

**THE LEGAL
AND INSTITUTIONAL
ENVIRONMENT
OF THE HUNGARIAN
LABOUR MARKET**

MÁRIA FREY

INTRODUCTION

The year 2009 has so far been dominated by the economic downturn and crisis management in Hungary as well as in Europe. This has put labour markets and employment policies at the centre of political debates both at the level of the European Union and in the individual Member States. Views have clashed around questions such as: “Is the sharp increase of unemployment avoidable?” or “What is the most effective way of increasing employment?” and “How can the short-term and the long-term objectives of employment policy be combined?” The economic crisis has overwritten the priorities of employment policies and has triggered emergency measures including the re-allocation of resources to stabilise jobs and mitigate social tensions. The first chapter gives an overview of *the characteristics of international responses to the economic crisis including policies and their implementation*. The second chapter presents Hungary’s responses to the economic downturn.

The economic crisis has also made it more difficult to successfully tackle the largest challenge of Hungarian employment policy, namely the labour-market reintegration of an increasing number of long-term unemployed. Nevertheless, the integration of the administration of social benefits into the public employment service and the implementation of the “Pathway to Work” programme started on January 1, 2009 and several new implementing rules came into force as well. This will be discussed in *Chapter 3* including measures such as the preparation of Public Work Plans, the tasks of the Public Work Coordinators, a new cash benefit to persons of working age, the creation of the Employment and Social Database and the revised obligations of social benefit claimants towards the local offices of the public employment service.

Practically all public works resources were reallocated from the Public Employment Service (PES) to local governments in the “Pathway to Work” programme. Two thirds of the money allocated to regions from the Employment Fund – excluding commitments from the previous year – was earmarked for crisis management. There was therefore hardly any funding available for new active measures in the midst of rapidly increasing unemployment. The gap was filled with European Social Fund (ESF) resources (EU Programmes, Start Plus, Start Extra cards) however considering the labour market situation, this was only partly successful.

1. RESPONSES TO THE DOWNTURN IN THE EUROPEAN UNION

Unemployment fell considerably in Europe between 2005 and 2008. The financial crisis which started in the autumn of 2008 hardly showed any effect

on the labour market until the end of the year. Employment increased overall by 0.9% during 2008 and unemployment in January 2009 was only 0.8% higher than a year earlier. (CEC, 2009.) The reasons for this were the delayed reactions of labour markets in general, and the increasing use of internal numerical flexibility measures (introduction of shorter working time, temporary suspension of production etc.) The recession has however deepened since the beginning of 2009 and this prompted the European Commission to draft an amendment to the Lisbon Strategy outlining short-term actions to address the downturn. As a result the document “*From financial crisis to recovery: A European framework for action*” (CEC, 2008) was released in November 2008 suggesting the following actions.

- Increasing investment in R&D innovation and education.
- Promoting combined flexibility and security measures (flexicurity) as a way of protecting and equipping people rather than specific jobs.
- Supporting businesses, especially small and medium-sized enterprises (SMEs), to build markets at home and internationally.
- Enhancing European competitiveness by continuing to green the economy as a way of creating new jobs and technologies that also contribute to overcoming energy security constraints and achieving environmental goals.

With regard to the employment and social impact of the downturn, the European Commission suggested the following actions.

- To counter the effects of unemployment the European Commission offered Member States the possibility of reallocating funds under the European Social Fund to support measures to quickly reintegrate unemployed people into the labour market.
- Reviewing the effectiveness of the Globalisation Adjustment Fund and its possible use to mitigate the impact of the crisis.
- Helping unemployed people to start up a new business quickly and inexpensively.
- Monitoring the impact of the crisis on different sectors affected by structural adjustments and, where appropriate, provide timely, targeted, and temporary support using the scope offered by the State Aid regime.
- Pursuing flexicurity, in particular active labour market policy measures, tax and benefit reform, and reinforced matching of skills and jobs. The situation is likely to be especially difficult at the lower end of the labour market, making it particularly important to ease the unavoidable restructuring and provide income and targeted social protection support.

The European Commission released the European Economic Recovery Plan on November 26, 2008. This Plan has two key pillars and an underlying principle:

- 1) A major injection of purchasing power into the economy, to boost demand and stimulate confidence.

2) Direct and short-term action to reinforce Europe's competitiveness in the long-term.

3) The fundamental principle of solidarity and social justice.

The European Economic Recovery Plan proposes a set of actions to help recovery from the crisis. These actions range from supporting small enterprises through to investment in innovation and the green economy, and increasing employment.

The Commission proposed to simplify criteria for ESF support and step up advance payments from early 2009, so that Member States have earlier access to up to 1.8 billion euros that can be used to:

- As part of flexicurity strategies, rapidly reinforce activation schemes, in particular for the low-skilled, involving personalised counselling, intensive training and up-skilling of workers, apprenticeships, subsidised employment as well as grants for self-employment, business start-up.
- *Refocus programmes to concentrate support on the most disadvantaged*, and where necessary with full Community financing of projects.
- Improve the monitoring and matching of vocational skills development with existing and anticipated job vacancies; this must be implemented in close cooperation with social partners, public employment services and also universities.

The Commission proposed to re-programme ESF expenditure to ensure adequate allocation of financial resources to crisis interventions. Furthermore the Commission initiated *the revision of the rules of the European Globalisation Adjustment Fund so that it can be utilised to intervene more rapidly in key sectors, either to co-finance training and job placements for workers who are made redundant or to keep in the labour market skilled workers who will be needed once the economy starts to recover.*

On May 7, 2009 the tri-partite European Employment Summit was held in Prague. The aim of the meeting was to assess the impact of the financial and economic crisis on employment, to identify good practices and to stimulate coordination between the social partners of Member States. The Summit also provided input towards the European Council meeting in June. (CEC, 2009a.)

The participants emphasised the importance of working in partnership to alleviate the detrimental effects of the crisis and turning it into an *opportunity* to transform Europe into a competitive, inclusive, innovative and eco-efficient economy with a high potential for future growth, employment and social protection. Even at a time of economic downturn those policies must be pursued that help deliver these ambitious goals. While taking into account the individual circumstances of each Member State, the EU's response to the crisis is guided by the following *principles*.

The launch of a major European employment support initiative

- It should be based on a coordinated approach combining economic, employment and social policies at all levels and preventing protectionism both inside and outside the EU.
- It should lead to sustainable recovery, through the steady implementation of necessary structural reforms, including balanced flexicurity strategies aimed at strengthening the EU's competitiveness and growth potential and modernising social protection systems.
- It should be consistent with the long-term objectives of the EU, such as high levels of employment and quality jobs and the long-term sustainability of public finances, while respecting the principles of the single market and the European social model.
- It should mobilise all available national and Community instruments and fully integrate growth, employment, solidarity, social protection and inclusion strategies.
- It should systematically monitor the efficiency and effectiveness of short-term measures, ensure the implementation of all agreed measures, and promote mutual learning, dissemination of good practices and social innovation.

The post-2010 Lisbon strategy should be focused on well-defined goals that are relevant to European citizens and should deliver sustainable growth, social cohesion and more and better jobs, ensuring long-term sustainability of public finances and modern social protection systems.

In the difficult economic context, the EU must especially endeavour to:

- maintain employment and create jobs;
- improve access to jobs, particularly for young people;
- upgrade skills and improve matching with labour market needs, promote mobility.

The participants of the Employment Summit reached common ground on 10 specific actions, which could help alleviate the employment and social consequences of the crisis and put the EU in a better position when the economy recovers. These actions are as follows.

1) Member States and social partners must take actions that are aimed *at maintaining as many jobs as possible*. To this end, a temporary reduction of working hours can be an effective option for businesses, which is also supported by the European Social Fund. This can also be an opportunity for re-training to facilitate internal job transfers, restructuring or transitions to other companies in line with flexicurity.

2) Further efforts are needed to create *a friendly environment for entrepreneurship and job creation*, for example by lowering non-wage labour costs, investing in research and infrastructure, reducing administrative burdens, better regulation and addressing rigidities in the labour market in line with the EU's flexicurity strategy. Particular attention should be paid to small- and

At national level

medium-sized enterprises for example by ensuring that the re-training of their personnel is affordable and targeted.

3) The efficiency of *national employment services* must be improved. Early active labour market measures should be tailored to individual needs and focus on avoiding long-term unemployment and social exclusion. For this reason in the first weeks and months of unemployment, measures should provide intensive counselling, training and job search. Every jobseeker and person who has lost their job should receive support as quickly as possible to return to the labour market or enter training. Unemployed young people aged under 24 years should receive particular attention.

4) Member States and social partners should agree to significantly *increase the number of high quality apprenticeship places available by the end of 2009*.

5) Member States, the social partners and the Commission should jointly focus on increasing the labour supply by *promoting more inclusive labour markets and increasing access to jobs*. This should be done by ensuring strong work incentives, effective active labour market policies and modernisation of social protection systems in line with the common principles of social inclusion.

6) Member States should step up action to *upgrade skills* at all levels, including the training of low-skilled and disadvantaged people, and to prevent young people leaving school without the necessary skills.

7) *Better labour mobility* will improve matching labour demand and supply and enable people to fully use their potential. The free movement of workers contributes to economic growth without negative impacts on labour markets and the social cohesion of receiving countries. Professional mobility should be strengthened by combining flexibility with income and employment security in order to make relocation pay.

8) The Commission in partnership with Member States and social partners will attempt to *identify job opportunities and emerging skills requirements* across Europe, and *improve skills forecasting*, in line with the agenda of "New Skills for New Jobs". (CEC, 2008a.)

9) *Innovative approaches to support unemployed and young people in starting their own business on a sustainable basis* (for example, by providing entrepreneurship training, starting capital, or by lowering or eliminating taxation on new businesses). The ESF, the European Regional Development Fund and the European Investment Bank's financial resources should be used for this purpose.

10) Promoting *mutual learning and the exchange of good practice on the anticipation and management of restructuring*. This can be implemented within the existing legal framework.

At the Community level

1.1 What happened so far?

The European Employment Observatory provides a comprehensive overview of governments' responses to the economic crisis in the Member States of the EU. (*Vogler-Ludwig, Kurt, 2009, p. 7*) *Table 1* gives a summary of these.

Table 1: Responses to the economic crisis in the member states of the EU, by April 2009

Country	General support measures/guarantees/tax-cuts	Sector-specific subsidies/guarantees	Infrastructure spending	Training and employment subsidies	Unemployment assistance/Public work/Flexible work contracts
Austria	x	+	x	+	x
Belgium*	+			+	+
Bulgaria			x		+
Cyprus			x	+	+
Czech Republic*	x			+	
Denmark	x	+	+		
Estonia	x				+
United Kingdom	x		+	+	+
Finland	x		x	+	x
France	x			+	+
Greece	x	+		+	+
Ireland	+				
Netherlands		+	x	+	+
Poland	x		+		
Latvia	x				+
Lithuania		x			+
Luxembourg		x	+	+	+
Hungary	x			+	
Malta*	+		+		+
Germany	x	+	+	+	x
Italy	+	+			x
Portugal	+	x	+	+	
Romania			+	+	x
Spain	+	+	x		+
Sweden	+	x	x	+	+
Slovakia*	+		+	+	+
Slovenia	x		+	+	+

+ Adopted or planned measures.

x High-profile measures (in terms of financial allocation).

