

### 3.2 The specifics of setting salaries and interest reconciliation in the public sector

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The portions of the Hungarian legal system covering public sector employees that evolved between 1992 and 1996 divided up the public servant sector which until then had been nearly a single entity. The divisions were partly along the lines of branches of service and were partly linked to the role of their employers. Three major public servant groups were established within the government power structure: armed services (including law enforcement and the military), public servants, and public service employees. Without offering details on the specifics of these legal relationships, we do need to say that the first two are related to public administration and power functions while the employers of public service employees provide residential services. Therefore, employment specifics related to armed forces and public servants tended to make up “closed systems”, while the regulation of the public service employees was less restricted and more like that of the business sector.

#### Wage systems for public sector employees

The differences appear in the pay scales even though all three operated with set remuneration systems based on education level and years of service that determined both rank and wages. There was one significant difference regarding public service employees, in that while the minimum was set, anything higher could be negotiated. The regulation of labour relations was set in accordance with that difference. Among public service employees wage agreements and collective agreements were possible, while both were out of the question for the other two categories.

The pay scale for the armed service and for public servants had little room for employer decisions and there was no such thing as collective bargaining, albeit the system did contain a smidgeon of flexibility. The law governing public servants allowed local governments to set their own “base salary”<sup>1</sup> for pay scales. As far as civil servant salaries were concerned, over time the law allowed deviation from the pay scale, initially by  $\pm 20$  per cent and then over a range of from minus 20 per cent to plus 30 per cent. In addition, it introduced a configuration called “personal remuneration” which was completely divorced from the pay scales. As of 1996 there were two separate pay scales for armed forces personnel. One was a remuneration scale linked to position and the other linked to rank. Remuneration under the first system differed from the pay scale in that it operated along a 100–120 per cent scale. Promotion dates were set into zones, which meant that when time for a mandatory promotion arrived (this was the lowermost section of the waiting time zone) the remuneration also increased.

<sup>1</sup> The “base salary” (*illetmény-alap*) is a basic point of the pay scales, regularly set by the law. Mandatory basic salaries in all brackets of the pay scale are defined by tariff multipliers combined with the “base salary”. While salary increase can be given for everyone by establishing a higher “base salary”, the wage proportions across different brackets remain unchanged. (Editor’s note: there is a similar technique in the French public sector pay scale, the common English translation for the French counterpart of “base salary” is “index point”.)

For all three categories, a broad range of bonuses topped on the basic salary. For public servants the remuneration was made up of the salary set by the pay scale plus a remuneration supplement, while for armed forces remuneration for rank was added to this.

Although all three remuneration systems were based on nearly identical principles and centrally set wages were the rule, actually salaries were quite different from one another. This was because of differences in the pay scale (more specifically, the structure of the pay scale and the various multipliers) as well as the fact that the “base salary” for public servants and civil servants (the latter’s “base salary” has to be applied for armed forces) was quite different. We have summarized mandatory pay for the three categories under the rules valid for 1994 in *Table 3.2.1*.

**Table 3.2.1: Extreme values of mandatory pay for employees with the same education level in 1994 (HUF, minimum wage at the time: HUF 10,500)**

	Soldier <sup>a</sup>	Civil Servant	Public Service Employee
“Base salary”	18,000	18,000	8,000
Minimum	30,096	9,900	8,000
Maximum	122,760	63,360	44,000
Maximum/minimum	4.08	6.40	5.50
By education level, with 10 years of service			
Eight grades primary school	-	21,780	10,500
Secondary school completed	32,640	31,680	16,800
College/university	75,240	46,530	27,200

<sup>a</sup> Given that Act XVIII that regulated armed services was only adopted in 1996, the calculations here are based on Defence Minister 50/1987 and 8/1994 Ministry of Defence Commands, which are limited to soldiers.

Source: *Berki* (1994a) p. 16.

In 1994 – after the civil servant pay scale was introduced but before the public service one came out<sup>2</sup> – the average monthly income of civil servants according to a survey in May was HUF 43,342 while the average for public service employees was HUF 41,052.<sup>3</sup> In other words, there was hardly any difference at this time, but by the end of the decade they were quite different. According to a report published annually by the ministry responsible for labour, in 1998 comparative earnings<sup>4</sup> took the shape seen in *Table 3.2.2*.

