

# 11 Employment policy measures to promote education reforms

[János Köllő]

When parents are faced with limited opportunities of finding employment, their children's school achievements and motivation will be affected in several ways. Living with unemployed parents, especially fathers, is the most prominent source of child poverty (BASS, DARVAS & FERGE, 2007, pp. 11–13). DARVAS & TAUSZ (2002) estimate that the probability of educationally relevant deprivation is one-third higher among children living in families with no active earners: these children do not have the necessary school equipment, do not have access to computers, do not take extra-curricular classes or play sports, do not have any spending money or participate in non-compulsory school activities. DARVAS & TAUSZ (2003) further show that being deprived of “opportunity enhancing activities” (books, cinema, sports, computers) is one of the main causes of children's pessimistic outlook and resignation. Children living in unemployed households are more likely to have lost all hope than children in any other social group observed in the study. A similarly grave consequence of having unemployed parents is a reduced probability of staying on at school following the eight-year period of primary education and an increased probability of dropping out of secondary school (KERTESI & KÉZDI, 2007).<sup>1</sup> Last but not least, the labour market failures of families or neighbourhoods that have lost or left employment for a sustained period – and the resulting anticipation of failure – tend to engender a negative attitude toward school requirements, which may characterise not only individual pupils but entire classes or schools.

Measures aimed at renewing education must be complemented by measures of Employment policy. There are good reasons for focusing on improving the labour market position of people with low educational attainment.

It is therefore essential that measures aimed at renewing education are complemented by measures of employment policy with a focus on increasing employment among the population with less than upper secondary qualifications and especially among those who have only completed eight years of primary education or less. There are two reasons why efforts should be focused on improving the labour market position of people with low educational attainment. First, the employment rate is exceptionally low in this group. As can be seen in *Table 11.1*, while the share of children living in families where none of the adults work is 1.2 per cent for graduate parents, 4.6 per cent for parents with upper secondary qualifications and 13.1 per cent for parents with vocational qualifications, the corresponding figure is 48.4 per cent for parents

[1] See Chapter 4 for a discussion of the problem of dropouts.

[TABLE 11.1] EMPLOYMENT STATUS OF PARENTS WITH SIX YEAR OLD CHILDREN (AVERAGE VALUES, 2003–2006)

HIGHEST EDUCATIONAL ATTAINMENT IN HOUSEHOLD	JOBLESS FATHER <sup>a,b</sup>	JOBLESS HOUSEHOLD <sup>b</sup>
0–8 years of education	50.5	48.4
Vocational training	18.1	13.1
Upper secondary education	8.9	4.6
Higher education	4.7	1.2
Total	16.1	12.0

<sup>a</sup>The labour survey dataset available for research purposes does not allow the family status (child, parent, other relative in household) of respondents to be determined in households with a complex composition. The above figures apply to those households with six year old children which have at most one male member over the age of 25.

<sup>b</sup>Household members are classed as jobless if they did less than one hour's paid work during the week preceding data collection.

[SOURCE] Hungarian Statistical Office (HCSO) labour surveys.

with lower educational attainments. The second reason is that labour market adjustment is hampered by institutional constraints and high transaction costs relative to wages in the “lowest” segment of the market – such as minimum wage laws and high travel and child care costs – which yields justification for state intervention.

The dropping out of the low-educated population from the labour market is not a statistical illusion, it is not a universal phenomenon and it not only affects the Roma population.

It is important to recognise that the dropping out of the low-educated population from the labour market is not a statistical artefact; it is not a universal phenomenon that is impossible to fight, and it not only affects the Roma population.

*a*) It is widely believed that the employment figures of the Labour Force Survey (LFS) “only reflect the size of the population with registered jobs.” In actual fact LFS employment includes a – probably considerable – share of unregistered labour. The surveys show more than twice as high agricultural employment and twice as high construction and service industry employment as the figures of the employment registers maintained by the Pension Insurance Directorate. At the macro level the LFS employment figure is 20 per cent higher (ELEK, SCHARLE, SZABÓ & SZABÓ, 2008) and the difference is estimated to be 33 per cent for the population with 0–8 years of education. (The latter figure also implies that the share of 25–64 year old people in *registered* employment barely exceeds 25 per cent in this social group.) Some of the hidden employment, of course, remains unobserved in either the labour surveys or other datasets. Research based on indirect observations (MOLNÁR & KAPITÁNY, 2006; SZABÓ, 2007), however, suggests that black labour cannot neutralise the disadvantages of casual workers or people reporting to be unemployed or inactive for surveys like the HCSO labour survey: they are characterised by not only low income but also low consumption and they are far less satisfied with their lives than their employed peers with the same reported incomes.