* No information available on financial allocation.

Source: European Employment Observatory; Economix, cited by: *Vogler-Ludwig, Kurt, 2009, p. 7*.

– Two thirds of Member States increased infrastructure spending in the areas of transport, housing and education. These are typically combined with funding from the EU's Structural Funds.

- In addition, sector-specific programmes were launched for example in the construction industry (Cyprus, Spain, Lithuania), in the car industry (Germany, France, Italy, Austria, Spain, Portugal), in transport and tourism (Cyprus, United Kingdom, Netherlands, Portugal) and in the steel industry (Luxembourg).
- Half of the Member States provide state guarantees (non-financial) to businesses or lower business tax rates. Germany for example introduced a 100-million-euro guarantee scheme for SMEs. Hungary and Slovenia have similar schemes. Elsewhere, Member States provide tax discounts, subsidised loans or direct subsidies for SMEs or start-up businesses. Lastly, Austria lowered the personal income tax rate for all taxpayers, the United Kingdom and Denmark reduced the rate of the value-added tax (VAT). Italy offers a full exemption of business taxation for companies increasing production.
- Investment in skills training is less common; only one third of Member States used this measure. These include on the one hand support towards the establishment of apprenticeship places (Austria, United Kingdom), training of redundant workers (France, Cyprus, Finland, Netherlands, Portugal), or the development of the adult education system in general (Hungary, Germany, Slovenia).
- The restructuring of the workforce is supported by measures such as the re-training of redundant workers, or the creation of “re-employment pools” (Belgium), or the “Professional Transition Contracts” (France).
- The flexibility of work contracts is generally achieved by the expansion of short-time work (Austria, Belgium, Bulgaria, Czech Republic, France, Germany, Hungary, Poland, Luxembourg, Malta, Netherlands, Slovenia, Spain), or reduced working hours. The maximum period of short-time work was extended to 18 months in some countries (Austria, Germany). Elsewhere the assistance available during short-time work was increased (Hungary), or workers were exempted from paying Social Insurance contributions (Germany).
- As regards subsidies to private households, people on low-income or unemployed young people (France, Italy), or families with children (Germany) receive assistance. In Spain households are eligible for housing support, and in Denmark people in need can withdraw their savings from the compulsory pension fund.
- The amount of unemployment assistance was increased (Belgium, France, United Kingdom), there was accelerated payment (Spain), and employment services reinforced (Lithuania, Malta, Spain, Sweden, United Kingdom). These measures are used in different combinations, but three common patterns can be identified.
- The *state-oriented approach*: this is characteristic of France for example, where the emphasis is placed on public investments (including sector-spe-

cific subsidies) together with redistributive measures towards people on low income, the unemployed, young people etc. The state takes responsibility for increasing employment and alleviating the negative social consequences of the crisis.

- The *stability-oriented approach*: characterises Germany for instance where the focus is on state guarantees to companies, short-time work and subsidies to key sectors (e.g. the car industry). Redistributive measures have a relatively minor role in comparison to tax cuts or wage subsidies. The restructuring of the workforce is also less important.
- The *liberal approach* is best illustrated by the example of the United Kingdom with tax cuts (VAT) and labour market measures (hiring premiums, improving employment services) having a prominent role.

Table 2: EU member states according to approaches to crisis management

Approaches	Countries
State-oriented	Cyprus, Spain, France, Malta (Austria*)
Stability-oriented	Bulgaria, Czech Republic, Germany, Greece, Italy, Lithuania, Latvia, Netherlands, Portugal, Sweden, Slovenia
Liberal	Belgium, Denmark, Finland, Hungary, Poland, Slovakia, United Kingdom (Austria*)

* Austria has elements of both approaches. Ireland, Estonia and Romania could not be classified into any of these categories.

Source: Economix, cited by: *Vogler-Ludwig, K.*, 2009, p. 7.

1.2 The key to successful crisis management

A thematic review seminar (Mutual Learning Programme) on labour market policy-responses to the crisis was held in Brussels on May 19, 2009. At this seminar Madsen, the Danish “father” of the concept of flexicurity put forward seven principles for successful labour market responses to the downturn. (*Madsen, P.K.*, 2009) They were the following.

- *Don't protect jobs, encourage mobility!* Or differently: promoting mobility should be the core of employment. Measures to promote mobility include the up-skilling of unemployed people and those threatened by redundancy; adequate levels of income replacement for unemployed people to allow them to maintain a reasonable quality of life during the periods of job-search and training; and a well-functioning system of public employment services that support matching of labour market needs both in the short- and long-run.
- In the long-run, it is *still necessary to increase labour supply* in order to maintain the balance between the active and inactive population. For this reason, it is important that short-term measures aiming to reduce unemployment do not clash with long-term objectives.
- Leaving unemployment to rise decreases effective labour supply and increases structural unemployment. Therefore, *unemployment should definitely not be left to rise.*

Seven principles for successful labour market approaches to deal with the crisis

- *In the short-run labour market policy cannot create jobs.* An active macroeconomic policy should take the lead in this.
- The need for *policy integration* remains important even at times of crisis.
- The economic crisis should be considered as an *opportunity* to upgrade skills that will later bring benefits to the individual as well as to society.
- The introduction of successful policy measures should also include the design of *efficient implementation structures* as well as the involvement of social partners and local stakeholders.

The lesson of this Mutual Learning Programme was that labour-market policy responses to the crisis should focus on *5 priorities*, namely: 1) restructuring the financial sector; 2) protecting existing jobs; 3) preserving vulnerable jobs; 4) restructuring the workforce; 5) mitigating social tensions.

1) *Restructuring of the financial sector.* Although here the most important tasks are fiscal stabilisation and new regulatory frameworks for the financial markets, employment policy also has a role in upgrading the skills of the workforce and promoting R&D.

- Training should be focused on the economics of capital markets, fair information practices to customers, controlling and risk assessment. Governments should initiate the introduction of such new training programmes in the financial sector.
- Given that the risk assessment instruments failed to predict long-term risks, R&D should be directed at improving these.

2) *Protecting existing jobs.* The crisis might destroy many healthy jobs that will once again be necessary when the economic turmoil has subsided. *Short-time working arrangements* might be an appropriate instrument to defend these jobs. However, they should be implemented together with instruments that increase the *flexibility of working time* in general. For example averaging workers' hours over longer periods of time during a downturn in demand might be an alternative to redundancy. Pay cuts should also be taken into account and governments should ease the burden by reducing contributions.

3) *Preserving vulnerable jobs.* by investment in research and development, training and education and direct job creation; or differently the development of *human capital* rather than the physical infrastructure. Companies need to learn crisis management. Redundancies could be limited by incentives to employers who preserve jobs. The introduction of risk premiums in unemployment insurance can be a viable option.

4) *Restructuring the workforce.* The world will be different after the crisis. Strong competition will force many companies out of their markets, high productivity will be a key to survival, emerging countries will see new opportunities to enter European markets, and some jobs will disappear for-

ever. This can be achieved by supporting companies' efforts to keep their markets rather than public investments. Also the times of underemployment should be used to upgrade the skills of the labour-force. The better allocation of labour within the economy should be supported by promoting geographical mobility.

The Dutch Example

Short-time working: first response to the crisis

This was the adjustment of an already existing employment scheme (the shortening of working time on economic grounds open between November 30, 2008 and March 31, 2009)

Features

- Eligibility: fall in sales by at least 30% in two consecutive months (must be evidenced by an audit certificate)
- Duration: maximum 24 weeks.
- Level of assistance: 75% of last earned wage during the first 2 months, 70% thereafter.
- Conditionality: employers have several obligations with respect to training, posting and continued payment of wages and an obligation to maintain the contract for at least four weeks following the end of the subsidy.
- Financing: The Government allocated 200 million euros to the public unemployment benefit funds to cover the additional expenses.

Impact

- High take-up, mainly in metal/steel industry, real estate, wholesale, and logistics. The additional time was mostly used for training. (+)
- It was impossible to target “healthy businesses”, therefore it delayed necessary adjustments in some sectors/companies. (-)

Part-time unemployment assistance

At the end of March the Government proposed a crisis package – *Working for the Future* – which was an Annex to the Coalition Agreement. This consisted of an economic stimulus package with emphasis on short-term employment, restoration of sound government finances and a long-term agenda.

The *opportunity for part-time unemployment assistance* was part of the former, and was introduced on April 1, 2009 replacing the short-time

work scheme. In this scheme employers can reduce working time by up to 50% for which workers receive part-time unemployment assistance to compensate for the loss of income. This is available initially for 3 months but can be extended twice for a period of up to 6 months each time. Applications for the assistance can be made until January 1, 2010. Part-time unemployment assistance must always be accompanied by a training agreement with the company and workers are required to take part in training. Employers must reimburse the subsidy if the worker is made redundant during or within 3 months of receiving part-time unemployment assistance. The Government allocated 375 million euros to this scheme which has a low administrative threshold so SMEs can also access it.

Impact

- The advantage of the second scheme is that it is better targeted at healthy businesses because they self-select to take part. The scheme is attractive for companies that need short-term financial assistance to tackle temporary financial difficulties. However it is not appealing to those who are planning redundancy of workers in the short term because they are required to reimburse 50% of the subsidy. It is not the aim of the Government to support delaying necessary restructuring.

– *The possible risks are a potential deadweight loss* (subsidising jobs that would have been maintained anyway). Although this scheme is better targeted and therefore less likely to delay restructuring, this effect cannot be ruled out either.

In summary: The short-time work scheme focused on those hardest hit by the crisis while the part-time unemployment assistance scheme supports those who have the best chance of survival.

Source: *Sweers, M., 2009.*

Short-time work instead of redundancy; training instead of redundancy in Germany

The general rules on short-time work as a labour market measure stipulate that workers temporarily laid-off due a reduction in orders are entitled to 60% of their net wage (67% if they have children). This is paid by the labour market agency via the employer. In relation to the lay-off period employers are required to pay a reduced rate – 80% – of social insurance contribution; 50% of which is paid by the employer and 50% paid by the labour market agency. If the worker is involved in training, the labour market agency pays 100% of the social insurance.

As a response to the crisis, existing rules were amended as follows.

- The subsidy can be paid for up to 18 months instead of 6 months (since it was initiated this has been extended to 24 months).
- The labour-market agency pays 50% of the social insurance contribution which rises to 100% if the worker is involved in training.
- The subsidy for short-time work is available to employers if they reduce the wage of at least one employer by 10%. This replaced the earlier condition that the reduced working time should affect at least a third of the workforce.
- The administration of the scheme should be fast and uncomplicated. The subsidy can be claimed if:
 - The shortening of working time is caused by economic or other, unavoidable circumstances.
 - The company is forced to cut the full-time equivalent wage of at least one worker by at least 10%.

- They have previously tried all other possible measures, for example introducing flexible working time, and
- The loss of orders has been reported to the labour market agency.