**Table 3.2.2: Comparative earnings in the public sector, 1998**

Sector/sub-sector	Comparative earnings ratio compared to the private sector (per cent)	Actual amount, monthly	As compared to the average for the public sector (per cent)
Public sector total	64.2	64,158	100.0
Civil servants <sup>a</sup>	90.3	98,519	153.6
Public service employees	59.3	54,934	85.6

<sup>a</sup> No data available for armed forces.

Source: *KSH Informative database* – Gross average earnings of civil servants and public service employees in public institutions.

<sup>2</sup> It took effect on 1 January 1995.

<sup>3</sup> See: Briefing on the income evolution over the first half of 1994 and valid collective agreements. Ministry of Labour, September 1994 (quoted by *Berki*, 1994b, p. 12).

<sup>4</sup> When comparing earnings, standardized data for education level and length of service were used.

In other words, some of the differences in income were built into the pay scale and others were the outcome of the lower “basic salary” of public service employees, when legislators built a huge gap into the pay system even though the difference in the social status of the three groups at the time of the regime change did not justify it.

**The forums for interest reconciliation and the main issues**

When the interest reconciliation system took shape (*Table 3.2.3*) there were regular negotiations between the government and the public sector unions, which reached and signed onto agreements. Until the 2000s, the most important venue for bargaining was the Interest Reconciliation Council for State-financed Institutions (KIÉT),<sup>5</sup> and later the salary issue became the central theme of the National Labour Council for Public Service Employees (KOMT).<sup>6</sup> Dialogue was essentially between the government and the unions with the positions of local government associations determined by central government budget resources. The complete set of vertical and horizontal forums for public service interest coordination was ready by 2002. Every trade union federation and confederation organizing public servants within the government’s power structure participated in the coordination on nationwide, sectoral, sub-sectoral, settlement and workplace level alike.

**Table 3.2.3: Peak interest reconciliation forums in the public services**

Time of operation	Forum
September 1991 to October 2001	Interest Reconciliation Council for State-financed Institutions (KIÉT)
July 1993 to July 2001	Interest Reconciliation Forum for Civil Servants (KÉF).
October 2001 onward	Labour Council for Public Service Employees (KOMT)
July 2001 to March 2012	Interest Reconciliation Council of Civil Servants (KÉT), National Local Government Civil Servants’ Interest Reconciliation Council (OÖKÉT)
November 2002 to October 2006	Intergovernmental Interest Reconciliation Forum of Law Enforcement Bodies (RSZTÉF)
December 2002 onward	National Public Service Interest Reconciliation Council (OKÉT)
October 2006 to July 2012	Interest Reconciliation Forum of Armed Forces Members (SZÉF)
March 2012 onwards	Interest Reconciliation Council of Public Servants (KÉT)

5 This was a four-party forum operating from 1991 to 2001. The members were the government, the federations of public sector unions, the federations of local governments and several organizations of institutional employers, the latter without voting rights.

6 The governments were generally careful to keep salary levels satisfactory in central government public administration, while regulations also made it possible for local governments to do the same.

Given the significant differences in systems of remuneration and in earnings levels, the unions involved in the various interest reconciliation forums were focused on reducing the income gap that, as already mentioned, had been built into the system. The players in the system were also pushed towards bargaining upon the “base salary” by the knowledge that if the “base salary” were increased pay for the entire circle of employees under their authority would increase quasi automatically. As following the central bargaining the “base salary” is legally set finally, its value determines what the outcome of bargaining will be during the sectoral or local phases.

In the late 1990s and primarily on trade union initiative a spontaneous effort was made to decentralize wage bargaining,<sup>7</sup> which resulted in separate wage multiplier systems used for the various public service employee groups. The profession/sectoral wage multiplier was intended to provide a measure of extra earnings, in addition to the public service employees' pay scale, to the employees in the various sectors. The rationale was 1) to be able to raise pay in selected sectors without changing the pay scale but while keeping in step with the differentiation in it, and 2) to deny the increase to other sectors employing public service employees. The size of the multiplier was strongly differentiated, depending primarily on which sector had a stronger influence on government decisions.

