

# CHANCES TO INCREASE EMPLOYMENT<sup>1</sup>

by

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Part I of the present study is devoted to the situation of employment in the European Union to date, efforts to alter the current rates of employment and unemployment and related doubts. Part II discusses the Hungarian *status quo* and prospects.<sup>2</sup>

Let me state in advance that higher employment does not necessarily imply more jobs in the traditional sense – on the contrary, it typically does not imply that at all. Moreover: the aim is specifically to increase the number of registered, controllable (and taxable) job opportunities within the organised economy operating in a formalised and regulated way. In what follows, we shall discuss jobs of this type. Although there exist undeclared jobs in every country, the priority goal is to increase registered (taxable), accountable employment everywhere in Europe.

Two possible courses of action are taking shape now. Firstly, to **multiply job opportunities** at business organisations in the organised economy through non-traditional, atypical, forms of work (e.g. reduced working time). Secondly, **to extend the circle of traditional employers**, i.e. to involve new employers outside the business and administrative sectors, in the social sphere (e.g. non-profit organisations), or even more extensively, to create new (registered) jobs in the world of the households.

This search for a way out reflects the forced and painful adaptation process of governments and national populations to irreversible changes having taken place in the world of labour. What is to be expected? This is what I shall try to survey in the present study.

## I. THE EUROPEAN BACKGROUND

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<sup>1</sup> This paper was prepared for the Scientific Conference of Dunaholding Foundation on Enterprise, social sensitivity and middle-class development, Budapest, 9-10 October 1998

<sup>2</sup> Some of the main lines of thought in the present study are follow-ups of what was discussed in my article "Changing concepts in the changing world of labour" in the February 1998 issue of *Közgazdasági Szemle*. I apologise for the reader for any inevitable repetitions. Let me thank Mária Frey, László Neumann and Ágnes Vajda for their kind help: their remarks, questions and advice relating to the first version contributed to a large extent to the clearer expression of my message here.

The transformation of the distinctive features of the contents and form of work or, more precisely, of current and prospective earning activities, is most striking in the developed countries, but it is also quite obvious in the less developed ones.

Independent experiments by individual Member States have recently given way to joint European Union action to break the spell of persistent unemployment, highly different by country, but considered stubbornly high at 10% at the Union level, and that of a no less stubborn average employment rate of around 60% and no more.

For, after dramatic job losses in the seventies, protracted recession in the early nineties has resulted in the loss of another 5 million jobs, and until 1996, only 2 million of these had been replaced. The employment rate of the 15 to 64 year-old has failed to increase over the past twenty years and in 1996 was lower than it had been in the mid-seventies (*Employment in Europe, 1997*, p.27.)

### **Old and new jobs**

Europe creates no new jobs, at least not in the traditional sense of the word. Available job opportunities, moreover, differ from to which the previous generations had been accustomed.

Once upon a time it was quite natural for someone employed somewhere and performing his/her work well to remain there until retirement age and reach the peak of his/her career at the same workplace. Occasionally other members of the family went to work at the same place, with similar life prospects. The daily and monthly work order was set, the same as payment specified by position. The above main elements of the traditional, general, employment relation have been codified, and protected by legislation, collective contracts and agreements in every country (e.g., mandatory notice period and severance pay guaranteed by the employer in case of dismissal; compensation for over-time etc.). Agreements at different (national, branch, corporate) levels have attached, mainly as a result of the decades-long struggle of trade unions, many kinds of employee's rights to the traditional employment relation including paid leave, health insurance covered in part by the employer, mandatory pension insurance in several countries, paid holidays etc.

According to the analysts of the big rivals, the American and Japanese, the rigidity of the labour market is primarily due to strong employee protection regulations: labour employed in the framework of the traditional forms is still exceptionally expensive and costly, and associated costs are raised significantly by long periods of paid leave, different allowances due to workers, the high

costs of dismissal (notice period, severance pay) which, in themselves, act as a brake on hiring new staff as well.<sup>3</sup>

The number of traditional jobs, on the other hand, has been shrinking steadily: for the sake of competitiveness, employers are forced to seek out cheaper solutions. New work opportunities offered nowadays differ in one or several, occasionally all, aspects from what used to be considered the general, typical job earlier. This is the reason why they are denominated by the collective term "*atypical*".

The category "atypical work" includes *part-time work* (i.e. work performed regularly for a shorter time than the working time specified under the law mainly on a weekly basis); *employment on fixed-term contracts* (e.g. for peak periods); *self-employment* (including work performed by active owners of unincorporated small companies, irrespective of whether they have employees; work performed by persons working on their own account; by independent farmers; members of co-operatives performing production activities; assisting family members of the above; and vocational trainees employed by the same; and *temporary employment* (occasional, seasonal work).

In the Member States of the European Union, in recent years, net registered job creation (in excess of those replacing the lost ones) has essentially been limited to the atypical forms whose proportion keeps rising year on year. According to the regular annual report of the European Union, in 1995 and 1996, 42.5 and 43.2% of those in employment were already working under one of the three atypical forms subject to regular survey already. The distribution of the forms in question shows significant differences by country (*Employment in Europe, 1997*, pp. 177-132.).

That is to say that, in the organised economy, the number of traditional jobs is contracting, while the share of less protected jobs, entrenched to a smaller extent by employee rights, keeps spreading, without, however, resulting in a net increase in the number of the registered employed.

At the same time, the terms "employment", "employment relation" and "job", synonymous not so long ago have also become more and more distinct semantically and no longer imply equivalence: one may be employed without being subject to an employment relation and without having a regular job, as in the case of the self-employed. According to the definition recommended by

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<sup>3</sup> According to Economics Nobel Prize winner Gary S. Becker, Professor of Economics and Sociology at Chicago University, the European labour market is paralysed by high labour costs and cumbersome dismissal procedures, and Europe will not be able to shed high unemployment until this "European sickness" is cured.

ILO, the International Labour Organisation, serving as the basis for interview-based statistical surveys on the levels of employment/unemployment in use throughout Europe, every person "having performed at least one hour of earning activity" in the week preceding the survey qualifies as employed.

The increasing flexibility of the labour market, however, has failed to bring about perceptible change in the level of employment.

Hence Europe decided to pool its forces to seek out solutions.

Although the preliminary, much more ambitious proposal to increase the level of employment by 5% (to 65%) and to reduce the rate of unemployment to 7% (and that of youth unemployment to half of its current rate, typically twice that for adults) within a period of five years did not pass at the Luxembourg Summit, they did approve the all-Union Employment Guidelines for 1998 to enhance employment.

Member States have committed themselves to attaining the average of the three most successful states within a period of time set by themselves, in function of the employment situation of the given country, and to extend employment opportunity enhancing measures to at least 20% of the unemployed.

