell from 33,352 in 1991 to 20 thousand in 1994, 21 thousand in 1995 and 18.8 thousand in December 1996.

Table 4.4.

Valid labour permits, 31 December 1996*

Nationality of the employees	No. of valid permit holders	Of which			
		manual worker		non-manual worker	
		Total	*of which* skilled workers	Total	*of which* degree holders
Romanian	**8,526**	**7,419**	2,594	**1,107**	427
Polish	**956**	**879**	591	**77**	43
Chinese	**535**	**379**	85	**156**	87
former Yugoslavian	**1,007**	**596**	390	**411**	254
former Soviet	**2,200**	**1,729**	1,063	**471**	352
Czech	**8**	**3**	3	**5**	4
Slovak	**428**	**340**	200	**88**	65
Vietnamese	**132**	**55**	5	**77**	47
Other	**4,971**	**1,550**	432	**3,421**	2,808
Total	**18,763**	**12,950**	5,363	**5,813**	4,087
%	**100.0**	**69.0**	41.4	**31.0**	70.3

* Extensions included.
Source: NLC.

Labour permits are typically granted to those seeking jobs in shortage vocations – persisting despite unemployment –, or offering special skills/know-how.

The importance of vocational skills decreased in 1996. While in the previous years skilled workers made up 80% or so of all manual workers, now the primary demand was different.[4] As for non-manual workers, on the other hand, the proportion of degree-holders, i.e. people with a higher educational qualification, increased from 60 to 70%.

Let us note that a decisive segment of aliens living in Hungary under various titles consists of Hungarians from beyond the borders, especially from Romania.

To sum up: it is probably no exaggeration to put registered (legal) foreign labour supply at around 100 thousand, of which immigrants residing in the country make up some 60 thousand, refugees 2 thousand, labour permit holders 18.8 thousand, while the rest consist of persons entitled to work under the relevant legal regulations without labour permit.

Non-legal migration is probably quite extensive (unofficial estimates put it at 70 to 100 thousand). It typically takes the form of commuting, i.e. travel

4 Daily commuters working in the textiles and clothes industries from the borderline villages of Slovakia in the first place have been welcome guests in western Hungary for years. Labour shortage in the area of Gyõr-Sopron is eased by the presence of an annual 800 to 1000 commuters, especially semi-skilled workers. "Twenty thousand guest workers needed", *Népszabadság*, 3 September 1996.

to Hungary for a few days or weeks to work and back to the home country. The majority of the commuter migrants also come from Romania and Ukraine. Investigations suggest that illegal labour typically focuses on agriculture, construction, catering and commerce at the peak periods.[5] Although some are skilled workers hoping to find employment, the majority of the illegal workers find badly paid casual work requiring no vocational skill, of low value on the local labour market.

Chart 3.

Ethnic distribution of immigrants to Hungary

Source: *International Migration in Hungary*, *1997*, CSO

4.2. Labour-supply decreasing factors

As indicated already, from the early nineties on, the number and proportion of those entering the organised labour market to undertake work has been declining steadily. According to the Labour Account, in 1995 one third of the active-age population, i.e. nearly 2 million people, were absent from the labour market voluntarily or under some constraint.

One must not forget, however, that statistical accounting is limited to those employed, or not employed, by statistical data provider business units operating in an organised form.

Part of those absent from the organised labour market most probably work in the unorganised economy (for other households, on a casual basis, as in-house workers of family enterprises etc.). We shall return to this issue in our employment analysis.

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5 At the Duna Plaza construction works, the papers of 1,050 workers were investigated and 57 of them turned out to be illegally employed foreigners. *Népszabadság*, 13 September 1996.

The supply of active-age labour keeps decreasing for several reasons, pre-eminently the steady deterioration of employment opportunities and contraction of demand. Conscious efforts to narrow demand figured among the employment policy instruments of numerous countries (e.g. extension of the training period of the youth to delay the labour market entry of new generations etc.). In Hungary, since the appearance of open unemployment, two governmental measures were taken to decrease supply: introduction of the option of early retirement for employment policy reasons (a measure decreasing supply by more than 40 thousand annually) and assistance to so-called "professional" mothers, i.e. financial support to mothers raising three children at least and the acknowledgement of that period as employment relation from a social insurance point of view. (In 1993, 24.1 thousand women remained in the household on child-care assistance, in 1994 33 thousand, in 1995 44.6 thousand.)

Supply is further decreased by remaining in education the same as temporary absence on child-care aid or fee. The actual supply is further decreased by conscripts.

In addition to the above "institutionalised" forms of absence, the contraction of the labour supply is due, to a growing extent, to those who cannot or will not leave the household.

In what follows, we shall give a detailed overview of the structural changes of supply.

4.2.1 Students above the age of 15

Streamline education has kept a growing number of young people away from the labour market for years. The proportion of those remaining in education has been on the rise since 1988/89 despite the appearance of the "big" generations, so much so that in 1995/96 more than 600 thousand young people, 10% of the active-age group, took part in regular (day-time) education.

The more numerous generations have already given way to the smaller ones (on 1 January 1995, there were 154.6 thousand fifteen-year-old, one year later 143.7 thousand and on 1 January 1997 some 138 thousand).

Table 4.5.

Working-age youth participating in regular education

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School year	Persons taking part in regular education		% rate to working age population	
(1st January)	**total**	*of which* female	**total**	% rate of females
1956/60	**269.1**	101.9	**4.7**	3.6
1969/70	**469.0**	200.2	**7.8**	6.9
1979/80	**367.2**	172.9	**5.9**	5.9
1980/81	**374.2**	174.6	**6.1**	6.0
1990/91	**519.5**	249.6	**8.7**	8.7
1991/92	**547.6**	267.3	**9.1**	9.3

1992/93	**565.4**	278.9	**9.3**	9.6
1993/94	**577.7**	287.8	**9.5**	9.9
1994/95	**589.6**	292.2	**9.7**	10.0
1995/96	**605.3**	301.1	**10.0**	10.3

Source: CSO, *1980 Census*, Vol.36., pp.195-198; *Yearbooks* of CSO, Tables "Population by gender and age"; *Labour Accounts*, CSO

The tendency that many, some 40 thousand annually, leave the various forms of streamline education without having acquired a vocational qualification of some sort and hence with poor personal and economic prospects, prevails despite the growth of the social demand for, and opportunities of education. It is worth noting the fact, however, that the rate of those remaining in education in a given generation keeps rising, albeit at a modest pace.

Demand for university and college education is growing exceptionally fast. The rate of 18 to 22 year-old university and college students was 6.3% in 1970, 9.2% in 1980 and 15% in 1995. Despite the steady increase of entrance quotas every year allowing 19 to 20% of a generation to continue their studies at institutions of higher education by the mid-nineties, the present rate is still rather low in an international comparison. (*CSO Reports*, 1996/7, p.45.)

Other calculations, on the other hand, suggest that this rate is not bad at all as compared to the international levels. In 1995, 47% of the eighteen-year-old acquired GCSE (a total of 84 thousand, correspondence and night-school students included). (The OECD also considers the eighteen-year-old its base group.) In 1995, nearly 73% (61 thousand) of those having acquired GCSE the same year were accepted to higher education, their rate to the entire eighteen-year-old population that year being 34%. At identical entrance quotas, for demographic reasons, i.e. owing to the much smaller numbers of the following generations, the proportion of eighteen-year-old youth going on into higher education would exceed 40% already before the turn of the millennium, and 50% from 2003 on – rates much higher than the current and prospective quantitative levels of the higher education systems of the OECD countries, twice or thrice more developed than Hungary (János Tímár: "Labour market balance problems, 2010", *Közgazdasági Szemle*, Jan. 1997, p.43.).

Table 4.6.

Number and proportion of regular students among the 15 to 25 year-old, school years 1959/60 to 1995/96

000

School year	Number of persons aged 15-25 on 1 January	*of which* students	
		no	%
1959/60	1,432.5*	267.1*	18.6
1969/70	1,696.4*	465.6*	27.4
1979/80	1,464.4*	371.8*	25.4
1980/81	1,400.3	374.2	26.7
1989/90	1,445.5	483.0	33.4
1990/91	1,511.4	519.5	34.4
1991/92	1,561.0	547.6	35.1
1992/93	1,592.6	565.4	35.5
1993/94	1,609.4	577.7	35.9
1994/95	1,619.2	589.6	36.4
1995/96	1,618.9	605.3	37.4

* Census data.

Source: *Yearbook*, CSO; *Labour-force situation of the economy in the eighties*; *Labour Accounts*

Participation in regular education decreases in direct proportion with age: it is more than 96% for the fifteen-year-old and a mere 7.9% for those aged 21 to 25.x

Table 4.7.

Working-age regular students, distribution by school type in the school year 1995/96

Age	Population total 1.1.1996	Students*		*of which* (%)					
		no.	%	primary school	for handicap-ped children	vocational secondary school	vocational school	second ary school	college univer-sity
15	**143,772**	138,193	96.1	6.1	2.5	3.5	29.2	54.7	-
16	**154,600**	133,979	86.7	1.1	1.5	2.9	31.0	50.2	-
17	**162,014**	104,319	64.4	-	0.8	1.6	12.8	49.2	-
18	**170,911**	57,228	33.5	-	0.3	1.0	5.3	19.6	7.3
19	**178,086**	42,931	24.1	-	0.1	0.6	2.7	7.4	13.3
20	**189,428**	30,646	16.1	-	-	0.2	1.7	-	14.2
21	**181,182**	23,817	13.1	-	-	0.1	-	-	13.0
22	**150,773**	16,165	10.7	-	-	-	-	-	10.7
23	**146,416**	10,548	7.2	-	-	-	-	-	7.2
24	**141,744**	6,160	4.3	-	-	-	-	-	4.3
25	**143,031**	3,771	2.6	-	-	-	-	-	2.6
26 + or elder	**-**	6,196							
Total	**-**	**567,759**							

* Data referring to the beginning of the school year (15 September) differ from those included in Labour Account, the reference date of which is 1 January.

Source: *Yearbook 1995*, CSO 1996

The real importance of the extension of the period of training lies, apart from its postponing the labour-market entry of those concerned, essentially in that people with a better education are more able to adapt to the continuous changes of the economy and also to shape them. This is the reason why several countries are making heroic effort to extend the period of compulsory schooling (to 10 to 12 years of compulsory schooling, mandatory participation in secondary education), and strive to establish the necessary conditions of life-long learning and multiple career re-orientation.

4.2.2 Retirement at working age

Early retirements have kept increasing in 1995 to attain 6.7% of the active-age population by 1 January 1996.

Their stock, around 240 thousand until 1989, grew by more than one thousand in 1991-1993, the years of economic collapse and massive job losses. Since then annual growth has reverted to what can be considered its normal pace at 14.5 and 19.4 thousand retirements at active age in 1994 and 1995, respectively. The decreasing number of early retirements may partially be due to the introduction, in the meantime, of more severe disability pension criteria and the alteration of the conditions of retirement with age exemption as of 1 July 1995, including the provision that the employer must pay the total amount due of preliminary pension until retirement age, in one sum, to the account of the National Pension Office. The impacts of the changes in question, however, are not reflected by the 1995 orders of magnitude. The alteration of retirement age implied the modification of preliminary pension regulations, but the new rules will only become effective as of 1 January 1996.[6]

The stock of working-age pensioners, however, is quite considerable: in early 1996, they made up 20% of the approximately 2 million persons receiving pension.

Table 4.8.

Early retirement statistics*

Year	*000* persons			% rate to active-age population		
1 January	male	female	**total**	male	female	**total**
1989	161.4	81.3	**242.7**	5.2	2.9	**4.1**
1990	157.1	93.9	**251.0**	5.1	3.3	**4.2**
1991	175.8	106.3	**282.1**	5.6	3.7	**4.7**
1992	202.2	144.1	**346.3**	6.4	5.0	**5.7**
1993	215.9	149.0	**364.9**	6.8	5.1	**6.0**
1994**	219.3	151.2	**370.5**	6.9	5.4	**6.1**
1995	231.0	154.0	**385.0**	7.3	5.3	**6.3**
1996	243.7	160.7	**404.4**	7.7	5.5	**6.7**

* Active-age pensioners in employment not included.
** CSO modified the relevant data of the 1 January 1994 Labour Account data. The figures quoted here are the corrected data released in the 1 January 1996 LA.

Retirement at active age occurs for three main reasons:

a.) Age exemption specified under the law for certain vocations (e.g. mining, Hungarian State Railways, certain positions in the armed forces) in approximately 80% of the cases of retirement at working age every year. Now that retirement age is going to be higher, the measure of age exemption will also be modified.

b.) State of health – 60 to 65 thousand people a year, i.e. some 20% of the cases of retirement at active age until 1991.

[6] Accordingly, entitlement to three-year pre-pension was conditional on meeting the prescribed criteria and presenting an application no later than 31 December 1997. The criteria in question include reaching retirement age within three years, unemployment benefit allocation for a minimum of six months and the service period required for old-age pension.

c.) Age exemption/preliminary pension for employment policy reasons, a scheme introduced after 1990 to provide an alternative to reduction to those within five years of retirement age, with the costs being covered partly or fully by the Employment Fund. Pre-pension was open to unemployed people having received unemployment benefit for a minimum of six months, provided that they met the conditions defined under the Employment Act (costs covered by the Solidarity Fund). In 1990-1996, a total of somewhat more than 274.4 thousand retired for employment policy reasons. Since part of those concerned become regular pensioners every year, the stock of those discharged with a pension for employment policy reasons made up 100.4 thousand at the end of 1996.

Table 4.9.

Retirement with age exemption/preliminary pension

Year	Age-exemption	Pre-pension	**Total**	% rate to active-age population
1990	28,632		**28,632**	0.5
1991	37,518		**37,518**	0.6
1992	28,219	17,846	**46,065**	0.8
1993	17,127	25,877	**43,004**	0.7
1994	11,648	29,430	**41,078**	0.7
1995	11,151	22,914	**34,065**	0.6
1996	15,024	28,968	**43,992**	0.7

Source: *Monthly Statistical Bulletin*, CSO; unpublished data of National Pension Office

4.2.3 Conscription

The labour account registers conscripts formerly in employment among the earners on the ground that, theoretically, they are away from the workplace temporarily. International statistical practice considers national defence an economic activity. However, in recent years, more and more of the conscripts were unemployed people who either had had no job at all, or were made redundant. (According to the survey of the Hungarian Armed Forces, in 1993 42.9% of the conscripts and 43.9% of the discharged were unemployed, the corresponding rates in 1994 being 43.2% and 48.4%; in 1995 and 1996, 46 and 42-43% of the conscripts were unemployed.)

From our point of view, conscripts are temporarily absent from the labour supply. As compared to 1989, when 91.1 thousand young people were called in for regular military service (the ten thousand strong frontier guards not included), by 1995 the number of conscripts decreased to 46.3 thousand, i.e. by nearly half, at a time when unemployment hit young people very hard indeed. (In 1996 NHIF registered a total of 43.4 thousand conscripts only.) That is to say that conscription contributes less and less to reducing the tension of the labour market. Moreover, both the number of conscripts and, according to the plans, their service period, are going to be reduced even further.

4.2.4 Parental leave

Child-care allowance allowing one of the parents to go on unpaid leave with absence considered as service period from the employment point of view for a period defined by child-care legislation (2 to 3 years in general) was introduced in 1967. It also provided the parent a guarantee to be re-instated to his/her former job or one equivalent to it upon returning to work. Parents on child-care leave benefited from regular financial assistance. This allowance system aimed at providing support to raising children at home was effective until 15 April 1996.

Before that, assistance took the following forms:

- earnings based child-care fee allocated upon request to parents up to the second year of age of the child (up to 15 April 1996, except for those having acquired entitlement earlier);
- fixed amount child-care aid claimable up to the third year of age of the child (from 15 April 1996 on conditional on income not exceeding the minimum old-age pension ever);
- child-care assistance introduced in 1993 claimable by families raising three or more children in the household; needs based, of a fixed amount identical to the minimum old-age pension ever.

The above three forms of assistance withdrew, so to say, an annual 250 to 280 thousand people (mostly mothers) from the labour market. Until 1989 most of them were in employment, registered as active earners. As a result of massive job losses, however, many of them had actually become unemployed, having no job to return to any more after the expiration of child-care leave. (According to a 1993 CSO survey, 43% of the women on child-care leave at that time had no job. (Cf. Judit Lakatos: "Return to the labour market after having been on child-care leave", *Munkaügyi Szemle*, December 1993).

NLC has been registering people becoming registered unemployed while on parental leave as "inactive earners" since 1995 only. In December 1995 and at end-1996, the unemployment benefit of 18 and 15 thousand persons, respectively, was suspended owing to their receiving child-care allowance.

Beneficiaries of child-care assistance were registered by the Labour Account from the very start as economically inactive.

Although originally not devised to combat unemployment, child-care aid has contributed to a large extent to easing the tensions of the labour market: when the first large generations of 1952-54 came of active age, masses of mothers with young children left the labour market temporarily (János Tímár: "Speciális pótlék a dolgozó anyáknak" , – Így kezdődött a gyes története"(Special allowance to the working mother: this is how the story of child-care aid began), *Népszabadság*, 18 April 1996).

Hence in the grave years of growing unemployment, it obviously did contribute to moderating acute tension. As indicated by the figures quoted in the previous annual report, despite the decreasing number of children, an ever larger segment of the parents had recourse to this option providing them with a modest but regular income, often in order to flee the labour market (according to our approximative estimate, in 1989 65.4%, in 1994 71% and in 1995 almost 80% of the parents (those receiving child-care assistance included).

1 January 1996 Labour Account data covering those concerned (i.e. parents making use of this opportunity for at least one day) do not reflect the impacts of the alteration of the child-care provision system yet. However, from the labour market/employment perspective, to last year's stock of 230 thousand beneficiaries one must obviously add the 44.6 thousand mothers raising three children at least in the household.

Table 4.10.

Number of persons on parental leave and their ratio to the working-age population, 1980-1995

Year 1 January	Beneficiaries of child care aid/fee					
	male	female	**total**	male	female	**total**
	000			% rate to working-age population		
1980	0.1	263.9	**264.0**		9.0	**4.3**
1990	1.2	243.5	**244.7**	0.4	8.5	**4.1**
1991	1.3	250.3	**251.6**	0.5	8.7	**4.2**
1992	1.8	260.3	**262.1**	0.6	9.0	**4.3**
1993	1.7	260.4	**262.1**	0.5	9.0	**4.3**
1994	2.2	252.4	**254.6**	0.7	8.7	**4.2**
1995	5.2	246.8	**252.0**	1.6	8.5	**4.1**
1996	4.6	226.0	**230.6**	1.5	7.8	**3.8**

Source: *CSO Labour Account*, 1 January 1996.

The total number of persons on parental leave and thus absent from the labour market was 275.2 thousand, corresponding to 4.5% of the active-age population in 1995.

In 1996, despite the further decline in the number of births, the absolute number of persons on parental leave increased, according to NHIF, from 237.5 thousand in 1995 to 247.1 thousand (annual averages, child-care assistance not included). Growth was mainly due to the possibility of claiming child-care aid on citizen's right. The so-far-significant alleviating effect of absences from the labour market due to parental leave is expected to decrease to a large extent in the future.

4.2.5 Household dependants

In addition to those absent from the labour market for one of the reasons enumerated above, hundreds of thousands of active-age people have become economically inactive since 1992. After years of persistent increase, by 1 January 1996 the number of the non-earner *and* unregistered unemployed (667.3 thousand) had exceeded by far that of the registered unemployed (495.9 thousand).

Of course, a smaller or larger group of people unwilling or incapable of finding a job exists in every country. In Hungary, at the time of quasi-full employment, there were approximately 250 to 300 thousand active-age people unwilling or incapable of pursuing an earning activity of some kind and living on family support.

With the emergence of massive unemployment and the sudden and marked contraction of job vacancies, however, more and more give up job search for lack of hope. On a year-on-year basis, the number of those withdrawing to the household rose by 28.4 thousand in 1991, 97.3 thousand in 1992, 150.1 thousand in 1994 and another 13.3 thousand in 1995. Within that population, the proportion of women keeps rising, the same as that of the 15-19 year old youth not remaining in education but incapable of finding a job and that of those leaving the unemployment benefit system, part of whom do not even register as unemployed.

Absentees from the labour market are supported, in the first place, by the family and those worse off partly by the social welfare system. Casual labour in the unorganised, sometimes the black, economy most probably originates from this circle above all.

Table 4.11.

Number and distribution by sex of working-age household dependants

Year 1 January	Household dependants			% rate to working-age population		
	males	females	**total**	males	females	**total**
	000					
1989	116.5	141.1	**257.6**	3.7	5.0	**4.3**
1990	94.7	116.8	**211.5**	3.0	4.1	**3.6**
1991	65.0	146.0	**211.0**	2.1	5.1	**3.5**
1992	129.2	110.2	**239.4**	4.1	3.8	**4.0**
1993	153.1	183.6	**336.7**	4.9	6.3	**5.6**
1994	241.6	262.3	**503.9**	7.6	9.0	**8.3**
1995	299.1	354.9	**654.0**	9.5	13.2	**10.7**
1996	276.7	390.6	**667.3**	8.7	13.4	**11.0**

Source: *CSO Labour Account*, 1 January 1996

4.2.6 People working abroad

The last Labour Account puts the number of those working abroad legally or illegally at around 23 thousand, i.e. even less than in the years before, in concert, basically, with the changes in the quotas defined by inter-state agreements.

Legal employment opportunities for labour from without the European Union have been diminishing for years everywhere in Europe. Since the signing of the Maastricht Treaty, member states can only hire non-member-state citizens to those vacancies than cannot be filled appropriately otherwise in either the given state or in the EU member states.

From our point of view the only exceptions are countries having concluded an employment agreement with Hungary such as Germany, defining an annual 13 to 16 thousand labour permit quota for Hungarians ever since 1991. However, under the impact of high and growing unemployment, employment opportunities have decreased most markedly there as well: in 1995, the country only hosted 6 thousand workers, mainly in the construction industry, and some 2 thousand Hungarians were employed with individual labour permits. The agreement with Austria sets the quota at ten thousand workers per year. Bilateral agreements will open the way for apprentice exchange projects with Switzerland (100), Luxemburg (20) and Austria, respectively. Ireland agreed to receive 12 Hungarian workers.

From among the Hungarian employees, highly qualified Hungarian intellectuals (research fellows, university professors) have the best chance of finding legal employment for a shorter or longer period of time abroad, but that only means a modest group of two or three hundred a year.[7]

Of course, the deterioration of legal work opportunities enhances illegal attempts. It is to be assumed that there are at least twice or thrice as many Hungarians working abroad illegally as legally. However, the persistently poor and at several places declining state of the national labour markets will probably trigger more severe control and sentencing in these areas as well.

All in all, the various factors presented above in detail reduced the potential active-age labour supply in 1995 by a total of more than 2 million. Although the rate of absence/exclusion from the labour market has moderated somewhat, the number of absentees grew by more than 800 thousand since 1990, and their proportion rose from 20% in 1990 to 33.4% now. That is to say that one third of the active-age population must be deducted from the supply of labour.

Table 4.12.

Working-age absentees from the labour market, 1949-1996

000

Year 1 Jan.	Working age popular	Labour-supply decreasing groups							% rate to active-age population
		students	pension ers	other non-earners	on parental leave*	cons-cripts	employed abroad	**Total**	
1949	5,608.2						--	**2,095.5**	37.4
1960	5,754.4	269.1		1,381.1			--	**1,650.2**	28.6
1970	6,029.4	469.0		981.3	141.2		--	**1,591.5**	26.4
1980	6,175.0	367.2	641.6		264.0		4.0	**1,276.8**	20.7
1990	5,956.8	483.0	251.0	211.5	244.7		3.6	**1,193.8**	20.0
1991	5,997.4	519.5	282.1	211.0	251.6	66.0	15.0	**1,345.2**	22.4
1992	6,031.4	547.6	346.3	239.4	262.1	64.0	30.0	**1,489.4**	24.7
1993	6,056.5	565.4	364.9	336.7	262.1	63.0	28.0	**1,620.1**	26.7
1994	6,071.6	577.7	370.5	503.9	278.7	62.0	27.0	**1,819.8**	30.0
1995	6,082.0	589.6	385.0	654.0	285.0	56.3	25.0	**1,994.9**	32.8
1996	6,080.7	605.3	404.4	667.3	275.2	46.7	23.0	**2,021.9**	33.3

*All forms of parental leave
Source: CSO Census; *Labour in the eighties*; CSO Labour Accounts

[7] Academic circles estimate that 20% of the Hungarian researcher stock ever is working abroad. However, although Hungarian researchers are still among our best "export goods", there are such masses of excellent scientists from the collapsed former socialist countries flooding the West that demand is now restricted to experts speaking several languages and having acquired considerable experience in their research area. *Népszabadság*, 10 Jan. 1997.

Chart 4

Active-age absentees, 1991 to 1996

1 students
2 pensioners
3 other non-earners
4 persons on parental leave
5 conscripts
6 persons working abroad

4.2.7 Balance of the labour-supply increasing and decreasing factors

It is the balance of the above, positive and negative, labour supply factors that defines the real 1995 labour supply and the exact measure of its marked contraction, a persistent trend since 1990.

Table 4.13.

Real labour supply

000

	1 January						
	1990	1991	1992	1993	1994	1995	1996
1. Working age population	**5,956.8**	**5,997.4**	**6,031.4**	**6,056.5**	**6,071.6**	**6,082.0**	**6,080.7**
2. ***Supply-increasing groups***							
persons above working age*	488.4	434.6	334.2	253.5	200.1	169.4	134.1
alien labour **	n.a.	82.0	90.3	72.0	72.0	100.0	100.0
Total		516.6	424.5	325.5	272.1	269.4	234.1
1-2. Grand total		**6,514.0**	**6,455.9**	**6,382.0**	**6,343.7**	**6,351.4**	**6,314.8**
3. *Supply-decreasing groups*							
students	483.0	519.5	547.6	565.4	577.7	589.6	605.3
pensioners	251.0	282.1	346.3	364.9	370.5	385.0	404.4
conscripts		66.0	64.0	63.0	62.0	56.3	46.7
persons on parental leave	244.7	251.6	262.1	262.1	278.7	285.0	275.2
household dependants	211.5	211.0	239.4	336.7	503.9	654.0	667.3
persons working abroad		15.0	30.0	28.0	27.0	25.0	23.0
Total		1,345.2	1,489.4	1,620.1	1,819.8	1,994.9	2,021.9
Real supply		**5,168.8**	**4,966.5**	**4,761.9**	**4,523.9**	**4,356.5**	**4,292.9**
(%)		**79.3**	**76.9**	**74.6**	**71.3**	**68.6**	**67.9**

* Real employment, 1990-1996
** Computed data (based on CSO and NLC data)
Source: CSO Labour Accounts; data released by NLC

The marked and persistent decline in the computed real labour supply is due to a large extent to the contraction of demand.

5. *REAL LABOUR DEMAND*

The by-and-large stable level of employment in 1996 was shaped by a multitude of everyday redundancies and placements.

The official employment figures of the Hungarian economy differ by orders of magnitude in function of the system of statistical accounting used.

5.1. Different methods and results of the statistics

In Hungary today, employment level has several, narrower and wider, interpretations and it is measured accordingly.

a.) The most widespread system is CSO's Labour Force Survey based on the recommendations of the ILO. In addition to covering the entire 15 to 74 year-old population, it also uses a special interpretation of "employment", considering anyone having performed a minimum of one hour's earning activity in the week preceding the survey to be in employment. Age-group-specific data include among those in employment conscripts, but do not include people absent from the labour market for being on parental leave.
Data are based on questions addressed to subjects constituting representative national samples for each age-group on a quarterly basis.
According to the survey data, as mentioned already, of a total population of 10 million, in 1996, more than 7.8 million (7,808.0 thousand) adults, (3,733.0 thousand men and 4,075.0 thousand women) belonged to the 15 to 74 age group.
In 1996, 3,648.1 thousand among them, 46% of the population concerned (54.4% of the men and 39.5% of the women) were in employment according to the above definition.
Although annual employment numbers have kept declining (1994: 3,992.0, 1995: 3,958.5, 1996: 3,944.7 thousand), in fourth quarter 1996, the tendency reversed: the number of those in employment increased by 53.7 thousand over the previous quarter, and was some 4 thousand less than in the last quarter of 1995, i.e. decline, less than half a per cent at the annual level, has come to standstill (*CSO Reports*, 1996/12, p.26.)
Despite this promising process, the 46% employment rate of potential adult earners (a large segment of the retired population among them) is still rather low, especially considering the fact that it includes practically every earning activity (e.g. casual work).

b.) CSO's annual Labour Account, on the other hand, reviews the labour market situation of the working-age population as defined by Hungarian legislation. Employment numbers, however, include earners past working-age in employment considered an additional source of labour.
Conscripts and people on child-care fee and aid (away from the workplace, theoretically, for the allocation period of child-care allowance only) figure in the Labour Account as persons in employment.
Employment number is determined from data (taxation/social insurance data) based on the mandatory registration in an employment relation.

On 1 January 1996, the total number of the labour force was 6,214.8 thousand (of which: 6,080.7 thousand active-age; 134.1 thousand older than that). 3,974.3 thousand among them (64%) were counted as employed, 3,615 thousand as active earners, 230.6 thousand as persons on child-care aid/fee and 128.7 thousand as working pensioners, a total of 2,087 thousand men and 1,887.3 thousand women. (The 36.2 thousand people having reached the upper limit of active age but not in retirement yet are assigned to the category of active earners.)
The number of those in employment fell by 70.9 thousand relative to the previous year, and by 1,497 thousand over 1990.
If people permanently absent from the labour market for being on child-care leave are not assigned to the category of those in employment, of a total of 6.2 million people taken into account, on 1 January 1996 (i.e. in 1995) 3,743.7 thousand people (60.2%) qualified as persons pursuing an earning activity. This rate was near-identical (60.7%) one year earlier.

Table 5.1.

Earners in 1980-1996

000

Year 1 January	Active earners	Employed pensioners	**Total**	Earner to non-earner ratio (%)
1980	5,073.6	396.0	**5,469.6**	51:49
1985	4,912.9	460.0	**5,372.9**	51:49
1990	4,795.2	432.0	**5,227.2**	50:50
1991	4,668.7	383.6	**5,052.3**	49:41
1992	4,241.8	292.3	**4,534.1**	44:46
1993	3,866.9	223.0	**4,089.9**	40:60
1994	3,700.7	181.1	**3,881.8**	38:62
1995	3,636.4	156.8	**3,793.2**	37:63
1996	3,615.0	128.7	**3,743.7**	37:63

Source: *CSO Labour Account*, 1 January 1996

c.) The National Health Insurance Fund (NHIF) publishes annual average stock numbers on earners registered by it. Although social insurance contribution is paid in Hungary on a mandatory basis by both independents and employees, this provision can hardly be asserted in the case of activities outside the scope of the organised economy. (Thus, for instance, work performed for one hour per week or other short-term casual labour. Part of the farmers, for instance, enjoying tax exemption until 1997 and therefore not registered by the taxation authorities, were not registered by the social insurance authorities either.)[8]

8 This is not to say that contribution payment should be extended. On the contrary. Many countries of Europe giving priority to expanding legal earning activities first of all alleviate the tax and social contribution burdens on employment of numerous strata/activities to the maximum extent (cf. e.g. Mária Frey: *A foglalkoztatás bõvítésének kísérletei: munkahely-teremtés a munkaerõpiac fõ áramán kívül* (Attempts at expanding employment: job creation outside the mainstream labour market), Institute of Labour Research, 1996).

NHIF data indicated a total of 3,935.2 thousand active earners in 1995, and 3,824.2 thousand in 1996 (those on parental leave not included).

d.) The March 1996 Hungarian Household Panel (HHP) survey[9] reported a 45% employment rate. (The HHP survey imposes no upper age limit but, contrary to the CSO survey, the bottom age is 16, not 15.) The survey considers persons having performed an earning activity for a minimum of 16 days in the given month as persons in employment. Nevertheless, it essentially registered as many employed as CSO's Labour Force Survey indicating a 45.4% employment rate for first quarter 1996. (It was only in the last quarter of 1996 that CSO Labour Force Survey data became more promising.)

Table 5.2.

Labour-market distribution of the 16+ population
(March every year)

%

	1992	1993	1994	1995	1996
Employee	40.1	36.6	35.9	37.6	36.2
Self-employed & working member of partnership	3.6	3.4	3.9	4.9	5.5
Casual worker	1.1	0.7	0.9	0.8	1.2
Working pensioner	1.7	1.6	1.7	1.9	1.9
Employed	**46.5**	**42.3**	**42.4**	**45.2**	**44.8**

Source: *Hungarian Household Panel Survey*, 1997

Since available summary employment data refer to different dates and populations and are based on different methodologies, their comparison below serves to illustrate orders of magnitude only:

	1995	1996
- CSO LFS, *Q4*	3,716.2	3,712.2*
- CSO Labour Account, 1 Jan.	4,045.2	3,974.3
- NHIF, annual average	3,935.2	3,824.2

* 3,944.7 thousand including those on child-care fee/aid as well.

Despite the differences, the above data all show that the level of employment, although relatively stable, was still definitely low in 1996.

Our employment level resembles that of the poorer, less developed European countries.

International statistics (in both the OECD and the EU countries) relates the rate of employment to the total population number of the 15-64 age groups, i.e. 9 and 5 generations more of women and men, respectively, than those within the Hungarian active-age limits in effect 1996.

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[9] HHP has been gathering data on the employment and earning situation of the population, the household economies and several other topics by interviewing the 16+ members of some 2,000 hoseholds, a total of 4,400 people altogether, on a regular bases, in March every year, since 1992. In 1996, 3,867 adult members of 1,744 households were interviewed.

In 1995, the then 26 OECD countries showed an average employment rate of 66.2%; this rate has been unchanged for decades, except for minor fluctuations (1973: 66%; 1983:63.7%; 1993: 65.5%; 1994: 66%).

At the same time, the respective national rates show significant differences: they exceed 70% in the wealthiest, most developed countries (Switzerland: 79.2%; Japan: 74.1%; Norway: 74%); they are around 50% in the less developed ones (Turkey: 54.1%; Italy: 52.1%), and as low as 45.9% in the case of Spain (*Employment Outlook, 1996*, p.186.)

The employment trends of the 15 European Union member states, some wealthier, some poorer, are essentially identical with those of the (partly overlapping) group of the OECD countries. In 1995, the average employment rate (also based on the 15 to 64 age-group) was 60.4%. The rate was highest in Luxemburg at 77.2%, but exceeded 70% in Denmark (75.6%) and Sweden (72.1%), Austria (70.8%) and the UK (70%). Beside Spain and Italy, Ireland (55.5%) also figured in the lowest bracket (*Employment in Europe, 1996*, pp.147-162.).