The outcome was a higher education and R + D pay scale that is still in effect, that adjusted the mandatory (guaranteed) salaries<sup>8</sup> of teachers and researchers to the system of professional promotions. At this time KIÉT still existed formally but was no longer in operation. Given the decentralized bargaining mechanism it might have appeared to no longer be necessary.<sup>9</sup>

However, it soon became clear that decentralized bargaining had numerous disadvantages. The government conceded to the demands of some groups of public service employees while other groups (sectors and professions) fell behind wage-wise while no one was really controlling labour market impacts. Another argument against decentralized bargaining was that the unions – for the most part, the ones in the Trade Unions' Cooperation Forum (SZEF) – soon realized that they were unable to influence the distribution of central budget resources between ministries or sectors, which could easily be played one against the other. So, to prevent internal conflict, they tried once again to negotiate within the KIÉT framework. This saved the ministries supervising the sectors and acting as executors from tough wage negotiations, by enabling them to turn the talks over to the one minister responsible for labour affairs and the finance minister.<sup>10</sup>

The government that took office in 2002 opted for a consistent interest reconciliation system and a reduction in the wage gap discriminating against public service employees. The result was two important measures, the establishment of the National Public Service Interest Reconciliation Council (OKÉT), and a “50 per cent” wage hike for public service employees. The result of the latter was a substantial decline in the wage gap. In 2003 the public service employees got 92.97 per cent of the average earnings for the public sector while civil servants got 133.93 per cent. In 2002 the difference was nearly double that amount.<sup>11</sup>

From 2002 to 2006 there was comparative calm in interest reconciliation forum operations and in public sector wage flows. Interest reconciliation became centred on the mass layoffs that began in 2003 and the human resource policy measures announced by the government to update public service. As

7 The agreements reached through interest reconciliation lacked the power of the collective agreements. The only way adherence could be guaranteed was through legislation that included the content of the agreements or by an administrative entity involved in the process issuing a decree to that effect. Therefore, most authors refer to bargaining negotiations occurring here as quasi (wage) bargaining.

8 For instance, as of September 2001 the professional multiplier was 1.43 in public education. As of January the multiplier in health and social care was 1.2. As of September the multiplier for college/university graduates in social care was 1.26, while as of September the multiplier was 1.2 for institutes of general culture and public collections. For more details see *Berki* (2000).

9 Seven plenary meetings were convened in 1998 and none in 1999. In 2000 there were three plenary meetings – but from 1998 on, not a single agreement was reached (*Berki and Dura*, 2012)

10 Though momentary interests appeared to coincide, the real underlying problem was that no one dared to touch the issue of establishing a direct ranking of public service employees by salary since there was no foundation of principle to establish that the work of a doctor was more valuable – and therefore should be paid more – than a teacher, or vice versa.

11 Own calculations based on KSH data.

far as public servants were concerned it introduced a performance-evaluation-based system – something it was said to be considering for the other sectors, too. It transformed the target-based bonus system and reshaped the rules under which public service employees could bargain collectively, and so on. But, these efforts bore very little result. In the autumn of 2006, the Gyurcsány administration announced – as an austerity measure – that it wanted to discontinue payment of certain income components, which is why no wage agreement had been reached for 2007 within OKÉT. Negotiations with the united public service strike committee established in the wake of the announcement did end with an agreement but in the autumn of 2008 the government declared that it did not have the means to honour that agreement (*Berki, 2008*). The strike committee, suspended earlier, was reactivated and negotiations continued until 15 October 2009. The agreement signed then however left the pay scale unchanged, discontinued the 13th month salary, introduced the super-gross income, allowing the portion of incomes deducted *ab ovo* for social insurance to also be taxed, and introduced a single compensatory factor, an earnings supplement of HUF 98,000 gross, for incomes lower than HUF 340,000 (*SZMM, 2009*). The series of negotiations in themselves demonstrated that as long as negotiations remained balanced they had a place in the interest reconciliation system, but when a collective dispute occurred the interest reconciliation system did not have the ability to handle it.

