Chapter Six

⏩ HOUSEHOLDS, WORK AND FLEXIBILITY
Country Contextual Reports

HUNGARY

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INTRODUCTION

This report aims to describe the main trends characterizing the Hungarian labour market over the 1990s and to provide a review of labour market policies, as well as, social policies related to work and family. When addressing these questions the emphasis will be placed on the flexibility of the labour market. In Chapter 1, we will examine the trends of employment, unemployment and economic inactivity. As is well known, employment in Hungary dropped dramatically in the course of transformational recession. Between 1990 and 2000, the stock of employed shrunk by about 1.25 million. Nevertheless, the decade can be divided into three distinct periods. In the early 1990s, Hungary faced a rapid rise in unemployment as well as in the economically inactive population. Unemployment reached its peak in 1993. Afterwards, it started to decline gradually but this was not accompanied by a growth of employment up until 1996. Employment continued to shrink in this period, but at a decreased pace. 1999 was the first year when the stock of employed grew significantly, but the employment rate was still lower than before the transformation-related crisis (Ministry of Economic Affairs, 2000).

In Chapter 1, the features of employment will be shown first. The sectoral composition of employment in Hungary underwent significant changes over the 1990s, as a result of which it became very similar to that of EU members. The incidence of atypical employment has been relatively low in Hungary. However, when looking at its forms (part-time work, fixed-term employment, and self-employment) separately, marked differences prevail. Section 1.2.2 is devoted to the discussion of atypical employment.

Section 1.2.3 focuses on the characteristics of unemployment. The unemployment rate in 2000 was 6.4 percent, the lowest ever since 1992. However, the improvement had little impact on the less developed regions of the country. The less educated, young people and the Roma population are the categories of population that have been hardest hit by unemployment.

In section 1.2.4 the problem of economic inactivity is addressed. In the course of the transformation-related crises, the labour market experienced high outflows to inactivity parallel with the rise in unemployment. Between 1990 and 2000, the number of working age inactive increased by some 630 thousand. It was due to several factors. First, the number of those retired at working age doubled over the decade. A growing number of persons remained in education every year. As a result of the changes in family policy, the number of those on childcare-leave kept rising. Finally, the stock of dependants also grew (Ministry of Economic Affairs, 2000). The rate of the economically inactive population started to decline first in 1998.

Chapter 2 presents a review of labour market policies. The 1991 Act on Employment Promotion and Provision for the Unemployed serves as a starting point of the analysis since it initiated labour market policies and established the institutional settings. Section 2.1 provides a brief review

of the evolution of key labour market institutions over the 1990s. Hungary established a tripartite model, the peculiarities of which are the fragmentation of both the employers' and employees' sides and an overly dominant role of the government in the collective bargaining process. The subsequent sections of the chapter are aimed at explaining the operation of collective bargaining, with special regard to the minimum wage determination.

Labour market policy is discussed in Section 2.3. Labour market policy in the early 1990s aimed to provide financial assistance to the unemployed as well as to support their reemployment through active measures (trainings, start up schemes, subsidized employment, etc.). As unemployment started to decrease steadily, the main objective of labour market policy moved from the treatment of unemployment toward employment promotion. This can be illustrated by the decreasing coverage of unemployment benefits, and the drastic rises in the statutory minimum wage.

Separate sections deal with the passive and the active labour market policies. Among the various active schemes, policies for part-time work, temporary work and flexibilization are discussed in more detail. Though the 1991 Act on Employment and its amendments introduced programs to prevent layoffs through the promotion of part-time employment, this and other forms of atypical work were not a high priority issue in employment policy over the 1990s.

In Chapter 3, the relationship between employment policy and social policy will be analyzed. In the first years of the economic transformation, social policy responded to the problems of mass unemployment by offering channels of becoming inactive, reducing thereby the labour supply. The introduction of child-raising support and the early retirement schemes played a key role in this labour supply reducing policy. When examining social policy, we aim to assess how its elements have influenced the supply of and demand for atypical work.

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1. DEMOGRAPHIC AND EMPLOYMENT TRENDS

1.1. Population trends

In 2000, Hungary had a population of 10,005 thousand. The number of inhabitants reached its peak at 10,709 thousand in 1980. Since then the population has been diminishing steadily. This population decrease over the past two decades was accompanied by the ageing of the population. While the share of people older than 60 increased to 19.7 percent, the proportion of children declined to 17.1 percent. Over the 1990s, the total fertility rate continued to drop, reaching its minimum of 1.29 in 1999. Although this is well below the level needed to keep the population stable, it is not particularly low as compared either to the Central and Eastern European (CEE) countries or to the EU members. Closely related to the declining trend in fertility, the number of marriages decreased between 1990 and 1999, with an increase in the average age of men and women at the first marriage. At the same time, cohabitation has been growing. Mortality has been high in European comparison. Worse mortality conditions and lower life expectancies can be found mainly in the east of Hungary. In 2000, the number of households

was 3,733.3 thousand. The average household had less than 3 members (2.7 on average). Two-member households were the most common, accounting for almost 30 percent of the total number of households.

1.2. Labour market trends

Two important trends characterised the Hungarian labour market over the 1990s. Firstly, during the transformation-related crisis of the early 1990s there was a rapid rise in unemployment, reaching its maximum in 1993 with a stock of 705 thousand registered unemployed and a 13.6 percent unemployment rate. Secondly, the Hungarian labour market experienced high outflows to inactivity during the 1990s. As a result, although the unemployment rate declined steadily after 1993, employment continued to drop until 1997. This contrasts to the relationship between employment and unemployment typical of developed market economies, according to which, if unemployment diminishes, the number of the employed increases by almost the same figure (and *vice versa*) (Timár, 1995).

1.2.1 Employment

When calculating the working age population, Hungarian statistics apply three different sets of criteria. According to the national regulations, working age starts at the age of 15 for both sexes and lasts until 60 for men and 56 for women. (Recently the statutory retirement age was raised to 62 for men and to 60 for women and it is scheduled to reach 62 years for both sexes by 2009.) In 1999, of a population of 10 million, about 6.2 million were of working age. Given the lower retirement age for women, 48.3 percent of women were of working age as opposed to the 51.7 percent ratio of men. Unlike the Hungarian regulations, the EU/OECD consider ages 15-64 as working age. Accordingly, the Hungarian working age population was about 6.9 million in 1999. Using the definition proposed by the ILO – considering ages 15-74 working age – the potential labour force in Hungary was more than 7.7 million.

Within the total working age population as defined by the Hungarian legislation, 3,742.6 thousand persons (60.5 percent) were in employment. In the population aged 15 to 64, the corresponding figures were 3,789 thousand and 55.7 percent. This seems very low as compared either to the OECD average (65.9) or the EU average (62.6 per cent). In 1999, only two EU members, Spain (53.8 per cent) and Italy (52.5 per cent), had lower rates than the Hungarian one.

According to the definition proposed by the ILO, everyone having performed at least one hour of income generating activity the week prior to the interview date qualifies as employed. Since 1992 the Hungarian Central Statistic Office's (HCSO) has regularly carried out Labour Force Surveys (LFS) on the basis of this definition. Accordingly, in 1999, the number of employed was 3,811.5 thousand, only slightly higher than the number in the population aged 15 to 64. This can be explained by the low labour market participation of those past retirement age.

It should be added, however, that employment activity in Hungary is supposed to be higher than suggested by statistics for two reasons. First, according to estimations, some 1 million people work in the unreported economy. However, the majority of them are employed in the formal economy as well. Second, the number of agricultural small producers is over 500 thousand, of which only 200 thousand are employed (that is this why it does not increase the number of employed.) Thus the number of employed is estimated between 4 and 4.1 million as opposed to the 3.8 million registered by statistics (Ministry of Economic Affairs, 2000).

Composition of employment by sex and age

While the proportion of women in the Hungarian population has been permanently higher than that of men, the female participation rate has been lower. In 1999, the share of women participating in the labour force was 44.8 percent. The low female participation rates, characterizing all age groups, are due partly to the temporary withdrawal of women on childcare leave from the labour market and partly to the lower retirement age of women. However, these facts cannot fully explain the modest labour market participation of women. Another explanation may be the low incidence of flexible working forms in Hungary (Labour Research Institute, 2000). In addition, there is some evidence that women were laid off easier than men in the early 1990s, while there has also been a certain revival of conservative attitudes towards the employment of women (ILO 1997).

In 1999, the employment rate was highest among those aged 25-54 (ages 25-29: 68.9 per cent; ages 30-39: 74.4 per cent; ages 40-54:72.3 per cent). The labour market participation of both the younger (ages 15-19: 10.4 per cent) and the older age groups (ages 60-69: 5.4 per cent; 70-74: 1.4 per cent) was markedly lower. In the course of the transformational recession, older age groups were to a large extent squeezed out of the labour market, often through early retirement. Among them employment is limited mostly to men.

Employment by sectors

Over the 1990s, the branch composition of employment underwent substantial changes. By the mid-1990s it became largely similar to the sectoral distribution of employment characterizing most EU members. The pace of structural transformation slowed down in the second half of the decade. In 1999, 58.9 percent of the employed worked in the services, 34 percent in industry and a remaining 7.1 percent in agriculture.

Of the three broad employment sectors of the economy, agriculture was hardest hit by the transformation-related crisis. As a consequence of the transformation and liquidation of agricultural cooperatives, the number of agricultural earners fell dramatically. While the current ratio of agricultural employment (7.1 per cent) is relatively low compared to other Central and Eastern European countries, it far exceeds the EU average of 3.1 percent. The country's dependence on agriculture as a source of employment is even higher than reflected by the ratio of agricultural employment if those holding a second job in agriculture are also considered (Labour Research Institute, 1998).

After a large-scale disappearance of jobs, industrial employment has stabilized since the mid-1990s. The internal restructuring of industry is still ongoing: cutbacks in some industries (coal mining, metallurgy, textile industry, etc.) have not occurred, while industries representing state-of-the-art technology (car manufacturing industry, microelectronics, etc.) have not fully developed (Laky, 2000).

The ratio of service sector employment in Hungary is comparable to the EU average. However, it is important to note that the increase in the share of service sector workers over the 1990s was not caused by higher living standards and an increasing demand for services but was due to the transformation-related crisis. This is to say that the massive job losses of the early 1990s affected mainly agriculture and industry. Some jobs were lost in the services sector, but its share in total employment increased throughout the transformation period (Labour Research Institute, 1998). In 1999, services created the largest number of jobs. Nevertheless, it is to be noted that more than one third of jobs in the tertiary sector are in branches funded by the state budget such as administration, health care and education. (Labour Research Institute, 1998.)

Earnings

Although nominal monthly gross average earnings increased significantly all over of the 1990s, the inflation rate exceeded the growth of earnings and as a result gross real earnings declined. Net real earnings dropped by 26 percent between 1989 and 1996 and afterwards started to grow again, by a

total of 11 percent to 1999. Average monthly wages vary substantially across sectors of employment. For example, the gross monthly wage of those performing financial activities is nearly 3.5 times higher than the wage of those working in the textiles, clothing and footwear industry. Type of ownership, legal form and size of the company also influence gross monthly earnings (Laky, 2000).

