

INTRODUCTION

The *Hungarian Labour Market Yearbook* series was launched 14 years ago by the Institute of Economics of the Hungarian Academy of Science with support from the National Employment Foundation (OFA). The yearbook presents the main characteristics of Hungarian employment policy and each year features an in-depth analysis of a topical issue. From the outset, the editorial board has striven to bring relevant and useable information on trends in the Hungarian labour market, the legislative and institutional background of employment policy, and up-to-date findings from Hungarian and international research to policy makers, civil servants, government officials, higher education and research institutions, and the press and electronic media.

It was an important consideration that the research published in the yearbook series would also provide a good source of knowledge for higher education on the topics of labour economics and human resources management. The yearbook presents the main characteristics and trends of the Hungarian labour market in an international comparison using available statistical information, conceptual research and empirical analysis in a clearly structured and easily accessible format. Continuing the previous editorial practice, we selected an area that we consider especially important from the perspective of understanding labour market trends in Hungary and effective evidence-based policy making. The current volume examines the characteristics of public sector employment.

For the first time in its history, the publication of the Labour Market Review was delayed by more than six months. The reason for this was the lack of funding – despite our best efforts. We remain committed to providing the best possible information with the yearbook series to anyone with an interest in the Hungarian labour market and commitment to evidence-based policy making.

The Yearbook has four main parts.

1. The Hungarian labour market in 2012–2013

The Hungarian economy was characterised by a deepening of the second wave of the crisis followed by a weak growth from mid-2012 until the end of 2013. The country's annual GDP in 2013 was 1.2 per cent higher than in 2012. Expanding car production and export, as well as the intensifying of internal demand all played an important role in the growth. Economic investment increased for the first time since the crisis mainly thanks to infrastructure developments financed from EU sources but household consumption also expanded underpinned by rising real wages and strengthening consumer confidence.

The overall activity rate reached 65% in 2013, which has been its highest value in this millennium; however, it is still lower than the EU average. Using the ILO definition the mean unemployment rate was 10.3 per cent in 2013, 0.7 percentage points lower than in 2012. However, the number of unemployed school leavers went up: the monthly average number of unemployed school leavers registered was 66,025 people, 7.4 per cent higher than in 2012. The employment and unemployment rate improved in 2013, the former grew by 1.6 per cent and the latter fell by 2.6 per cent between the first and the last quarter. The favourable employment and unemployment statistics are somewhat dampened by the fact that they are mainly due to a very substantial increase in public works. The number of people in public works employment^{*} has increased steadily in the past three years and with the launch of public works winter projects it reached 172 thousand in the last quarter of 2013. In addition to public works, labour migration from Hungary also had important implications for unemployment and employment rates. The number of people working abroad while maintaining their residency status in Hungary has increased threefold in the last five years, their number was near 100,000 in the last quarter of 2013. In 2008 60 per cent of registered job vacancies were non-subsidised; in 2013 this fell to 20 per cent. The steady increase of subsidised vacancies within all registered job vacancies started with the introduction of the new public works policy. Nevertheless, the number of reported job vacancies increased on average by 14 per cent compared to 2012 suggesting that economic growth was picking up. At the same time an increasing proportion of newly created jobs are part-time or fixed-term. Part-time employment went up by more than 50 per cent between 2008 and 2013, the number of workers on a fixed-term contract, predominantly short-term, was 42% higher in 2013 than in 2008.

Thanks to above-inflation nominal pay rises in recent years, real wages have increased by nine per cent compared to 2008. In contrast, average gross pay in the public sector has been falling more or less steadily: overall by 15 per cent in the past five years. Various measures were introduced in 2013 that increased wages: a more than five per cent pay rise for public workers, wage adjustment of health care workers and a new career model for teachers in 2013, a 5.4 and 5.6 per increase of the minimum wage and guaranteed minimum pay respectively. The labour market was less tight in 2013 than in previous years. This is also suggested by the fact that redundancy was down from its peak at 60.2 per cent (second quarter of 2010) at 58 per cent in the second quarter of 2013 which then fell to 54 per cent by the end of the year. The number of people who handed in their notice doubled in the last quarter of 2013 in comparison to the same period in 2012, which might also indicate a more favourable labour market.

