3. THE INSTITUTIONAL ENVIRONMENT OF THE PUBLIC SECTOR LABOUR MARKET

3.1 Trends in labour law – the dismantling of job security in the public sector

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This section offers an overview of the regulation process leading to the dismantling of public sector job security, exploring the issue through the lens of broad-based labour law. First, we will look into the factors – that continue to be valid – that justify designing guarantees of job security and that argue in favour of sustaining legal protections. We will discuss the need for legal protections for a legally employed person and on the relationship between the guarantee of job security and the neutrality and professionalism of public service. Then, we will summarize the reasons behind the introduction of dismissal without stating cause and of the Constitutional Court and European Court of Human Rights overruling of that law. We will look at new regulations that replaced the overturned laws, which formally comply with the court rulings but which continue to contradict them in substance. Finally, we will briefly explore other flows in Hungarian labour law regulation that have eroded job security. In the beginning, we will underline the legal concept of civil servant (a term which has been changed repeatedly over time), but will also look at the public servant, albeit to a lesser extent.

Reasons in support of establishing and maintaining guaranteed job security

Traditionally, the legal status of the civil servant as used in the current sense was not considered a private law contract between equal parties but a status-based relationship regulated by public law derived from the principle of state sovereignty. The reasoning that sums up this approach is: “The state and the servant working for it cannot be set one against the other as contracting parties of equal rank ... The servant is not merely the executor of the will of the state but is also the implement by which the state fulfils its calling.” (Mártonffy unknown date, p. 667) The state bureaucracy assured the civil servant of lifelong protection and a stable legal status.

The principle of state sovereignty was significantly reduced over the course of the 20th century insofar as interpretation of the various legal relationships of the state was concerned. Distinctions between the “external” and “internal” legal relationships of the body exerting public power became increasingly accepted. In fact, it was recognized that in external legal relationships the state
might appear not only as the entity exercising public power but also as a private entity, for instance when signing a lease or a purchase or sales contract. By the start of the latter half of the 20th century it became clear that the principle of sovereignty did not cover the essence of the “internal” legal relationship between the state and the civil servant. Therefore, professional articles emanating from the west began exempting the civil servant from labour law arguments. Starting with the 1960s a new approach began taking over in which the body of public administration, as employer, was not exercising state power but was employing natural entities to meet specific functions, just like any other employer. State officials are no longer considered representatives of the state in the legal relationship surrounding employment. Instead, they are employees who work for the state and who – in this capacity – are far more conscious of their employee status than their status as a representative of a sovereign power (Ozaki, 1990).

The legal conditions of employment in the private and public sectors are identical in that the employee is subordinate to the employer and that the employee performs the tasks assigned by the employer, following employer instructions on any and all components of the job, doing so regularly and continuously, in return for remuneration. It is clear from the content of this work relationship (in the broad sense of the term) that the civil servant is economically and personally dependent on their employer, which is the outcome of the economic and organizational supremacy of power. At the same time, there are specifics to employment by the state that justify maintaining some unique features in the regulation of the legal relationship governing employment (Horváth, 2008). The lowest, fundamental feature of the civil servant fits within the broader concept of legal employment, and the secondary characteristics stemming from the civil service nature of the relationship form a superstructure.

The regulation of job security is essential to both layers, albeit the dogmatic arguments for them differ. It follows from the concept of legal employment in the broader sense that a tenet of principle to protect the weaker entity, as is typical of all legal employment, is needed here, too (Morris and Fredman, 1993). The civil service character – as a secondary characteristic – also justifies the regulation of job security guarantees as has been pointed out by experts in labour law and public administration law alike, since this is how to provide professionalism, reliability, and an absence of prejudice in public administration. In this context it is worth exploring how Hungarian professional literature has described the guiding principles of public administration law. István György underlined the principles of political neutrality, lawfulness, subordination, career and professionalism, and heightened responsibility.

Political neutrality is the outcome of the separation of civil service and politics. “...the personnel involved in public service need to be separated from

1 If the state (body) appears as a private law entity within a legal relationship, then the rules of private law – with possible but not necessary modifications – are the ones to be followed. Privity is based on contract and not on a unilateral act of the state.
the venues of political infighting, and must be rendered independent of party politics.” (György, 2007. p. 47) The political neutrality requirement is the defining principle of public administration from which numerous other principles of modern public administration are derived. The principle of political neutrality includes the requirement of loyalty between the civil servant and whichever authority is in power. The civil servant is mandated to accept the legitimately elected power and execute every lawful instruction coming from it (Gajduschek, 2006).