*b*) The dropping out of the labour market of people with basic educational attainment is neither a world-wide phenomenon nor a uniquely Hungarian

characteristic but is typical of the post-socialist countries of Central and Eastern Europe. The employment rate among the low-educated population of each Visegrad country (the Czech Republic, Hungary, Poland and Slovakia) falls outside the range observed in Western Europe while the employment rates among better educated social groups reach or approach the Western level (with the exception of Poles with upper secondary qualifications). The loss of employment started years before the collapse of communism and continues to the present day. While in Western OECD countries the employment position of the low-educated showed some improvement *during the second half of the nineties*, a two-digit decline in the employment rate was experienced in a number of countries in the Eastern region. (Hungary, where the big decline had taken place a few years before, was not among them.) The gap has further widened *since the turn of the millennium*: between 2001 and 2004 the overall OECD employment rate among 25–64 year olds with primary education (ISCED 0–2) increased from 57 to 61 per cent, while it decreased from 47 to 43 per cent in the Czech Republic, from 41 to 37 per cent in Poland and from 30 to 23 per cent in Slovakia (OECD, 2006, Table A8.1).

c) Although the Roma population is especially badly affected by the labour market exclusion of unskilled people – aggravated by discrimination, – the issue cannot be regarded as a “Roma problem”. Estimates based on KEMÉNY, JANKY & LENGYEL, 2003, pp. 18 and 105 and LFS data suggest that among the working age *jobless* population with 0–8 years of education at most 30–40 per cent of men and less than 30 per cent of women are of Roma ethnicity.

The fact that the low-educated population of Hungary show evidence of basic skills well below the European average (OECD, 2000) does not mean that employment policy is condemned to inaction until the situation improves. Basic skills are important but they do not determine employment: the national employment rates vary in a wide range at all levels of skills, including the current Hungarian level.<sup>2</sup> Albeit within limits it is possible to improve the labour market position of people with low educational attainment and basic skills. It is not only not inevitable but also unacceptable to wait for education reform to bring a solution to the employment problem in ten or twenty years’ time. Admittedly, there are handicaps, given institutional and economic arrangements, that cannot be changed. Hungary has a relatively small traditional self-employment and family-based smallholder sector, which is a major source of jobs for unskilled labour in other countries at a comparable level of development (MALONEY, 2004). The convergence of wages towards the EU-level curtails

[2] A strong correlation can be observed between test results assessing the literacy skills of people with basic education (OECD, 2000) and employment rates among this population (OECD, 2003): a one per cent increase in the former measure predicts an almost one per cent increase in the latter in the 18 countries where both measures are available. There are, at the same time, substantial differences (10–20 percentage points) in employment levels between countries that display almost identical test results, related to other factors (economic structure, wages, welfare programmes and labour policies).

The declining trend in the number of unskilled jobs must slow down and mechanisms aiding the matching of vacancies and job seekers must be made more efficient.

Hungary's competitiveness in the world of low-tech labour-intensive technologies. A radical reform of the welfare system would carry unpredictable political risks. These constraints, however, still leave room for improving the employment chances of people with less than upper secondary qualifications and for making work more attractive.

To break the "low equilibrium" that has evolved, the declining trend in the number of unskilled jobs must slow down and mechanisms aiding the matching of vacancies with job seekers must be made more efficient. The supply of vacant positions can increase (or its decline slow down) only if unemployment exerts a stronger pressure on the costs of unskilled labour. This process can be furthered by encouraging job search, revising welfare programmes that encourage exit from the labour market, removing or relaxing constraints of wage adjustment (the minimum wage, pay scales, sector-level collective bargaining) and by decreasing tax burdens on low wages. To improve matching efficiency, the features of demanded and supplied jobs need to converge and the fixed costs of working must be reduced.

#### ■ DIAGNOSIS

The minimum wage policy pursued since 2001 has had an adverse effect on the employment chances of unskilled workers.

