

**THE HUNGARIAN LABOUR MARKET
REVIEW AND ANALYSIS
2003**

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EDITED BY
KÁROLY FAZEKAS AND JENŐ KOLTAY

INSTITUTE OF ECONOMICS, HAS
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Copies of the book can be ordered from the Institute of Economics

MAILING ADDRESS: H-1502 Budapest, P.O. Box 262

PHONE: (+36-1) 309 26 51

FAX: (+36-1) 309 26 50

E-MAIL: titkarsag@econ.core.hu

WEB SITE: <http://www.econ.core.hu>

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FOREWORD BY THE EDITORS

The goal of our labour market yearbooks is to review annually the main developments on the Hungarian labour market and to give an in-depth analysis of the key issues. The subsequent chapters of this volume present “stylised facts” and recent research results, together with selected information and statistical data. Our further intention is to guide readers in finding other relevant publications and reliable statistical sources. Experiences accumulated with the publication of the previous volumes (three in Hungarian and one in English) and their reception in Hungary and abroad approved our original idea and stimulated us to enhance both the contents and the quality of the new volumes.

This year we put “in focus” labour demand and labour supply. The related chapters investigate the supply side in terms of labour force participation and working time, while on the demand side they analyse job creation and job destruction, and labour as a factor of production. We employ quite different approaches on the two sides, as for the labour supply we concentrate on the individual characteristics and behaviour of job seekers, in the labour demand analysis we investigate the role of firms and government in the labour markets. We hope that our analyses will help us and the readers to understand why employment and labour force participation fell to such a low level in Hungary, and also to assess the chances of a progressive increase in line with the corresponding EU targets.

Employment began to decline slowly already in the mid-eighties, though initially at a negligible rate. Since the end of the eighties, however, when the majority of the large state-owned socialist firms and the agricultural co-

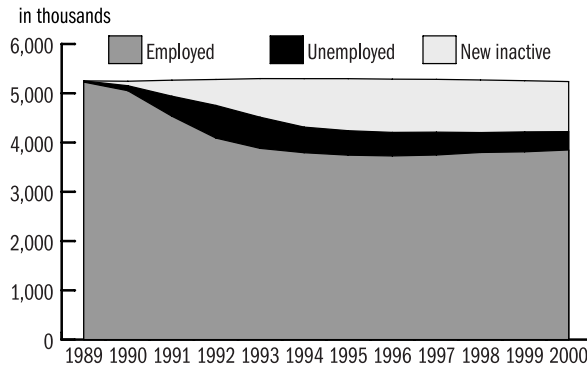
operatives experienced the transition crisis, this rate had been continuously increasing. One could observe the highest rate in 1992, when the number of employees declined by more than half a million, and – though at a continuously decreasing rate – job destruction was permanently higher than job creation up until 1996. Overall, between 1989 and 1996 employment declined by 1.5 million people, which are almost 30 per cent of the initial employment level. By the end of the year 2000 the number of employees did increase by 120,000, but this growth is very modest relative to the earlier declines: it means that employment increased by approximately 3 per cent. During the same period, the number of employees in the European Union increased by more than 4 per cent, despite the fact that the GDP growth rate of the EU was significantly lower than that of Hungary.

However, this trend in the Hungarian labour market is by no means exceptional. Employment declined substantially in all transition countries during the nineties, though rates showed high variation between the countries. Job destruction was relatively small in the member states of the former Soviet Union, while in Central Europe, except for the Czech Republic, labour market trends were quite similar to the Hungarian ones. Mass unemployment evolved much more slowly in the Czech Republic; one could observe substantial decline in the employment level only in the second half of the nineties. Today the employment rate is very similar in most of the Central European countries: only slightly more than half of the people being at an active age are employed. Hungary differs, however, from the other Central (and to some extent Eastern) European countries in a very important aspect: besides the low employment rate, its unemployment rate is also relatively low. By 2001, the unemployment rate in Hungary was substantially lower than in any other Central European countries.

The Lisbon Summit of the European Union held in March 2000 set up a 70 per cent employment rate target for its member states, to be reached by 2010. Today it seems to be quite obvious that most of the countries will fail to reach this target. However, if we consider the current employment rate and also the lower rates of employment growth than economic growth that has been observed recently, Hungary – together with other Central European countries – will be probably far behind the current member states in this respect. This is a striking difference if we take into account that the Hungarian employment rate was well above 70 per cent in 1990.

Figure 1 illustrates changes in the Hungarian labour force between 1989 and 2000. In the figure we highlighted the 1989 level of the labour force (labour force is defined as the sum of the employed and unemployed persons). We call “new inactive” those who were employed by the former socialist economy, but who do not belong to the labour force today, not even as unemployed.

Figure 1: Changes in the labour force between 1989 and 2000 (in thousands)



The mass unemployment of the early nineties can be primarily explained by the substantially declining labour demand of those firms that had difficulties in selling their products, and by the high number of bankruptcies. But the fact that people did not have a kind of shortage psychosis any more, which was so typical in the socialist economies, also contributed to this. After 1993, however, both the demand and the supply side of the Hungarian labour market altered significantly. The aim of this volume is to analyse this process both on the supply side and the demand side of the labour market

However, we continue to restrain ourselves from offering economic or social policy recommendations. We would instead prefer to promote dialogue between science and policy, by making research findings accessible to a broader audience. At the same time, we do not hide the research shortcomings and point out those areas that are still to be investigated by a genuine research in Hungary.

Similarly to the previous volumes, the closing chapter presents a statistical data set, and gives comprehensive information on the main economic developments, such as demographic trends, labour force participation, employment, unemployment and inactivity, wages, education, labour demand and supply, regional differences, migration, commuting, labour relations, along with some international comparison and methodological remarks. Data on wage and income differentials are also presented, together with labour market developments at lower levels of government and in smaller spatial units. In accordance with the topics “in focus” this year, we gathered a rich data set on the evolution of working time in Hungary. In assembling employment and unemployment data, we could already use the information content of the general census conducted in 2001.