The joint EU Guidelines specified tasks in four main areas.

The first pillar is to improve the placement chances of the unemployed and to increase their *employability*. In the future, a smaller segment of the, occasionally significant, amounts allocated to unemployment provision will be spent on benefits and more on the so-called active employment policies. Especially for the youth: young persons shall be offered a new opportunity to start in the form of training, re-training, work experience, job etc. before having spent six months in unemployment. Adults shall be provided the same opportunity before having spent twelve months in unemployment at the latest.

The second pillar is more support for *entrepreneurship*, especially the establishment of small and medium-size ones enterprises, and for hiring new staff, primarily by reducing their operating and administrative costs.

Moreover, *self-employment* will be encouraged, in addition to methods used so far (extension of smaller credits, counsel etc.) by a reduction of taxes and social insurance contribution payment obligations.

An effort will be made to identify new employment opportunities at the local level and in the social sector, wherever relevant unsatisfied demand exists.

The above presuppose the gradual reduction of the current level of taxes and perhaps the review of budgetary policy, with a view, in the first place, to

cutting labour costs, especially in the case of low-qualified and low-paid jobs.

The third pillar urges to engender *adaptability*: to increase the adaptation capacity of enterprises and the workforce and modernise the organisation and methods of work.

The main goal is to make enterprises more productive and competitive, ensuring, at the same time, the equilibrium of flexibility and security.

Given the increasing diversification of the forms of employment, it is to be ensured that several contract types be applicable, all of them guaranteeing adequate employment security.

The fourth pillar focuses on the policy of *equal opportunities* for women and men, for those having been driven out of the labour market or having exited it, and intending to return, and for members of the disadvantaged strata.

Member States undertook to prepare action plans covering several years and adjusted to the specific situation of the given country, and to file annual progress reports on the issues concerned.<sup>4</sup>

### **Hopes and doubts**

Hopes for success are based on the prospects of economic growth. According to the relevant calculations, the GDP will grow by 2.4% in 1997 and by 2.8% in 1998, which forecasts a cumulative increase of about 2 million jobs. Unemployment, however, is not likely to decrease even if employment increases owing to the increase in the number of the active-age population in the meantime (*Employment in Europe, 1997*, p.13.).

Anyway, actions of all sorts are being launched or developed further all over Europe to expand employment. (To quote a few of the "best practice" methods reviewed in the relevant EU publications: Denmark has reduced the duration of unemployment benefits from 7 to 5 years, and persons in unemployment for more than two years must take part in re-training on a mandatory basis; several countries have reduced taxes imposed on the smallest incomes and, especially in the case of employment of long-term unemployed, social insurance contribution quotas as well; in Belgium, the cut-back on social insurance contribution applying to a formerly unemployed first employee was extended to the second and third employee etc.)

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<sup>4</sup> The deadline for presenting the national action plans was 15 April 1998, and it was met, occasionally with some delay, by all Member States.

The best initiatives are also granted support from the Structural Funds of the European Union.

The question subject to most serious doubts is where exactly the desired new employment opportunities can be created in Europe. (Let us emphasise that here and now we shall only treat Europe; as for its big rivals, the United States and Japan, their basic conditions are different in many essential respects, and the scope of this paper does not allow to make comparisons here.)

We shall survey three areas in brief: a/ the organised economy, b/ the non-profit social sector governed by non-market rules and c/ the household economy.

a./ The situation of employment in the **organised economy** will be surveyed from two aspects. Firstly, through changes observable at the level of the broad employment sectors. Secondly, through the weight and employment capacity of big and small business organisations.

#### **a.1. Development Trends of the Employment Sectors**

Changes in the world of labour are mirrored by changes in the respective shares of three broad employment sectors, viz. agriculture (in the primary sector), industry/construction etc. (the secondary sector) and services (the tertiary one). Employment distribution by broad sector is a basic indicator of the level of economic development today: the large share of agriculture correlates with backwardness, that of the services sector with a modern, advanced economy. The figures tell it all: in the UK, and in Luxembourg, Belgium and Germany, 2 and less than 3% of those in employment work in agriculture, respectively; in Greece, the corresponding share exceeds 20%. The EU average is 5.1%. (OECD data still indicated 45% for Turkey in 1994. *Employment Outlook, 1996*, p.191.)

On the other hand, in Luxembourg, the Netherlands, Sweden and the UK, more than 70% of all earners worked in the services sector, while the corresponding share was less than 60% in Portugal and Greece. The EU average is 65,1% (*Employment in Europe, 1997*).

Agriculture, once the basic sector of every economy, tends to employ a decreasing number of persons, less and less human labour: in most countries undergoing economic development, agriculture is a net labour loser.

As for industrial employment, it is a typical feature that some 30% of earners there could, given the steady development of technology, produce well in

excess of the relevant consumer demand. (This is one of the forces behind the determined search of the industrially developed countries for new markets.)

People in the developed countries, in consumer society, typically consume services. Solvent demand associated with the expanding middle classes above all that used to focus, at the turn of the century, on the purchase of clothes, footwear, and then cars, flats, refrigerators, hoovers, washing machines and dishwashers and gradually everything produced in mass has shifted from the forties and fifties on in favour of the purchase of increasing quantities of services. Beside the maintenance and regular upgrading of material goods in their possession already, they started to spend more and more on travel, sports, health protection, entertainment, business and banking services. It was under the impact of the change in demand that the former mass-producer mammoth organisations had to be sub-divided into smaller plants conducive to the restructuring of employment, so much so that in the developed countries, at least two-third of earners are employed in the services sector to date. Some ten to fifteen years ago, however, the labour-absorbing capacity of the services industries also diminished significantly.

Most services branches operate on market principles (trade, transport, banks, insurance companies etc.), and growth of employment there is basically a function of solvent demand, of relevant needs.

In other services branches, the extent of employment is a function of budgetary expenditures allocated for that purpose. Common social consumption, i.e., state administration, education, health care, social provision, environmental protection, protection of public security and law and order etc., is basically covered by budgetary resources, often highly different in size by country and hence its expansion or development is covered by taxes in the final analysis (which, on the other hand, should be reduced to arrive at lower, employment-stimulating, costs of labour according to the relevant recommendations).

Of course, a smaller or larger number of new jobs may be created in every one of the three broad sectors, but the decades-long trends are irreversible.

## **a.2. Job creation by big, medium-size and small enterprises**

The European Union expects the target 2 million new jobs to be created by the growth of small and medium-size enterprises, irrespective of sector. (Let us remark in advance that, according to one of the most common definitions, micro enterprise means less than 10 staff and - accompanied by a proportionate level of turnover, - small enterprise 10 to 50 and medium-size

enterprise 50-250 staff, irrespective of the differences in national classification.) According to the 1996 statistics, the average, rounded, figure for micro-enterprises was actually 2, for small enterprises it was 20 and for medium-size ones 90. (*The European Observatory for SMEs, Fifth Annual Report, 1997*, p. 14.).

