

## FOREWORD BY THE EDITORS

The Hungarian Labour Market Yearbooks series was launched in 2000 with the support of the National Employment Foundation (OFA). The yearbook presents the main characteristics of Hungarian employment policy and features an in-depth analysis of a topical issue each year. The editorial board has striven from the beginning to provide up-to-date results of labour market research and useful information on the Hungarian labour market tendencies as well as the legislative and institutional background of the employment policy for the GO and NGO organizations of the public employment services, the local governments, the public administration, educational and research organisations and – last but not least – for both the press and the electronic media. This year we have also created a clearly structured and easily accessible volume that presents the main characteristics and trends of the Hungarian labour market on the basis of available statistics, theoretical research and empirical analysis. Continuing our previous editorial practice, we selected an area that we consider especially important for the effectiveness of Hungarian employment policy: the impact evaluation of active labour market policies. Its characteristics and results are discussed in detail in the section *In Focus*. The book has four main sections

### The Hungarian labour market in 2010–2011

After the economic recession in Hungary brought about by the crisis, the period between September 2010 and September 2011 was planned to be a year of recovery – although this was not successful in the light of recent data. Stagnation in domestic demand meant that the only driving force of the economy was export, which failed to improve the employment situation significantly. There were no positive shocks in the economy during this period, the only important effect on the labour market were export demand and public works.

However, the decline of the employment rate of 15–64 year olds was not a break in a previous growing trend. Hungary ranked among the worst performing countries in regional comparisons of GDP-growth and employment rates, and neither did this situation change in the current period – employment seems to have stabilised at a low level (55.4%), characteristic of the early 2000s. The private sector has been characterised by stagnating wages and declining employment, while the public sector was characterised by declining real wages and increasing employment; however, this was largely the impact of extended public work schemes. A favourable development was the decline in the number of inactive people, nevertheless this was more the result of the increase in the number of unemployed and public works participants rather than the growth in employment. There were

similar trends in unemployment as well. The rapid increase of the unemployment rate in 2009 – as a result of the crisis – reached its peak in the first quarter of 2010 at 11.9%, not dropping however under 11% ever since.

Meanwhile, labour demand in the private sector was characterised by sectoral heterogeneity and continuous fluctuations. The fact that the main mechanisms of adjustment in the private sector are layoffs and hiring and their timing: postponing the recruitment of regular workers companies can even achieve a two-digit decline in their workforce. Data suggest that with the recovery of export prospects in the manufacturing sector, companies started again hiring new workers.

At the height of the crisis, the share of part-time employees within the total workforce increased significantly. Although this trend continued throughout the year, its rate eased between the autumn of 2010 and 2011. Meanwhile the gender gap has widened and the number of female part-time workers increasingly exceeds that of men. This suggests that while part-time employment is only an adjustment strategy for men, the increasing trend of part-time employment among women might be longer term.

Policy changes and changes in taxation might have a direct as well as an indirect impact on labour demand. The number of participants in public works was growing rapidly during recent years but it only had a noticeable effect on the aggregate level of employment last year. Transition from subsidized employment to other employment states is minimal to date, which suggests that public works in their current forms are more of a short-term employment policy measure. From the indirect effects it is worth highlighting that the rate of corporation tax for an annual turnover of up to 500 million forints was reduced from 19% to 10%. This might have a positive impact on micro- and small enterprises through the reduction of the administrative burden. The extraordinary taxation (“crisis taxes”) of larger companies, due to its timing and rate might force businesses to fire workers or postpone hiring to compensate for the loss of income.

The development of the labour supply was influenced by policy measures after January 1, 2011, most importantly the creation of a flat rate personal income tax system. From a theoretical perspective this is more likely to increase the labour supply of higher earners (thanks to a decrease of the tax burden) and reduce the labour supply of lower earners (due to the increase of the tax burden), however there were no sure signs of this in 2011.

Contrary to previous periods, the number of unemployed workers was influenced by movements inside the group of actives in 2010 and 2011, meanwhile 2008 and 2009 were characterised by the influx of the inactive into unemployment. The labour market attachment of the active thus remained fairly strong, and even the short term balance between unemployment and inactivity was positive. It is a cause for concern however, that long term unemployment is increasing. There is a very limited dynamic behind the high unemployment rate. The regional pattern of long term unemployment is still characteristic: over half

of the long term unemployed (51.7%) lived in Northern Hungary (particularly Borsod-Abaúj-Zemplén county) or in the Northern Great Plain (Szabolcs-Szatmár-Bereg county). We expect that the new public work schemes will have a large impact in these regions.

### In Focus

The *In Focus* section of the current volume addresses the impact evaluation of active labour market policies. The aim of active labour market measures is to provide long term employment to unemployed or other potential workers who have been excluded from the labour market. They provide services that help job search and develop skills and knowledge that will improve their employment prospects. If these programs are effective they might increase the level of employment. If they are ineffective they are an additional burden on taxpayers and use scarce resources that might have been used more effectively elsewhere. It may sound surprising but we rarely know the effects of active labour market programs on participants, and we know even less about potential side-effects.. *In Focus* provides an overview of program evaluations and offers a selection of the few Hungarian examples.

The first chapter (written by *Gábor Kézdi*, the editor of *In Focus*) introduces the reader to the methodology of program evaluation. It argues that experiments are the most valid and simplest program evaluation method. At the same time, non-experimental methods can also provide valid results if they use adequate methods and high quality data. The chapter by *Péter Hudomiet* and *Gábor Kézdi* summarises the international experiences of active labour market policies based on the most credible program evaluations. They show that the effectiveness of programs is more influenced by regulation and organisational factors than the type of the program and this is why truly valid program evaluations are important. International experience also highlights that even the most effective programs are not a panacea. We can expect decent positive results from these programs but we cannot expect them to solve the problem of structural unemployment and low employment.