The requirement of loyalty gives rise to the promise that a change in government will not result in large scale replacements among staff and that political neutrality is, in the final analysis, the ultimate factor securing the evolvement and operation of professional public servants.

In public administration the principle of lawfulness is slightly different from its primary definition in the private sector. In the private sector, everything is legal unless prohibited by law. In the public sector, the civil servant may only do what the law explicitly permits or prescribes. At the same time, the law places a more powerful responsibility on the civil servant than would be the case otherwise, since it requires not only that the civil servant obey the law, but also that they compel others to do so.

The principle of subsidiarity on the one hand set public administration as subordinate to the elected bodies and on the other, it establishes a strict hierarchy within the official apparatus, which includes the ensuing right to give orders.2 Morris and Fredman (1993) added that the strict hierarchy of superior and subordinate in an office ensures a clear chain of command that goes up to the minister’s responsibility to parliament on the one hand, and on the other, makes sure that the official staff exercises its public function vis-à-vis the citizens in a transparent, fair and unbiased way. Lőrinc and Takács (2001) have summed up the basic principles of public administration as manifest in the democracy and effectiveness of public administration. In this context they view the principle of democracy as the restriction on public administration. All of these principles will directly or indirectly reinforce the requirement derived from the specifics of employment, that a civil servant may only lose their job if, for some reason, the purpose for which they were employed no longer exists.

Regarding the other basic form of public sector employment, the public servant, a unique approach in Hungarian laws has existed regarding this form of employment since it was established in 1992. The public servant fits in somewhere between the general employment condition and the civil service. In this case the employer performs a public service3 that does not require the exercise of some form of public power or state prerogative. The public servant employment status was established by Act XXXIII of 1992 on public service employment (hereinafter: Kjt.). The basic feature of this employment

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2 The right to give orders, which is generally typical of work as an employee, becomes reinforced because of the principle of subsidiarity.
3 Therefore, the regulation of the public servant is exceedingly diverse, since any number of sectoral laws (on public education, higher education, health care, etc.) and ministerial decrees regulate the specifics of people employed under this title.
status is that it was established to meet topical political and – even more so – budget circumstances. In other words, it is the product solely of pragmatic considerations and not legal dogma (Horváth, 2008).

The dismantling of job security in labour law in general and in the public sector (among civil servants and public servants) in particular

The labour law of 1992 regulated public sector employment separately, separating it from private sector employment, and also separating the civil services, the public services, and the professional members of the armed services (the latter includes law enforcement and firefighting) within the public sector. The 1992 regulations introduced a set system of terminating employment in the public sector. The text of the law included an exhaustive list of the factors, which, should they occur, would allow or require the employer to unilaterally terminate employment. The guiding principle of Act XXIII of 1992 on the legal stature of civil servants (hereinafter: Ktv.) regarding job security was that the people employed were career civil servants who did their work professionally, and in exchange the state would guarantee them job security and regular opportunities for advancement.  

In contrast, the private sector worked under the principle of the semi-restricted job termination system as set down in sequential Labour Codes. In other words, it listed the specific types of causes for which dismissal became possible, which were concretized over a lengthy timeframe by day-to-day practices and court interpretations of the law (Act I of 2012, Paragraph 66, Section 2). This regulation faithfully reflected public thinking in terms of labour law in the 1990s, which also coincided with the above reasoning. In other words, labour law accepted job security as the goal and requirement of the regulation.

In the meantime Hungarian labour law underwent significant changes. Labour law protections were reduced drastically and it seems reasonable to assume that current Hungarian regulations offer one of the lowest levels of work protection in all of Europe and North America.