Declining demand for mass products (and growing demand for services) has exerted a strong influence on the size of business organisations in favour of the small ones for decades.

According to the report on SMEs quoted above, in 1996, there were nearly 18 million very small enterprises in the European Union. 93% of all enterprises belonged to this category, contributing 33% of employment by business enterprises. The more than 1.1 million small enterprises employed another 2.1 million (19%), and the 165 thousand medium-size enterprises 15 million (13.5%). Very small, small and medium-size enterprises together employed some two-third of those in employment (the approximately 35 thousand bigger enterprises employed 38.2 million, corresponding to around 34% of all earners.)

This makes the employment-stimulating programme of international organisations, the EU among them, quite understandable: should every one of the very small enterprises employing one or two staff hire at least one more worker, that would reduce the 18 million EU unemployment figure to a tolerable one at once.

However, competitiveness and hence the minimisation of costs, including those of labour, is at least as important to small and medium-size enterprises as to big ones, for they, too, must expect competition on their own small markets. The smallest, typically family, enterprises, on the other hand, are not (staff) growth, but subsistence oriented: they re-invest into the business the amount "imposed" on them by competition and no more; their main objective is to provide a living for the family at the level of those strata that they consider standard-setting. They are reluctant to let outsiders into the family business, even if the latter operates with success, and in the same way keep away from bank credits, not to let strangers have an insight into the management of the (family) business.<sup>5</sup>

The experience is that despite the expansion of this sector and the occasional prosperity of the micros, only a few increase in terms of staff size.

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<sup>5</sup> This phenomenon has interested me for a long time. See my article in the July 1987 edition of *Valóság*.

It is possible, nevertheless, that employment preferences guaranteed by the state would induce more to employ one more staff, at least for the time of the preference. Long-term international trends, however, suggest that no significant increase in employment can be expected either of the family (micro-) enterprises, or of the small and medium-size ones exposed to competition the same as their bigger rivals.

What is to be expected, on the other hand, especially in the less developed countries, is the further increase of the number of the self-employed. As mentioned already, the self-employed are typically sole proprietors whose activity, traditions and, last but not least, lack of capital, prevents that they should establish an independent enterprise, one that is disjunct from the household. It is to be expected that a growing number of persons will choose, voluntarily or under some constraint, this framework providing a legal form for their activity, but neither is it impossible that, as before, they would avoid legalising their activity. Although the persons in question do work to earn a living, they do not register this activity and hence, officially, they do not qualify as employed (this is one of the crucial issues that we shall discuss in more detail later on).

#### **b./ Jobs outside the mainstream economy**

Experiments to look for unsatisfied demand outside the competitive, profit-oriented "real" economy in case the latter provides no work opportunity go back a long time. Social provision, for those in need – the old, the sick, children – seemed an especially promising area in this respect.

The European Union initiated a special survey in 1996 to develop employment opportunities in the social sector. (The Hungarian participant of the survey covering every member state was Mária Frey who, in her book summing up the relevant experiences (*Job Creation Outside the Mainstream Economy*, Budapest, 1997), provides a detailed overview of German and French experiments representative of the European efforts.) The European Union itself has also identified this area as one offering good chances for employment promotion.

The social sector no doubt is a mine of practically unlimited options. Social care can always be improved, even in states paying the best attention to their citizens, as individuals and families need support in so diverse situations. Activities undertaken by non-profit organisations, however ambitious, can only provide for part of the homeless, the poor, the destitute, the sick.

More extensive and better organised social provision will offer regular work opportunities, provided that society is willing to assume the costs thereof.

The study prepared as a preliminary to the Luxembourg Summit (Report on Employment, 1997) presents numerous initiatives as "best practice", i.e. examples to be followed.

One of these is the Irish programme called "Communal employment" standing for part-time work in the social sphere above all. The programme has been going on for several years, with the participation of 40 thousand in 1996. Participants were eligible to assistance identical with or exceeding the unemployment benefits, and were allowed to retain allowances received under other titles. (The programme has been amended in the meantime: now it is primarily targeted at promoting the employment of the long-term unemployed.)

In a programme envisaged by the UK, the government identifies districts running an exceptionally big danger of dropping behind in the social sense, and provides support for the creation of "social enterprises" there.

There are examples from practically every one of the Member States. Apart from the economic advantages, i.e. job creation in areas where demand is high, but solvent demand among potential clients is low, where service fees (paid to non-profit organisations) do not imply a competitive disadvantage to service providers working on market principles, the social sector really offers masses of work opportunities, albeit mostly in the form of low-income part-time employment. (It is a different issue altogether that tax preferences to profit-oriented enterprises can also improve the provision standard, and successful companies can also create jobs.)

The main hindrance to utilising possibilities and to increasing employment in the social sector to a considerable extent is the fact that associated costs must mostly be covered by the communities themselves, the central and local budgets, at a time when governments are actually considering ways and means to reduce taxes. Relevant experiments are therefore cautious and limited in scope of necessity.

### **c./ Prospective employers: the household**

Similar cautious experiments are being made to increase the employment role of the household. Households today are actually thoroughly integrated in the social division of labour – the more prosperous and developed a given country, the more thorough the integration. Households that used to be self-sufficient in so many respects not so long ago are today purchasing products, services and if necessary labour especially from the organised economy, legally, and occasionally illegally. However, they purchase part of the services not from official sources, but through informal social contacts. This transaction fits into the legal/illegal categories hardly or not at all, because, although one must pay

tax after (labour) incomes in most countries, auxiliary activities lasting for a short period of time do not have to be reported to the authorities.<sup>6</sup>

Massive demand for temporary, helping household services limited to a few hours' time, often in the area of social services, is due to urbanisation, the nuclear family, increasingly strict requirements to be met by those working at organised workplaces (such as the severe condition of staying at the workplace during working hours) and to many other "civilisation" circumstances. The multitude of tasks that used to be performed through division of labour within the big family (supervision of children, cleaning, caring for sick relatives, occasional gardening etc.) now awaits paid helpers. Of course, there exist service providers specialised on these cores, but especially in less developed economies and in the less well-paid social strata, households prefer to employ helpers usually not employed elsewhere but recommended by neighbours or friends or acquaintances and hence absolutely reliable and definitely cheaper than the employees of profit-oriented mediating companies.

The diverse and changing demands of the household organise many types helping workers around the household. Their work, of course, lacks every formal accessory of "employment". There are no papers to document "hiring" or "firing" (as a matter of fact, the terms themselves can only be used metaphorically), there is no labour contract or dismissal notice. Of course, a "wage" is agreed upon, locally, in function of the social status of the given household.