^{*} Average headcount based on the Ministry of Interior's Employment and Public Works Database.

In summary, it might be argued that the labour market improved in 2013 compared to 2012, however this was mainly due to the massive expansion of public works employment rather than economic growth.

2. In Focus

The topic of this year's *In Focus* is the public sector which is a relatively neglected area of research compared to the private sector. It examines the public sector from a dual perspective: on the one hand, it looks at its labour market processes, and on the other hand it explores its institutional background. *In Focus* is comprised of an introductory and four thematic chapters. The short introduction gives a brief overview of the topic, highlights the main current issues in Hungary and abroad, provides a review of earlier literature, and presents the topics of the main chapters.

Chapter 1 summarises the key facts. *Köllő's* study examines the size and composition of the public sector and the development of public sector wages in Hungary. In international comparison the most prominent feature of the public sector in Hungary is the very large fluctuation of the wage differential between the public and private sector (unprecedented among OECD countries), and – in the light of current trends – the widening pay disadvantage between similar employees (in terms of demographic characteristics, education, labour market experience) in the public and private sector. The chapter also addresses the impact of pay rises and decreases on relative wages, the development of graduate pay over the career-span and the methodological difficulties in defining and measuring the public sector. The chapter includes two boxed texts (brief highlights). *Neumann and Varadovics* present the trends in the size and wages of state/local government owned corporations. According to their findings the restrictions affecting the public sector since 2006 or the economic downturn hitting the private sector between 2008 and 2010 had no effect on wage dynamics in this sector. *Scharle* addresses a particular segment of the broader public sector: the size and cost of public works employment. She provides an overview of the number of participants and the cost of public works programmes between 2000 and 2013 and compares this – in terms of its size – to other parts of the public sector and the practices of other countries.

Chapter 2 examines the public sector primarily from a labour economics perspective. Most of the more recent research presented here addresses the interaction between the different labour markets and labour market flows. The study by *Altwickler-Hámori and Lovász* examines the wage differential between the private and public sector at different segments of the wage distribution in the decades before and after the large pay rise in 2002. The authors set out to answer the following questions: who are at a relative disadvantage in the public sector and who benefitted most from the pay rise? Also, did the wage increase really make public sector employment a more attractive option for the highly

educated? Or differently, did the pay rise have a lasting effect on public-private sector wage differentials? Was it effective? *Lovász's* boxed text addresses labour market discrimination in the public and private sector: the gender pay gap and occupational segregation in the hiring process and promotions.

The other three subchapters investigate the interactions between the labour markets of the public and private sector. *Telegdy* examines the effect of the 2001–2002 pay increases on corporate compensations. He has shown that a 10-per-cent higher public sector presence in a given labour segment increases wages by 1.5 per cent. The spill-over effect is particularly strong for low-paid corporate workers in occupations with a high concentration of public sector workers, in the service sector, or if they were hired after the large pay rise. In his paper *Köllő* examines the effect of large wage gap variations between the private and public sector (especially the large pay rises before and after the 2002 general election) on the number and quality of private sector workers moving to public sector jobs. An increase of one per cent in public sector pay for a given gender and age increased the average wage of workers moving from the private sector by over 0.5 per cent compared to stayers. The effect was much stronger for young people than older workers. The heavy decline in the inflow to the public sector dampened the effect of positive selection on the public sector workforce. *Elek and Szabó* explore labour flow in the opposite direction: they examine the number, composition and future labour market behaviour of people leaving the public sector, including the probabilities of re-employment in jobs that match their education. The re-employment intensity of people who are made redundant in the public sector is about 5–25 per cent lower – on average they take this much longer to find a new job compared to people who lost their job in the private sector. At higher education levels the difference disappears. People who move from the public to the private sector are not significantly more likely to be over-qualified for their new job than people who move jobs within the private sector – if the effect of education is controlled for.