Job tenure

An interesting indicator of the labour market in the 1990s is job tenure. Several aspects of job tenure are striking. Firstly, even though the labour market has been more than turbulent in the past ten years, average job tenure in 1999 amounted to 8.8 years, up from 8.3 years in 1997. Also, 31 per cent of the employed were in their job for 10 or more years, that is, they did not change job at all during the entire post-socialist period, while 13 per cent was in their job for 20 or more years. Thus, the highly volatile 1990s have indeed also seen a lot of continuity. Job tenure has been slightly higher for women than for men, increases (obviously) with age and is higher for persons with a high level of education than for those with medium or low levels of education. The more distinct differences prevail between smaller and larger enterprises and between branches. Job stability seems to increase with enterprise size as job tenure is some 66 per cent higher in enterprises with 50 or more employees than in those with up to 10 employees. As far as branches are concerned, job tenure is particularly low in the 'new' service branches (e.g. financial intermediation, trade and repair, hotels and restaurants) while it is high in most of the more traditional branches.

1.2.2 Atypical forms of employment

In 1999, about 20 percent or all earners worked in one or another form of atypical employment. In the EU the corresponding rate was 44.9 percent in 1998 (Laky, 2000). However, the share of non-standard work within the EU varies considerably from country to country. Among the forms of atypical employment, the incidence of part-time work is very low in Hungary, while the shares of the self-employed and those working on fixed-term contracts are considerable (National Employment Strategy and Program, 2000).

Part-time employment

In Hungary only a very small share of the employed work less than the number of hours usual in a full-time job, though many would prefer part-time work. In 1995, despite the drop in real wages, about 10 percent of women in employment reported their willingness to shift to part-time work. More than one-third of the respondents – particularly those over retirement age – were part-time workers anyway. Among those rejecting part-time employment 88 percent indicated as a reason that they could not forgo their full-time salaries (Frey 2001a).

Surveys carried out by the Labour Research Institute among enterprises (including legal entities only) present data on part-time employment on a regular basis. According to the 1997 survey, the proportion of employees working shorter hours was around 2.1 percent of total employment, with 1.8 percent part-time workers among them. No significant difference was observed in the following year. In 2000, the share of those working less than the usual hours went up to 2.8 percent, including 2 percent part-timers (Laky 2001).

Labour Force Surveys data–according to the ILO recommendations–indicate somewhat higher shares of part-time employment for the period 1996-1999. Part-time work in 1999 accounted for 3.5 percent of total employment, which is very low as compared either to the CEE countries or to the EU members. In the CEE region only Slovakia had a lower rate in 2000. In Hungary – similarly to the EU member countries – women's share in part-time employment was remarkably higher than that of men, fluctuating around 70 percent.

Several factors limit the reliability of data on part-time employment in Hungary. The Labour Force Surveys do not allow part-time workers to be separated from casual workers. According to the definition of the ILO, one hour of income generating activity in the week prior to the survey

qualifies as employment. But several hours of casual work performed every week does not qualify as part-time employment. Another problem is that in Hungary mainly pensioners are employed part-time, but the national working age is ignored by the LFS. A further bias might be that, together with the widespread practice of underreporting wages, a part of employers also underreport working hours in order to minimize payroll taxes (Laky 2001).

The Labour Force Survey usually provides data on the reasons for shorter working hours. In 2000, 6.3 percent of the employed (not including those working flexible hours) worked less than 40 hours per week. It is important to note, however, that this segment is not identical to part-timers. Almost half (44 per cent) of those working shorter hours hold a job in which the regular working time is less than 40 hours. Only the other half can be considered as voluntary or involuntary part-time workers. One in five respondents indicated that they did not intend to work full-time. The share of those working shorter hours because either they could find no full-time work or could not be employed full-time (for the lack of work assignment) was 13.4 percent (Frey 2001a; Laky 2001).

In 2000, for the first time, Labour Force Survey respondents were asked to declare themselves as full-time or part-time workers. Figures show that only 3.9 percent of employers declared themselves as part-timers (2.9 per cent of men and 5.1 of women). Interestingly, almost half of them (47 per cent) worked more than 30 hours per week. One may conclude that many part-timers are actually full-time employees registered as part-timers in a year preceding the drastic increase in the minimum wage (Frey, 2001a).[1]

Fixed-term contracts

In 1999, 6 percent of employees had a fixed-term work contract according to the Labour Force Survey. Around 90 percent of them had a contract with duration of less than one year. The survey also offers data on the reasons for fixed-term contracting. Figures show that only 6 percent of those working under a fixed-term contract favored this form of employment.

A recent TÁRKI survey provides somewhat different data on the incidence of fixed term contracts in Hungary. According to this, about one in ten employees have a fixed-term contract, while 89 percent work under an indefinite contract. There is virtually no difference between men and women in the type of contract. Among those on fixed term contracts, 83.1 percent have a contract with duration of less than one year (Omnibusz 2001/3).

Temporary work

Labour Force Surveys have registered very small, though slightly increasing, numbers of temporary workers. Experience shows that mainly those being not in regular employment and performing seasonal work declared themselves as temporary workers in the surveys (Laky 2001). The number of temporary workers was about 25,000 in 2000. According to 1997 survey data, the majority of casual workers were male with low educational attainment. Women accounted for only 20-25 percent of all temporary workers. The bulk of temporary workers worked in agriculture and construction. Among women the proportions of those working in business services and for other households were also significant (Labour Research Institute, 1998).

Self-employment

The definition of self-employment used in the Labour Force Survey is somewhat different than the one proposed by the ILO, since it does not include members of cooperatives and casual workers. Figures show that Hungary has seen an increase in self-employment over the early 1990s. In 1999, the number of self-employed (including assisting family members) was 547.7 thousand, accounting for 14.4 percent of total employment. The real number and share of self-employed are substantially higher, since agricultural self-employed people without tax identification number are not registered by statistics. Surveys confirm that the

number of these agricultural self-employed has been large in Hungary (Laky, 2001).

The majority of the registered self-employed in Hungary are working owners of sole proprietorships (individual enterprises) and members of unincorporated partnerships. (The number of registered unpaid family members does not exceed 30 thousand.) Reliable data are available for individual entrepreneurs only. According to the figures, three-quarters of those entrepreneurs –including pensioners– worked in the service sector. Data on working owners of unincorporated partnerships should be evaluated with more care. Unincorporated partnerships can be run in three different forms of which limited partnership is the most common. The majority of these enterprises concentrate their operations in services and almost all are micro enterprises without employees (Laky, 2001).

The reasons for the rising number of self-employed have been long debated by scholars in Hungary. The growth of self-employment can be explained by an upsurge in demand for services and a widening of business opportunities as well as by the increasing unemployment rate. Based on an analysis of Hungarian and Romanian regional data, Köllő and Vincze[2] conclude that greater business opportunities played a more significant role than the increasing unemployment in the growth of self-employment (Scharle, 2000).

The 2000 Transition Report by the EBRD provides information about the demographic profile of the self-employed in transition economies, based on data from the national Labour Force Surveys. According to the findings, in 1999, the proportion of males in the entrepreneurial self-employed was 65.9 percent in Hungary. Nearly half (46.8 per cent) the self-employed belonged to the age group between 36 and 50. Entrepreneurial self-employed individuals proved to be better educated than the country average, with 18.7 percent of them having higher education. Based on these findings, as well as the results of econometric analyses for Croatia and Poland, self-employment is suggested to be not a coping strategy for the unskilled but rather a creative labour market strategy. Further, with regard to Hungary, it concludes that there is little evidence that unemployment leads to more self-employment (EBRD, 2001).

1.2.3 Unemployment

During most of the state-socialist era there was no official unemployment in Hungary. There was however substantial hidden unemployment. In 1986, in the context of economic stagnation and increasing labour shedding by state enterprises, full employment, was officially abandoned with the start of the official registration of unemployment. At the beginning of the 1990s, hidden unemployment was replaced by massive and lasting unemployment as well as declining participation. In the course of transformation-related crisis, the number of jobs fell by about 25 percent – greater than the decrease in production. The unemployment rate reached its peak in 1993 with a stock of 705 thousand unemployed and a 13.6 percent rate of unemployment. Since then it has been slowly, but steadily declining.

Based on the definition recommended by the ILO, Hungary had an unemployment rate of 7 percent in 1999, more favorable than the EU average (9.2 per cent). In contrast to most EU members, male unemployment (7.5 per cent) in Hungary was somewhat higher than female unemployment (6.3 per cent). However, it would be a mistake to conclude that women enjoy a more favorable labour market position than men. When assessing the situation of women, their lower economic activity should also be considered (Labour Research Institute, 1998).

Incidence of long-term unemployment

Figures of the Labour Force Survey indicate that the ratio of long-term unemployed showed a modest decline over the second half of the 1990s. The share of those being out of job for more than one year was almost 50 percent of the unemployed in 1999. This means a drop of about 5 percent relative to 1996. The corresponding rate for

the EU was 47.5 percent (OECD, 2000a). In the EU long-term unemployment has been measured as a percentage of the economically active population since 1998. The so-calculated Hungarian ratio of long-term unemployment – in the population aged 15-64 – was 3.1 percent, as opposed to the EU average of 4.9 percent (Labour Research Institute, 2000).

Disadvantaged groups

Some categories of population are especially hard hit by unemployment: the less educated, the young (mainly the age group of the 15-19 year-old) and members of Roma ethnic groups.

The less educated

It is well known that low qualification levels are associated with labour market disadvantage. However, as reported by OECD, higher levels of education confer significant differences between countries in the relative labour market advantage. The Thematic Review of the Transition from Initial Education to Working Life, launched by the OECD's Education Committee in 1996, has involved Hungary of the 14 participating countries. According to its findings, Hungary is one of the four OECD countries, in which, the gap in labour market outcomes between the highly educated and the poorly qualified is the greatest (OECD, 2000b).

In Hungary, 35.2 percent of the unemployed had maximum eight years of primary school, while the corresponding ratio for active earners was 18.5 percent in 1999 according to the Labour Force Survey. The unemployment rate among those who have completed no more than elementary school was 16 percent compared to only 3 percent for those with tertiary education.

Youth

Youth unemployment in the EU fell from 21.5 percent of 1995 to 17.9 percent in 1999, but is still more than twice as high as the overall unemployment rate. A similar tendency was observed in Hungary over the same period. By 1999 unemployment rate dropped to about 23 percent among the 15-19 year-old, and about 10 percent in the age group of 20-24. The youth unemployment rate (for both age groups) was 12.4 percent, still significantly higher than the 7 percent overall unemployment rate (for the 15-74 year old labour force). The relative situation of young people seems apparently worse than the average and it is particularly so for those aged 15-19 who have seen their share in total employment fall from 3.3 per cent in 1992 to 1.5 per cent in 2000. Their participation rate fell in that same period from 23.0 per cent to 11.7 per cent. This is partly due to demographics: the generation entering the labour market in the 1990s was larger than the previous and subsequent generations (World Bank, 2001). These developments also indicate that it is particularly difficult for young people to enter the labour market, that part of them are equipped with already obsolete or irrelevant education, and that the job-creating capacity of the labour market has been low (Keune 1998). However, they do not necessarily indicate a complete deterioration of the labour market position of young people as an important part of the decline in participation is due to increased involvement in education, albeit that this is partially the result of discouragement as well as of the mentioned demographic developments (*ibid.*).