Several countries are making what are usually cautious efforts to regulate this highly flexible form of "employment" and to integrate it into the organised economy.

Union Member States have taken many types of initiatives for that purpose. In one of the earliest experiments, the Belgian Foundation Roi Baudouin initiated the introduction of a "voucher" system to promote the employment of the

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<sup>6</sup> The European Commission prepared a survey on unregistered employment. As stated in the summary study: non-registered work means paid activity, that could be pursued legally, which, however, is not registered with the competent authorities. Registration duty differs from member state to member state. The definition excludes criminal activities, and, at the other extreme, activities not subject to mandatory registration such as certain activities performed in the household economy. (*Communication from the Commission on Undeclared Work*, Brussels, 07 0 1998, COM (1998) 219 final).

According to the Belgian regulations, for example, temporary work performed for households for a fixed period of time is not subject to social insurance contribution payment (and hence does not have to be reported) and, moreover, if the person employed had been out of job for more than six months or received social benefit for the same period of time, the employer is entitled to tax preference as well. (Quoted by Frey, *op.cit.*, p.19.)

unemployed.<sup>7</sup> The initiative, shaped by lots of experience gained through experimenting has become quite extensive by now, and has turned into a means to increase household demand. The model developed further by the French in the first place opens the possibility to create, according to the relevant estimates, employment corresponding to 300 thousand full-time jobs in the next five years, mainly through services delivered to households. (According to the preliminary material prepared by the European Union Committee for the Luxembourg Summit, the vouchers were introduced in Belgium and France "in association with household services".)

Households are no doubt "employers" in the literal sense of the word as defined by their own needs, especially if, according to the current practice of the labour force surveys, one hour of earning activity already qualifies as "employment" and the person performing it as "employee".

Could households be promoted to the status of employers in the organised economy? It is quite feasible that, for lack of other jobs, this will be one of the solutions in the developed world.

However, household demand is exceptionally sensitive to supply costs; should the current, flexible solutions be replaced by rules imposed from the outside, should costs exceed the limits considered acceptable and fair, demand might shrink and even disappear altogether.

French and Belgian attempts to extend the limits of the labour market towards the household suggest an awareness of this state of affairs. Mária Frey's work referred to several times in the above clearly illustrates that, without assistance, household demand cannot be expected to increase. (In Germany, for example, in the personal services sector, hourly labour costs exceed 2 to 3 times the net hourly wage of the potential consumer.) In France, diverse assistance schemes offer special tax reimbursement to households acting as employers (the service voucher giving the employer entitlement to tax redemption is one instrument serving that purpose); social insurance contribution to be paid by the employer is reduced; in certain cases, the state covers 65% of the labour wage etc.

Real competition to the extension of the organised labour market is represented by employment that consciously avoids taxation, while in the background one can identify the, basically latent, dilemma of states and citizens as to what extent citizens should acknowledge the exclusive right of the organised

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<sup>7</sup> According to the original conceptions, the vouchers were to serve the employment of the unemployed under preferential terms, and it was considered possible to extend the system to the five Belgian neighbour EU countries as well (*Service Voucher -- A Way of Developing Local Services* -- Fondation Roi Baudonin, 1994.)

economy to employment, and the fact that everyone must pay tax on every income to promote that.

## II. HUNGARY: INTENTIONS, OPTIONS AND CONSTRAINTS

The shift in emphasis reflected by the endeavours of the European Union (namely the priority to increase the rate of employment, including that of the "latent" unemployed not registered as such and inactives willing to work, over the reduction of unemployment) has been mirrored by the programme of the Young Democrats' Association/Hungarian Middle-Class Party (FIDESZ-MPP) as well which selected, whether consciously or instinctively, that element of the twin problem that is more important for the economy and more encouraging from a social point of view.

The programme of FIDESZ-MPP promises the creation of 200 thousand new jobs.<sup>8</sup> Beside the highly promising content of the term 'job' as understood here, this is a more ambitious programme than the corresponding EU plan numerically as well: in the EU, 2 million more employed mean an increase by 1.3%, whereas the Hungarian plan would raise the employment ratio within the age-group of the 15 to 64 year-old by 5%. Unfortunately, even if this were achieved, we would still have a serious backlog as compared to the level of employment in the Union. The most recent datum available to us indicates that, as opposed to a EU average of 60.3% in 1996, in 1997, the Hungarian employment ratio was 52.8% only.

True, the steep drop in the number of registered earners in the early nineties came to a halt in 1995 at 3.67 million, and although it has declined slightly in the meantime as well (1997: 3.64 million), statistical data already indicate the stagnation of employment. True, moreover, that this figure now includes, in addition to those employed at "regular" jobs, those having found work at subsidised jobs created and supported by social solidarity (e.g. public benefit work, jobs maintained through wage subsidy, job creation and job preservation assistance schemes), and also those having

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<sup>8</sup> According to the election programme of FIDESZ-MPP: "Unemployment is not just an economic problem, but also a serious psychological burden on families. We cannot resign to the fact that hundreds of thousands must live without any perspectives whatsoever. The programme of Fidesz-Hungarian Middle-Class Party is the programme of economic growth and job creation. Through this policy we shall establish the conditions of creating two hundred thousand new jobs within five years."

reported at least one hour's earning activity in the week preceding the survey.<sup>9</sup>

Despite the steady decline in unemployment, (registered) employment is stagnating and the group of those who are neither in employment, nor unemployed (viz. the economically inactive, to use the statistical terminology) keeps increasing.

According to the relevant data, the so-called employment promotion subsidies covered by solidarity and other communal funds have not proved really efficient – neither did they, typically, in Europe. Hungary has adopted practically every one of the promising methods designed in Europe (11 types of specific and half a dozen more general programmes have been implemented), but billions allocated as subsidy could only counter-balance the further deterioration of the situation at best. Of course, that is not to be belittled, but the expected increase in employment (and especially job creation) has not occurred so far.

The economy is expected to create a very modest amount of "jobs" based on the traditional employment relation in the future as well, but registered employment could, nevertheless, be extended, provided that certain specific conditions were met.

We shall survey the conditions in question in the order followed in our description of the European situation: opportunities in the organised economy by employment sector and company size; opportunities to increase employment outside the mainstream economy; and ascent of the household to the status of (registered) employer.