1. The minimum wage policy pursued since 2001 (a huge hike in 2001–2002 followed by repeated attempts at maintaining that level) has had an adverse effect on the employment chances of unskilled workers. Studies looking at the impact of the 2001–2002 minimum wage hikes indicated a significant negative employment effect in the private sector, especially in small businesses. Low wage workers' chances of retaining their jobs diminished while the exit-to-job probabilities of the low wage unemployed fell (KERTESI & KÖLLŐ, 2004). Moreover, the wage increases had negative net impact on the central budget (HALPERN, KOREN, KŐRÖSI & VINCZE, 2004) and achieved only minor improvement in equity (SZABÓ, 2007). The reason is that people earning the minimum wage are typically not the primary earners of their households; they do not maintain families and do not fall under the lowest income category.<sup>3</sup>

Current minimum wage policies are strongly affected by the belief that a substantial share of people reported to earn the minimum wage receive further cash payments. Indeed, out of all workers on the minimum wage – who have made up roughly a tenth of the total workforce in the past three or four years – about 10 per cent are entrepreneurs, company managers or freelance professionals (lawyers, architects, artists, agents and so on), and a further

[3] Since it is a frequent argument, even among economists, that the employment rate did not decrease in 2001–2002, it should be noted here that the cited studies investigated whether employment had decreased relative to the level *expected without increases in the minimum wage* rather than whether it had fallen relative to the level in the period preceding the minimum wage increases.

group of about the same size are employed in various high wage jobs. However, the majority of the minimum wage workers are actually employed in low wage jobs – as unskilled labourers, material handlers, guards, doorkeepers, cleaners or manual labourers in commerce and light industry – and are highly likely to genuinely earn the minimum wage. While increases in the level of minimum wage can reduce tax evasion among “fake minimum wage earners,” this policy has a negative effect on the employment prospects of genuine minimum wage workers.<sup>4</sup>

The introduction of a minimum contribution base has had similar consequences. Current regulations specify that social security contributions are to be paid on a sum of at least twice the minimum wage but a business may be granted an exemption. The regulation in this form is poorly targeted. Specifying a minimum contribution base means taxing expected incomes, which, however, are a function of several factors, such as the employer’s economic sector, the amount of capital assets and skills of the employees. A universal minimum contribution base overtaxes some businesses or forces them to go through the exemption procedure every year while it sets an easy to bear burden for others even if they hide some of their incomes. A system of taxation based on expected income (presumptive taxation) requires defining differentiated minimum contributions adjusted to business attributes, which cannot be directly produced by the authorities but must be based on the results of econometric analyses of carefully specified production functions. Presumptive taxation can be applied in a discretionary way without automatically enforcing tax payment after estimated income. This approach is followed by the Italian practice of ‘analisi di settore’: if actual income falls short of expected income the entrepreneur faces a highly increased risk of independent checks.

The unemployment assistance system is dominated by programmes supporting absence from the labour market.

2. The unemployment assistance system is dominated by programmes supporting exit from the labour market. It is not the unemployment benefit but family support payments, social assistance and – even at a fairly young age – early retirement pension schemes (especially disability pension) that constitute the main sources of personal income for the unskilled jobless population. This is shown in *Table 11.2* for the age cohorts where young primary school pupils’ parents are found (25–44 years of age).

*The decision to retire before the statutory retirement age* is greatly influenced by an individual’s labour market prospects (CSERES-GERGELY, 2008), and the number of early pension or endowment claims is expected to rise because of the growing number of people with no old-age pension entitlements (AUGUSTINOVICS & KÖLLŐ, 2007).

The child care system – participation in which is once again greatly influenced by employment prospects (BÁLINT & KÖLLŐ, 2008) – has been char-

[4] At the same time, an – only theoretically conceivable – total whitening of wages promises a very modest increase in budget revenues (far less than 1 percent of GDP) (KÖLLŐ, 2008).

[TABLE 11.2] THE DISTRIBUTION OF MEN AND WOMEN WITH 0–8 YEARS OF SCHOOLING AGED 25–44 ACCORDING TO EMPLOYMENT STATUS AND MAJOR INCOME TRANSFERS (2003–2005)

	WOMEN		MEN	
	age 25–34	age 35–44	age 25–34	age 35–44
Employed <sup>a</sup>	34.4	47.8	63.7	60.0
On unemployment benefit	1.8	2.8	2.9	2.7
On social assistance <sup>b</sup>	6.6	6.6	8.7	9.5
On maternity benefit	34.3	11.1	0.6	0.8
On disability pension or endowment	5.8	14.1	6.7	13.6
None of the above transfers	17.1	17.5	17.4	13.5
Total	100.0	100.0	100.0	100.0

<sup>a</sup> People were classed as employed if they did at least one hour's paid work during the week preceding data collection. Those who received some kind of transfer while having a job are classed with people in jobs.