### Interest coordination after 2010

“The interest reconciliation system was fundamentally changed after the new government took office in 2010, since the position of the new government was to govern employers and employees as though they were one and the same and to focus on the interests of both when governing.” (*Berki and Dura, 2012, p. 89*.) The National Interest Reconciliation Council ceased to function after a few meetings, and after a bit of a delay, it was taken over by a tripartite forum operating far from the public eye and devoid of legal authorities.<sup>12</sup> As far as the reconciliation of public sector interests was concerned, the government believed that persons affected by changes in public service had to be notified of said changes so it retained that mode of communication while otherwise changing part of the system.

The National Public Service Interest Reconciliation Council is still in operation. The employee side was significantly changed twice since 2010. Currently there are five trade union confederations in it, but FRDÉSZ<sup>13</sup> (the Armed Services and Law Enforcement Interest Protection Federation) is not among them. OKÉT held talks on altering the legal profile of public service on more than one occasion. It also negotiated regarding public sector wages but no agreement was reached on substantive issues. In the autumn of 2013 OKÉT’s union side called for 20 per cent salary increases. The National Labour Coun-

12 The Private Sector and the Government Standing Consultative Forum (VKF) was established by a tripartite agreement in February 2012, which included three employer organization and three trade union confederations that had been members of the defunct National Interest Reconciliation Council.

13 The Armed Services and Law Enforcement Interest Protection Federation, which quit the Liga Trade Union Confederation and lost some of its member organizations in disputes among trade union associations.

cil of Civil Servants (KOMT) is also in operation but limits itself to peripheral issues. It has not discussed the transformations undergone in the various branches or the changes in the remuneration system of civil service employees (health care, education) to any substantive extent.<sup>14</sup> At the same time legislative regulation has altered the area for which KOMT was responsible. Under Subsection a) of Section 1, Paragraph 6 of the Act on Public Sector Employees on labour relation issues and matters impacting the legal status within the entire public service employee sector, the minister in charge of the sector may negotiate with the union representative of the branch within KOMT or with the sectoral interest reconciliation forum, but must include the national local government interest advocates, too. This rule has overwritten the old one, namely, while issues affecting all public sector employees should be negotiated at KOMT, sectoral issues should be on the agenda of sectoral forums only.

KÉT and OÖKÉT were replaced by a revived Public Service Interest Reconciliation Forum while the law divided the civil servants into government civil servants and other civil servants. In 2011 Act CXCIX on public servants put them in the same service employment relationship, although it was a civilian service relationship. The forum raised every single issue affecting the public services under the law, so when the government civil servant legal category was introduced, the issues of job termination without specifying a reason and the 98 per cent excise tax on severance pay were debated at the forum but the unions failed to get their points across. For that reason they chose a variety of possible remedies which they proposed to their members. The situation is similar today with restrictions on voicing opinions, the legal issues surrounding loss of confidence (see sub-chapter 3.1 in this volume), and other legal questions.

The Interest Reconciliation Forum of Armed Forces Members (SZÉF) was terminated. It was replaced in part by the Internal Affairs Interest Reconciliation Council since in the meantime, all law enforcement bodies excepting the tax and customs tariff services, were placed under the authority of the Ministry of the Interior. The Hungarian Law Enforcement Faculty/Body (MRK),<sup>15</sup> established in 2011, was granted an interest protection function under the law so it took over the role of the trade unions in sectoral interest reconciliation, which were otherwise significantly weakened by amendments to Hszt.<sup>16</sup> and the Labour Code (hereinafter Mt.).<sup>17</sup> The Armed Services Interest Reconciliation Council, which in recent years has faced problems similar to those of the unions and law enforcement workers, continues to operate. However, these forums were unable to substantively influence the transformation of the armed service pension system (see in sub-chapter 4.4) or to prevent the deterioration of their own operation conditions.

There have also been problems with sectoral interest reconciliation, which used to be ministerial level issues. These forums – particularly the ones covering public education, higher education, culture, and health care – had once

14 Today nearly half of the brackets in the pay scale is “un-marked” since the guaranteed salary included in it is higher than the minimum wage and the guaranteed minimum wage for skilled workers – more about this later.

15 The Hungarian Public Administration Faculty/Body, whose members are government officials, did not receive such clear-cut union rights.