A fifty percent reduction of working time means that the employer pays 50% of the wage. Lower pay also means savings attached with non-wage labour costs. For the affected time the employee receives 60/67% of his/her net pay (this is equal to the income-replacement rate of the unemployment benefit). The short-time work allowance itself is tax-free, however it counts towards the tax base of total taxable income. Both the wage and the short-time work allowance are paid by the employer to the worker. Half of the social insurance contribution paid after the reduced wage is paid by the employer and the 50% is paid by the employee. The rate of the social insurance contribution on short-time work is 80% of the original rate which is paid jointly (50–50%) by the employer and the labour market agency (if the worker takes part in training the labour market agency pays 100%).

Another response to the crisis is the placement of redundant workers in labour-market “*transfer companies*” (employment companies). These are public companies funded by the state to allow companies to temporarily “park” redundant workers. Employees receive two thirds of their original salary for up to 24 months and the state also covers social insurance contributions. Transfer companies can also offer training to workers.

Source: Bundesagentur für Arbeit: *Kurz zur Kurzarbeit*, Januar 2009.

5) *Mitigating social tensions.* Unemployment strongly discriminates between skills and social groups. The burden of recession is often borne by the lower skills groups. This calls for a new type of *solidarity pact* between the social groups which has a two-fold objective. On the one hand, it is important to maintain the employability of unemployed people, and on the other hand it is important to demonstrate solidarity among the labour force. A solidarity contribution by those who have a job could be used to finance an increased amount of public work. This would give jobs to unemployed people, sustain or even improve the level of social services, and show that the work

force is sharing the burden. In addition to skills, unemployment discriminates between *regions* as well. EU Structural Funds could be re-oriented to combat local origins of unemployment. In general public spending programmes should consider the strongly different labour market situation among regions and allocate resources in order to compensate for local disadvantages.

How have our regional competitors responded to the crisis?

The growth prospects in the new Member States of the European Union significantly deteriorated and they have had to, and will have to, introduce tough anti-crisis measures. The Baltic states and Hungary face severe constraints as a result of the mistakes of earlier economic policies. Elsewhere the conditions are somewhat more favourable. Most countries in the region are faced with the dilemma of either increasing the budget deficit or trying to maintain budgetary balance through a combination of measures designed to reduce expenditure and increase revenue. The responses to the crisis in the region, to some extent, seem simi-

Source: www.hirszerzo.hu, February 19, 2009.

lar because most countries are forced to introduce extraordinary cuts in expenditure and measures to increase revenues as a result of the deepening recession. At the same time, the lower economic output and the decline of consumption are reducing tax revenues. In addition to the increasing domestic unemployment, many migrants who have been working in wealthier EU countries are also losing their jobs. As a result not only is there a decline in the remittances paid by migrants but many of them return home and take up unemployment or social assistance which puts additional strain on national budgets.

1.3 The role of public employment services in tackling the economic crisis

The European Economic Recovery Plan put forward a clear expectation towards national employment services to take up a key role in tackling the employment effects of the crisis and responding to future challenges such as avoiding structural and long-term unemployment, and rapid changes in the economy and in society. As regards specific actions a conference was organised to bring together the representatives of national employment services from EU Member States, Norway and Iceland to discuss actions to promote inclusive labour markets in a rapidly changing and global economy, both during the present downturn and beyond. (PES Conference, Brussels, 14–15 May 2009)

The modernisation of public employment services over recent decades made a substantial contribution towards the prevention and reduction of massive and long-term unemployment, and also improved transparency in the labour market. Unlike in the past when the PES only administered statutory assistance to unemployed individuals, now the labour market institutions have the task of providing early and effective responses to the economic downturn cycles and effective services to their target customers: jobseekers and employers.

Topics for debate and exchange of experiences

In this context, the conference sought a pragmatic response to the question “*how and with which instruments should labour market institutions address the present and future labour market challenges?*” There is a risk that the economic crisis evolves into a social crisis, yet it should still be regarded as an opportunity for testing the implementation of multiple and combined labour market measures to help return to growth and stability. What were the short- and long-term issues at debate?

- a) The impact of the present economic crisis and future global challenges on the mission of the labour market institutions;
- b) The effectiveness of the instruments at the disposal of the labour market institutions (mainly PES) to address the effects of the crisis – short-time working, job redundancies and mass dismissals, businesses restructuring, migration flows, and the exclusion of vulnerable people (in particular young and older people);
- c) Good practices and pilots to bridge the gap between the present and the longer-term challenges to help labour institutions better anticipate and respond to different labour market events and changes.

At the conference the heads of public employment services put forward recommendations regarding possible organisational responses to the challenges of the crisis. They were as follows.

1) Labour-market institutions ready for action

In most Member States the economic downturn led to mass redundancies. The PES must be able to handle the hectic cycles of labour markets (mass inflows of jobseekers together with rapid restructuring of companies). Although job creation is beyond the remit of the PES, it is required to balance and bridge the gap between demand and supply.

Labour-market events are highly unpredictable and therefore 1) there is an unexpected strain on PES resources and increasing expectations towards their efficient use; 2) there is an increased demand from job seekers to integrated case work (developing individual career paths); early interventions and services based on individual agreements are necessary to ensure safe and swift transition between jobs; 4) employers expect better services; and 5) a more targeted follow-up of labour-market trends and better forecasting of demand become crucial. A number of countries decided to strengthen crisis management capacities and develop interventions based on a combination of measures.

These are underpinned by macro-economic policies such as relieving the tax and social insurance burden on businesses to protect jobs and increase employment (UK, Sweden, France, Germany); the extension of work contracts paid by the state and prolonging the payment of unemployment assistance (France).

Strategies at public employment services to alleviate the impact of the crisis

Examples of PES interventions to address the crisis

Netherlands: To prevent unemployment the PES established 30 mobility centres that assist in the transfer of workers threatened by redundancy to a new job. These centres are meant to support on a project basis, companies that make use of the regulation to find new employment (secondment, temporary jobs) for their redundant workers. This approach is also applied in the case of mass dismissals.

Spain: Developed an extraordinary plan containing orientation, professional training and labour market integration measures. In the framework of this plan 1,500 advisors were hired to carry out support tasks in the public employment service.

Germany: Hiring of 5,000 additional job placement officers (as part of the Employment Pact of 16 January).

Austria: An additional 35 million euros per year to the Labour Market Service (AMS) for vocational training of the unemployed, particularly women. A general tool for retraining delivered under the new scheme for the car industry is the so-called “outplacement company” (this combines short-

term work, internal and external training and the placement of redundant workers in new jobs). An additional 120 million euros were allocated to active labour market policies; their budget now reaches 1 billion euros. In addition 200 new staff in 2009 and a further 50 in 2010 are hired by the PES. They will be allocated to provide early intervention services and manage programmes for unemployed young people.

UK: An additional £1.3 billion for Jobcentre Plus to deliver support for unemployed people. Out of this £800 million is “new” money and £500 million will come from postponing the closing of 25 Jobcentre Plus offices.

Ireland: Increased provision of night class training from approximately 8,000 places to 24,000 places in 2009. Such places will be available free of charge to people who are unemployed.

Belgium: the Government offers training for people who have lost their job. The system of temporary unemployment cancels or postpones (for blue collar workers) dismissals due to economic reasons.

Source: Conference on Labour market institutions in time of crisis: challenges and experiences, Brussels, 14–15 May 2009, Final report on the main discussion points, submitted by GHK Consulting Ltd., June 2009.

2) *New impetus towards the future*

The European Commission’s Directorate-General for Employment, Social Affairs and Equal Opportunities has been monitoring Member States’ initiatives aimed at tackling the recession since December 2008. (CEC, 2008a) In addition to anticipating viable sectors for the future, it also looks at future demand for skills. An expert working group was set up to assist modelling forecasts and national employment services take part in the monitoring of labour markets. To identify new skills the International Labour Organisation (ILO) prepared a report on “Employment Trends” and is currently working on a model to forecast skills demand. The ILO is also looking at skills needs that would allow a shift towards more green jobs. (*International Labour Office*, 2009)

In relation to the above public employment services are faced with the following challenges.

- They must be prepared to identify increasingly complex job profiles required by employers (a job requires an increasing number of vocational and general skills).

– They must consider how they can offer motivating jobs to people. In the USA for example employees consider changing jobs on average 14 times before the age of 38. Public Employment Services are also expected to give more effective assistance in job search in the European Union.

– If they spend money on training they should not do this only during the current recession but also prepare skills for the next growth period. It is the responsibility of the PES to monitor current demand and anticipate future needs. Labour-market institutions also need to mobilise disadvantaged groups, identify them and their training needs – this is crucial for the EU and the integrated employment and social services.

3) *Flexible security – adaptation strategy for economic recession*

Labour organisations must focus on the modernisation of labour markets and must adopt a coordinated combination of policy responses in particular for disadvantaged people. As an immediate intervention the flexicurity strategy can be an obvious response and offer a comprehensive policy framework. The flexibility of work contracts and a combination of active labour market measures can give a rapid policy response to mass redundancies or company closures because they allow a swift transition to a new job. In the current climate of uncertainty flexicurity demonstrates the possibility of transition with the assistance of skills development, active labour market measures and social protection systems that can reduce the negative effects of the crisis. They also increase citizens' confidence and allow a quick labour (re)integration of disadvantaged people and those who have lost their job. *A comparative analysis of unemployment at the end of 2008 reveals that its growth had been slower in Europe than in the USA.* This is the result of a widespread application of internal flexibility measures (flexible working time systems) which allow the adaptation of the workforce and avoid redundancies.

For this reason most European public employment services are making efforts to ensure fast, flexible and effective services for jobseekers and employers. During times of recession the PES plays a key role in introducing flexicurity policies (*Table 3*) and in meeting the needs of the most disadvantaged groups on the labour market.

“By providing support and delivering services, Public Employment Services actively contribute to the implementation of the common principles of flexicurity. The operations of public employment services focus on organising and assisting successful labour market transitions. PES services help to reach a balance between flexibility and fluidity of employment on the one hand and security during job changes and career development moves likely to occur during the life cycle on the other.” (The contribution of PES to flexicurity, Joint Opinion of Heads of PES, 1112/2008, Nice)

Table 3: Examples of flexicurity policies applied during the crisis

Flexibility	Security			
	Job security	Employment security	Income security	Combination security (care and work)
External numerical flexibility (hiring and firing)	Temporary placement in other firms	Worker pools	Use of benefits as wage subsidy or educational support	Mortgage support
Internal numerical flexibility (working time flexibilization)	Shorter working hours, Work-time accounts	Joint employership	Part-time unemployment benefit, Reduced working hours	Leave schemes
Functional flexibility (between job functions)	Job rotation	Internships in other firms, retraining	Retraining for new job	Accreditation of prior learning
Wage flexibility (variable pay)	Adjustment of wages	Supplement wage in new job	Extra UB as compensation	Increased family allowance

Source: Adapted from a presentation by Ton Wilthagen at the conference “*Implementing flexicurity in times of crisis*” in Prague, March 25, 2009 cited by *Madsen, P. K.*, 2009.

2. RESPONSES TO THE CRISIS IN HUNGARY

Crisis management as in the context of developed countries – and presented in the first chapter – did not happen in Hungary. However, there was crisis management in the sense that Hungary successfully avoided bankruptcy with the help of the IMF loan and Parliament adopted the necessary budgetary restrictions. The Government and the Central Bank signed an agreement on a 20-billion euro loan package with the European Union, the International Monetary Fund and the World Bank in November 2008. In this Hungary pledged to implement measures to increase fiscal stability and reduce the budget deficit, and also implement long postponed structural reforms (*Table 4*). These limit Hungary’s room for manoeuvre in crisis management.