The proportions of teenagers and young adults among those being out of job for more than 6 months showed an increasing trend over the 1990s. In 1998, Hungary's achievement with ratios of 57.1 and 62.6 percent for teenagers and young adults respectively proved to be the poorest among countries participating in the OECD Thematic Review. The corresponding shares were 24.9 for those aged 15-19, and 48.5 percent for those aged 20-24 in the OECD (OECD, 1999a).

The Roma population

The Roma forms the largest ethnic minority group in Hungary. They represent about 6 percent of Hungary's total population. The Roma population – comprising three ethnic groups – is characterized by low employment rates and poverty. Nearly 53 per cent of Roma households are in long-term poverty, compared to 7.5 per cent for the total population (World Bank, 2001).

Over the decades of full employment there was no significant difference in employment for Roma and non-Roma men, while the labour market participation among Roma women lagged far behind the national average even in 1971. In the mid-1980s, the labour market participation of Roma men started to drop. An increasing number and ratio of the economically inactive accompanied the drop in Roma employment.

Over the 1990s, the unemployment rate for the Roma population was extremely high, among other reasons that they were the first to be laid-off during the crisis of the early 1990s. Survey results with respect to Roma unemployment differ very widely. According to the Hungarian Household Panel Survey, carried out by the TÁRKI, unemployment among Gypsies reached a rate of 55 percent in 1997. Data provided by the survey of Szonda-Ipsos indicate that the unemployment rate among those openly declaring themselves Roma was about 30 percent as opposed to 6-8 percent in the non-Roma population in the same year (Laky, 2000).

According to the findings of a study[3], several factors have contributed to the low levels of employment among Gypsies:

- Educational attainment is a factor determining the chances of employment. Education levels of the Gypsies are considerably lower than those of non-Gypsies. The proportion of those Gypsy men having more than primary education is only 20 per cent compared to 60 percent for non-Gypsy men. The distance between Gypsy and non-Gypsy women is even more striking: 10 per cent as opposed to 60 per cent. Although this educational gap might be a source of unequal labour market chances, it is surely not the sole source. In each educational level group – controlled for sex and age – a difference of 20 to 30 percent is found in employment chances.
- Another reason for the unequal chances might be the unfavorable territorial location of the Roma population. On the one hand, the Roma population is largely concentrated in villages where levels of employment are generally lower. (60 per cent of the adult Roma population lives in villages as opposed to 35 per cent for non-Gypsies.) On the other hand, they live mainly in those regions of the country, which are – irrespective of the type of settlement – the hardest hit by unemployment.
- Further, the effect of labour market discrimination cannot be ignored. Ethnicity, as a group level filter, is an inexpensive tool to apply when shedding or hiring labour. According to statistical estimations, a 30-year-old Roma man with primary schooling or a lower vocational qualification is (by 15-20 percent) less likely to be hired than a 'typical' man of the same age and with similar schooling in the most disadvantageous regions of the country (Labour Research Institute, 2000).

Regional differences

Regional differences in unemployment remained basically unchanged over the 1990. According to the figures of the Labour Force Survey, Northern Hungary and the Northern Great Plain were the two regions with the highest levels of unemployment throughout the decade. The Northern Great Plain has traditionally been underdeveloped, while Northern Hungary, as a former center of heavy industry has become a depressed area with the collapse of the state socialist regime. As a result of shutdowns in heavy industries, the region experienced large inflows to the stock of unemployed and low outflows. Since 1996 unemployment has been slowly declining, but it is still the country's highest at 11.5 percent in 1999 according to the Labour Force Survey. The unemployment rate was lowest (4.4 per cent) in the Western Transdanubia and in Central Hungary (5.2 per cent) in 1999. These regions managed to maintain their favorable positions throughout the economic transformation process.

Over the past years, the government initiated a number of schemes to enhance employment in regions with high unemployment. Programs include higher than average subsidies and special tax

relief to stimulate investment in these areas. Firms are encouraged to hire workers from the regions with high unemployment by a special one-off subsidy. Labour force mobility is very limited in Hungary. It is mainly restricted by marked differences in housing prices across regions, a lack of rental markets, as well as, by high transportation costs (World Bank 2001). In order to increase regional mobility of the labour force, firms are required to reimburse commuting employees 85-90 percent of their transportation costs (OECD, 2000).

1.2.4 Economic inactivity[4]

As a response to labour market tensions in the beginning of the 1990s, the government pursued policies that allowed an increase in the economically inactive population. Between 1990 and 1994, more than half of those dismissed from their jobs left the labour market through various channels (Timár, 1995). The number and share of the economically inactive kept on growing throughout the decade, though, at a decreasing rate. This unfavorable tendency apparently reversed or at least came to a halt in 1998, the first year when the rate of inactivity declined, by around 0.5 percent. The proportion of inactive in the population aged 15-64 was 40.1 percent. None of the EU members had higher inactivity rate than the Hungarian. According to the definition proposed by the ILO, the corresponding ratio is even higher at 51.7 percent. Based on the national legislation, the share of non-earners was 34.9 percent: 40.9 percent for women aged 15-56 and 29.3 percent for men aged 15-60. When analyzing economic inactivity, it is more reasonable to consider the national working ages, since half of the inactive aged 15-64 and two-thirds of those aged 15-74 is explained by the Hungarian statutory retirement ages (Labour Research Institute, 2000).

One factor explaining for the large stock of the inactive is the low retirement age. In 1999, those of retirement age, women aged more than 56 and men older than 60, accounted for 40 percent of the more than 3.6 million inactive. In the course of the transformation-related crisis many withdrew from the labour force opting for early retirement or becoming disability pensioners. Early retirement was a common strategy to escape unemployment available for those unemployed aged less than 3 years below the retirement age. The early retirement scheme was in operation between 1991 and 1998, when a new one, with tightened eligibility conditions replaced it. The growth in the number of disability pensioners was largely due to the lax approval procedures in the early 1990s. Individuals retired at working age and those leaving the labour market due to disability made up about 15 percent of the inactive.

Persons in education above the age of 15 are considered the second largest category of the economically inactive. Educational statistics show that a growing number of persons older than 15 remains in education every year. Despite the improving trend, Hungary lags far behind the OECD countries in this respect. The Thematic Review reports that up to the age of 17 Hungary's participation rates (in education) are equal or close to the OECD average, but after that age they are substantially lower, being less than half the OECD average by the age of 24. Participation in tertiary education in Hungary is significantly lower than in the OECD (OECD, 1999a). The HCSO's survey registered a total of 714 thousand persons studying at different levels among the non-earners in 1999, accounting for 19 percent of the working-age segment of the inactive.

Individuals receiving childcare benefits also qualify as inactive in accordance with international conventions. (Prior to the early 1990s they were assigned to the category of the employed.) Despite the decline in the number of births, the number of those receiving childcare benefits of any kind–mainly women–kept rising every year. The Labour Account registered nearly 300 thousand (mainly mothers) beneficiaries in 1999. The bulk of them received child-care fees (GYED) or child-care aid (GYES), while the rest obtained child-raising support (GYET). The Labour Force Survey provides data on the age distribution of child-care recipients in 1999: nearly 40 percent of

them belonged to the age group of 25-29, another 27 percent to those between 20 and 24, and almost one in five to the 30-34 year-old. Figures show that 6 percent of those on child-care leave pursued some kind of earning activity during the period of childcare.[5]

2. LABOUR MARKET POLICIES

2.1. Labour market institutions

The 1991 Act on Employment Promotion and Provision for the Unemployed was passed at a date when unemployment in Hungary was virtually non-existent. Prior to the new law on labour market policy, the country had already made substantial progress in establishing labour market institutions and laying down regulations. Among the most important developments, the Employment Fund (the predecessor of the current Labour Market Fund) was created; the National Interest Reconciliation Council was established in 1988; new independent trade unions and employers' associations emerged; strikes were made legal in 1989; unemployment benefit schemes were introduced; and the Ministry of Labour was set up in 1990.

The 1991 Act on Employment (and its amendments) covered labour market policies as well as their institutional settings. It established the tripartite Labour Market Committee as a subcommittee of the National Interest Reconciliation Council, as well as the county labour councils (In 1996, the Labour Market Committee was replaced by the Labour Market Council). The National Labour Center and its local offices were assigned by the law to implement labour market policies financed from the Labour Market Fund and the Solidarity Fund. Further, the National Training Council was created with its network to promote the reemployment of the unemployed.

The governance of labour policy underwent considerable organizational changes over the 1990s. Between 1990 and 1998, the Ministry of Labour was assigned to deal with all labour issues, such as forming employment policy, fighting unemployment, labour legislation, wage – and interest reconciliation. In 1998, the Ministry of Labour was abolished and its responsibilities were divided between the Ministry of Economic Affairs, the Ministry of Family and Social Affairs, and the Ministry of Education. The Ministry of Economic Affairs was assigned responsibility for employment promotion policy, policy on wages, and the coordination of interest reconciliation. A major part of labour issues – active and passive labour market policies, labour market strategy and legislation, and supervision of the Labour Market Fund – were delegated to the Ministry of Family and Social Affairs, while training programs are the responsibility of the Ministry of Education. As a result of the division of responsibilities between the ministries, employment policy was pushed into the background. Despite the growth of economy, employment hardly increased. Therefore, the government decided to reunify employment policy tasks – except for managing the regional training centers – and delegated them to the Ministry of Economic Affairs as of July 2000 (Frey 2001).

2.2. The organization of interest reconciliation

Hungary was the first in the CEE region to establish the institution of macro level tripartism. The National Interest Reconciliation Council (later renamed the Interest Reconciliation Council, IRC) as the main body of macro level interest reconciliation was set up already in 1988. (The new Labour Code of 1992 abolished legal barriers to free collective bargaining and the 1989 Strike Act regulated collective labour disputes.) The initial function of the Labour Market Committee (a subcom-

mittee of the National Interest Reconciliation Council) was to negotiate and set the national minimum wage, as well as to recommend wage guidelines. Later it was also given the authority to discuss labour legislation (e.g. the Labour Code, Vocational Training Act, Occupational Safety Act, Labour Inspection Act, etc.) and to participate in economic and social policies formulation, as well as, to settle industrial conflicts of national level. In 1996, the function of national interest reconciliation was taken over by the IRC and the National Labour Council (NLC).

Tripartism generally presupposes strong and unified representation of employees' and employers' interest. In Hungary both the employees' and employers' sides of NLC are fragmented. The former currently consists of six trade union confederations, of which MSzOSz is the largest, and the latter has nine employers' associations. In the employers' side, associations of small- and medium-sized enterprises have become dominant in the NLC over the 1990s (Héthy, 2000). The IRC has certainly played an important role in maintaining social peace and provided both legitimation and voice to the social partners, as well as important information rights. However, generally the range of issues where agreements were reached in the IRC was quite limited and it had a substantive say only in relation to labour issues. Although consultation on a wide range of issues took place, the government has been reluctant to negotiate broader agreements. The government has been the dominant actor in the NCL and proceeds as intended when no agreement is reached, also in the area of labour issues.