Although arguments in favour of reducing job protections can be heard often by a wide range of analysts, convincing dogmatic arguments are sorely absent from this position. They cite the dismantling of labour protections as a way to expand employment and improve competitiveness without demonstrating exactly how the reduction in protections will do this, or through what mechanisms, albeit their goals are valid and necessary. The literature covering labour law lacks systematic investigation into how the past two decades of labour law, which deregulated employment, has impacted job creation and competitiveness. Has it improved them and if not then why do we believe that future deregulation will do the job? To my knowledge related sciences have also failed to prove a cause/effect relationship. Actually, they seem to dem-

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4 These regulations are the most important guarantees of the principle of closed public administration discussed above.
onstrate the opposite. Labour economy research (domestic and international alike) have verified that the dismantling of labour law protections has not influenced employment levels. At most it has had a statistically insignificant impact on the composition of the workforce. (Esping-Andersen and Regini, 2000, Cazes and Nesporova, 2007, p. 36–39) Among the goals thought to be attainable with deregulation is increasing employment (something which can be quantified and monitored) and the much less palpable goal of improving competitiveness. However, generally such analyses fail to offer concrete information on the content of competitiveness or the desired goal. This makes it harder to explore and monitor cause/effect relationships.

In the public sector, reducing job security was intended to, in part, meet other goals. Partly it was a move to cut budget outlay and partly – as of 2010 – it was to adjust public sector staff to meet political preferences. The eroding of job security among public sector employees started in about 2000. After facing the legal consequences of unlawful dismissals – which the Constitutional Court reversed in Decision 4/1998 (III. 1.), the job of eliminating the legal consequences of unlawful dismissal got underway by amending the law.

An amendment to Kjt. on 1 September 2007 essentially redrew the set of legal consequences for the unlawful dismissal of civil servants (Kjt. Paragraph 34.) The amendment started by discarding the principle of *restitutio in integrum*, under which the violator of the law was mandated to return the unlawfully dismissed employee to their original job. Under the new rule the civil servant only could request being returned to their original job if the employer’s decision violated the principle of equal treatment, if the person was under special protection prohibiting or restricting dismissal, or if the move violated special workplace protections afforded to elected union officials (a member or chair of a civil service council or a public employee representative) or a labour safety official. (Kjt, Paragraph 34, Section 1., Subsections a and b). Among the factors requiring the return of someone to their original job, the changed legislation – effective 1 January 2010 (Subsection c) – cited dismissal without legal cause or disciplinary dismissal that was found to be a disproportionately severe sanction.

All other violations of the law – in fact every single violation usually committed – were cited among the violations regulated by Section 4., where the legal consequence was limited to a payment obligation on the part of the employer, the amount of which was determined by the court. Therefore, if the employer gave no cause for dismissal or if the cause was a falsehood (which occurs quite often), the civil servant could not request a return to their former job. In fact, under decrees that took effect in 2007 and are still in effect, albeit in changed form, these regulations, which were full of fault legally, were considered valid, and the job was classified as legally terminated at the time specified in the notice of termination. In other words, an employer could
deliberately flaunt the law and dismiss a civil servant without risking the consequence of having to return the civil servant to the job, since the risk of having to return the person to the job was non-existent except in the specific cases listed in the law.

The driving force of this 2007 amendment was an attempt to save central budget monies. Ending the need to return someone to a job also prevented a returned employee from demanding back pay and, should the employee again be dismissed, severance pay. Limiting the amount of back pay a person was owed saved the budget from having to pay out multiple years’ worth of salary that the civil servant had not worked for when court proceedings were lengthy. While the regulation did save money it was dogmatically inconsistent, since limiting the chance to return to the job to a very limited circle broke with the fundamental legal principle which declared that an action which seriously violated the law was null and void and could have no legal consequence. At the same time, the lengthy court proceedings and consequentially, the employer’s growing payment obligation occurred for circumstances unrelated to the civil servant since the lengthy proceedings generally could not be blamed on the malevolent efforts of the civil servant trying to drag out the proceedings. In fact, the drawing out of the court proceedings was disadvantageous to the plaintiff civil servant since the outcome remained in limbo, requiring them to secure a living through other means while remaining uncertain of receiving any compensation (sometimes for years on end) even if there were solid grounds for the lawsuit. It would have been in the interests of both sides for the government to have taken measures to get the courts to move faster in labour disputes and had this been done legislative amendments running counter to labour law dogmatics could have been averted.