In Hungary, the 3,974 thousand 15 to 64 year-old identified as being in employment by the 1 January 1996 Labour Account represent 57.4% of the corresponding age group (6,926 thousand) – 54.1% without those on parental leave. This rate is closest to those of Greece (56.4%) and Belgium (56.6%).

5.2. Active earners

5.2.1.Earners at working age

In Hungary, thanks partly to the relatively low active-age limit as compared to the other countries of Europe, almost 79% of the population in question were qualified as active earners in the eighties. The rate of people registered as active-age earners has been declining steadily all through the nineties; this is especially true of the rate of women who used to be represented quasi-equally with men. By now, rates based on the group of active-age earners have become meaningless, partly because employment number essentially includes people of working age, and partly because the national working-age limits make it impossible to interpret Hungarian labour market processes in either a European or an OECD comparison. "Active age" as such, changing constantly anyway, is becoming more and more of a category of economic history, but current Hungarian statistical accounting practice warrants its being discussed here.

Labour Account data make it possible to discern the relevant trends.

Table 5.3.

Number of active earners and their rate to the working-age population

Year (1 Jan.).	Working age						
	population			active earners*			rate to population
	total	*of which* female		**total**	*of which* female		
	no.		%	no.		%	%
1949**	**5,608.2**	2,828.7	50.4	**3,512.7**	973.9	27.7	62.6

1960**	**5,754.4**	2,831.5	49.2	**4,104.2**	1,412.2	34.4	71.3
1970**	**6,029.4**	2,902.1	48.1	**4,579.9**	1,848.1	40.4	75.9
1980	**6,175.0**	2,947.9	47.7	**4,845.1**	2,114.4	46.9	78.5
1985	**6,056.0**	2,882.2	47.6	**4,777.6**	2,146.3	47.0	78.9
1990	**5,956.8**	2,849.6	47.8	**4,684.6**	2,135.0	47.0	78.6
1991	**5,997.4**	2,872.0	47.9	**4,567.1**	2,059.8	46.5	76.2
1992	**6,031.4**	2,889.7	47.9	**4,154.9**	1,915.8	47.3	68.9
1993	**6,056.5**	2,903.9	48.0	**3,798.7**	1,736.1	46.8	62.7
1994	**6,071.6**	2,912.3	48.0	**3,647.4**	1,656.7	45.4	60.1
1995	**6,082.0**	2,918.5	48.0	**3,598.1**	1,605.4	44.6	59.2
1996	**6,080.7**	2,916.1	48.0	**3,578.8**	1,565.0	43.7	58.9

* Conscripts included
** Census data
Source: *Labour-force situation of the national economy in the eighties*; *Labour Account*, 1 January 1996, CSO

Generation-specific CSO LFS data allow us to calculate the respective employment rates of the various active-age groups.

Accordingly, there are differences of merit by age groups within the total active-age population which, however, have been typical for years: members of the 30 to 39 year-old group are clearly the "employment favourites".

Table 5.4.

Age-group distribution of persons in employment, *QIV* 1995 and 1996

000

Age-group	Population 1 Jan. 1995	*of which* employed, *QIV* 1995		Population 1 Jan. 1996	*of which* employed, *QIV* 1996	
		no.	%		no.	%
15-19						
male	438.2	70.8	16.2	414.1	65.3	15.8
female	417.3	58.4	14.0	395.2	57.0	14.4
total	855.5	129.2	15.1	809.3	122.3	15.1
20-24						
male	391.1	240.9	61.6	414.8	248.9	60.0
female	372.6	234.5	62.9	394.8	252.1	63.9
total	763.7	475.4	62.2	809.6	501.0	61.9
25-29						
male	344.2	270.4	78.6	354.7	282.5	79.6
female	330.9	254.8	77.0	340.8	262.6	77.1
total	675.1	525.2	77.8	695.5	545.1	78.4
30-39						
male	690.3	587.5	85.1	660.8	561.5	85.0
female	687.3	562.6	81.9	656.8	540.0	82.2
total	1,377.6	1,150.1	83.5	1,317.6	1,101.5	83.6
40-54						
male	1,050.6	758.6	72.2	1,068.6	778.1	72.8
female	1,110.3	729.2	65.7	1,128.5	735.8	65.2
total	2,160.9	1,487.8	68.9	2,197.1	1,513.9	68.9

55-59						
male	249.1	103.7	41.6	251.6	100.5	39.9
female	307.4	37.8	12.3	310.0	42.6	13.3
total	556.5	141.5	25.4	561.6	143.1	25.5
60-74						
male	619.1	41.9	6.8	610.5	33.8	5.5
female	871.7	25.0	2.9	862.8	28.3	3.3
total	1,490.8	66.9	4.5	1,473.3	62.1	4.2
Total						
male	**3,782.6**	**2,073.8**	**54.8**	**3,775.1**	**2,070.6**	**54.8**
female	**4,097.6**	**1,902.3**	**46.4**	**4,088.9**	**1,918.4**	**46.9**
total	**7,880.2**	**3,976.1**	**50.5**	**7,864.0**	**3,989.0**	**50.7**

Source: CSO Labour Force Surveys, 1995, 1996; CSO Yearbooks

The distribution of employment by age groups shows many national characteristics in the OECD countries.[10] In 1995, the employment rate of the 15 to 24 year-old was highest in Denmark at 65.9%, but it exceeded 60% in Iceland as well. It was lowest, below 30%, in France (22%), Spain (25.9%) and Italy (26.1%). Employment rates in this age group depend on both the number of students and the placement chances of the young.

In Hungary at the end of 1995, 37.3% of the 15 to 24 year-old population was in employment.

As for the 25 to 54 year-old, the rate of those in employment exceeded 80 per cent in 5 of the 26 OECD countries taken into account (it was highest in the Czech Republic at 88.7%), but it fell into the 70 to 80 per cent band for the majority. It was only Spain that the employment level of the most active age groups was below 60% (59.1%), while in Turkey it has just surpassed it (60.6%).

In Hungary, 60.6 per cent of those belonging to this age-group were in employment.

The employment rate of the 55 to 64 year-old was highest on Iceland at 85.2%, but it was as high as 70% in Switzerland and 63.7% in Japan; it was lowest in Belgium at 23%. The rates in question show a close correlation with retirement age in the given country. In 9 of the 25 data-providing countries, more than half of those belonging to the older generations were active, and in another 7 countries 40 to 50% among them.

Since no detailed data are available on these generations in Hungary and all we know is that the employment rate of the 55 to 59 year-old is only 25.4%, and that of the 60 plussers even less, it seems reasonable to assume that less old people are active in Hungary than in any of the OECD countries.

This assumption is corroborated by data and calculations relating to employment past retirement age.

5.2.2 Employment in retirement

[10] Source of OECD data: *Employment Outlook, 1996*, p.187.

Employment after retirement age provides the economy with an additional source of labour. As mentioned already, however, the economy has had ever less use of this reserve pool in recent years, more than 95% of those in employment being active-age people.

Table 5.5.

Employment after retirement age

000

Year 1 Jan.	Employment after retirement age		Employment of persons in early retirement	**Total**	Employment after retirement age*	
	as active earners	employed pensioners			% rate to active earners	% rate to retired population below 75
1980	228.5	342.9		**624.5**	12.3	33.4
1985	135.1	402.5	57.5	**595.1**	12.1	30.9
1990	110.4	378.0	54.0	**542.4**	11.3	28.5
1991	101.6	333.0	50.6	**485.2**	10.4	25.1
1992	86.9	247.3	45.0	**379.2**	8.9	19.0
1993	68.2	185.3	37.7	**291.2**	7.5	14.2
1994	53.3	146.8	34.3	**234.4**	6.3	12.5
1995	38.3	131.1	25.7	**195.1**	5.4	10.8
1996	36.2	97.9	30.8	**164.9**	4.6	9.2

* Active earners and employed pensioners
Source: CSO Labour Accounts and Yearbooks

Despite this marked and persistent decline, the economy will always have a certain demand for those above retirement age, for professional reasons. This applies partly to those having special and/or high qualifications or working in the shortage vocations (health care, for instance) existing despite unemployment, and partly to those in the private sector, the self-employed and their assisting family members, for whom attaining the official retirement age limit is no hindrance to pursuing a certain activity.

CSO's Labour Force Surveys indicate a much smaller number of employees past working age than the data of the Labour Accounts. The Surveys make no distinction between pensioners and others within the respective age groups. In 1992, the age-groups in question (i.e. women aged 55 to 60, both sexes from 60 to 74) included a total of 204.2 thousand persons in employment past (Hungarian) working age; in 1993, the corresponding total fell to 134 thousand and in fourth quarter 1994 to as little as 115.8, to stagnate at 104.7 thousand in both fourth quarter 1995 and 1996.

That is to say that the present, contracted, labour demand focuses ever more almost exclusively on the active-age population. This, however, is a global tendency, as witnessed by the data presented in the above.

5.3. Atypical jobs

Decline in the number of job opportunities has led to the global spreading of what the international literature on the subject has come to call "atypical" jobs, i.e. labour relations differing in many respects from the traditional ones.

International literature has been using this term for one-and-a-half decade now to distinguish typical, traditional and "other" forms of labour. Typical employment usually lasts for an indefinite period of time (and, in case of notice/lay-off, the employee may be entitled to his/her wage and severance pay). "Lawful working time" is defined by collective contracts based on national agreements, and, in case of a shorter working time or of overtime, the employee's income is protected by special guarantees. Moreover, the employee has various rights related to the employment relation, such as paid leave, sick leave, paid holidays etc.

Under the dual pressure of persistent unemployment and the need to reduce employment costs in order to keep up with global economic competition, various forms boosting employment but differing to a smaller and larger extent from the traditional employment relation have become naturalised at an accelerating pace. The most common among these forms are part-time employment, self-employment, fixed-term employment, job work and casual (temporary) work within the organised economy or without it (e.g. in the household). Those concerned accept the overwhelming majority of these jobs *faute de mieux*, in the absence of traditional, full-time jobs.

Although the relative weight of these forms of employment differs from country to country, they are spreading fast everywhere in the countries of the European Union: the proportion of those entering the employees' group this way grows by 1 to 2 percent every year. Three forms, part-time employment, self-employment and temporary contracts, are actually monitored separately already. In 1993-1994, some 40% of all the earners worked in one of the forms in question; in 1995 as many as 42.4%.

Table 5.6.

Atypical jobs in the EU, 1995
(*% of all employees*)

	Part-time employment	Self-employment	Fixed-term contracts
	as % of total employment		
Belgium	13.6	15.4	5.3
Denmark	21.6	8.4	12.1
Germany	16.3	9.4	10.4
Greece	4.8	33.8	10.2
Spain	7.5	21.8	35.0
France	15.6	11.6	12.3
Ireland	12.1	20.8	10.2
Italy	6.4	24.5	7.2
Luxemburg	8.0	9.9	-
The Netherlands	37.4	11.4	11.4

Austria	13.9	12.0	6.0
Portugal	7.5	25.8	10.0
Finland	11.8	14.3	16.5
Sweden	25.8	11.3	12.5
United Kingdom	24.1	13.0	7.0
EU average	16.0	14.9	11.5

Source: *Employment in Europe, 1996*, pp.147-161.

Part time work: According to the accepted definition, part-time employees are people employed for a shorter period of time per day (week/month) than the corresponding work-time under the respective national legislation.

In the early nineties, many Western European statistics registered quite a number of persons undertaking part-time work on a voluntary basis. In the meantime, however, the proportion of those choosing this alternative under constraint, for lack of available full-time jobs, has been rising constantly. In 1995, a significant part of the vacancies offered part-time employment only (71 and 85% of the new jobs for men and women were part-time ones).[11]

Women still make up the decisive majority, 70 to 80 per cent, of those employed part-time, but the proportion of men has also been rising ever more steeply. In 1991, 4% only of the men worked part-time in the countries of the European Union; in 1995, the corresponding rate was already 5%. Calculations suggest that, at the present growth rate, within a decade, some 10 per cent of male labour in the Union would be employed part time (*Employment in Europe, 1996*, pp.53-54.)

Another ever more popular form of atypical employment is self-employment. According to the definition accepted upon the recommendation of the ILO, the self-employed are working owners of unincorporated small enterprises, whether they have employees or not; farmers; persons working on their own account; co-operative members performing production activities themselves; assisting family workers; apprentice and casual workers employed by the former.

So far the number of the self-employed and their rate to the active earner population has increased slowly. It was typically marked in countries where the weight of agrarian production is still high such as Greece, Ireland and Portugal, and where per capita national income is relatively low (by and large the same countries): wherever the chances for individual savings and accumulation are relatively good, people launching an independent enterprise prefer to set up an incorporated company that is independent of the household.

1995 brought a change with respect to the spreading of self-employment: one third of the new jobs for men in the European Union were created by self-employment and, what is more, in six member states – Germany, Greece, Italy, Luxemburg, the Netherlands and Portugal – this was the single source of growth

[11] The analysis distinguishes jobs created in the course of the year (partly replacing lost ones) and growth (i.e. new jobs).

of male employment, against the backdrop of the decreasing number of male employees in every one of the countries in question. Self-employment played a much smaller role in the case of women. In Denmark, Portugal and the United Kingdom, the number of self-employed women has actually fallen somewhat, while it has grown slightly in Greece and in the Netherlands. In Belgium and Italy, on the other hand, it played a decisive role in the growth of female employment (*Employment in Europe, 1996*, p.61).

Self-employment promotion is given ever higher priority among the objectives of the big international organisations. In the context of persistently high unemployment and "jobless" economic growth together with the further reduction of the number of employees, more and more emphasis is given to the idea that people should create a job, an independent financial existence providing them with a living, themselves, with a view to improve competitiveness thereby.

In addition to Europe, this emphasis is strongest in the United States where, according to the relevant estimates, a decisive proportion of the jobs created in recent years is based on self-employment.

The primary objective of <u>fixed-term employment</u> is to save labour and especially lay-off costs in posts that need not be filled permanently. Although the relevant definition differs from country to country, it usually covers temporary or seasonal work and in several countries the employment of apprentices and employment for a trial period as well. In a few countries the staffs of the labour exchange companies are also assigned to this category; Japan includes those employed for more than one month but less than twelve and France and Finland those, among others, who participate in special employment programmes for the unemployed etc.

The majority of the jobs created in the EU member states in 1995 were temporary ones, the same as in the previous three years,

From 1991 to 1994, the fixed-term employment of both men and women gained more ground in the European Union, parallel with the decline of the number of permanent jobs, especially for men. In 1995, the process gathered momentum in most countries, especially France and Spain, where the proportion of men entering a fixed-term employment relation was highest within the Union. Female employment showed a similar trend. Although 12 % only of the women worked in this form, half of the jobs created in 1995 implied fixed-term employment.

Temporary employment is most typical for young people: in 1995, one third of those under 25 were employed this way, while the corresponding rates for men and women from 25 to 49 were 8 and 10 per cent, respectively, only. (The rate of fixed-term employment among the 65 plussers was also 10%.) However, in 1995, the rate in question increased even among the 25 to 49 year-old.

From a labour market point of view, temporary employment is an essential means, offering as it does an opportunity, mostly for the unemployed, especially the 25 to 49 year-old, i.e. people of "prime working age", to re-enter the labour market. However, in 1995, approximately half of the newly placed had to content themselves with work on such terms (*Employment in Europe, 1996*, pp.55-56).

On the basis of the national labour surveys, a special analysis was prepared on temporary employment in the OECD countries from the eighties until 1994. In addition to describing the common characteristics of the various EU countries, the long-term survey presented national trends as well. Accordingly, fixed-term employment was most marked in Spain where, after a steady growth ever since 1987, it reached 32 per cent in 1994, to be followed by Australia (24%). This form of employment was least characteristic in Luxemburg where its rate has permanently been less than 4% (*Employment Outlook, 1996*, pp.10-11.).

Although several forms of atypical employment have become quite widespread in Hungary owing to the recent changes of the labour market, so far it has been impossible to monitor these on a systematic basis.

The reason for that is that Hungarian employment legislation (the Employment Act and the Labour Code) do not define different forms of "employment relation" (or partially only) and, consequently, the status of the new employment forms either, despite the latters' having become quite widespread, especially among the small organisations representing a decisive segment of the economy already and also in the unorganised economy.

As for the exact measure of their spread, some information is provided by the data of the CSO labour force surveys. As part of the preparation of Hungary's accession to the European Union, data relating to some forms of atypical employment were processed. Thus, for instance, in 1992 to 1996, 8.5, 15, 17.3 and 23.5 thousand people, respectively, assigned themselves to the category of casual worker, not being in employment anywhere and doing what is mostly seasonal work. At the annual level, casual workers make up less than 1 per cent of those in employment.

Part-time employment is not included among the forms of employment defined under Hungarian labour legislation. If we follow the international practice of considering work-hour rates, in 1995 those working no more than a weekly 35 hours regularly corresponded to 1.8 per cent of the earners. (*J. Lakatos - M. Nádas: Frequency of atypical forms of employment in Hungary (based on Labour Force Survey data)*; Integration Strategy Force, MS.

From among those qualifying as self-employed according to the ILO definition, data are available on the owners and assisting family members of unincorporated sole proprietorships (originating from their tax returns). According to these, the self-employed (pensioner entrepreneurs not included) totalled some 292 thousand in 1994 and 285 thousand in 1995. Real numbers must be much higher than that, as the current accounting systems do not allow to identify either main job holder proprietors of unincorporated partnerships or farmers or those performing production activities in co-operatives. We presume that, all in all, they make up at least 15 to 20% of those in employment.[12]

5.4. Subsidised employment

The essential stabilisation of the labour market in 1996 was due, among other things, to efforts to promote subsidised employment.

A significant part (1995: HUF18 billion, 1996: HUF16.8 billion) of the Solidarity Fund generated by the contributions of employees and employers, the budgetary Employment Fund and the Labour Market Fund created by the merging of various other funds were allocated to employment promotion to the unemployed. Employment expansion was assisted by other sources as well, in various ways.

a.) **Job preservation.** The economy is past the period of massive job losses when hundreds of companies requested and received assistance to reduce the working time and avoid lay-offs of ten thousands of employees until they managed to solve what they hoped were temporary problems of operation[13] . In 1995, 15 companies only requested temporary assistance to save some 4000 jobs; in 1996, the corresponding figures were 20 and 6,343.[14]

The National Employment Foundation (NEF) has also been providing assistance to preserve jobs ever since 1993 to applicants pursuing marketable business activities but suffering from temporary liquidity problems in counties suffering from a worse-than-average labour market situation. In the course of three years, wage subsidies granted for twelve months on average and/or the assumption of credit interests helped preserve the uncertain jobs of 31 thousand employees.

No new job preservation tenders were announced in 1996, but NEF proposed 11 new programmes in the course of the year (six of these began in 1997).

NEF launched several programmes to assist the employment promoting activities of non-profit organisations and the better exploitation of employment opportunities by self-governments and small regions; it started the so-called "outworkers' programme", the integrators' programme aimed at assisting small agrarian producers and its assistance scheme for young people to become entrepreneurs, etc. The programme improving the labour market chances of various strata and regions, mainly those in a disadvantageous position, provided direct help to some 11 thousand by helping preserve their jobs or creating new ones, and provided, indirectly, an opportunity for at least the same amount of people to undertake work and

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[12] The objective of joining the European Union and the need to see things clearly makes it imperative, especially in view of the marked changes of the labour market, to re-define employment forms.

[13] For a detailed description of the process see our earlier publication"A munkaerõpiac keresletét és kínálatát alakító folyamatok" (Processes shaping labour market demand and supply), 1993 (p.59.), 1994 (p.39.), 1995 (p.34.), 1996 (p.39.).

[14] The 20 companies were located in 7 counties, 8 of them in Borsod and 4 in Nógrád. The largest among them was Tisza Shoes Co. from County Szolnok (1,800 persons), the smallest Nógrád-Print Ltd (33 persons). In 1996, the total amount of subsidies amounted to nearly HUF492 million.

thus improve their situation (for example, almost 3,500 participated in the subsidised programmes of non-profit organisations; through the labour organisation and small region manager programmes, work, mainly public work, opportunities were created for some 6,600 etc.). NEF also launched several kinds of training programmes to ease the situation of disadvantaged persons (unemployed people not having finished eight-year elementary school, for instance).

b.) In the regions of Ózd and Miskolc, the maintenance of the Employment Societies has provided a special form of assistance. However, although the Societies themselves employed some 2,500 to 2,600 workers in one of the regions of the country hit hardest by unemployment, they found it very difficult to find work for their members. In 1995, the societies were transformed into public benefit companies, and their main activity profile became the organisation and performance of public works. One more attempt was made in County Baranya where another society was formed, on the German model and partly with the assistance of the German government, with the purpose of demolishing the old buildings on the premises of the Mecsek Mines Assets Utilisation Co., of no use any more and make the premises suitable for the construction of an industrial park. The society, however, could not employ more than 175 persons even at peak periods (*HVG*, 7 Dec. 1996). At the end of 1996, the staff of the Ózd public benefit company still totalled one thousand approximately; in 1996, the Diósgyőr society had no other employees but the few persons responsible for labour exchange and the co-ordination of NEF's experimental programmes.

c.) One of the most common and widespread forms of assistance is public works organised, with a few exceptions, by the local self-governments (and partially, in 10 to 30 per cent, covered by their proper resources) for the registered unemployed, with special regard to the long-term unemployed among them. In 1994, 1995 and 1996 those doing public works for a shorter or longer period of time totalled 70, 86.5 and more than 140 thousand, respectively. Of the 140 thousand, 65 thousand were unemployed people benefiting from income supplementing allowance only. (One of the reasons why this labour option is so important to them is that, from 1996 on, the extension of the two-year income supplementing allocation period is conditional on re-employment for at least 90 days.)

The Public Works Council established in 1996 is looking for more extensive opportunities than those available at the settlement level, with the assistance of the ministries and public authorities concerned. In 1996, 7 thousand long-term unemployed were given work for a three-month period on the average in the framework of the forest-plantation, flood prevention, environmental protection and other programmes.

d.) Another important form of assistance is wage subsidy to employers hiring long-term unemployed for at least twelve months. In 1994 nearly 48 thousand people were employed in such subsidised jobs; in 1995 37.2 thousand and in 1996 29.7 thousand.

The programme providing assistance to fresh school-leavers looking for a job launched in 1996 has a similar goal; up to the end of 1996, 5,767 young people were placed within its framework.

e.) The impacts of the job-creating investments of the previous years were felt in 1996 as well. Although, as a result of the former employment commitments, the number of those employed in this framework grew but slightly in 1996, all in all a total of more than 25 thousand worked at jobs created with investment subsidy.

Table 5.7.

Number of participants in the major employment promotion programmes*, 1996

Programme	No. of participants
Job preservation programmes - Intervention fund - NEF tender** -	 6,343 around 11,000
Employment Society staffs	around 1,000
Public works - for the registered unemployed - organised by the Council of Public Works - for beneficiaries of income supplementing allocation	 75,862 7,000 65,406
Job creation with wage subsidy - for school-leavers	29,700 5,767
Job-creating investments	25,518
Total	**around 227,600**

* The Employment Fund promotes employment expansion through some other schemes as well, such as assistance to would-be entrepreneurs (provided to some 4,000 people in 1996), reimbursement of travel expenses to make the employment of those living far from the given workplace feasible (in 1996, 4,820 people received such assistance), etc. The 71,980 participating in training activities, NLC registered assistance provision to a total of 288,940 persons. The total includes every person having received assistance for at least one day.

** Earlier employment commitments still in effect at NEF and other NEF programmes included.

Source: Information provided by the Ministry of Labour, the National Employment Fund, NLC

The current accounting systems do not make it possible to express labour subsidies of different origin (Employment Fund, Public Works Council, NEF) in terms of working time (work-day, month). (Public work usually lasts for a few weeks or months, while employment commitments related to wage subsidy or subsidised job preservation schemes usually apply to one or several years etc.) However, even if we halve or even divide into three the number of those concerned, the number of jobs created as a result of the assistance programmes is still of a considerable order of magnitude; an estimated 80 thousand jobs annually are being preserved by social solidarity, not economic demand.

The subsidised employment of a total of 220 to 230 thousand regularly appears in the CSO Labour Force Surveys considering, as is well known, even one hour's income-generating work as employment.

The expansion of subsidised employment (1994: 171 thousand; 1995: 160 thousand) has most probably contributed in merit to the employment level considered now a sign of labour market stabilisation.

The majority of the European countries also operate various assistance schemes partly for social reasons and partly to prevent that people be driven out of the labour market and increase the number of the unemployed. Germany, Denmark, Finland, Sweden and Belgium especially have spent significant amounts, 0.6 to 0.8 per cent of their respective GDPs, between 1990 and 1995, on that. The main job creation areas are the communal and non-profit sectors, but evaluations suggest that such work tends to be temporary in nature, and casual labour more often than not reverts to unemployment thereafter. Wage subsidy is another widespread form of assistance, although the experience is that it has a considerable dead-weight (i.e. the job in question would have been filled anyway, even without the subsidy), and actually creates new jobs in 10 to 25 per cent of the cases only. Self-employment promotion and assistance to launching one's own business are considered ever more important all over Europe, but results so far are rather modest (*Employment in Europe, 1996*, pp.136-138.).

5.5. Registered vacancies

It is common knowledge that labour exchange takes place to a great extent via informal channels – family, friends, colleagues – instead of the labour force service. NLC's experience going back to 1993 suggests that less and less companies request the services of the official labour exchange offices. Those who do, mostly offer work at unfavourable conditions or low pay. At the same time, the fact that the composition of the vacancies reported to the employment offices differ significantly from those revealed by research associated with forecasting indicates that skilled and qualified labour is sought via other channels, not through the official labour exchange system (*Short-term labour forecast, 1st half 1997,* NLC, 1996, p.V.).[15]

The labour service must make serious efforts to identify vacancies to be offered to the registered unemployed.

The monthly average of the vacancies (including those not filled in the previous month), registered on a monthly basis themselves, was 33,569 in 1994, 28,679 in 1995, and 28,297 in 1996. (In December 1994, 15.3 per cent of the registered vacancies had been permanent ones, i.e. open for 180 days at least; in 1995 and 1996, the corresponding rate was 3.5% and 10.2%, respectively.)

The number of the unemployed placed at registered vacancies was 134,769 in 1994, 102,828 in 1995 and somewhat less at 100,736 in 1996. At the annual level, this corresponds to around 10 per cent of the registered unemployed.

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[15] Hungary seems to resemble the less developed European countries in this respect as well: in 1994-1995, companies announced no more than 10% of the vacancies to the official labour service in Ireland,Italy, Greece, Portugal and Spain. In the other member states of the European Union, the corresponding rate was 35 to 40 per cent, in the Netherlands more than 60 per cent (*Employment in Europe, 1996*, p.140.).

Most of the registered vacancies are filled in a matter of hours, but there are some that cannot be filled, for various reasons, by the registered unemployed. According to the short-term forecast prepared by NLC for the first half of 1997, some 12 per cent of the companies participating in the survey said that they had been incapable of satisfying their labour demand for some time. This rate has been unchanged for years. The majority of the 22 to 25 thousand vacancies (1996: nearly 26 thousand) was reported in the construction and food industries.

Table 5.8.

Registered vacancies, registered unemployed, beneficiaries of unemployment benefits and placements, January 1995 to December 1996

Reference date	No. of vacancies*	No. of registered unemployed	% rate of vacancies to registered unemployed	No. of unemployment benefit recipients (end of month)	Number of re-employed		
					no. pers.	% rate to job vacancies	% rate to recipients of UE. benefits
1995							
Jan.	30,588	545,445	5.6	206,121	6,848	22..4	3.3
Feb.	29,565	550,484	5.4	208,398	10,751	36.4	5.2
March	26,398	540,718	4.9	200,700	13,338	50.5	6.6
April	28,699	531,881	5.4	181,361	12,720	44.3	7.0
May	29,251	486,413	6.0	172,313	9,410	32.2	5.5
June	30,066	482,747	6.2	164,118	8,228	27.1	5.0
July	29,086	504,307	5.8	166,031	6,432	22.1	3.9
August	31,150	499,320	6.2	167,427	5,940	19.1	3.5
Sept.	28,544	491,416	5.8	163,323	9,454	33.1	5.8
Oct.	27,622	479,102	5.8	177,075	7,554	27.3	4.3
Nov.	26,434	484,617	5.5	187,683	7,089	26.8	3.8
Dec.	26,756	495,893	5.4	198,903	5,064	18.9	2.5
1996							
Jan.	25,691	517,836	5.2	209,974	6,580	25.6	3.1
Feb.	28,120	530,592	5.3	211,703	8,818	31.4	4.2
March	33,330	528,367	6.4	205,425	12,027	36.1	5.9
April	38,053	511,890	7.4	185,364	14,114	37.1	7.6
May	40,021	490,100	8.2	174,019	10,865	27.1	6.2
June	47,285	481,951	9.8	166,306	8,262	17.5	5.0
July	42,609	494,461	8.6	166,899	6,496	15.2	3.9
August	38,638	494,900	7.8	161,028	5,768	14.9	3.6
Sept.	45,839	501,102	9.1	150,831	8,945	19.5	5.9
Oct.	44,064	494,331	8.9	148,109	6,543	14.8	4.4
Nov.	40,377	484,470	8.3	141,775	6,322	15.7	4.7
Dec.	35,540	477,459	7.5	139,408	3,996	11.2	2.9

* Data referring to the closing day of the month; the number of vacancies, some of them filled during the month, was 51,8 thousand on a monthly average in 1995 and 72 thousand in 1996. The monthly average of vacancies cancelled or occupied during the month grew from 26.1 thousand in 1993, 28,1 thousand in 1994, to 29,9 thousand in 1995, and 34,4 thousand in 1996.

Source: NLC *Monthly Report*

5.5.1. *Most wanted skills*

In the framework of its short-term forecast published two times a year, NLC regularly surveys actual and prospective demand by vocations to identify any downtrends or surcharged areas where redundancies are imminent.

Prospective demand for 1996 indicated the beginning of an upswing in several vocational areas. Although the answers of the 4,786 employers taking part in the survey showed serious differences by region and skill group, a few general tendencies were clearly discernible.

According to the recurrent surveys, in certain branches shortage or surplus became a permanent feature. There has been a general shortage of tailors/dressmakers for years everywhere in the country, and there is also a considerable shortage of nurses.[16] As for the non-manual workers, the demand for interpreters, laboratory technicians, chemists, economists, programming mathematicians, jurists and market researchers has proved lasting. At the same time, there has been a permanent surplus of technicians, electricians, general technical assistants and payroll clerks.

It is a new phenomenon, on the other hand, that, owing to the greenfield investments of foreign companies in the first place, demand has become much more lively in several construction industrial vocations.[17]

The impact of economic upswing is felt in several vocations. In light industry, the demand for shoe-makers, cabinet-makers, fancy leather goods makers is on the rise, and demand for some of the agrarian and food industrial vocations has also grown.

The up- and downtrends of demand in various vocations give a fair picture of the vocational/employment implications of the new economic structure shaped by the continuous re-shuffling of the activities concerned.

As opposed to the previous practice of providing a list of the skills most/less wanted in at least ten counties according to the NLC demand survey, in the following we shall present, in addition to demand for 1997, the results of the 1995-1996 surveys as well in order to illustrate the changes.

[16] According to estimates prepared by experts of the Ministry of Social Welfare, the 22 thousand nurses working at the health care institutions covered by the survey should be joined by a minimum of another 5 thousand, and by 12,700 in order to attain an appropriate provision standard. (*Népszabadság*, 3 September 1996).

[17] There is a shortage of skilled construction industrial workers in the most dynamically developing region of the country, Western Transdanubia. Practically every one of the construction industrial companies suffers from a shortage of roofers, carpenters and masons. There is no real demand for painters and decorators and casers, but all the other specialised craftsmen required for construction would find work easily in County Gyõr-Moson-Sopron – as a matter of fact, the good skilled workers of this region tend to go to work on contract in Germany and Austria.

<u>More wanted</u>

manual skills		no. of counties	
	1995	1st half 1996	1997
tailor/dressmaker	19	19	19
joiner	7	13	19
qualified welder	11	17	16
turner	7	13	16
shop assistant		8	16
locksmith	7	10	16
mason		8	16
nurse	13	10	15
unskilled worker		6	14
trained operator		9	14
baker	11	10	13
scaffolder		9	12
meat packer		8	2
guard		4	11
electrician		7	10
driver		6	10
lorry driver		9	10
non-manual skills			
mechanical engineer	7	12	17
economist	7	16	11
architect			11
agrarian engineer		2	11
commercial and financial administrator	7	11	10

<u>Less wanted</u>

Non-manual skills			
general administrator	17	17	11
fin. and accounting admin.	--	12	10
accountant	10	10	11

5.5.2 Long-term job vacancies

NLC has been monitoring reported long-term vacancies (open for more than 180 days) since 1991. The rate of such vacancies has fluctuated between 3 and 15 per cent in recent years. (The January 1991 figure indicating labour demand exceeding the number of the registered unemployed until mid-1990 despite the fact that the registration of the unemployed had already begun is an economic/historical curiosity rather than anything else.)

Table 5.9.

Job vacancies registered for more than 180 days, 1991-1996

Reference date	Total registered job vacancies	*of which* open for 180+ days	
	no.	no.	%
1991 (Jan.)	12,949	4,737	36.6
1992 (Dec.)	24,097	1,233	5.1
1993 (Dec.)	28,089	2,918	10.4
1994 (Dec.)	30,806	4,719	15.3
1995 (Dec.)	26,756	931	3.5
1996 (Dec.)	35,540	3,625	10.2

Source: NLC

Despite the efforts of the labour service to meet labour demand as fast as possible, no perfect match can be expected between demand indicated in a given region, at a given point in time and the supply of unemployed people available there. No normative indicator, i.e. *x*%, acceptable, *y*% not acceptable, is or can be assigned to the discrepancy; for instance, the smaller the rate of unemployment in a given region, the poorer the chances of satisfying demand by unemployed people. Consequently, the number and proportion of the long-term vacancies is indicative, mostly, of the (given) status of the labour market in a region/vocation rather than the efficiency of the labour exchange institution.

Nevertheless, some general conclusions can be drawn.

Firstly, since demand mostly focuses on manual workers and especially skilled ones, the labour service is usually at a loss as to how to meet that type of demand fast and completely.

Table 5.10.