Let us remark in advance (although we shall make explicit reference to this from time to time) that the characteristic features determining the economic activity of the Hungarian population are radically different from the corresponding ones in Europe. Similarities on the surface (such as the order of magnitude of the rate on unemployment, or apparently identical circumstances in respect of the traditional employment relations or general similarities in the structure of the employment sectors etc.) and not in the least our efforts aimed

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<sup>9</sup> Data on employment, unemployment and economic inactivity originating from CSO's Labour Force Survey. In 1992, CSO adopted the international practice of carrying out quarterly surveys of the economic activity of the population, according to the system recommended by the ILO and adopted by every country taking part in the European statistical system. The survey covers the 15 to 74 year-old; international comparisons specify data for the 15-64 year-old on that basis.

at accession to the European Union often relegate the perception and consideration of decisive differences into the background.

Apart from historical differences, i.e. phase shifts in development (indicated by the noteworthy difference in per capita GNP, the most comprehensive indicator), from our point of view the most important difference is that, in the most developed countries, the transformation in demand (and consequently of employment sectors, company size, employment demand etc.) had been triggered by prosperity.

As for Hungary, on the other hand, the process was essentially due to relative backwardness, poverty, integration into and subsequently break with the socialist economic system, the subsequent market losses, economic collapse and the fall in demand.

Therefore, although we shall do our best to adhere to the guidelines of the European Union, we can only do so in function of our endowments.

## **Trends in the Organised Economy**

### ***a.1. Employment sectors***

It is frequently quoted as a sign of economic modernisation that the structure of employment today already corresponds to the trend of the well-developing European countries.

Although specific data on long-term developments cannot be compared owing to differences in accounting methodology, the tendency is obvious: Hungarian agriculture today employs less than 8% of all active earners, industry 33% and the services 59%<sup>10</sup>.

The labour demand of agriculture that used to employ more than 60% of earners in the beginning of the century has shown a steady decline: by the eighties, its ratio among earners fell to less than 20%. The crisis of the early nineties, loss of the external markets, the accumulated debts of state and co-operative farms and their massive bankruptcy etc. further contracted the share of those employed in agriculture.

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<sup>10</sup> Data referring to 1997 based on CSO's labour force survey monitoring the distribution of employment among the 15 to 74 year-old. Within that circle, 3,643.3 thousand qualified as employed, i.e. 19 thousand more than among the 15 to 64 year-old.

However, "the number of those performing agrarian work as secondary activity beside their non-agrarian main job" and "that of economically inactive persons performing at least 90 days of work in agriculture exceeds several times that of main job holders having an agrarian occupation" (Fóti J. – Lakatos M.: *Employment capacity of agriculture*; in: *Main trends in labour market demand and supply*, Yearly Labour Market Report, 1998, Labour Research Institute).

Calculations are based on CSO's micro-census carried out in 1996. Although agrarian activity not exceeding the 90-day limit was performed in lots of households, the survey took into account agrarian work exceeding three months. The figures are noteworthy: 188 thousand persons in (non-agrarian) employment and 355 thousand inactives, i.e. a total of 543 thousand, performed agrarian work of a substantial duration as second job (and some 200 thousand among them for more than 180 days, i.e. nearly half a year). That is to say that agriculture provides job (and earning) opportunities for around twice as many as the number registered by official statistics. No doubt agrarian work, however permanent, means self-subsistence only for many, and the demarcation line between the income-saving and employment roles of self-subsistence is highly uncertain.<sup>11</sup>

The phenomenon itself nevertheless allows us to draw two important conclusions. Firstly, that agriculture requires a steadily decreasing amount of labour in main job holder status; the more-than-a-century long trend cannot be reversed. Secondly, that agriculture in Hungary today is still an important job provider. Now disregarding those employed officially elsewhere for the moment, persons qualifying as economically inactive (pensioners in the first place, but non-earner household members, persons on child-care leave and also a large number of the village unemployed) would actually qualify as persons in employment according to the ILO accounting system (one hour's earning activity...) should they sell produce resulting from one hour's work at least.

According to the relevant Hungarian regulations, however, it is not mandatory to register household agricultural activity. The so-called "original producer's certificate" certifying to entitlement to sell on the market was required only to make relations with the taxation authorities smooth; its employment

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<sup>11</sup> CSO data suggest that 20.2% of the food consumption of households originates from own produce. Concurrent, but more detailed data were released by FM-AMC Kht's survey. Accordingly, almost half of the households (47.1%) purchase their total pork supply and 33% approximately half of it. The corresponding ratios for poultry are almost the same at 48.7 and 36%, respectively. As for potato, 46% of households purchase exclusively, but 28% are self-sufficient. 23.7% of households purchase all the vegetable/fruit they consume and the rest produce a smaller or bigger segment of it, etc. (Gaál Béla: "Food consumption habits of Hungarian households", *Marketing and Management*, 1998/3, pp.73-75.)

implications have not been taken into account anywhere. (Those concerned most probably did not consider this an "earning activity" at the time of the CSO labour force survey either.)

That is to say that, among the economically inactive performing agrarian activities, it would be possible to assign tens of thousands to the category of those in employment at once.

And, to remain with agriculture for the moment, owing to its specific features, this branch (with a few others) is also a seasonal employer, i.e. it regularly hires persons to assist with work lasting for a few days from among inactive members of other households, apart from registered or non-registered foreign workers.

No data are available on the extent of this type of employment, but we must obviously take it into account when surveying the employment opportunities of inactive household members.

In industry, after hard years marked by bankruptcies and liquidations following market losses decimating employment, the situation has stabilised, mainly under the impact of foreign capital investments.

New jobs could be created in industry if foreign capital investment, greenfield investments and relocation of production activities from the more developed countries continued. Labour increase, however, will, of necessity, be moderate at best, for modern technology is typically sparing of live labour and, moreover, staff expansion is conditional on domestic and international demand, and also human resources management adjusted to demand is still conducive to staff reduction today.

In 1997, the number of those employed in industry increased by less than 20 thousand, as development and rationalisation were by and large of identical weight. However, for the first time since 1990, industrial employment already increased. In the years to come, industrial employment, exposed to international demand, can only be expected to increase, even things turned out favourably, at the same pace as in 1997. Although this is not little, no ambitious employment plans can be erected on that alone.

Services are the prospective labour claimants of the future. However, services demand essentially depends on welfare growth, and although the consumer stratum exhibiting solvent demand for services of different kinds has been expanding in Hungary as well, a significant segment of the population mostly spends on basic needs such as energy, water, electricity, heating etc. in addition to daily food supply and clothing, or not even that, as witnessed by the multitude of unpaid consumer bills for different kinds of energy.

It is a special problem that the jobs of one third approximately of those employed in the service branches are maintained by the central budget: public administration, education, health care. In the branches in question, one possibility for employment growth is offered by the expansion of market-based and non-profit services adjusted to demand. As witnessed by numerous examples in education and health care, these may emerge, although not in large numbers, without subsidy as well.

However, one cannot expect spectacular employment growth for the time being in the framework of the present structure of services either.

