

**LABOUR MARKET IN HUNGARY
2001-2002**

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1. INTRODUCTION

Despite all the achievements in economic transformation and growth, the Hungarian labour market has been stagnant in recent years: annual changes in the labour force and in the number of inactive persons are exclusively due to demographic trends.

Employment declined substantially in the early 1990s, then decreased at a modest rate until 1997. One could observe significant growth in 1998, but that growth later slowed down. Since 2000, average annual Labour Force Survey (LFS) data has shown only a modest, statistically insignificant growth (employment increased by 37,600, 10,400 and 11,100 persons in 2000, 2001 and 2002, respectively). This “hesitant growth” increased by no more than one-tenth of a per cent the employment rate within the 15–64-year-old population. This leaves Hungary with the lowest employment rate among all OECD and EU countries, and even among countries joining the EU. According to available data, the average employment rate in 2001 in the OECD countries was 65.3 per cent, and the similar figure for the EU was 64.1 per cent, while in Hungary it was only 56.6 per cent (*Employment Outlook*, 2002, Statistical Annex). *Unemployment* has been steadily declining since 1994 (from 519,000 in 1993 to 238,800 in 2002), despite the fact that employment has not been increasing. However, this more than 50 per cent decline – which includes a permanently lower proportion of female job seekers than males – is only partly the result of economic consolidation. A major reason is that many people have simply given up job seeking and have left the labour market, which relies increasingly on more skilled labour and those in the best working-age groups. *Labour force participation* has been persistently low because of the unchanged employment level and the decline in the number of active job seekers. As a result,

the *proportion of those out of the labour force* has been permanently high. Most of these people have good reasons for staying off the labour market. Young people attend schools, parents of small children – predominantly mothers – take advantage of social benefits for childcare and stay at home; and older people retire earlier than it is typical in Europe. However, there is also a permanently high proportion of the population staying off the labour force for other reasons, and we can assume that some of them are working in the informal economy, taking unregistered jobs.

At the same time, as we will demonstrate later, there is an important transformation process behind the practically unchanged labour force participation and inactivity rates. These trends, observed in the data until 2001, and continuing also in 2002, have different effects on the various sectors of the economy and various social groups. But the main trends have remained constant. One important reason for this, other than the unfavourable global economic situation, is that successive governments, despite having welcomed and promoted economic modernisation, have consistently postponed those decisions that could have improved employment conditions (and also could have reduced employment costs). In some cases, as demonstrated,¹ government policies made job creation even more expensive. Trade unions do not support those steps that try to relax strict rules on employment either. Nevertheless, the only way to improve the labour market conditions – besides improving the overall economic climate – is continuous adjustment to the changes.

In what follows, we will try to highlight the economic and non-economic factors shaping the recent tendencies in the Hungarian labour market. We will look at labour force participation rates, and we will also investigate their trends in the long run. European Union data, together with some data on the Central and East European countries will help us to better understand the Hungarian peculiarities.

1 Fazekas, K. – Koltay, J. (eds) (2002) *The Hungarian Labour Market. Review and Analysis, 2002*. Institute of Economics, Budapest.

2 Although only a fraction of foreign direct investment (barely more than 2 per cent according to data for 2000 from World Investment Report) went into the countries of Central and Eastern Europe, in 1999 Hungary was first among them in per capita FDI. (*Foreign Direct Investment in Hungary 1998–2000*. Central Statistical Office, 2001). FDI inflow progressively slowed down in 2001 and 2002.

2. ECONOMIC AND NON-ECONOMIC FACTORS SHAPING HUNGARIAN LABOUR MARKET TRENDS

Multinational companies, and firms from almost all developed countries² adjusted their Hungarian activities to the altered world market demand as quickly as they could. Responding to falling demand on the product markets, they postponed investments, made production more efficient, reduced output, or moved some of their production to countries offering better conditions. Despite maintaining their significant contribution to exports and production, these adjustments hit the labour market as well. In several cases hundreds of workers were dismissed from Hungarian plants.

Adjustments were not limited to the foreign-owned segment of the economy. Following the now century-long trend, labour demand continued to

decline in agriculture, and also in coal mining. In the service sector, employment declined mainly in the public sector (education, health care), and especially in the armed forces that were also affected by deep reform. However, a significant proportion of dismissed labour found a new job quite quickly, mainly at new plants financed by foreign capital, or in construction and services.

Besides the changing supply and demand conditions on the product markets, another important factor was the government initiated minimum wage explosion. (The monthly amount of the mandatory minimum wage was raised from HUF 25,500/month to HUF 40,000 in 2001, and then to HUF 50,000 in 2002.)

That decision affected about 480,000 employees, 17 per cent of the total labour force in the business sector, and hurt employers by increasing the wage costs. Multinational companies were not affected heavily by the minimum wage increase, as their lowest wages were typically above the new minimum wage, but the situation of numerous small and micro-businesses worsened significantly. One could observe dismissals in low wage sectors/industries (textile and garment industries, working mainly for foreign companies, were heavily affected, especially after their export revenues declined as a consequence of the appreciation of the Hungarian currency). But, the factor that influenced employment even more significantly was that as a result of the minimum wage increase, many firms postponed their planned job creation.

