

**THE HUNGARIAN LABOUR MARKET  
REVIEW AND ANALYSIS  
2004**

# **THE HUNGARIAN LABOUR MARKET REVIEW AND ANALYSIS 2004**

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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 (four in Hungarian and two in English) and their reception in Hungary and abroad validated our original idea and gave us the encouragement and stimulation to enhance both the contents and the quality of the new volumes.

This year we put 'in focus' regional differences and inequalities. In Hungary political and economic transformation brought about considerable spatial disparities in the level of economic development. According to research evidence these differences tend to be permanent in both their level and pattern. Although earlier urbanisation trends changed in the 1990-s, mostly in the centre of the country and in favour of villages in metropolitan areas, the spatial divide remains alarming. The subsequent chapters try to find the causes of, and the cures for, spatial inequalities: first by identifying factors behind regional disparities on the labour market, second by investigating the ways and means of alleviating these inequalities with the reallocation of labour and capital. Without a strong tradition of related economic research, we found it important to open up perspectives of analysis. On the one hand we have elaborated on the spatial allocation and movement of firms, and, on the other, on the factors determining both. Although the behaviour of labour and capital is more or less similar in these respects, the respective problems are not the same and data availability and research experience are rather different. This is the reason why we discuss them in separate sections, but at almost equal length.

Considering spatial movement, Chapter 1.1, relying on two influential models, argues that if transaction costs are sufficiently small, potential employees are probably willing to take on the inconvenience of moving in exchange for improved work conditions. This mechanism leads to individual migration and tends to attenuate imbalances and ultimately inequality. If associated costs are high and discourage moving in spite of substantial gross gains, or if the forces creating inequality prove to be permanent, then inequalities are there to stay and the social benefit of removing them will be lost.

While individuals often look beyond strictly economic considerations, enterprises base their location choice on expected returns. Nevertheless, Chapter 2.1, points out that looking at only classic motives and ways of exploiting spatial differences (which are similar to mechanisms we learn about in the case of employees) and not considering the effect of the economic environment is a mistake. Empirical studies of the second part support the claim that firm relocation can generate a positive feedback on the behaviour of other firms. Co-operation and spillovers between firms can improve the conditions of “traditionally good” areas even further, while those of “traditionally bad” areas might just continue deteriorating if there are no external forces to break the vicious circle. Such differences shape the availability of business partners for firms and the set of available jobs.

The individual mobility decision is influenced by various factors whose connection to economic interest can range from loose to strong. We picked two proxies for potential advantages which were relatively easy to grasp: regional unemployment rates and average wages. Although spatial variation is substantial in both, Chapters 1.2 and 1.3 offer different interpretations about the extent to which these can actually be exploited by individuals. Differences in both cases are shaped not (only) by a variation in the response, but by the composition of the labour and of the firms, along with their local interaction. At the same time we witness the well-known East-West division of the country characterised by the leading role of the North Western and Central regions, surprisingly without the outstanding leadership of Budapest.

It would appear that there are differences that employees could exploit with regard to employment, if not to wages. The question is whether it is worth trying to actually use these differences. Is it better to move or to commute to a better workplace? How important are the related costs? Chapter 1.4. reports that in a (plausibly) bad scenario, an average person moving house might lose the wages he/she had earned throughout a whole year. Contrary to popular belief therefore it is not the levies on swapping a flat, but the associated risks which cause the greatest problem magnified by a scarce supply. Swapping a flat is not a problem for the more affluent (mov-

ing typically to green residential areas of agglomerations), but a serious concern to those wanting to escape from poor areas. The defensive strategy of municipalities seeking to discriminate “problematic” immigrants does nothing to alleviate the problem.

What then can one expect who chooses not to move, but decides rather to venture into commuting. Chapter 1.5 employs a special database to look at the effect of various factors on commuting probabilities, most importantly its cost and the distance to the job to be taken. A remarkable characteristic of the data is that it is informative about both the distance and the financial consequences. As intuition might suggest actual results show that financial constraints are transmitted to commuting too, an effect most pronounced in the case of women.