Registered long-term vacancies by employment status, 1994-1996

Skill/qualification	Dec. 1994			Dec. 1995			Dec. 1996		
	Total reg. job vacancies	*of which* open for 180+ days		Total reg. job vacancies	*of which* open for 180+ days		Total reg. job vacancies	*of which* open for 180+ days	
	no	no	%	no	no	%	no	no	%
Skilled workers	15,087	2,386	15.8	13,931	631	4.5	18,385	2,267	12.3
Semi-skilled worker	8,405	1,172	13.9	6,497	210	3.2	7,997	776	9.7
Unskilled worker	2,536	209	8.2	3,168	33	1.0	3,627	129	3.6
Total manual	26,028	3,767	14.5	23,596	874	3.7	30,009	3,172	10.6
- Managers	245	11	4.5	211	7	3.3	412	11	2.4
- Professionals	481	72	15.0	405	4	1.0	635	68	10.8
- Executive	3,516	775	22.0	2,126	39	1.8	3,830	342	8.9
- Adm. staff	536	94	17.5	418	7	1.7	654	32	4.9
Total non-manual	4,778	952	19.9	3,160	57	1.8	5,531	453	8.2
Total	**30,806**	**4,719**	**15.3**	**26,756**	**931**	**3.5**	**35,540**	**3,625**	**10.2**

Source: NLC

Total unsatisfied demand for manual workers (skilled ones in two-third of the cases), hardly exceeding 3000 at the national level in December 1996, is not high at all in that category. Moreover, as indicated already, many companies only report vacancies that they had been unable to fill without the help of the official labour exchange network because of the unfavourable remuneration/working conditions associated with the skill group or area in question. (In recent years, one of the typical instances was tailors/dressmakers, a shortage vocation nationally, implying either skilled or semi-skilled work at a salary occasionally lower than the minimum wage owing to high performance requirements.) Another segment of the vacancies requires special skills (foreign language skills, for instance) that can hardly be found among the registered unemployed.

Non-manual job vacancies are a similar case: total demand amounting to 453 persons is infinitesimal even if it applies to persons with very special skills/qualifications.

The main reason for investigating unsatisfied demand is to give labour market training a footing, but modest labour market demand and especially the very small proportion of longer term vacancies have so far provided little information in this respect in Hungary.

5.5.3 Prospects of demand

Forecasts for 1997 essentially agree that there will be no change in demand.

According to NLC's 1st half 1997 forecast based on a survey of business organisations, labour demand will slightly exceed redundancies; the number of those employed by the business units figuring in the survey may grow. The experience of the previous years, however, makes it more likely for the decline in employment to come to a halt in first half 1997 in the business sector. Employment prospects differ somewhat by branch: growth seems more likely in manufacturing, decline in construction and stagnation and seasonal fluctuation in agriculture. The employment prospects of school-leavers may improve to some extent.

Companies in all branches of the economy indicated a greater propensity to employ fresh school-leavers than before; this is most characteristic of the manufacturing companies. The placement chances of young people having finished eight-year elementary school only, on the other hand, are expected to deteriorate further.

Another factor of relevance for the employment level, in addition to the employment plans of the business organisations, is the progress of the state finances reform. The pace of the transformation of the budgetary branches – state administration, education, health care – may exert a stronger modifying impact on employment than the demands of the business sector.

6. *THE UNEMPLOYED*

Persistently high unemployment has proved an insurmountable problem in the European region for decades. In spite of many efforts and assistance granted from the common funds of the Union, unemployment has been on the rise in the currently 15 member states of the European Union, with only a few exceptions. After a few years of promising decline, the rate of unemployment (the rate of the unemployed to the economically active segment of the 15 to 64 year-old population), less than 10 per cent on average in 1985, rose once again to more than 10% in 1993 and has remained there ever since.

Table 6.1.

Unemployment rate in the EU Member States 1985-1995

%

	1985	1990	1991	1992	1993	1994	1995
Belgium	10.3	6.7	6.6	7.3	8.9	10.0	9.9
Denmark	7.1	7.7	8.4	9.2	10.1	8.2	7.1
Germany*	7.2	4.8	5.6	6.6	7.9	8.4	8.2
Greece	7.0	6.4	7.0	7.9	8.6	8.9	9.1
Spain	21.7	16.2	16.4	18.5	22.8	24.1	22.9
France	10.1	9.0	9.5	10.4	11.7	12.3	11.5
Ireland	16.9	13.4	14.8	15.4	15.6	14.3	12.4
Italy	8.5	9.1	8.8	9.0	10.3	11.4	11.9
Luxemburg	2.9	1.7	1.7	2.1	2.7	3.2	2.9
The Netherlands	8.3	6.2	5.8	5.6	6.6	7.2	7.3
Austria	3.6	3.2	3.5	3.6	4.0	3.8	3.8
Portugal	8.7	4.6	4.0	4.2	5.7	7.0	7.3
Finland	6.3	3.4	7.6	13.1	17.9	18.4	17.2
Sweden	3.0	1.8	3.3	5.8	9.5	9.8	9.2
United Kingdom	11.5	7.1	8.8	10.1	10.5	9.6	8.8
EU average	9.9	7.7	8.2	9.3	10.8	11.2	10.7

* From 1991 including the new *Länder*
Source: *Employment in Europe, 1996*, pp.147-162.

As a matter of fact, European unemployment reflects the significant competitive backlog of the economy of the region: in Japan and in the United States, the rate of unemployment was around 3 and 6 per cent, respectively, in 1995.

Provisional data for 1996 suggest that the situation has not changed much in the countries of the European Union. The only significant, positive, change occurred in Great Britain where unemployed fell to 6.9 per cent by end-1996, i.e. to less than 2 million, the psychological threshold, for the first time since 1991. However, the majority of the new jobs are fixed-term ones offering less secure employment than the former ones used to.

The situation in Germany, on the other hand, where the rate of the unemployed rose to more than 12 per cent, has aggravated considerably. A large part of the more than 4.6 million unemployed lost their job in the new *Länder*, as a result of the growing number of dismissals. Here the rate of unemployment exceeded 18 per cent (not including, of course, those participating in re-training and public works programmes). Estimates suggest that the proportion of those having no permanent job is as high as 40 per cent. Unemployment has also increased somewhat in both France and Italy.

Chart 5

Employment rates, 1973-95 Unemployment rates, 1973-95

Source: *Employment in Europe, 1996*, p.13.

In Hungary, the number of the registered unemployed peaked in February 1993 at 705 thousand (13.6%), and has been declining steadily since then; to 477.5 thousand (i.e. 10.5%) according to NLC by December 1995. Decline was partly due to changes in the regulations governing registration limits (e.g. reduction of the allowance period; introduction of the system of income-supplementing allocation making assistance conditional on registration; elimination of the allowance to school-leavers, changes in registration technique). Changes in the economic context such as the steady deceleration of massive job losses, the spreading of self-employment and the slow stabilisation of the economy, however, also played a role. Another important decreasing factor was massive flight from the organised labour market to economic inactivity, early retirement or the social provision system.

The most marked process accompanying the decline in the number of the unemployed is the growth of the number of the economically inactive. The rate of growth of the number of non-earners not registered as unemployed has exceeded the fall in the number of the unemployed for years. According to the Labour Account, the number of the unemployed dropped by 112.5 thousand by end 1994 as compared to the corresponding period of the previous year, while the number of the economically inactive (students not included) grew by 173.5 thousand over the same period. In 1995 the rates under scrutiny were as follows: 23.7 thousand less unemployed, 44.3 thousand more non-earners.

According to the Labour Force Survey of CSO, the number of the unemployed within the 15 to 74 year-old population fell by 32.9 thousand from fourth quarter 1995 to fourth quarter 1996, while that of the inactive increased by 26 thousand over the same period, the computed difference for the Hungarian active-age population being a decline by 30.7 thousand among the unemployed and growth by 32.8 thousand among the economically inactive. (*Labour-market characteristics, Q4 1996, CSO*, 1997). In other words, unemployment has declined at the cost of exclusion/withdrawal from the labour market, i.e. inactivity to a large extent conceals hidden unemployment.

6.1 The rate of unemployment

The various systems of statistical accounting measure the number of the unemployed, the same as that of those in employment, in somewhat different ways.

a.) The data of the National Labour Centre refer to the registered unemployed.

In accordance with the definitions of the Employment Act, NLC considers as unemployed active-age persons not in employment and not participating in an active employment promotion programme (e.g. public works, re-training), available for work and actively seeking it and registered as unemployed. Since May 1995, registration no longer covers persons whose unemployment benefit was suspended (for being on child-care aid or fee, for instance). The data of the Labour Account also reflect those registered by the employment offices.

Although until May 1990 labour demand exceeded the respective supply, from 1989 on the unemployed were registered separately as well. Their number was as follows:

Table 6.2.

Number and rate of registered unemployed in 1990-1996

Year (December)*	Registered unemployed		Unemployment rate**
	000	% rate of females	
1990	79,5	42.0	1.7
1991	406,1	39.8	7.8
1992	663,0	41.2	13.2
1993	632,1	40.5	12.1
1994	519,6	41.8	10.4
1995	495,9	42.5	10.4
1996	477,5	42.3	10.5

* NLC data indicate the number of those registered as unemployed on the 20th of the reference month.

** The rate of unemployment had been related to the number of active earners until December 1991. Since 1991, the number of the registered unemployed is related to the economically active population (the labour force). The two rates are shown according to the practice of NLC.

Source: *Labour Market Monitoring*, *NLC Monthly Reports*, NLC

After a decline by 23.7 thousand, in 1995 the number of the unemployed fell to less than half a million. This was followed by a more moderate fall in 1996 by 18.4 thousand.

One of the factors shaping the number of the registered unemployed is the entry rate. In 1996, the monthly average of new entrants exceeded by far the corresponding rates one year earlier (monthly averages:1994: 34,589 persons, 1995: 37,619 persons, 1996: 45,278 persons).

New entrants came from every one of the economic branches, although the respective rates varied every month.

Table 6.3.

Number of new unemployed by sectors 1996

1996	Branch 1.	2.	3.	4.	5.	6.	7.	**Total**
January	10,209	12,149	6,365	4,995	1,754	17,163	351	**52,986**
February	7,071	10,528	4,646	4,975	1,626	16,385	488	**45,719**
March	5,681	10,180	3,128	4,966	1,483	13,732	412	**39,582**
April	5,055	10,262	2,542	4,667	1,464	12,736	299	**37,025**
May	6,415	11,858	3,186	5,633	1,781	15,526	626	**45,025**
June	6,844	12,384	3,341	5,930	1,871	18,254	628	**49,252**
July	6,923	11,782	3,144	5,688	1,965	19,207	559	**49,268**
August	6,006	9,521	2,720	4,576	1,450	13,875	498	**38,646**
September	7,003	11,459	3,458	6,289	1,836	17,323	664	**48,032**
October	6,912	11,012	3,333	6,283	1,655	16,103	412	**45,710**
November	6,854	11,149	3,777	6,653	1,745	15,696	424	**46,298**
December	8,582	10,547	5,362	4,949	1,825	14,197	324	**45,786**
% distribution								
January	19.3	22.9	12.0	9.4	3.3	32.4	0.7	**100.0**
February	15.5	23.0	10.2	10.9	3.6	35.8	1.1	**100.0**
March	14.4	25.7	7.9	12.5	3.7	34.7	1.0	**100.0**
April	13.7	27.7	6.9	12.6	4.0	34.4	0.8	**100.0**
May	14.2	26.3	7.1	12.5	4.0	34.5	1.4	**100.0**
June	13.9	25.1	6.8	12.0	3.8	37.1	1.3	**100.0**
July	14.1	23.9	6.4	11.5	4.0	39.0	1.1	**100.0**
August	15.5	24.6	7.0	11.8	3.8	35.9	1.3	**100.0**
September	14.6	23.9	7.2	13.1	3.8	36.1	1.4	**100.0**
October	15.1	24.1	7.3	13.7	3.6	35.2	0.9	**100.0**
November	14.8	24.1	8.2	14.4	3.8	33.9	0.9	**100.0**
December	18.7	23.0	11.7	10.8	4.0	31.0	0.7	**100.0**

* 1 = Agriculture forestry; 2 = Industry; 3 = Construction; 4 = Trade and catering; 5 = Transport, storage; 6 = Non-material services; 7 = Unclassifiable

Source: NLC

As can be seen from the above figures, month after month the largest emitter was the aggregate branch group bearing the name "non-material services" including budgetary branches as well. The Ministry of Finances forecast a decline by 43 thousand for 1996.[18] According to the relevant data, however, by the end of the year, the budgetary sector (state administration, education, health care) employed 30 thousand less than one year earlier.[19]

18 The number of prospective dismissals is defined in function of the wage volume to be saved. "In order to do so, a system of inflation-indexed wage financing is recommended, allowing the management of the institution to decide whether to keep their staff even if wage development is impossible, or rationalise their activity instead" ("State shrunk to market size", *Népszabadság,* 11 July 1996).

19 A total of 2,659 teachers were made redundant at schools and kindergartens with severance pay or early retirement from the end of the previous school-year until the beginning of the new one (*Népszabadság*, 13 Nov. 1996). In 1996, the number of health-care employees fell by 9,000 (*Népszabadság*, 9 Dec. 1996).

Several state-owned companies, the Hungarian State Railways and banks, for instance, were also forced to effectuate large-scale redundancies. As for the banks, they actually continued their earlier streamlining efforts.[20] Other state-owned companies have also carried out major staff reductions.[21]

Privatised companies where job creation was more typical than dismissal occasionally also reduced their staffs considerably if the situation of the market or economic rationale required that.[22]

Despite a much higher labour turnover than before, the same as earlier, part only of the dismissed contacted the employment service in order to be registered as unemployed. The better educated and those living at larger settlements (offering more work opportunities) especially try to find work without the assistance of the labour service.

The other major factor shaping the number of the registered unemployed is the number of exits.

Of course, the ideal reason for leaving the register is employment. The monthly average of the registered unemployed finding a job (8,228, 7,527 unemployed young school-leavers not included) was more than in 1995 (7,416), but less than in 1994 (9,960). The placement of a hundred thousand per year approximately (1994: 119,518; 1995: 88,993; 1996: 98,736) was partly due to job creation and partly to the more pronounced impact of the so-called active labour-market programmes (public works, wage subsidy etc.), and to the intensive exchange activity of the offices.

The main reason, however, why people left the register, was still the expiration of the benefit allocation period. Once the twelve-month benefit allocation period is over, only those remain registered unemployed who expect the employment office to place them, or whose entitlement to income-supplementing allocation is conditional on that. Another monthly three to four thousand are cancelled from the register for failure to co-operate or for working illegally while receiving benefits etc. As a result, the

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[20] OTP, the National Savings Bank, dismissed some 200 in 1995; some 800 in 1996 and some 600 were dismissed by the Hungarian Credit Bank (MHB). Mezõbank, after having acquired Agrobank said fare-well to nearly one third of its staff of 1,850 after having closed down 23 of its offices. According to the Bank Inspectorate, it would be sufficient for the banks to employ a total of 11 thousand instead of the current 36 thousand. (*Népszabadság*, 2 May 1996).

[21] Diósgyõr Steel Works Ltd sent some 500 employees to, mostly early, retirement in early 1996, and the staff was reduced by another 1,700. (*HVG*, 3 February 1996).

[22] Goldsun Refridgeration Co. at Zalaegerszeg exempted from work 120 workers awaiting dismissal, and will give notice to another 30 in a matter of days. The Zalaegerszeg company, in joint Israeli/American ownership, having suffered from solvency and liquidity problems for years, will employ a total of 170 workers instead of the former 320 from the end of the year on. (*Népszabadság*, 16 Nov. 1996).

Two Tab-based companies, Ecoplast and HTR Ltd, belonging to Neutronics Holding, in majority Austrian ownership, merged as of 1 January. The main reason why the management of Neutronics Holding, having a staff of 1,990 already, decided to merge the two Tab companies was to better exploit their existing capacities. This also implied temporary work-force reductions. At end-December, the employment of 159 – mostly manual – workers of the 337 employed by Ecoplast Ltd was terminated, while the other will be taken over by HTR Ltd. (*Napi Gazdaság*, 10 January 1997.)

monthly average 45.2 thousand entries were opposed to 45.4 thousand exits due to placement and especially expiration of the benefit allocation period.

Table 6.4.

Monthly data of the registered unemployed,* 1996

person

1996	No. of unemployed at the beginning of the month	New entrants	Exit due to					
			re-employment**		other reason		total	
			no.	%	no.	%	no.	%
January	440,481	52,.986	5,475	1.3	2,444.6	5.5	29,921	6.8
February	463,546	45,719	7,401	1.6	2,518.5	5.4	32,586	7.0
March	476,679	39,582	10,553	2.2	2,938.2	6.2	39,935	8.4
April	476,326	37,025	12,941	2.7	3,571.6	7.5	48,657	10.2
May	464,694	45,025	9,874	2.1	4,669.2	10.0	56,566	12.1
June	453,153	49,253	7,531	1.7	4,652.6	10.2	54,057	11.9
July	448,349	49,270	5,997	1.3	4,470.5	10.0	50,702	11.3
August	446,917	38,646	5,469	1.2	3,553.8	8.0	41,007	9.2
September	444,556	48,032	8,645	1.9	3,313.6	7.5	41,781	9.4
October	450,807	45,709	6,370	1.4	4,131.8	9.2	47,688	10.6
November	448,828	46,298	6,172	1.4	4,825.2	10.7	54,424	12.1
December	440,702	45,794	3,905	0.9	4,448.8	10.1	48,393	11.0

* School-leavers not included.
** Exits from the benefit system due to re-employment
Source: *Monthly Reports*, NLC

The number of the registered unemployed declined despite the high number of entries owing to an even higher rate of exits. (Moreover, as mentioned already, the group of the registered unemployed does not include participants of the re-employment promotion programmes, persons employed in subsidised jobs and, from May 1995, persons on parental leave or conscripts suspending their allowance.)

Table 6.5.

Number of registered unemployed and participants of the active employment programmes

	1993	1994	1995	1996
	December			
No. of the registered unemployed	632,050	519,592	495,893	477,459
Participants of active employment programmes	38,507	52,247	56,891*	69,800*
Total	**670,557**	**571,839**	**552,784**	**547,259**

* Excluding persons on vocational training (15,679 in 1995, 9,817 in 1996).
Source: *Monthly Reports of NLC*

Neither does the number of the unemployed registered at the official employment offices include those who think the office cannot help them find a job and are not entitled to benefits either (registration being one of the allowance criteria). In 1994, NLC put the number of "real" unemployed never registered anywhere at around 50 to 60 thousand.[23] Active-age persons considered economically inactive by the Labour Account most probably belong to this group.

b.) *CSO Labour Force Survey data*

As mentioned already, the surveys in question, repeated on a quarterly basis, consider as unemployed those members of the 15 to 74 year-old population who did not work and were not on temporary leave either during the reference week, who were seeking a job actively in the four preceding weeks and would have been available for it or were to be re-employed within 30 days or were participating at one of NLC's training programme (prior to dismissal). The survey distinguishes the so-called passive unemployed, i.e. persons who, although they would be willing to work, do not look for a job actively, considering their own placement chances unfavourable.

The unemployed status is independent of registration.

Different input criteria result in different unemployment figures.

Table 6.6.

Number of unemployed by the Labour Force Survey (CSO)

000

	QIV 1992	QIV 1993	QIV 1994	QIV 1995	QIV 1996
Unemployed persons	461,0	494,1	431,2	408,1	375,2
Discouraged persons	155,9	116,1	100,5	107,3	94,9

Source: Quarterly CSO Surveys

Similarly to NLC's data, the above figures also reflect a steady decline in the level of unemployment.

Age-group-specific data suggest that despite a certain decline, the rate of unemployment is still highest among the 15 to 19 year-old. The number of the passive unemployed has also decreased in all age groups. As for the 30 to 54 year-old, on the other hand, it is to be assumed that their passivity was not only due to poor chances of placement but also, especially among men, the expanding casual labour opportunities offered by the unorganised economy.

[23] György Lázár, Judit Székely: *Characteristic of the long-term unemployed ... on the basis of the 1994 survey*, NLC, January 1995.

Table 6.7.

Age-group distribution of the unemployed

Age-group	Unemployed *000*			Discouraged persons *000*			Unemployment rate %		
	QIV			*QIV*			*QIV*		
	1994	1995	1996	1994	1995	1996	1994	1995	1996
15-19									
male	33,3	32,0	25,3	9,9	10,0	8,9			
female	21,6	21,8	16,9	7,0	6,1	5,2			
total	54,9	53,8	42,2	16,9	16,1	14,1	27.4	29.4	25.7
20-24									
male	47,6	41,8	40,1	8,3	7,8	8,5			
female	22,0	22,8	19,6	4,6	4,9	2,7			
total	69,6	64,6	59,7	12,9	12,7	11,2	12.7	12.0	10.6
25-29									
male	32,3	30,4	30,5	6,8	5,4	5,5			
female	17,7	16,8	23,5	1,7	4,5	3,3			
total	50,0	47,2	54,0	8,5	9,9	8,8	9.0	8.2	9.0
30-39									
male	69,2	67,2	56,3	12,1	13,0	12,8			
female	47,9	46,4	35,2	8,5	9,7	7,9			
total	117,1	113,6	91,5	20,6	22,7	20,7	8.9	9.0	7.7
40-54									
male	71,5	67,9	68,9	15,0	14,5	14,2			
female	48,5	48,2	47,3	14,8	17,4	15,4			
total	120,0	116,1	116,2	29,8	31,9	29,6	7.6	7.2	7.1
55-59									
male	6,4	5,9	6,9	3,9	4,8	3,2			
female	2,4	3,4	1,2	2,9	3,4	2,7			
total	8,8	9,3	8,1	6,8	8,2	5,9	6.2	6.2	5.4
60-74									
male	3,9	2,0	0,8	2,7	2,9	2,1			
female	6,9	1,5	2,7	2,3	2,9	2,5			
total	10,8	3,5	3,5	5,0	5,8	4,6	11.7	5.0	5.3
Total									
male	**264,2**	**247,2**	**228,8**	**58,7**	**58,4**	**55,2**			
female	**167,0**	**160,9**	**146,4**	**41,8**	**48,9**	**39,7**			
Grand total	**431,2**	**408,1**	**375,2**	**100,5**	**107,3**	**94,9**	**9.7**	**9.3**	**8.6**

Source: CSO Labour Force Surveys

Contrary to the above, data collected by the Hungarian Household Panel Survey using different definitions than NLC and CSO's Labour Force Survey indicate a rise in unemployment.[24]

Data recorded in March 1996, converted according to the international statistical methodology adopted by CSO as well, resulted in a 11.8 per cent unemployment rate, as opposed to 10.7 per cent one year earlier.

[24] In addition to the employees and the independents, the survey assigns to the category of those in employment persons having pursued an earning activity for a minimum of 16 days in March, while interviewees who did not work/look for a job are considered economically inactive. Another significant difference lies in that HHP investigates the labour market situation of persons past 16, without an upper age limit.

Parallel with the growth of unemployment, HHP data indicate a rise in inactivity. It is possible to trace the development of the proportions of pensioners and dependants, respectively, within the population of the 16 plussers. The ratio of the latter grew from 9.3 per cent in 1992 to 11.1 per cent by 1996. Their combined share with the pensioners was 44 per cent in 1992 and 46.8, 48.3, 46.4 and 47.2 per cent in 1993, 1994, 1995 and 1996, respectively (*Hungarian Household Panel, Workshop Papers, 8.*, Jan. 1997, pp.25-26.)

CSO's Labour Force Survey informs of the development of the number of households affected by unemployment. In 1996, despite the growth of the total number of households, the decline in unemployment was perceptible first of all in the larger households.

Table 6.8.

Households affected by unemployment

Household size	Number of households 000	unemployed per thousand households		% ratio of households affected by unemployment
		one person	two or more persons	
QIV 1994				
Single	845,5	19,7	-	2.3
Two members	1,144,2	57,6	3,6	5.3
Three members	696,3	79,4	11,6	13.1
Four members	704,6	104,3	15,0	16.9
Five or more members	322,0	54,3	11,7	20.5
Total	**3,712,6**	**315,3**	**41,9**	**9.6**
QIV 1995				
Single	830,2	21,4	-	2.6
Two members	1,011,2	51,6	3,4	5.4
Three members	735,5	84,0	10,2	12.8
Four members	750,9	101,9	15,5	15.6
Five or more members	376,7	58,9	13,9	19.3
Total	**3,704,5**	**317,8**	**43,0**	**9.7**
QIV 1996				
Single	1,034,2	26,6	-	2.6
Two members	1,037,3	52,4	4,1	5.5
Three members	731,5	80,0	8,5	12.1
Four members	710,2	88,6	9,8	13.9
Five or more members	353,3	51,7	14,1	18.6
Total	**3,866,5**	**299,3**	**36,5**	**8.7**

Source of data: CSO Labour Force Surveys

6.2 The duration of unemployment

Despite the overall decrease of unemployment, the number of the long-term unemployed and the average duration of the unemployment period have both kept increasing, a clear sign of the fact that labour turnover, although more lively than before, was not sufficient to alter the status of more than two-third already of the unemployed.

According to the data of the National Labour Centre, in December 1996, 44.3 per cent of the registered unemployed qualified as "long-term" unemployed.[25]

One of the most characteristic indicators is that while in 1994 33 per cent of the registered unemployed had already exhausted their period of entitlement to benefits and received income-supplementing allocation only, in 1995, the corresponding rate was 41.3 per cent and in 1996 42.2 per cent.

According to CSO's Labour Force Survey, in fourth quarter 1993 39 per cent of the unemployed were long-term unemployed; in the corresponding period of 1994, their rate was 44 per cent, at the end of 1995, they represented nearly half of the unemployed (49.6%), and by the end of 1996 more than 53 per cent had been looking for a job for more than one year (*CSO, Major labour processes, QI to IV, 1996*).

Chart 6

Distribution of the unemployed by duration of unemployment

000

1 long-term 2 less than one year

Source: *CSO reports*, 1997/3, p. 27

According to the Hungarian Household Panel, in 1995 unemployed persons have been looking for a job for 84 weeks on average. One year earlier the corresponding period was 83 weeks and in 1994 71 weeks, i.e. nearly one-and-a - half year. The placement chances of women especially have deteriorated further: for them, the job search period lasted for 86 weeks on average. The unemployment period was longest for those having finished eight-year elementary school or less (average duration: 99 weeks), urban dwellers (99 weeks, with the exception of Budapest where the average was 52 weeks, the shortest period of all), and among those belonging to the 40 to 54 year-old (96 weeks) (*HHP Workshop Papers, 8,* Jan. 1997, pp. 23-28.).

Protracted unemployment is a severe problem in most European countries. In the European Union, nearly half of the unemployed (49.2%) were long-term

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[25] "Long-term unemployment" used to mean unemployment exceeding six months in some countries and twelve months in others. Today, "long-term" means a period in excess of twelve months in international practice.

unemployed in 1995. The rate was highest in Italy (63.6%), Belgium (62.4%) and Ireland (61.3%), and lowest in Sweden (20.2%). There were two more countries where it was lower than 30 %: Denmark (27.7%) and Austria (28%). (*Employment in Europe, 1996*, pp.147-162.)

The ratio of the long-term unemployed constituting approximately 5.5 per cent of the total labour force of the European Union has been rising continuously since 1992 – the 1995 Union average was embellished by the favourable data of the new member states (Sweden, Austria and to some extent Finland).

Data referring to the OECD countries provide an insight only and are not fully compatible with each other. As for the non-EU countries, it is worth noting the fact that although in Japan the proportion of the long-term unemployed has kept rising slightly since 1993, it is nevertheless still lower than 20 per cent (18.1%), while in the USA it fell from 12.2% in 1994 to 9.7% in 1995. (*Employment Outlook,* July 1996, p. 202.)

According to a study analysing European Union data, the situation in 1995 hardly differs from that of 1986. There is only a loose connection between the rate of long-term unemployment and unemployment in general; the causes of the former lie deeper than that (*Employment in Europe, 1996*, pp. 95-95.)

International organisations make increasing efforts to break out from this situation, because the general experience is that re-placement chances decrease proportionately with the duration of the period of unemployment.[26]

6.3 Some characteristics of the unemployed

6.3.1 Female unemployment

In Hungary, male unemployment exceeded the corresponding rate for females from the very beginning of unemployment. This phenomenon, unusual in Europe, persisted in 1996 as well.[27] According to CSO's Labour Force Survey, in fourth quarter 1996, the share of men and women in the average unemployment rate of 9.2% was 10 and 8.2 per cent, respectively (*Labour market characteristics in fourth quarter 1996*, 1997).

Table 6.9.

Female unemployment

%

Age-group	1992 year	1993 QIV	1994 QIV	1995 QIV	1996 QIV
15-19	43	40	39	41	40
20-24	32	31	32	35	33

[26] E.g., in 1995-96, a survey initiated by the Council of Europe covering 12 countries investigated the role of non-profit organisations in job-creation for those driven out of the labour market. The papers of the Hungarian participant of the project, Mária Frey, summing up the international and Hungarian experiences will be published in the near future.
A similar initiative managed by OECD urges to concentrate active employment policy instruments on the local and regional level to promote the more efficient treatment of unemployment.

[27] In Europe, female unemployment is lower than the corresponding rate for men in Sweden and the UK only (*Employment in Europe, 1996*, p.26.).

25-29	39	43	35	36	44
30-39	42	41	41	41	38
40-54	43	37	40	42	41
55-59	28	34	27	37	15
60-74	49	66	64	43	77
Total	**40**	**39**	**39**	**39**	**39**

Source: CSO Labour Force Surveys

There exist several common-sense explanations for the above phenomenon, first of all the lower retirement age of women, the main reason why there are constantly some 250 thousand less women than men in the active-age group (the gaps from 1 January 1990 to 1 January 1996 being 257.6 thousand, 253.4 thousand, 260.0 thousand, 248.7 thousand, 247.0 thousand, 245.0 thousand and 248.5 thousand, respectively) (*CSO Labour Account,* 1 Jan. 1996).

Another explanation lies in the characteristics of the massive job losses of the past years. Although the loss of some 1.5 million jobs in the economy overall struck men and women alike, the services branches employing, traditionally, more women than men fared better. On 1 January 1996, the proportion of women (those on parental leave not included) within the active earner population was 44 per cent, but their rates varied from 41% in manufacturing to 76.8% in health care and social provision, 76.7% in education, 70% in financial intermediation and nearly 50% in the hotels and catering branch. Women made up 47.5% of the total of 3,974.3 thousand employees recorded by CSO's 1 January 1996 Labour Account (including persons on parental leave and employed pensioners) (in 1995, the corresponding proportion was 44.8%.)

However, today's the relatively low rate of female unemployment is due to a large extent to women staying away or withdrawing from the labour market, i.e. to economic inactivity.

By 1996, the share of earners among active-age women, 84% on 1 January 1990, dropped to around 60 per cent.

Table 6.10.

Female activity/inactivity at working age

000

	1990	1991	1992	1993	1994	1995	1996
	1 January.						
Working-age female population	2,849.6	2.872,0	2.889,7	2.903,9	2.912,3	2.918,5	2.916,1
of which							
employed*	2,395.3	2.326,6	2.192,0	2.011,4	1.922,9	1.862,4	1.803,5
%	84.1	81.0	75.9	69.3	66.0	63.8	61.8
unemployed	10,0	39,0	167,1	273,0	256,0	217,0	210,6
%	0.4	1.4	5.8	9.4	8.8	7.7	7.2
inactive	443,3	501,9	521,6	611,5	725,4	864,1	897,0
%	15.6	17.5	18.1	21.1	24.9	29.6	30.8
of which							
non-earner**	116,8	146,0	110,2	183,6	262,3	384,9	390,6
pensioner	93,9	106,3	144,1	149,0	151,2	154,0	160,7

* Including persons on parental leave.
** Excluding students and mothers of 3 or more children receiving child-care assistance
Source: CSO Labour Account, 1. Jan. 1996

That is to say, the proportion of the female employed to female active age ratio was less than two-third already in 1994 (on 1 January 1995), while nearly twice as many women left the labour market than were unemployed, a tendency that has prevailed ever since.

According to the Labour Force Survey of the Central Statistical Office covering the 15 to 74 year-old population, in fourth quarter 1995, women (those on parental leave not included) made up 47.8% of those in employment, 39.4% of the unemployed and 45.5% of the passive unemployed; in the corresponding period of 1996, the corresponding rates were 44.3%, 39% and 42%, respectively.

In comparison, in the countries of the European Union, the average employment rate of 15-64 year-old women is 55%, in Japan 60% and in the United States 63%. Female unemployment in the European Union exceeded the corresponding rate for men by 4% on average, and the unemployment rate of men and women increased by 1 and 2 per cent, respectively, from July 1985 to July 1996. Growth was highest in Spain where the rate rose from 14% to 25% over the period under scrutiny, somewhat more than ten years, and in Finland, where the unemployment rate of adult women rose from 5% to more than 15% over the same period. The rate was lowest in Luxemburg at less than 5% (*Employment in Europe, 1996*, pp.35-36.).

The relatively low female unemployment rate can only be interpreted against the background of employment in general. In Hungary, more than half a million 15 to 54 year-old women turned inactive, giving up job search on the organised economy.

6.3.2 Youth unemployment

One of the most serious consequences of unemployment is that many of the young school-leavers are unable to join the group of those in employment for lack of jobs.

Europe has been trying to find a solution to juvenile unemployment for more than twenty years, with little success so far. In 1995, an average 21.5 per cent of those under 25 were unemployed in the countries of the European Union. Although approximately half of the generations concerned is working and some remain in education or take part in re-training, the problem is still a grave one, especially since many fail to find a job even after (re)training.

In Europe, the situation of the Spanish youth is the worst: in 1995, 42.4% among them were unemployed. In Italy, one third (33.2%), in Finland almost 30% (29.9%), in France 27% of the young people are unemployed. The corresponding rates are less than 10% in Austria (5.6%), Luxemburg (7.1%), Germany (8.8%), and 10.2% in Denmark and 12.5% in the Netherlands.

In Hungary, in 1996 the 15 to 24 year-old made up around 27% of the unemployed. The unemployment rate of the age-group in question was 16.5% in the last quarter of the year. (The annual rate was 15.7%.) Although the situation improved somewhat relative to the last quarter of 1995 (at end-1996, the group of the juvenile unemployed shrunk by 16.5 thousand), there were still more than one hundred thousand among them looking for a job, with another 25 thousand making no attempt at job search at all or having given it up.

Table 6.11.