Other chapters of *In Focus* summarise the results of some program evaluations in Hungary. These cover the most important active policy measures and were selected from the most valid Hungarian examples. None of them are based on experiments and the limited availability of data might compromise the validity of some of the studies. *Zsombor Cseres-Gergely* analysed the impact of the modernisation of the Public Employment Service on the employment chances of clients of selected job offices. The results show that modernisation had a moderate but positive effect on re-employment and thus shortening the duration of unemployment. *Judit Csoba* and *Zita Éva Nagy's* ambitious study examines the impact of three main active labour market policies – training, wage subsidy and public works – running in 2009 and 2010 using a single analytical framework. Their results show that public works participants were less likely to find non-subsidised

work than the control group, training participants were slightly more likely and wage subsidy recipients were significantly more likely to take up employment. *János Köllő* and *Ágota Scharle* examined the impact of changes in public works between 2003 and 2008 and showed that they did not reduce long term unemployment. *Nándor Németh* and *Gergely Kabai* present the small scale complex employment program *Life changing – Life Shaping* [*Sorsfordító – sorsformáló*] aiming to tackle long term unemployment in rural areas. Based on their qualitative assessment the program might be successful in this. The final chapter of *In Focus* reviews program evaluations of unemployment benefits (“passive labour market policy measures”) and wage subsidy schemes in Hungary (the authors of this chapter are *Zsombor Cseres-Gergely* and *Ágota Scharle*). They also review the methodology of each study allowing the reader to judge their validity.

Valid program evaluations are relatively rare but their number is steadily increasing especially abroad. There are more and more experimental studies and non-experimental studies can also rely on better quality data. Hopefully this year’s Labour Market Yearbook will provide a further impetus to this process and encourage high quality, valid program evaluations in the future. The most important aim is that, based on the results of valid impact evaluations, active labour market programs will receive an adequate role based on their true effect in Hungarian employment policy.

### **Institutional environment of the labour market between September 2010 and September 2011**

This chapter continues the tradition of the Hungarian Labour Market Yearbook that has reviewed changes in the labour market institutions each year, however this time it is presented in a slightly different format. The authors of the chapter have created a structure that is closely related to the labour market and its forces and allows a clear distinction of measures according to whether they have an impact on wages, labour cost, labour supply or demand or labour market structure.

The components of the institutional system and changes were organised according to two criteria. First, a thematic framework was created by joining nomenclatures of the Eurostat and the European Commission that will help to structure current and future labour market policy interventions. This will also help to follow changes in the emphasis of policies over time. The chapter presents a large number of labour market policy and labour market related policy measures. The first group includes for example unemployment benefits or employment services for the unemployed. The latter group includes for example personal income tax. A promising future possibility might be the collation of financial data (expenditure) for the individual interventions considering that the European Union collects data in a structure similar to the one used in the chapter. Although the authors highlight analytical studies and evaluations for each measure, the chapter

does not aim to provide an evaluation. Readers who would like to do this will find guidance and information on previous studies.

Each area was considered from multiple perspectives. The possible labour market mechanism of each measure is presented briefly and any relevant Hungarian, or in their absence international research is highlighted. This is followed by the overview of the situation in August/September 2010 and the presentation of changes between September 2010 and September 2011. Given the scope of the review it is not possible to present changes in great detail and therefore we provide references to relevant legislation for each measure and also to on-line resources, where they exist.

We chose a thematic structure and explicit questions to facilitate policy analysis and evaluation, as opposed to another, simpler organising structure. Although a number of programs and institutions implement multiple measures, we focused on the main interventions and measures following the logic of decision makers and policy analysts. The efficiency and rationale of economic policy can only be judged if we know the full range of available measures, the effect of these measures and the specific policy choices. This chapter aims to support this type of analysis.

Three of the changes discussed in the chapter should be highlighted here: the reform of unemployment benefits, public works and personal income tax. The benefit period of unemployment insurance became considerably shorter than previously: as of September 1, 2011 job seeker's allowance is only paid for up to three months. After this most claimants must take part in public works or labour market programs if they want to qualify for financial assistance (now called *out-of-work assistance*). The only exceptions are people within five years of the state pension age who qualify for pre-retirement assistance and people claiming regular social assistance.

There were major changes in the system of public works as well. The previous three types were combined into a single scheme and the entitlement conditions were expanded. Apart from the state and local councils, churches and social co-operatives can also run public works projects. A new type of employment status was created for participants of public works programs that differs from regular employment statuses in various aspects, most importantly the possibility to pay less than the statutory minimum wage. Public works projects are supported through grants of various lengths and at various rates of co-financing. Special temporary agencies that employ public works participants and provide re-employment services are also eligible for these subsidies. Businesses do not qualify for public works subsidies, however they can claim a wage subsidy if they take on job seekers claiming out-of-work assistance.

The new personal income tax entered into force on January 1, 2011 and introduced two new changes. First, it is a flat rate system: the tax rate is 21.5% of the gross income. This favours high earners and the limitation of tax credits increases the tax burden on low earners. In addition, it also introduces significant tax

reliefs for working parents. As a result high earners with three or more children might not have to pay income tax at all.

### Statistical data

This section gives detailed information on the main economic trends, population, labour market participation, employment, unemployment, inactivity, wages, education, labour demand, regional disparities, migration, labour relations and social welfare assistance as well as an international comparison of selected labour market indicators following the structure developed in previous years. Following our traditions tables reporting data on labour market programs related to the topic of this year's *In Focus* were added. All tables with labour market data published in the Hungarian Labour Market Yearbook since 2000 are available at the following website: <http://adatbank.mtaki.hu/tukor>.

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