### ***a.2. Job creating capacity of small and medium-size enterprises***

The size classification of Hungarian enterprises differs from that used in the European Union, due to differences in absolute size above all.

At the end of 1997, 96.8% of the approximately 720 thousand business organisations were micro-enterprises employing less than 10 staff, two-third of them sole proprietorships with an average staff size of 1.3.

The "small enterprise" category included 17,600 enterprises only (10,300 with a staff of 11-20, and 7,300 with a staff of 21-50).

Medium-size enterprises (staff 51-300) numbered 4,700 only and those in excess of 300 staff 904 in all.

No data are available on employment by size category. Different sources (reports of APEH, the National Tax Office, social insurance registration) allow us to draw the conclusion that, in the decisive micro-enterprise segment, the number of sole proprietors, and not only that, but also the number of those operating in partnership and company form, is very small. Average staff size data seem to corroborate this assumption: unincorporated companies (partnerships) have average staffs of 1.4, limited liability companies of 7.4, co-operatives of 36.6 and agrarian co-operatives of 49.3. Only joint-stock companies have a higher average staff size than that at 219.7. (Unfortunately, no data are available on the number of persons employed by business size).

Plans to increase employment make it likely that big companies subject to keen (international) competition will not hire staff in the near future, but small and medium-size ones may increase their staffs under the impact of the expected favourable economic trends.

This, of course, is quite conceivable – but in Hungary only with serious limits. If we do not consider the two extreme categories, i.e. the micro-sector consisting mainly of individual/family enterprises and unincorporated partnerships that also qualify as self-employment on the one hand, and big (300+) enterprises on the other, as serious potential employers of extra staff,

there remains some 21 thousand small and medium-size companies only where employment may, in principle, be increased.

The semi-annual short-term labour market surveys of the National Centre for Labour so far promise modest changes only. In the short run, as shown by the short-term prognosis for the second half of 1998, the majority of companies having less than 300 staff intends to operate with unchanged staff size (although the number of persons to be hired increased a little). The proportion of those planning to reduce staff has also decreased, but average prospective lay-off numbers increased at exactly the smaller organisations. The authors of the forecast stated already in 1997 that "It is a fact ... that the relative advantage of companies with a staff of under 50 over bigger companies has disappeared in terms of the extent of their labour demand". (*Short-term labour market forecast, 199, II. half, NLC, 1997, p.45.*)

Although almost 40% of the companies figuring in the survey employed less than 51 staff, no information was provided as to the presence of micro-enterprises in the sample. Ágnes Vajda's study<sup>12</sup> indicates some labour claimants among small enterprises, especially partnerships, but the typical European tendency that self-employed micro-entrepreneurs are reluctant to hire employees nevertheless seems to hold in this case as well. According to the latest tax-report-based data, processed from this point of view as well, in 1994, three-quarter of the sole proprietors (74.4%) worked alone, without employees, and in 1995 the corresponding ratio was 73.2%. 13.8% in 1994 and 14.5% in 1995 had one employee, 5.4 and 5.5% two, 2.5 and 2.6 three and 3.9 and 4.2% among them more than three employees. Average employee number at the most popular unincorporated form, i.e. among limited partnerships having filed a tax report, was 2.4.

Moreover, 60 per cent only of the active individual entrepreneurs are main job holders; 28% are second job holders and 12 % working pensioners. No doubt, the last two can also employ others, as it happens from time to time. (For instance, a dentist legalising the reception of private patients by an entrepreneur's permit may hire an assistant for the time of the consulting hours. But a second job holder refrigerator mechanic will definitely not be accompanied by an assistant.)

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<sup>12</sup> On small-enterprise growth, 1993-1996; Budapest University of Economics, Department of Sociology; survey commissioned by the Hungarian Foundation for Enterprise Development, MS, 1997.

Masses of limited partnerships have been established by second job holders, but the same are not rare among the owners of small limited liability companies and even joint stock companies (not to mention pseudo-companies).

The strongest (but certainly not the only) barrier to employment expansion is, in all probability, the burden implied by tax and contribution payment obligations.<sup>13</sup>

The search for the most economical forms is motivated exactly by rational human resources management. A halo of casual helpers emerges around the workshop of the artisan, the shop of the retail trader and even the office of the tax consultant, accountant, technical auditor etc, consisting of those performing partial tasks, of hauliers, transporters, cleaners, persons on telephone duty etc. Temporary assistants, unless recruited from members of the household, may be former colleagues (maybe still employed elsewhere) or neighbours, for example. The system organised along the lines of social contacts surrounding an enterprise functions perfectly well – the same as in the case of the household.

Although, as we have seen already, in the statistical sense, a person performing one hour's earning activity already qualifies as "employed", in reality, there exists no employment relation in the traditional sense, i.e. implying registration and tax-payment obligations etc., in this case. (More precisely: it is only the person in question who should, in principle, report income generated so as part of his/her personal income tax base.)

The crucial issue, however, is whether it is worth/reasonable to include work of this kind into organised labour and hence subject it to registration (administration) and tax (contribution) payment obligations – although, their registration in itself would raise the number of those qualifying as "employed" in the statistical sense radically at once.

### ***b./ Jobs outside the mainstream economy***

In addition to the 816 thousand persons employed by central and local administrative organisations and institutions, the National Health Insurance Fund recorded in 1997 more than 65 thousand other employed in the non-profit sector (*NHIF, Preliminary Data on the Year 1997*).

The 65 thousand in question were employed by churches, church institutions, political parties, interest representation organisations, sports clubs, commercial

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<sup>13</sup> For a detailed analysis of counter-interest on the part of the strata concerned, see my article "Barriers to the growth of small enterprises", *Szociológiai Szemle*, 1998/1., pp.23-40.

chambers, the pension and health insurance self-governments, foundations and public benefit organisations.

Within that circle, however, the share of non-profit organisations specialised on employment promotion is relatively small. (One organisation that rises to view is the National Employment Public Foundation (OFA) created in 1992, funded by the Solidarity Fund and by state contribution, with the specific objective of providing assistance to employment promotion/expansion initiatives of local non-profit organisations among the socially disadvantaged strata, and to serve as a test ground for programmes to be recommended at the national level as well. In 1997, OFA provided assistance to programmes to improve the placement chances of some two thousand unemployed organised by 166 non-profit organisations and enterprises.)

Apart from OFA, the Welfare Service Foundation, the Foundation for Non-Profit Enterprises in the Social Welfare Sector and the Autonomy Foundation play a decisive role in offering stable earning opportunities to those in the most disadvantageous social positions.

One prospective placement area is the social sector, but the relevant initiatives have so far been very modest, understandably.<sup>14</sup>

The foundations in question try to place unemployed persons at jobs that can be created anywhere, mostly on the basis of locally available opportunities. Vacancies sometimes occur in the mainstream economy, sometimes elsewhere (in social employment, for example).