Youth unemployment*

000

Reference period (*QIV*)	Age-group	Unemployed	Discouraged	**Total**	Unemployment rate (%)
1992**		50,3	18,6	**68,9**	26.1
1993	**15-19**	66,4	16,7	**83,1**	30.1
1994		54,9	16,9	**71,8**	27.4
1995		53,8	16,1	**69,9**	29.4
1996		42,2	14,1	**56,3**	25.7
1992**		69,5	13,8	**83,3**	12.4
1993	**20-24**	80,3	12,4	**92,7**	14.5
1994		69,6	12,9	**82,5**	12.7
1995		64,6	12,7	**77,3**	12.0
1996		59,7	11,2	**70,9**	10.6
1992**		**119,8**	**29,1**	**148,9**	**15.9**
1993	**Total**	**146,7**	**32,1**	**175,8**	**28.9**
1994		**124,5**	**29,8**	**154,3**	**16.6**
1995		**118,4**	**28,8**	**147,2**	**15.9**
1996		**101,9**	**25,3**	**127,2**	**14.1**

* Including persons on child-care leave.
** Annual data.
Source: CSO Labour Force Surveys

The Employment Act initiated significant changes in 1996 in order to reduce youth unemployment. As is well known, in Hungary young people having finished more than eight years of elementary school had been entitled to unemployment benefit for school-leavers for six months from March 1991 on. The amount of the benefit, set at 75% of the minimum wage ever, was altered several times. The benefit, a monthly HUF7,875 in July 1995, then 70% of the minimum pension, a monthly HUF 6,720, was allocated to young people registered as unemployed, a monthly average of 35 thousand of them since 1995. After the expiration of the six-month entitlement period, the majority broke contact with the labour organisation, all the more so since, owing to the continuous decline of the number of jobs, the overwhelming majority had no hope of referral by the office anyway.

The amended Employment Act replaced passive assistance (unemployment benefit) with actively increasing the chances of their employment: the annual HUF3.5 to 4 billion spent on benefits earlier was re-allocated to the promotion of work experience through (apprentice) employment, training, public works and wage subsidy to employers keeping those having finished the apprentice year in their employ.[28]

[28] Applicants to this last form of subsidy must be employers having provided one year of practical training at least to school-leavers having finished vocational school/special school and undertaking to employ them for a minimum of six hours a day for one year in a position appropriate for their vocational qualification. No employment subsidy shall be requested for the employment of young people with a degree, GCSE or vocational secondary school certificate.

A few more months will have to pass before the results of the new assistance system can be assessed.[29]

According to the forecast of NLC for first half 1997, the same as in the second half of 1996, the proportion of companies intending to employ school-leavers increased somewhat in all the major branches of the economy, manufacturing in the first place.

Approximately 80 per cent of the large companies figuring in the survey stated their intent to employ school-leavers, but the smaller the company, the less need it has for them. Demand is targeted at vocationally qualified young people (in some 50 per cent of the cases in 1995-1996 and some 60 per cent in the second half of 1996 and the first of 1997).

The placement chances of young people having finished eight-year elementary school education only, on the other hand, are expected to deteriorate further: up to the first half of 1996, in one-quarter of the cases companies would have accepted them as well, but from the second half of 1996 on, this proportion fell to 16.5 per cent (*Short-term labour market forecast, first half 1997*, NLC, pp. 64-65.).

6.3.3 Registered unemployed and benefit recipients

Unemployment benefit is allocated to those registered working-age unemployed who used to be employed and meet the criteria defined under the Employment Act. In 1991-1992, some three-quarter of the registered unemployed were entitled to benefits; in 1996, this rate dropped to 35.5 per cent. (However, in December 1996, in addition to the 139.4 thousand benefit-recipient unemployed, another 211.6 thousand enjoyed an income-supplementing allocation.)

Table 6.12.

Registered unemployed and benefit recipients January 1990-December 1996

000

Base year	Registered unemployed*	Benefit recipients	Recipients in % of registered unemployed	Unemployment rate %
Jan. 1990	23,4	11,0	47.0	0.6
Jan. 1991	100,5	76,9	76.5	2.1
Jan. 1992	442,5	343,7	77.7	8.2
Jan. 1993	693,9	499,6	72.0	13.3
Jan. 1994	640,9	323,5	50.5	12.8
Jan. 1995	545,4	206,1	37.8	11.4
Jan. 1996	517,8	210,0	40.5	11.3
Dec. 1996	477,5	139,4	29.2	10.5

* Stock number on closing day (20th) of the month
Source: NLC Monthly Reports

[29] According to the first evaluation of the Ministry of Labour, interest in work experience opportunities has been rising constantly (the number of the participants of the programme was as follows: July:14, August: 51, September: 226, October: 1,032, November: 1,745, December: 2,699).

One of the major characteristics of the unemployed is that the majority have a low-level educational qualification – according to the Labour Force Survey of CSO, half of those in employment, but almost three-quarter of the unemployed.

Table 6.13.

Employed* and unemployed** persons by educational qualification

Educational qualification	*QIV* 1995			*QIV* 1996		
	Economically active	*of which*		Economically active	*of which*	
		E	UE		E	UE
	000	%		*000*	%	
Less than primary education	63,9	73.7	26.3	59,6	70.3	29.7
Primary education	949,8	85.4	14.6	878,0	86.1	13.9
Apprentice school	1,193,6	87.7	12.3	1,222,8	89.1	10.9
Vocational school	50,2	88.8	11.2	42,7	88.8	11.2
Grammar school	447,5	92.8	7.2	446,8	?3.1	6.9
Other secondary school	768,8	93.3	6.7	775,2	93.2	6.8
College	356,2	96.9	3.1	364,7	97.8	2.2
University	238,8	97.8	2.2	254,6	98.2	1.8
Total	**4,068,3**	**90.0**	**10.0**	**4,044,4**	**90.7**	**9.3**

* Employed (E) excluding persons on child-care leave and conscripts

** Unemployed (UE)

Source: CSO Labour Force Survey, *Quarterly Bulletin*, p.40.

It has been a typical feature for years that, within the group of the registered unemployed, entitlement to benefits is more frequent among those with a higher educational qualification than among those with a lower one.

The data of the registered unemployed and the benefit recipients, respectively, was summarised by NLC.

Table 6.14.

Registered unemployed and benefit recipients by educational qualification December 1996

Educational qualification	Registered unemployed*		Benefit recipients**		% rate of benefit recipients to registered unemployed
	no.	%	no.	%	
Less than primary education	31,245	6.5	6,044	3.6	19.3
Primary education	168,331	35.3	53,132	31.5	31.2
Apprentice school	159,580	33.5	60,208	35.8	37.7
Vocational school	10,274	2.2	3,587	2.1	34.9
Other secondary school	43,980	9.2	18,400	10.9	41.8
Grammar school for technicians	14,504	3.0	6,189	3.7	42.6
Grammar school	36,850	2.7	14,541	8.6	39.5
College	9,200	1.9	4,571	2.7	49.7
University	3,495	0.7	1,864	1.1	53.3
Total	**477,459**	**100.0**	**168,536**	**100.0**	**35.5**

* Closing-day data

** Irrespective of the duration of the registration period.

Source: NLC; *Monthly Report*, Dec. 1996

The amount of the unemployment benefit was modified repeatedly in the course of the years. Provisions having taken effect in 1993 reduced the entitlement period to twelve months and set the benefit amount at 75% of the subject's average wage in the previous year in the first quarter of the year and at 60% thereafter. The minimum allowance is HUF8,600, the maximum is HUF18,000 in the first phase and HUF15,000 in the second.

As mentioned already, until July 1995, school-leavers received a monthly allowance of HUF7,875 and then, until 1 July 1996 of HUF6,720.

The monthly amount of the unemployment benefit, except for that of the school-leavers, fluctuated around the minimum wage level in the majority of the cases (1994: HUF10,500, 1995: HUF12,200, 1996: HUF14,500), and was no more than 30 per cent of the average wage of full-time employees, indicative of the fact that a decisive segment of the unemployed consists of persons with low-level or no qualification who used to be in the lowest wage bracket.

Table 6.15.

Average monthly earnings/unemployment benefits*

Reference period	Average monthly gross earnings (*HUF*)	Average monthly unemployment benefits (*HUF*)	% rate of unemployment benefits to earnings
1990	13,446	3,845	28.6
1991	17,934	7,903	44.1
1992	22,294**	8,798	39.5
1993	27,173**	9,949	35.9
1994	33,939***	10,841	31.9
1995	38,900***	11,891	30.6
1996	46,837***	13,461	28.7

* Excluding school-leavers
** Coverage: economic units employing more than 20.
*** Coverage: economic units employing more than 10.
Source: CSO Yearbooks; Monthly Reports of NLC

The same as earlier, the unemployment benefits of technician's certificate or degree holders exceeded the minimum wage.

Table 6.16.

Average amount of unemployment benefits, 20 November - 20 December 1996

Educational qualification	Number of benefit recipients*		Average monthly unemployment benefit	Average spell of benefit days
	no.	%	HUF/pers	
Less than primary education	6,044	3.6	12,691	300
Primary education	53,132	31.5	13,098	263
Apprentice school	60,208	35.8	13,287	254
Vocational school	3,587	2.1	13,376	223
Vocational secondary school	18,400	10.9	13,938	221
Grammar school for technicians	6,189	3.7	14,580	228
Grammar school	14,541	8.6	13,826	221

College	4,571	2.7	15,349	198
University	1,864	1.1	15,543	193
Total	**168,536**	**100.0**	**13,461**	**248**

* Excluding school-leavers
Source: Monthly Reports, NLC

From among the registered unemployed having lost entitlement to benefits, social assistance taking the form of an income-supplementing allocation can be granted to those whose household per capita income does not exceed 80 per cent of the old-age pension ever (HUF7,680 in 1996), with the monthly allowance being identical to that.

In recent years, owing to the permanent job shortage of the organised economy, the most disadvantaged (persons with a low qualification, the elderly, those living in depression areas) stood most in need of the allowance. The number of income-supplementing allocation recipients has exceeded that of the beneficiaries of the unemployment benefits for years.

Table 6.17.

Expired unemployment benefits and recipients of income-supplementing allocation

000

	1992	1993	1994	1995	1996
	December				
Number of expired unemployment benefits in the given year*	85,0	277,1	241,5	164,9	198,7
Income-supplementing allocation recipients	41,2	141,4	206,6	193,0	211,6

* Excluding school leavers
Source: NLC

The 1995 amendment of Act III of 1993 on Social Administration and Provision limited the allocation period of income-supplementing allowances to 2 years, and made its further allocation conditional on 90 days of certified re-employment. This employment period can be acquired, for lack of jobs on the open labour market, essentially at public works organised by the local self-governments and financed by the Employment Fund for the most. In 1995, the county labour centres obtained HUF3 billion from the central budget to be able to meet the envisaged additional demand for public works opportunities; in 1996, more than twice that amount was allocated for the same purpose. Nevertheless, thousands have lost entitlement to income-supplementing allocation owing to the local self-government's failure to organise public works or for lack of participation by those concerned.[30]

[30] In County Somogy, the proportion of those receiving income-supplementing allowance increased by 32 per cent in 1996, in spite of the fact that from October on two hundred left the allowance system because they were incapable of certifying a 90 day re-employment spell. At present, 7,100 persons are receiving income-supplementing allocation in the county (*Napi Gzadaság*, 20 January 1997).

6.3.4 Exits from the unemployment provision system

After the expiration of the twelve-month period of entitlement to unemployment benefits, many remain registered, especially those applying for income-supplementing allocation conditional on registration among other things. As for the rest, there are always some whom the labour service records as having found a job or participated in a training programme.

Nevertheless, tens of thousands – sometimes more than a hundred thousand even – disappear from the sight of the labour service after their entitlement period is over. As indicated already, NLC has organised annual follow-up surveys since 1993 to monitor the future labour market career of those having left the register. The 1996 survey was the fourth one monitoring the labour-market status of those having left the unemployment provision system in the previous year.[31]

From 1991 to 1996, more than 900 thousand left the allowance system (776 thousand not including school-leavers), an enormous number, the authors say, even considering the fact that some must have figured repeatedly among those concerned over the six years under scrutiny.

In 1995, the labour-market status of 103 thousand of the 204.5 thousand former benefit recipients was known (7.2 thousand school-leavers among them). Consequently, the survey aimed at identifying the status of the remaining 101.5 thousand (32.4 thousand school-leavers among them).

The survey demonstrated that 44% of the 69.1 thousand non-school-leavers had already found a job, while some 31 per cent had remained unemployed (but the majority no longer had themselves registered), and 26% became inactive.

It is worth noting the changes of the relevant proportions over the years:

Table 6.18.

Results of the follow-up surveys in 1993-1996*

%

Labour-market status	Aug. 1993	June 1994	June 1995	June 1996
re-employed	26.9	29.0	42.0	44.0
unemployed	40.7	33.8	28.2	29.7
inactive	32.4	37.1	29.7	26.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

* Data referring to persons whose entitlement to unemployment benefit expired in the previous year.

Source: Székely J., *op.cit.*, 1996.

According to the survey, placement chances improved perceptibly already in 1995. In 1996, first of all males aged 20 to 39 with vocational or higher qualification found a job. Men in general had better placement chances than women.

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[31] György Lázár, Dr Judit Székely: *Detailed report on the findings of the follow-up survey covering persons whose entitlement to unemployment provision expired in 1995*, OMK, September 1996.

The group of those without a job has shrunk over the years. In 1996, there was no real difference by age, sex and education among those having found no job. However, from the 20.5 thousand in question, only 2.3 thousand had themselves registered, i.e. those only who had acquired entitlement to income-supplementing allocation.

The proportion of people becoming inactive has kept moderating slightly in 1996. The larger segment of those staying away from the labour market, 10.5 thousand of a total of 18.2 thousand, were women.

The annual surveys queried the reason for having become inactive.

Table 6.19.

Reasons of inactivity

New inactives	Expiration of unemployment benefit period in		
	1993	1994	1995
000	48,4	36,4	21,5
Reason	%		
health	28.0	32.1	33.0
entitlement to old-age/disability pension	40.6	32.1	24.4
conscription	2.8	3.1	4.8
child care allowance or fee	10.0	13.1	17.0
further education	1.6	1.9	3.2
family reasons	10.4	12.8	12.5
unwillingness to have a job	1.0	1.6	1.9
death/confinement	3.1		
discouragement	2.5	3.4	3.2
Total	**100.0**	**100.0**	**100.0**

Source: Annual reports on the follow-up surveys of NLC

Within the group in question, decreasing in size, the proportion of those suffering from health problems and those active outside the labour market (persons on parental leave, conscripts, people remaining in education) increased somewhat. 1996 data suggest that, at present, they already represent more than half of the, relatively modest, group of those who cannot or will not enter the labour market for the time being. Those among them who suffer from health problems left the active population and receive social allowance at best from the municipality.

On the other hand, in 1996, more than 40 per cent of the inactive benefited from some form of assistance, whether regular old-age or disability pension or a parental allowance of some sort.

It is a typical phenomenon that in 1995 and 1996, 500 and 600 persons, respectively, among those having become inactive stated that they did not wish to return to the labour market. The figures in question definitely rebut the oft-repeated statement that a large part of the unemployed "do not want to work anyway".

Data gathered by the follow-up survey over a period of four years provide an overview of the labour-market situation of the mass of people, hundreds of thousands, whose entitlement to unemployment benefit had already expired. The table below presents information available to the labour service and data obtained from the follow-up survey side by side.

Table 6.20.

Labour-market status of persons whose entitlement to allowance expired*

Labour-market status	1993		1994		1995		1996	
	000	%	000	%	000	%	000	%
- employed	9,6	11.3	53,3	19.2	71,1	29.7	62,2	30.5
- registered unemployed	55,9	65.5			97,3	40.3	73,7	36.0
of which recipient of income-supplementing allocation	49,3	57.7	131,3	47.4	89,7	37.1	63,9	31.2
- participant in active programme	1,9	2.3	7,8	2.8	9,6	4.0	7,8	3.8
- inactive	10,0	11.8	48,4	17.5	36,4	15.1	34,0	16.6
- not registered as unemployed	7,7	9.1	36,4	13.1	26,4	10.9	26,8	13.1
Total	**85,3**	**100.0**	**277,2**	**100.0**	**241,5**	**100.0**	**204,5**	**100.0**

* Persons whose entitlement to unemployment benefit expired in the previous year, including school leavers

Source: Gy. Lázár-J. Székely: Unemployed persons leaving the register: Findings of the follow-up surveys of 1993, 1994, 1995, 1996, NLC. Sept. 1993, July 1994, Oct. 1995, Sept. 1996.

6.3.5 Regional differences

Original regional differences in unemployment have prevailed until the present day.

Rates based on the number of the registered unemployed reflect persistent disparities between the various regions of the country despite the annual changes.

Table 6.21.

The lowest and highest unemployment rate by counties

Year (Dec.)	Lowest		Highest	
	county unemployment rates*			
1990	Budapest	0.3	Szabolcs-Szatmár-Bereg	4.5
	Vas	0.6	Nógrád	4.2
	Győr-Moson-Sopron	1.0	Borsod-Abaúj-Zemplén	3.5
	Pest	1.0		
1991	Budapest	.6	Szabolcs-Szatmár-Bereg	16.4
	Győr-Moson-Sopron	5.7	Nógrád	16.1
	Zala	6.8	Borsod-Abaúj-Zemplén	13.9
1992	Budapest	5.7	Szabolcs-Szatmár-Bereg	22.4
	Győr-Moson-Sopron	8.0	Nógrád	19.0
	Vas	8.4	Borsod-Abaúj-Zemplén	18.6
1993	Budapest	6.3	Borsod-Abaúj-Zemplén	19.9
	Győr-Moson-Sopron	7.8	Nógrád	19.7
	Vas	8.8	Szabolcs-Szatmár-Bereg	18.7
1994	Budapest	5.4	Szabolcs-Szatmár-Bereg	18.5
	Győr-Moson-Sopron	6.9	Borsod-Abaúj-Zemplén	15.6
	Pest	7.2	Nógrád	15.5
1995	Budapest	5.7	Szabolcs-Szatmár-Bereg	18.8
	Győr-Moson-Sopron	6.5	Borsod-Abaúj-Zemplén	16.6
	Vas	7.1	Nógrád	15.4

1996	Budapest	5.0	Szabolcs-Szatmár-Bereg	19.0
	Győr-Moson-Sopron	6.7	Borsod-Abaúj-Zemplén	18.4
	Vas	6.8	Nógrád	16.3

* Since January 1992 the unemployment rate has been related to the number of economically active population. Before 1992 it had been related to the number of active earners.

Source: Monthly Reports, NLC

CSO's Labour Force Survey data project a somewhat different picture of the regional differences owing to the already mentioned difference in input criteria. According to their rates, the situation is worst in the following counties: Nógrád (15.9%), Borsod-Abaúj-Zemplén (15.8%) and Heves (14.3%).

The Hungarian Household Panel measured differences by settlement type. The overall ranking, starting from the settlement that is best off (Budapest, at 8.8%) and ending with those in the worst situation (village, farm: 15.5%) is no surprise. Moreover, as witnessed by other research projects as well,[32] the proportion of the economically inactive is also highest in the villages and farms (52%), while the proportion of those in employment shows an inverse order: 39% at these settlement types, 48% in towns, 54% at county seats and 53% at Budapest. The 1996 survey demonstrated that, in recent years, differences in regional rates diminished owing to the spreading of unemployment. As compared to 1993 and 1994, in 1995 the unemployment rate of the village population dropped from 20.3% first to 18.3 and then to 17.3%, and although, according to the 1996 survey, the unemployment rates of all other settlement types increased a little once again that year, the rate of village-dwellers has kept decreasing, by another 1.8% (*HHP Workshop Papers, 8*, Jan. 1997, p.22.).

Analyses focusing on micro-regions,[33] suggest that, despite the abatement of unemployment, the employment/unemployment situation of the eastern and western parts of the country has changed but little.

32 The 1995 Annual Report reviewed Károly Fazekas's findings explaining regional differences on the basis of several factors (e.g. number of entrepreneurs, car pool, proportion of degree-holders, number of telephone lines etc.). According to his work, rich in conclusions, the crisis regions are not only characterised by a high rate of unemployment, but also by the fast growth of proportion of the inactive. (Károly Fazekas: "Two characteristic features of Hungarian unemployment", *Munkaügyi Szemle,* September/November 1995.)

33 Micro-regions essentially mean settlements within the jurisdiction of an employment service office. They are also called employment districts, but they often cover administrative and not necessarily employment areas. The maps demonstrating unemployment by micro-regions were prepared this time again by János Schwertner, on the basis of the unemployed registered by NLC.

Chart 7

Regional differences in unemployment in 1992 and 1996

7. ***CHANGES IN THE EMPLOYMENT STRUCTURE OF THE NATIONAL ECONOMY***

7.1 Changes by broad sectors

After years of severe economic shocks, the re-proportioning of the three broad employment sectors, viz. agriculture, forestry and fishing, the primary sector, industry and construction, the secondary sector and services, the tertiary one has slowed down considerably in 1995.[34]

Labour Account data suggest that the employment role of agriculture and forestry declined further. This sector that used to employ more than 60 per cent of all earners at the turn of the century underwent a steady and significant loss of weight, so much so that by 1 January 1996 it only gave work to 8.2 per cent of all earners, somewhat less than one year earlier.

The decline in the number of industrial and construction industrial employees, a persistent phenomenon for more than twenty years, continued as well.

The slow growth of employment in the services sector over the past decades gathered significant impetus in the nineties. By 1 January 1992, half of the earners had been employed in the tertiary sector, and by 1996 the proportion of those employed in the services sector in the broad sense attained 60 per cent.[35]

Chart 8

Employment by broad sectors

000
persons

Services

Industry

Agriculture

[34] CSO switched to a branch classification system matching the international statistical system on 1 January 1992. As a result, certain activities and the related employment figures are assigned to other branches than earlier. Consequently, long time-series branch data cannot be compared directly with those referring to 1996. 1993 data are shown according to the new classification.

[35] CSO modified the figure released one year earlier, putting the rate of those employed in the services sector at 61.2%, and adding the difference to those employed in industry/construction.

Table 7.1.

Shifts in employment by broad sectors

1 Jan.	Agriculture *000*	Agriculture %	Industry *000*	Industry %	Services *000*	Services %	Employed *000*	Employed %
1900	1,735,8	61.1	422,3	14.9	683,2	24.0	2,841,3	100.0
1941	2,163,9	51.5	919,3	21.9	1,118,7	26.6	4,201,9	100.0
1960	1,830,0	38.5	1,617,6	34.0	1,311,9	27.5	4,759,5	100.0
1970	1,246,0	23.2	2,379,2	44.3	1,747,5	32.5	5,372,7	100.0
1980	1,109,0	19.3	2,386,1	41.6	2,238,5	39.1	5,733,6	100.0
1990	955,0	17.5	1,976,8	36.1	2,540,1	46.4	5,471,9	100.0
1992	647,7	13.5	1,667,8	34.8	2,480,7	51.7	4,796,2	100.0
1993*	432,8	10.0	1,446,0	33.2	2,473,2	56.8	4,352,0	100.0
1994*	371,8	9.0	1,341,0	32.4	2,423,6	58.6	4,136,4	100.0
1995*	348,2	8.6	1,313,7	32.5	2,383,3	58.9	4,045,2	100.0
1996*	326,5	8.2	1,261,8	31.8	2,386,0	60.0	3,974,3	100.0

* According to the standard international. classification system introduced by the CSO in January 1992

Source: CSO Census; CSO Yearbooks; *Labour Account*, 1 Jan. 1996

CSO's 1996 Labour Force Survey data imply somewhat different proportions. (The Survey differs in several respects from the Labour Account, pre-eminently in that it does not include persons on child-care aid/fee.) The data in question indicate a slight growth of the share of agricultural employment to the detriment of industry and the services.

Table 7.2.

Employment by broad sectors. QIV in 1995-1996.

	1995 QIV *000*	1995 QIV %	1996 QIV *000*	1996 QIV %
Agriculture	297,7	8.0	316,4	8.5
Industry	1,213,1	32.6	1,204,3	32.4
Services	2,204,4	59.4	2,191,4	59.1
Total*	**3,715,2**	**100.0**	**3,712,1**	**100.0**

* Excluding "unknown" persons; 1,000 in 1995 and 100 in 1996

Source of data: Labour Force Survey, Quarterly Bulletin QIV 1996, CSO 1997.

Labour Account data covering 1995 and Labour Force Survey data on 1996 both support the assumption that the severe economic crisis leading, among other things, to the significant reshuffling of the employment structure, is by and large over. It seems likely that the rise of the current low level of employment will not modify the basic sectoral distribution of employment either or, rather, that development will be balanced and will conform to the general development trends in the future.

It is typical for the most developed countries for employment in the two major production sectors to decrease, while the number of service providers (public services, health care, education and also commercial, financial and material services included) tends to rise.

With the exception of Greece and Portugal, in 1995 the proportion of those employed in the services sector exceeded, albeit slightly only, 60 per cent in the countries of the European Union – and actually attained 70 per cent in some.

Table 7.3.

Employment by broad sector as per cent of total employment in EU countries in 1995

%

	Agriculture	Industry	Services
Belgium	2.7	28.2	69.1
Denmark	4.4	27.1	68.5
Germany	3.2	36.0	60.8
Greece	20.4	23.2	56.4
Spain	9.3	30.2	60.5
France	4.9	27.0	68.1
Ireland	12.0	27.8	60.2
Italy	7.5	32.1	60.4
Luxemburg	3.7	25.6	70.6
Holland	3.7	22.6	73.7
Austria	7.3	32.1	60.6
Portugal	11.5	32.2	56.4
Finland	7.7	27.6	64.6
Sweden	3.3	25.8	71.0
United Kingdom	2.1	27.4	70.5
EU average	5.3	30.2	64.5

Source: *Employment in Europe, 1996*, pp.147-162.

Higher employment in agriculture and lower employment in the services sector is typical for the less developed countries, in close correlation with the continuous (capital-intensive) development of production technology which, in turn, improves productivity, makes the production of great masses of goods possible and allows to reduce the workforce. This process is accompanied by the growth of the more well-to-do strata and changes in their consumption pattern, i.e. rising expenditure on health protection, sports, tourism, insurance, financial and other services. Of course, re-arrangement is a complex process shaped by other factors as well, as witnessed by the proportion differences of the various national patterns.

The re-structuring of the sectoral pattern of the Hungarian economy, however, was triggered by deep economic recession, not the steady growth of prosperity. The future development of the branch structure depends on economic stabilisation. A further reduction of employment in the production branches would only be an asset if it were accompanied by forceful technical development, while the natural development of the services branches is conditional on the growth of solvent demand.

7.2 Changes in branch employment patterns

Each of the three broad employment sectors includes a variety of branches. Changes in employee number per branch is an important indicator of structural shifts.

In the course of 1993, 6 branches recruited a total of 78 thousand and 8 lost almost 294 thousand; in 1994, 6 branches again recruited a total of 31 thousand, and 8 lost another 122 thousand.

In 1995, losses amounting to 147 thousand were counter-balanced by recruitments totalling 76.1 thousand in the economy overall, i.e. the economy employed 70.9 thousand less than one year earlier.

However, there are considerable annual differences in the composition of the aggregate figures. In 1995, the two production sectors of the economy, i.e. agriculture and industry (construction industry not included) lost a total of 73.6 thousand, while the number of those employed in the services sector increased by 2.7 thousand.

On a branch basis, manufacturing and agriculture suffered the gravest losses (of -68.9 thousand and -21.7 thousand, respectively). Within the services sector, education and financial intermediation and associated services lost the most employees (18.4 thousand and 11,9 thousand, respectively). On the other hand, the number of employees increased fastest within the primary sector in construction (+27.8 thousand) and in the tertiary one in the "other communal, public and personal services" branch (+16.3 thousand), in "hotels and catering" (+12 thousand), and in "real estate, renting and business support" (+10.6 thousand).

Within the services sector, the three major branches financed from the budget (administration, education, health care) lost a total of 33.7 thousand; their weight nevertheless contributed one third approximately of all the services branches.

Changes having taken place between 1 January 1993 and 1 January 1996 entailing significant losses in terms of employee number are reviewed in detail in Table 7.4 based on the respective Labour Accounts.

Table 7.4.

Employment in branches of economy in 1994-1996 (1 Jan.)

Industries	1994		1995		1996	
	Persons in employment					
	000	%	*000*	%	*000*	%
Agriculture. hunting and forestry	371,8	9.0	348,2	8.6	326,5	8.2
Mining	34,8	0.8	24,4	0.6	19,1	0.5
Manufacturing	983,9	23.8	993,1	24.6	924,2	23.3
Electricity, gas, steam and water supply	104,4	2.5	105,7	2.6	100,2	2.5
Construction	217,9	5.2	190,5	4.7	218,3	5.5
Wholesale and retail trade; repair of motor vehicles, motorcycles, pers. goods	589,4	14.3	550,8	13.6	559,4	14.1
Hotels and catering	140,7	3.4	123,6	3.1	135,6	3.4
Transport, storage, post, telecom.	336,4	8.2	333,2	8.2	334,0	8.4

Financial intermediation	88,3	2.1	89,6	2.2	77,7	2.0
Real estate, renting, business support	181,8	4.4	191,0	4.7	201,6	5.1
Public administration and defence; compulsory social security	285,3	6.9	285,0	7.0	277,6	7.0
Education	356,2	8.6	362,2	9.0	343,8	8.6
Health and social work	292,2	7.1	296,1	7.3	288,2	7.2
Communal. public and personal services	153,3	3.7	151,8	3.8	168,1	4.2
Total	**4,136,4**	**100.0**	**4,045,2**	**100.0**	**3,974,3**	**100.0**

Source: Labour Account. 1 January 1996, CSO

As for 1996, data available to us originating from CSO's Labour Force Survey are only partially comparable with the Labour Account. (However, employment proportions by branches are largely similar in both cases.)

A comparison of fourth quarter 1995 and 1996 Labour Force Survey data still shows a slight fall (by 4 thousand) in the number of those in employment.

Table 7.5.

Employed persons* by industries, *QIV* 1995-1996

Industries	*QIV* 1995		*QIV* 1996		
	000	%	*000*	%	% change
Agriculture, forestry	297,7	8.0	316,4	8.5	18.7
Mining	32,9	0.9	30,1	0.8	- 2.8
Manufacturing	858,4	23.1	865,0	23.3	6.6
of which					
Food, beverages, tobacco	162,6	4.4	160,2	4.3	- 2.4
Textiles, footwear, leather, clothing	160,4	4.3	166,6	4.5	6.2
Timber, paper and printing	80,0	2.1	81,1	2.2	1.1
Chemicals	95,8	2.6	92,2	2.5	- 3.6
Non-metallic mineral products	33,7	0.9	31,0	0.8	- 2.7
Metal production	91,3	2.5	80,0	2.2	- 11.3
Machines and parts	203,1	5.5	225,8	6.1	22.7
Furniture, recycling	31,5	0.8	28,1	0.7	- 3.4
Electricity, gas, steam and water supply	93,9	2.5	91,3	2.5	- 2.6
Construction	227,9	6.1	217,9	5.9	- 10.0
Distribution, repair	473,8	12.7	506,6	13.6	32.8
Hotels and catering	117,9	3.2	111,6	3.0	- 6.3
Transport, storage, post and telecom.	326,8	8.8	325,2	8.8	- 1.6
Finance/business services	84,9	2.3	83,2	2.2	- 1.7
Real-estate, renting, business support	130,5	3.5	131,0	3.5	0.5
Public administration	321,9	8.7	307,2	8.3	- 14.7
Education	338,2	9.1	326,7	8.8	- 11.5
Health care and social welfare	228,8	6.2	225,7	6.1	- 3.1
Communal, public and personal services	181,6	4.9	174,2	4.7	- 7.4
Total	**3,715,2**	**100.0**	**3,712,1**	**100.0**	**- 3.1**
Unknown	1,0	-	0,1		- 0.9
All employed	**3,716,2**		**3,712,2**		**- 4.0**

* Not including persons on child-care leave, including conscripts

Source: CSO Reports

Important changes within the three broad employment sectors include the following:

- agriculture recruited employees for the first time after years of severe losses at the end of 1996 – as a matter of fact, nearly one third (18.7 thousand) of all the newly recruited employees (a total of 60.1 thousand) of all the branches increasing their respective employee numbers;
- industry (mining, manufacturing, electricity, gas, steam and water supply included) recruited 1.2 thousand only, while construction lost 10 thousand. Within manufacturing, engineering was the most significant recruiter (+22.7 thousand) and metallurgy the biggest loser (-11.3 thousand);
- in the services sector, recruitments totalling 34.8 thousand in the services sector thanks to the contribution of the trade and repair branches above all were opposed by losses in various branches amounting to 53.4 thousand altogether, producing a negative balance of 18.6 thousand. The number of employees in the services branches (administration, education, health care) dropped by 29.3 thousand, i.e. by 3.3 per cent relative to the corresponding number one year earlier (the decline was 4.5% in state administration, 3.4% in education and 1.3% in health care).

All in all, in the short run, changes in the employment weights of the various branches resulted in shifts of a few tenths of a per cent. Neither growth, nor decline was spectacular. Moreover, the level of employment tends to correlate ever more loosely with the economic weight of the branch. "Jobless growth", i.e. technological development with significant capital investment requiring no new jobs or even making old ones redundant is quite perceptible in certain industrial branches.[36]

7.3 Employment structure by organisation size

[36] A few examples from the press:

- Nokia's Pécs monitor assembly plant was inaugurated. The Finnish world concern purchased the factory of an Italian company having gone bankrupt, paying USD10.2 million for the property, but taking over less than one tenth of the production lines. The Finns will spend HUF20 million more on machinery in order to upgrade the factory so that it should be up to the highest international standards. Nokia Monitor Ltd currently employs a staff of 170 (*Napi Gazdaság*, 24 April 1996).
- Stollwerck has spent HUF7 billion on the development of its Hungarian plants since privatisation. At present it employes a staff of 750 instead of the former 3,400, and somewhat more, as many as 1,200 in peak periods (*Üzleti 7*).
- Unilever Hungary announced its technical development project to be implemented at Nyírbátor, one of the economic crisis zones of the country, amounting to GBP1.8 million. The Nyírbátor Plant currently employs 203, but 50 jobs are likely to be made superfluous by the envisaged reorganisation and modernisation (*Magyar Nemzet,* 20 February 1996).
- After having purchased the Pécs Tobacco Factory, in 1992-1993, British-American Tobacco Co. Ltd. (BAT) spent GBP25 million approximately, i.e. more than four billion forints, on development. The capacity of the factory doubled, while staff number remained by and large unchanged (*Népszabadság*, 24 June 1996).

CSO's report prepared on a regular basis since early 1996 on active business organisations considers as active entities having presented tax returns (corporation tax, VAT etc.) in the previous year or having been formed in the year covered by the report. In December 1995, active organisations represented less than 60 per cent of the more than 1.1 million registered enterprises.