To offset the side-effects of the minimum wage increase, the government initiated a 2 billion HUF compensation program, but this was inappropriate to trigger job creation. Short-term forecasts in the first half of 2001 indicated that firms planned to increase employment by 32,000 employees, while in the second half of the same year they were already planning a reduction of 26,000. Job creation in foreign-owned businesses offset the effect of lay-offs by the end of the year.

In 2000, the government decreased the duration of unemployment (insurance) benefits from 300 days to 270, and from May it terminated the provision of wage subsidies to the unemployed in order to give an “incentive” for job seeking. As a result of this, unemployment did continue to decline in 2001, just as it had in previous years, but there was no substantial change in the employment level. (The number of registered unemployed dropped by 30,000, but the employment level increased by only 10,000.) Meanwhile, less unemployed persons received financial support while seeking employment, and also for a shorter time period. In 2000, about 144,000 unemployed persons received monthly wage subsidies, while by the end of 2001, only 86,000 were receiving a lower amount of regular social assistance, those who were still registered as unemployed.

The cut-backs in assistance were not followed by a decrease in the contributions employer and employee paid to solidarity funds. In 2001, the total payments for the Labour Market Fund increased by 24 billion HUF relative to 2000, though less was offered for the direct support of the unemployed (at the same time, more money was spent on active labour market policy programmes intended to improve the chances of job-finding).

In 2002 the number of registered unemployed declined by 20,000, while the number of employed persons increased by 10,000.

3 When making international comparisons, most countries follow ILO guidelines and treat 14–64 as the economically active age group irrespective of different retirement ages between the countries. We have, therefore, used the same figures in analysing the presence or absence of the Hungarians on the labour market, and these ages are the basis for our comparisons.

4 The census of January 1, 2001 found that the overall population was higher by 200,000 than other data had reported. There are many reasons for this difference, but perhaps the most important one is that following the 1990 census, figures were corrected only according to birth and mortality data, and they ignored a roughly 18,000 person/year immigration throughout the 1990s. By the end of the decade this process, which had been unknown earlier, had altered the population share of all age groups. The Central Statistical Office has already published corrected data which changed the numbers of persons in the various age groups that are considered to be economically active, but the correction of data on labour force participation is expected only in 2003. Although labour force participation rate data of the overall population continue to be valid, the most important relative figures for 2001 (population shares of certain age groups) continue to be based on the population figures used prior to the census. We have included the information needed to interpret them correctly.

3. LABOUR FORCE PARTICIPATION

In developed market economies – including Hungary – the highest possible proportion of the adult male and female population should have access to paid jobs in order to be able to earn a living and to contribute to their own welfare and that of the country. It is also a goal to find a job and work under transparent conditions and in compliance with contemporary legal frameworks and international standards.

By international comparison, the retirement age in Hungary is relatively low. According to the pension reform, the legal retirement age will reach 62 years (in 2001 it was 61 for males and 57 for females, and in 2002 it will reach 62 and 58, respectively).³

According to the Central Statistical Office (CSO) Labour Force Balance Sheets (LFBS), as of January 1, 2001, the population of an economically active age consisted of 6,285,400 males and females, while the similar figure for January 1, 2002 was 6,273,500. In addition, as of January 1, 2001, there were 80,700 males and females over the retirement age but still working, while the similar figure for January 1, 2002 was 63,000.⁴

In both of these years, the 3.95 million people who were employed and the 374,400 and 342,800 people who were registered as unemployed (the sum of the two is the labour force) amounted to about 68 per cent of the population of economically active age. About 73 per cent of males belonged to the labour force, while the female presence on the labour market is a much lower proportion, only 62 per cent.

To approach the figures from the other direction: 27 per cent of males of economically active ages, and 38 per cent of females were absent from the labour market on January 1, 2002. Whether this was voluntary or not, these individuals were out of the labour force because they had no work (or only in the informal economy) and were not registered (were not eligible to be registered) as unemployed.

Of course, these proportions become even higher if we expand the economically active age to the ages used in Western Europe. CSO Labour

Force Surveys (LFS) have measured the labour force participation rates of the population using the OECD standards since 1992.⁵

According to the LFS, in 2002 there were 6,860,000 males and females between the age of 15–64. Sixty per cent of them belonged to the labour force: 67 per cent of the males and 53 per cent of the females. Most of them were employed, since unemployment was relatively low (5.4 per cent).

Table 1: Labour force participation of the 15–64 old population, 2001, 2002

	Population	From this:		Part of the labour force	Out of the labour force	Participation rate	Employment rate	Unemployment rate
		employed	unemployed					
		in thousand			per cent			
<i>Total</i>								
2001	6,866.4	3,864.9	233.8	4,098.7	2,767.7	59.7	56.3	5.7
2002	6,862.7	3,863.3	238.4	4,101.7	2,761.0	59.8	56.3	5.8
<i>From this</i>								
<i>Male</i>								
2001	3,354.9	2,117.5	142.3	2,259.8	1,095.1	67.4	63.1	6.3
2002	3,350.7	2,113.3	137.9	2,251.2	1,099.5	67.2	63.1	6.1
<i>Female</i>								
2001	3,511.5	1,747.4	91.5	1,838.9	1,672.6	52.4	49.8	5.0
2002	3,512.0	1,750.0	100.5	1,850.5	1,661.5	52.7	49.8	5.4

Source: HCSO LFS.