The social sector itself has hardly created new jobs so far. The only typical example of the extension of social provision accompanied by an increase of the number of service staff was provided by the Welfare Service Foundation (having a network consisting of forty local foundations) launched on support provided by the Phare programme and specialised on family support, care for the old, the homeless, refugees, on the nursing of persons with changed working ability and of the handicapped etc. The 40 local organisations of the Foundation created 329 new jobs from 1991 to 1994.

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<sup>14</sup> Mária Frey's book surveying the Hungarian situation presents, in addition to the four national foundations mentioned in the text, the activity of 11 local foundations, stating that the absence of organisations of this type is felt hardest at those areas where they would be most needed, i.e. at the small settlements.

Since end-1994, the termination of the Phare support scheme, the central organisation of the Foundation has received support from the central budget and different programmes of the Ministry of Social Welfare, while local organisations have been supported by the municipalities, OFA, the Soros Foundations and many other organisations. From 1994 to 1996, 128 more new jobs were created within the network.

Although the job creating results of the Foundation deserve credit, Hungary is clearly a long way from surplus employment opportunities in the social sector. The state of the central budget imposes considerable limits on the scope for action, even in case of more generous expenditures than to date.

### *c./ Households as employers*

A significant proportion of the approximately 3.8 million Hungarian households have recourse to external, paid, help, in the most economical way possible, to have work lasting for a few hours a day, a week or a month performed.

The assistance network emerging around the household, based on mutual trust, may include the pensioner next door the same as the acquaintances' big son or daughter, no longer at school, but not working yet, the mother of a kindergarten mate at home on child-care leave or the unemployed undertaking day-labour in the kitchen garden, the vineyard or the orchard.

In Hungary, members of practically every social stratum are willing to undertake income supplementing activities (cf. the boom of company work partnerships, or the approximately 150 thousand strong group of registered second job holders possessing a permit for individual entrepreneurship today – to mention only forms that can be quantified according to our present knowledge). It is to be presumed that those having been forced out of the labour market take part in activities of this kind today on a larger scale. The number of the economically inactive keeps rising year on year, and in 1997 calculations based on the relevant Hungarian regulations indicated 2.2 million working-age persons among them (according to computations used for international comparisons taking into account the of the 15 to 64 year-old, the corresponding number is 2.9 million, according to the classification of the ILO, ages 15 to 74, it is 3.8 million).

The absence from the labour market of those remaining in education (631 thousand) within the above group is obviously advantageous to the individual and to society as well. Inactivity due to various forms of child-care leave (247 thousand, mostly women) could also be considered a positive phenomenon, although in a decisive number of the cases, the years spent raising children also signify an escape route from unemployment.

Retirement with age exemption, i.e. preliminary pension, granted to 274 thousand from 1990 to 1997 obviously was an escape route chosen for lack of a better alternative. (Since a certain segment of those concerned enter retirement age and hence acquire pensioner status every year, at the end of 1997, the stock of those in retirement for employment policy reasons totalled a hundred thousand.) Disability pension also provided an escape route for masses of men and women. (In 1997, there were 400 thousand of working age, i.e. women younger than 55 and men younger than 60, among the inactive.)

Voluntary or forced absentees from the labour market include some 2 million preliminary or regular pensioners in terms of the relevant Hungarian age limits.

In the case of approximately 875 thousand men and women, however, absence from the labour market cannot be accounted for in such simple terms as the above.

Smaller or larger groups of people who are unwilling or unable to take up work are a natural phenomenon in every economy. In the years of virtually full employment, Hungary had approximately 250 to 300 thousand working-age persons who were unwilling or unable to take up paid work. It seems likely that there are at least that many today: wife living on husband's high income, young persons awaiting entry to the university or conscription, persons having no hope for placement either because of the obligation to take care of sick relative or for lack of local vacancies etc.

However, the bulk of those returning to the household are probably forced inactives, having given up job search on the ground that it is a hopeless exercise.

The majority are happy to find work of some sort on a temporary basis.

The bulk of the economically inactive, some 2.3 million according to our calculations, receive what is mostly a modest, but regular income (child-care fee/aid/assistance, old-age/disability pension, pension with age exemption or pre-pension). However, although the disbursements in question impose a heavy burden on social insurance, on the pension fund and the central budget, they usually mean but a modest income for the individual. (The monthly average of most forms of assistance, such as child-care fee, pre-pension, general disability pension, is typically less than HUF15 thousand.) Nevertheless, for hundreds of thousands of families, the allowances in question probably represent the only regular monthly income they receive.

Some 866 thousand men and women (students not included), on the other hand, stay away from the labour market without any visible source of income whatsoever, and hence depend on their family.

It is quite understandable that the majority of those benefiting from modest allowances or dependent on their families try to undertake work if and wherever an opportunity presents itself: in the unorganised economy, e.g. on a seasonal basis, in agriculture, or at other households etc.<sup>15</sup>

It is mostly thanks to work opportunities of this type that a large proportion of the officially unemployed, the most disadvantaged members of society among them, can earn a living of some sort, and that poverty and misery have not become massive and unbearable.

Temporary assistance-type work performance at households (remember: one hour's earning activity ...) would qualify as employment, should those concerned report it, in which case the stock of the "employed", in the statistical sense, would increase by hundreds of thousands at once.

However, the intention to make such work performance open can only bear success if the goal is not to tax the casual, occasional earnings of those having left the organised labour market under some constraint for the most, but the acknowledgement of the fact that "employments" created by the self-protection mechanisms of society are new forms of the division of labour, giving indispensable help the multitude of those who would drop behind inevitably otherwise.

### **III. THE DILEMMAS OF THE STATES**

Why is the increase of organised, registered, controllable employment such a cumbersome process everywhere? And, anyway, why should all types of work be subjected to control?

The answer to these questions lies in the system of conditions underlying the functioning mechanism of the modern state.

Two historically mutually reinforcing processes are at play: the endeavour of European states to have jurisdiction over, and cover from the central budget, as many areas of common social consumption (from the police through public

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<sup>15</sup> Reports on the employment situation of individual European countries suggest that such employment is rather widespread, especially in the less developed EU Member States. Against the backdrop of high rates of unemployment in Spain, South Italy, Greece, and forced inactivity regarded as latent unemployment, work opportunities provided by the unorganised market are a foothold to prevent dropping back, especially for the young. In the already quoted EU study entitled *Undeclared work*, beside other, typical groups, the Greek indicated pensioners and women as persons doing undeclared work, while Italians mentioned the young as well in addition to women and pensioners, and the Spanish women under the age of 25.

education to environmental protection today), and, parallel with that, the tendency to introduce more and more specific and detailed regulations concerning the circle of tax-payers and the extent of taxation in order to generate resources deemed necessary for that purpose. Today, practically every one of the European states is a "caring" state, and the more spheres they have included into common social consumption and operate from the tax-payer's money, the less they can make do without taxes raising the costs of employment and imposed on labour wages as well, and from taxes imposed on individual earnings (personal income). Moreover, citizens expect and political parties promise the quality operation of education, health care, environmental protection and the rest.