Another amendment to the detriment of civil servants limited their right to back pay. A provision declaring that an income covered through another source did not have to be paid out by the employer who had violated the law was already in effect. In other words, if the civil servant had found another job in the interim and received a salary, or had been receiving unemployment benefits, the amounts received were to be subtracted from the amount the employer had to pay. The 2007 amendment added the twist that a civil servant who did not display proper diligence in seeking another source of income was not entitled to back pay either. Failure to display proper diligence particularly meant that the person did not cooperate with state employment agencies in looking for a job, did not conclude a job-seeking agreement with them, or that the employee had rejected what the employment agency qualified as a satisfactory job offer – in keeping with the conditions in the law on job seeking – and was not actively seeking employment otherwise (Kjt. Paragraph 34, Section 5.) If the court found an absence of proper diligence it could investigate all circumstances surrounding the case before setting back pay, if any.

5 Act I of 2012 on the new labour code cited this logic expressis verbis as an exception to the principle of said action being null and void.
6 Cases got dragged out far more often by unrealistically long (sometimes six-month) interruptions between two court proceedings, delayed evidence submitted by the employer (the employer did have some obligations) and lengthy expert evidentiary proceedings.
Shortly after the new labour code was adopted the legal consequences of unlawful dismissal underwent further erosion in the sphere of public service. As of 1 July 2012, the abovementioned regulations on the legal consequences of unlawfully dismissing a civil servant as specified in Kjt. were declared null and void and replaced by regulations in the new labour code containing even weaker sanctions.

As regards public service employment regulations, public service itself was essentially redesigned between 2010 and 2012. Parliament adopted Act LVIII of 2010 (Hereinafter: Ktjt.) on the legal status of government officials. The new legal status of government officials brought two essentially new approaches into the regulation of public sector employment conditions. 1) It introduced dismissal without cause, drastically reduced notice time, and separated the duration of notice time from the length of time the person had spent on the job. (Ktjt. Paragraphs 8 and 9). 2) Instead of overtime pay for overtime work government officials became entitled only to time off, on an hour-for-hour basis (Ktjt. Paragraph 15). These regulations were later incorporated into the rules governing civil servants. The reasoning in the law on the legal status of government officials stated that the amendment was necessary to establish balance among the subjects covered by the law, i.e. employer and employee. Therefore, the obligation to provide cause in the unilateral termination of employment had to be identical for both as did the period of notice. This regulation was extended to civil servants as of 1 January 2011. Under the new regulation there was no need to offer cause for dismissal – much the same as when termination was initiated by the employee – and notice time, previously adjusted to years on the job, was reduced to two months for termination by either employer or employee.

The reasoning behind this law contradicted the basic principle governing labour law. The argument, which set a body of public power on the same footing as a private individual not only broke with the principle of sovereignty but also rejected the existence of the difference in economic and organizational power as it exists in employment situations, and treated the legal status of the government official and the civil servant as equals under civil law. Consequently, it rejected the protective function of labour law based on the principle of proportionate interest, which is the principle that labour law regulation had to protect the weaker party, the one performing the work, at the points where they were vulnerable, and to offer sufficient protection through legal regulation to counterbalance that vulnerability (Hepple, 1996–1997). Under the generally accepted principle of labour law dogmatics, in all regulated systems (including the labour law of the United States which is considered the most liberal) the employer is more restricted in job termination than the employee. The economic justification for the regulation significantly favouring the employee is the excessive economic power of the employer, while the
legal justification is the right to work (Collins, 1991). The demand for protection of the employee when employed by the state is even stronger, since the state is an employer whose excessive power is vastly heightened. In addition, the requirement for job security is derived from the guiding principles of public administration (particularly those of neutrality and efficiency), as was discussed in greater detail earlier in this analysis.

In 2011 both of these laws were struck down by the Constitutional Court as unconstitutional. The Constitutional Court struck down the decree on the status of the government official in Decision 1068/B/2010. It began its justification with the general characteristics of public service regulation and the specifics of a closed public administration system. Then it focused on the issue on the basis of the right to work and the constitutional regulations on the right to bear public office, and on past Constitutional Court interpretations of these rights. Finally, it drew the conclusion that Kjt. Paragraph 8, Section 1, Subsection b) allowing the termination of government official employment without cause was unconstitutional because it violated the principle of the rule of law regulated in Paragraph 2, Section 1 of the Constitution, the right to work regulated in Paragraph 70/B, Section 1, the right to bear public office regulated in Paragraph 70, Section 6, the right to seek redress from the courts in Paragraph 57, Section 1, and the right to human dignity in Paragraph 54, Section 1. The date given for overturning the law on government officials was – surprisingly – 31 May 2011, which allowed nearly another six months to continue the dismissals without cause although it was based on regulations declared unconstitutional for multiple reasons. The Constitutional Court gave its reason for the nullification date as the fact that parliament had to enact a new law for which it needed several months to prepare.