The lower retirement age obviously decreases the labour force participation rate (males retire four, and females eight years earlier than similar age cohorts in most European countries), but that is only a partial explanation. (2001 data for the 15 EU countries and the 11 accession countries showed that a high proportion, over 70 per cent of the population belonged to the labour force [worked or actively looked for a job] in eight current and four future EU members; that the labour force participation rate was below 65 per cent in Belgium, Luxembourg, Spain, Greece, Italy, and Bulgaria; and that only Hungary had a rate below 60 per cent.) In most European countries there is a significantly lower proportion of females than males who work or who are actively seeking a job. Among the former socialist countries, this was true only for Hungary. Another typical phenomenon in Europe was that people above the age of 50 leave the labour market before retirement age. (This is why the EU wants to increase the labour force participation rate primarily among females and in the older age groups.)

According to the LFS, in 2001 only 63,000 Hungarian people over the retirement age were still working, and the LFS found only 18,000 people who were working even after the age of 64 (10,800 males and 7,200 females). Only 2 per cent of the 65–74-year-old population group belonged to the labour force.

⁵ A summary report issued by the EU, covering employment data for the past five years, calls the accession of new members in the near future a new challenge, since it will increase the EU's current population of an economically active age from 248 million by another 71 million, or by 30 per cent, while employment among the new members is only 58 per cent, relatively low if we compare it to the nearly 64 per cent within the EU in 2001. (Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions. Taking Stock of Five Years of the European Employment Strategy, Brussels 17/07/2002 COM [2002] 416 final.)

However, the huge labour market reserve really consists of the 40 per cent of the 15–64-year old population who are out of the labour force: more than 2.7 million people are absent from the labour market.

3.1 Main employment figures⁶

Employment by age cohort, 1992–2001

We have already seen that males tend to dominate Hungary's current labour force. Similar to the previous decades, there are more females than males in the current population (starting with the age cohort of 30–34). The 2001 census registered an overall population of 10.2 million, out of which 47.6 per cent were male and 52.4 per cent were female). Despite this, there were more males (55 per cent) among the employed 15–64 year olds than females. (Among domestic employees of an economically active age, the share of males is even higher, 56 per cent.) According to the age-cohort data of the LFS, the proportion of employed males exceeds that of females in every single age cohort.

Although there is a significantly higher proportion of males employed even in the 20–24 year old age cohort (57.7 per cent of males and 43.9 per cent of females are employed at this age), the differences increase for the older cohorts. (25–29: 83.3 per cent of males and 57 per cent of females; 30–39: 85 per cent of males and 66.4 per cent of females; 40–54: 74.5 per cent of males and 70.6 per cent of females). We note that in the European Union, 73 per cent of 15–64 year old males were working in 2001, but this proportion was only 63.5 per cent in Hungary. The female employment rate in the EU (54.9 per cent) was lower than the male one, but the Hungarian figure was even lower (49.8 per cent).

The general reasons for lower female participation rates are well known. The primary one is staying at home while having and raising children. But, it also is well known that the female employment rate declined most significantly in the 1990s, when women, along with hundreds of thousands of men, lost their jobs and had no place to return after taking care of their children. Conditions that would enable so many unskilled or low-skilled females to find jobs – including part-time work or some types of flexible working – still don't exist. Until now, hardly anything has been done to improve the employment condition of females, or of the young and older generations on the new labour market.

In the Hungarian labour force of 3.8 million people in 2001, 3.1 million, or 80 per cent were in the 25–54 age cohort (the best working age), while relatively few people of the other age cohorts appeared in the labour market.

⁶ In the following we use LFS data as a primary source in discussing employment trends.

(Fortunately, several hundreds of thousands of young and old people – generally qualified as inactive – can find irregularly or regularly paying jobs in the informal, unregistered economy. However, people of a “student” or “retired” status do not regard their work at school co-operatives or on small-scale farms as actual “employment”, and they tend to avoid reporting it at all because of tax considerations.)

Table 2: Level and share of employment by sector/industry

	2000		2001		2002	
	in thousand	per cent	in thousand	per cent	in thousand	per cent
Agriculture and forestry	251.7	6.5	239.4	6.2	240.9	6.2
Mining and quarrying	19.2	0.5	13.0	0.3	14.8	0.4
Manufacturing	931.3	24.2	955.8	24.8	959.9	24.8
Electricity, gas, steam and water supply	80.1	2.1	79.5	2.1	74.2	1.9
Building industry	267.8	7.0	272.7	7.1	271.0	7.0
Trade, repair and maintenance	540.9	14.1	548.4	14.2	552.1	14.3
Hotels, restaurants	133.3	3.5	143.0	3.7	137.3	3.6
Transport, storage, post and telecom	311.8	8.1	310.9	8.1	309.7	8.0
Financial intermediation	83.7	2.2	78.9	2.0	75.3	1.9
Real estate, renting, business services	204.6	5.3	219.6	5.7	232.8	6.0
Public administration, Defence	299.0	7.8	289.6	7.5	282.1	7.3
Education	317.8	9.3	309.8	8.0	318.0	8.2
Healthcare and social work	241.7	6.3	243.0	6.1	240.7	6.2
Other services	166.2	4.3	164.0	4.2	161.8	4.2
Total	3,849.1	100.0	3,859.5	100.0	3,870.6	100.0

Source: HCSO LFS.