16 Act XLIII of 1993 on the service conditions of armed forces professionals (hereinafter: Hszt.)

17 Hszt. amended the provision on deducting trade union dues and actually terminated the mandatory dues deduction – without giving the unions time to prepare. The outcome was that the unions lost a significant portion of their members. The position of the unions was also weakened by the establishment of the MRK – the Hungarian Law Enforcement Body/Faculty, which fostered the illusion among many members of the armed forces that it was an interest advocacy group that didn't charge dues.

operated in part as information disseminating and consultative channels that substituted for sector-level collective bargaining. Today, the structure of the bodies serving to maintain these areas is being transformed (the public schools and some health care facilities are being shifted out of local government control and placed directly into the hands of the central government), and this – in accordance with the government’s human resource policy outlook – has led to the introduction of lifelong career models and the transformation of civil servant remuneration. The second of the sectoral interest reconciliation forums has been the public education,<sup>18</sup> health care and armed services sector interest reconciliation forum, and an agreement on the renewal of the forum in the social care sector was reached in September 2013.

The failure of the transformation of public education and of the lifelong career model of teachers led to the establishment of a strike committee in which every single union organized in public education originally participated. Despite the fact that the government reached agreement with the members of the strike committee – with the exception of one union, the Democratic Teachers’ Union – innumerable disputed issues remained. The circle of participants in health care reconciliation talks has been haphazard, with professional and interest advocacy organizations participating jointly. The main issue here has been the sector’s human resource strategy, which is seeking a resolution to the problem of people leaving the professions and the labour shortage. The forum is an opportunity for the invited participants to directly notify the state secretariat of the issues where quick intervention would be desired (such as the home paediatric practitioners employed by local governments whose salaries had fallen well behind), but there were no institutional guarantees that there actually would be any government decisions to remedy the problems raised here.

### **Effective wage systems for public services**

At this point, we would like to explore the main components of the remuneration system, including starting salaries and highest attainable salaries under the various legal formations. In the professions where introduction of lifelong career models is currently under negotiation (health care, public education) separate pay scales have been devised. Therefore, a number of ranking systems will be established (although the original public service employee and the higher education pay scales will be retained) and the uniform remuneration system for public service employees will be terminated. Introduction of the lifelong career model will trigger a significant rise in earnings,<sup>19</sup> albeit over a lengthy timeframe, so people for whom the old public service employee pay scale remains in effect can expect their incomes to drop back (as happened with the social care sector, for which the unions set up demonstration committees in August 2013).<sup>20</sup> In parallel, under the rules, collective agreements<sup>21</sup>

18 Act CXXXIX of 2013 amending several laws regulating education did establish a National Teachers’ Body/Faculty. Its functions, however, were not enumerated in the law so we cannot say anything about its connection to interest advocacy.

19 For instance, teachers in public education are to be categorized in accordance with the new system by 2017.

20 The main demand of the unions is increasing salaries but updating the interest reconciliation system and even concluding a new sectoral collective agreement were also included among their demands.

21 For business entities that became budget-sponsored institutions, Act CIII of 2013 amended the National Budget Act. “Collective agreements in effect in these entities lose their validity at the time the government takes over the responsibilities of these entities” (Paragraph 11/F, Section 12). “Any works council in operation at the company shall be terminated at the time the government takes over the responsibilities of these entities” (Paragraph 11/F, Section 13).

are being terminated in business entities that the government has taken over, which will lead to employees here losing the benefits listed in those agreements.

In *public education* the future of the collective bargaining agreements is unclear. The benefits that local governments had funded were not provided by the central government in 2013. In the other variations, according to the regulations governing wages that have been made known<sup>22</sup> the “base salary” for remuneration is not uniform. For people with a secondary education it is 120 per cent of the minimum wage, for people with a higher education at bachelor level it is 180 per cent of the minimum wage, and for people with Masters degrees, it is 200 per cent. In 2013 the minimum wage was HUF 98,000, and civil servants starting their careers were entitled to 100 per cent of that amount. The pay scale contains five remuneration classifications, with 15 levels of payment. The highest multiplier is 265 per cent, which means that HUF 519,400 could be paid as a basic salary. For people employed in non-teaching jobs, the old public sector employees’ promotion system is to be applied.