In December 1996, the corresponding proportion was 66%. The difference between registered and active business entities was largest among unincorporated sole proprietorships and partnerships (hardly more than half of these being active), but the proportion of inactive incorporated companies also amounted to nearly 20% in 1995 and 17% in 1996.

1996 statistics on registered and active companies cover those with a staff of more than 11 only. It is important to note that nearly 97% of the active companies were so-called micro-enterprises with a staff of under 11.[37]

Table 7.6.

Active firms with a staff of more than 11

Active business org.	11-20	21-50	51-300	300 <	Together
	No.of organisations				
31 Dec. 1995	**9,664**	**7,584**	**6,077**	**1,483**	**24,808**
30 Dec. 1996	**10,774**	**7,855**	**5,718**	**1,319**	**25,666**
Staff number, *000*					
QI-IV 1995	99,1	175,6	535,0	1,559,2	2,368,9
QI-IV 1996	141,0	202,8	545,4	1,662,3	2,551,5
Of which					
- manual workers					
- *QI-IV* 1995	64,6	116,8	360,5	822,5	1,364,4
- *QI-IV* 1996	91,8	139,2	367,9	880,6	1,479,5
- non-manual					
- *QI-IV* 1995	34,5	58,8	174,1	737,1	1,004,5
- *QI-IV* 1996	49,2	63,6	177,5	781,7	1,072,0

Source: *Major labour processes, QI-IV 1996*, CSO, 1997.

One of the important characteristics of the above distribution is that although the smallest entities make up more than 40 per cent of the organisations covered by the survey, in 1996 they employed hardly more than 5% of all employees; 65 per cent of the earners worked at big (300+) organisations making up 5 per cent only of all the organisations.

On the other hand, as shown by the above fragmented organisational structure, average staff numbers remain close to the respective bottom limits of the size categories. (From 1995 to 1996, average staff numbers grew from 10.2 to 13 in the category of 11 to 20 strong companies, from 23.1 to 25.8 in that of the 21 to 50 strong ones, from 88 to 95.4 in that of the 51 to 300 strong ones and from 1,051.4 to 1,260.3 in those with a staff exceeding 300.) That is to say that the staff absorbing capacity of the smaller companies has remained rather modest in 1996 as well.

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[37] Sole proprietorships and unincorporated partnerships making up the decisive majority of companies with a staff under 11 will be discussed in more detail under Chapter 9.

7.4 Skill-group-specific changes of the employment structure

Although the 1 January 1996 Labour Account included data on the major employment groups, these covered active-age earners only (134.1 thousand less only than the number of those in employment) at enterprises having a staff of more than 50 and budgetary organisations irrespective of staff size. The total of 2,168.6 thousand persons corresponds to less than half of those in employment, 4,352 thousand, taken into account by the Labour Account. Although the survey gives data broken down by branches, in what follows, we shall only quote aggregate numbers by major employment groups (thousand persons):

- Legislator, manager (administration, interest represention, business) 150.7
- Occupation requiring independent application of university/college degree 272.2
- Other occupation requiring degree/secondary level qualification 394.8
- Office and administrative occupations 152.9
- Services occupations 197.2
- Occupations in agriculture, forestry 43.9
- Occupations in industry/construction 424.8
- Machine operator, assembler, driver 261.9
- Occupations requiring no vocational qualification 270.1

Total **2,168.6**

The Labour Force Survey, on the other hand, provides a much more detailed overview of all employees within its coverage.

The data in question are based on fourth quarter 1995 and 1996 data.

Table 7.7.

Employed persons* by major occupational groups, *QIV*. in 1995-1996

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Major occupational groups	*QIV* 1995		*QIV* 1996		Change (no.) over same period of previous year
	no.	%	no.	%	
Legislators, senior officials and managers	209.4		230.1		20.7
Professionals	420.2		417.8		- 2.4
Technicians and associate professionals	465.8		453.2		- 12.6
Clerks	289.9		271.8		- 18.1
Non manual workers	**1,385.3**	**37.2**	**1,372.9**	**37.0**	**- 12.4**
Service workers and shop and market sales workers	536.8		555.9		19.1
Skilled agricultural and forestry workers	128.5		150.2		21.7
Craft and related workers	825.5		814,3		- 11.2
Plant and machine operators and assemblers	400.8		405.3		4.5
Elementary occupations	338.5		320.1		- 18.4
Manual workers	**2,230.1**	**60.2**	**2,245.8**	**60.5**	**15.7**
Armed forces	100.4	2.6	93.5	2.5	- 6.9
Total	**3,715.,8**		**3,712.2**		**- 3.6**
Unknown	0.4		-		- 0.4
All employed	**3,716.2**	**100.0**	**3,712.2**	**100.0**	**- 4,0**
of which					
Employees including members of co-operatives	3,102.5	83.4	3,087.5	83.1	- 15,0
of which					
skilled	1,049.2	33.9	1,014.2	32.8	- 35,0
semi-skilled	630.3	20.3	519.2	16.8	- 111,1
unskilled	230.0	7.4	304.5	9.9	74,5
non manual	1,193.0	38.4	1,249.6	40.5	56,6

* Not including persons on parental leave; including conscripts

Source: CSO, Labour Force Surveys

Data relating to the educational qualification of those in employment usually change little from one year to the next if the economy is functioning smoothly. Although minor annual differences are indicative of the changes in demand, lasting changes are only revealed by trends manifesting themselves over a longer period of time.

In Hungary, censuses repeated every ten years may provide one point of departure. According to the last census, that of 1990, two-third of the active earners were manual workers and one third non-manual (intellectual) ones. More than half of the manual workers (53.1%) were skilled workers, one third (34.7%) semi-skilled and 12.2% unskilled.[38]

Data available at present cannot be compared with those provided by the census owing to methodological differences in the first place, but differences in distribution are indicative of the directions of the shifts.

The most noteworthy tendencies are the growing weight of non-manual vocations and the decreasing proportion of skilled workers within the group of manual workers. It is reasonable to assume that the tendencies in question will strengthen with the modernisation of the economy.

The conclusions of our previous analyses relating to changes in the vocational qualification structure were based on a comparison of those in employment on the one hand and the registered unemployed on the other. However, owing to the marked growth of the number of inactives, not registered as unemployed, this comparison gives less and less ground for drawing conclusions of merit. The qualification data of the employed/unemployed have already been shown in Table 6.13 above. Suffice it to remind the reader here of the close correlation between employment level and educational qualification, and vice versa.

Although it seems highly probable that, the same as before, qualified persons in general stand better chances of employment than the unqualified, this proposition could hardly be supported today with the modest demand data registered by the employment service. Registered demand for the various skill groups has been by and large of the same order of magnitude for years, with slight fluctuations.

Table 7.8.

Registered vacancies by skill-groups

Status of employment	Distribution of job vacancies, %						
	Jan.	December					
	1991	1991	1992	1993	1994	1995	1996
Skilled worker	55.2	46.8	47.3	45.7	49.0	52.1	51.8
Semi-skilled worker	28.0	29.4	25.0	23.6	27.3	24.3	22.5
Unskilled worker	9.2	12.8	10.9	7.2	8.2	11.8	10.2
All manual	92.4	89.0	83.2	76.5	84.5	88.2	84.5
Non-manual	7.6	11.0	16.8	23.5	15.5	11.8	15.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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[38] CSO carried out a so-called micro-census, i.e. a "small census" over a smaller sample representative, nevertheless, of the total population, in 1996, first of all in order to obtain information on the many kinds of deep-ranging changes having taken place in the economy in the early nineties. The survey covered changes in the employment structure as well, but its results were not available yet at the time of the closure of our analysis.

Source: Monthly Reports. NLC

As mentioned already, stock group re-proportioning is a slow process, closely related to the modernisation of the various vocations and to the qualification needs concurrent with that. It remains to be seen to what extent new technology installed in Hungary by foreign companies will result in positive and negative changes in qualification.

8. EARNINGS IN 1996[*]

Mid-year labour data collected in 1996 provides information on the situation of nearly 2,552 thousand employees. As regular statistical data collection does not cover companies with a staff of under 10, according to the data of the Labour Force Survey, the earnings characteristics of some 10 to 14 per cent of the employees are unknown. Patchy information originating from other sources available on the circle of small entrepreneurs, however, suggests that earnings are lower-than-average among them mainly owing to the practice of employment on minimum wage to avoid high contribution payment burdens, whereas entrepreneurs normally pay more in reality from their pockets, so to say. However, although all in all employees of smaller organisations probably have a higher income, this often goes hand in hand with overtime and work during week-ends, resulting in hourly wages and incomes not exceeding significantly those of the other earner groups.

Business organisations with a staff of more than 10 and budgetary institutions employed a total of 7.5% less in 1996 than in the year before. Employers, especially public ones, choose a more tactful form of redundancy, i.e., they do not hire new employees to replace those having reached retirement age. This tendency affects earnings levels, albeit not significantly, and can thus reduce the pace of earnings growth. In 1996, jobs created by smaller organisations and the self-employed counter-balanced losses at the larger organisations. Despite the re-structuring, the income situation of the group of wage and salary earners is essentially determined, because of the orders of magnitude involved, by the earnings characteristics of the circle monitored by regular labour statistics and, moreover, since the annual increase of old-age pensions in 1996 was indexed against the net earnings of this group, it has exerted a most significant influence on society overall.

Organisations covered by earnings statistics employed a total of 2,402.4 thousand full-time employees on annual average in 1996 (in accordance with Hungarian practice, the rest of the chapter quotes earnings indicators referring to this group). Another 73.2 thousand were employed part time (including part-time employees working, typically, 4 to 6 hours a day, home-workers, skilled worker trainees receiving skilled workers' wages etc.), while the number of employed pensioners converted to full-employment work-time corresponded to 75.9 thousand.

Data suggest that in 1996 the gross wages of those employed full time increased somewhat faster than the 19.5% centre accepted by IRC at 20.4%.

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[*] The present chapter was written by Judit Lakatos (CSO).

Nevertheless, real earnings fell more – by 5% – than originally envisaged by the Government. This is partly explained by the fact that the re-arrangement of the keys of the personal income taxation table resulted in a wider gap (of around 3%) between the growth paces of gross and net earnings, respectively, and partly to the 23.6% increase of the consumer price index.

Table 8.1.

Monthly gross and net average earnings, CPI and real earnings, 1989-1996

Year	Average monthly earnings of full time employees*				Consumer price index	Index of real earning
	gross	net	gross	net		
	HUF/month/pers.		previous year = 100.0			
1989	10,571	8,165	117.9	116.9	117.2	99.7
1990	13,446	10,108	128.6	121.6	128.9	94.3
1991	17,934	12,948	130.0	125.5	135.0	93.0
1992	22,294	15,628	125.1	121.3	123.0	98.6
1993	27,173	18,397	121.9	117.7	122.5	96.1
1994	33,939	23,424	124.9	127.3	118.8	107.2
1995	38,900	25,891	116.8	112.6	128.2	87.8
1996	46,837	30,262	120.4	116.9	123.6	94.6
1996**	46,837	30,540**	120.4	117.4**	123.6	95.0**

* Coverage of earnings data: 1989-1991: all organisation with legal entity; 1992-1994: 20 + organisations only; 1995-1996: 10 + organisations.

** Net earnings data calculated by the upper limit of social insurance rate.

Source: Employment and rate of earnings from 1993 to 1995, CSO, 1996; *Major labour processes, QI to IV 1996*, CSO, 1997

Despite *ad hoc* interferences during the year, the gap between earnings in the public and the competitive sector has kept widening further. In the first area, the growth of gross earnings by 23.2% approximated the 24% upper limit recommended by IRC, while in the public sector, employing nearly one third of those figuring in the survey, gross earnings exceeded the annual average of the previous year by 14.6% only. The overall slow growth of earnings in the budgetary sector was due to several factors:.

- The number public works participants increased relative to the previous year. This group excluded, the gross earnings index of the budgetary sector would have been 115.6% and that of the administration, where the majority of those doing public works come from, 119.8%.
- Central wage policy measures were implemented step by step and, therefore, they did not exert such a marked impact at the annual level. (As a reminder, the remuneration table of public employees was modified in February and May; both the remuneration base and the bonus of those working in the central administration increased from 1 January on, whereas for those working for the regional organisations the latter was only modified in the second half of the year. Workers in education and health care, on the other hand, received a single HUF10 thousand allowance at the end of the year, to compensate for the slow pace of earnings growth.
- The wage savings of the institutions and the contribution of the municipalities to the earnings increase of public employees amounted to much less than expected and, moreover, wage development financed from these actually took place in the second half of the year only.

Hence the net nominal earnings gap between institutions in the competitive and the budgetary sector, respectively, increased further in 1996. While in 1995 gross (nominal) average wages typical for budgetary institutions lagged behind those in the competitive sector by 2%, in 1996 the difference grew to 9%. Comparison at the level of averages conceals the difference in the composition of the work-force employed, namely the fact that in the budgetary sector, the ratio of non-manual workers is much higher than the national average. The earnings backlog of the budgetary sector is much more marked if we investigate it by earner groups. In 1996, in the competitive sphere, the gross earnings of manual workers was 24% more and that of the non-manual workers 44% more than the respective earnings of the same groups in the budgetary sector.

Table 8.2.

Monthly average earnings of full time employees in the enterprises and in the public sector

Sector	Manual		Non-manual		All employed	
	HUF/pers	1995=100.0	HUF/pers	1995=100.0	HUF/pers	1995=100.0
Gross						
Competitive	36,681	122.2	73,716	123.7	48,262	123.2
Public	29,479	115.7	51,176	114.4	43,882	114.6
All	**35,305**	**120.9**	**62,309**	**119.3**	**46,837**	**120.4**
Net						
Competitive	25,524	119.1	42,445	117.7	30,816	118.7
Public	21,826	114.1	32,807	112.8	29,116	113.0
All	**24,818**	**118.1**	**37,567**	**115.3**	**30,262**	**116.9**

Source: *Major labour processes, QI to IV 1996*, CSO, 1997

The growing earnings gap between the competitive and the budgetary institutions influenced branch-level earnings proportions as well: the budgetary sector being limited to some well-defined branches of the economy, the weight of non-budgetary entities in these branches is rather small. Branch differences, however, have evolved as a result of process taking place over a longer period of time and, consequently, shifts, if any, will also manifest themselves in the long run.

As for the level of gross earnings, the financial branch has been leading in this respect for years. In 1996, the HUF88,760 earnings average of the branch exceeded the national average by 90% and, moreover, its 24.7% earnings dynamics was, in itself, 1.5% higher than that of the entire competitive sector. Chemical industry ranked second with HUF67,720, the earnings average of the branch being determined by high earnings in the petroleum processing and pharmaceuticals production sub-branches. The energy sector overall was characterised by dynamics identical with the earnings average of the competitive sphere and gross earnings exceeding that (with the single exception of water management). As a result of the highest rate of gross earnings growth ever recorded this year, in 1996 postal services and telecommunications caught up with mining, albeit its favourable indicators were not due to the performance of the "classical" postal services in the first place. Privatisation has increased earnings gaps between related areas as well owing to the differences in the productivity of certain companies of decisive weight. Hence the same as last year, some sub-branches showed exceptionally high earnings results in the area of manufacturing and also trade.

Table 8.3.

Change in employment number and gross earnings, 1996

Sectors	Employment %	Change in no. of employed pers. 1995 =100.0	Gross earning HUF/pers /month	Gross earning change 1995= 100.0
Agriculture, forestry	6.6	95.3	35,073	117.4
Mining	0.6	92.0	60,102	118.4
Manufacturing	26.7	94.8	47,178	121.6
of which				
Food, beverages, tobacco	5.2	93.2	46,678	118.9
Textiles, clothing, footwear, leather	4.8	96.3	30,097	120.7
Timber, paper and printing	2.0	89.3	46,778	117.6
Chemistry	3.3	96.7	67,715	123.5
Non-metallic mineral products	1.2	96.4	49,703	123.3
Metals, metal products	2.9	91.3	48,646	119.8
Machinery	6.4	97.8	50,142	124.2
Furniture, recycling	0.9	90.7	33,173	118.3
Electricity, gas, steam and water supply	3.5	94.4	62,525	123.1
Construction	3.7	76.6	38,407	118.0
Wholesale, retail trade, repair	7.9	78.4	45,463	125.2
Hotels and restaurants	2.2	91.0	35,267	120.1
Transport, storage, post and telecom.	9.3	94.5	51,513	124.3
Finance/business services	2.5	94.9	88,759	124.7
Real-estate, renting and business support	3.8	90.3	51,733	123.9
Public administration	10.2	99.2	53,523	116.6
Education	11.1	94.9	38,996	111.8
Health-care and social welfare	9.1	95.7	37,530	115.6
Other communal, public and personal services	2.8	89.7	47,857	119.8
All	**100.0**	**92.5**	**46,837**	**120.4**

Source: *Major labour processes, QI to IV 1996*, CSO, 1997

The most badly paid branches and industries of the economy have also been the same for years. From among the branches of the competitive sphere, textiles, clothing and leather goods production are traditionally characterised by the lowest average wages. The HUF30,100 earning, despite the HUF57,300 earnings average of non-manual workers, hardly exceeds twice the 1996 minimum wage. Low earnings in agriculture are coupled with the smallest gross earnings growth rate within the competitive sector. Construction, an industry registering a high earnings level earlier, landed in the group of the most badly paid branches in the past 3 to 4 years (at least as far as companies with a staff exceeding 10 are concerned), but services areas characterised by extra payments (e.g. catering) also belong here. It follows from the above comparison of the earnings characteristics of the budgetary and the competitive sector that education and health care are also among the lowest earnings areas of the economy.

Another aspect of the earnings proportions covered by the survey is the relative difference between the remunerations of manual and non-manual workers. In recent years, changes in this respect have become more marked than

– but not completely independent of – the differentiation of branch earnings. As a result of decades of levelling, in 1989 people employed in non-manual positions earned 54% more than their manual worker colleagues (in 1970, their advantage was 15%, in 1980 25%). In 1996, on the other hand, the gross earnings advantage of those in the non-manual group rose to nearly 76%, and the two-to-one proportion characterising the competitive sphere indicates an even more marked change there. Re-proportioning in favour of the non-manual group is due to rather complex causes. Without aspiring at completeness, let us quote a few of the essential ones among them:

- A well-paid medium and upper managerial stratum has evolved at the foreign-owned companies. Since in part of the non-manual occupations there is a competition for qualified labour, demand drives up wages paid by other business entities as well.
- The shrinking of the labour market has exerted a quasi-identical influence on non-manual and manual jobs, that is, the number of those performing low-qualification work decreased faster than average, and the change in composition has led to a growth of average earnings.
- In the framework of more efficient labour-force management, certain non-manual jobs have become more complex. More work implies higher remuneration, albeit not necessarily proportionate with the growth of the work load.
- Within the competitive sector, areas accumulating more intellectual work than average moved forward on the earnings ladder, although slow earnings growth in education and health care in 1996 exerted a somewhat contradictory impact.
- The better interest assertion capacity of intellectual workers may show more forcefully in the market economy than it used to earlier.
- The acquisition of higher-level knowledge costs ever more with the spreading of a market-based system of education and this is expected to be reflected to a growing degree in labour price as well.

The above tendency is not true for the budgetary sector. Although some smaller groups are capable of attaining a relatively favourable earnings position there, too (in the domain of justice or central administration, for example), in the more populous areas (e.g. public education, law and order protection, health care) the limited nature of available public funds accompanied by imperfect business management on the users' side imposes limits on the endeavours of the non-manual workers to increase their earnings. Yet another factor shaping the earnings level is a less marked hierarchical system than in the entrepreneurial sphere and a much smaller earnings difference between the respective levels.

Table 8.4.

Average gross earnings of full-time manual and non-manual employees, 1996

Sectors	Manual		Non-manual		Index of non-manual/manual earnings
	1995= = 100,0	HUF	1995= = 100,0	HUF	
Agriculture, forestry	118,3	29,679	116,9	54,398	1.83
Mining	118,2	50,888	117,1	101,708	2.00
Manufacturing	121.7	38,280	122.6	79,225	2.07
Electricity. gas steam and water supply	122.7	50,979	121.9	89,634	1.76
Construction	116.8	31,257	117.6	64,371	2.06
Wholesale, retail trade, repair	121.8	29,279	124.0	67,030	2.29
Hotels and catering	121.0	26,124	117.2	54,839	2.10
Transport, storage, post and telecom.	122.3	41,678	124.9	67,556	1.62
Finance/business services	114.8	47,583	124.4	90,338	1.90
Real estate, renting and business support	122.8	31,604	125.4	72,247	2.29
Public administration	113.4	35,276	119.5	66,081	1.87
Education	116.9	23,129	110.3	44,196	1.91
Health care and social welfare	117.3	26,566	114.8	43,046	1.62
Other communal, public and personal services	121.5	33,237	118.3	62,830	1.89
All	**120.9**	**35,305**	**119.3**	**62,309**	**1.76**

Source: *Major labour processes, QI to IV 1996*, CSO, 1997.

The earnings of the various workers and worker groups are shaped by many other, interactive, factors, such as school qualification, age, sex, occupation, geographical location of the workplace, terms and conditions of labour etc. The first of these aspects is the earnings ratio of men and women.

Table 8.5.

Rate of male/female earnings

Sector	Male	Female
	as % of the average earning	
Competitive	104.9	92.3
Public	62.5	56.4

Source: Ministry of Labour - NLC: Individual earnings in May 1996

As can be seen from the data, males have a 12.6 percentage point advantage in the competitive sphere. This goes back to differences in branch proportions (the clothes industry associated with the lowest earnings employs practically women only, but trade and catering for instance are also characterised by the majority of female employees), to shorter service periods and lower chances to become manager, counterbalanced to a growing extent in recent years by the ever higher school qualification level of women. In the budgetary sector, the difference between the earnings of men and women is smaller (around 6%). Although the promotion of women is hindered in this area as well by their family obligations, because of women being in majority, budgetary institutions have relatively more female managers than the others. The smaller earnings gap is also due, to a considerable extent, to the promotion and remuneration system leaving less ground to inequality of chances due to sex.

It is common knowledge that educational qualification is a significant earnings factor. People having finished elementary school only earn approximately one third less and graduates/professionals two-third more than the average. Earnings in general increase proportionately with age, but this tendency is most marked for those having a higher educational qualification, partly due to the enrichment of their experiences and partly to ascent in the workplace hierarchy. Thus while among those having primary qualification the 55 to 59 year-old have an earnings advantage of 24% over the 15 to 29 year-old, in 1996 the corresponding ratio for graduates was 85%.

Table 8.6.

Monthly average gross earnings by age and educational qualification as compared to the national average

%

Educational qualification	15-29	30-39	40-49	50-54	55-59	60 < more	**All**
	age groups						
Primary education or less	63.3	65.9	67.6	70.1	78.3	78.4	**67.4**
Apprentice, vocational school	71.3	81.4	88.7	91.8	97.1	100.4	**82.3**
Grammar school	82.7	97.5	113.2	127.1	147.6	183.2	**105.3**
College, university	114.4	143.1	176.7	198.0	212.1	233.7	**165.1**
Total	**77.9**	**95.0**	**105.6**	**118.2**	**133.5**	**180.8**	**100.0**

Source: *Individual earnings in May, 1996*, Ministry of Labour-NLC

II. TRANSITION PROCESSES AFFECTING LABOUR DEMAND AND SUPPLY

Several important economic indicators (investment, industrial production, order stock etc.) underwent a favourable development in 1996. The outfolding positive processes suggest a further strengthening of stabilisation going back to 1995. After the dramatic market losses of the previous years and the severe economic and social losses they entailed (the decline of the domestic product by 17 to 18 per cent, the loss of some 1.5 million jobs), stabilisation is really a most promising development.

At the same time, one should not forget that the possibilities of the country are limited by cumbersome endowments, from the income-generating capacity of the country[39] to its external debts and public/communal consumption financed by the Budget.

Chart 9

Per capita GDP, 1996 (*USD*)

[39] According to the data of the World Bank, of more than 130 countries taken into account the world over, Hungary is in the middle bracket, between the rich and the poor countries. Per capita GDP differs by orders of magnitude in the three groups. In 1996, it was lowest in Mozambique (USD90) and highest in Luxemburg (USD32,210), this latter being eight times as much as the Hungarian per capita average of USD4,278. According to the comparative analysis of the World Bank covering Central Europe, from among our neighbours endeavouring to join the EU, Slovenia's per capita GDP was USD9,255 in 1996, that of the Czech Republic was USD5,048, that of Slovakia USD3,584.4 and that of Poland USD3,495.5 (*Central Europe: A Comparative Overview,* World Bank, 1997.)
It is well known that annual GDP growth is relatively slow, especially in the developed countries. In the countries of the European Union it averages 1.5 to 2.5 per cent.
Also, according to the computations of the World Bank, the "leading reformer" countries of Central Europe, including Hungary as well in addition to the Czech Republic, Slovakia, Poland and Slovenia, will produce approximately 130 per cent of their 1989 GDP by 2005. This promises modest growth after the losses (*Global Economic Prospects and the Developing Countries*, World bank, 1996).

Source: *Világgazdaság*, 22. 04. 1997, Press data bank

The perceptible economic processes are reflected in the development of the employment situation as well.

In accordance with the general stabilisation tendency, the overall level of employment has hardly changed, a sure sign of the gradual loss of strength of such very marked and forceful transformation currents of the previous years as the alteration of ownership relations, the bankruptcy and liquidation procedures, and the significant reshuffling of ownership and employment in agriculture.

Although the processes in question are still in progress, major changes now take place within the framework of, or in association with, established new structures.

Private economy has been gaining ground slowly: a growing proportion of the earners is employed in the private sector either as employees of privatised companies or as owners/employees of (mostly small) business organisations established on individual initiative.

However, data referring to the employment capacity of the private sector have become somewhat uncertain, in retrospect as well, now that, from early 1996 on, CSO is publishing data on the active, not the registered organisations. Since some of the registration systems have not managed to adjust to this change yet, occasionally contradictory data are released on employment among other things. We have omitted the uncertain data sources here. Nevertheless, there are certain uncertainties concerning the reference base, the employment weight of the private sector and especially the small sole proprietorships and partnerships prior to 1996 and the actual annual change of their strength.

We can only hope that 1995 and 1996 data shown here will project a relatively faithful image of reality and, moreover, that CSO's small enterprise survey scheduled for 1997 will provide a reliable foundation for the re-assessment of their employment capacity.

Source: *Világgazdaság*, 21. 04. 1997

9. *EMPLOYMENT IMPACTS OF THE EMERGING PRIVATE ECONOMY*

9.1 The self-employed, and business companies without legal entity

The emergence of a private economy in Hungary in recent years has followed basically two routes: (mostly small) businesses born out of private initiative and based on private capital; and the transfer of state property into private hands (privatisation). Both factors had a major impact on employment. Due to their ever-increasing effects on employment, the foundation of companies and greenfield investments made in Hungary by foreign companies can now be considered as a third factor.

Our calculations[40] (and available data) show that the rate of those employed by private businesses surpassed that of those employed by the non-private sector (state and co-operative) in Hungary in 1995; at that time we assessed the proportion of earners in the non-private sector as 52 to 53%[41].

Nearly half (45%) of the people employed in the private sector are those working as self-employed or in businesses without legal entity. That means that, before 1996, these small businesses (which employ less than 10 people and which are internationally referred to as micro-enterprises) created and preserved as many jobs in the private sector as the number of those transferred into the private sector via the privatisation of large companies.

Before offering an overview of their further role in employment, we have to underline the following: sole proprietors have always meant a number of different types of employment; registered entrepreneurs can be main or second job holders or even retired; they have employees and there are also members of the family who participate in their work on a regular basis. Changes in the number of businesses do not necessarily mean changes in their role in employment.

In 1996, we observed a decline in the growth in the number of self-employed, which had been on the rise for a decade. The 9 to 18 thousand new businesses established cautiously in the 1980s expanded by more than a hundred thousand in 1989, and an annual expansion by approximately a hundred thousand remained unchanged until 1995. 1995 saw an expansion by only 13 thousand, and in December 1996 the number of the registered sole proprietors was more than 46 thousand less than in December 1995.

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40 *Processes affecting supply and demand on the labour market*, April 1996, pp. 112-115.

41 Our estimate is close to the results of the 1995 survey of the Hungarian Household Panel: 37.9 % of those employed could be categorized unequivocally under the private sector; another 11.9 % under partially private companies, while nearly 50% worked for state, central budget, or local government companies.

There are two further factors that limit the registered number of self-employed sole proprietors as well as their employment capacity. One of these is the number of the registered, yet not active businesses, while the other is the number of businesses operating on a supplementary basis. As we indicated above, CSO has disclosed the monthly number of active businesses since January 1996 (and it also published figures for December 1995). Contrary to earlier practice, businesses that did not file their tax returns are not regarded as active. (This is, effectively, a benevolent restriction, as one cannot rule out a situation whereby part of the actually active businesses did not return their tax declaration to the tax authority.)

If we are to consider tax returns as the criterion to decide whether a business is active or not, then approximately 40 per cent of the sole proprietors have not been active for several years, as compared to tax authority figures. In 1993, only 58.6 per cent of the registered small entrepreneurs filed their tax returns, with 58.6% in 1994, 61.5% in 1995, and 55.4% in 1996.

Inactive businesses have operated on an occasional basis only, or not at all. Since 1990, that is, the enactment of the law on sole proprietorships which made the acquisition of an entrepreneur's permit as simple as possible, large masses have seen this as either a forced or a favourable opportunity. This with a willingness to create an independent life, those wanting to avoid unemployment, or those who simply wished to enjoy supplementary income, have all added tens of thousands to the number of the registered small businesses.[42]

The slow stabilisation of the labour market, the decline in effective demand, the increase in tax burdens and other reasons have gradually weakened efforts to create an independent livelihood.

It is worth noting that changing regulations on taxation and contributions, which have streamlined masses into, or out of, the small enterprise sphere every year, have affected the number of businesses to at least the same extent as economic opportunities. A spectacular case in point was the change in tax regulations, and plans to increase social security contributions at the end of 1996: as a result of news of prospective changes, tens of thousands of entrepreneurs gave up their entrepreneur's permit, especially second-job holders..)

In 1995, the smallest proportion of active businesses was observed in the area of non-manual activities, among professionals, constituting a fraction more only than a quarter of those registered (25.6%). The largest such proportion was seen among artisans (68.8%) and retailers (65.3%). The relatively high proportion (65.8%) in agriculture is somewhat misleading, as only about a third of the approximately 60 thousand small farmers possessed an entrepreneur's permit, i.e. were registered as entrepreneurs (and, therefore, had a tax number);

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[42] The extension of the entrepreneur's permit as a simple tax registration device to virtually all independent (i.e. not employment-related) activities has added masses to the number of fictitious businesses. Working as agents, collecting supplementary forest produce, letting rooms and a number of other occasional activities which provide uncertain income can only be done legally if one is in possession of an entrepreneur's permit.

those whose annual income exceeded HUF2 million gross (one million net). 15.6 thousand out of the 23.7 thousand farmers were active (i.e. filed tax returns).

In 1996, when CSO already published figures for active businesses only, according to activity ("major trade branches", to use the statistics terminology), the largest number of sole proprietorships were active among artisans (182.1 thousand people, or 39.6% of all active businesses), with retailers providing an additional one third (154.1 thousand people, or 33.5%). Non-manual activities (103.7 thousand people) represented 22.5%, while farmers (20.1 thousand people) 4.4%.

At the same time, the number of active small entrepreneurs, as indicated above, is restricted further by a fundamental distinction in terms of employment, i.e. whether the activity is performed on as a main job or a second one.

According to December 1996 figures published by CSO:

Table 9.1.

Number of active sole proprietors, 1996

	Professionals		Artisans		Retailer		Farmers*		**All**	
	no.	%	no.	%	no.	%	no.	%	no.	%
Main job	34.258	33,0	122.789	67,4	93.730	60,8	8.750	43,4	**259.535**	**56,4**
Second job	55.376	53,4	46.532	25,5	44.992	29,2	6.670	33,2	**153.570**	**33,4**
Retired	14.063	13,6	12.848	7,1	15.433	10,0	4.701	23,4	**47.045**	**10,2**
Other	2		3		8	-	-	-	**13**	**-**
Total	**103.699**	**100,0**	**182.172**	**100,0**	**154.171**	**100,0**	**20.121**	**100,0**	**460.163**	**100,0**

*Farmers having tax identification number only.
Source: *Monthly Bulletin of Statistics*, CSO, December, 1996.

The approximate number of 306 thousand full time and retired sole proprietors constitute only 7.7% of the 3.9 million featuring as employed in the 1 January, 1997 labour balance of CSO.

Among active sole proprietors, the overall number of those working full time showed a slight increase in 1995.The situation is best characterized as one of stabilisation, perceptible in this sector as well.

Detailed information on the employment capabilities of sole proprietors can be obtained annually from tax returns. The Tax Office provided us in 1996, too, with figures concerning 1995 processed at our request.[43]

In 1996, about 40,000 fewer tax forms were returned than a year earlier. More than 80% of those who failed to return their tax forms were among second job holder entrepreneurs.

According to CSO figures, 417, 587 out of 791,496 registered sole proprietors classified as active in December 1995 - with about 20,000 thousand more, i.e. 438,748 people returning their tax forms. (The discrepancy may be due

43 We are especially grateful to contributing associates at Tax Office SzTADI, who have, for a number of years, undertaken the burden of this job and who have ensured its high standard with their expertise.

to the difference between yearly and December figures) According to activity, 45% are artisans, 34% retailers, and 16.3% non-manuals. Only 15.7 thousand farmers (3.6%), and 5.1 thousand in other categories (3.6%) returned their tax forms.

According to sectors of the economy:

Table 9.2.

Number of tax-return senders by sectors, 1996

Sectors	Sole proprietors		
	Tax return senders of		Difference
	1994	1995	
Agriculture	17,501	15,749	- 1,752
Mining	27	24	- 3
Manufacturing	64,741	57,975	- 6,768
Electricity, etc.	-	65	+ 65
Construction	42,204	40,864	- 1,340
Distribution etc.	177,537	136,493	- 41,044
Hotels and catering	25,164	23,427	- 1,737
Transport, storage, post and telecom.	42,389	39,448	- 2,939
Financial			
Real estate, renting, business support	70,101	79,019	+ 8,918
Health care and social welfare	5,200	6,000	+ 800
Other service activities	33,899	39,684	+ 5,785
Total	**478,763**	**438,748**	**- 40,015**

Source: *Monthly Bulletin of Statistics*, CSO; Tax Office

Figures providing details of the activities of sole proprietors and their employment offer more subtle conclusions than strongly aggregated data that follow the international statistical system.