<sup>b</sup> Income support, regular social assistance, pre-pension unemployment benefit.

Sample: excluding full-time students. Indicators: unweighted three-year averages of weighted averages of data from quarterly survey waves.

[SOURCE] Labour Surveys, 2003–2005.

acterised by an extreme bias in favour of passive support. The OECD (2007) finds that Hungary is the member state with the highest expenditure – as a percentage of GDP per capita – of cash benefits per child. The Hungarian expenditure rate is three times as high as the OECD average, almost twice as high as the Austrian rate and one and a half times as high as the rate in Sweden. At the same time a very small portion of children under the age of three attend nursery school (similarly to children in Eastern and Southern Europe, Turkey and Mexico). This situation is reflected in employment figures. While the Hungarian female employment rate is only slightly below the OECD average, mothers of small children are less likely to have jobs in Hungary than in any other member state. The employment rate among mothers with children aged 0–2 years ranks the lowest and the rate among mothers with 3–5 year old children is the second lowest (after Slovakia). Hungary displays the widest gap between the employment rates among mothers with 0–2 year old children and mothers whose youngest children are 6–16 years of age.<sup>5</sup> Averaged over the past ten years, mothers exited the family support system after 4.7 years of paid maternal leave, in part due to the shortage of day nurseries (BÁLINT & KÖLLŐ, 2008).

Daily child care institutions allowing mothers to make their choice are admittedly expensive to maintain: the costs of maintaining one nursery place come to 125 thousand Hungarian forints a month. Its net costs are *substantially* lower, however, if the cash benefits claimed by non-employed mothers and the taxes foregone because of non-employment are taken into consideration. Also, fam-

[5] See Figures PF7.2, PF11.1, LMF2.1 and LMF2.2 in the OECD (2007) database.

ily day care facilities are a cheaper option than nursery schools.<sup>6</sup> It is suggested both by a calculation of costs with forgone gains included and by an international comparison that women's employment can be boosted without increasing the total expenditure on family support. SCHARLE (2007) estimates that by reallocating 0.1 per cent of GDP – which corresponds to one sixth of the maternity benefit bill in Hungary – to in-kind family support programmes (at the expense of cash benefits), an increase of 1.6 percentage points in the employment rate of women aged 25–54 is expected to be achieved as predicted by international trends.<sup>7</sup>

It is a widely documented fact that *the current support system for the long-term unemployed* (regular social assistance and public work schemes) is rather focused on the problem of having local community tasks fulfilled and assisting the poorest of households on an individual basis than on monitoring participants' work propensity or encouraging them to return to the labour market. The greatest share of local public work belongs to the world of casual labour; it does not develop the worker's human capital (SZALAI, 2007; KERTESI, 2006). The introduction of the system in 2000 was accompanied by a negligible increase in participants' job finding probability (GALASI & NAGY, 2002), and continued to remain low until recently (FIRLE & SZABÓ, 2007). Also, following the introduction of the programme, visits to the labour centres by the long-term unemployed has become more casual.

Participation in retraining programmes is infrequent among low-educated people both in an absolute and in a relative sense.