2.2.1 Trade unions

At the outset of the political system change, compulsory trade union membership was abolished and new independent trade unions appeared on the scene. In 1992, works councils were established to resolve the problem of multi-unionism and the representation for non-union workers. The partly reformed former unions gained over 70 percent of the vote for works councils in the 1993 works council elections. (Collective bargaining rights were to be determined by unions' performance in works council elections.) MszOSz, the partly reformed former union confederation managed to keep its dominance in the multi-union structure, while the newly emerged independent unions failed to recruit a sizeable membership. The overall rate of unionization declined sharply. Rivalry between the former socialist and the new independent unions weakened trade unionism. A number of other factors have contributed to the marginalization of trade unions in Hungary: initially, mass unemployment due to contraction of large state companies, and then the rise of self-employment and micro enterprises, as well as, the expansion of informal employment (Pollert, 1999). Estimates of union density rate range from 25 percent to 40 percent (Neumann, 1997; Héthy, 2000; EBRD, 2001).

Until 2001, the Labour Force Survey did not include questions concerning unionization. According to the data of the latest Labour Force Survey, 615 000 persons, 19.7 percent of the population aged 15-64 indicated that they were union members. Unionization among women (22.4 per cent) was somewhat higher than among men (17.3 per cent). This is due to the fact that female employment tends to concentrate in the traditionally unionized sectors, such as transport, storage and communication, education, health and social work. The age composition of union members shows that union membership is in general higher in the older age groups. Surprisingly, white-collar workers are more likely to be union members than manual workers (Lakatos, 2001).

Not independently of the low union density rate, a very small proportion (13,5 per cent) of workers assessed the role of trade unions as positive. The share of those unable to take a stand in this matter was as high as 36.1 percent. 18.5 percent displayed a rather negative attitude toward trade unions, while the rest (31,8 per cent) were ambivalent (Lakatos, 2001).

2.2.2 Minimum wage setting and collective bargaining

Perhaps the most important role of the NLC has been in wage determination. Central wage regulation was gradually replaced by a three-tier system of wage bargaining (national, branch and company level). At macro level, the trade union confederations and employers' associations are supposed to reach a bipartite agreement, while the role of government, at least in theory, is limited to implementing this by decree (Neumann 1997). Although the legal frameworks of collective bargaining are in place, the asymmetry in industrial relations – with an over-powerful state and weak or only emerging employers' associations and unions – does not favor collective bargaining (Koltay, 1998). National level negotiations in the tripartite NLC are more or less active, but branch level collective bargaining is weak (Koltay, 1998; Neumann, 1997). A recent overview of the coverage and content of collective agreements in Hungary is presented in Nacsa and Neumann (2001). They show that in 1999, single-employer collective agreements covered just over one million employees, with a coverage rate of 39.3 per cent in the case of enterprises with more than five employees in the non-budgetary sector and of 34.5 per cent in the case of the central and local public employees. The coverage of multi-employer agreements, the authors show, is much lower, 17.9 per cent for the non-budgetary sector and 0.3 per cent for public employees. Multi-employer collective agreements are largely limited to sectors in which representatives of a small number of employers' associations enter into negotiation with relatively strong trade union confederations (e.g. electricity supply industry, chemical industry). Hence, the Hungarian system of collective bargaining is a decentralised system in which the enterprise level is of prime importance (Pollert, 1999; OECD, 2000), while sectoral and national-level bargaining are only of secondary importance (Nacsa and Neumann 2001; Neumann 2000) and complementary in nature (Tóth 1997). Because of overlapping between the two, then, total coverage of collective agreements is some 42.4 per cent of all employees. And although detailed information on collective agreements is only available since 1998, it seems that coverage has not varied dramatically during the 1992-1999 period (Nacsa and Neumann 2001).

At macro level, minimum wage negotiations have been at the center of the bargaining scene (Koltay, 1998). In the first years of the 1990s, the minimum wage declined significantly relative to the average wages. Over the second half of the decade it was kept at about 30 percent of average wages. For 2001, there was an agreement to raise the gross monthly minimum wage to HUF 40,000. As a result, the minimum wage reached about 42 percent of the average wage. Experience in other OECD countries shows that this is well above the level at which a minimum wage begins to constrain employment among the less skilled (OECD, 2000). It has recently been proposed by the government that there should be a further 25 percent increase in the minimum wage for 2002. Initially, both the trade unions and employers' associations opposed the proposal. Trade unions were standing out for a much higher increase, while employers' associations were against any further raise in the minimum wage. However, they agreed bilaterally on the mitigation of taxes and social security contributions. Despite the bipartite agreement, the government was reluctant to approve this proposal. Finally, long-lasting negotiations led to a tripartite agreement with the provision that the government would offset the effect of minimum wage increase on labour costs. Again, the government played a dominant role in the negotiations.

The economic influence of minimum wages, especially on employment, has been a controversial issue. Minimum wages increases create pressure for wage increases at higher levels and thus may have an adverse effect on employment. However, in Hungary, the actual unemployment effect of the minimum wage may be of secondary importance. More significant may be the effects of the minimum wage in promoting the expansion of informal employment and the compression of de-

clared money wages toward the minimum wage, so as to minimize the social security contribution liability (Kopits, 1998).

To date little information is available about the actual effects of the minimum wage. A recent survey, carried out by the TÁRKI, provides data on how employers responded to the 2001 statutory minimum wage increase (TÁRKI Monitor 2001).[6] Figures show that the most frequent response (32 per cent) was to raise the minimum wage to the guaranteed level, with no increase in other wages. Minimum wage increase was accompanied by a rise in other wages in one out of four cases. Only a small proportion of employers responded by layoffs (1.3 per cent) or by reducing the contractual working time (2.1 per cent). No employee was affected by the minimum wage setting in slightly more than one-quarter of the workplaces. In general, women are somewhat more likely than men to work for economic units where the minimum wage raise brought no increases in other wages and where at least one employee was affected by the new minimum wage. About one-third of the respondents were themselves affected by the measure, 27.4 percent of men and 35.3 percent of women. About 62.7 percent of those concerned received the guaranteed minimum wage, one-quarter enjoyed wage increases at higher levels, and no more than 3 percent were adversely affected.

2.3. Labour market policies

In 1999, total spending on labour market programs in Hungary amounted to about 0.97 percent of GDP (OECD, 2000a). Labour market policy is implemented through passive and active labour market programs. The 1991 Act on Employment established two separate funds for passive and active labour programs: the Solidarity Fund and Employment Fund. Measured relative to GDP, expenditure on passive labour policies in Hungary has always been higher than that on active policies over the 1990s. Recently about 0.56 percent of GDP is spent on passive and 0.4 percent on active measures (OECD, 2000a). Although the share of active policies in the total labour market budget has increased, its current level is still very low compared to other OECD countries (OECD, 1999).

2.3.1 Passive labour market policies

The first unemployment-related income assistance scheme dates back to 1986, concerning cases of unemployment following from enterprise restructuring. In 1989, the first unemployment benefit scheme, financed from the state budget, was introduced. The Act on Employment of 1991 initiated several forms of provision for the unemployed of which the most important are: unemployment insurance, early retirement, and school leavers' unemployment benefit. These benefit schemes have been undergone significant changes since 1991.

Unemployment insurance

The main passive labour market scheme is unemployment insurance (UI), which is available for a limited period to the unemployed. The maximum benefit is 65 percent of the average income for the past 4 years spent in employment. A minimum of 200 working days is required to access to UI. The maximum duration of UI was gradually reduced from the initial 2 years to 9 months, as unemployment increased drastically in the early 1990. The cuts in entitlement periods, mainly motivated by reducing employment programs spending, restricted access to UI (Micklewright and Nagy, 1998b).

Unemployment assistance

Hungary provides unemployment assistance (UA) for those whose eligibility for UI has expired. Unemployment assistance is a long-term and means-tested unemployment benefit offered to those having a per capita household income below 80 percent of the minimum old-age pension. The amount of the benefit was equal to 80 percent of the minimum pension. UA was of

unlimited duration until 1995, when a 2-year limit to entitlement was introduced. In 2000, a new one replaced the UA scheme. (Those who are eligible for UA, or whose entitlement was approved by 30 April 2000, will receive it for 2 years under the old conditions. Those who are terminated from the benefit system and do not have access to public work schemes can apply for local social assistance.) Under the new scheme, which is also means-tested, eligibility can be withdrawn if a beneficiary refuses an appropriate public works job. Eligibility can only be reestablished through reentry into the labour market and reestablishment of UI entitlement.

Indeed, there seems to be a move away from legally guaranteed rights to unemployment benefits and towards an increasing emphasis on workfare and employability. This is illustrated by the fact that between 1991 and 1999, the percentage of registered unemployed persons receiving UI has plummeted from 76.8 per cent to 31.3 per cent. This while the number of registered unemployed has fallen every year since 1993. Thus, the role of unemployment benefits in income protection eroded gradually over the years. UA reached its highest coverage in 1998, no less than 43.0 per cent of registered unemployed, to decline to 39.0 per cent in 1999.

Over the 1990s, the average monthly amount of unemployment benefit has decreased steadily relative to the gross average earnings. In 1999, the ratio of average unemployment benefit to average gross earnings was 29 percent, reaching the level of the gross minimum wage in effect (Labour Research Institute, 2000). As a result of the decline in the generosity of unemployment benefits, coupled with recent minimum wage increases, the difference between the minimum wage and unemployment compensation has been on the increase. Thus the present system of unemployment benefits is unlikely to reduce the job search incentive of the unemployed.

School leavers' unemployment benefit

In response to the sharp rise in unemployment among young people in the early 1990s, a school leavers' unemployment benefit scheme was introduced to help young people with at least secondary or tertiary education. The scheme was in operation between 1992 and 1996. Afterwards, the emphasis shifted toward more active labour market policies for youth. Three types of labour market assistance are now available for young people who register with the local Labour Office: training courses, subsidized employment, and public works programs (see Section 2.3.2).

Early-retirement and pre-retirement unemployment benefit schemes

The Employment Act of 1991 introduced an early retirement scheme to reduce labour supply. It was to serve the interests of those unemployed approaching the retirement age (less than 3 years below the retirement age). During the period of massive job losses in Hungary, many left the labour market opting for early retirement or becoming disability pensioners. A key recommendation from the OECD Jobs Strategy, therefore, was to tighten access to these benefits. In 1998, the early-retirement scheme was phased out and replaced by a special pre-retirement unemployment benefit scheme for those unemployed approaching the retirement age (less than 5 years below the retirement age). Eligibility conditions for the new scheme are substantially stricter. It pays an amount equivalent to 80 percent of the minimum old-age pension. Nevertheless, the widespread use of early-retirement incentives over the 1990s, coupled with the low statutory retirement age, helps to explain why only 16 percent of the population aged 55-64 work – less than half the OECD ratio (OECD, 2000). It provided employers with an easy way to reduce their work force reducing the participation of this age group, which encounters great difficulties in finding a new job. In this respect, in 2000 the Labour Code was changed affecting the position of older employees. On the one hand the dismissal protection of persons in pre-retirement age was increased substantially, making it more difficult for employers to lay them off. On the other hand dismissal protection of people in pension age was virtually cancelled.