The Government – in accordance with the Convergence Programme – prepared the *National Action Plan for Growth and Employment* in November 2008. (*Government of the Hungarian Republic*, 2008.) The response to the national recommendations of the European Economic Recovery Plan should have been prepared as an attachment to this document, however there was no scope for pro-growth, stimulatory measures further increasing the budget deficit, and the Government decided to address the issues by the reallocation of sources within the budget and extra-budgetary instruments. The European Council considered this unsatisfactory.

The EU’s assessment on Hungary’s implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan states the following: “The National Reform Programme (NRP) for 2008–2010 does not reflect a clear coherent strategy for the medium-long term.

The action plan provides some elements to illustrate the country's response to policy recommendations and a general timetable, though it does not offer budget coverage. Consultation on the NRP needs to improve as comments could be submitted only on the Internet.

Table 4: Restricted path: changes to the IMF programme

Letter of intent, 04. 11. 2008.	Letter of intent after 1 st revision, 11. 03. 2009	Letter of intent after 2 nd revision, 11. 06. 2009.	
Macroeconomic forecast for 2009	Macroeconomic forecast for 2009	Prognosis for	
		2009	2010
GDP change -1%	(-3) - (-3.3) %	-6.7%	-0.9%
Inflation: 4%	3.7 - 3.9%	4.5%	3.8%
Current account deficit/GDP: 2%	3.9%	4.1%	4 %
Budget deficit/GDP: 2.5%	2.9%	3.9%	3.8%
<i>Fiscal measures, structural reforms.</i> Spending cuts (freeze on nominal salaries in the public sector in 2009, taking away the 13 th month salary from public sector workers, capping the 13 th month pension at 80,000 forints,* restricting access to early retirement, postponing the new indexation of social expenditure, corresponding cuts in the budgets of ministries), adopting an act on budgetary responsibility, new rules on financing local governments, extending the statutory powers of the Financial Supervisory Authority and the Central Bank to emergency interventions, an injection of 600 billion forints to strengthen liquidity and capital resources of banks.	<i>Fiscal measures, structural reforms.</i> Due to the deeper than expected economic recession state revenues are down by 300 billion forints. This is only matched by a 190-billion-forint spending cut, therefore the forecast for the budget deficit is increased. New rules for pension increases; newly retired pensioners are not entitled to 13 th month pension, the retirement age will rise in 2016. Family allowance will be counted as taxable income for personal income tax. From June the budget for subsidised energy prices is cut by 40 billion forints. Revenue-neutral tax reform: tax cuts on labour compensated by higher tax on consumption (rate of value added tax increased by 3 percentage points) and wealth.	<i>Fiscal measures, structural reforms.</i> Tax revenues decline due to the lower than expected nominal GDP. Public expenditure continues to increase. The Government improves the balance of the budget with 170 billion forints, however the expected deficit continues to grow. The 13 th month pension is scrapped and a pension premium is introduced instead, applicable if economic growth is above 3.5%. The rise in retirement age is brought forward to 2012. The public sector salary is frozen for 2 years, 13 th month salary abandoned altogether, pay cuts at managerial levels. Sick pay is reduced from 70% to 60% of the salary. Parental benefit is reduced to 2 years. The family benefit is scrapped and the budget for agricultural subsidies is cut by 45 billion forints. The mortgage interest subsidy for Forint-based mortgages is abolished. A saving of at least 120 billion forints by reducing the responsibilities of local governments. Subsidy for rail transport cut by 40 billion forints. Revenue-neutral tax reform: From July 1, 2009 the VAT-rate is increased by 5%, new 18%-rate for basic foods and communal heating. From 2010 personal income tax rates cut, "super gross salary", value-based property tax.	

* Forint is the national currency of Hungary. At the time of finalising this Chapter 1 Euro = 270 forints.

Source: compiled by *Zoltán Farkas*, HVG, July 11, 2009. page 59.

Political ownership appears limited and the Lisbon strategy is mostly followed at technical level. The following challenges remain important for Hungary: poor R&D performance, state aid, the uncertainty of the regulatory environment, weak incentives to work and to remain in the labour market, slow progress in the implementation of the integrated employment and social services system, and undeclared work." (*CEC*, 2009b.)

– The main labour market challenge for Hungary is the low economic activity and employment, particularly of young people, young mothers, older people, low-skilled people and other disadvantaged groups, such as the Roma population. Moreover, the most disadvantaged social groups are concentrated in the poorest areas.

– The existence of an integrated flexicurity strategy is not evident. Many active labour market programmes are in place, but their effectiveness needs to be improved. A comprehensive lifelong learning strategy exists, however its implementation needs to be stepped up. Contractual arrangements vary between the extremes of the high level of protection offered to public sector workers and complete flexibility of the self-employed entrepreneurs. The comprehensive review of the Labour Code is still pending.

– The ‘Pathway to Work’ programme is a welcome response to the Council recommendation on improving the labour market situation of the low skilled and long-term unemployed. However the specific design, budget and timetable for this programme remain unclear. Increasing the efficiency and coverage of active labour market policies remain a challenge. Although the new range of policies directed at the Roma population are steps in the right direction, it will be crucial to develop further concrete policy instruments and to focus on implementation. A number of targeted programmes have been announced which aim to improve the labour market situation in the most disadvantaged micro-regions, however they need to be complemented by measures to foster labour mobility.

– The Government has taken a range of measures to improve the quality, effectiveness and accessibility of education in response to the Council’s recommendations. These include combating segregation in public education, the introduction of an integrated assessment system of both schools and teachers, and the involvement of employers in the development of curricula in higher education. However the impact of these measures is so far unknown.

– The Council asked Hungary to focus attention on improving incentives to work and to remain in the labour market. In response conditions for early retirement were tightened and financial incentives to remain in employment were introduced. These are only the first steps and further action is required in order to reduce disincentives within the tax and benefit systems and to develop a long-term pension and active ageing strategy. There were no steps towards facilitating the reconciliation between work and private life. In particular, the commitment made to improve childcare provision for children aged 0–3 years should be translated into action, accompanied by the reform of lengthy parental leave schemes and more flexible work arrangements. Although the establishment of the integrated employment and social services system appears to be on the right path, further integration and strengthening of the system is needed. Adequate measures were implemented to transform undeclared work into for-

mal employment, and Hungary's clear determination to improve the situation is welcome. The implementation of the lifelong learning strategy is ongoing, and further measures need to be implemented to increase adult participation in lifelong learning, especially among the low-skilled and older workers.

The measures taken by the crisis-managing Government responded to these critical comments.

2.1 One-year Action Plan of the Crisis-managing Government and its Implementation

In April 2009 a new Government formed with the specific mandate of crisis management. Its Programme entitled "*Managing the Crisis and Building Confidence*" was adopted by Parliament and identified the following objectives:

- immediate actions to address the short-term effects of the crisis;
 - long-term improvement of the budgetary balance;
 - promoting sustainable growth; and
 - restoring confidence.
- Large scale *spending cuts* were introduced to reduce the budget deficit:
- freeze on public sector salaries and hiring for 2 years. The 13th month salary was scrapped;
 - cutting back expenditure on *family subsidies*:
 - the *family allowance* was frozen for 2 years and the upper age limit for eligibility was reduced from 23 to 20 years;
 - the family allowance became taxable income (it is still received tax-free but it is part of the taxable income);
 - the duration of parental leave (Child Care Benefit and Child Care Allowance) was reduced from 3 to 2 years (this is not applicable to parents already on parental leave).
 - At the same time the following were decided:
 - the *simplification* of child care regulations,
 - the introduction of *family child care* as a new type of child care,
 - parents returning to work in the public sector must be offered *the possibility of part-time work*,
 - the *development of the kindergarten and nursery network*, and
 - *increasing the state subsidy* of family day nurseries.
 - There were cutbacks in other *social expenditures* as well:
 - *sick pay* was reduced by 10% points;
 - the *13th month pension* was scrapped;
 - the retirement age to gradually *rise to 65 years*;
 - the *gas and communal heating benefit* is being phased out;
 - the housing support scheme was suspended and replaced by a smaller *grant for first-time home owners*.

With the view of returning the economy to growth *the tax burden on labour was reduced* and incentives to work were strengthened.

In 2009

- Contributions paid by the employer were cut by 5% points (from 32 to 27%) on salaries up to 200% of the minimum wage.
- The lowest rate – 18% – of personal income tax was extended to an annual income threshold of 1.9 million from 1.7 million forints,
- The VAT increased from 20% to 25% and a new, reduced rate was introduced for basic foods and communal heating.

In 2010

- The 5%-points cut in employer's contribution will be extended to all salaries.
- The income threshold for the lowest personal income tax rate will increase significantly (from 1.8 million in 2009 to 5 million forints), however the taxable income will be calculated on the basis of the "super gross salary" (i.e. the gross salary plus the national insurance contributions – 27% – paid by the employer).
- The personal income tax rates will be amended from 18 and 36% to 17 and 32%.
- The fixed-sum health care contribution will be scrapped.
- A property tax will be introduced.

Solidarity package

- *Assistance to mortgage owners.* The state provides a temporary guarantee for those who own certain types of mortgage and lose their job as a result of the economic crisis after September 30, 2009. In June 2009 the scheme was extended to those on a low-income who although not losing their job struggle to pay their mortgage.
- *Crisis assistance scheme.* this is a one-off payment to low-income families, in particular families with children and pensioners.

Vocational training

To increase the flexibility of vocational training, reduce the drop-out rate and make vocational training more attractive to young people the Government scrapped the restrictive regulation that prevented people aged under 16 years starting vocational training. This allows young people to begin vocational training straight after leaving elementary school at the age of 14. Years 9–10 in vocational training offer students the possibility to strengthen basic skills and provide the foundation for further training. The accreditation of prior experience/skills also becomes possible which can reduce the time required to complete the qualification.

2.2 The Government's Measures to Counter the Negative Impact of the Crisis on Employment

The Government adopted various measures to alleviate the negative effect of the economic downturn on the labour market. The crisis management and economic stimulus package announced during the autumn of 2008 addressed the problems both on the financial and labour markets. The resources of the New Hungary Development Plan were re-programmed and new measures were introduced that aimed to cushion the negative effects of the crisis.

With EU funding:

- a financial package of 1.4 billion forints for SMEs – for working capital loans, microloans, loan guarantee;
- orders worth 1.8 billion forints to the construction sector;
- a total of 20 billion forints allocated to the 4+1 integrated job retention and training schemes that – according to estimates – will provide assistance in the preservation of more than 50,000 jobs.

The working time regulations were also reviewed in order to provide greater flexibility to adjust working hours to the fluctuations of demand resulting from the crisis.

2.2.1 More flexible working time

The Parliament amended the Labour Code and the new rules already entered into force on June 1, 2009. There were new regulations on calculating the working time limits, daily rest and overtime.