Table 9.3.

Number of sole proprietors sending tax return and their employees, 1994 and 1995

Activities		Number of sole proprietors: Main job holder	Second job holder	Pensio-ners	All	Employed: family workers	employees	All main job holders
1994								
Non-manual	(no.)	19,761	35,275	5,860	**60,896**	2,090	9,952	**31,803**
	%	32.5	57.9	9.6	**100.0**			
Industrial	(no.)	132,385	58,367	14,677	**205,329**	16,030	84,724	**233,039**
	%	64.5	28.4	7.1	**100.0**			
Commerce and catering	(no.)	97,566	74,763	18,666	**191,095**	14,221	71,916	**183,803**
	%	51.1	39.1	9.8	**100.0**			
Agricultural*	(no.)	8,004	5,109	4,388	**17,501**	329	2,604	**10,937**
	%	45.7	29.2	25.1	**100.0**			
Other (real estate)	(no.)	1,165	2,040	737	**3,942**	153	819	**2,137**
	%	29.5	51.8	18.7	**100.0**			
Total	**(no.)**	**258,881**	**175,554**	**44,328**	**478,763**	**32,823**	**170,015**	**461,719**
	%	**54.1**	**36.7**	**9.2**	**100.0**			
1995								
Non-manual	(no.)	24,729	38,987	7,712	**71,428**	1,386	11,083	**37,198**
	%	34.6	54.6	10.8	**100.0**			
Industrial	(no.)	133,599	51,188	12,666	**197,453**	12,565	90,859	**237,023**
	%	67.7	25.9	6.4	**100.0**			
Commerce and catering	(no.)	89,499	44,819	14,670	**148,988**	13,794	74,850	**178,143**
	%	60.1	30.0	9.9	**100.0**			
Agricultural*	(no.)	7,825	4,313	3,611	**15,749**	381	3,569	**11,775**
	%	49.7	27.4	22.9	**100.0**			
Other (real estate)	(no.)	1,327	2,553	1,250	**5,130**	126	1,097	**2,550**
	%	25.9	49.8	24.3	**100.0**			
Total	**(no.)**	**256,979**	**141,860**	**39,909**	**438,748**	**28,252**	**181,458**	**466,689**
	%	**58.6**	**32.3**	**9.1**	**100.0**			

* Entities with tax identification number only.

** Activity unknown: 175 sole proprietor, 5 family members, 17 employees, together 197 persons in 1994.

Source: Tax return forms, 1994, 1995. Tax Office

Within the decreased total number of those working in different businesses, only the number of non-manuals and those classified under "other" showed an increase, with the rest declining, in certain cases to a considerable extent (retailing). This change modified internal proportions of activities. The 1994 order (industry: 42.9%; trade: 39.9%; non-manuals: 12.8%; agriculture: 3.7%; other 0.8%) changed in 1995 to show a slight increase in industrial activities and those in the professions (45 and 16.3%), and a substantial decline in trade-related activities (34%).

There were more substantial changes according to employment. The proportion of full time employed came near 60%, in second jobs it decreased, while for pensioners it remained around 9%, practically for several years.

Table 9.4.

Number of sole proprietors, their employees and family workers, 1992 to 1995

	According to the processed tax return forms							
	in 1992		in 1993		in 1994		in 1995	
	no.	%	no.	%	no.	%	no.	%
Sole proprietor	338,776	100.0	402,893	100.0	478,763	100.0	438,748	100.0
of which								
main job holder	184,183	54.4	218,220	54.2	258,881	54.1	256,979	58.6
second job holder	124,068	36.6	147,982	36.7	175,554	36.7	141,860	32.3
pensioner	30,525	9.0	36,691	9.1	44,328	9.2	39,909	9.1
Number of employees	104,562	100.0	334,948*	100.0	170,015	100.0	181,458	100.0
of which								
main job holder	88,111	84.3	287,330*	85.8	139,401	82.0	149,564	82.5
second job holder	13,169	12.6	41,838	12.5	24,478	14.4	25,119	13.8
pensioner	3,282	3.1	5,780	1.7	6,136	3.6	6,775	3.7
Number of family workers	39,683	100.0	57,148	100.0	32,823	100.0	28,252	100.0
of which								
main job holder	28,992	73.1	45,518	79.6	23,146	70.5	20,993	74.3
second job holder	8,023	20.2	8,727	15.3	7,214	22.0	5,301	18.8
pensioner	2,668	6.7	2,903	5.1	2,463	7.5	1,958	6.9
Total employed persons	**483,021**		**794,989**		**681,601**		**648,458**	

* Presumable an error; the estimated number is less by around 147 thousands.
Source: Tax return forms, 1992 to 1995, Tax Office

At the same time, the growth in the proportion of full time entrepreneurs occurred amidst a slight drop in the number of those employed. In 1995, the number of those full time sole proprietors who returned their forms showed a decrease, for the first time in a number of years. This drop of about 2 thousand persons may, at the same time, indicate the reversal of the growing trend so far, or at least stagnation at the level that emerged so far. (In 1994, growth was 40.7 thousand persons, in 1993, 34 thousand persons) With the stabilisation of the labour market, sole proprietorship as a route to avoid unemployment will, presumably, become less attractive, and the route to a main job holder's career will be followed mostly by those who really intend to base their livelihood on it. (However, changes in the tax regulations concerning farmers, i.e. their obligation to file tax returns, may result in an increase in the region of tens of thousands.)

The number of second job holder entrepreneurs, which had for a number of years showed an increase, declined for the first time, by more than 30 thousand people. The majority probably held on to their registration cards, but were not active, or, even if they had income, they did not declare it to the Tax Office. Decline was most marked in trade and the catering, mostly among agents recruited from second job holder entrepreneurs. (The decline was more than 20 thousand persons.)

It is a favourable phenomenon, though, that the number of employees employed by sole proprietors has shown a further increase, albeit at a slow pace.

Apart from 1993 figures, which later proved erroneous and incorrigible[44] (which, by retrospective calculations, may have been 140 thousand rather than approximately 335 thousand), a tendency of increase is emerging clearly.

The increase in the number of employees does not change the well-known situation that sole proprietors provide jobs primarily for themselves. As many as three quarters of the main job holder entrepreneurs work on their own; for the total number of businesses that proportion is 80%. However, the number of those who employ others, shows a perceptible, though minor, increase. It is primarily those who pay corporate (as opposed to personal income) tax, i.e. those with a sizeable capital and choosing stricter accounting legislation, who are in a position to increase the number of their employees. This is reflected by comparative figures for two years.

Table 9.5.

Employees of sole proprietors, 1994 and 1995

as proprietor	Number of propri.	Number of empl.	The share of proprietors with employees (%)					Average number of employees per proprietor
			0	1	2	3	3+ - more	
1994								
Main job holder	258,881	139,401	74.4	13.8	5.4	2.5	3.9	0.54
of which								
taxed acc. to PIT*	244,450	114,889	76.6	12.4	5.1	2.3	3.6	0.47
taxed acc. to CRT*	14,431	24,512	37.6	37.3	10.4	5.8	8.9	1.70
Second job holder	175,554	24,478	91.8	4.9	1.6	0.7	1.0	0.15
Pensioner	44,328	6,136	89.7	6.7	2.0	0.7	0.9	0.15
Total	**478,763**	**170,015**	**82.2**	**9.9**	**3.7**	**1.7**	**2.5**	**0.36**
1995								
Main job holder	256,979	149,564	73.2	14.5	5.5	2.6	4.2	0.58
of which								
taxed acc. to PIT*	241,990	121,372	75.7	13.0	5.1	2.4	3.8	0.50
taxed acc. to CRT*	14,989	28,192	33.7	37.4	11.8	6.5	10.6	1.88
Second job holder	141,860	25,119	90.4	5.6	1.9	0.8	1.3	0.18
Pensioner	39,909	6,775	88.6	7.3	2.2	0.8	1.1	0.17
Total	**438,748**	**181,458**	**80.2**	**10.9**	**4.0**	**1.9**	**3.0**	**0.41**

* PIT: Personal Income Tax; CRT: Corporate Revenue Tax
Source: Tax return forms, 1994-95, Tax Office

Work organisations of sole proprietors are traditionally and characteristically small: in December 1996, 99.7% of the 460,163 sole proprietors had a staff of under 11; practically no more than 3 persons. (There were only 1,194 with a staff of 11 to 20; 339 with 21 to 50, and 59 with 51 to 300.)

The number of family members employed showed a decline in 1995, just like in previous years. (This time, NHIF had fewer family members reported than

[44] The figure provided by the Tax Office in 1993 proved to be erroneous, but it cannot be corrected retrospectively. At the time, data supplied were approved, but they were not rectified. We indicated this problem in our publication last year as well.

those featuring in the tax returns; it is presumed that businesses do not intend to pay contributions for those who are already insured in one way or another. However, it is worth registering them with the Tax Office, as wages may be paid for their contribution out of the income of the business entity.)

On the basis of tax returns, perhaps the most interesting pieces of information are obtained from an overview by sectors of trade/occupation, providing us with a picture of changes in the number of businesses and employees, respectively, in each of the branches.[45] The largest numbers can be found in retailing (from optical shops to market vendors); then a large variety of activities in the professions, with no obligation of a degree (e.g. data processing, technical supervision, expert, copy-writing, tax advice, etc.); followed by a multitude of repair and maintenance service industries (from car to gas-lighter repair, watchmaking and television repair); construction trades, and transportation, chiefly personal transportation. One common trait of these activities is that the majority of the businesses concerned require relatively small or no capital to start and operate them.

Another important bit of information that can be obtained from the data is that the massive loss of employment and transformation into an enterprise in order to save on social security contributions, an extremely widespread assumption in 1995-96, did not occur. If the figures are a reliable reflection of the changes, then in 1995 the number of those employed increased in virtually all branches.

Table 9.6.

Number of sole proprietors and their employees by groups of trade*, 1994-1995

	sole proprietor.			employee			change	
	1994	1995	Change	1994	1995	Change	P**	E**
Non manual								
degree required	13,437	13,986	+ 549	4,835	5,537	+ 702	+	+
other	47,459	57,442	+ 9,983	5,112	5,546	+ 434	+	+
Non manual, total	**60,896**	**71,428**	**+10,532**	**9,947**	**11,083**	**+ 1,136**	**+**	**+**
Industrial trades								
metallurgy	389	331	- 58	190	179	- 11	-	-
machine ind.	32,455	32,112	- 343	14,664	15,016	+ 372	-	+
building materials	895	715	- 100	676	653	- 23	-	-
chemistry	1,724	1,524	- 200	1,232	1,133	- 99	-	-
light industry	30,246	25,427	- 4,816	12,843	13,385	+ 542	-	+
other industry,	6,986	6,077	- 909	2,050	2,545	+ 495	-	+
food industry,	5,063	4,564	- 499	6,704	7,976	+ 1,272	-	+
Industry, total	**77,758**	**70,750**	**- 6,925**	**38,339**	**40,890**	**+ 2,551**	**-**	**+**
Construction	43,855	42,598	- 1,257	22,566	22,648	+ 82	-	+
Transportation	42,259	38,990	- 3,269	12,829	13,733	+ 904	-	+
Other services	41,537	44,970	+ 3,433	10,970	13,405	+ 2,435	+	+

[45] Classification is based on the Unified Branch Classification System of Activities, published by CSO.

Retail-trade								
shop by contract	1,936	1,605	- 331	3,529	2,977	- 552	-	-
grocery	31,984	28,580	- 3,404	17,964	19,519	+ 1,555	-	+
hardware	9,126	8,225	- 901	4,099	4,644	+ 545	-	+
other trades	52,831	49,855	- 2,976	18,281	19,676	+ 1,395	-	+
lending	3,399	2,807	- 592	834	835	+ 1	-	+
agent	57,386	33,892	- 23,494	2,545	2,875	+ 330	-	+
Retail Total	**156,662**	**124,964**	**-31,698**	**47,252**	**50,526**	**+ 3,274**	**-**	**+**
Catering								
restaurant, fast food	4,875	4,488	- 387	9,415	9,163	- 252	-	-
sweet-shop	5,114	4,601	- 513	4,684	4,322	- 362	-	-
snack-bar, pub	14,674	13,906	- 768	9,627	9,862	+ 235	-	+
lodging	501	432	- 69	696	656	- 40		
Catering Total	**25,164**	**23,427**	**- 1,737**	**24,422**	**24,003**	**- 419**	**-**	**-**
Agriculture	17,501	15,749	- 1,752	2,604	3,569	+ 965	-	+
- All	**465,632**	**432,876**	**-32,756**	**168,658**	**179,854**	**+11,196**	**-**	**+**

* Trade groups having less than 20 members not included.
** P= proprietor; E = employee
Source: Tax Office, tax return forms, 1994 and 1995.

Main job holders and retired proprietors, their family workers, and those employed by them (second job holder entrepreneurs included) altogether featuring in the tax returns constituted 12.7% of the 3,974 thousand wage earners accounted for by the 1st January, 1996 labour balance published by CSO.

From the point of view company legislation, companies without legal entity, i.e. unincorporated companies (limited and unlimited partnerships, economic work teams /in the process of being phased out/, and other partnerships [e.g. construction societies, condominium partnerships, etc.) classify under the same category as sole proprietorships.

It is a common feature of such companies that the activity is performed in a form of company which is not a legal entity, the company has no equity or capital, for the lack of which members' liability is extended to their personal property and possessions, and the income from the activity is the personal (work) income of the members.

The number of companies established by two or more persons showed a rapid increase every year. In 1990, there were 27.5 thousand limited partnerships, limited companies and economic work teams registered, with 44.3 thousand, 42.4 thousand, 69.8 thousand, 92.4 thousand and 122.2 thousand in subsequent years, and 142.9 thousand in 1996. (These figures do not include about 4.5 thousand construction partnerships, and about 500 other partnerships operating outside the economic sector.)

The popularity of these forms of enterprise was increased primarily by favourable tax legislation. In addition to the fact that there is no compulsory minimum capital, a large proportion of the income may be deducted as expenditure.

The number of registered and active companies differed in this area as well, even though to a considerably smaller extent than in the case of sole proprietors. About 25% were not active in 1995, and almost 20% in 1996. In line with practical experiences, it is in this sphere that the proportion of second jobs (and the proportion of "complementary enterprises" attached to them and established for tax evasion purposes) is the largest; however, there no data available on this; what give rise to such a conclusion is, at best, the frequent phenomenon of participants in several companies.

Thanks to the help of the Tax Office, this time we can gain a more detailed insight in the employment role of limited partnerships having returned their tax forms in 1996. In December 1995, a total of 93,259 active companies without legal entity were registered; 80,950 of them limited partnerships (86.8%).

The largest number of limited partnerships operate in trade; to be followed by the services industry; in 1995, more than half of those returning their tax forms were active in one of these two branches.

According to the tax returns, limited partnerships employed a total of 157,552 employees; they also extended the number of those employed by 17.5 thousand in 1995. However, nearly 60% of them are employed by only 3 branches: in addition to trade and economic services, construction is the main employer.

CSO figures of December 1995 (indicating almost as many active limited partnerships as the number of tax returns filed [80,950]) show that 98.8% of the active limited partnerships had a staff of under 11: only 70 had a staff of more than 50, and, among them, 4 limited partnerships employed more than 300 persons.

In turn, the average staff number of those filing their tax returns was less than 2 persons (1.95 persons). Average staff number was highest in companies operating in manufacturing (3.14 persons); within them, those operating in the textiles, clothing and leather goods branches reached almost micro-plant levels with an average of 5.3 persons. Food processing also showed a high average number: 4.4 persons. In construction, the average was 2.7 persons, and it was lower than average in trade and repair at 1.7 persons, and even lower in economic services at 1.36.

Table 9.7.

Number of limited partnership and their employees in 1994 and 1995

Sectors	No. of limited partnership		Change	No. of employees		Change	Average staff no.
	1994	1995		1994	1995		1996
Agriculture, forestry	1,916	2,144	+ 228	5,530	4,985	- 545	2,3
Mining	34	45	+ 11	104	112	+ 8	2,4

Manufacturing *of which*							
Food, beverages, tobacco	920	964	+ 44	4,053	4,265	+ 212	4,4
Textiles/leather/footwear/ clothing	1,153	1,323	+ 170	7,085	7,017	- 68	5,3
Timber, paper and printing	2,592	3,011	+ 419	5,589	6,192	+ 603	2,0
Chemicals	550	601	+ 51	1,981	1,949	- 32	3,2
Non-metallic mineral products	283	306	+ 23	769	828	+ 59	2,7
Metal production	1,186	1,339	+ 153	3,891	4,28	+ 437	3,2
Machinery	2,508	2,781	+ 273	6,116	7,989	+ 1,873	2,8
Furniture, recycling	574	654	+ 80	1,554	1,831	+ 277	2,8
Electricity, gas, steam and water supply	62	69	+ 7	179	169	- 10	2,4
Construction	5,532	6,333	+ 798	16,216	17,132	+ 916	2,7
Distribution, repair of consumer goods	25,589	28,344	+ 2,755	42,430	49,037	+ 6,607	1,7
Hotels and catering	3,331	3,732	+ 401	7,962	8,762	+ 800	2,3
Transport, storage and telecom.	2,744	3,115	+ 371	5,663	6,422	+ 759	2,0
Finance, business services	233	283	+ 50	300	366	+ 66	1,1
Real estate, renting, business support	14,904	17,348	+ 2,444	20,916	23,555	+ 2,639	1,3
Education	1,028	1,264	+ 236	1,442	1,700	+ 258	1,3
Health care and social welfare	1,704	2,648	+944	3,184	4,968	+ 1,784	1,8
Communal, public and personal services	3,545	4,178	+ 724	5,036	5,942	+ 906	1,4
Private household	3	5	+ 2		3	+ 3	
Total	**70,303**	**80,487**	**+10,184**	**140,000**	**157,552**	**+17,552**	

Source: Tax Office, data processed by APEH-SzTADI

According to tax returns, the smallest yet most popular economic units, i.e. sole proprietorships and companies without legal entity, remain significant employers in the economy. The number of those employed increased in both forms in 1995: by a relatively smaller number of 5,000 in the case of sole proprietorships, and, out of companies without legal entity, at least in the limited partnerships, by more than 17 thousand persons.

Based on the tax returns, we can estimate that, in 1995, the small units of the private sector employed 650 to 700 thousand earners; or approximately 17 to 18% of the 3,974.3 thousand wage earners according to the Labour Account.[46] CSO's Labour Force Survey suggests that a similar order of magnitude is to be expected in 1996.

It is necessary to note that, due to the discrepancies in the different sources of data, estimates can only be approximate, although in terms of broad numbers, they are probably correct.[47]

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46 As mentioned earlier, CSO published 1996 figures for those employed by companies with a staff of more than 11; the number of those employed here was 2,551.5 thousand. Based on LFS, it estimated the total number of those employed at 3,648.1 thousand persons (featuring among them those employed on an occasional basis as well). The difference is more than a million persons *Labour market Features, in QIV 1996).* The estimated staff number of 650 to 700 thousand in sole proprietorships and legal entity companies with a staff of under 11 people seems to be acceptable.

47 The National Health Insurance Fund, for instance, shows figures larger than the above every year. Earlier, we treated figures supplied by the NHIF as the most reliable source of information. Statistics, restricted to the data of active enterprises, however, made NHIF data questionable, and it became clear that, due to problems in the handling of primary data, they contain a number of uncertain items. It is hoped, however, that from 1997 and the introduction of a computerised registration of employment figures, a reliable database will be established.

Now it depends on the stabilisation of the economy and the increase in employment opportunities whether the number of those creating an independent livelihood voluntarily or under some constraint will grow further or not.

As early as in 1995, the number of those becoming entrepreneurs with state help declined considerably among the unemployed. Since 1992, the Employment Fund has been ready to provide a number of different kinds of help to those starting businesses: they offer advice, participation in business courses, and, in addition, they also provide unemployment benefit for another six months. In 1993-94, there were 12 to 13 thousand beneficiaries of this kind of assistance provided by the Employment Fund (primarily the extended unemployment benefit), while in 1995 the figure was only 5,600. In 1996, as discussed in Chapter 4, about 4 thousand people received help in this way.

In recent years, the continuous increase in the number of those employed in companies without legal entity, while correcting many decades of restrictions in the private sector, was both a symptom of an underdeveloped, jobless economy in crisis and proof of the skill and ability of several hundred thousand people to assume new roles, responsible for their own fate, actively involved in it, and choosing legal ways. As a matter of course, a large number of people would still like to choose to be employed, which seems to be more certain and implies less responsibility and smaller risks. Many people, however, have already created their own little markets, and, if they can help it, they will not give up their independence again.

As discussed in detail in Chapter 5, independent people with enterprises without legal entity are considered as self-employed in international labour practice.

Amidst persistently high levels of long-term unemployment in Europe, where there are relatively few new jobs emerging every year, it is becoming ever more important that those who are ready and able to create jobs for themselves should do so. (One of the new programmes of OECD intends to support exactly this. See *Jobs study follow up: Thematic review of entrepreneurship and job creation policies, 1996.*)

As a result of efforts (and proposed support), self-employment may be on the rise in Europe as well.

However, experience shows that there is a strong relationship between the extent of self-employment and the economy of the country on the one hand, and the number of agricultural population on the other: so far it has been the poorer (and lower national income) countries where the proportion of self-employed has been high, while in richer (and higher national income) countries it has been lower. (If it is easier to save and collect capital in order to start one's own business, people will establish that; and self-employment remains the opportunity for poorer people.) The proportion of those employed in agriculture is also a feature of less developed and poorer countries. Proportions by countries, and differences between countries have remained virtually unchanged in recent years.

Table 9.8.

Self-employed in percentage of total employment in countries of the European Union

	1991	1992	1994	1995
Belgium	14.9	15.1	15.3	15.4
Denmark	9.0	8.8	8.4	8.4
Germany	9.2	8.6	9.3	9.4
Greece	35.2	35.4	34.4	33.8
Spain	20.4	21.3	22.1	21.8
France	12.6	12.5	11.8	11.6
Ireland	21.5	22.4	21.6	20.8
Italy	24.3	25.6	24.1	24.5
Luxemburg	9.2	9.1	9.7	9.9
The Netherlands	9.8	10.2	11.1	11.4
Portugal	26.4	23.9	25.2	25.8
United Kingdom	13.1	12.6	12.9	13.0
Austria			14.5	12.0
Finland			15.5	14.3
Sweden			10.3	11.3

Source: 1991-1994: *Employment Observatory*, No. 24., 1996: Page 19; 1995: *Employment in Europe, 1996*, pp. 147-162)

As indicated earlier, we are unable to establish the number of the self-employed for Hungary. It can, however, be seen from partial data that, in terms of proportions, we are similar to the poorer and less developed European countries, where agricultural employment is higher. Although we do not have similar data for the CEFTA countries, it can be assumed that, due to the shrinking number of wage earners, low national income, lack of capital, and the underdeveloped nature of the market economy, self-employment in the transforming economies will remain high on a long term basis.

9.2 Incorporated business companies

The number of incorporated business companies increased by almost 20 thousand in 1996; growth was lower than that of companies without legal entity, but higher than in any of the preceding years. (In December 1996, there were 19,978 organisations more than at the same time in the previous year, in 1995 growth was 17,091, in 1994 it was 13,406, and in 1993 16,270.) By now, their founders are mostly private individuals, although one cannot rule out the fact that there may still be companies separating from onetime state-owned companies operating already under company law.[48]

The only source of data to indicate that the private sector is gaining ground is the registration held by the NHIF, which, under the heading "members of companies", registers members (owners) of incorporated business companies together with those of companies without legal entity (limited partnerships, unlimited partnerships, lawyers' offices, driving school partnerships, teachers'

48 E.g. a new company was created, under the name Diósgyõr Steel Works (DAM Rt.), by the merger of Diósgyõr Steel Works Ltd. and Borsodferr Co. Borsodferr Co. itself was created from three other metallurgy companies owned wholly by the SPH Co. and under liquidation. (*HVG*, 21 September, 1996)

partnerships), in accordance with the what is prescribed by social insurance law.[49]

According to this, 78 thousand persons were registered as full time members of incorporated business companies in 1993, 97 thousand in 1994, 102 thousand in 1995, and 128 thousand in 1996.

Table.9.9.

Incorporated business companies, 1992-1996 (Dec.)

	All*	*of which*				
		State enterprise**	LLC	CLS	co-operative	Others
1992	**69,368**	1,733	57,262	1,712	7,694	967
1993	**85,638**	1,130	72,897	2,375	8,175	1,069
1994	**101,591**	821	87,957	2,896	8,252	1,665
1995. registered	**116,945**	761	102,697	3,186	8,321	1,618
active	**94,948**	425	85,349	2,903	4,879	1,189
1996 registered	**136,917**	683	122,044	3,536	8,362	1,932
active	**114,330**	335	104,166	3,232	4,858	1,548

* Including about 1,700 dwellings co-operatives.
**Before compulsory transformation into company.
Source: CSO Yearbooks and Monthly Statistical Bulletins

Similarly to the overwhelming majority of the unincorporated companies, incorporated business companies are also characterised by the preponderance of micro-enterprises: in December 1996, most of the active ones belonged to the smallest staff category (of under 11) registered by CSO.

49 Para 1, Article 103/E of Act II of 1975 and its various amendments. Since 1977, the collection of employee data by the NHIF makes it possible to handle members of incorporated business and companies without legal entity separately.

Table 9.10.

Distribution of some active incorporated organisation forms by staff size, Dec. 1996

		Staff categories					
		> 11*	11-20	21-50	51-300	< 300	**Total**
LLC	number	89,053	6,862	5,253	2,684	314	**104,166**
	%	85.5	6.6	5.0	2.6	0.3	**100.0**
CLS	number	1,183	238	430	789	592	**3,232**
	%	36.6	7.4	13.3	24.4	18.3	**100.0**
Co-operative							
	number	2,082	557	920	1,243	56	**4,858**
	%	42.9	11.4	18.9	25.6	1.2	**100.0**

* Including organisations whose staff number is unknown.
Source: *Monthly Statistical Bulletin*, CSO

This means that the employment impact of limited liability companies, which may be established with a minimum of capital (HUF1 million), and which form a decisive majority (104 thousand out of the more than 114 thousand) of incorporated business organisations, remains relatively weak. Together with the large number of companies that can be established without any capital (those without legal entity), the predominance of micro-enterprises is a consequence of an economy with scarce capital.

In order to establish organisations which employ a relatively large number of people, one is mostly required to invest capital, in addition to meeting other requirements. At present, this capital is typically arriving from abroad. Foreigners make the state equity acquired through privatisation operational, and develop it, by way of significant investments. They develop, in the main, those sections of bankrupt or suspended companies they acquired which in their view may be turned around.[50]

In 1996, the number of companies founded by foreigners, and that of joint-venture companies, expanded further.

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[50] There is also an opposite tendency, although it is not very significant: there are also Hungarians investing abroad. According to data for the first six months of 1996 released by the Hungarian National Bank, 129 companies were established abroad with Hungarian participation, using HUF1,428 million of capital. Overall, there have been 1,832 businesses established abroad with Hungarian participation.
Favourite locations also remained unchanged. The Ukraine, Romania, Slovakia, the Czech Republic and Russia continue to be the primary targets of Hungarian capital. Of the highly developed countries, statistically measurable investment may observed in Austria, Germany and the United States of America. *(Világgazdaság*, 15 November, 1996*)*

Table 9.11.

Number of companies with foreign direct investment, 1989-1996*

Year	Total number of organisations	Hungarian and foreign ownership		foreign ownership	
		number	%	number	%
1989	1,350	1,350	98.1	25	1.9
1990	5,693	5,462	95.9	231	4.1
1991	9,117	7,927	86.9	1,190	13.1
1992	17,182	12,547	73.0	4,635	27.0
1993	20,999	13,622	64.9	7,377	35.1
1994	23,557	14,185	60.2	9,372	39.8
1995	25,084	15,880**	58.2	11,397**	41.8
1996***	4,088	1,876	-	2,212	-

* Figures based upon tax declarations to the Tax Office
** New firms included.
*** New firms established in 1996.
Source: *CSO Yearbook, 1995* and data provided by CSO

In addition to saving thousands of jobs from liquidation, large multinational companies as well as a number of smaller joint-venture companies, continued their job-creating activities, tangible already in 1995, in 1996 as well. Based on 1994 data, CSO estimated the number of those employed by wholly or partially foreign-owned companies at 400 thousand; corresponding to 20% of those working in the business sector. (*Foreign working capital in Hungary in 1994*, CSO, 1996)

This ratio has presumably increased, even though, in some of the foreign companies, employment has become lower, and by several thousand people in some cases.[51]

The largest number of jobs was created by the greenfield investments of foreign companies. Bertalan Diczházi (Research Institute for Privatisation) reviewed foreign capital investments in Hungary starting from 1992, including direct investment in the construction of new plants. Their value (by the end of 1996) was USD3 billion, with another 500 million dollars envisaged by investors in the near future. As a result of investments, 40 to 50 thousand jobs were created.

Of the greenfield investment exceeding one million dollars, half was made by seven large investors: General Motors, Audi, Suzuki, Ford, Guardian Glass,

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[51] There have also been unsuccessful efforts (e.g. the Zalaegerszeg plant of American and Israeli owned Goldsun Cold Storage Co., privatised four years ago, was liquidated). In the breweries, there have been cutbacks for a number of years, by about 10 % in 1995, and another 7 to 8 %in 1996. (*Világgazdaság*, 20 December, 1996)
Several hundred people have been laid off by privatised telecommunications companies, and additional cutbacks affecting 2,000 jobs are on the line. (*Népszabadság*, 20 December, 1996)
The case that made the biggest stir was the "voluntary leave programme" of Tiszai Erőmű (Tisza Power), where the American owner offered hitherto unmatched benefits to those leaving voluntarily; as a result, half of the 5 thousand workers left the company. (*Napi Gazdaság*, 22 March, 1997)

Philips and IBM. It was Philips that created the largest number of jobs (nearly six thousand).

It is American companies that have invested the largest amount of capital, followed by German and Japanese companies. American investment has been largely in multinational companies; Austrian investors have often created small and medium size enterprises.

As a result of greenfield investment, 3 to 5 thousand jobs were created in 1996.[52]

For the first time in many years, for 1996 CSO once again published employment data for companies employing more than 10 people, practically for incorporated business organisations larger than micro size.[53]

There were approximately 2.5 million people working in 25,700 organisations, 1.66 million of them in companies employing more than 300 people, accounted for by statistics as the largest.

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52 According to newspaper reports:

- Sony Corporation (Japan) is building a plant in Gödöllő, investing HUF3 billion. The plant will cover an area of 20 thousand square meters. When the plant first opens, it will provide jobs for 200 people, and later for 700 people. (*Népszabadság*, 3 April, 1996)
- Construction of a wheel-disk plant is nearing completion in Tatabánya. American and German owned Suoftec Light Metal Manufacturing and Service Ltd. will be one of the largest-capacity aluminum wheel disk producers in the world. When all three shifts are in operation, the limited company will provide jobs for 500 people. (*Napi Gazdaság*, 31 December, 1996).
- IBM is to make further investments in Hungary. The hard-disk plant which was launched last year and which, for the time being, employs 150 people, will undergo further development. This is IBM's only manufacturing facility in Central Europe. (*Népszabadság*, 11 October, 1996).
- Leading pharmaceutical company Glaxo Wellcome (Great Britain) has opened a new plant at Törökbálint. The HUF1.8 billion facility, which includes a packaging plant, a warehouse and offices, employs approximately 130 people. (*Üzleti 7,* 28 October, 1996).
- Preliminary operation may begin early December in the transformer factory of Japanese-owned TDK Electronics Hungary Ltd. Three hundred people from ten Hungarian companies are involved in the building of the first phase of this investment. Of those who will be working in manufacturing, 100 workers are currently being trained on their jobs, many of them in Japan. (*Népszabadság*, 27 November, 1996).
- American multinational CPC, which has acquired Szeged Paprika Co., is maintaining its manufacturing plant at Röszke, where it has built a new warehouse for raw materials and packaging, in addition to overhauling the existing factory. CPC Hungary Co. employs 400 people, 250 of them at Röszke, where it will eventually provide jobs for 700 to 800 people. (*Világgazdaság*, 30 December, 1996).
- The new Ganz Ansaldo factory has been opened. Production at the final site of the transformer manufacturing section of Ganz Ansaldo Electronics Co. may begin at Tápiószele. The HUF5 billion investment is rated as the most modern factory in its area in Europe. The 200,000 square meter facility currently provides jobs for 400 people, with a prospect of 1,000 in the near future. (*Világgazdaság*, 13 December, 1996).

53 However, as indicated by data in Table 9.11, a large proportion of incorporated business organisations are also micros, and there are companies without legal entity employing more than 10 people, even though their impact is negligible. Companies which employ more than 11 people are typically incorporated business organisations.

Table 9.12.

Distribution of active organisations having a staff of more than 10 by staff size*

	Staff category				
	11-20 persons	21-50 persons	51-300 persons	300+ persons	**All**
Number of active org., 31 Dec. 1996	10,774	7,855	5,718	1,319	**25,666**
Employed in *Q I-IV* 1996, (*000*)	141,0	202,8	545,4	1,662,3	**2,551.5**
Of which					
- Manual	91,8	139,2	367,9	880,6	**1,479.5**
- Non manual	49,2	63,6	177,5	781,7	**1,072.0**
Average staff number	13.09	25.82	95.38	1,260.02	

* Including public administration, education, health care and social welfare
Source: *Major labour processes in QI-IV, 1996*, CSO, 1997

9.3 Privatisation

Privatisation of state assets is nearing its end. Following 1995, which, in terms of a state income of 465 billion, was regarded as extremely successful, in 1996 the objective of a HUF350 billion proceeds could not be realised. By 31 December 1996, the sale of state assets produced an income of HUF146,659 million.

By the end of 1996, the book value of state assets went down to approximately 1,000 billion.[54]

Table 9.13.

Book value of state assets, 1994-1996

billion HUF

	Dec. 1994	Dec. 1995	Nov. 1996*
In enterprises	18.47	3.6	7.54
In companies			
- Long-term state assets	341.00	341.74	344.04
- Assets for privatisation	1,271.28	799.80	633.81
Assets for sale, withdrawn from firms	8.39	33.96	33.96
Total	**1,639.14**	**1,179.10**	**1,019.35**

* *Privinfo* published no volume data for December, only distribution figures.
Source: 1994-1995: *Weekly Privinfo*, 31 January 1996; 1996: *Weekly Privinfo*, 7. January 1997.