In *health care*, two pay scales,<sup>23</sup> introduced in 2012 and operative since 1 January 2013, have been in effect. Under them, attempts were made to cover any salary increases due but left unpaid through differentiated lump sums in compensation. For doctors the pay scale set up three pay grades (*H, I, and J*) and 15 levels within that (for years of service from zero to 45). The base remuneration is HUF 108,000 and the lowest multiplier is 1.809. The highest is 3.415. For professional health care workers the pay scale retained the 11 classifications of public service employees and also includes 15 levels. Salaries range from HUF 103,000 to HUF 330,725. The starting level of Category *D* is HUF 118,000, higher than the 2013 guaranteed mandatory wage minimum for skilled staff.

The *higher education* remuneration system was retained (with, however, the chance to differentiate to a greater degree than the original system made possible), in which the university professor occupation is the “base salary” on the pay scale, and 40 to 106 per cent is a guaranteed salary. The guaranteed remuneration for university professor No. 1, was HUF 437,300 as of 1 January 2013. Forty per cent of that is HUF 174,920 and 106 per cent is HUF 463,538.

The public service employees not cited here separately continue to be paid according to the public service employee pay scale. Since the minimum wage is regularly increased and the “base salary” has not been changed, about half of the pay scale is now “empty” (61 of the 140 cells appearing in *Table 3.2.4* are in gray) since the minimum wage or the mandatory guaranteed minimum for skilled workers is now higher than the guaranteed pay in the pay scale. (Every group of public service employees has the right to conclude a local collective agreement but the wage agreements within it can only regulate the amount of the add-ons and salary extras that the law explicitly assigns to collective bargaining to regulate. This latter only may be paid out at the ex-

22 See the version of the Public Education Act valid as of 1 September 2013.

23 See the appendices to Act LXXXIV of 2003 on certain issues within the realm of health care activity.



pense of the institution's own (market) income, which means that additions of the type controlled by collective agreements are very rare.

**Table 3.2.4: Remuneration set as mandatory under the public service employee pay scale for the different wage categories and payment levels**

	A	B	C	D	E	F	G	H	I	J
1	69,000.0	77,000.0	78,000	79,000.0	89,000.0	122,000	127,000.0	129,500.0	142,000	154,500.00
2	70,207.5	783,47.5	79,560	80,975.0	91,447.5	126,270	131,445.0	135,975.0	148,390	163,770.00
3	71,415.0	79,695.0	81,120	82,950.0	93,895.0	130,845	136,207.5	142,450.0	156,555	175,357.50
4	72,622.5	81,042.5	83,070	84,925.0	97,010.0	135,420	140,970.0	148,925.0	165,785	186,945.00
5	73,830.0	82,390.0	85,020	86,900.0	100,125.0	139,995	145,732.5	155,400.0	176,435	198,532.50
6	75,037.5	83,737.5	86,775	88,875.0	103,240.0	144,570	150,495.0	163,170.0	187,085	210,120.00
7	76,417.5	85,277.5	88,725	91,047.5	106,577.5	149,145	155,257.5	172,882.5	197,735	219,390.00
8	77,797.5	87,780.0	90,675	93,812.5	109,915.0	154,330	161,607.5	182,595.0	208,385	229,046.25
9	79,350.0	90,282.5	93,210	96,775.0	113,252.5	159,515	169,227.5	192,307.5	216,905	238,702.50
10	80,902.5	92,977.5	95,940	99,737.5	116,590.0	166,835	177,165.0	202,020.0	225,425	248,358.75
11	82,455.0	95,672.5	98,865	102,700.0	119,927.5	174,155	185,102.5	210,437.5	233,945	258,015.00
12	84,007.5	98,367.5	101,790	105,662.5	122,597.5	181,475	193,040.0	218,855.0	242,465	267,671.25
13	85,560.0	101,062.5	104,715	108,625.0	125,267.5	188,795	200,977.5	227,272.5	252,405	278,486.25
14	87,112.5	103,950.0	107,640	111,587.5	128,382.5	196,115	208,915.0	235,690.0	262,345	289,301.25