Working time limit: on the basis of daily working hours employers could apply the working time limit over a period of 3 months or 12 weeks. The new regulation extends this by one month or 4 weeks.

So far on-call duty had to be followed by a daily rest of at least 11 hours, unless specified differently by a collective agreement. According to the new rules, if no work had to be undertaken during the on-call duty, the employee is not entitled to the daily rest.

Overtime: According to the old rules overtime was possible for workers who agreed to work longer and for a maximum of 300 hours (200 hours and if justified a further 100 hours) each year. The agreement could only be signed if the employer had already started to recruit another worker for the same position and had reported the vacancy to the employment service but had not yet filled the post. Overtime was also legitimate in high-level or highly specialised jobs that were essential to ensure the continued operation of the employer. From June 1 only the first requirement needs to be met.

2.2.2 Employment protection measures

For the employment protection schemes of the Ministry of Social Affairs and Labour (MoSAL) *a total funding of 17.93 billion forints was available in*

2009; 7.23 billion forints for 3 programmes in the budget of the National Employment Foundation (NEF), 10 billion forints for the programmes implemented by the Public Employment Service (PES) and 700 million forints for a job protection scheme managed directly by the Ministry. (MoS-AL, 2009.)

The following gives an overview of the utilisation of these funds based on the report prepared for the Parliament's Committee on Employment and Labour by the Ministry of Social Affairs and Labour.

These schemes had a three-fold objective:

- maintaining the operation of businesses in order to protect jobs;
- facilitating the transfer and re-employment of redundant workers with a new employer;
- if redundancy cannot be avoided, supporting the individual – also by upgrading his/her skills – to find a new job.

The main forms of assistance:

- subsidy towards labour costs – wage and contributions,
- introducing short-time work,
- assistance towards training and re-training expenses,
- the provision of labour-market services,
- assistance towards the cost of commuting and housing.

a) The job protection scheme of the National Employment Foundation

The NEF supported 494 applications with a total sum of 7,150.136 million forints. This directly contributed to the employment of 18,647 workers and to the protection of a total of 33,752 jobs.

The Management Committee of the Labour Market Fund allocated additional money to the *job protection scheme of the NEF* in June 2009. This allowed the funding of a further 20 already submitted applications. Altogether the 448 subsidised projects employed 16,969 workers. The average length of the subsidy was 6.9 months, which together with the job retention requirement guaranteed the employment of workers for 13.8 months. According to the conditions of the scheme, employers receiving the subsidy were required to retain the total initial headcount for the whole duration of the project, which means the survival of 31,255 jobs at least on average for 13.8 months.

In small firms with less than 50 employees a total of 2,962 workers were involved in job protection schemes on average for 7.3 months. The number of retained workers was highest in medium-sized businesses; a total of 13 thousand employees. Working time flexibility measures were most common in large companies – 7,833 workers were involved in these – and they were more likely to use the subsidy to upgrade the skills of their workforce. *Table 6* gives detailed figures.

Table 5: Summary table of the National Employment Fund's job protection schemes

	Name of the programme		
	"Protection"	"Into work"	Total
Number of projects (No)	448	46	494
Requested subsidy (thousand HUF)	9,610,780	830,891	10,441,671
Awarded subsidy (thousand HUF)	6,484,954	665,182	7,150,136
Protection (persons)	7,371		7,371
Short-time work (persons)	9,598		9,598
Training (persons)	273	102	375
Transfer of workers to another employer (cont. employment) (persons)		131	131
Workers referred by Labour Centre (persons)		1,547	1,547
Total participants (persons)	16,969	1,678	18,647
Retained workforce (persons)	31,255	2,497	33,752
	Awarded subsidy	Training	Total participants
Awarded/requested subsidy (%)	68		
Participants placed into training/total participants (%)		2	
New jobs within the "Into work" Programme (%)			49
Protected/retained workforce in the "Protection" Programme (%)			54

Source: MoSAL 2009.

Table 6: Participants in job protection schemes by size of business (persons)

Size of business	Job protection	Short-time work	Training	Retained workforce
Small firm with less than 50 workers	2,825	137	6	7,583
Medium-sized firm with 51-250 workers	4,267	1,628	46	13,031
Large firms with more than 251 workers	279	7,833	221	10,641
Total	7,371	9,598	273	31,255

Source: MoSAL 2009.

Sixty percent of the money allocated for job protection was spent on wage subsidy, supporting 43% of the total participants.

Table 7: Total spending and number of participants by type of subsidy

Type of subsidy	Awarded subsidy	Participants	Retained workforce
	thousand HUF		
Job protection subsidy	3,859,247	7,371	18,105
Short-time work	2,625,703	9,598	13,150

Source: MoSAL 2009.

The scheme supporting the re-employment of redundant workers received 83 applications out of which 46 received assistance. The total funding of 665 million forints supported the transition of 1,678 redundant workers to new jobs; 1,547 job seekers were referred by the labour centre and 131 work-

ers were transferred in a business take-over. The length of the subsidy is on average 8.8 months and that guarantees the employment of participants for 17.6 months.

The number of firms with less than 50 workers is 40 and they employ 24% of the total subsidised participants. They typically hire jobseekers submitted to their vacancies by the local job centre. The number of medium-sized businesses is 5, and they typically increase their workforce as a result of a takeover. This was the only category of companies that used the possibility of training, even though small firms also hired 19 workers as part of a business takeover.

Table 8: Main characteristics of the NEF scheme supporting the re-employment of redundant workers

Size of the business	Number of projects	Awarded subsidy thousand HUF	Job seekers referred by the PES	Employees transferred within takeover	Involved in training	
					In training	Retained workers
Small firms with less than 50 workers	40	348,088	415	19		767
Medium-sized firms with 51–250 workers	5	171,894	37	112	102	634
Large firms with more than 251 workers	1	145,200	1,095			1,096
Total	46	665,182	1,547	131	102	2,497

Source: MoSAL 2009.

According to the conditions of the scheme, employers receiving the subsidy are required to maintain the initial headcount at the time of application throughout the total duration of the project. This means the retention of *2,497 jobs on average for 17.6 months*.

b) The labour-market scheme implemented by the PES: “For the Protection of Jobs”

The PES or more closely the *regional labour centres* were receiving applications for job protection subsidies from businesses between February 9 and September 14, 2009. Then on the basis of these they designed labour-market schemes that were submitted for approval to the Employment and Social Office. Within these schemes the following subsidies can be provided:

- job protection subsidy,
- subsidy for short-time work,
- subsidy for re-employment with a new employer (including wage subsidy), and
- training subsidy attached to job protection or re-employment.

Labour centres also provide integrated labour-market services to workers affected by redundancy.

Employers together with the local labour centre prepared detailed Programme Plans outlining their need for assistance. These were forwarded – either by company or by region – to the Employment and Social Office. Businesses operating in more than one region submitted their application directly to the Employment and Social Office (ESO). The final decision on the approval or rejection of an application was made by the Minister for Social Affairs and Labour. The evaluation of applications was on-going until funding was available, and commitments could be made until December 31, 2009 at the latest. However, the scheme was suspended on September 14, 2009 because the budget was exhausted – the approved and the submitted but not yet evaluated applications requested a total of 12 billion forints. (*Napi Gazdaság*, 11. 09. 2009.)

The scheme “For the Protection of Jobs” aims to support businesses in temporary financial difficulty. The projects are implemented jointly by the employers and the PES. The total number of applications registered by June 12, 2009 was 1,331 distributed between the different types of subsidy as follows:

- 1,268 applications for job-protection subsidy,
- 26 applications for re-employment with wage subsidy,
- 37 applications for wage subsidy attached to short-time work.

The submitted projects have a total of 2,281 individual claims by employers, mainly from the retail, auto repair, manufacturing, construction, and tourism sectors. The number of workers in temporary difficulty was over 52 thousand and the sum of the total requested subsidy was over 32 billion forints. *The total labour force of businesses applying for assistance was more than 95,000 workers.*

According to information provided by the ESO, 769 projects were recommended to the Minister for Social Affairs and Employment for approval based on the opinion of the Expert Committee by September 10, 2009. *The total number of participants subsidised directly within the scheme was more than 27 thousand, and the total number of jobs affected by the scheme was more than 48 thousand.* The regional labour centres signed 754 funding agreements with a total financial commitment of 7 billion forints. Most businesses applied for job-protection subsidies and subsidy for part-time work. (*Napi Gazdaság*, 11. 09. 2009.)

2.2.3 Anomalies of the policy responses to the labour market crisis

“Although the crisis so far has destroyed surprisingly few jobs and the number of the jobless has increased only slightly more than across the whole of the EU, it does not promise anything positive. The recession does not only bring about a decline in jobs but also a slow-down of job creation which – under

normal conditions – would offset the loss. Therefore, if next year the number of newly created jobs will be only 100 thousand and annual job destruction jumps from the usual 250–300 thousand to 400 thousand then the number of jobs might decrease by up to 300 thousand which might double the unemployment rate currently at 9.1%.” (Kőrösi, 2009, p. 6) The different job protection schemes aimed at preventing the growth of unemployment, however their implementation was not without problems.

1) *Dearth of funding, centralised distribution.* The three main sources to maintain the level of employment – 700 million forints in the budget of the MoSAL, 10 billion forints for the schemes of the PES and 7 billion forints for the NEF’s programmes – came from the decentralised employment funds of the regional labour centres. These funds were centralised and reallocated for policies that could have been dealt with locally, using the active measures defined by the Employment Act. The act of centralisation slowed down decision making which is not permissible during times of crisis. The scarcity of funding is indicated by how quickly it was exhausted. The scheme of the NEF had to be terminated in March instead of November 30 because more than 2,000 applications were received asking for a total of 18 billion forints. The 10-billion-forint budget of the PES was only open until September 14, 2009. If this was the consequence of the insufficiency of the Labour Market Fund then the employer’s contribution should not have been cut.¹

2) *Overly complex programme objectives.* The programme objectives were so diverse that all businesses could find a lifebelt for whatever their problems were and whether they were caused by the crisis or their weak performance. This set off a massive wave of applications. Moreover, these schemes offered subsidies that also form part of the repertoire of active labour market measures and services (e.g. wage subsidies, training, assistance towards commuting costs). These are unreasonable duplications.

3) *Complicated administration.* To prevent extreme demand, the authorities set bureaucratic procedures and required applicants to submit a variety of information and documents presenting their existing and planned crisis management measures including proof of financial resources, and a detailed outline of actions intended to address their employment problems. “While even the Government cannot exactly tell where bad economic policy ends and financial crisis starts, employers applying for these subsidies were required to prove that their employment difficulties were directly caused by the recession and were only temporary. The calls for proposal did not give any clear guidance on how to do this neither for the applicants nor those evaluating the projects besides the requirement of notifying the local labour centre of a plan to mass dismissal after October 31, 2008.” (Ilda G. Tóth, HVG, 02. 05. 2009, p. 55)

¹ On July 1, 2009 the employer’s contribution was reduced from 3% to 1% on wages up to 200% of the minimum wage (143,000 forints).

4) *Strict requirements for applicants.* According to employers applying for the subsidy one of the most problematic requirements was that “applicants must not make any redundancies while receiving the assistance and for an identical length of time (3–12 months) after that”. This was considered impossible in the given economic downturn. And therefore “some of those who had been awarded the subsidy decided not to sign the funding agreement because they realised they took on too much”. (*Ilda G. Tóth*, HVG, 02. 05. 2009, p. 55.)