[54] There have never been detailed and accurate data for the extent of state assets. In an interview, the head of the Assets Directorate of SPH Co. estimated the total value of assets still in the hands of the state as approximately 1,200 billion. *(Weekly Privinfo, 14 January 1997)*

Chart 10

Distribution of state assets components

November 1996

Weekly Privinfo, 7 January 1997

December 1996

Weekly Privinfo, 18 February 1997

According to the sources cited, in 1996 the State Property Holding Co. (SPH Co.) sold 175 companies, 122 of them wholly. Privatisation had two basic techniques. One of these was the single sale of large companies (those which received extraordinary treatment as well as other large ones), e.g. the ongoing privatisation of energy suppliers; the other was so-called simplified privatisation. Here we provide an overview of the employment impacts of both, based on sources available (primarily the press).

SPH Co. gave extraordinary treatment to the privatisation of 20 companies which were of high importance for the national economy. In 1995, these companies employed nearly 58 thousand people.[55] Companies which were

[55] *Népszabaság* published a list of these 20 companies: "Companies receiving extraordinary treatment in terms of privatisation: Borsodchem Co., BHG Communications Co., the Dunaferr Group, Ganz Machinery Holding Co., Hungalu Hungarian Aluminum Co., Ikarus Transport Manufacturing Co., MGM Hungarian Ball Bearings Co., Nitrogen Works Co., Nitrokémia Co., Rába Hungarian Waggon and Machinery Co., Salgótarján Steel Works Co., Taurus Rubber Co., Tisza Chemical Works Co., Vilati Automation Co., Ózd Steel Works Ltd., Intermos Microelectronics Co., Hungarocaminon Co., Diósgyőr Steel Works Ltd., Malév Co., Mahart Co.". In the meantime, for some of the companies it

privatised (Borsodchem, MGM, Taurus, TVK, etc.) had laid off a large proportion of their employees years earlier.[56] Nevertheless, buyers usually stipulated the option of reducing headcount further, albeit to a small extent. (Taurus: no reduction of staff by more than 10% for 3 years; MGM: 1,600 people to be employed as opposed to 1,950 earlier, etc.)

All this means that privatisation may still bring about some reduction in staff numbers, to a lesser and lesser extent as years go by, which indicates that companies which have lost their markets and which have received sizeable state subsidies to help them stay afloat are already working with staff numbers that match their current requirements. (It is necessary to note, however, that the massive loss of the work force in the Hungarian economy was the consequence of the loss of traditional markets and the insolvency of traditional buyers, rather than privatisation. Privatisation saved many times more jobs than the number of layoffs new owners introduced in order to maintain their competitiveness.)

In addition to companies receiving extraordinary treatment, several other large (large in terms of Hungarian circumstances) companies have also been privatised. One common feature of these companies is that many of them had large debts, or perhaps had been under liquidation for years.[57] Another common feature is that in 1996 the emergence of Hungarian consortia, and occasionally of the management of these companies, was already tangible (even though management and workers emerged as buyers primarily in simplified privatisation).

The privatisation of larger companies has had mixed employment impacts. Some new owners have laid off staff; others, in line with the terms of privatisation agreements, have continued to employ staff; still others have increased staff numbers by expansion and development.[58]

The privatisation of the energy sector has also continued. Foreigners have acquired 50% + 1 vote in five regional gas suppliers. Although there have been

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was decided that privatisation would be put to a later date, or assets to be privatised would be reduced. (*Népszabadság*, 10 April, 1996)

56 E.g. Taurus employed more than 11 thousand people in the 1980s, and only 4,147 at the time of privatisation. For a number of years, the plant has been able to stay afloat only as a result of state support (consolidation), as well as the termination of several of its manufacturing activities and the closure and sale of several of its factories. (*HVG*, 5 October 1996)
MGM could be sold only after a bankruptcy agreement in the autumn of 1995 (which settled a debt stock of HUF6 billion. In recent years, the headcount of the company has diminished to 1,950 people, less than half of what it was earlier. (*HVG*, 9 March 1996; 1 June 1996)

57 E.g. DIGÉP had been under liquidation as a result of a continuous loss of its markets and pursuant loss of staff since the end of 1990; The limited companies established from its different sections amassed debts of about HUF134 million by 1995. (*HVG*, 25 May 1996).
The employment impacts of liquidation procedures will be dealt with in greater detail in Chapter 11.

58 TEVA, which bought Biogal, laid off almost 30% of its work force in six months (*Népszabadság*, 7 June 1996).
Eger Berva Precision Engineering Co., purchased by Hungarian investors, increased its headcount to 1,250 from 1,050 in 1993. (*Figyelõ*, 30 January 1997).
HAGE Co., which purchased the Gyula Meat Processing Plant, continues to provide work for employees, almost a thousand in number. (*HVG*, 6 April 1996).
The new owner of liquidated Ganz Danubius Shipyard at Balatonfüred, a German company, wishes is develop the shipyard, and is recruiting new staff. (*Figyelõ*, 5 September 1996).

no massive layoffs in these companies, as a result of the requirement to rationalise the business, headcount usually diminished.[59]

50% of the shares of the majority of electrical energy companies has remained in the hands of SPH Co.; purchasers have acquired 38 to 49% of the shares. According to analysis performed by branch trade unions, the work force may be reduced by about 20% over the next 10 years; however, the current technical state and the technology used do not as yet allow massive layoffs.[60]

In addition, at the time of signing contracts, the new owners usually undertook to maintain existing headcounts for 1 or 2 years. (At Tisza Power, however, where the agreement was really adhered to with no one laid off, half of the five thousand employees were persuaded to leave voluntarily, with high severance pay.)

In the next few years, the energy sector, which employs approximately a hundred thousand people, is anticipated to be a significant provider of surplus staff, chiefly as a result of the development programmes intended or undertaken by buyers.

In the case of industrial companies, "major privatisation" resulted primarily in survival, and the saving of the majority of existing jobs in loss-making companies with huge debts. However, more profitable operation has often required layoffs.

Employment impacts of simplified privatisation are even smaller.

In he course of simplified privatisation, SPH Co. offered 70 companies for sale in 1995, and another 48 in 1996. One of the common features of these companies is that their equity could not be in excess of HUF600 million, and staff could not exceed 500. We have data available for the first 70 companies: their combined headcount was approximately 6,600; average headcount per company was about 180. We do not hold data for the 48 companies advertised in the second round, but experience shows that figures are in the same region.

Experience also shows that another common feature of the companies involved in simplified privatisation is that they do not have money to spend on ever so urgent development; most of them amassed huge debts, and there was one saved by the buyer from liquidation.[61] To varying extent, headcount has already been reduced in all of them.

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[59] Gas de France, which became majority shareholder of ÉGÁZ and DÉGÁZ, "wishes to improve productivity without layoffs" (*Népszabadság*, 22 April 1996).
At Primagáz Hungary Co., which was established in 1992 with 51% of the shares in foreign hands (foreign ownership has since reached 95%), the work force of 1,540 at the start diminished to 1,200 by the beginning of 1996. (*Népszabadság*, 22 April 1996).

[60] *Népszabadság*, 13 November 1996.

[61] One of the 48 companies offered for sale in 1996 was Industrial Appliances and Machinery Manufacturing Co. The company wanted an investor who would maintain its profile and would be ready to spend at least HUF120 million on development, in order to improve market position (*Népszabadság*, 30 April 1996).
In 1996, Kvantum Investment Bank Co. purchased Salgótarján Chemical Machinery Manufacturing Co., which was under liquidation, from the first list offered. It undertook to employ all of the 220 employees further (*Népszabadság*, 14 August 1996).

Taking into account the situation of companies (including the extent of debts), SPH Co. established a limit price; the limit was an average of 51 to 60% of the nominal value. The companies were then sold to the highest bidder, for cash. If a company could not be sold, it could be purchased by management and employees at a reduced price. Buyers had no obligations whatsoever after buyout; not even in terms of headcount.

Of the 118 companies advertised on the two lists, the sale of 94 was completed or signing the contract was under way by the end of 1996; only eight of them were transferred into foreign hands, A total of 50 companies were sold from the two lists in the first round, at 50 to 60% of the nominal value. In the second, so called management round, 33 companies were sold, and buyers were found by management in the case of 11 companies.[62]

It was the obligation of SPH Co. to advertise the third list by the end of March 1997, and, after the examination of approximately a hundred companies, those with an equity of HUF600 to 800 million, larger than before, entered the list. The conditions of sale remained unchanged.

It was actually the result of the failure of the first round of simplified privatisation that the number of companies sold under the Employee Share Ownership Programme (ESOP) showed a slight increase in the second, so called management round in 1996.

At the time of the 1993-1994 privatisation sales, this was still the most important method of acquisition by Hungarian buyers (eased with preferential conditions, E-credit as well as compensation vouchers). The condition of simplified privatisation was cash payment, and only when there was no cash buyer could companies be purchased by employees (management and workers). In order to be able to do so, they received very easy terms; they could be owners for 80% of the original limit price, using the preferential terms available in the case of ESOP acquisitions. Even so, there were only 11 more companies transferred into employees' hands. One reason for this was that raising the necessary cash was difficult, and so was organising several hundred employees into ESOP.

Table 9.14.

Number and nominal value of ESOP transactions

Year	ESOP	
	number	nominal value (million HUF)
1992	8	1,8

Szolnok Paper Ltd., also of the first round, was purchased by an Austrian buyer. The employees anticipate that following restructuring the new owner will cut the workforce (*Népszabadság*, 20 January 1996).

62 In an interview on results, the deputy managing director of SPH Co. said: "It is perhaps convincing that more than 70 companies have already been taken over by the new owners, and none of them have been liquidated or terminated, all of them are being operated by investors. Most of these companies have been restructured, and they are operating more effectively than before. The majority of employees have been able to keep their jobs, and there have been no massive layoffs anywhere (*Privinfo*, 28 January 1997).

1993	124	22,5
1994	62	13,7
1995	27	6,2
1996	11	4,4
Total	**221**	**48,8**

Source: SPA - SPH Co. reports

In spite of the layoffs, there are approximately 80 thousand employees working in the more than 200 companies involved, and about 75% of the workers are also owners of their firms.

Analysis by Rész-Vétel [Participation or Part Purchase] Foundation, which monitors the activities of these companies, has established that their economic results are better than the national average, although it must be acknowledged that, as a result of tax holidays, ESOP companies have a relatively smaller debt burden than other owners buying companies that also use credit. However, majority ESOP companies service their debts on a regular basis. There have been only a few ESOP companies that have gone bankrupt and been liquidated. At the same time, many of them have managed to changed course. Particularly successful were Herend China Works, Tata Tile Manufacturing Ltd., and MASPED, whose equity has increased twofold over three years.

9% of all ESOP organisations have already paid their privatisation debts, 57% of them have started repaying them, with 34% still enjoying a grace period. There have only been 4 known cases of ESOP organisations discontinued because employees have sold their shares to outside investors (*Weekly Privinfo*, 25 February 1997).

The majority of ESOP organisations continue to be in the region of a 100 to 500 headcount. One of the main objectives of owner-employees, from the start, has been to retain jobs. They seem to have succeeded in their efforts more or less in the same way as in the case of non-ESOP firms; tighter economies have resulted in some reduction of the workforce in most cases.

The main reason for the modest spreading so far in Hungary of employee ownership has been the lack of capital - with employees not in possession of enough cash, even if the amount set is relatively small and, in line with the main principles of privatisation, the state prefers cash sale, choosing management-employee buyout using preferential terms and credit only when no such buyers emerge. Therefore, the further spreading of ESOP depends largely on the number of cash buyers bidding for companies still to be privatised.

However, the number of such companies is only a few hundred by now. (No exact figures have been published, but the number is probably 500 to 600; in some of them, SPH Co. already has a minority stake.)

The sphere of companies to remain in state hands has also been established, following several modifications.[63]

[63] SPH Co. exercises "ownership rights in the case of 89 long-term state-owned companies. A proportion of 25% plus one vote is the case for 9 companies, 50% plus one vote for 38 companies,

For 1997, SPH Co. has budgeted an income of HUF150 to 200 billion from the sale of companies still owned by the sate.

There are no major employment impacts of privatisation still outstanding. One reason for this is that headcount in the companies intended for sale has already been cut substantially; they have already reached levels that match their sales prospects. The other reason is that, with the exception of organisations sold in the course of simplified privatisation, requirements for the further employment, or only a few per cent of cutbacks, have usually been entered into the contracts signed with the new owners. (although, as is shown by the example of Tisza Power, radical reductions can be achieved even if the terms of the agreement are adhered to formally, by “voluntary departure”.)

In 1996, SPH Co. started checking the fulfilment of contractual obligations undertaken by buyers in privatisation agreements, including promises concerning employment. Since 1990, i.e. the birth of the first privatisation agreements, about 1,400 contracts have been marked for supervision. Supervision by SPH Co. covers capital increase, development as well as investments. Commissioned by the National Labour Council, the Labour Research Institute has conducted an independent investigation of the fulfilment of promises concerning employment.[64]

Although the title of the study suggests accounting for the actual fulfilment of promises made concerning employment, this, in the view of the author, should primarily be a control task (which, in accordance with applicable privatisation law, is the task of SPH Co.). However, researchers have neither the authority nor the tools to fulfil such a role. Rather than totalling quantifiable data, this research examined primarily the political, economic and interest-reconciliation environment of the promises: the study outlines the conditions under which employment clauses of privatisation agreements were born and those that may lead to their potential breach.

However, it became evident form the documents supplied to researchers by SPH Co., as well as from information and case studies obtained from a variety of sources, that even though, largely until 1995, employment considerations had repeatedly strengthened in declarations and in the text of laws, SPH Co. had been unable or unwilling to enforce them; the requirement to achieve maximum income had overshadowed other interests (market regulation, industrial policy, regional, etc.), including those of employment.

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and 75% plus one vote for 22 companies. Twenty companies are wholly owned by the state. The total value of the assets still in the hands of the state amounts to HUF1,200 billion, and the law prescribes that, following the completion of privatisation, HUF350 billion worth should remain in state ownership in the long term” (*Privinfo*, 14 January 1997).

64 The fulfilment of promises concerning employment in privatised companies. *(Labour Research Institute, December 1996)* Project head: Dorottya Boda. This study is based to a large extent on earlier research conducted at the Labour Research Institute, the results of which were published mainly by Dorottya Boda and László Neumann. See, for instance: "Employee position supported by ownership", by Dorottya Boda. (*Külgazdaság*, 4/1996); "Privatisation and employment", by László Neumann *(Europe Forum*, 4/1992, and *Gazdaság*, 1/1993*)*

It could be assumed that SPH Co. would enforce employment considerations primarily in the case of companies with a large headcount or in the course of privatisation affecting particularly disadvantaged labour market regions.

The study concluded that, although promises concerning employment were really widespread (twenty in a hundred contracts included relevant clauses of some sort), neither large companies, nor high unemployment rates in the region had any impact on the proportion or the content of such clauses. (For example, in 1994, contracts including an employment clause affected companies that employed an average of 330 people, and they often allowed for a 10 to 20% reduction of the workforce.) In addition, in the case of the privatised companies in regions with high unemployment, employment clauses are considerably less frequent than in other regions of the country.

Labour legislation categories figuring in contracts including employment provisions are often uncertain in content (it cannot always be established as to what headcount the promises refer to; how long the policy of no layoffs is to last, etc.).

Sometimes, the terms themselves lack any specific aspects (e.g. the new owner "will make every effort to maintain existing employment levels"). Sanctions enforceable in the case of non-compliance with obligations undertaken are also often uncertain, or even non-existent.

The value of the statements made by the study are, largely, only those of economic history, as privatisation is nearing its end. "Major privatisation" occurs on the basis of decisions made by the Government, avoiding the bodies in SPH Co. whose duty is to prepare such decisions, and the only obligation stipulated in simplified privatisation is cash payment.

While it is clear that privatisation has practically been the only means of massive job preservation (and, in the long term, hopefully of developing and improving competitiveness for the companies concerned), it is also obvious that powers to secure all possible benefits, including maintaining part of the jobs, has been lacking or insignificant throughout the period of privatisation.

Naturally, there may be differences of opinion on this issue between proponents of rapid privatisation and those of gaining time. In any case, from the point of view of employment policy, giving up on interests without at least attempting to really harmonise them within the country, by failing to represent needs, is not only a lesson in terms of economic history, but it also carries the most important warning before Hungary is to join the European Union or commences negotiations thereof.

9.4 Employment in the private economy

With a significant proportion of state assets already privatised, and the increase in the number of employees in small private or company businesses, the proportion of wage earners in the private economy has increased considerably. Unfortunately, there are still no reliable data (such as the distribution of economic units by ownership and their headcount), and, what is more, the CSO labour balance has featured no data (there were data published earlier) for a number of years for organisations without legal entity (sole proprietorships and partnerships).

The only comparative data can be found in the March 1996 Hungarian Household Panel survey based on interviews covering households:

Table 9.15.

Percentage distribution of employment by employer category
(*March every year*)

	1992	1993	1994	1995	1996
public organisations	15.7	17.4	20.7	22.8	19.5
state-owned firms	33.2	21.8	10.0	8.5	7.7
local government enterprises	4.8	5.4	4.4	3.7	4.1
traditional co-operatives	7.4	5.9	5.0	3.7	2.7
companies with legal entity owned by the State	7.1	11.8	14.0	12.1	11.1
companies with private participation	8.6	10.8	13.3	11.9	12.3
private companies	13.9	17.0	21.2	24.7	29.1
sole proprietors	9.5	9.9	11.5	12.5	13.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Hungarian Household Panel, 1992-1996, p. 13

If we are to disregard employees of "companies with private participation" (as it is not known whether private ownership is minority or majority), then in 1992 23.4%, in 1995 37.2%; and in 1996 42.6% of all employees were clearly classifiable as belonging to the private economy, with more than 40% working for public organisations, local government enterprises and other state-owned companies.

According to our own estimates based on a variety of information obtained, 1995 was the first year when the proportion of those employed in the private economy exceeded the 50% mark.

In 1996, this proportion increased to 60%. Nevertheless, in organisations employing more than 10 people, the state sector continues to be the chief employer: in this sphere, the proportion of those working for non-state firms can still be estimated at only 45 to 46%. Proportions in this area, too, are modified by the number of those working for smaller firms, in favour of the private economy.

When making our estimates, our starting point, just like earlier, was the question of what activities and to what extent have remained in state-owned organisations in different branches of the national economy, and we also assumed the rest to be owned privately, by co-operatives or jointly, etc. Naturally, this is only an assumption, but, for lack of data for ownership, it is not possible to have a closer approach.

We have, once again, received help from Mr Bertalan Diczházi in our estimates.

We used as a starting point 1996 CSO data for employment in organisations with a staff of more than 10, and in public organisations, regardless of size. (*Major labour processes, Q1-Q4, 1996*)

The number of those employed in this sphere has decreased year after year (1994: 2,898.8 thousand, 1995: 2,743.7 thousand, 1996: 2,551.5 thousand employees). Numbers in branches financed by the central budget (public adminsitration, education, health care) have decreased by about 20 thousand; altogether, 774.8 thousand people were employed in 1996 (as compared to 795.4 thousand in 1995)

In the other branches, the number of those employed in organisations with a staff of above 10 people has decreased by approximately 170 thousand. Of these, we were able to estimate the number of people employed by state-owned firms in branches operating significant state assets (transportation, Hungarian State Railways, Hungarian Post; plus those performing financial activities and other communal services). Of the total of 372.6 thousand people in this area, we estimate that 166 thousand are working in the state sector.

In organisations employing more than 10 people in other branches, of the total of 1,404.1 thousand people, we estimated the number of people working for state-owned firms at 441 to 451 thousand. (145 thousand employees of firms with a majority stake held by SPH Co., 23 thousand of companies established by various ministries, 110 thousand of local government firms, and 140 to 150 thousand of state ownership companies under liquidation.)

Therefore, we can estimate that of the total of 2,551.5 thousand people considered by 1996 CSO data, a total of 1,382 to 1,392 thousand (54%) are working in organisations of more than 10 employees in the non-private sector; and, consequently, 46% as the proportion of those in the private and mixed ownership economy plus co-operatives.

Approximately 70% of those employed by organisations of more than 10 people are actually working; about 1.1 million people for smaller organisations. (Compared to the 3,648.1 thousand people featured in the CSO labour survey, the difference is 1,096.6 thousand; and to 3,824.2 thousand in NHIF records, 1,272.7 thousand people.)

It is our assumption that the majority of them are working in agriculture. Unfortunately, our estimates rely on an extremely uncertain footing. Bearing in mind the number of enterprises active at the end of 1996, our starting point was that the number of those working in the small economy as main job holders did not show substantial change over 1995. Based on partial data, we can estimate the number of sole proprietors and entrepreneurs working as main job holders or in addition to receiving retirement benefits plus their family workers at approximately 330 thousand; about 50 thousand unregistered private farmers in agriculture and their family members, another approximately 130 thousand the members of companies. The estimated number of people belonging to this sphere is approximately 510 thousand.

We can estimate the number of employees working for sole proprietors and organisations with a staff of under 10 people at 590 thousand, more than the 400 thousand estimated earlier; we assume that about 300 to 350 thousand of them are working in organisations belonging to the private sector. (About 182 thousand as sole proprietors, 170 to 180 thousand in companies without legal entity, and 240 to 290 thousand in firms with a legal entity.) Of the latter, we can estimate the number of employees in companies still in state hands at 50 to 100 thousand.

Thus, considering about 3.6 million people employed, and on the basis of a largely rough estimate, the proportion of wage earners in the non-state sector may be estimated at 58 to 61% (including co-operatives as well). (See Table 9.16)

Once again, there are a number of questionable elements in the estimate, and we were largely able to indicate only the proportion of those employed who still belonged to the state sector. Particularly contradictory statistics were produced by the analysis of the employment capacity of the small private sector – the number of people employed by sole proprietors and small companies may be much higher or much lower than estimated. Uncertainties in the classification of the more-than-one-million people may modify estimated results significantly.

At the same time, the most important problem is still the preponderance in terms of employment of state-owned organisations and branches financed by the central budget and, despite the fact that privatisation is nearing completion, the slow expansion of market conditions. Just like for several years, in 1996, too, private economy spread largely among the smallest, self-employing private and company-level micro enterprises, in a way that individuals created jobs for themselves. The structure of ownership which has developed so far, as well as matching employment proportions, are indicators of an economy which is becoming more modern slowly.

Table 9.16.

Estimated staff size of non-privatised enterprises

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		1995	1996	*Of which*: non-privatised	
		persons		1995	1996
				persons	
I.	Number of employees in firms employing more than 10				
A.)	Public organisations (all employees)				
	- public administration	260,4	260,0	260,4	260,0
	- education	293,1	282,7	293,1	282,7
	- health care and social welfare	241,9	232,1	241,9	232,1

B.)	Sectors with major share in state-owned firms (more than 10 persons) - transport - post, telecommunication - banking, etc. - other communal, social and personal service activities	 176,1 74,7 66,3 75,0	 165,2 71,8 63,0 72,6	 80,0* 40,0* 20,0* 30,0*	 80,0* 40,0* 16,0* 30,0*
C.)	other sectors	1,556,2	1,404,1	557,0- - 597,0**	441,0- - 451,0**
	Together	**2,743,7**	**2,551,5**	**1,522,4 - -1,562,4***	**1,381,8 - -1,391,8***
	in %			**55.5-56.9**	**54.2-54.5**
II.	Less than 10 persons - Self employed, family workers and employees in firms with a staff of under 10	1,000,0	1,096,6	50,0-100,0*	50,0-100,0*
	Total* **	**3,743,7**	**3,648,1**	**1,572,4- -1,662,4***	**1,431,8- -1,401,8***
	in %			**42.0-44.4**	**39.0-40.9**

* Estimated value.

** Including 145 thousand persons in portfolio of Hungarian Privatisation and State Holding Company as majority owner; 23 thousand in firms established by different ministries; 110 thousand in firms owned by the local governments; 13 thousand in firms owned by banks in state property; 180-200 thousand in firms under liquidation.

*** Beneficiaries of parental leave not included.

10. SECOND JOBS

The German Economic Institute (IW), based in Cologne, published an analysis of people working in more than one job.[65] According to the analysis, the number of people undertaking second and third jobs has doubled over the last years in Europe; even so, they constitute only 3.4% of the total of the wage-earning population. Undertaking extra work is the most widespread in Sweden, with 8.3% of all employees, and in Denmark, with 5.7% working in several jobs. The ratio is the smallest in Italy, where only 1.3% of those employed have more jobs than one. The analysis also shows that most employees work voluntarily rather than out of necessity, and their working time does not exceed 46 hours per week, extra work included. Most of them do extra work on a regular basis in the services, or at the time of becoming entrepreneurs.

In spite of this growth, the analysis attributes the low proportion to relatively high income that can be earned in people’s main jobs.

In Hungary, as we indicated in earlier publications as well, there are no data available for extra jobs. There were no news even of widespread regular second jobs done legally (even though at universities and colleges exact records are kept of teachers – not main job holder staff – employed on a regular basis; of part-time editors of periodicals; of lawyers employed in more than one job, etc.). Numbers in regular subsidiary work are not known at all, or only partially, in a number of service industries (trade, catering, etc.); and there are only occasional surveys about those working regularly in the family economy who in 1994 still numbered at least 3 million; a large number of them probably having a main job elsewhere.

Unlike the European examples quoted, the majority of second jobs in Hungary primarily serve purposes of generating supplementary income.

Familiarity with extra jobs (and with supplementary income) may result in a more exact knowledge of the income situation of the population.

Knowing in what areas of employment there is supplementary demand is not indifferent even from the point of view of employment. (It is a safe assumption that second jobs are most widespread among people with the highest qualifications on the one hand, and among those unskilled people who do supplementary manual work on the other; included in the latter agriculture, which still requires extremely large amounts of human labour.)

The National Health Insurance Fund (NHIF) keeps records of a much narrower band than above: of people who are in possession of an entrepreneur's permit but doing this only as second jobs.

As NHIF and other data cannot be compared, we show only changes we have recorded, following the NHIF system.

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[65] The analysis was published by *Világgazdaság* (29 January 1997).

Table 10.1.

Share of second job holders registered at NHIF, 1991-1996

Year	Second job holders as sole proprietors* in % of main job holders	Among members of companies	Second job as % of all employed
1991	32.6	89.1	4.1
1992	38.5	70.9	6.0
1993	41.6	61.6	6.7
1994*	44.8	59.5**	8.6
1995*	44.2	38.2**	8.2
1996	39.2	57.3	7.2

* Compared to the number of sole proprietors, excluding their employees and family workers
** Including co-operatives in agriculture and other co-operatives
Source: NHIF

1996 NHIF data indicate a decline of about 44 thousand among second-job holder sole proprietors; i.e. they indicate that sole proprietors have a tendency to give up their registration cards. It is probably those who had been inactive for a number of years who decided in this way, as a result of news of the increase in social security contributions, which created a lot of stir. It is widely accepted that there exists a close correlation between doing one's activity legally, and the extent of taxes and contributions to be paid on one's income: beyond a certain point, doing work in order to earn supplementary income is either not worth one's while, at least not if it is done legally. (We have already quoted an example from the mid-1980s: in 1986, 70% of then artisans conducted their activities as second job holders; with the introduction of personal income tax, that ratio diminished to 54%. Or: in-company economic work teams thrived when income from them was subject to a negligible tax burden only; at the time of the introduction of the personal income tax, they discontinued their activities in large numbers, because it was not worth any more to sacrifice free time for a reduced income. The fact that in a few years' time the collapsing economy would have buried these teams under it is another issue.)

In the majority of cases, entrepreneur's permits making supplementary enterprise legal served purposes of making income (or part of it) legal, especially in the professions; card holders will not dispose of their main jobs voluntarily and will not become "entrepreneurs".

In the 1980s it appeared that the entrepreneur's permit is a means of establishing one's own independent livelihood: permit holders become independent when they have collected sufficient capital with the help of their supplementary income, and those who have placed orders for this supplementary work have formed a clientele which could form the basis of an independent livelihood. However, surveys conducted at the beginning of the 1990s indicated that new entrepreneurs emerged from outside the sphere of second-job holders.[66]

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[66] According to a survey conducted among small and medium-size entrepreneurs, only 12% of sole proprietors, and 16% of members of partnerships active in 1993 had second-job entrepreneur backgrounds. *Small and medium size private businesses*, by Ágnes Czakó and Ágnes Vajda,

At the same time, enterprise is in most cases only a means of access to supplementary income, although there will always be people to become full timers voluntarily or out of necessity.

What are the activities and trades in which there is a demand for the work done by second job holder entrepreneurs? Tax returns filed to the Tax Office indicate a slight drop among second job holder sole proprietors.

In 1994, 75% of the second job holder sole proprietors registered with NHIF filed their tax returns for the previous year, the corresponding rates for 1995 and 1996 being 72 and 70%, respectively.

Proportions by activity groups have hardly changed, but within the groups, the proportion of second job holders has decreased in all categories.

Second-job holders	1993	1994	1995
- non-manual	57.6	57.9	54.6%
- industrial	28.6	28.4	25.9%
- trade and catering activities	39.6	39.1	30.0%

More detailed data within trades indicate changes in a number of activities.

Among non-manuals, although second jobs still prevail in certain professions, proportions compared to main jobs have continued do decrease year by year. In addition to the increase in the number of main job holders (+4,968 persons), the number of second job holders showed a smaller increase (+3,712 persons) in 1995. (see Table 9.3)

Changes in the proportion second job holders among non-manuals filing their tax returns and in possession of a sole proprietor registration card are shown below:

	1993	1994	1995
		expressed in %	
- architects, technical supervisors	74.3	64.8	60.7
- tax advisors, accountants	70.6	59.1	60.6
- veterinarians	69.8	66.0	63.8
- other non-manuals	56.2	57.9	54.7
- doctors	55.4	50.5	45.4

In the trade group of industrial activities, where the proportion of main job holders has increased slightly, and that of second job holders decreased, it is still a tendency that the proportion of second-job holders is smaller in production, and greater in the services, as is shown below:

Hungarian Enterprise Development Foundation Research Booklets, 2, 1993. p.30. However, a 1996 survey, which investigated enterprises active in both 1993 and 1996, established that about a third of second-job entrepreneurs became main job holders by 1996 (courtesy Ágnes Vajda.).

	Production 1993	Production 1994	Production 1995
	expressed in %		
- light industry	22.1	14.6	20.0
- leather and fur ind.	17.0	17.2	17.0
- textile ind.	23.0	22.6	19.8
- handicraft	25.0	14.8	20.9
- clothes ind.	-	-	13.4

	Services 1993	Services 1994	Services 1995
	expressed in %		
- precision engineering	49.7	50.0	46.5
- household appliances repairs	49.4	47.7	40.8
- radio and television technicians	44.4	44.6	39.7

In 1993, 36% of entrepreneurs in construction were second job holders, with 34.2% in 1994, and 29.6% in 1995.

In trade, despite the decrease by more than 8 thousand of main job holders, and almost 30 thousand second job holders who filed their tax returns, the proportion of second job holders remains high (about 50%). There are, however, very significant differences by trades and activities: only 18% in catering, 32% in retailing, and 63% among those masses who have given up their work as agents but who are still large in number (in 1995, their number diminished to 34 thousand compared to 57 thousand the year before). (75% of agents were second-job holders in 1993, and 73% in 1994.)

In order to demonstrate the changes occurring in the deeper layers of the economy more clearly, we would need to provide an overview of the spread of second jobs in companies and the data of those employed in the area. All the more so, as there is a very tangible tendency of a shift between sole proprietors and the simplest forms of partnerships, especially limited partnerships, which, in terms of taxation, have a number of advantages. However, we still hold no data for these.

In any case, the numerically demonstrable fraction of second jobs indicates that about 7% of those employed have been able to sell their expertise and work legally, using their free time; as there has been a demand for this outside their main jobs as well.

The recovery of the economy may also bring about an increase in the demand for supplementary activities. It remains an important question, however, as to what proportion of these activities will appear as visible income, and how much will become invisible – and this depends on legislation of tax and contributions.

11. BANKRUPTCY AND LIQUIDATION PROCEDURES

The high number and proportion of bankrupt, and subsequently liquidated companies remains to be a serious burden on the economy. Although, in a survey of active enterprises at the end of December 1996, CSO accounted for hardly more than a hundred bankrupt and less than four thousand companies with legal entity which were in the process of liquidation and final settlement, the number among those registered was approximately 15 thousand.[67]

In other words: the majority of the registered, yet already inactive companies are under liquidation or final settlement.[68]

The wave of bankruptcies abated already in 1995. According to Ministry of Justice data, only 80 companies filed for bankruptcy in 1996. (189 bankruptcy procedures were started by the courts in 1994, and 145 in 1995) The fact that the number of bankruptcy cases that have piled up before the courts is approximately three thousand is another issue.

The number of new cases of liquidation has also decreased: in 1996, cases were filed against 6,143 companies with legal entity (1995: 6,300). At the same time, the prolonged nature of the cases (due to difficulties in selling assets) has increased the number of companies under liquidation to 15 to 16 thousand, despite 3,000 completed cases (by sale or agreement).

As underlined earlier, the dramatic increase in unemployment in 1993 and 1994 was due to the large number of layoffs as a consequence of bankruptcy and liquidation procedures (rather than to privatisation, as many had assumed. On the contrary: it was privatisation that could be a means of saving a large number of jobs in companies that had collapsed).

Protracted liquidation procedures today do not result in the loss of jobs to a similar extent as they used to in previous years – as the majority of the firms concerned have become empty over the years. (Rather, they result in an ongoing

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67 As indicated elsewhere, CSO regards as registered units that, according to administrative records, exist legally at the time of the survey. Active are those enterprises which filed their tax returns in the given year and the year before (corporate tax, VAT, etc.); or those established in the given year. Among others, CSO regards as registered but not active those enterprises which have been under liquidation for a number of years, and have not been doing any business activity.
The Tax Office regards all enterprises that have a tax number (i.e. registered) as active, except those under liquidation, final settlement or bankruptcy procedures, and those which have reported the termination of their activities.
As a result of differences in classififcation, CSO accounted for 763,764, and the Tax Office 1,067,900 active economic units at the end of 1996.
We adopt the CSO system here. We deal with companies with legal entity only, one reason for this being that members of companies without legal entity have unlimited liability for any debts incurred; so these become cases of collection by the courts. The other, and for us more important, reason is that the final settlement of companies without legal entity has hardly any impact on employment.

68 Final settlement affects those companies which choose to terminate their business without a legal successor, after satisfying all creditors.

and massive loss of assets; the value of unmarketable firms and equipment is becoming smaller and smaller.)[69]

There still are tangible employment impacts of old and new bankruptcies and liquidations affecting certain forms of enterprise, branches or regions.