In recent years, about 60 per cent of employees were working in the service sector. The increase of the employment share of services is slowing down. The 2002 employment share was essentially the same as a year before. (In developed economies, the employment share of the service sector exceeds 70 per cent.) In agriculture, employment continued to decline, similar to its trend throughout the 20th century. (In 1900, over 60 per cent of the labour force were employed in agriculture, while in 2002 this figure was 6.2 per cent, the same as it was a year before.) In industry and construction, employment in 2001 increased more rapidly (by 22,600 people) than agricultural employment decreased (by 12,300 people). There was no substantial change in the employment share of industry and construction in 2002. As already indicated, there was powerful inter and intra-sectoral mobility behind these changes in employment figures. While many businesses and organisations dismissed high number of employees, many others and additionally new ones created new jobs. (In manufacturing, for example, chemicals and textile, garments and leather goods lost 17,000 workers, while engineering expanded by 24,000 in 2001.) Employment increased in three parts of the service sector (commerce, hotel and real estate busi-

ness services) by 32,200 altogether, while another six service sectors – including public services – cut employment by roughly the same amount. The public sectors (public administration, education, healthcare) employ slightly more than 20 per cent of the labour force, and the overwhelming majority of employees work in the private sector.

The vast majority of persons employed in both public and private sectors – 86 per cent of the labour force – are employed by somebody else. The share of entrepreneurs (single-person businesses) has been at about 10 per cent in recent years. Figures increased gradually since the early 1990s, reaching a peak in 1999 (408,000 people or nearly 11 per cent of the labour force). Since 2000, this figure has been declining, and in 2001 it stood at 372,000. There has been a parallel decline in the number of people who belong to industrial and farming cooperatives, partly because cooperatives have become corporations, in which former members are now employees. (In 1992 there were 225,000 cooperative members, and in 2001 there were only 31,000.) There was a significant decline also in the number of business partnerships throughout the 1990s, a decline that continued in 2001. (In 1992 there were 258,000 people in such partnerships and in 2001 there were only 119,000.) The number of family members registered as assisting single-person and other partnership businesses has been negligible and has also dropped steadily over the years (26,000 in 2001).

In 2002, the employment spread over more than 900,000 economic units. This included 840,000 units in the private sector, 15,600 in the public and social security sector, and 67,000 in the non-profit sector. More than half (469,000) of the 840,000 private businesses are one-person firms (this number also includes one-person firms of those people who also have a full-time job). Only one-fifth of these firms have a separate legal entity, and the rest qualify as self-employed. In modern economies the organisational pyramid consists of a large number of small businesses and a few large corporations.

However from the mid-1980s, when the number of small businesses began to increase, small firms became progressively predominant, an unfavourable feature of the current size-distribution of the Hungarian economy. Only the smallest ones have increased their number. (More than 60 per cent of all firms, and more than 80 per cent of one-person firms involve the employment of a single person, and 96 per cent of all firms are micro-businesses with the number of employees being between 1–9.) The number of small (10–49 persons) and medium sized (50–259 persons) firms is relatively low.

This organisational structure does not serve as a good basis for increasing employment. According to the latest available data, which is from 1998, 31 per cent of the employed individuals worked in micro-businesses, 10 per

cent in small ones, 14 per cent in medium sized ones, and 45 per cent in large ones (employing more than 250 people). Employment has been increasing at newly established businesses but not at existing ones. In addition, the nearly 800,000 micro-businesses are only willing to increase employment when demand is high also over the long run, and at other times they use a variety of cost-reducing methods.

Some 60 per cent of the people working for the more than 900,000 employers did blue-collar work. The ratio of blue- to white-collar employment has been changing very slowly, mainly because the service sector jobs replacing the disappearing farming and industrial jobs are very similar to the ones disappearing. In 2001, blue-collar employment increased by about 20,000, though the numbers varied significantly between the sectors of employment. Employment in industry and construction declined somewhat, while the number of simple, unskilled jobs decreased by about 10,000. At the same time, there were increases in jobs for machine operators, fitters, and drivers, as well as in service occupations.

About one-third of the blue-collar workers are female. However, among the individuals employed by the service sector and in simple unskilled occupations, more than half of the employees were female.

Nearly 40 per cent of the employed persons (1,482,500) had white-collar jobs. Most of them (514,000) were in occupations requiring a secondary or higher education, and another 450,000 were in jobs requiring a creative application of higher education. In legislative, administrative, interest representation and management categories there has been a slow growth (there were 260,000 in 2001), while in 2000 there was a decline in the number of non-creative unskilled office and administrative jobs. However, females make up more than 90 per cent of employment in this latter type of jobs. The majority of the white-collar employees are females, except for the managers, where they account for only one-third.

Earnings of the persons employed rose significantly in 2002. Among activities surveyed by the Central Statistical Office,⁷ gross earnings increased by 18.3 per cent, and real earnings increased by 13.6 per cent. The average monthly gross earnings rose from HUF 103,600 in 2001 to HUF 122,454 in 2002. The average monthly gross earning of blue-collar workers was HUF 84,700, while for white-collar ones it increased to HUF 169,900.