Disability benefits

Disability benefits, though not introduced by the 1991 Act on Employment, are discussed here because they have increasingly been used as an alternative to early retirement. By 1999 there were 360,000 working-age disabled (World Bank, 2001), constituting the largest group of under-retirement age transfer recipients. In the second half of the decade, the government tightened regulations and financing for disability pensions. Today only those whose health status has deteriorated by 100 percent have access to long-term disability pensions. All others whose health status has diminished by less than 100 percent (but more than 67 percent) qualify for temporary disability benefits. The Health Fund is responsible for financing their benefits and for reevaluating claims on a regular basis. As a result of the tightened approval procedures, the number of new disability pensions granted has fallen significantly (OECD, 2000). Further, the regional distribution of beneficiaries shows a strong correlation with unemployment rates (OECD, 2000).

2.3.2 Active Labour Market Policies

The 1991 Act on Employment introduced a wide range of active labour market schemes. Since then some of them have been cancelled, while new support schemes have been created. In 1999, total spending on active labour market policies in Hungary amounted to about 0.4 percent of the GDP. Active labour market programs implemented by the National Labour Center include training schemes, subsidized employment, a start-up scheme, and public work programs.

Training programs

Spending on training programs in Hungary accounts for a lower share (22 percent in 1997) of the total expenditure on active measures than in most OECD countries (Implementing the OECD Jobs Strategy 1999). Candidates eligible for training schemes may be unemployed, expected to become employed or participant in public work programs. Participants in training schemes receive a training allowance (10 percent more than their UI benefits). Training programs focus on the unemployed with favorable labour market characteristics. Because of their relatively higher education, young people appear to be over represented in these programs.

Subsidized employment

The National Labour Center offers several subsidized employment programs. One is targeted on the long-term unemployed. Under the program, the employer gets a wage subsidy of up to 50 percent for up to one year in return for hiring people who have been unemployed for over 6 months (provided the employer has not laid off anyone doing the same work during the previous 6 months). Another program is oriented toward school leavers. It was introduced to replace the career beginners' unemployment allowance in 1996. Under this scheme, the employer receives a wage subsidy for providing employment at no less than 4 hours per day to school leavers for at least one year. Finally, a separate scheme exists to prevent mass layoffs by subsidizing part-time employment. This scheme will be discussed in detail in the following section.

Start-up schemes

The start-up scheme is provided to unemployed persons wishing to start their own businesses. It includes an allowance equal to the recipient's UI for a period of 6 months, the reimbursement of up to 50 percent of the costs of business services (e.g. counseling or training) and an interest-free loan of up to 500 thousand HUF. (As of 2000 the amount of the loan is raised to 1 million HUF.)

Public work programs

Public work schemes are the most common tool for keeping people in the work-related benefit system, covering one-quarter of the participants in active schemes. In 1999, the central government spent about 8.6 billion HUF on such schemes. (Additionally, local governments have to cover part of the cost thus total public resources spent

on public work schemes are 10-30 percent higher.) (World Bank, 2001) Public work programs may last no more than 12 months and are usually organized by local authorities. (One year of employment entitles a worker to three months of UI).

In its 1997 review, the OECD recommended that existing active labour programs in Hungary are subject to reevaluation, since evidence from other OECD countries suggested that similar programs did little to facilitate the entry of young people or reentry of the unemployed to employment. A recent assessment (O'Leary, 1998) of the active labour programs concluded that:

- Participation in training programs resulted in a significant increase in the share of those obtaining unsubsidized work or self-employment. There was no significant impact on earnings.
- Wage subsidy for the long-term unemployed was estimated to have a negative net impact on reemployment, lowering the proportion of those entering an unsubsidized job or self-employment;
- Participation in public work schemes resulted in a substantial decline in the proportion of those persons obtaining unsubsidized work or self-employment. However, participation in such programs was less likely to reduce the reemployment chances of women, people aged 45 or over, and the better educated.
- Self-employment assistance is appropriate for only a small share of all the unemployed. Although, participation in such schemes raised the probability of entering an unsubsidized job or self-employment, it led to lower monthly earnings. This may reflect the underreporting of wages as part of participants' tax avoidance strategy.

2.3.3 Policies for part-time and temporary employment

Under the state socialist regime, the incidence of part-time employment was extremely low, especially in the working age population. Although, part-time work could have played an important role in employment enhancing policies in course of the transformational crisis, no effort was made by the government to promote this form of employment. Instead, the government created incentives to leave the labour market (Frey, 2001a). At the same time, for employees the attractiveness of part-time jobs was substantially reduced by the declining real wages.

The 1991 Act on Employment introduced a part-time employment support program. Under this scheme employers – in case of financial difficulties – were motivated to opt for part-time employment rather than dismissals. In 1997, new subsidized employment schemes were initiated to support enterprises that employed their employees in reduced working time as well as those that chose part-time employment of certain groups of workers instead of labor shedding. The latter program was designed to assist special target groups: mothers with small children, employees less than 5 years below the retirement age and those having lost at least 40 percent of their working ability. Both schemes had limited success and they were abolished as of January 2001.

The incidence of part-time work in Hungary is very low as compared to either the EU or CEE countries. In 1999, the EU average for part-time employment was 16.4 per cent (OECD, 2000a). Employers in Hungary are reluctant to employ part-time workers mainly because of the equal tax and social security contribution liabilities applying to full-time and part-time workers (Laky, 2000). The OECD Jobs Study stressed the importance of part-time work in promoting employment and labour force participation. A growth in part-time employment would provide an opportunity for the inactive to reenter the labour market. (However, currently neither women on child-care provision, nor those on old-age pension are encouraged to return to the labour force.) The unemployed would also benefit from an increase of part-time work. The 2000 Labour Force Survey shows that only a little more than half (53 per

cent) the unemployed insisted on full-time employment, while the rest would be ready to undertake a part-time job (Laky, 2000). However, even if part-time employment would become available there is no guarantee that the old and the unemployed would actually get such employment considering that they are generally not the first one to be hired for any kind of employment.

In 1997, Hungary enacted a law on temporary employment. Under the program, casual workers receive a booklet in which a history of their employment with various employers is recorded. Temporary work is strictly regulated: workers are not allowed to work more than 5 consecutive days or 15 days within a month, and no more than 90 days in a year for a single employer or more than 120 days a year altogether. Under the scheme, temporary workers can reestablish eligibility to unemployment benefits and healthcare. The program might also be attractive to firms, since it simplifies the payment of tax and social contributions. However, experience shows that the scheme has been less successful than expected (Labour Research Institute, 2000).

2.3.4 Increasing the flexibility of working time

The recent frameworks of legal working time evolved in the 1980s. The 40 hour-working week became general and was legalized, though indirectly, by the 1992 Labour Code (Frey, 2001a). Precisely, the law fixed working time at 8 hours a day. Given a five-day working week, the normal weekly hours were 40. The legal daily working time had to be met over a period of 8 weeks. Overtime hours were limited by the Labour Code to 4 on two consecutive days, with a maximum of 144 hours per year. However, this could be raised to 200 on the basis of collective agreements. A 50 percent premium was set for overtime work, and a 100 percent premium if it was performed on rest days. In 1995, the Labour Code was amended. The normal daily hours were not changed, but they had to be fulfilled over a much longer period (4 months in case of enterprise level collective agreements and 6 months in case of multi-employer collective agreements). Overtime hours were modified to 8 on four consecutive days, with an annual limit of 300 hours in case of multi-employer collective agreements.

Hungary has recently introduced reforms to legislation on working time. Amendments to the Labour Code introduced a ceiling on maximum weekly hours from 2001. Accordingly, weekly hours are now restricted to 48, including overtime. It is important, however, that under certain condition it should be met over a period of 12 months, providing higher flexibility for the employers. Overtime hours remained limited to 4 on two consecutive days, but from now on, with an annual maximum of 200 hours. Further, no multi-employer collective agreement is needed to extend this to 300 hours per year. Although these measures were taken as part of the EU law harmonization process, the goal of enhancing the country's competitiveness was of great account as well. Nevertheless, they were not well received by the trade unions. Union leaders mobilized thousands of employees to demonstrate against the amendments to the Labour Code.

3. SOCIAL POLICIES RELATED TO FAMILY AND WORK

3.1. Household inequalities and social policy

Labour market participation has largely determined the earning possibility of households. Over the 1990s, the share of households earning market income fell sharply, while the proportion of those receiving old-age pensions and disability pensions increased. Due mainly to the fiscal stabilization package of 1995, the proportions of child-care benefits and family allowance recipients tended to

decline over the second half of the decade (Szivós and Tóth, 1998).

A notable increase in household income inequalities occurred between the late 1980s and early 1990s. After a short period of stagnation, the Gini coefficient began to rise at the end of the decade, reaching a maximum rate of 34 percent. This is similar to the level of income inequalities characterizing other continental European countries, at lower levels of GDP (Szivós and Tóth, 1998). Despite the significant increase in market income dispersion, total household incomes (including public social transfers and social insurance benefits) display a lower level of inequality. This is due to the inequality reducing effect of social policy (Szivós and Tóth, 1998).

Hungary's social protection system consists of social assistance programs and labour-related social insurance benefits such as pensions and unemployment benefits. The basic elements of the social safety net are pensions, public health care, unemployment benefits, family support and social assistance. In general, the central government is responsible for universal benefits, while local governments for means-tested benefits. In addition, local governments are free to launch social assistance benefits. Financing arrangements between the central and local governments are rather complicated (World Bank, 2001).

3.2. Family and child benefits

Family and child benefits in Hungary include child-care benefits (GYED, GYES, and GYET), child-raising benefits (family allowance and schooling allowance), maternity benefits (pregnancy benefit, one-time birth allowance, and sickness benefit for the term of caring for a sick child), and other benefits (e.g. child protection benefit). (While the family allowance and child protection benefit are considered the income of the child, the rest are considered the income of parents caring full time for their children.)

During the 1990s, eligibility conditions for child and family-related benefits were changed several times. In 1990, the system of child and family benefits was well developed by European standards either considering expenditure as a percentage of GDP, or as a share in total welfare benefits (Gábos, 2000). At that time, all the important elements of the system were already in operation: the family allowance, pregnancy benefit, child-care aid, child-care fees and one-time birth allowance. The introduction of both the child-care fee (1967) and the child-care aid (1985) was largely motivated by demographic considerations (Gábos, 2000). In 1990, the most important child and family-related benefit, the family allowance was made universal. No significant changes in the system occurred between 1990 and 1995, apart from a lost in real value of benefits. Then, in 1995 part of the fiscal consolidation package, family and child benefits were made means-tested and the childcare fee (GYED) was abolished. The government currently in office restored the system in operation until 1994 and went even further in some respects. In 1999, general eligibility for family allowance and child-care benefits were reintroduced. Further, the childcare fee was restored as of January 2000.