The study by *Molnár and Kapitány* investigates the distinctive selection mechanisms of the public sector. They present non-monetary motivations, risk-minimising family strategies that support the decision to work in the public sector. Their boxed text examines whether the general trend that public sector workers are more satisfied than others is also valid in Hungary.

Chapter 3 addresses the institutional background of the public sector labour market. Due to limited space this publication does not aim to present public sector labour law and the system of interest reconciliation in a comprehensive way, instead the focus is on the latest trends. *Nacsa's* subchapter reviews the most important changes in labour law after 2010: the rules of dismissal without cause, their repeal by the Constitutional Court, the new regulations from 2011 that in essence re-established the pre-repeal situation through the dismissal causes of loss of confidence and unworthiness. *Berki* presents the mechanisms of in-

terest reconciliation and wage determination in the public sector highlighting the post-2010 changes. The sub-chapter provides a detailed description of different wage systems, compares the main similarities and differences between different employment statuses, wage levels (internal differentiation of pay scales, differences, other pay components), and changes within the last three years. The other main focus of the sub-chapter is the national consultation and collective bargaining in the public sector. (The main topics are: operational and non-operational forums – the implementation gap, subjects of interest reconciliation, the lack of collective agreements, collective agreements that are ending, consultation and direct action.) In the discussion *Berki* provides an assessment of the relationship between unilateral wage determination (legislation) and interest reconciliation/collective bargaining. The boxed text in this sub-chapter considers the collective agreements of the central and local government owned corporations, and the likely effect of recent (2012) legislation that limits the scope of collective bargaining in “community owned” companies.

The next subchapters present a European outlook on public sector reforms. *Váradi* adopts a human resources management approach to describe the objectives and instruments of the *new public management* and the neo-Weberian approach that seeks to comply simultaneously with the requirements of efficiency and impartiality that ensure a professional and fair functioning of the public service. Developments in the early 2000s were in line with this and they increased flexibility but still preserved most of the security elements. However, the financial and economic crisis hampered these – quite diverse – initiatives. The countries that got into financial difficulties gave up more and more of the security elements without any coherence or clear direction in their policy making. Only some of the rich and stable countries could implement countercyclical measures in public sector employment as well. *Edelényi and Neumann* give an overview of public sector labour law models, wage determination systems and the role of social dialogue in the European Union, as well as recent changes and responses to the 2008 economic and financial crisis. Before the crisis in the Member States of the European Union there were two opposite models of public sector employment statutes: statutes based on Prussian or Napoleonic traditions and the statutes of the Anglo-Saxon countries based on common law traditions. Accordingly there were also two main models in wage determination: unilateral wage determination and collective bargaining. However, there exist other forms of interest reconciliation and in the German-French model different groups have different status in the public sector. In addition to the direct impact of the economic crisis (budget restrictions, redundancies and pay cuts/freezes), wage determination systems also underwent major changes: unilateral wage determination is clearly on the rise and agreements are being decentralised. In line with the objectives of New Public Management, the composition of the public sector workforce changed, the number of jobs “protected”

by status laws is falling and the number of people employed under private sector labour law is growing as well as the number of people in different atypical forms of employment.

The other study by *Neumann and Edelényi* focuses on the local government sector. In accordance with the practices of New Public Management, an increasing number of public services are provided by private or non-profit organisations – in a variety of forms – and the boundaries between sectors have become blurred. The first part of the sub-chapter gives an overview of privatisation, outsourcing/insourcing and public procurement practices in some Member States of the EU. The involvement of the private sector raises questions around the interaction of different labour market regulations: differences in the regulation of transfer of undertakings and employment clauses in procurement contracts between countries. On the other hand, the sub-chapter attempts to map similar practices in Hungary: it reviews the management, service provision and interest reconciliation practices of local governments, and the local government motives and counter-motives behind privatisation, outsourcing and insourcing practices. It also addresses the key trend of recent years: the transfer of local government services to central government management and then to religious organisations. Changes in the employment status and working conditions of affected employees are also discussed. The boxed text for this sub-chapter presents the employment implications of outsourcing and insourcing and transfer to religious organisations through two case studies from 2012.