One speciality of the earnings – which otherwise differ widely by sector/industry, and by company size, job, and many other factors – is that the gap between public and private sector earnings declined, partly triggered by the minimum wage increase. However, the differences between average monthly gross wages remained significant between the sectors. (The average monthly gross earnings in the financial sector was HUF 216,000, while for employees in the textile, garment, leather goods, and footwear industry

⁷ The Central Statistical Office surveys earning trends for companies in the private sector employing 5 or more people, and also for the entire public sector. This covers about two-thirds of the employed population, or in 2002, 2,559,000 people who had full-time employment.

it was slightly less than HUF 62,600.) In 2001, the gross earnings of the white-collar workers were nearly double that of the blue-collar workers.

Each year about 200,000–300,000 people find jobs because of social solidarity (and not business needs). Most of these temporary jobs are offered to people who are registered as unemployed (for instance, public employment organised by several ministries to plant forests or mitigate flood damage; municipal projects organised by local governments to meet communal tasks; public service jobs required as a condition to receive regular social assistance; support to assist first-job seekers in finding work, etc.). As far as these jobs are concerned, 180,000 people, or on an annual basis, more than 77,000 people found such type of jobs through the Labour Market Fund in 2001.

Employment schemes offering support for at least temporary employment are still necessary, particularly in the less developed regions of the country where the unemployment rate is high and where only solidarity can offer paid work to socially disadvantaged groups.

Despite the relatively low employment level, only some of the more than half a million potential job seekers are registered as unemployed. (For instance, the CSO LFS has in recent years reported more than 100,000 passive unemployed who want to work but are not actively looking for a job.) As a consequence, both employment surpluses and shortages appear.

In 2001, several major multinational companies complained about shortages in appropriately qualified labour (most of them required employees for mass production and assembly [line] operations that are easy to learn, and as we have seen, this was the area where employment increased to the greatest extent). However, there are many areas where we see temporary or permanent shortages. For instance, in recent years, nurses had to be recruited from neighbouring countries together with employees in the textile and garment industries, and seasonal work in agriculture. In recent years, Hungary has been issuing legal work permits to about 30,000–40,000 foreign workers, a number that has been slowly increasing. (It is assumed that at least the same number of people from neighbouring countries find jobs without permits.) In 2000, 40,200 work permits were issued to foreigners, and in 2001 this number was 47,300, while it was 42,700 in 2002. Some 57 per cent of the people with permits came from Romania and 16 per cent from Ukraine, predominantly from areas populated by ethnic Hungarians, while another 10 per cent came from the neighbouring regions of Slovakia and former Yugoslavia. Only 2,300 people from the EU member countries applied for work permits in 2002. About 32,000 Hungarians were granted permits to work in other countries. Most of them worked in Germany and Austria, using official permits given for foreign labour.

Employees from the new member countries of the EU will be required to wait seven years before they can freely take jobs in the EU. However, some EU members have made separate bilateral agreements and opened their labour markets. (Sweden, the Netherlands, Denmark, and Ireland announced the opening of their labour market, and Great Britain quickly followed them.)

Due to remaining restrictions after the EU accession, to unfavourable demographic trends, to labour mobility constraints, and also according to opinion polls we do not expect significant international migration of Hungarian labour, except for – perhaps – the highly qualified, younger and by nature mobile segment.

3.2 Unemployment

Unemployment – as in every year since the mid-nineties – continued to decline, dropping by about 30,000 in 2001. According to the LFS, applying the standard international definitions (people actively seeking work), 232,900 individuals were unemployed in 2001, while in 2002 this figure was 238,800 with an unemployment rate of 5.8 per cent. In contrast, the number of registered unemployed was 364,100 in 2001, and 344,700 in 2002. The unemployment rate, calculated by international standards, was lower than the EU average (7.4 per cent), or the average of the accession countries (the figure – including Hungary – was 13.5 per cent in 2001).

The Labour Force Survey (in line with corresponding OECD, EU, ILO methodology) qualifies a person as unemployed if s/he does not have a regular job and is actively looking for one. (We will not go into the details of the definition here – for instance if offered a job s/he has to take it within 30 days.) Anyone can actively look for a job, irrespective of age. This includes students who want to work as well as job-seeking retirees. (The survey considers a person ready and able to work until the age of 74, but uses only the 15–64 year olds for the calculations.) A person qualifies as unemployed if s/he wants a job and employs all means to find one. (Active job-seeking can be anything, from registering at the employment offices to reading vacancy ads, to submitting ads, to mobilising family, friends, and acquaintances. The essential feature is that the person must be active in job seeking.)

Under this definition there were 143,000 males and 90,000 females unemployed in Hungary in 2001. As far as age is concerned, nearly three-quarters of them belonged to the best age group, between 15 and 54. It seems that most people between the ages of 15 and 19 are not yet ready to make efforts in order to find employment, while most people over the age of 55 are no longer ready for this. Very few people above Hungary's legal retirement age are actively looking for employment.