Child-raising benefits

The *family allowance* is currently a universal benefit paid for children until the age of 6. Recently it has accounted for the largest share of family and child benefits. (2.3 million children are eligible for family allowance.) After the age of 6, eligibility to family allowance expires and is replaced by the *schooling allowance.* This is also universal (payable until the age of 16, or 20 for those studying full-time). It is supplemented by the *child protection benefit* in the case of low-income families (families with net per capita monthly income below the minimum old-age pension). In addition, child raising is supported through the personal income tax system. A *tax credit for children* was reintro-

duced in 1999. (Tax credit was in place in 1993-94 and phased out as of 1995.) In 2000, the extent of tax credit was raised by 30 percent and access to this scheme became easier. (This means that if the recipient parent –either the mother or father–does not have enough income to use the full tax credit, the other parent can deduct the difference from his/her income.) This measure was taken partly to compensate (families) for the real decline in the value of the family allowance. Despite the modifications to tax credit for children, it is favorable to families with higher taxable income.

Child-care benefits

Child-care fee (GYED) is an insurance-based benefit, available for the first two years of a child's life to those parents who have paid social security contributions for at least 180 days in the last 2 years prior to the birth. The benefit is equal to 70 percent of the parent previous wages (but no more than twice the minimum wage) and can be paid to either parent who takes care of the child full-time. (This means that during the disbursement period no income earning activities are allowed.) With the current increases in the minimum wage, the gross amount of the benefit can reach a maximum of HUF 80,000 in 2001. This scheme was introduced to encourage parents expecting a significant drop in income because of childbirth to bear and raise children.

Child-care aid (GYES) is currently a universal support, first introduced in 1967 as an insurance-related benefit. It is available for those parents who do not qualify for GYED (who has less than 2 years of insurance payment) for the first three years of a child's life and equivalent to the minimum old-age pension. (The minimum pension was HUF 16,600 in 2000.) During the period of entitlement the parent is not allowed to be in employment until the age of 1.5 of the child. After that time, the recipient is permitted to work part-time or even full-time if he/she works at home.

Child-raising support (GYET), introduced in 1993, was designed to serve the interests of families with three or more children in their own households, as long as the youngest child is aged 3-8. The monthly amount of benefit, irrespective of the number of children raised, is equal to the minimum pension. Parents receiving child-raising support can work part-time. Full-time employment is allowed only if the parent works at home.

Maternity benefits

Pregnancy benefit is an important element of maternity benefits. Those women are entitled to pregnancy benefit that have been insured for at least 180 days in the last 2 years prior to the birth. The benefit is available for the term of maternity leave (168 days) and equals 70 percent of the average wage earned by the women prior to the birth.

Having seen the numerous types of family and child benefits, we can state, that unlike the benefit system in place until 1998, the new system does not favor the poor. Although universal access to family benefits minimizes exclusion, it also provides considerable benefits for families with higher income. Tax credit, the most important pillar of the current system, favors those parents who have relatively good labour market positions (Gábos, 2000).

As was mentioned above, the child-care fee was reintroduced to compensate families with higher income for the drop in market income because of childbirth. As it is a generous benefit, it is expected to reduce temporarily the labour market participation of women. However, those mothers who do not qualify for child-care fee and thus receive child-care aid as well as parents obtaining child-raising support are allowed to have earned income. They can work part-time or work at home.

As a labour economist[7] claims, the current family policy–irrespective of its intentions–definitely hinders female employment. In addition, the reintroduction of a child-care fee and the restoration of universal access to child-care aid incur significantly higher costs than what measures of part-time employment support would require.

3.3. The old-age pension system[8]

In 1990, the Social Security Fund was separated from the central budget. This was an important step in the process of strengthening the insurance principle of the Hungarian public pension system at the expense of diminishing its redistributive function (Csaba and Semjén, 1998). In 1992, the Social Security Fund was divided into two independent funds to allow the separate financing of public health and pensions; the Health Insurance Fund and the Pension Insurance Fund respectively. Along with the institutional changes, the foundations of a multipillar pension system were laid down by the creation of a legal framework for private pension schemes. (Csaba and Semjén, 1998))

The current multipillar pension system was established in 1997. It consists of a pay-as-you-go public pension pillar, a mandatory privately funded pillar, and a voluntary private pillar. Employees entering the labour force after July 1998 were required to join the new, multipillar system, while those already employed were allowed to stay in the reformed pay-as-you-go system, or switch to the new scheme. The essential difference between the multipillar pension system and the reformed pay-as-you-go system is that the former includes a mandatory private pillar. Employees who decided to stay in the pay-as-you-go system contribute 8 percent of their gross earnings to it, while those who switched to the multipillar scheme pay 2 percent to the state fund and 6 percent to individual pension accounts administered by private pension funds. (Under the original legislation, participants in the multipillar system would have paid 1 percent of their earnings to the state fund and 7 percent to individual pension accounts. As the multipillar system proved to be more popular than expected, the government modified the originally planned rates. Indeed, according to a recent decision, the present rates will be maintained until the end of 2002.) Additional contributions may also be made into voluntary private pension funds. Under the present system, employers pay a pension contribution rate of 22 percent.

The statutory retirement age in Hungary is relatively low in international comparison. Prior to 1996 it was 60 years for men and 55 years for women. Part of the pension system reform, retirement age was raised to 62 for men and to 60 for women and it is scheduled to reach 62 years for both sexes by 2009.

3.4. Spending trends

Between 1992 and 1996 nominal spending on the four main social benefits – family benefits, unemployment benefits, pensions, and social assistance – rose by about 70 percent. Social expenditures in Hungary amounted to more than 30 percent of GDP, exceeding the OECD average. Then, partly because of the fiscal stabilization package, significant eligibility cuts occurred, and welfare expenditures dropped dramatically in 1996-1997 (Szivós and Tóth, 1998).

In the period 1992-1996, the nominal spending on pensions doubled; meanwhile the share of households receiving pensions increased by 5 percent. As a result, this benefit was the one that lost the least of its real value. Over the same period, nominal spending on unemployment benefits remained largely unchanged. Both the proportion of recipients and the average amount of payment decreased. The real value of family allowances also fell substantially. The share of those receiving social assistance and the real value of the benefit remained constant (Szivós and Tóth, 1998).

3.5. Tax policy

An OECD study states that the average tax burden in Hungary is higher than the OECD average and is much higher than it was in other OECD Member States when they were at similar levels of economic development (OECD, 2000).

Hungarian taxes currently in force include personal income tax, corporate income tax, and value added tax (VAT). The main sources of tax revenue are consumption taxes and social security contributions, whereas relatively little income is generated from personal income taxes and corporate income taxes (OECD, 2000). In general, the effectiveness of tax administration – measured by the ratio of effective and statutory tax rates – in Hungary is very similar to the EU average (EBRD, 2001). In what follows, we focus on the systems of personal income taxation and corporate income taxation. The VAT system[9] is not discussed here since it is supposed to have no direct effect on the labour market situation.

Personal income tax

Under the Hungarian personal income tax system, introduced in 1988, all non-capital incomes[10] received by a private individual are subject to a progressive tax rate. Pension income forms part of the tax base, but is not taxed. Accordingly, if an individual has only pension income no tax is paid on this, but if he/she has income from employment these are taxed at a higher marginal rate. From 2002 onwards, pension incomes are not subject to taxation. This way, a part of those receiving pension incomes will be motivated to return to the labour market in form of atypical employment.

The present personal income tax system has three tax bands with marginal rates of 20, 30, and 40 percent. Earnings above HUF 1,000,000 thousand were taxed at 40 per cent in 2000. Thus an individual who earned the gross monthly average wage of HUF 87,645 was already subject to the top 40 percent marginal rate. This means that although, the tax system is progressive, a large proportion of taxpayers are subject to the top 40 percent marginal rate. The top marginal rate is close to the OECD average of 43 percent, while the average effective personal income tax rate is very low, due to the extensive use of tax credits (e.g. family tax credit) (OECD, 2000). Further, as opposed to wage incomes, capital incomes are taxed at a flat rate. This feature of the tax system (i.e. it favors capital income over wage income) could lead to an over investment in capital-intensive technologies and underemployment of labour (OECD, 2000).

Social security contributions

In Hungary, a large part of tax revenues has been collected from social security contributions. In 1998, social security and payroll taxes accounted for 36.2 percent of total tax revenue. Almost twice as much is collected from this source than from the personal income tax system (OECD, 2000). As a result of sequent reductions over the past years, social security contributions paid by employers in 2001 went down to 31 percent of gross employment income, including health insurance (11 per cent) and pension contributions (22 per cent). In addition, there is a flat health tax contribution and a 3 per cent unemployment fund, and a 1.5 per cent training fund contribution levied on employers.[11] Despite the recent fall, an employer's tax burden is still among the highest in the OECD (OECD, 2000). Employee contributions are much lower: a 3 percent health care contribution and an 8 percent pension contribution.

The current high tax rates on labour make employers and employees attempt to evade taxes both through unregistered work and underreporting of wages. A widespread practice has been to keep wages at the level of minimum wage and supplement them by non-wage income and/or in kind. However, this strategy has lost much of its attractiveness because of modifications to the personal income tax system (i.e. the abolition of the zero tax band) and the current drastic increases in the minimum wage. Another widespread form of tax minimization might be

self-employment. Firms in Hungary frequently force their employees to become entrepreneurs and then hire them as subcontractors. This way, however, not only employers but also employees reduce their overall tax burden.

Corporate income tax

Revenues from the corporate income tax in Hungary are among the lowest in the OECD. Corporate income taxes account for slightly more than 5 percent of total tax revenue compared to the OECD average of 8.8 percent. Currently the statutory corporate income tax rate is 18 percent in Hungary. The effective tax rate, as estimated by the Hungarian authorities, is only 11.1 percent due to the tax exemptions and investment incentives used extensively to attract foreign direct investment (OECD, 2000).

CONCLUSION

As we have seen, atypical employment in Hungary is not widespread as compared either to the CEE countries or to most EU members. The especially low share of part-time workers can be explained by several factors. First of all, the promotion of part-time work was not a pronounced element of the fight against unemployment. At the same time, employment policy in cooperation with social policies offered channels for leaving the labour force. In 1993, GYET was introduced providing a disincentive for parents to return to the labour force by working part-time or temporarily. Early retirement was also a common practice up until 1998. The lax approval procedures of disability pensions also contributed to the increasing stock of inactive. Apart from the passive treatment of unemployment, economic policy did not prove to be very successful in employment promotion in the second half of the decade (Ministry of Economic Affairs, 2000). From the employee's point of view, family and child-care allowances act as a disincentive to employment. Some allowances explicitly forbid employment, while the GYED was admittedly initiated to compensate parents for their market incomes forgone. At this point, the goals of family policy and employment policy seem to contradict. Until 2002, tax policy did not encourage those receiving pension incomes to supplement them by undertaking part-time or temporary work. However, the current exemption of pension income from tax payment might lead to the reemployment of those inactive with favorable labour market characteristics. Finally, the relatively low wages in Hungary have not stimulated part-time employment. From the employer's viewpoint, the main obstacle to part-time employment is probably the level of social security contributions paid after the part-time worker. However, as a response to the recent drastic rises in the statutory minimum wage, some employers will transform full-time work contracts into part-time ones to save on labour costs. Survey evidence suggests that 2.1 percent opted for this strategy in 2001.

