

FOREWORD BY THE EDITORS

The series of our labour market yearbooks was launched with the goal of reviewing the main developments in the Hungarian labour market annually, and of giving an in-depth analysis of selected issues.

1. The Hungarian Labour Market in 2008-2009

Following several years of stagnation, employment entered a course of decline towards the end of 2008. The introductory chapter gives an overview of the labour market impact of the first year of the economic crisis, and the policy response to it. The crisis is interpreted as an asymmetric demand shock which resulted in declining employment and rising unemployment in the industries affected. New claimants on the unemployment register are typically male and better educated than the existing pool. While wage adjustment has been weak, the significant cut in social security contributions and job protection measures by the government may have mitigated the fall in employment. Factors contributing to the recent decline in employment included not only the crisis but also various demographic processes and structural problems that had been left unresolved for decades. Cohort effects explain most of the observed reduction in labour supply, somewhat dampened by the increase in the level of education. Structural problems discussed in the chapter include high minimum wages and the relatively generous conditions for obtaining welfare provision. Importantly, the slump in employment has not been accompanied by a drop of similar magnitude in economic activity. This may be attributed to a welcome shift in employment policies, which ensures that the reduction of economic inactivity is now given as much attention as unemployment.

2. In Focus

The *In Focus* section of the Hungarian Labour Market yearbook usually focuses on a single topic in more detail based on previously published research.^{*} In this year's *In Focus* section we analyze labour market discrimination and seg-

^{*} *In Focus* parts of the previous volumes discussed the following topics: 2002: I. Wages: A Decade of Transformation, II. Income Support for the Jobless; 2003: I. Labour – the Supply Side, II. Labour – the Demand Side; 2004: Labour Market Inequality and Geographical Mobility in Hungary; 2005: Education and the Labour Market; 2006: Industrial Relations in Hungary; 2007: Wages: New Developments. 2008: Education and the Labour Market. 2009: presents a statistical overview of the Hungarian labour market as seen through the European Labour Force Survey, and on the outcomes and problems of “uncertified” vocational training. Each volume can be downloaded from the homepage of the Institute of Economics-HAS: <http://econ.core.hu/english/pub/mt.html>

regation. Despite the fact that the anti-discrimination legislature of developed countries theoretically ensures the equality of every demographic group based on the principle of equal treatment for all, there is still much debate as to the extent of discrimination in the real world, the source of observed discriminatory phenomena, and the most effective ways of handling discrimination. The section presents a summary of these major unresolved issues and problems, and surveys the most recent research aimed at their more accurate measurement and resolution in various demographic groups in Hungary. The studies presented help assess the current situation in the Hungarian labour market, and place it in an international context.

First, the introductory chapter of the *In Focus* section summarizes the different types of observable statistical differences between groups present in the labour market, introduces the standard economic models of labour market discrimination, and discusses non-discriminatory phenomena which may also lead to the observed between-group differences in the labour market. The models are differentiated based on the source of the discriminatory behaviour (taste-based or statistical discrimination), its outcome (in wages, employment, or occupation), and the stage of the life path that is affected (pre-labour market vs. labour market discrimination). After summarizing the possible forms in which discrimination may appear, the chapter outlines the difficulties inherent in the measurement and assessment of labour market discrimination. Finally, the traditional and newest methods used in discrimination research are introduced, many of which are applied empirically in the subsequent studies of this year's *In Focus* section.

The first study begins the assessment of the Hungarian situation with the analysis of the legal framework. The main concepts of European equal opportunity legislation and Hungarian regulatory practices are summarized, as well as the tools available for enforcing the laws, and the reality of their practical fulfilment. The study shows that the current legal tools available in Hungary are not sufficient for ensuring the principle of equal treatment for all, since both the content of the norms, and practical enforcement are generally characterized by over-cautiousness. Despite these problems, the observable changes in legislature and practical enforcement can be viewed as encouraging, as they seem to reflect a clarification of social values, and an increase in knowledge regarding the issue.

The second study describes the next level in the realization of anti-discriminatory policy: the functioning of labour market programs aimed at aiding the Roma, their problems and deficiencies. The analysis points out that the past years' programs aimed at Roma employment were not able to successfully influence the level of Roma employment. The problems of the system can be linked to the difficulties in defining the target population, the goals and priorities, the indicators used, and the procedures for grant applications, as well as the lack

of monitoring and impact analysis. The chapter lists numerous practical steps that could improve the effectiveness of employment policy.