In 2001, nearly 60 per cent of the job seekers (134,300 people) had been looking for a job for less than one year, from the time they had lost their previous job, had finished school or had returned to the labour market after childcare leave or military service. However, nearly 100,000 (96,400 or 42 per cent) had been looking for a job for more than one year, and 44,000 had been searching for more than two years. (A person who does not find a job within one year is qualified as long-term unemployed.) Although the last jobs of the job seekers were in various industries and sectors, most of the new and long-term unemployed individuals (54 per cent in 2001) came from three sectors: manufacturing, commerce, and construction. Most (94 per cent) of the job seekers in 2001 had been blue-collar workers in their previous employment. About half of the blue-collar workers were employed in industry and construction, operating machines, fitting or driving. Another quarter did unskilled (simple) work. About 13,000 of the 30,000 previously white-collar workers (most of them female) had occupations requiring a university or college degree, and 8,000 (7,500 females) had previously done office or administrative work.

There has been little change in the education-based distribution of the unemployed individuals. The most significant difference has been the decline of the proportion of people with the lowest education levels relative to the early 1990s, most likely because this is the group that had lost hope and had given up active job seeking. Nevertheless, people with no more than eight years of primary school education continue to account for more than 35 per cent, while people with vocational training have a similar proportion. Altogether, 70 per cent of the unemployed belong to these two groups.

In more than half of the cases, the primary cause of unemployment was dismissal from previous employment, but looking for a first job or returning to the labour market is in second place. (In recent years, the proportion of this latter group has been higher than 20 per cent.) In 2001 – if we also take into account the nearly 20,000 people looking for a job because their temporary employment was terminated – this group accounts for nearly the one-third of the job seekers.

More than half of the unemployed individuals were looking for a full-time job. Another 32 per cent would have preferred full-time, but were also willing to take part-time employment. Only 6 per cent, somewhat more than 9,000 females and 5,600 males were primarily interested in part-time employment. About 10,000 were only interested in working part-time, while 5,000 would have preferred working part-time but would also have taken a full-time job if offered. Ten thousand males and 6,000 females (7 per cent all together) were ready to take any kind of job.

Wage demands were not exaggerated. The job seekers were more or less realistic about their own abilities and the chances they had with local em-

ployers. (We note that females calculated on lower wages than males.) In 2001, when wages increased by 18 per cent on average and the HUF 40,000/month minimum wage was introduced, the average net wage that unemployed people asked for was HUF 48,500, with males expecting HUF 50,800 and females HUF 44,800.

Expected wages differed of course by qualifications, by previously held jobs, and by other factors. The lowest desired wage was HUF 10,000, with 84 females stating that they would work for that amount. The highest was more than HUF 100,000, demanded by 2,000 males and 500 females. Half of the unemployed individuals (58 per cent of the females) said they would work for HUF 10,000–40,000, and 43 per cent (37 per cent of females) said they wanted HUF 40,000–70,000. Less than 8 per cent asked for more than HUF 70,000 – this proportion also includes those people who asked for more than HUF 100,000.

The Employment Act of 1991, amended annually since then to adjust to the changing conditions, does not explicitly define unemployment. Instead, it gives the criteria for eligibility for financial support and services. These criteria were last modified on July 1, 2001. The definition of eligibility also determines the persons who can register at the regional Employment Centres, and excludes full-time students, people entitled to old-age pensions, and people who have any sort of paid work other than *ad hoc* jobs. The amended text says:

“A person is unemployed if s/he

- has all requirements necessary to enter employment and
- is not a full-time student and
- is not entitled to an old-age pension and
- is not employed, with the exception of a legal relationship for *ad hoc* work, does not conduct any other activity resulting in earned income, and
- cooperates with the local office of the Employment Centre in seeking work, and
- is registered as unemployed by the local office of the Employment Centre.”

Conditions of cooperation include that the unemployed “shall participate in looking for an appropriate workplace”, as well as “shall enter into employment at a job found or offered by the Employment Centre”, though these are not the only conditions. Despite stringent rules that must be met to receive benefits, the number of registered unemployed is much higher than the LFS-based number of the active job seekers. (The difference was 125,000 people in 1995 and 131,000 in 2001. Of course, the difference is much less if we include those 100,000–110,000 people whom LFS qualifies as “passive unemployed”.) In 2001, the annual average number of reg-

istered unemployed individuals continued to decline, by 26,352 in that particular year.

Fifty four per cent of the 364,100 persons registered as unemployed in 2001 were males and 46 per cent were females. (The share of females has increased in recent years – in 1993 it was 41 per cent.) The defined age cohorts are slightly different from the LFS classification, but the proportions are similar. Three-quarters of the registered unemployed are in the best working-age-group (between the ages of 26 and 55 in this registry), with people below 20 and above 56 having a share of about 5 per cent each. There was a higher proportion among registered unemployed persons with a maximum of eight years of primary school education (42 per cent), and a lower one with higher education (3 per cent), but blue-collar workers accounted for more than 80 per cent, half of whom had worked as semi-skilled or unskilled employees.

The available support to the registered unemployed persons is the only income source for a significant proportion of the registered unemployed, most of whom have low social status and have been unable to find a job for years. Eighty per cent of the 680,000 people registering as unemployed over the course of the year, and 45,700 of the nearly 57,000 people registering in an average month have already been registered before. Most of them are returnees following interruptions of longer or shorter periods. The reason for the interruption may have been a job, childcare, or military service. Most of them, however, had spent their time on some municipal or community public work project, or on a training course. Typically, their only hope is some similar additional employment opportunity offered by the Employment Centres. Therefore, although they are not eligible for unemployment benefit payments, they do have a chance for temporary community or public service jobs and possible retraining. Based on the 2001 data, we estimate 400,000–500,000 males and females who would be able to work, but are unable to find jobs through their own efforts, and therefore repeatedly rely on the assistance of the Employment Centres and the society. This assistance, as discussed later, is far from generous.