One of the essential methods of attaining the tax revenue target deemed necessary is to ensure that everyone should pay tax on every form of income subject to taxation.

In the recurrent annual battles waged by tax payers and tax collectors with highly sophisticated methods on both sides, so far the draconian, stringent American-type tax control has proved more effective than the taxation morale of the self-conscious citizen.

Recently, especially parallel with the programme of tax reductions planned to enhance employment, the issue of extending the circle of tax payers has come into the foreground. For states cannot and will not renounce tax revenues they deem necessary: this would clearly clash with their budgetary interests.

It is in this context that the integration of earnings generated by work performance regulated loosely, uncertainly only so far within the circle of the organised, registered and controllable – and hence taxable – activities comes into the foreground.

Practical solutions, however, are not easy to find, first and foremost owing to the steady erosion and transformation of the traditional relations of employment: a large proportion of registered earners are also self-employed, temporary or seasonal workers, and employment relations in the (as yet) unorganised economy are very difficult to identify and survey.

Moreover, part – often a considerable part – of workers are active in both the organised and the unorganised economy. Consequently, the classification of earnings generated by legal (registered) and illegal (non-registered, consequently tax avoiding) work in the formal (organised) and informal (non-organised) economy has become blurred in

practically every country.<sup>16</sup>

*Undeclared Work* quoted several times the above, although still relying on regulated work as a reference base, already uses more lenient categories, stating that "certain economic activities may qualify as illegal in certain countries, but are legal in others".

As an example of work not subject to mandatory registration, as quoted already, it mentions work performed in the household economy which, again, gives ample ground for an extensive interpretation of the word.

The crucial issue of progress will, therefore, be regulation, or more precisely, what types of work performance it should cover and how. In other words, who should be obliged to pay tax on labour income and to what extent?

If conclusions based on the long-term trends of the employment sectors are correct, and the production sector cannot be expected to create a substantial amount of jobs, especially not traditional ones, then it is possible that new-type employment and work performance – namely work becoming typical in many countries and affecting masses of the economically inactive and the unemployed – will have to be regulated.<sup>17</sup>

One essential question therefore is what labour exactly could (should) be subjected to regulation. Despite numerous attempts at many places, as a result of the diversity of the activities in question and the difficulties of assigning them to definite categories, results so far have been rather modest. No good

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<sup>16</sup> A study prepared in 1994 for the EU on the informal economy assigns to the category of "informal" activities non-registered employment typical in every EU country, especially in the services sector; guest workers employed without authorisation, persons employed temporarily or seasonally, home-working and the employee of small and family enterprises (Mingione, E, Magatti, M.: *The Informal Sector -- Follow-up to the White Paper, Social Europe, European Commission, Supplement 3., 1995*).

<sup>17</sup> The population of those concerned is enormous, and not only in Hungary. According to the assessment published on the EU countries in summer 1998, the share of the hidden unemployed, unemployed in the "broad sense", i.e. those abstracted from among the unemployed temporarily through active employment policies or employed under similar schemes, is two to three times higher than the rate of unemployment. In Belgium, for example, in 1996, the rate of unemployment was 9.8% and the computed ratio 21.4%, in Denmark and Greece the corresponding ratios were 6.9 and 20.5 and 9.6 and 20.9%, respectively. (*Employment Observatory, System Trends, No.30, p.7.*)

definition exists as yet for seasonal work and temporary employment, what are probably the most frequent forms, etc.<sup>18</sup>

The other fundamental question is how to make these part of the organised economy.

The most promising form to date seems the already mentioned French initiative to make households employers with the help of local non-profit employment organisations. Although the form itself had been designed with a view to promote the re-employment of the unemployed, such organisations may also employ the "hidden unemployed" or assist their placement to households as well.<sup>19</sup> Non-profit organisations would also act as a link to the organised economy by making masses of those driven out of the labour market registered employed.

States, potential employers and employees, however, have so far adopted an ambivalent attitude to these apparently reasonable forms. States are afraid of the budgetary impacts of the inevitable tax and contribution payment reductions associated with the establishment of non-profit organisations. They try to limit reliefs, as indicated by examples in Part I, to certain well-defined groups (i.e. the long-term unemployed, or the young).

They are afraid of the possibility that mushrooming local non-profit organisations become impossible to control, and see no guarantee preventing that persons placed to diverse employers should conclude illegal private bargains, in spite of the preferences, with their employers, etc.

It is quite logical to presume the occurrence on undesirable side effects. Therefore, they prefer to remain in the area of cautious experiments, loudly proclaiming the importance of increasing "employability" and promising to seek out possibilities to reduce taxes hindering employment.

Neither are employers and employees staunch adherents of the regulated relationship alternative implying registration and therefore visible to the taxation authorities. If the taxation authority must have a share of the profit,

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<sup>18</sup> Cf. Ágnes Simonyi: "Seasonal employment", in: *Atypical forms of employment*, STF Work Group 10, *Európai Tükör*, No.25., pp.121-138.)

<sup>19</sup> In the meantime, an association employing seasonal and temporary workers to be created by local farmers has also been discussed. Farmers would rent labour they require from the association and pay the latter for their services.

that will only make work more expensive for both parties. This may act as a brake on demand, part of which will only manifest itself so long as/because it can be performed cheaply. As for those undertaking work of this type, even reduced tax and contribution payment on preferential terms takes away part of the earnings sufficient quite often to supplement social allowance only. The current state of affairs is obviously more advantageous to them than that.

Counter-interest to registration on the part of those concerned, whether employers in the unorganised economy or employees stuck outside the labour market, would only disappear if it did not imply tax payment obligation, i.e. the goal would not be to increase the circle of tax payers. This possibility probably seems absurd and contrary to the logic of the state budget only so long only as one pays no attention to the social characteristics of the forced inactives and the fact that the majority live on very modest social allowances received under different titles. The state should not penalise those who can earn a little on their own on the side by taxing an income that is very modest indeed anyway. One possible solution could be for programmes devoted to employment promotion and the improvement of placement chances to assume and pay instead of those in need and living on social allowances tax revenues and social insurance contribution expected of the latter.

Finally: even if the number of the registered employed can be increased, the increase would be limited to statistics and not affect employment as such.

More realistic statistics, however, would only shed light on one aspect of fundamental changes in the world of labour.