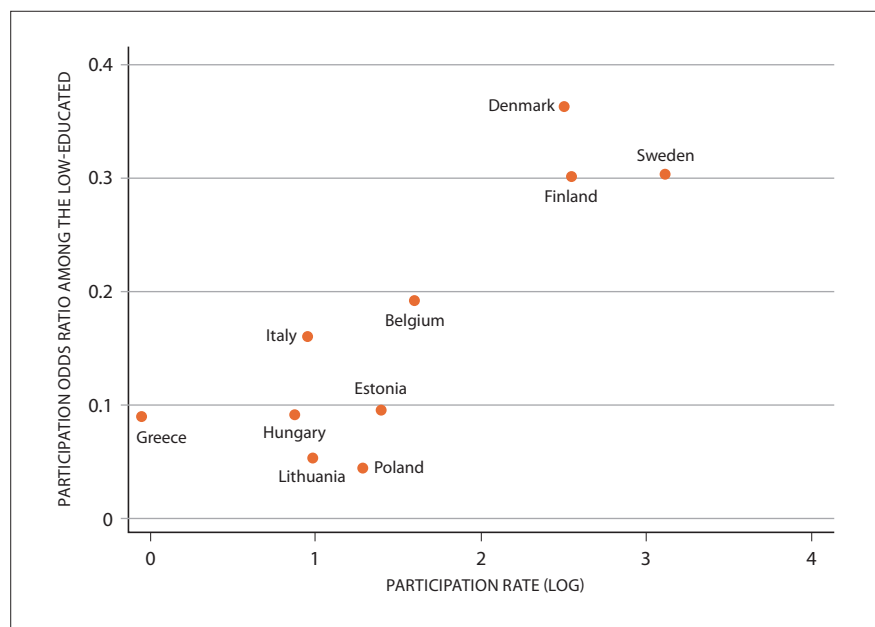
3. One of the factors greatly lowering the labour market chances of people with less than upper secondary education is that they do not possess the basic skills needed for adjustment to changing technology. The problem is aggravated by the fact that within the generally meagre participation in adult training in Hungary participation in retraining programmes is especially infrequent among the low-educated people both in an absolute and in a relative sense. *Figure 11.1* compares adult training data in some European countries based on HÁMORI (2007). It is clear from the data that in countries with low average participation rates the skilled-unskilled gap in participation is larger and this disadvantage is especially marked in the former socialist countries. (It should be noted in

[6] According to estimates for 2006, mothers on maternity benefits with their youngest children in their third year of life could expect to earn a gross monthly salary of 106 thousand forints. (The estimates were calculated based on pay scales and labour survey data with mothers' educational composition and a wage loss of about 10 per cent due to time off taken into consideration.) This salary has a total tax and contribution burden of 74 thousand forints. With this sum and the 26 thousand forint maternity benefit deducted, the net cost of maintaining a nursery place comes to only 25 thousand forints a month. It is, in fact, likely to be even lower considering that mothers giving up maternity benefit for work are likely to be high earners. (The calculations are based on a default case with no fees, tax credits or maternity benefit received while working.) By a similar formula for *family day care places* with a maintenance cost of 58 thousand forints a month, a mother's employment earns 16 thousand forints net *revenue* for the budget.

[7] It is important to recognise that a strong positive correlation has by now emerged between women's employment and fertility in OECD countries: a long maternity leave is not a *necessary* condition of population growth.

[FIGURE 11.1]  
Participation in adult  
training and participation  
rate among the low-  
educated in ten European  
countries at the turn of  
the millennium

[SOURCE] European Labour  
Surveys 1999, 2001, 2003.



*Note* The horizontal axis shows the participation rate on a logarithmic scale. A value of 1 corresponds to a participation rate of 2.7 per cent, a value of 2 to a rate of 7.4 per cent and a value of 3 to a rate of 20 per cent. The logarithmic scale was adopted to reduce the very large range of data points. The vertical axis displays the participation odds ratio among the low-educated population (ISCED Levels 0–2) relative to university or college graduates matched for gender, age and labour market status. The dataset covers the non-student population over the age of 27 and shows the proportion of people participating in any kind of training during the four weeks preceding data collection. The plot was drawn based on average values for 1999, 2001 and 2003. See HÁMORI (2007) for details.

evaluating the data that the absence of basic skills has graver consequences in Hungary than in Italy or Greece, where self-employment is far more extensive and there is a larger micro-business sector.) Limited involvement in retraining is likely to have an adverse effect on the labour market chances of the low-educated groups while it seems to be true that *currently available* adult training programmes are hardly suitable for improving the employability of unskilled workers.

The direction of changes in the supply of training programmes is difficult to predict. The New Hungary Development Plan [Támop 3.2–3.4 (Improving adjustment skills), TIOP 3.1–3.4 (Social infrastructure development)] reflect the realisation that keeping up with technological development demands appropriate basic skills which low-educated groups do not fully possess. For this reason comprehensive education programmes aimed at improving literacy, computer literacy and social skills are of outstanding importance. Given a wide range of unranked priorities, however, there is no guarantee that the development of the necessary basic skills will carry sufficient weight in the programmes (this concern is mainly relevant to Támop 3.2). The Social Renewal Operational Programme (Támop) undertakes to support a wide range of corporate



retraining and narrow professional training schemes. The task of developing the contents of training will essentially be delegated to the local chambers of commerce and, deviating from the objective named in the title *Improving adjustment skills*, practical training linked to specific technologies will be given preference.