As far as the newcomers are concerned – 20 per cent of the new registrants –, 3,600 were first job seekers, and 7,600 were adults. Nearly 60 per cent of the latter had lost their jobs in various service industries, 30 per cent in industry or construction, and 12 per cent in agriculture.

Less than one-third of the registered unemployed were entitled to unemployment benefits. In 2000, the duration of entitlement to these benefits was cut from 360 days to 270, and also the conditions of entitlement were tightened.⁸ In 2001, the average monthly unemployment benefit was HUF 25,677, 24.8 per cent of the average monthly wages, 35.4 per cent of the average blue-collar salaries, and 64.1 per cent of the mandatory minimum

8 *The Hungarian Labour Market, 2002* gives a detailed description about the changes in the unemployment benefit system.

wage. The low level of the average unemployment benefit is, of course, related to the low qualification levels of the vast majority of the unemployed individuals, and to the previous low-income jobs. However, the registered unemployed would have received the HUF 40,000 minimum wage in 2001, had they been able to find a job. But, most of the unemployed people were not entitled even to this modest benefit. One of the restrictions introduced in 2000 terminated the provision of wage-substituting subsidies, and replaced it with a regular social assistance. Previously, people with the lowest chances to find jobs (with no qualifications and/or living in less developed regions, gypsies, etc.) had been entitled to this wage-substituting subsidy when their unemployment benefits expired, and when they had no opportunity to work. Since 1995, more people received the wage-substituting subsidy than unemployment benefits. This subsidy was not linked to the same criteria as unemployment benefits. Instead, similar to social assistance, it was set as a fixed amount, which was pegged to the lowest old age pension (80 per cent of that until 2000). In 2000, its amount was HUF 13,280/month. When the provision of the wage-substituting subsidy was terminated, its former recipients applied for regular social assistance. They remained registered as unemployed, but their subsidy was decreased to 70 per cent of the minimum pension, or to HUF 14,648 in 2001.

At the end of December 2001 there were 125,900 people receiving unemployment benefits (36.7 per cent of all the registered unemployed). Some 26,700 people (7.8 per cent) received the wage-substituting subsidy (which was terminated that month), and more than one quarter (25.1 per cent) of the registered unemployed, or 85,900 people received regular social assistance. 30 per cent of the registered unemployed – 40 per cent of the annual average – received no assistance whatsoever. However, people who are registered as unemployed may have access to Employment Centre services that range from job finding through retraining to participation in a variety of labour market programmes. Despite Employment Centre efforts, however, the most important goal – finding jobs for the unemployed, has not been met. Similar to recent years, more people left the registration system in 2001 (a monthly average of 29,600 people) than entered it.

People left the registration system for a wide variety of reasons (participation in training or in some other programmes, mandatory military service, childcare, retirement, temporary job, simple abandonment, etc.), but only some of them found a new job through the Employment Centres. In 2001, similar to 2000, 1.9 per cent of the registered unemployed, or 11.8 per cent of unemployment beneficiaries (13.4 per cent in 2000) found jobs through the Employment Centres. (The data includes people finding temporary jobs within special employment programmes.) We have to remember that the decline in unemployment in 2001 (similar to recent years) was *not* the

result of a parallel increase in employment. We know that employment increased by about 10,000 persons, while unemployment declined by about 30,000 according to both methods of calculation. The difference consists of people who gave up looking for jobs and left the labour market, increasing the number of people staying out of the labour force.

Despite the steady decline in the number of unemployed, the LFS reports that unemployment affected 213,000 (5.7 per cent) of the country's 3,728,000 households. There was one unemployed person in 194,700 households (5.2 per cent), two in 16,000 (0.4 per cent), and three or more in nearly 2,000 (0.1 per cent). Unemployment hurt larger families to a greater extent. While less than 5 per cent of single-person households had at least one unemployed member, this figure was nearly 20 per cent for two-person households, 27 per cent for three-person households, 29 per cent for four-person ones, and 20.5 per cent for households with five or more persons.

Regional differences in unemployment did not decline. In fact, they even increased between the sub-regions.

Unemployment rates are not particularly high in the seven main (planning/statistical) regions. But regional and county level calculations do not lead to a true image of the state of the labour market, because the sizes of the Hungarian local labour markets are much more similar to the size of the sub-regions. The labour market is segmented into relatively small and closed blocks. Regional differences can be observed between settlements, sub-regions, or counties within a given statistical region.

The lowest regional unemployment rate was 4.3 per cent, and the highest was 8.7 per cent in 2001. The similar figures on the county level were 2.7 per cent and 19.3 per cent, and on the sub-regional level 3 per cent and 25 per cent.

The highest regional unemployment rate could be observed in the East and Northeast, along the Eastern Slovakian and Ukrainian borders, but there are sub-regions with high unemployment rates also within the more developed Western counties, too. The proportion of registered unemployed among the economically active aged population is highest in villages (9.4 per cent) and settlements with less than 500 inhabitants (11.3 per cent). In December 2001, the best unemployment rate was observed in a Budapest district (1.6 per cent), while the worst was in a small village (53.3 per cent).