Unlike part-time work, self-employment has been considerable in Hungary. Part of the self-employed are certainly enforced entrepreneurs or members of partnerships. As was shown, the current systems of taxation and social security contributions provide incentives both for employers to transform employment into subcontracting and for employees to become entrepreneurs or establish partnerships without legal entity. It should be added, however, that research findings suggest that self-employment has proved to be a creative labour market strategy rather than a coping strategy for the unemployed.

Finally, we note that over the 1990s, several steps were taken to increase the flexibility of working time. After the 1995 amendments to the Labour Code, employers in Hungary enjoy higher time flexibility.

NOTES

1. The government raised the minimum wage for 2001 by no less than 57 per cent relative to 2000.
2. Köllő, János and Vincze, Mária. 1999. Self-employment and unemployment: lessons from regional data in Hungary and Romania. Working Paper, PHARE-ACE, P96-6230-R.
3. Kertesi, Gábor. 2000. 'A cigány foglalkoztatás leépülése és szerkezeti átalakulása 1984 és 1994 között (Munkatörténeti elemzés).' in *Közgazdasági Szemle*, No. 5.
4. This section is to a large extent based on a study by Laky (2000).
5. Note that no earning activity is allowed for those entitled to child-care fee, while those receiving child-care aid or child-raise support are permitted to work part-time or at home if certain conditions are met.
6. In the survey household members were interviewed about their employers' response to minimum wage increase.
7. Timár, János. 1998. 'Tévedés vagy félreértés a részmunkaidő megítélése?'. in *Népszabadság*, Vol. 56. No. 297
8. Disability benefits were discussed in the chapter devoted to labour market policies.
9. Currently the standard VAT rate is 25 percent, the highest in the OECD. The reduced rate is 12 percent and some goods and services are zero-rated while still others are exempted. In addition to the VAT, Hungary has a special consumption tax levied on some goods. The VAT and consumption taxes create the main sources (39 per cent) of tax revenues in Hungary (OECD, 2000).
10. The majority of welfare transfers are not subject to taxation.
11. In 2002, the social security contribution is further reduced to 29 per cent. However, the flat health tax contribution is raised from 4,200 HUF to 4,500 HUF.

ANNEX

Table 1. Economic activity of population, 1980-99

Year	Below working age	Population at working age (Men aged 15-59; Women aged 15-54)			Population above working age (Men above 60; Women above 55)			Total
		Employed	Unemployed	Inactive*	Employed	Pensioner and other inactive	Unemployed	
1980	21.9	45.6	0.0	11.9	5.3	15.2	0.0	100.0
1990	20.2	43.7	0.6	13.3	3.3	18.8	0.0	100.0
1991	19.7	41.3	2.4	14.4	2.4	19.8	0.0	100.0
1992	19.2	37.8	4.2	16.5	1.8	20.4	0.1	100.0
1993	18.8	35.8	4.9	18.2	1.3	20.8	0.2	100.0
1994	18.4	35.4	4.3	19.5	1.2	21.1	0.1	100.0
1995	18.1	34.9	4.0	20.5	1.1	21.3	0.1	100.0
1996	17.8	34.8	3.9	21.0	1.0	21.4	0.1	100.0
1997	17.6	35.0	3.4	21.4	1.0	21.6	0.1	100.0
1998	17.4	35.7	3.0	21.2	0.9	21.7	0.1	100.0
1999	17.2	36.8	2.8	20.4	1.1	21.7	0.0	100.0

Note: *Pensioners, students, people on childcare leave and other inactive

Source: Munkaerőpiaci Tükör 2000

Table 2. Employment, 1980-99

Year	Number of employed in thousands	Rate of employment*, %	Ratio of women in total employment, %
1980	5458.2	65.3	44.7
1990	4880.0	59.0	45.7
1991	4520.0	54.4	46.0
1992	4082.7	49.0	45.7
1993	3827.0	45.8	45.7
1994	3751.5	44.8	45.2
1995	3678.8	43.9	44.3
1996	3648.2	43.6	44.2
1997	3646.4	43.6	44.0
1998	3697.8	44.3	44.8
1999	3811.4	45.7	44.8

Note: *Percentage of population above 15 year

Source: HCSO: 1980-91 Labour Account, 1992-99: LFS in Munkaerőpiaci Tükör 2000

Table 3. Nominal and real earnings

Year	Gross earnings (HUF)	Net earnings (HUF)	Consumer price	Gross real earnings index	Net real earnings index	Net real earnings index
				Previous year = 100		1992 = 100
1989	10 571	8 165	117.2	100.6	99.7	115.6
1990	13 446	10 108	128.9	99.8	94.3	109.1
1991	17 934	12 948	135.0	96.3	93.0	101.4
1992	22 294	15 628	123.0	101.7	98.6	100.0
1993	27 173	18 397	122.5	99.5	96.1	96.1
1994	33 939	23 424	118.8	105.1	107.2	103.0
1995	38 900	25 891	128.2	91.1	87.8	90.5
1996	46 837	30 544	123.6	97.4	95.0	86.0
1997	57 270	38 145	118.3	103.4	104.9	90.2
1998	67 764	45 162	114.3	103.5	103.6	93.4
1999	77 187	50 076	110.0	105.5	102.5	95.8

Source: HCSO in Munkaerőpiaci Tükör 2000

Table 4. Incidence and composition of part-time employment*, 1995-1999

Year	Part-time employment as proportion of employment, %			Women's share in part-time employment, %
	Men	Women	Total	
1995	1.9	4.6	3.2	67.7
1996	1.8	4.6	3.1	69.4
1997	1.8	5.0	3.3	71.3
1998	1.9	5.0	3.4	69.2
1999	2.1	5.1	3.5	68.7

Note: *Data refers to those who usually work less than 30 hours a week in their main job

Source: OECD Employment Outlook 2000
OECD Employment Outlook 1998

Table 5. Reasons for working shorter hours, 1996-2000 (per cent)

Reasons	1996			1999			2000		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Jobs with regular working time less than 40	39.6	48.8	**46.1**	38.7	45.4	**43.4**	41.3	45.1	**44.0**
Full-employment is not possible; lack of work assignment	19.0	17.0	**17.6**	16.6	15.1	**15.5**	13.8	13.3	**13.4**
Employee prefers part-time employment	17.0	17.2	**17.1**	15.7	20.7	**19.2**	16.5	20.4	**19.3**
For health status	7.7	3.8	**5.0**	13.0	5.7	**7.9**	13.7	7.5	**9.3**
Employee attends school/training	-	-	**-**	2.4	3.4	**2.2**	2.8	2.2	**2.3**
Other reasons	16.6	13.3	**14.3**	13.6	11.1	**11.9**	11.9	11.5	**11.6**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
As a percentage of total employment	3.0	8.9	**5.6**	3.4	9.5	**6.1**	3.0	9.0	**5.7**

Source: LFS in Frey 2001a

Table 6. Composition of employees by working time*, 2000

Weekly hours	Part-time employees			Full-time employees		
	Men	Women	Total	Men	Women	Total
1-14	6.8	6.1	**6.3**	-	-	**-**
15-35	40.8	72.7	**59.5**	1.0	4.1	**2.4**
36-39	1.0	1.1	**1.1**	0.5	1.0	**0.7**
40	11.9	7.0	**9.0**	63.0	76.0	**68.8**
41-50	4.6	1.9	**3.0**	15.5	11.7	**13.8**
51-	3.6	0.4	**1.9**	6.5	2.1	**4.9**
Very volatile	31.6	10.8	**19.2**	13.5	5.1	**9.7**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
In thousands	**61.5**	**88.4**	**149.9**	**2049.9**	**1638.2**	**3679.1**
Share in total	**2.9**	**5.1**	**3.9**	**97.1**	**94.9**	**96.1**
1-29 in thousands	20.9	49.1	**70.0**	10.3	28.7	**39.0**

Note: *Data are based on self-declaration

Source: LFS in Frey 2001a

Table 7. Employed persons by status in employment, 1992-2000a (per cent)

Year	Employee	Member of cooperative	Member of partnership	Self-employed	Unpaid family worker	Total
1992	79.6	5.6	6.4	7.2	1.2	100
1993	81.9	3.6	5.2	8.2	1.1	100
1994	82.5	2.8	4.7	8.9	1.1	100
1995	82.2	2.3	4.6	9.7	1.1	100
1996	82.1	2.2	4.2	10.3	1.1	100
1997	82.8	1.9	3.8	10.3	1.1	100
1998	84.0	1.5	3.6	10.0	0.8	100
1999	84.4	1.1	2.9	10.8	0.7	100
2000	85.0	1.0	13.4 b.		0.6	100

Note: a. Excluding conscripts, yearly average;
b. In 2000 figures for self-employed and members of partnerships were reported as an aggregate.

Source: *LFS*

Table 8. Unemployment, 1990-99

Year	Registered unemployed		LFS unemployed	
	in thousands	rate*, %	in thousands	rate, %
1990	477.4	-	-	-
1991	227.3	4.1	-	-
1992	557.0	10.3	444.2	9.8
1993	671.8	12.9	518.9	11.9
1994	568.4	11.3	451.2	10.7
1995	507.7	10.6	416.5	10.2
1996	500.6	11.0	400.1	9.9
1997	470.1	10.5	348.8	8.7
1998	423.1	9.5	313.0	7.8
1999	409.5	9.7	284.7	7.0

Note: *Percentage of the economically active population on 1st January of the previous year

Source: Munkaerőpiaci Tükör 2000

Table 9. Incidence of long-term unemployment*

Year	6 months and over	12 months and over
1996	75.2	54.4
1997	73.5	51.3
1998	71.0	49.8
1999	70.4	49.5

Note: *As a percentage of total unemployment

Source: OECD Employment Outlook 2000

Table 10. Unemployment by educational attainment, 1992-99 (per cent)

Educational attainment	1992	1993	1994	1995	1996	1997	1998	1999
Less than elementary school	6.8	5.8	4.5	4.1	4.9	4.4	4.5	3.4
Elementary school	37.4	35.9	35.6	34.9	32.9	36.5	34.6	31. 8
Vocational school	31.8	33.7	35.0	36.7	36.5	35.8	34.3	37.7
General secondary school	8.4	8.2	7.8	7.9	8.6	8.7	9.8	7.3
Vocational secondary school	12.0	13.1	13.3	12.4	12.9	11.7	13.1	16.7
College	2.1	2.4	2.7	3.0	2.7	2.0	2.5	2.2
University	1.4	1.0	1.1	1.1	1.4	0.8	1.2	0.9
Together	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: LFS in Labour Research Institute 2000

Table 11. Youth unemployment, 1992-99

Age	Rate of unemployment %							
	1992	1993	1994	1995	1996	1997	1998	1999
15 – 19	27.0	33.3	29.8	31.3	30.4	28.8	24.8	23.4
20 – 24	14.0	17.0	16.0	14.7	14.5	13.0	11.1	10.6
Together	**17.5**	**21.3**	**19.4**	**18.5**	**18.0**	**15.9**	**12.6**	**12.4**