11.1 The number of bankruptcies and liquidation

Approximately 10% of businesses with legal entity were under bankruptcy or liquidation procedures in 1994, and 10.8% in 1995. In 1996, the corresponding rate for those registered was 11.4% (it is this number that can be compared to those of the previous years); as for the active ones, it was only 3.5%.

By forms of business, the largest proportion of companies that were under bankruptcy or liquidation was observed among the diminishing number of state-owned companies which were obliged to transform under the Company Act, yet unable to do so, due to their plight. More than 40% of the registered co-operatives were no longer active in 1996; almost 30% of them were under bankruptcy or liquidation; and also 10% the of active ones. It is these two forms of enterprise that were least capable of fighting indebtedness, and getting the better of the consequences of the loss of their markets.

Experience shows that, among limited liability companies and public limited companies, 10 to 15% of which have been under bankruptcy or liquidation, many have transformed from one-time state-owned companies, their sections regarded as hopeful, or firms that were separated from co-operatives. There are likely to be a fair number of CLSs and LLCs among them as well; however, no statistics have been compiled about their distribution by ownership.

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[69] About 500 companies out of those that have come under SPH Co. have gone bankrupt, with a loss of state assets worth approximately HUF500 billion," SPH Co. President Árpád Kovács said at a conference on privatisation. (*Napi Gazdaság*, 18 December 1996)

Table 11.1.

Legal entity business organisations under bankruptcy, liquidation or final settlement

	Number of organisations	of which* enterprise**	LLC	CLS	co-operatives
1994					
Companies with legal entity	101,591	821	87,957	2,896	8,252***
of which					
under bankruptcy no.	371	45	258	19	49
%	0.4	5.5	0.3	0.7	0.6
under liquid./final settlement no.	9,952	557	6,707	294	2,257
%	9.8	67.8	4.6	10.2	27.4
1995					
Companies with legal entity	116,945	761	102,697	3,186	8,321***
of which					
under bankruptcy no.	225	13	162	13	37
%	0.2	1.7	0.2	0.4	0.4
under liquid./final settlement no.	12,407	545	9,003	395	2,249
%	10.6	71.6	8.8	12.4	27.0
Registered 1996					
Companies with legal entity	136,917	683	122,044	3,536	8,362***
of which					
under bankruptcy no.	184	10	127	12	35
%	0.1	1.5	0.1	0.3	0.4
under liquid./final settlement no.	15,427	532	11,730	509	2,427
%	1.3	77.9	9.6	14.4	29.0
Active 1996					
Companies with legal entity	114,330	335	104,166	3,232	4,858***
of which					
under bankruptcy no.	109	7	68	9	25
%	0.1	2.1	-	-	0.5
under liquid./final settlement no.	3,843	263	2,731	321	495
%	3.4	78.5	2.7	9.9	10.2

* Excluding other organisation with legal entity
** Obliged to transform into company form by the Law of Transformation
*** Including about 1,600 dwelling co-operatives
Source: 1994-1995: *Monthly Statistical Bulletins,* CSO; 1996: Number of active economic organisation, 12, CSO 1996, p.6.

The size of bankrupt and liquidated companies, by the number of employed, is relatively small, which is in line with the organisational size structure that has evolved in the economy.

Proportions can be compared only to those shown by active entities, as there are probably no employees any more in the case of inactive companies.

In 1996, 66 of the 109 business units that have filed for bankruptcy had a staff of under 11; 11 of them employed 11 to 20 persons, 23 of them 21 to 50 persons, 7 of them 51 to 300 persons, and 2 of them are organisations employing more than 300 people (both are CLSs). In our estimates, these companies have 2,600 to 2,700 employees.[70]

More than half (52.6%) of the 3,843 organisations under bankruptcy or liquidation had a staff of under 11; only 1.2% of them were larger than 300. In our estimates, their total number is approximately 170 thousand people; this is the number of jobs that are dependent on the termination of the business, or, if things should go well and a buyer should emerge, on its survival.

11.1.1 Bankruptcy procedures

The primary aim of Act IL, which became effective in 1992 (the Bankruptcy Act for the general public), was to put an end to the phenomenon of increasing indebtedness and circular debts, a phenomenon that had been continuing for decades, known as liquidity problems by economic terminology. The law authorised creditors to take the companies against which they had irrecoverable demands to court, and it also made it obligatory for companies to file for bankruptcy when they had debts which had matured more than 90 days before. The law started an avalanche of bankruptcies; the bankruptcy of the largest companies (which had already undergone several attempts for recovery) brought with it the demise of hundreds of their suppliers, which in turn, had run up debts to others.[71]

The obligation to file for bankruptcy compulsorily was discontinued in 1993; since then, businesses may file for bankruptcy in order to gain time by reaching a bankruptcy settlement with creditors. As numbers suggest, creditors are less and less likely to trust in the success of the sale of assets, and therefore in recovering their claims. Instead, individual settlements out of court have become widespread.[72]

In 1992 and 1993, filing for bankruptcy (and pursuant liquidation procedures), coupled with the obvious collapse of the external market relations of the economy, resulted in a real shock therapy. At the time, CSO regularly published data for the headcount of bankrupt companies: in 1992, there were 272,955 people working in the 2,294 companies that had gone bankrupt, more than 60% of them in large companies, and other large organisations (*Monthly Bulletin of Statistics*. 1/1993).

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70 Although we have data for average numbers of employees by size categories (Chapter 7.3), due chiefly to the unknown commencement of bankruptcy and liquidation procedures, our estimates here are based on the simplest possible method, mostly on the mean values of staff categories. We reckoned with an average of 7 persons for companies with a staff of under 11, 16 for those from 11 to 20, 36 for those from 21 to 50, 200 for the 400 companies with 51 to 300 people, 700 hundred for the 47 companies larger than 300 people. This estimates are necessarily superficial, but the regions are probably fairly accurate.

71 The Government attempted to order bankruptcies (or, rather: liquidations) as early as 1986; however, the implementation of the decree had to be suspended in 1989, after a few attempts, as large-scale indebtedness was feared to bury under it the entire banking system, making the economy unworkable. In our first analysis, published in 1993, we discussed old and new causes of indebtedness in detail.

72 As published by *HVG* (14 December 1996), based on an analysis prepared by the Ministry of Finance.

Companies that wanted to break out of bankruptcy began to sell off their assets, headquarters, and resort buildings; they also started to restructure their activities, and lay off employees whom they deemed unnecessary.

By the end of 1996, two thirds of the 5,600 bankruptcy procedures filed were begun by the courts.

In 1996, 35 of the 109 companies that filed for bankruptcy were in manufacturing (of them, 18 were limited liability companies, 11 co-operatives, and 3 CLSs); 32 in trade and repair (24 LLCs, 5 CLSs and 3 co-operatives); 13 in construction (10 LLCs and 2 co-operatives); 10 in real estate or other service branches (of them, 9 were limited companies). In agriculture, there were a total of 8 firms to file for bankruptcy (7 of them co-operatives).

As mentioned earlier, companies that have gone bankrupt are small; more than 90% of them employ less than 50 people.

The majority do not have any dispensable assets, headquarters, or resort buildings any more; nor do they have creches or superfluous staff. Unless they receive a payment moratorium, their fate can be none other but liquidation and final termination.[73]

11.1.2 Liquidation Procedures

In different statistics, the numerical discrepancy between "registered" and "active" organisations is due largely to companies which are under liquidation and which have become empty.

Just like earlier, CSO supplied us this year as well with its summary, not published in its own publications, which make the differences between the numbers of registered and active organisations under liquidation or final settlement quite perceptible.

Table 11.2.

Main forms of enterprises under liquidation or final settlement, 31 Dec. 1996

	Enterprise	LLC	CLS	Co-op.
Registered organisation	683	122,044	3,536	8,362
of which				
under liquidation*	532	11,730	509	2,427
%	77.9	9.6	14.4	29.0
Active organisation	335	104,166	3,232	4,858
Numerical difference between registered and active organisations	- 348	- 17,878	- 304	3,504
Rate of active ones %	49.0	85.3	91.4	58.0
Active ones under liquidation*	263	2,731	321	495
%	78.5	2.6	9.9	10.2

[73] There are marketable assets in a number of companies – their sale, however, means an involuntary narrowing of activities. E.g., Tobacco Fermenting Co., under the supervision of SPH Co., had hoped to avoid liquidation by the sale of its Budapest office building and warehouse, and two tobacco purchasing plants. In this way, only the fermenting plant would remain in the hands of the company (*Népszabadság*, 10 August 1996)

* Including companies under final settlement
Source: *Monthly Statistical Bulletins*, December 1996, and unpublished data of CSO

According to our estimates described above, registered but no longer active companies accounted for here employed approximately 210 thousand people; there may be about 140 thousand employees in companies that are still active. Therefore, about 70 thousand jobs were lost in the companies that "disappeared" in the years of liquidation and final settlement.

Table 11.3.

Incorporated companies under liquidation or final settlement by legal form and staff category, 1996*

Staff categories	Registered				Active			
	LLC	CLS	Co-op.	**All**	LLC	CLS	Co-op.	**All**
< 11	7,854	228	1,000	**9,082**	1,621	113	211	**1,945**
11-20	2,355	66	843	**3,264**	445	34	94	**573**
21-50	1,230	101	438	**1,769**	453	64	118	**635**
51-300	277	95	144	**516**	201	91	71	**363**
300 >	14	19	2	**35**	11	19	1	**31**
Total	**11,730**	**509**	**2,427**	**14,666**	**2,731**	**321**	**495**	**3,547**

* No data from the (state-owned) enterprises, obliged to transform into company form.
Source: Number of active business organisations, 12, CSO 1996 and unpublished data of CSO

Organisation sizes suggest that large organisations that have gone bankrupt are disappearing. One can only hope that part of their activities can be retained, emerging as new companies, under new names, keeping part of the employees as well.[74]

If we are to conduct investigation by branches, liquidation and final settlement among active organisations are most frequent in agriculture, mining, and construction. We can, once again, base our analysis only on the comparison of the three most widespread forms of enterprise (we do not have data for the 335 obliged to transform broken down by branches.)

[74] This was the case, for instance, at the time of the final settlement of Győr-Sopron County State Construction Company. The company, which had 5,500 employees in the late 1990s, was dissolved into more than twenty limited companies in 1990; with the parent company acting as a holding that handled assets. There were two large construction companies separating from the firm (one of them was Integrál.H, employing 600 people), and a large number of smaller ones. The site of the former factory giant became a virtual industrial park, with a large number of companies. Final settlement resulted in the termination of the holding bearing the name of the old company only. (*Népszabadság*, 24 April 1996).

Table 11.4.

Branch distribution of business companies under liquidation, 1996

Branches		Total*	*of which*				
			LLC	CLS	Co-op.	**All number**	**%**
Agriculture, forestry, fishing	A**	**6,630**	3,805	191	1,930	**5,926**	
of which -	UL**	**390**	151	17	199	**367**	**6.2**
Mining	A**	**256**	234	10	2	**246**	
of which -	UL**	**20**	10	2	1	**13**	**5.3**
Manufacturing	A**	**19,919**	18,092	891	807	**19,790**	
of which -	UL**	**1,087**	714	138	132	**984**	**4.9**
Electricity, gas, steam and water supply	A**	**356**	275	67	-	**342**	**-**
of which -	UL**	**9**	4	1	-	**5**	**-**
Construction	A**	**10,079**	9,413	187	358	**9,957**	
of which -	UL**	**575**	427	32	78	**537**	**5.3**
Distribution, repair	A**	**39,896**	38,635	635	542	**39,812**	
of which -	UL**	**1,041**	877	71	47	**995**	**2.5**
Hotels and catering	A**	**3,731**	3,614	86	14	**3,714**	
of which -	UL**	**95**	82	4	-	**86**	**2.3**
Transport, storage and telecomm	A**	**4,332**	4,136	133	44	**4,313**	
of which -	UL**	**157**	138	9	2	**149**	**3.5**
Finance/business services	A**	**1,349**	837	235	275	**1,347**	
of which -	UL**	**12**	5	5	2	**12**	**-**
Real estate, renting and business support	A**	**22,396**	20,114	707	751	**21,572**	
of which -	UL**	**386**	268	39	30	**337**	**1.6**
Education	A**	**707**	594	12	7	**613**	
of which -	UL**	**7**	4	-	-	**7**	**1.1**
Health care/ social welfare	A**	**996**	957	7	29	**993**	
of which -	UL**	**5**	4	-	-	**4**	**-**
Other comm. public and personal serv	A**	**3,683**	3,460	72	99	**3,631**	
of which -	UL**	**59**	44	3	4	**51**	**1.4**

* All active incorporated companies.
** A = Active; UL = Under liquidation, final settlement
Source: Number of active business organisations, 12, 1996 CSO

By forms of enterprise (in addition to the state-owned companies not listed here), it was co-operatives –primarily those in construction – that proved to be least capital intensive and capable of overcoming payment difficulties. (Otherwise, it is employees of less asset-intensive construction organisations who have good chances of finding employment quickly in their own trade, in times of prosperity.)

As mentioned earlier, although there are still about 140 thousand people working in companies terminated under liquidation, the termination of these companies is unlikely to result in a threat of the increase in unemployment on a scale observed a few years ago.

In addition to the fact that labour demand has become more active in a number of areas of the economy, e.g. in construction, part of the companies under liquidation have good prospects of continuing in the business, with a new owner.[75]

Unfortunately when a firm is saved out of liquidation, or there it is sold, there is still no guarantee that workers will continue to be employed.[76] However, this still gives a chance to the workers of liquidated companies, whose situation has become precarious.[77]

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[75] Some newspaper reports:

- IPC Holding Co. purchased Salgótarján Chemical Machinery Factory, which employed 230 people and which had a good reputation, in the course a liquidation procedure. As the new owner was under no obligation to take over old debts, insurmountable obstacles before financing production were removed (*Világgazdaság*, 4 December 1996).
- The last and biggest unit of Csepel Auto, which was under liquidation, the Szigetszentmiklós plant, was sold in the middle of May. In the privatisation agreement, the buyer, a consortium of private foreign investors, partly American, undertook to employ the 600 workers of the factory (*Figyelõ*, 4 July 1996)
- Duna Aircraft Factory Co. became the sole owner of Pestvidék Machinery Factory Ltd., which employed about 560 people, dealing with aircraft repairs and under liquidation since 1990 *(HVG*, 15 June 1996).
- Under the name Salgglass Industry Co., venture capital investment fund Hungarian Capital Fund re-launched Glasunion Ltd., formed from the assets of Salgótarján Plate Glass Factory. The fund had purchased the assets in the course of liquidation (*HVG*, 24 February 1996).
- Pécs Leather Factory has a new owner. The liquidation of the firm began in February, and production has been going on ever since. The new owner is Leder Co., founded by former and current managers of the leather factory, their business partners and financial investors. The liquidator will lay off all 500 workers of the factory in order that they are eligible for severance payment. Employees laid off can, however, continue their work, because orders can only be filled in this way. (*Népszabadság*, 31 October 1996).

[76] The storm created by the case of Thúr Meat Industry Gyöngyös Co. is a well-known one. In the course of liquidation that came after several changes in ownership, 300 hundred out of the 550 workers, remained (*Figyelõ*, 8 August 1996).
First Hungarian Textile Manufacturing Ltd. operated only, rather than owned, the site of state-owned Secotex Co., under liquidation. Due to the unsettled debts of the LLC, however, the liquidator has discontinued operations, and the employees of the company have not been allowed to enter the premises for over two weeks (*Népszabadság*, 31 October 1996).

[77] Newspaper reports cover people in a large number of trades. 40-strong Electrosoft Ltd., which manufactures and distributes computers, cash tills, and taxi meters, and which has been unable to repay bank loans granted to it for development, has made insolvent the 120-people printing company, in which it has a majority stake. *(HVG, 28 February 1996)*
In the course of impending liquidation, jobs of the 180 people employed by Budapestlift Co., which has kept losing its markets as a result of the emergence of foreign competitors. *(HVG, 1 June 1996)*
400-strong Atheneum Printing Press laid off 80 workers in December, and, unless the firm is sold within a short time, it is likely to be liquidated. *(Világgazdaság, 7 December 1996)*

12. EMPLOYMENT IMPACTS OF THE TRANSITION IN AGRICULTURE

12.1 Major changes affecting employment

There are a number of facts indicating that the great transition in agriculture which began in 1989-1990 has come to an end, with a period of stabilisation starting in 1994-1995. Although, in terms of employment, ever since the turn of the century agriculture has played a smaller and smaller role (see Table 7.1), and this process is likely to continue for decades to come, the changes that have had profoundly modifying effect on ownership, the organisational system of economies, and the features of employment over the last 5 or 6 years have probably come to a rest. Despite cases that are still to be completed, ownership had been largely settled by 1995.

Inasmuch as we can establish from partial data, the major part of land has come to be owned privately. At the time of the 1994 survey conducted by CSO, in which information was supplied by individuals, 4.4 million acres of the 21 million acres of arable land were in the hands of private farmers and mostly used by them (about 40% of it was utilised).[78] The state remained the owner of about 4 million acres, or 19% of the 21 million acres.

Restructured co-operatives, which usually employ considerably fewer people than before, and companies which have a number of activities and which have become independent using co-operatives' and members' assets are cultivating approximately two thirds of the arable land.

The organisational structure of agriculture has practically been formed. Changes in forms of organisation are no different than in termination and other transformations in other branches of the national economy; however, accounting for all enterprises is distorted greatly by exemptions from the obligation to register for most private farmers.

As since January 1996 CSO has published detailed data by branches only for active organisations, we are forced to neglect data that refer to the various forms of registered organisations dealt with in previous years, since old and new data can no longer be compared. We can still establish, though, that, compared to the 29,976 economic organisations registered in 1995, the number of active ones increased by some two thousand in 1996.

Of the 32,321 organisations active in 1996, LLCs were the largest in number (3,805); followed by limited partnerships (2,773), and co-operatives (1,930). There were only 191 CLSs. However, 70% of those active were private farmers (22,682), who still constitute, at most, half to one third of active independent agricultural small entrepreneurs who are not obliged to register.

We have data for sizes only in the case of companies and co-operatives. Agricultural organisations seem to be less bitty than those operating in other areas of the economy.

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[78] *Private farming in agriculture, 1994*. CSO, 1995.

75% of active business companies in agriculture had a staff of under 11; that rate is 80% in manufacturing, 84% in construction, and 94% in trade, vehicle and household repairs and maintenance.

Table 12.1.

Number of active corporations, unincorporated enterprises and co-operatives by staff categories

	< 11	11-20	21-50	51-300	300 >	**Total**
Corporations and unincorporated enterprises						
no.	7,256	605	743	963	72	**9,639**
%	75.2	6.3	7.8	10.0	0.7	**100,0**
Co-ops. .						
no.	650	194	344	711	20	**1.919**
%	33.9	10.1	17.9	37.1	1.0	**100.0**

Source: *Monthly Statistical Bulletin*, Dec., 1996.

The proportion of medium-sized (21 to 50, and even more, 51 to 300 people) organisations is better than the average of the national economy, due presumably to smaller sizes in co-operatives as well as to the independence of activities (branches) separated from co-operatives and state farms which have been reorganised as companies.

215 (4.8%) of the 4,431 joint ownership economic organisations established in 1994 were in agriculture; in 1995 – 103 (2.7%) out of 3,720, and in 1996 – 107 (2.6%) out of 4,088.

About 5% of companies with legal entity under liquidation are in agriculture.[79]

The stabilisation of the organisational structure is reflected in employment data as well.

12.2 Different forms of employment in agriculture

According to the Labour Account, employment in agriculture (including hunting, fishing and forestry) still showed a decline in 1995, but this decline was considerably slower:

Table 12.2.

Persons in employment in agriculture and forestry, 1988-1996

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Year 1 January	In employment	Decrease over the previous year		Index 1988 = 100
		persons	%	
1988	1,028.0			
1989	986.1	- 41,9	4.1	95.9
1990	955.0	- 31,1	3.2	92.8
1991	835.4	- 119,6	12.5	81.2
1992	647.7	- 187,7	22.5	62.9

[79] At the same time extremely many have disappeared from the economy, as discussed in detail in Chapter 11. Among active ones, 151 out of the 3,805 LLCs. 17 out of the 191 CLSs, and 199 out of the 1,930 cooperatives were under liquidation or final settlement in 1996.

1993*	432.8	- 216,4	33.4	42.1
1994*	371.8	- 61,0	14.1	36.1
1995*	348.2	- 23,6	6.3	33.9
1996*	326.5	- 21,7	6.2	31.8

* According to the classification of economic activities by international standards
Source: Labour Accounts, CSO

Compared to its own levels of employment, the loss of agriculture in 1996 (-6%) was more or less the same as that in manufacturing (-7%).

Just like the national economy in general, agriculture, too, requires primarily active-age persons in main jobs.

Table 12.3.

Employment in the agriculture, 1991-1996

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Year 1 January	Employed	*of which:* active earners		Employed pensioners	On parental leave
		1000 persons	% rate to the employed		
1991	**835,4**	752,2	90.0	57.5	25.7
1992	**647,7**	588,9	90.9	35.1	23.7
1993	**431,3**	391,9	90.9	19.2	20.2
1993*	**432,8**	n.a.	n.a.	n.a.	n.a.
1994*	**371,8**	344,8	92.7	12.6	14.4
1995*	**348,2**	323,8	92.9	10.2	14.2
1996*	**326,5**	298,3	91.4	8.3	19.9

* According to the classification of economic activities by international standards
Source: Labour Accounts, CSO

As shown in the above example, numbers in the Labour Account of 1996 include almost 20 thousand (19.9 thousand) persons on parental leave.

The CSO Labour Force Survey of 1996 indicates a modest rise in agricultural employment. In the fourth quarter of 1995, there were a total 297.7 thousand people registered as employed in agriculture (i.e. almost 29 thousand less than the annual average of the Labour Account); but the number in the fourth quarter of 1996 was 316.4 thousand, signifying an increase of 18.7 thousand over the previous year.

Recognizing the differences between the two types of calculations, what we can safely assume is that in 1996 employment numbers in agriculture were stabilized in agriculture as well.

With relation to agriculture, it is worth noting that 150 thousand people, i.e. nearly half of those employed in agriculture, are in possession of qualifications in agriculture and forestry. According to CSO's Labour Force Survey data totalling the number of those belonging to main employment groups, their number increased from 128.5 thousand in QIV, 1995 to 150.2 thousand in QIV, 1996. We can assume that the majority, though not all, of them utilize their expertise in agriculture. (There are no data available for the branch distribution of those with higher or no qualifications.) (*Features of the labour market in QIV, 1996*, CSO, 1997)

The actual (only partially observable by statistics) employment capacity of agriculture, and accounting for main and second-job activities, part-time jobs and casual (mostly seasonal) work is a more difficult problem in interpreting employment conditions. The problem is linked closely to the extent of (measurable) unemployment, so we shall return to its discussion after providing an overview of unemployment data.

12.3 Unemployment in agriculture

In 1995, following massive losses of staff in the early 1990s, the number of those laid off in agriculture declined considerably. Nevertheless, the number of those newly registered as unemployed (other than those entering the job market) rose to 83.5 thousand.

As demonstrable loss in agriculture was under 22 thousand people in 1995, and in 1996 numbers are unlikely to drop (or at least not significantly), we may assume that a large proportion of those registered were unemployed only temporarily; they became employed at the beginning of seasonal work, and registered unemployed again after the season came to an end.

NLC data reflect seasonal effects clearly: in 1993, those registered as unemployed between November and February accounted for nearly 50% of the total of those unemployed in agriculture; with about 42% in 1994, 47% in 1995, and almost 40% in 1996.

Table 12.4.

New unemployed registered in agriculture, 1995-1996

Months	1995		1996	
	persons	%	persons	%
January	11,004		10,209	
February	6,544	23.8	7,071	20.7
March	4,904		5,681	
April	5,089		5,055	
May	4,406		6,415	
June	4,607		6,844	
July	5,374		6,923	
August	4,214		6,006	
September	5,064		7,003	
October	5,045		6,912	
November	8,059		6,854	
December	9,455	23.7	8,582	18.5
Total	**73,767**	**100.0**	**83,555**	**100.0**

Source: NLC, monthly reports

It is probably also due to seasonal work opportunities (as well as regulations on eligibility for unemployment benefit, which disregard this) that the number of those returning into the register is becoming larger each year. According to NLC data in December 1996, 76% of all entrants had featured in the register before. Within this, the proportion of those becoming unemployed in two seasonal branches, agriculture (82%) and construction (83%) has been high (again) for a number of years.

Despite seasonal influences which are easily traceable every quarter, CSO's Labour Force Survey indicated a decline in agricultural unemployment. In QIV, 1995, 36.8 thousand people regarded themselves unemployed in agriculture, which is 9% of the 408.1 thousand registered as unemployed. In QI and QII, 1996, their number increased (39.5 thousand and 39.2 thousand, respectively. In

QIII, the number was 33.5 thousand, and in QIV – 30.3 thousand; 6.5 thousand less than in the previous year, accounting for 8% of the total number of those unemployed.

12.4 Employment capacity of agriculture

National economies go to great lengths to gain more details and more comprehensive information about operational processes and achievements of agriculture with the help of their statistical systems, primarily in the area of the capacity to produce revenues.

In the Hungarian economy, it is perhaps agriculture that we know least about.

To discuss only issues concerning employment:

- we do not know employment conditions in agriculture. Although the labour force survey provides an overview of those employed in the branch, aggregate numbers include those main job holders who base their livelihood on agriculture as well as those who have done just one hour of occasional work;
- we do not know the number of employees and entrepreneurs. As it is well known, it was only those agricultural entrepreneurs whose yearly operational income was in excess of HUF2 million gross (1 million net) who had to register themselves as entrepreneurs. At the end of 1995, CSO had 29,976 such farmers on record; at the end of 1996, when only active ones were registered, only 22,682. However, not all of them are farmers – 2,561 of them do non-manual activities with an entrepreneur's permit.

The register of the economic structure of agriculture, compiled by CSO in Autumn 1994, included 51 thousand main job holder sole proprietor farmers, who did not feature then, and have not featured ever since, among independent farmers.

Yet part of those independent employ others as well, either on a regular or on an irregular basis. Family members employed on a regular basis can also be considered main job holders; although in 1995, businesses (not only agricultural ones) registered only 28 thousand family members with social security, and the number of family members indicated in the tax returns of independent agricultural entrepreneurs was only 381.

Tax returns of 1994 indicated that registered (and active) independent agricultural entrepreneurs employed 2,600 people; according to the Autumn 1996 CSO survey, farmers employed a total of approximately 5.3 thousand regular and 3.3 thousand occasional employees.

In addition, 147 thousand people belonged to the households of the 51 thousand main job holder sole proprietor farmers, of whom 93 thousand do agricultural work in their own household on a regular basis. Therefore, one such household is based on an average of two family workers (although the survey does not tell us how much work they do, or how many can be classified as main job holder family members, etc.).

On the basis of the above, it may be assumed that the actual number of those employed in agriculture is larger than can be concluded from taxation and social security data.

The number of those part timers and ancillary workers who are not registered anywhere is particularly high.

Nearly 4.8 million people belonged to the 1.6 million households registered by the 1994 census, i.e. 46% of the population of the country. Of them, more than 3 million (about 63%) participated in the agricultural work of the household on a regular basis. 2.3 million (66%) of the 3.5 million people in households of farm size did some agricultural work on a regular basis, while in smaller-than-farm-size households, whose production serves only themselves, 760 thousand (63%) of the more than 1.2 million people.

All this means that, with its sizeable demand for labour (which follows, among other things from the lack of capital), agriculture has a significant influence on employment (and obtaining income).

According to data obtained from the CSO Labour Force Survey, the largest number of occasional workers (a yearly average of 2/5 of all occasional workers) were in 1994 and 1995 employed in agriculture; mainly economically inactive people, and probably unemployed ones. At the time of agricultural peaks, the employment of foreigners for a few days or weeks, usually without a work permit, is a widespread phenomenon. (Rather than the rigor of authorities, it would be advisable to make casual work a legal alternative: the farms in question have recourse to outside help only so long as that is absolutely necessary and there is no empty worker's hand as everyone is in need of help).

There have been ardent debates concerning the state of agriculture among the various parties concerned, representing different interests. In order to obtain a clear picture and act upon it, however, employment policy, too, should provide reliable factual surveys.

EXPLANATION OF TERMS

The Report uses the main terms of employment and unemployment (as defined by the ILO) according to the interpretation of the Labour Account and the Labour Force Survey of the Central Statistical Office and those concerning registered unemployment according to that of the National Labour Centre.

Many terms are explained in detail upon their first occurrence in the main text.

In what follows, we shall provide a definition of the essential general terms only.

CSO's conceptual framework of the Labour Account

Economic activity

Working-age (active-age) population: men aged 15 to 59, women 15 to 54 (55 in 1996). Working age implies no Labour Law constraint: men and women past working age can be active earners irrespective of their age.

Labour supply: working-age population plus active earners under or over working age, and pensioners over working age in employment.

Active earners: persons pursuing an earning activity and having an earning/income, actually working at the given moment, or in employment in the framework of an employment or civil-law legal relation (employees of enterprises, business companies, institutions or co-operatives and co-operative members). Moreover, self-employed persons and their employees and unpaid family workers and the members of business partnerships (provided that they participate directly in the activity of the enterprise). Casual and day-time workers also qualify as active earners, the same as unpaid family workers in agriculture working for at least 90 days a year. Active earners include pensioners suspending pension for the period of employment.

Persons in employment (the employed): active earners, working pensioners and persons on child-care aid/fee and therefore temporarily absent from work.

Registered unemployed: persons registered as looking for a job by the labour exchange office competent by place of residence at the given date/period.

Economically active population: persons meeting the criteria for being in "employment" or "registered as unemployed".

Economically inactive population: persons outside the scope of the economically active population, including pensioners/allowance recipients pursuing no earning activity, people living on renting their land/house, on bed-charge, sub-letting or a contract relating to support for life, persons under fifteen, students above fifteen, household dependants, persons under public or social care, persons receiving child-care assistance.

Activity rate: percentage rate of the economically active to the active-age or 15 to 74 year-old population.

Unemployment rate: percentage rate of the unemployed to the economically active.

The methodological/conceptual differences between the Labour Account and the Labour Force Survey are shown in the table below:

	Labour Account	**Labour Force Survey (annual)**
Reference date	1 January	mid-year (average of four quarters)
Scope	Total population based on extrapolation of population number of reference year	15 to 74 year-old non-institutionalised population based on extrapolation of population number corrected accordingly on 1 January of the previous year (method under revision)
Data source	Comprehensive and representative official labour statistics, administrative records, experts' estimates	Representative survey covering some 25 thousand households every year.
Definition of "person in employment"	Person in employment or any other legal relation implying work performance in the territory of Hungary on the given reference date (domestic conception).	Person having performed a minimum of one hour earning activity on the reference week or temporarily away from earning activity over the same period.
Persons in employment: significant differences in coverage	Conscripts only if subject to employment relation or not suspending entrepreneurial activity.	All conscripts included (but as persons living in institutional household not included in the survey population)
	Persons living in institutional household, if subject to legal employment relation, included among persons in employment.	Institutional households not included in the survey's scope of reference.
	Temporary (casual) employment not included.	Anyone having performed a min. of one hour earning activity during the reference week.
Unemployed	Persons registered as unemployed by the National Labour Centre.	Persons meeting the triple criteria of the ILO (not working, actively seeking job, available). Passive unemployed: those among the economically inactive who would like to work, could undertake work, but deem their own employment opportunities unfavourable and therefore do not seek a job actively.
Economically active population	Persons in employment and registered unemployed together (Fix base of the rate of registered unemployment published monthly.)	Persons in employment and unemployed according to the definition of the ILO together, with persons in employment including or not including persons on parental leave in function of the aim of the survey.

Earnings

Gross average earnings: per capita average of all sums debited to wage costs paid to the person in question (labour wage, wages in kind, bonus, reward, 13th and further month payment, year-end dividend) over the period in question. Average earnings data refer to full-time employees.

Net average earnings: indicator based on gross average earning after the deduction of income tax rates, health insurance and pension contributions paid by the employee, and employee's contributions in effect ever.

Business organisations

Registered business organisation: Legally existing entity having a tax identification number according to the administrative records at the given date.

Active business organisation: an enterprise having filed a tax form (corporate tax, VAT etc.) in the reference year or the year preceding it or having been formed during the year. *Irrespective of their taxation relations, registered budgetary and social insurance, non-profit and ESOP organisations qualify as active.*

Sole proprietors include, in addition to those subject to the Act on Sole Proprietors, private persons in possession of a tax identification number performing a business activity for profit (e.g. free-lance intellectuals among others).

Conceptual system of the National Labour Centre

Registered unemployed: persons registered by an office of the state employment service, seeking employment/work/self-employment and available for it – unless they are employed, pensioners, students, beneficiaries of employment promotion subsidies (re-training, public works etc.). From May 1995, the registered unemployed do not include persons having suspended their income supplementing allocation.

Registered unemployed school-leavers: from 1 July 1996 on, unemployed persons not receiving/entitled to unemployment benefits after having finished their elementary school, general secondary school, vocational secondary school, college or university studies, under 25 years of age – or under 30 for graduates –, ,meeting the criteria of establishing a legal employment relation but having no job and registered as unemployed by the labour exchange office of the county (capital) labour centre.

Number of unemployment benefit recipients: unemployed people receiving unemployment benefit and persons still receiving unemployment benefits for school-leavers.

Unemployment benefits: allowance due to unemployed persons having fulfilled their contribution payment obligation for a minimum of 360 days within a period of four years prior to unemployment, not entitled to pension, whom the competent labour centre cannot refer to an appropriate job and who co-operate with the labour centre or its local office in the interest of their own placement. (The amount and duration of the benefit is defined under the Employment Act.)

Unemployment benefit for school-leavers: terminated on 1 July 1996 and allocated thereafter to those unemployed only whose unemployment benefit for school-leavers was approved prior to that date.

Unemployment rate: base month number of the unemployed as percentage of the economically active population (employees + registered unemployed) on 1 January the previous year (considered a source index by the Labour Account of CSO as well).

Employment promotion subsidies (*"active" employment policy measures*)

Number of participants in 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, re-imbursement of max. 50% of the costs incurred in connection with professional counsel or training required to launch the enterprise or credit security insurance (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* employers 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 public workers: actual number of formerly unemployed people in employment at non-profit organisations to perform public works for the population or the settlement in the period under scrutiny.

Number of beneficiaries of subsidies for employment with reduced working time: employers unable to employ their employees or part of them full time owing to their employment difficulties and benefiting of subsidies to promote that in the period under scrutiny (partial compensation for earnings losses) and number of employees working reduced hours in the given period with the help of the subsidy in question.

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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