Many also found the requirements regarding *the business plan* irrational. “The regional labour centres expect a lengthy business plan from businesses applying for state subsidies which has an illogical structure and numerous overlaps with the application form. There is no single application package, its content is different in every region. The conditions are so general that they could give scope for politically motivated decisions. The business plan is an irrational requirement anyway. During time of crisis it changes frequently and will not reflect the real situation of any company.” (*Kincsei*, 2009.)

5) *Lengthy administrative procedures to access funding.* Companies submitted their application to the local labour centre of the PES and if they were eligible they made a joint project proposal that was submitted to the ESO for assessment. Then the Office made a shortlist of projects and businesses recommended for approval. The shortlisted projects were forwarded to the MoSAL where they were also evaluated by the experts of the Management Committee of the Labour Market Fund. They submitted the final list of projects recommended for approval to the Minister who awarded the subsidy. The funding agreement was signed between the labour centre and the employer. This procedure projects a lengthy decision time, even though in this case the proverb “he gives twice who gives quickly” is particularly true.

6) *It is even harder to cope with EU programmes.* Out of the EU co-financed loan schemes for the smallest businesses, they could only use the New Hungary Microloan which was launched in the first half of 2008. This was available until the end of July 2009 and only 1,294 companies used it. They received a total loan of only 7 billion forints, even though the conditions of loan were made more favourable in the mean time: companies with a turnover of less than 200 million forints or start-ups could receive up to 6 million forints as a working capital loan or up to 10 million forints as an investment loan with an interest rate of 5.9%. It is also telling that most applicants turned to the regional non-profit enterprise development agencies because their fees were considerably lower rather than using the 5 commercial banks also taking part in the scheme. On the other hand the willingness of businesses to take on a loan has also diminished. According to a recent survey by Coface Hungary Ltd less than 10% of Hungarian businesses are creditworthy, and this is likely to deteriorate because only a small share of companies is increasing its

revenue. In this context it is not surprising that in the first quarter of 2009 the number of insolvency proceedings was up by 22%, however the worst is yet to come. (*Ilda G. Tóth*, HVG, 25. 07. 2009)

2.2.4 “Short-time working – instead of redundancy”: A comparison of the conditions of the anti-crisis policy measure in Hungary and Germany

The adjustment of the conditions of short-time working to the employment “emergency” in Germany is a good example of effective crisis management on the labour market. Because this measure also exists in Hungary, it can be used to illustrate the difference (*Table 9*). The description of the German scheme can be found in Chapter 1.2. In Hungary new rules were adopted under the title “*Supporting part-time work to prevent redundancies*”². These are the following.

The aim of the measure is to support the retention of workers threatened by redundancy in part-time employment. Employers are eligible for support if instead of laying-off redundant workers they continue to employ them part-time, at least 4 hours/day. As a condition of the subsidy the employer is required to give prior notification of planned mass dismissal to the local labour centre.

The rate of the subsidy is up to 80% of the wage and contributions of the worker lost due to the reduction of the working time. The maximum wage eligible for subsidy is 150% of the national minimum wage. The subsidy can be paid for up to 12 months. The budget of the scheme is 10 billion forints earmarked within the Employment Sub-fund of the Labour Market Fund.

Employers need to apply for the subsidy for the workforce affected by redundancy. Another condition is that the employer must not implement a mass dismissal, and retains the total workforce during the payment of the subsidy retaining the workers for the same length of time after that. Employers also agree to pay workers the sum monthly, in advance.

The difference in the terminology of the two schemes is not a purely semantic issue but also reflects the difference in their content. *According to the German rules short-time workers remain full-time employees* in the scheme. *In Hungary however, work contracts must be converted to part-time by mutual agreement.* This raises a number of important questions – that do not arise in the German scheme – such as changes in the salary, work-related benefits, implications for pension, health insurance or paid leave. These issues must be negotiated between the employer and the workers which might be a lengthy procedure contradicting the whole purpose of the scheme, namely fast response.

Part-time employment also has direct implications for *the amount of the Job Search Allowance*. Given that the allowance is linked to the previous wage during a third of the eligibility period, and its amount is calculated on the basis of the average wage in the 4 quarters prior to becoming unemployed, workers can end up being worse off if their employer is forced to dismiss them

2 – 70/2009. (02. 04) Government Regulation on Supporting the Work placement of Unemployed School Leavers with a Vocational Qualification and Part-time Working to Prevent Redundancies. In force from 05. 04 2009.

later due to bankruptcy than if they had been made redundant straight away following the emergence of economic problems.

There are significant differences in the *flexibility of rules* as well: in Germany it is enough if the decline in orders results in a 10% cut of working hours for one worker. In Hungary the scheme is an *alternative to mass redundancy*. The *period of eligibility* in Germany is one and a half times, from 2010 *twice* as long as in Hungary. German companies are required to retain the short-time workers during the receipt of the subsidy, their Hungarian counterparts for *twice as long*. And finally the administration and access to the scheme is simpler than in Hungary.

Table 9: Differences between the German and Hungarian “short-time work” schemes introduced as a response to the crisis

Issue	German provision	Hungarian provision
Terminology	Short-time work (Kurzarbeit): clearly distinguished from part-time work (Teilzeitbeschäftigung).	Part-time work: Blurs the distinction between voluntary part-time work and forced short-time work.
Conditions	Shortening of working time due to economic difficulties or other unavoidable circumstances resulting in at least a 10% reduction in the wage of at least 1 worker.	Notice of a planned mass dismissal, not implemented as a result of the subsidy. Work contract must be modified to reflect reduced working time. This must be at least 0.5 of FTE.
The subsidy	Income replacement according to the rate of unemployment allowance. National insurance paid on 80% of the lost income, labour market agency co-finances 50%, 100% if the individual is taking part in training.	Up to 80% of the wage and contributions. The level of eligible wage is up to 150% of the national minimum wage.
Payment	In 2009 the maximum duration of payment was increased from 6 months to 18 months. From 2010 this will rise to 24 months as a result of the prolonged crisis.	Up to 12 months.
Requirements	Retain workers during the receipt of the subsidy.	Retain the total workforce as at notice of planned mass dismissal, retain part-time workers during receipt of the subsidy and for an equal period after that.
Access	Simplified administration; the local offices of the Employment Agency receive the applications and make the funding decision. The application form can be submitted on-line. For applications received before the end of the month, the full subsidy can be claimed for the given month.	The scheme was managed by the PES however its budget was exhausted in September 2009. Companies submitted their application to the local labour centre of the PES and they made a joint project proposal that was submitted to the ESO for assessment. Then the Office made a shortlist of projects and businesses recommended for approval. The shortlisted projects were forwarded to the MoSAL where they were also evaluated by the experts of the Management Committee of the Labour Market Fund. They submitted the final list of projects recommended for approval to the Minister who awarded the subsidy. The funding agreement was signed between the labour centre and the employer. This procedure projects a lengthy decision time, even though in this case the proverb “he gives twice who gives quickly” is particularly true.

3. INCREASING EMPLOYMENT AND LABOUR MARKET PARTICIPATION IN HUNGARY

Improving the employability of unemployed and inactive people and the labour market integration of disadvantaged people had already been the priorities of Hungarian employment policies before the economic downturn. Labour market participation in Hungary is especially low by international comparison, and therefore this objective remained valid despite the economic crisis. The main reasons behind the poor employment indicators are the dependency traps generated by the large welfare systems – such as pension and child care: the crisis managing Government initiated *structural reforms* that in the long-run will reduce the number of people dependent on transfers that keep them away from the labour market. These have been discussed earlier in relation to the Government Programme, therefore only a few examples are mentioned here.

- Encouraging the labour market participation of women by shortening the eligibility period of parental leave schemes.
- Promoting the activity of older workers by introducing changes in the pension system.
- Gradual reallocation of the tax burden to transform undeclared work into formal employment and reduce labour costs.

Willingness to work should also be encouraged by *short-term measures*. These include extending the requirement to cooperate with the public employment service to a larger group of long-term jobseekers which took place in the “*Pathway to Work*” scheme. *Contribution relief schemes for employers hiring disadvantaged people* are also an important instrument to improve their prospects on the labour market.

3.1 The “Pathway to Work” scheme

The “Pathway to Work” is a complex scheme that started on January 1, 2009.³ It aims to help people claiming regular social benefits to return to the labour market. The target group of approximately 200 thousand persons is divided into two groups. The group that has no chance – at least in the short-run – of returning to work will continue to receive Regular Social Allowance. The other group however, is made up of people who are capable of and expected to work. If there are no vacancies on the open jobs market, they can join public works schemes and receive a regular wage instead of benefits. The number of early school leavers is estimated to be around 7–8 thousand. They will be required to finish school so that at a later stage they can take part in vocational training or job training. Eligible people of working age, who are prevented in taking part in any of the active schemes for reasons not attributable to them, can claim *Stand-by Allowance*.

³ Act CVII of 2008 on the Amendment of Certain Social and Employment-related Legislation. The Act was ratified by the Parliament on December 15, 2008 and it amended the provisions of Act III of 1993 on Social Administration and Assistance.

Table 10: Eligibility for cash benefits for people of working age

Regular Social Allowance (RSA)	Stand-by Allowance (SA)
- Long-term health condition prevents employment	- Not eligible for Regular Social Allowance
- Aged over 55 years	- Unable to find paid work due to a shortage of jobs
- No access to child care for children aged under 14 years (other parent is not claiming any assistance)	- Cannot take part in training or takes part in a training programme without income replacement
- Other reasons stipulated in a local government regulation.	

Unemployed people who are capable of work will be registered as *jobseekers* by the local labour centre office. If they are *aged under 35 years and have not finished primary education*, they will be required to complete that according to the provisions of their Job Search Agreement. If there is no training starting within 30 days, they will be required to join a public works programme like any other members of the target group.

According to the new regulation, the eligibility of all individuals of working age claiming Regular Social Allowance on December 31, 2008 had to be re-assessed by March 31, 2009. If they were no longer eligible, the payment of the benefit was terminated. Otherwise they continued receiving either the new Stand-by Allowance or the Regular Social Allowance. Eligibility for working-age benefits must be re-assessed at least every two years.

Table 11: People claiming working-age benefits and participants in public works programmes, national data, 1st half of 2009

	January	February	March	April	May	June
People receiving Regular Social Allowance	212,339	203,643	190,020	138,869	37,105	33,929
People receiving Stand-by Allowance	-	11,192	35,832	93,402	180,481	166,652
People in public works programmes	7,909	7,599	9,387	18,640	52,128	76,437

Source: Ministry of Social Affairs and Labour, Cash Transfers and Pension Insurance Department, (cited by *Vajda*, 2009, p. 3.)

After the re-assessment of eligibility in the first half of 2009 only one in seven claimants continued to receive Regular Social Allowance. (See *Table 11*.) At the same time the number of people receiving Stand-by Allowance jumped to over 166 thousand, suggesting that around 75% of people receiving working-age benefit were redirected into this scheme. Also, the number of people in public works programmes increased 10-fold. If these two categories are added together – 76,000 people in public works and 166,000 receiving Stand-by Allowance – the total number of participants suggests an increase in the number of people eligible for working-age benefits by 20,000 compared to the beginning of the year.