Despite costs to mobility, which are sometimes not trivial, about four per cent of the population changes residence in the period of a year. Is this rate small or big? Are economic incentives important? Chapter 1.6 aims at answering these questions with the use of micro-level data, which confirm the effect of economic incentives not sufficient to sustain regional gap closing process. Mobility in Hungary is largely connected to sub-urbanisation: the flow of labour from cities to surrounding villages. Results show that the bulk of mobility takes place within a (micro) region, traditional models of mobility and migration cannot be successfully applied. Differences within a region also need to be handled with care, as the workplace is often not identical to the place one lives.

Even if people move, it is mostly the inhabitants of backward regions who cannot break free from their place of living. This may be because they lack the appropriate skills or qualifications or, put another way, hold obsolete skills and/or qualifications. It remains a question how pressing the need is to move and how willing enterprises are to move to backward regions? The second part of “in focus” looks at this question from various aspects, concentrating on manufacturing and related industries because these industries play an outstanding role in economic growth and because of their responsiveness to the economic environment. As labour demand and its structure is important to potential employees, enterprises are interested in the presence of suitable labour and, as Chapter 2.1 points out, the network of co-operation whose operation depends on companies that are in some sense nearby. We have been used to the idea for some time that Hungary lies on the boundary of East and West, subject to the influences of both worlds. Chapter 2.2 shows that this border is present if measured by the strength of the European economic “force field”, and generates productive connections largely responsible for the growth of the Hungarian economy. Chapter 2.3 points out that it is the engineering (automobile industry to a great extent) and electronics companies of Western Hungary that play a

decisive part in economic growth. A common characteristic of these enterprises is that they are situated on easily accessible sites, employ well educated labour and became an integral part of the European economic “force field”. If there is a goal to decrease the almost deterministic effects of spatial differentials, it is crucial – argues Chapter 2.2 – that the geographic distance of the disadvantaged regions from the centre is “reduced” through the rapid development of infrastructure and improved accessibility.

Almost every study reflects on the distribution of knowledge, of human capital. Chapter 1.6. and the chapters of the second part suggest that more educated people are much more likely to move, due to a great extent to the fact that industries mostly settle in already developed regions. Educated people either move to their proximity, or do not have an incentive to move away and move to pleasant locations within reach of the newly established workplaces. The analysis in Chapter 2.2 indicates that instead of decreasing inequality, such distribution of human capital increases it even more. Knowing this, it does not come as a surprise that FDI does not play a pioneering role in either of these respects. Chapter 2.4 illustrates the behaviour of enterprises with results that appear familiar, but with surprising magnitudes in many cases. One of these results is that the number of jobs created by foreign owned firms well exceeded those created by domestic owned ones. Unfortunately the positive effect of the former, working through business connections, is region-specific as well.

What can we conclude from all of this? It seems that although both labour and capital are free to move, neither moves in such a way that the disadvantage of certain regions would diminish significantly. Since effects are cumulative, they do not reverse by themselves, which prompts the need for external help to reduce regional inequalities. Development of the infrastructure, and the decreasing of barriers to the formation of contacts is a key element for both potential employees and enterprises. It is of equal importance that both the labour force and the business environment of disadvantaged regions become more attractive. Although such processes benefit from the regionalisation of Central Europe and the enlargement of the European Union, helping them should remain a top priority for some time to come. We can only hope that helping the accumulation of human capital, schooling and education programs in general will become part of the official “regional agenda” just as the development of the road network did.

As before, 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 genuine research in Hungary.

Similarly to the previous volumes the opening chapter gives an overview of recent labour market developments and employment policies. 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, and labour relations, together with some international comparison and methodological remarks. Data on wage and income differentials are also presented, along with labour market developments at lower levels of government and in smaller regions. In assembling this chapter we added a separate subsection with abundant data based on the last (2001) and the previous general census.