Act LVIII on the legal status of government civil servants, no longer in effect, was adopted in 2010. It did nothing to change the essence of government civil servant salaries but certain incomes were significantly reduced because of it.<sup>24</sup> Act CXCIX of 2011 on *public servants* regulates the legal status of civil servants and government civil servants. The law retained the basic features of the earlier pay scale. For government civil servants the remuneration range ran from –20 per cent to +50 on a performance basis (in the ministries and the prime minister's office, the maximum is +30 per cent. The salaries of office workers with lower qualifications are set by the office chief and must be as high as the guaranteed wage minimum for skilled staff but may not exceed six times the "base salary". The other considerations for setting the basic salary must be set down in the public service regulations of the given administrative unit. The wage of a public service employee can be set between the minimum wage and ten times the average national economy-wide gross monthly wage for the previous year. For priority government bodies salary supplements for people with a university or college education is 50 per cent and for people with secondary education it is 15 per cent. For bodies on the lower level of the hierarchy it is 10 per cent for people with a university or a college education. The salaries of the top managers can be set by their superior body without fitting it into a category, in which case the manager is not entitled to any salary supplement. Depending on the organization, remuneration may range from 28 times to 17 times the "base salary" level. For offices not part of the central

<sup>24</sup> The institutions subordinated to the county public administration bureaus established in the reorganization of public administration of 2010–2011 were dropped down a level in the public administration hierarchy. The outcome was that salary supplements were also dropped down by one level, which meant a loss of earnings for the government officials. [According to the tariff chart the salary supplement is to be determined as a percentage of the (job category) salary, for instance, if the worker has a college or university degree and works in a parliamentary office the multiplier is 80 per cent, if in a ministry it is 50 per cent, if in a public administration body it is 30 per cent and if in a body subordinated to it, it is 10 per cent].

government, and those in local government, there are two important differences in the remuneration systems. Add-ons to remuneration and leader remunerations differ. The law does not limit the civil servant salary insofar as how much it can deviate from the remuneration set for a person's given rank, and a personal remuneration can be set without limits.

Under currently valid regulations, employers and the representative bodies of local governments have far greater scope in setting salaries than earlier.

For persons in the *armed services* the "base salary" is the same as in public administration, but the pay scale is unique. Despite amendments to Act XLIII of 1996 on the service relations of professional members of the armed forces the basic remuneration system was retained. The remuneration system was made up of a position salary, rank salary, salary supplement, service time supplement and other supplements. The position salary and rank salary combined made up the basic salary. The system contains two pay scales (categories), for officers, high ranking officers and generals (requires college or university degree) in Category I, non-commissioned officers and second lieutenant equivalent (with a secondary education), in Category II. Both pay scales are projected onto the public servant "base salary". The service time bonus functions as a partial salary booster with the starting amount at 12.5 per cent and the highest amount at 25 per cent. (The wages of defence employees working under the Labour Code (Mt.) cannot be higher than 10 times the national economy-wide average income.)

The remuneration for soldiers is governed by Act CCV of 2012 on the legal status of armed forces personnel and is of a similar structure (except that it uses a "defence" multiplier instead of a rank-based salary.) The salary is made up of a position salary, a defence bonus, a salary supplement, a service time supplement, a salary add-on, and at times, an additional salary component. The position salary and the defence bonus together make up the basic salary. Officers must be in Category I while rank-and-file personnel and non-commissioned officers are in Category II<sup>25</sup> with each category made up of a ten-point scale. The defence bonus is equal to the multiple of the "base salary" and the defence multiplier.<sup>26</sup> A minister's decree can allow the commander exercising the rights of employer to raise the salaries of subordinates by 30 per cent for a timeframe extending to 31 December of the given year. For persons with a university or college education the salary supplement is to be 20–50 per cent of the position salary depending on the place where the service is performed. For persons without college or university degrees it is 10–15 per cent of the position salary. The service time bonus ranges from 5 to 35 years and is 10–22.5 per cent of the "base salary".