In a separate decision the Constitutional Court overturned the same provision allowing dismissal without cause in Ktv. § 17., offering a reasoning that essentially coincided with the above, based on constitutional principles. The termination of the regulations governing public official legal status was retroactive although, since the effect of the earlier regulations was restored with the overturning of the new ones the given decree was overturned with ex nunc validity.

The legislation that followed the Constitutional Court decision was CXCIX of 2011 on public service. While less obvious, it retained the right to terminate employment without legally relevant cause despite a 2011 government document called the Magyary Program that declared itself to be establishing the basics of “good governance” and “good public administration.” On the surface the dismissal system returned to the former one but the reasons the employer was required to give were as abstract as “becoming unworthy of the position” and even “loss of confidence in the person by the manager.”

One can cite objective considerations within the rubric of becoming unworthy of a position. Therefore at least in principle it is possible to offer a concrete

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11 Constitutional Court Decision 29/2011 (IV. 7.)
12 Act CXCIX of 2011 on public service officials, Paragraph 63, Section 2, Subsections a) and e)
reason, and which limits challenges in the courts. While it is possible that losing the confidence of the manager can be the result of objective circumstances, in cases when rational and consistent reasoning could describe how confidence was lost, the wording itself suggests that subjective considerations could play a much bigger role than objective ones when coming forward with that argument. In other words, the dismissal could be the outcome of a completely subjective factor, such as that the manager personally disliked the civil servant and did not want to work with them. This extreme interpretation makes possible not only politically motivated discrimination but discrimination by gender, age, family status, or disability, which conflicts with European Union acquis and international legal norms. The concepts of “unworthy” and “loss of manager confidence”, though the former is the less serious of the two, are hardly different from the legislation thrown out by the Constitutional Court, unless judicial practice can restrict their use.

Summary

The new labour law has almost completely eliminated job security with labour regulations covering civil servant employment conditions. The first moves towards this end were in the mid-2000s, when regulations governing job termination that no longer rested in dogmatic principle were first introduced, exclusively to reduce budget expenditure. The regulations that diminished basic labour laws tended to “go around and come around.” In other words, if a regulation withstood Constitutional Court scrutiny it was included into additional laws and thus reduced labour law protections for all categories of public sector workers. The process peaked in 2010 when dismissal without cause was introduced. At this time political factors appeared to have been more important than budget considerations, given that a new political party moved into office. The excuse, however, was to establish true equality among partners (i.e. employer and employee). The inconsistency of the argument and the absence of a foundation of principle were underlined by the fact that in addition to the reference to the equality (non-existent) of state and civil servant, – the law also argued for state sovereignty, i.e. its overwhelming authority – while calling for the termination of other rights. Taken separately, neither argument holds water. Applying them together is self-contradictory and spotlights the absolute superficiality of the reasoning given for the laws.

The regulation allowing dismissal without cause was overturned by both the Constitutional Court and the European Court of Human Rights, in part for overlapping reasons. In its decision the Constitutional Court underlined the right to work and the right to bear public office while the European Court of Human Rights found the right to fair procedure to have been violated by the de facto impossibility of court control.
The new legal regulation formally complied with court conditions but the new reasons which allowed termination of employment, in particular, the loss of confidence on the part of the manager, retained the opportunity to terminate employment for purely subjective reasons. This has opened the door to all manner of discriminative and unlawful employer practices.

In addition to rewriting the causes for which an employer or the employee could give notice, sanctions for unlawful dismissal were reduced. Reducing sanctions to a minimum along the entire spectrum of labour law leads to a situation in which employees will not protest even flagrant violations of the law in workplace practices. Formally, this will lead to an improvement in statistics on labour-related lawsuits but in practice will lead to deteriorating working and living conditions.

At the same time the regulations are dysfunctional from the aspects of organization development and human resource management because they reinforce servility and stifle opportunities for independent thinking and action. Thus, they could lead to the deteriorating performance of businesses, government administration, and the institutions that service them, possibly within the very near future.

References