3.3 The population being out of the labour force

LFBS data, based on the January 1, 2002 census reported that 32 per cent of the economically active aged Hungarian men and women were out of the labour force. The similar figure for the 15–64 year old population was 40 per cent. Adhering to the Hungarian definition of economically active

age, in 2001 about two million people (884,000 males and 1,165,000 females), or 80 per cent of this group remained at home for socially respectable reasons.

– Still at school. The continuing education of 681,000 people aged 15 or more is not only useful, but will soon become essential to the future of both the individuals and the entire country. Hungary is actually quite well placed among the OECD countries with its proportion of people still studying at the age of 15–18. However, while 76 per cent of the 15–19 year olds were still attending school, the similar figure for 20–24 year olds was only 20 per cent, well below that of many European countries. In 2002 the EU suggested to its members to significantly increase the proportion of people still studying at the age of 18–24 to above 50 per cent by 2010. Achieving this level will require major efforts in Hungary.

– Nearly 300,000 people stay at home because of some form of childcare assistance (childcare fees, childcare assistance, and childcare support). Almost all of them are females. Despite the long-term and significant decline in the birth rate, this figure of almost 300,000 has hardly changed at all (1980: 264,000; 1990: 245,000; 1995: 285,000, January 1, 2002: 297,000), which – experience suggests – is primarily related to limited labour market opportunities. With an absence of job opportunities, women tend to choose this financially modest, but socially supported option for as long as they can.

– Some 632,000 males and females retired earlier than the general retirement age. Among the various early-retirement options, disability – a reflection of the general state of health – has been quite significant. (On January 1, 2002 there were more than 450,000 disability retirees who were below general retirement age.) Several tens of thousands of people were allowed to retire earlier as a benefit of certain occupations. However, the number of retired people under the retirement age is decreasing gradually, since many of them have already surpassed the regular retirement age.

– There are about 400,000 people who have become inactive for personal or family reasons, and not because of the socially promoted options. The labour market situation and the insufficient labour supply have obviously played a role in many decisions to become inactive, particularly among the females, who account for two-thirds of this group.

In 2001, the CSO LFS identified more than 2.2 million persons of economically active age as being outside the labour force. The survey does not state the reason for being of this status, but it does ask for the job-related plans of these persons. Almost 400,000 of them would like to find regular paid work – almost the same number as the number of people the LFS defines as having become inactive without any specific reason. When asked why they are not looking for a job then, 112,000 (70,000 males and

42,000 females) said that there were no jobs or that they wouldn't have been able to find one anyway because they were too young or too old or possibly because they were without appropriate qualifications. A somewhat higher number, 143,000 cited poor health or family obligations. Of the 67,000 citing family reasons, 61,000 were female. Only 8,000 said they weren't looking because they felt that the only available jobs were poorly paying ones. In addition to these two groups, there were 8,700 people who were in fact actively looking for a job, but who said that they would not have been able to take the job if they found one, and a further 1,600 said that they were looking for a job but not actively. About 18,000 of them were taking some steps to return to the labour force. They were attending retraining courses or waiting to be called back to work (including seasonal work or municipal public work schemes), while several were planning to launch their own businesses, etc. We note that when expanding the definition of economically active age until the age of 74, we found almost 30,000 additional inactive persons who wanted to work. Most of them wanted to have a job but were not looking for one.

4. INCREASING EMPLOYMENT AS A TOP PRIORITY

Approaching the accession date, in 2001 Hungary prepared a document summarising its top short-run employment policy priorities (*Joint Assessment of the Employment Policy Priorities of Hungary*). Hungary has also agreed to shape its labour market to reach conformity with the EU's uniform common market. The EU is monitoring the fulfilment of the government's plans, similarly to that of the members' annual action plans. The public international evaluation of the Hungarian employment policy is expected to give a boost to measures improving job creation conditions, which is very much in line with Hungary's own interests.

In order to achieve the EU target of a 70 per cent employment rate within the 15–64 year old population by 2010, i.e. the employment of 4.8 million people (based on current population numbers) as opposed to the approximately 3.85 million ones existing at present, Hungary would have to create approximately one million jobs. That is equivalent to creating 100,000–110,000 jobs each year until 2010. It also means that in addition to having jobs for all people registered as unemployed, some 600,000–700,000 people currently outside the labour force would have to re-enter it. Within that, about 600,000 females need to take jobs, some of them – and this is also true for males – above the age of 55. This target is only attainable if employment policy is not based on spontaneous decisions. Economic conditions can improve unexpectedly (for example in 1999, when employment increased by almost 114,000 in a single year), but they can also bring about stagnation and decline. When employment began to in-

crease slowly, it increased by 51,000 in 1998, by 38,000 in 2000, and by only 10,000 in 2001.

Creating these conditions – ranging from reforms in the welfare system through the establishment of non-traditional types of work and including, among other things, a reduction of taxes on labour – is hard enough even in most European countries. But it is particularly difficult in the accession countries where conditions favoring employment growth need to be created on a new basis. Hungary, however, has agreed to fulfil this obligation, along with the other accession countries.