The remaining chapters of the *In Focus* section present empirical results from Hungary that can be linked to the methodologies used in the newest international research described in the introduction. First, one of the main pitfalls of Roma employment is discussed in detail: the segregation of the schooling system. The authors give a comprehensive picture of the extent of segregation between and within schools, the regional differences, and then analyze the determinants of the dispersion of city, town, and micro-regional segregation indexes, as well as the long term trends in the segregation of Roma students. The Hungarian results are compared to those of research conducted in the United States, and this shows that while the level of ethnic segregation in schools is lower in Hungary, an increase in the ratio of the most disadvantaged ethnic minorities increases segregation between schools in a similar way.

The next study attempts to determine the level of labour market discrimination based on research that uses several different empirical approaches. Data on the perceptions of people regarding the extent of discrimination in Hungary is compared with other European countries, and then also with data from surveys conducted on representative samples of the population and minorities that are aimed at assessing the chances of becoming a victim. According to the survey data, in Hungary, Roma ethnicity and migrant status increase the level of perception of discrimination. Next, the method of discrimination testing is used, where controlled experiments are conducted to measure the level of discrimination against various minority groups. This method is based on the analysis of job postings, as well as on tests conducted by phone, where researchers measure the frequency of rejection of applicants who share all the characteristics relevant to the experiment (to the job posting), but differ in regard to the single characteristic that is the focus of the test. The Hungarian results indicate that the occupations assessed are characterized by significant gender segregation. The testing shows that young workers are more sought after than older workers.

The next study describes the employment situation of the Roma population, and analyzes whether there has been any significant changes in it since the dramatic fall in employment seen at the beginning of the nineties. The results show that the level of Roma employment has stabilized at a very low level – around 30 percent – and that the typically Roma workplaces are extremely unstable. These indicators are much worse than those of the average worker with comparable education levels: the employment rate of those with a maximum eighth grade education level is double the rate measured in the case of Roma workers, and their workplaces are, in addition, much more stable.

The situation of women in the Hungarian labour market is assessed in two studies using two different approaches. The first study examines whether the increased level of product market competition following the transition led to a fall

in the unexplained wage gap (the wage gap that remains after taking observable characteristics into account) between men and women. If certain employers favour male workers over females with equal productivity, increased competition may force such behaviour out of the market, since firms have to behave more efficiently to succeed. The study finds a significant negative correlation between the level of competition and the wage gap. Based on the estimates, increased competition accounts for fifteen percent of the fall in the overall gender wage gap during this period.

In the last study of the *In Focus* section, the relative productivity and relative wage of women compared to men is estimated based on firm level production functions and wage equations. These group level relative productivities and wages are then compared to assess the extent of wage discrimination against women in a new way. The results indicate that the previously published estimates of the wage gap between the genders is not explained by the lower productivity of women, women not appearing to be significantly less productive than men in any specification. The study points out that the estimated level of discrimination depends greatly on the data, since the estimated difference between relative wages and productivities differs according to the type of wage measure used.

3. The Legal and Institutional Environment of the Labour Market

The economic crisis has overwritten the priorities of employment policies and has triggered emergency measures including the reallocation 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. Chapter 3 discusses the process of integration of the administration of social benefits into the public employment service and the implementation of the "Pathway to Work" program started on January 1, 2009, and several new implementing rules came into force. We also discuss 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.

4. Statistical Data

The closing chapter presents a comprehensive collection of statistical data on the Hungarian labour market. It gives exhaustive information on the social and economic developments, such as demographic trends, employment, unemployment and inactivity, wages, education, labour demand and supply, regional differences, commuting and labour relations, along with some international comparisons. Labour market developments broken down to the regional level are

also included. This year the chapter significantly expanded the statistical data on the changes of industrial relations and characteristics of welfare benefits.

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The publication of this volume was supported by the National Employment Foundation. The editors are grateful to numerous experts from the Institute of Economics HAS, Central Statistical Office, National Employment Service, Corvinus University of Budapest, Central European University, Ministry of Social Policy and Labour and the Public Employment Service for their valuable contributions, comments and suggestions.