The main factors behind the disproportionately high incidence of unemployment among the population having 0–8 years of primary education include poor quality of vocational training.

4. The high incidence of unemployment among the population having primary education is partly explained by the poor quality of vocational training, deterioration of the acquired skills and a resulting trend of crowding out of primary degree holders by vocationally trained workers even in the simplest jobs (see, for instance, KERTESI & VARGA, 2005; KÉZDI & VARGA, 2007 for a discussion of the devaluation of vocational qualifications and its consequences).

Local crises cannot be overcome without a more pronounced concentration of funds.

5. In Hungary most micro-regions without sizeable urban centres are faced with persistent local crises that cannot be overcome without substantial government support, which in turn calls for a more pronounced concentration of funds. There are not many micro-regions with exceptionally acute problems: fewer than ten areas have been trapped in a crisis situation since the start of the regime change. In the villages of these micro-regions employment and quality schooling of the local population are greatly hampered by the high costs of accessing the labour markets of towns or of commuting to better schools (KERTESI, 2000; BARTUS, 2004).

Public expenditures on employment policy are not sufficiently selective, carrying the risks of dissipated resources and groups in need of support not having access to sufficient funds.

6. Public expenditures on employment policy are not sufficiently selective and target activities and worker groups are defined extremely broadly. This policy carries the risks of dissipated resources, a substantial deadweight loss and groups in need of support not having access to sufficient funds.

Hungary operates a wide range of payroll subsidy programmes (in contradiction to the spirit of EU directives). Payroll subsidies may be claimed as wage cost subsidies offered to special purpose labour market programmes; as part of regional investment support and employment support schemes; as part of job creation subsidy programmes; in the form of training and travel subsidies; for public work programmes and casual work contracts; on grounds of job retention “to avoid layoffs [even by one – J.K.] because of economic hardships”; in the framework of the Start, Start-plus and Start-extra schemes; and in the form of tax allowances (exemption from paying the flat-rate health care contribution, tax credit on the hiring of registered unemployed, minimum wage free of personal income tax).

A wide range of claimants may be eligible; in some cases there are no restrictions on eligibility at all. The various programmes are open to workers starting their careers; “people at risk of losing their jobs”; those who “are at risk of losing their jobs unless they undertake retraining”; “workers affected by job losses”; registered jobseekers; the long-term unemployed; those returning from maternity leave; workers over the age of 45 and those workers over

the age of 50 who are employed in public work programmes in health, social, cultural, educational or environmental services.

*The support is usually given for a relatively short period of time (one year) but often on condition of long-term employment or some other restrictions, which may curb misuse but have a negative effect on flexibility.*<sup>8</sup>

Hungarian support programmes have little success in implementing the principle that demand side support is only justified in two cases: if the support leads to job creating investments that generate significant positive externalities; or if the support helps remove or prevent a market barrier or failure. The former consideration may justify subsidies for a few outstanding job creating investments. The latter condition primarily constitutes a justification for assisting low-educated workers. This principle explains that while general job-creation and job-preservation subsidies are seen by most economists (and the European Union) as having a distorting effect, support for unskilled workers have been repeatedly proposed even in situations far less critical than the current one in Central and Eastern Europe (AKERLOF, ROSE, YELLEN & HESSENIUS, 1991; PHELPS, 1994; SNOWER, 1994; KATZ, 1996; NICKELL & BELL, 1996).

## ■ SUGGESTIONS

The government should resist pressures to increase the ratio of the minimum wage to the average wage.