Table 12 shows the distribution of people claiming Regular Social Allowance by eligibility categories. Of particular interest are those who are in groups with no chance of entering work. The number of people claiming RSA due to a long-term health condition was 9,400 in July 2009. More than 15,000 people received RSA because they were aged over 55, and approximately 1,200 people could not work due to the lack of child care.

People claiming Regular Social Allowance – except those with a long-term health condition – are required to cooperate with *the institution designated by the local government* – usually the local family support service – if they want to retain their eligibility. The exact content and form of this cooperation is set out in *the Reintegration Agreement* and can include skills upgrading, lifestyle counselling or training.

Table 12: Number of claimants and spending on regular social allowance,* July 2009

Eligible according to rules in force on 31. 12. 2008		Long-term health condition		Aged over 55 years		No access to child care for dependent children aged under 14 years		Low income	
Persons	HUF	Persons	HUF	Persons	HUF	Persons	HUF	Persons	HUF
3,594	96,512,158	9,398	241,470,408	15,540	409,033,954	1,201	42,666,338	2,598	30,009,015

* According to 62/2006. (27. 03) Government Regulation which sets out the accounting rules for social benefit payments. These are corrected figures taking into account the cash flow from any missed payments, overpayments or repayments.

Source: Ministry for Local Governments, based on local governments' monthly applications for normative funding (*Vajda* 2009, p. 3.)

The monthly rate of the Stand-by Allowance is equal to the old-age minimum pension (28,500 forints in 2009) regardless of the size and composition of the family. According to the information in *Table 13*, there have been approximately 160,000 people receiving this benefit since July 2009.

Table 13: Number of claimants and spending on stand-by allowance,* July 2009

Old-age minimum pension		Eligible according to rules in force on 31. 12. 2008		Eligible for RSA cooperating with the PES		Entering work and notifying the authorities		Total	
Persons	HUF	Persons	HUF	Persons	HUF	Persons	HUF	Persons	HUF
117,907	3,137,182,395	30,774	1,210,340,542	1,394	0	8,340	114,293,388	158,415	3,544,897,435

* According to 62/2006. (27. 03) Government Regulation which sets out the accounting rules for social benefit payments.

Source: Ministry for Local Governments, based on local governments' monthly applications for normative funding (*Vajda* 2009, p. 4.)

The state budget co-finances Regular Social Allowance at 80% – 10 percentage points less than in the previous system. The same rate applies for the Stand-by Allowance. There have also been important changes in the financing of public works. Instead of the flat-rate per diem of 3,900 forints, local governments get reimbursed for 95% of the actual labour costs (wage and contribu-

tions) and the remaining 5% is incorporated into the normative funding for local social expenditures, cash transfers and in kind benefits. Local governments have protested at various forums against bearing the material costs of public works alone.

For employment in public works – at least 6 hours/day and 90 days – a fixed-term contract must be drawn up. According to *Table 14* the number of people employed in public works programmes was just over 86,000 in July 2009. Around 60,000 of these worked full-time and 26,000 people worked part-time. Work must be arranged by the local government for which they were allowed to hire staff for a period of two years. People employed in public employment programmes receive a wage which cannot be less than the official minimum wage. Employers are entitled to a 50% reduction on contributions, including the Social insurance contribution, the Employer's contribution and the Fixed-sum Healthcare contribution. This can be used on wages up to 130% of the minimum wage.

Table 14: Number of people employed and spending on public works programmes,* July 2009

Number of workers (persons)		Total number of workers (persons)	Total (HUF)
Full-time	Part-time		
59,670	26,564	86,234	6,846,112,553

* According to 62/2006. (27. 03) Government Regulation which sets out the accounting rules for social benefit payments.

Source: Ministry for Local Governments, based on local governments' monthly applications for normative funding (*Vajda 2009*, p. 4.)

Local governments must prepare a *public works* plan by February 15 each year. The local office of the labour centre and in localities with more than 2,000 inhabitants the local social policy partnership board must be consulted on the draft plan. The document must set out the estimated number of people eligible for the Stand-by Allowance and the timing and budget of public works. The public works plan must be sent to the Treasury within 5 days after its adoption.

The regional labour centres have processed 2,955 public works plans by the end of April 2009. According to summary data from these plans the number of participants in public works programmes will be around 152,840 people during the year, out of which 10,363 will be aged under 35 years and with no completed primary education. (*Péter 2009*.) The analysis has also identified some problems.

- The local office of the labour centre must be consulted on the draft plan, however consultation is not required if the plan is amended during the year.
- The plan must be submitted to the Treasury, however it is unclear what the Treasury needs to do with it.

- Professional assessment and financial control of public works plans are not required.
- No organisation is appointed to collect data on public works plans, monitoring system or set up.

Most people who are eligible for working-age benefits are joint customers of the employment service and local authorities, and even though most issues clearly belong to one of these authorities, they are also strongly inter-linked. To ensure that the division of tasks between the employment service and the local government is clear and the transmission of data on eligibility and payment is up-to-date a database – *Employment and Welfare Database* – is being set up. This will be an electronic database of individuals eligible for working-age benefits.

The budget allocated 100 billion forints to regular benefit payments and the implementation of the “Pathway to Work” Programme in 2009, however it is uncapped in case there is increased demand. According to first estimates, out of 210,000 people claiming Regular Social Allowance, approximately 100,000 would be involved in the programme either through training or fixed-term employment in public works. At the same time public works plans estimated the total number of people involved in the programme at 150–160,000. Erika Szűcs the ministerial commissioner responsible for the implementation of the Programme said that approximately 100,000 people could be involved in public works employment or receive Stand-by Allowance. It is therefore necessary to create rules that motivate businesses and public bodies to take part in the programme. The MoSAL also has plans to start a new *employment scheme for women setting up a national care and support service. Promoting the employment of 220,000 people with disabilities is also a priority.* (Erika Szűcs, 2009.)

3.2 Start Cards – more incentives to employ disadvantaged workers

Contribution reliefs for employing disadvantaged workers are an important tool in improving their labour market chances. They are available to employers hiring school leavers, people returning from parental leave and the long-term unemployed (particularly those aged over 50 and the low-skilled). The targeted reduction increases the chances of disadvantaged jobseekers when applying for a job.

The amended tax regulations in force from mid-2009 also reduced the general contribution rates payable by employers. The discounts given for disadvantaged workers were adjusted accordingly to keep their incentivising effect.⁴

The *Start Plus* scheme aims to encourage employers to hire the long-term unemployed or people *returning to work after looking after their child or caring for a relative*. According to the figures provided by the Hungarian

⁴ Article 37 of Act XXXV of 2009 on the Amendment of Certain Tax Regulations and Other Related Regulations amended Article 5 (1) point b) and Article 7 (1) point b) on incentives to promote the employment of school leavers, unemployed people aged over 50 and people returning to work after parental leave or caring.

Tax and Financial Control Administration from July 01, 2007 – the start of the Start Plus scheme – around 28,000 people applied for the Card by the end of May, 2009.

Table 15: Discounts for employers in the Start schemes (from 01. 07. 2009.)

	Start (young entrants)	Start Plus (parents returning to work, long-term jobseekers)	Start Extra (older persons, persons with low education)	Start Region* (people claiming Stand-by Allowance)
Fixed-sum health care contribution (1,950 Forints)	Exempt for two years	Exempt for two years	Exempt for two years	Exempt for three years
Contributions on the gross wage (1% Employer's Contribution, 26% SI contribution)	- 1st year: 10% - 2nd: 20%	- 1st year: 10% - 2nd: 20%	- 1st year: exempt - 2nd: 10%	Exempt for three years if increases headcount

* Introduced in the most disadvantaged small regions and localities in 2009.

Between the launch of the *Start Programme for young people* in October 2005 and the end of May, 2009 approximately 122,000 young people got the Start Card – 33,600 of these had higher education.

The largest discount is provided by the Start Extra scheme which also opened on July 1, 2007. The target group of this scheme are *jobseekers aged over 50 years and low-skilled people*. By May 2009 more than 14,000 individuals had a Start Extra card.

The Start Region scheme – linked to the “Pathway to Work” programme – was introduced on January 1, 2009.⁵ This extends the discounts of the Start Extra scheme to employers hiring people *claiming Stand-by Allowance*. If the worker comes from a *disadvantaged locality*, then his/her employer is fully exempt from social insurance contributions for 3 years with the condition that the hiring of the new disadvantaged worker increases the workforce of the company and this is maintained for the duration of the subsidy.

The contribution relief encourages employers to hire a large number of young people which is highly desirable because the level of youth unemployment is a cause for concern. Figures in *Table 16* show that the number of young people employed with the Start Card had been increasing dynamically prior to the economic downturn, and it exceeded 40,000 in November 2008. Since then however, it has been steadily declining: in the first four months in 2009 there were on average 3,000 workers less than in the same period of the previous year, and in April 2009 it was under 33,000.

The number of workers with a *Start Plus* card has so far been steadily growing (15,068 persons in April 2009) and this trend has not been affected by the crisis. The *Start Extra* card, despite the significant discount, did not make

⁵ Article 41, Act CVIII of 2008 on the Amendment of Certain Social and Employment Regulations. In force from 01. 01. 2009.

hiring the most disadvantaged too attractive. Nevertheless their number is rising steadily despite the crisis.

Table 16: The number of workers employed with Start Cards

Date	Start Card	Start-Plus Card	Start-Extra Card
November 2005	3,561		
November 2006	20,640		
November 2007	38,469	2,646	1,134
November 2008	40,750	12,344	5,115
Annual average, 2009	39,159	8,219	3,534
Jan-Apr average, 2008	37,234	4,739	2,014
Jan-Apr average 2009	34,269	13,963	5,349
April 2009	32,857	15,068	5,972

Source: Hungarian Tax and Financial Control Administration.

With regard to the characteristics of young people employed with a *Start Card*, there is extremely limited information. An evaluation study would be necessary to establish how many young people would have found a job without the subsidy, or differently what is the deadweight effect of the scheme? So far the only available data suggest that 12–13% of the employers are public sector organisations. There is more detailed information on the characteristics of participants in the *Start Plus and Start Extra schemes* because these are both financed by the European Social Fund and it is a requirement to monitor these programmes and organise their on-going evaluation and employment impact assessment.

Table 17: Workers employed with Start Plus Cards issued between 01. 01. 2009 and 30. 06. 2009 by gender and age (persons)

Age	Returning after parental leave			Jobseeker for over one year			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-24	-	39	39	180	333	513	180	372	552
25-49	23	957	980	1,201	2,226	3,427	1,224	3,183	4,407
50-54	4	14	18	8	21	29	12	35	47
55-64	1	8	9	3	6	9	4	14	18
Total	28	1,018	1,046	1,392	2,586	3,978	1,420	3,604	5,024

Source: Hungarian Tax and Financial Control Administration.

Table 17 shows that *only one in five workers with a Start Plus card was returning to work after parental leave and the majority were long-term unemployed*. The share of women in the former category was 97.3%, mainly from the age group 24–49 years. Two thirds of the long-term unemployed with the Start Card are also women.