The public sector salaries (if we ignore possibilities to deviate because of performance or qualifications and calculate maximums with the highest salary supplements) are summed up in *Table 3.2.5*.<sup>27</sup>

25 Since there is a shortage of soldiers who contract for a number of years, non-commissioned soldiers and service personnel with lower commissions are also granted other benefits not detailed here.

26 Please note that in the Defence Forces the tables of service personnel state that positions and ranks are subordinated to one another as specified by law, and therefore specific ranks are required to hold the various positions. If someone is mandated to advance to a higher rank for which the given position is no longer suitable, the position must also be re-shuffled to a higher level. Considering that there are not a sufficient number of higher positions to cover the people with higher ranks, the law contains an interim solution that acts as an incentive for people to remain in their previous positions.

27 Please note that the law for teachers was amended at the end of August 2013, and on the one hand it extended the scope of regulation to teachers working outside of the public education, while on the other, it reduced the starting salary. The system called for a 3.5 year interim to transit to the new pay scale, so for the moment the sections of the law referring to them are fiction.

**Table 3.2.5: Internal differentiation of the public service pay scales and the extreme values compared to the 2013 minimum wage**

Categories of public sector employees	Mandatory maximum salary at the end of a career compared to starting minimum	Starting mandatory minimum compared to minimum wage	Mandatory maximum at the end of a career compared to the minimum wage
Salary set by the Act on Public Service Employee	4.19	0.70*	2.95
Teachers (with college/university degrees)	2.94	1.80	5.30
<b>Health care</b>			
Doctors	1.89	1.99	3.76
Skilled health care workers	3.21	1.05	3.37
Higher education, researchers	2.65	1.78	4.73
<b>Public servants</b>			
University/college graduates	2.90	1.22	3.55
Secondary school graduates	2.83	0.71*	2.00
Office workers	2.03	1.16	2.37
<b>Law enforcement</b>			
University/college graduates	3.34	1.22	4.08
Secondary school graduates	3.73	0.63*	2.36
<b>Defence</b>			
University/college graduates	5.00	1.18	5.92
Secondary school graduates	2.81	0.79*	2.22

\* The minimum wage must be paid in the public sector too, so in practice the multiplier = 1.

The calculation does not include the special bonuses available in some occupations that are not available to all, or non-wage benefits that can be chosen from among alternatives, which amounted to HUF 200,000 among civilians whose salaries are paid by the central budget. When discussing these pay scale configurations we particularly wanted to show the internal ratios, so when conducting our calculations we also sidestepped the items that go below the HUF 98,000 minimum wage and HUF 114,000 guaranteed wage minimum of 2013.

### Summary

*Table 3.2.5* and the history of interest reconciliation over past years allow us to draw the following conclusions.

- The salaries of people working in the public sector are far from uniform. Today there are even significant differences among public service employees. There are a total of 14 different pay scales in the public sector if we ignore the public institutions' employees operating under the labour code.
- The differentiation of pay scales was not the outcome of different interests and negotiations at public sector interest reconciliation forums – it was primarily the result of government intentions influenced by pressures from

some professions, but the latter was random and the bargaining was decentralized to professions rather than sectors.

- Chances of advancing in the various careers are quite different. Within the services, the best chances of income growth were among military officers while the new system of advancement for doctors does not even see to it that their incomes will double during their careers. The only ones whose initial earnings can go up by threefold are law enforcement personnel and skilled health care workers.
- For persons with a secondary education and no specific profession, the wage scale is below the minimum wage everywhere except in public education. For government office workers it is equal to the guaranteed wage minimum – which is quite low.
- The difference between maximum earnings and the minimum wage is much smaller than the difference in the private sector. People with a secondary education will barely earn more than double the minimum wage even at the end of their careers.
- The new pay scales replacing the old ones create new disparities which cannot be justified or explained on a theoretical basis.

While the Act on Public Service Employees formally allows collective wage bargaining there is no scope for them in practice, and in the other sectors even the formal possibility of collective agreements has been denied. The multitude of pay scales prevents any centralized wage agreements based on higher level interest reconciliation from taking place. There is little likelihood that bargaining, should it occur within sectors or even professions if allowed by law would lead to proportionate outcomes keeping the labour market balanced. The failure of the decentralized bargaining taking place in the late 1990s should serve as a warning to today's negotiators.

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