1. We propose that the government should resist pressures to increase the *ratio of the minimum wage to the average wage* while making clear first, that this policy is not motivated by employers' interests but serves to improve the labour market chances of unskilled workers, whose interests are only marginally represented by trade unions. Second, it is important to make clear that the minimum wage is an inefficient, poorly targeted tool in social policy. Third, it is important to emphasise that the minimum wage to average wage ratio cannot be considered low in Hungary in international comparison and that – contrary to the frequently cited argument – Hungary has not signed any agreement to raise this ratio.<sup>9</sup>

[8] The quotes are translations of excerpts from the website of the Hungarian Ministry of Social Affairs and Labour: [www.szmm.gov.hu/download.php?ctag=download&docID=11798](http://www.szmm.gov.hu/download.php?ctag=download&docID=11798)

[9] Hungary signed the European Social Charter of 1961 as renewed in 1996, where paragraph 1 of Article 4 of Part II states that the government recognises workers' right to wages securing a decent living for the workers and their families. In 1977 a *recommendation* of a minimum wage to average wage ratio of 68 per cent was made by the nine-member *Committee of Independent Experts*, which had been set up to monitor adherence to the Charter. The benchmark was later modified to 60 per cent by the same committee. Hungary did not sign any documents requiring signatory parties to attain this ratio. The recommendation of the expert committee has not been adopted by any EU member state: the minimum wage to average wage ratios range from 30 to 50 per cent. In 2004 Hungary ranked seventh in a ranking by the minimum wage to average wage ratio.

The regulations concerning the minimum contribution base and related individually evaluated allowances need to be revised.

2. The regulations concerning the minimum contribution base and related individually evaluated allowances need to be revised. If the government chooses this route to fighting concealed wages, a set of differentiated minimum contribution bases strongly correlating with reasonably expected productivity should be defined. The probability of individual inspection – with reversed burden of proof – should be greatly increased among businesses staying below the limits but companies should not be forced to pay contributions on the given limits. Business chambers and trade unions should be involved in the process following a preparatory stage of applied research guided by professional considerations.

The system of employment subsidies should be reformed.

3. We propose that the system of employment *subsidies* should be reformed and resources should be directed towards areas where the creation of new jobs is expected to be accompanied by significant positive externalities and at those segments of the market where market adjustment is hampered by institutional barriers and high transaction costs. Support programmes can help alleviate insufficient demand caused by minimum wage regulation and provide assistance for workers who expect lower than usual wages due either to causes beyond their control or to justifiable choices (people with reduced work capability or those returning to the labour market after years of child rearing). The funds needed for support programmes can be created by eliminating explicit and implicit wage subsidies beyond the above range of investments and worker groups, which is a desirable step in terms of both efficiency and equity.

A programme is needed to suppress disability pension claims motivated by poor employment chances.

4. To suppress *disability pension claims* motivated by poor employment chances we propose the launch of a programme based on the principles of the British *Pathways to Work* initiative offering a combination of rehabilitation services, job search support, modest financial assistance in entering employment and tests of the willingness to work as part of the disability screening procedure. [See SCHARLE (2008) for a discussion of the programme.] To implement the programme a network of 50–100 labour centre “personal advisors” should be trained and a set of labour centres should be designated and prepared for the provision of special services. Taking the time needed for training trainers abroad into account, the programme can be launched in three or four years’ time. Operational programme funds allocated for rehabilitation and the resources allocated for the development of the Hungarian Employment Service can cover the costs of implementing a programme of this kind without a need for additional resources.

The system of family support should be restructured in an effort to help mothers return to work.

5. The system of family support should be restructured and the daily child care institution network should be expanded in an effort to help mothers return to work. Cash benefits – possibly of an increased rate – should continue to be available to mothers staying at home for up to two years after childbirth, after which period subsidies helping parents find employment and return to work

should be dominant. These subsidies could include allowances in support of part-time employment and travelling to work up to the youngest child's third birthday, vouchers compensating employers for absences (up to a pre-defined limit) and individual support helping families gain access to child care institutions. A shift towards active support (i.e. programmes enhancing employability and encouraging employment) is also warranted even in the case of families in an unfavourable labour market position.<sup>10</sup>

Research to lay the foundations of a reform of the local welfare system.

6. The *local welfare system* should be reformed with the objective of creating a programme efficiently fulfilling the task of reintegration. The reform, however, needs to be preceded by research as currently no data is available at all on which a sensible policy could be grounded. Since regular social assistance is a means-tested transfer, it is possible to match social assistance programme participants with non-participants of similar qualifications and labour market experiences but slightly different financial position, and compare the groups to obtain a reliable assessment of the effects of welfare and public employment services. A longitudinal survey using this method is an essential first step before any reform measures are implemented since regular social assistance and public work schemes constitute important sources of income for the poor, especially in settlements isolated from the labour market. The survey would cost 30–50 million Hungarian forints.