Table 18: Workers employed with Start Extra Cards issued between 01. 01. 2009 and 30. 06. 2009 by gender, age and education (persons)

	Male				Female				Total			
	Primary education	Secondary education	Higher education	Total	Primary education	Secondary education	Higher education	Total	Primary education	Secondary education	Higher education	Total
15-24	79	-	-	79	94	-	-	94	173	-	-	173
25-49	607	-	-	607	342	-	-	342	949	-	-	949
50-54	152	186	30	368	178	349	54	581	330	535	84	949
55-64	69	116	25	210	85	141	20	246	154	257	45	456
Total	907	302	55	1,264	699	490	74	1,263	1,606	792	129	2,527

Source: Hungarian Tax and Financial Control Administration.

The take-up of the Start Extra scheme reflects its policy intentions, namely helping the low-skilled and older people into work. Men were represented equally in the two categories, however only one third of the women were low-skilled and two thirds were jobseekers aged over 50. The share of men and women among people with the Start Extra card was almost the same (*Table 18*).

3.3 Supporting the work experience of school leavers with vocational qualification⁶

The high and rising unemployment of school leavers prompted the Government to re-introduce the work experience scheme in April 2009. This scheme existed between 1996 and 2006, but in 2007 it was merged into the wage subsidy scheme of disadvantaged job seekers. Considering that it is increasingly difficult for school leavers with a vocational qualification to find a job, with this measure the Government aimed to address one of their main obstacles in the labour market, namely the lack of work experience. The revival of the work experience scheme aims to create incentives for employers to hire school leavers for formal jobs. "It is a common experience that most school leavers start working, however they are more likely to work illegally or they discover too late that their employment was not declared. Young people are less aware of job security, more vulnerable and less well informed than their older colleagues partly because issues related to social insurance such as pension, work-related illness or sick pay still seem distant." (*MoSAL*, 2009a.)

The scheme supports the work experience of young people with sought-after qualifications who have not been able to find a job after 90 days of job search either independently or with assistance from the employment service. In the absence of work experience their skills and knowledge would quickly start to deteriorate and their motivation to work would also decline.

The experiences of the labour centres show that some of the young people with the Start Card are unable to find work despite the discounts offered by the card. Therefore they are also eligible to take part in the work experience scheme

⁶ – 70/2009. (02. 04) Government Regulation on the Work Experience Scheme for School Leavers with Vocational Qualification and on Part-time Work Scheme to Prevent Redundancies. In force from April 05, 2009.

if they have a sought-after vocational qualification and have been searching for a job for at least 90 days with assistance from the employment service. In this case the subsidy is given on the wage reduced by the Start discount.

Employers are eligible for the subsidy if they hire school leavers with certain vocational qualifications – defined by the regional labour centre together with the regional labour council and regional development and training committee – in jobs that will provide them with work experience. The subsidy is paid for the period of employment but not more than 365 days. The rate of the subsidy is 50–100% of the wage costs. If it is paid at the 100%-rate, then its sum cannot be higher than:

- the minimum wage for school leavers with basic level vocational qualification;
- 150% of the minimum wage for school leavers with medium-level vocational qualifications;
- 200% of the minimum wage for school leavers with advanced- or high-level vocational qualifications.

The scheme is administered by the employment service. The source of the subsidy is the decentralised budget of the Labour Market Fund's Employment Sub-Fund. The Government did not allocate any additional funding to this scheme.

The budget of the Labour Market Fund's decentralised Employment Sub-Fund – the source of active labour market policies – was 30.2 billion forints in 2009. This was significantly lower than the 2008 budget of 38.5 billion forints. The decline resulted from the re-allocation of resources to local governments to finance public works programmes.

Ten billion out of the 30.2 billion forints were not allocated to regional labour centres – according to earlier practice – because it was earmarked for labour market crisis interventions in the regions worst hit by the economic downturn. The majority of the remaining 20.2 billion forints had already been committed in 2009. Therefore only 8 billion forints were left for new measures, such as the work experience scheme for school leavers in 2009. (*Fund Management Department, MoSAL, 2009*)

To compensate for this a new programme was launched to support the employment of disadvantaged people in 2009. The programme (Measure 1.1.2. of the Social Renewal Operational Programme: “Decentralised Programmes for the Employment of Disadvantaged People”) is co-financed by the European Social Fund and has a total budget of 27 billion forints. Additional funding is available in the decentralised and training budgets and the Social Renewal Operational Programme for the implementation of labour market training schemes in the employment service.

At the same time the Employer's Contribution which is the main source of income for the Labour Market Fund, was cut from 3% to 1% from July

1, 2009. *Unemployment was also increasing faster than expected leaving the 2009 budget for passive assistance (95 billion forints) nearly exhausted by July 2009. According to a forecast by the Budgetary Council spending on passive assistance might exceed 150 billion forints in 2009. (Budgetary Council, August 2009.)*

4. SUMMARY

The year 2009 has so far been dominated by the economic downturn both in Hungary and in Europe. Therefore the chapter on the legal and institutional environment of the labour market has focused on *international and Hungarian policy responses to the crisis*.

The first part has presented the employment and social effects of the economic crisis in Europe as well as the responses of European Union institutions. The *European Economic Recovery Plan* adopted by the European Council in November 2008 clearly expressed the need to tackle unemployment by investing in human resources and supporting the employment of the most disadvantaged who are worst hit by the crisis: the low-skilled, atypical workers, young and older workers, ethnic minorities and people with disabilities. *National employment services* have a key role in crisis managements and they must be prepared to offer individualised services, job search advice, intensive (re)training, apprenticeships, subsidised employment and assistance to becoming self-employed.

As an immediate response flexicurity strategies are recommended for EU Member States because these protect employment and long-term employability rather than jobs. The flexibility of work contracts and a combination of active labour market measures can give a rapid policy response to mass redundancies or company closures because they allow a swift transition to a new job. In the current climate of uncertainty flexicurity demonstrates the possibility of transition with the assistance of skills development, active labour market measures and social protection systems that can reduce the negative effects of the crisis. *A comparative analysis of unemployment at the end of 2008 reveals that its growth had been slower in Europe than in the USA.* This is attributed to the widespread application of internal flexibility measures (flexible working time systems) which allow the adaptation of the workforce and avoid redundancies.

For this reason most European national employment services are making efforts to ensure fast, flexible and effective services for jobseekers and employers. During times of recession public employment services play a key role in introducing flexicurity policies and responding to the needs of the most disadvantaged groups on the labour market.

“By providing support and delivering services, Public Employment Services actively contribute to the implementation of the common principles of

flexicurity. The operations of public employment services focus on organising and assisting successful labour market transitions. PES services help to reach a balance between flexibility and fluidity of employment on the one hand and security during job changes and career development moves likely to occur during the life cycle on the other.” (The contribution of PES to flexicurity, Joint Opinion of Heads of PES, 1112/2008, Nice)

Although the effects of the crisis are different in each country, region and sector, and many sectors are affected by job losses, job creation is also happening in other sectors. *After the downturn, the shortage of skilled labour will be the main characteristic of the European economy competing in the globalised world.* European job markets are becoming increasingly complex with new forms of atypical employment, labour mobility and atypical working times.

The ageing of the population will also pose a new challenge for maintaining, using and developing their skills. Furthermore the share of the migrant workers in the labour force is expected to grow, counteracting some of the consequences of demographic changes. The transition toward a low-carbon economy and the growing importance of new technologies offer great potential for the creation of sustainable jobs. This will have an impact on skills demands and create new jobs especially in the energy, construction and transport industries. This is why the EU’s “New Skills for New Jobs” initiative aims at promoting a better matching of skills so that as many vacancies as possible can be filled by people with the right set of skills. This requires forecasting and anticipation of labour demand in the EU.

By pursuing an integrated flexicurity and adaptability approach in times of economic downturn, employment services can simultaneously address the long term demographic and environmental pressures over the labour market.

Crisis management as in the context of developed countries did not happen *in Hungary*. Here crisis management meant that the country successfully avoided bankruptcy with the help of the IMF loan and Parliament adopted the required budgetary restrictions. Given that there was no scope for pro-growth stimulatory measures that would increase the budget deficit, the Government decided to address the employment effects of the recession by reallocating resources with the budget to *job protection schemes*. The Ministry of Social Affairs and Labour spent nearly 18 billion forints national funding on these in 2009.

These schemes had a three-fold objective:

- maintaining the operation of businesses in order to protect jobs;
- facilitating the transfer and re-employment of redundant workers with a new employer;
- if redundancy cannot be avoided, supporting the individual – also by upgrading his/her skills – to find a new job.

The main forms of assistance:

- subsidy towards labour costs – wage and contributions,
- introducing short-time work,
- assistance towards training and re-training expenses,
- the provision of labour-market services,
- assistance towards the cost of commuting and housing.

Out of the 18 billion forints, 7 billion were distributed to employers by the *National Employment Fund* which supported *more than 18,000 workers to remain in work and thus protected nearly 34,000 jobs*. The NES scheme however had to be suspended as early as March instead of its planned closure on November 30, 2009 because the budget was exhausted. Nonetheless in February 2009 the Programme “For the Protection of Jobs” implemented by the *Public Employment Service* was launched. The budget for this scheme was 10 billion forints which lasted until September 14. During this time more than 27,000 workers were supported and *the subsidies paid to employers helped to protect nearly 48,000 jobs*.

After national resources were exhausted, EU funding was made available to mitigate the employment effects of the recession by re-programming the New Hungary Development Plan:

- a financial package of 1.4 billion forints for SME-s for working capital loans, microloans, loan guarantee – allocated;
- orders worth 1.8 billion forints to the construction industry;
- 20 billion forints allocated to the 4+1 integrated job retention and training schemes that – according to estimates – will provide assistance to the preservation of more than 50 thousand jobs.

The working time regulations were also reviewed in order to provide greater flexibility to adjust working hours to the fluctuations of demand resulting from the crisis.

The Hungarian employment policy had been committed to improving the employability of unemployed and inactive people and promoting the labour market integration of disadvantaged people even prior to the economic downturn. Labour market participation in Hungary is especially low by international comparison, and therefore this objective remained valid despite the economic crisis. *The third part has presented new initiatives to increase employment and labour market participation in Hungary.*

The main reasons behind the poor employment indicators are the dependency traps generated by the large welfare systems – such as pension and child care – and the crisis managing Government initiated *structural reforms* that in the long-run will reduce the number of people dependent on transfers that keep them away from the labour market. These have been discussed earlier in relation to the Government Programme, therefore only a few examples are mentioned here:

- Encouraging the labour market participation of women by shortening the eligibility period of parental leave schemes.
- Promoting the activity of older workers by introducing changes in the pension system.
- Gradual reallocation of the tax burden to transform undeclared work into formal employment and reduce labour costs.

Willingness to work should also be encouraged by *short-term measures*. These include extending the requirement to cooperate with the public employment service to a larger group of long-term jobseekers which took place in the “*Pathway to Work*” scheme. *Contribution relief schemes for employers hiring disadvantaged people* are also an important instrument to improve their prospects on the labour market. The third part of the study has also addressed some of the initial experiences of these schemes.

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