Chapter 4 of *In Focus* combines labour economics and institutional approaches to present selected job markets within the public sector. *Varga* discusses teachers' pay, selection and attrition, while *Köllő and Szabó* address doctors' pay, gratuities and attrition as well as the characteristics of interest reconciliation in the health care sector including a regional outlook on similar processes in the Czech Republic, Poland and Slovakia. The two studies by *Berki, Czethoffer and Szabó* look at the employment situation of people who leave their career for different reasons. One of the studies examines the career path of nurses and other health care professionals after they leave the national health sector. The other sub-chapter explores the career path of law enforcement and armed forces staff after retirement: whether they worked, if yes in what occupations and how much they earned. Both studies review the main legislative changes affecting these occupations: the new pay scale in the health care sector and the abolition of early retirement pension that resulted in possibly the greatest protest of all to the post-2010 government measures which affected the public sector.

The time horizon of the sub-chapters in *In Focus* is different: labour economics analyses generally cover the period between 2008 and 2010, statistical data are usually available until 2013, and even the descriptive studies attempt to address – where possible – the most recent trends.

3. The institutional environment of the labour market between September 2012 and January 2014

There were various changes in the institutional environment of the labour market in 2013 that also affected the tax and contribution burden of employment. The most important change was the introduction of an employment promotion package by the job protection action plan that replaced the Start cards. School leavers under the age of 25 years, people under 25 or over 55 years, long-term jobseekers, women on, or returning from, maternity leave, unskilled workers, mothers with three or more children returning to work, and employers in free enterprise zones can receive a discount on the contribution payment.

Public works employment continued at a high rate similarly to previous years. However, unlike in previous years, at the end of 2013 it increased even further instead of entering a decline. While the average headcount was 140 thousand during most of 2013, in December it settled at around 200 thousand. In the winter months the programmes also allow basic skills development for approximately 50 thousand people. Weekly pay was replaced by a monthly wage for public workers. A wage minimum was introduced for supervisors in public works.

There were important changes towards the end of the period which affected net wages. As of 2013 the tax system became truly single-rate and the upper limit for pension contribution was also abolished. A new contribution discount scheme was introduced for families to supplement the existing family tax discount scheme. As a result low-earners with multiple children have been able to take better advantage of available discounts for children from 2014. The child care allowance was amended to include new measures for people who are having children and people who return to work following parental leave.

The accreditation of businesses employing people with disabilities became simpler and their funding system changed as well. The rules of public sector employment were amended for people who are eligible for old age pension. They can no longer claim their state pension while in employment; however they retain their pensioner status. Health care workers and tutors in art and vocational education are exempt from the new rules.

4. 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.

The data in the chapter come from two main sources: on the one hand the regular institutional and population surveys of the Central Statistical Office (CSO): Labour Force Survey (LFS), institution-based labour statistics (ILS), labour force accounting census (LFAC); on the other hand the register of the

National Labour Office (NLO) and its data collections: the unemployment register database (NES REG), short-term labour market forecast (PROG), wage tariff surveys (WTS), and the NLO's Labour Relations Information System (LRIS). More information is provided on these at the end of the statistics section. In addition to the two main data providers, the Central Administration of National Pension Insurance has provided the data on old age and disability pensions and assistance. Finally, some tables and figures are based on information from the online databases of the CSO, the National Tax and Customs Administration (NTCA) and the Eurostat.

All tables and figures in this chapter can be downloaded in Excel format following the links provided. All tables with labour market data published in the Hungarian Labour Market Yearbook since 2000 are available for download from the following website: <http://adatbank.krtk.mta.hu/tukor>.

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It is with great sadness that we remember our colleague and friend *György Lázár* who passed away after the completion of this manuscript. He was a member of the Yearbook's editorial board and not only helped us to find and make sense of data but also showed us an example in humanity and integrity.