A target should be set at least to double the currently less than 0.1 participation odds ratio among the low-educated population by 2013 and to achieve a steady increase in the share of training programmes focusing on the development of required basic skills.

7. We propose that the Managing Authority of the Human Resources Development Operational Programme should monitor and regularly evaluate independent (LFS) data to assess the disadvantage of people with less than upper secondary education in participating in retraining programmes. Also, the composition of training programmes should be analysed on the basis of data provided by the Hungarian Employment Service. A target should be set at least to double the currently less than 0.1 participation odds ratio of the low-educated population by 2013 (thus approaching, by Western European comparison, the rather low rates observed in Italy and Belgium) and to achieve a steady increase in the share of training programmes focusing on the development of basic skills. Appropriate training programmes cannot be reasonably implemented without analysing international experiences or making provision for training trainers. Course development programmes should therefore be subsidised with the aim of assimilating and adopting successful foreign practices. It is further essential to conduct regular and professional impact evaluations of retraining projects to aid the selection of the best programmes.

[10] 2–3 per cent of people participating in the family support programme are registered as unemployed at labour centres while over 10 per cent are unemployed and almost 40 per cent are inactive when they leave the programme. Moreover, an unknown but not negligible share of these people are likely to remain inactive or unemployed for an extended period.

Geographical units in need of targeted support should be defined much more narrowly, with reference to much stricter criteria than is the case at present.

8. A resolution to the most critical *local crises* calls for far higher financial support than has so far been allocated for the purpose. To be able to fund comprehensive crisis resolution programmes, geographical units in need of targeted support should be defined much more narrowly, with reference to much stricter criteria than is the case at present. The definitions must make it clear that what is needed is *exceptional* support for small regions in *exceptionally* desperate positions.

a) In addition to locally initiated low-budget pilot programmes,<sup>11</sup> large-scale infrastructural investments and training allocations are needed (within the targets specified by the operational programmes of social renewal (TÁMOP), social infrastructure (TIOP), and transport (KÖZOP) and regional development (ROP)).

b) In evaluating initiatives aimed at alleviating transport bottlenecks preference should be given to developments facilitating travel to work from villages to the urban centres of neighbouring micro-regions (centres other than the region's own capital city).

c) In the target regions of the support programmes it is justifiable to extend the special status of the subsidies municipalities (*“settlements facing hardships for no fault of their own”*) through to the end of the programme regardless of changes in their financial circumstances during the program.

To attain the objectives of Employment policy it is essential to improve the quality of vocational training.

9. To attain the objectives of employment policy it is essential to improve the quality of vocational training, which is a prerequisite to stopping the crowding out process that deprives the unskilled population of a great number of job opportunities. This issue is discussed in Chapter 4.

#### ■ COSTS, BENEFITS, LINKS TO OTHER PROGRAMMES

The measure with the most significant financial needs is the expansion and maintenance of the child care institution network. A smaller one-time payment is required for setting up the “Pathways to work” programme and for defining retraining programmes of basic skills development. The financing of the remaining measures (and part of the family support programme, as well) proposed here can essentially rely on a reallocation of resources. This may give rise to conflicts since reallocation involves depriving groups in lesser need of the support that they may see as their acquired right and limiting state support distributed on grounds of job preservation and creation. However, efforts

[11] As an illustration of differences in scale consider the 0.5 billion forint (almost 2 million Euro) budget of the Cserehát Programme (Hungarian Ministry of Social Affairs and UNDP) compared to the 156 million forint (about 600 thousand Euro) budget of the “Local school association project fund” programme, which is just about enough to build a villa in an elegant district of Budapest.

to reconcile work and child rearing, to reduce disability pension claims not related to health reasons, and to help groups excluded or staying away from society to want and be able to return to “the world of work” are likely to be met with broad public support.

The suggestions made in this chapter are closely related to proposals described in other chapters of this volume. The reproduction of skill disadvantages hampering employment can be prevented by improving the standards of primary and vocational training schools (Chapters 2 and 4). Programmes supporting early years development (Chapter 1) and measures restraining segregation (Chapter 5) are intended to mitigate the adverse effects of parental unemployment on the children.

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