Source: LFS in Labour Research Institute 2000

Table 12. Regional unemployment rates (LFS unemployment rates)

Year	Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain	Total
1992	7.4	11.4	7.2	9.5	13.9	12.3	10.1	9.8
1993	9.8	12.4	8.9	12.7	15.9	14.6	12.2	11.9
1994	8.7	10.6	7.7	11.8	15.0	13.6	10.5	10.7
1995	7.3	10.8	6.8	11.9	15.8	13.6	9.2	10.2
1996	8.1	10.3	7.1	9.3	15.3	13.0	8.3	9.9
1997	6.9	8.0	6.0	9.9	13.9	11.9	7.3	8.7
1998	5.6	6.7	6.0	9.4	12.2	11.0	7.1	7.8
1999	5.2	6.0	4.4	8.3	11.5	10.1	5.7	7.0

Source: LFS in Munkaerőpiaci Tükör 2000

Table 13. Economic activity and inactivity in the population aged 15-64

Year	Population aged 15-64, thousands	Inactive	
		thousands	%
1992	6898.9	2436.0	35.3
1993	6895.6	2601.6	37.7
1994	6886.2	2729.2	39.6
1995	6891.4	2830.9	41.1
1996	6877.1	2856.6	41.5
1997	6876.5	2903.5	42.2
1998	6831.7	2843.2	41.6
1999	6803.2	2729.5	40.1

Source: LFS in Labour Research Institute 2000

Table 14. Inactive population of working age by the reason for inactivity (in thousands)

	1995	1996	1997 (1st January)	1998	1999
Inactive	1913.6	1952.2	2023.7	2000.1	1958.8
As percentage of working age population	*31.5*	*32.1*	*32.9*	*32.6*	*32.0*
Of which					
Student	625.5	635.9	674.8	675.9	687.1
On child care provision	285.0	275.2	295.2	291.1	299.9
Pensioner	461.0	481.1	504.2	512.1	535.4
Other	542.1	560.0	549.5	521.1	436.4
Of which women:					
Inactive	1089.9	1123.0	1185.6	1167.2	1119.6
As percentage of working age population	*37.0*	*38.5*	*39.8*	*39.3*	*37.9*
Of which					
Student	310.8	317.2	336.6	338.6	346.2
On child care provision	279.8	270.6	293.2	290.0	298.9
Pensioner	177.0	184.6	198.8	207.5	228.6
Other	313.3	350.6	357.0	331.1	245.9

Source: HCSO: Labour Account in Labour Research Institute 2000

Table 15. Educational participation rates for ages 15-24, 1995

Age	15	16	17	18	19	20	21	22	23	24
Hungary	100	88	74	52	37	28	19	16	12	9
OECD country mean	95	89	82	68	49	41	34	29	23	19

Source: OECD educational database in OECD 1999

Table 16. Trade union membership by industry and sex

Industry	Employees in trade unions, %		
	Men	Women	Total
Agriculture	5.4	7.9	6.0
Mining and quarrying	30.2	28.4	29.9
Manufacturing	16.5	14.9	15.8
Electricity, gas, steam and water supply	28.0	36.8	30.0
Construction	3.4	3.5	3.4
Wholesale and retail trade	5.9	8.2	7.1
Hotels and restaurants	2.6	6.0	4.4
Transport, storage and communication	39.5	41.6	40.1
Financial intermediation	12.2	18	16.3
Real estate, renting, and business activities	6.9	7.1	7.0
Public administration and defence; compulsory social security	25.4	33.5	29.3
Education	37.9	40.1	39.6
Health an social work	33.2	34.0	33.8
Other	12.2	13.2	12.7
Total	**17.3**	**22.4**	**19.7**

Source: LFS in Lakatos 2001

Table 17. Trade union membership by age and sex

Age	Employees in trade unions, %		
	Men	Women	Total
15 – 19	3.2	2.0	2.7
20 – 24	6.6	9.7	7.9
25 – 29	10.4	15.9	12.7
30 – 39	18.4	22.2	20.1
40 – 54	22.2	27.3	24.9
55 – 59	26.2	28.8	27.1
60 – 74	25.0	19.4	22.8
Total	**17.3**	**22.4**	**19.7**
Of which:			
working age*	17.3	22.3	19.7

Note: * Men aged 15-64, Women aged 15-57

Source: LFS in Lakatos 2001

Table 18. Gross real wage increase: actual rates and recommendations by the Interest Reconciliation Council

Year	Recommendations		Actual indices	
	Minimum	Maximum	Public sector	Corporate sector
1992	113.0	128.0	120.1	126.6
1993	110.0-113.0	125.0	114.4	125.1
1994	113.0-115.0	121.0-123.0	127.0	123.4
1995	No agreement		110.7	119.7
1996	113.0	124.0	114.6	123.2
1997	114.0	122.0	123.2	121.8
1998	113.5	116.0	118.0	118.5
1999	112.0	115.0	119.2	114.8

Source: HCSO, Ministry of Labour in Munkaerőpiaci Tükör 2000

Table 19. Minimum wages

Date	Minimum wage HUF	Average gross earnings HUF	Ratio of minimum wage to average gross earnings, %
1992	8 000	22 294	35.8
1993	9 000	27 173	33.1
1994	10 500	33 939	30.9
1995	12 200	38 900	31.4
1996	14 500	46 837	31.0
1997	17 000	57 270	29.7
1998	19 500	67 764	28.8
1999	22 500	77 187	29.1
2000	25 500	87 645	29.1
2001	40 000	94 563	42.3
2002	50 000		

Sources: Munkaerőpiaci Tükör 2000, Munkaerőpiaci Tükör 2001(based on data provided by Ministry of Labour)
OECD Economic Surveys 1999-2000 Hungary 2000
HCSO

Table 20. Employees affected by the statutory minimum wage increase, 2001 (per cent)

	Men	Women	Total
Affected	27.4	35.3	31.1
Not affected	72.6	64.7	68.9
Total	**100.0**	**100.0**	**100.0**

Source: TÁRKI Monitor Survey 2001

Table 21. Effects of statutory minimum wage increase on the labour force, 2001

	As a percentage of affected respondents
Received guaranteed minimum wage	62.7
Received increased wage	25.2
Laid off	0.6
Contractual working time modified	2.4
Affected as an owner	6.0
Other	3.0

Source: TÁRKI Monitor Survey 2001

Table 22. Employers' reactions to statutory minimum wage increase, 2001 (per cent)

	Men	Women	Total
Raised minimum wage only	31.0	33.1	32.0
Raised other wages as well	21.1	27.0	23.8
Lay-offs	1.3	1.4	1.3
Working time reductions	2.1	2.1	2.1
Other	5.0	5.6	5.3
No employee affected	30.0	20.4	25.5
No information	9.4	10.4	9.8
Total	**100.0**	**100.0**	**100.0**

Source: TÁRKI Monitor Survey 2001

Table 23. Coverage of the unemployment benefit system*, 1990-1999 (per cent)

Year	Coverage of unemployment Insurance (UI)	Coverage of unemployment Assistance (UA)	Total coverage
1990	63.5	-	63.5
1991	76.8	-	76.8
1992	74.1	3.3	77.4
1993	60.3	13.3	73.6
1994	40.3	33.5	73.8
1995	36.0	41.4	77.4
1996	34.3	42.2	76.5
1997	30.1	42.8	72.9
1998	30.9	43.0	73.9
1999	31.3	39.0	70.3

Note: *Expressed as a percentage of registered unemployed

Source: Labour Research Institute 2000

Table 24. Gross earnings, minimum wage and unemployment compensation, 1990-99

Year	Average gross earnings per month	Average unemployment benefit per month	As percentage of gross earnings
1990	13 446	3 845	28.6
1991	17 934	7 903	44.1
1992	22 294	8 798	39.5
1993	27 173	9 949	35.9
1994	33 939	10 841	31.9
1995	38 900	11 891	30.6
1996	46 837	13 461	28.7
1997	58 002	16 141	27.8
1998	67 764	18 895	27.8
1999	77 187	22 406	29.0

Source: Labour Research Institute 2000 (KSH) p. 88

Table 25. Spending on labour market policies, 1996-1999 (percentage of GDP)

	1996	1997	1998	1999*
1. Public employment services and administration	0.11	0.13	0.12	0.11
2. Labour market training	0.08	0.08	0.07	0.07
3. Subsidized employment	0.18	0.23	0.20	0.22
4. Unemployment compensation	0.60	0.46	0.45	0.47
5. Early retirement for labour market reasons	0.15	0.17	0.16	0.09
Total	**1.12**	**1.07**	**1.01**	**0.96**
of which				
Active measures (1-3)	0.37	0.44	0.39	0.40
Passive measures (4-5)	0.75	0.63	0.62	0.56

Note: *Provisional data

Source: OECD Employment Outlook 2000

Table 26. Ratio of households receiving certain types of income, 1992-2000 (per cent)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Market incomes	83.9	80.0	82.4	78.6	80.1	79.5	72.1	76.3	74.0
Old-age pension	38.3	39.9	41.4	37.8	37.2	40.3	42.0	38.0	36.4
Disability pension	10.0	11.7	12.0	12.5	13.5	14.4	15.8	13.9	16.3
Other pensions	8.7	7.5	9.2	8.2	8.0	7.6	8.6	8.4	7.5
Child-care fee (GYED)	5.8	6.0	5.0	4.4	4.4	4.6	2.0	0.5	1.7
Child-care aid (GYES)	4.9	6.0	5.7	4.5	5.3	7.6	6.4	6.4	6.9
Unemployment insurance	9.8	13.5	13.9	8.8	8.3	9.2	8.9	7.4	7.5
Sick-pay	11.6	11.9	11.7	10.9	10.9	9.0	7.9	11.1	5.4
Unemployment assistance	0.8	3.1	3.4	4.8	4.8	5.1	4.8	2.6	3.4
Family allowance	33.1	33.0	32.6	34.5	34.1	32.0	22.4	25.7	26.5
Social assistance	8.5	10.2	9.9	8.6	9.9	7.4	9.0	8.4	10.4

Source: Szivós and Tóth 1998
TÁRKI Monitor 2000

Table 27. Labour taxes*, 1995-99 (per cent)

Contributor	1995	1996	1997	1998	1999
Employer	50.0	48.5	48.5	48.3	42.8
Pension	24.5	24.5	24.0	24.0	22.0
Health	19.5	18.0	15.0	15.0	11.0
Flat health tax			3.5	3.8	5.3
Labour Market Fund	4.2	4.2	4.2	4.0	3.0
Wage guarantee contribution	0.3	0.3	0.3		
Vocational training contribution	1.5	1.5	1.5	1.5	1.5
Employee	11.5	11.5	11.5	11.5	12.5
Pension	6.0	6.0	6.0	7.0	8.0
Multipillar					
Second pillar				6.0	6.0
Pay-as-you-go				1.0	2.0
Health	4.0	4.0	4.0	3.0	3.0
Labour Market Fund	1.5	1.5	1.5	1.5	1.5
Total	**61.5**	**60.0**	**60.0**	**59.8**	**55.3**

Note: * Expressed as a percentage of the payroll tax base

Source: World Bank 2001 (based on Ministry of Finance, Ministry of Labour)

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