

## FOREWORD BY THE EDITORS

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

### 1. Labour Market Activity and Wages in 2007–2009

The introductory chapter of the volume discusses trends and recent changes in employment, activity, and unemployment in Hungary between 2007 and the first quarter of 2009. Because the first part of the “In Focus” chapter discusses certain important aspects of the Hungarian labour market in an international comparison, this chapter concentrates mostly on recent events. Although not much data is available for in-depth analysis, the *Introduction* discusses the first signs of the impact of the economic crisis which unfolded following the autumn of 2008 along with other dominant features of the macroeconomic environment.

Unfortunately, the last two years did not bring about positive changes in the employment situation in Hungary. Not only was Hungary already performing the worst in terms of employment figures within the EU by mid-2008, it is also likely that the crisis will make it even more difficult to escape from this situation. Indeed, the Hungarian GDP contracted by 2.5 percent in the first quarter of 2009, and is expected to shrink further at a rate of 6 percent during the whole year – this has a direct effect on employment, but also an indirect one through contracting domestic demand. The *Introduction* analyses stylised facts to show how employment has changed in different groups of the population, with an emphasis on the largest groups which were already displaying small initial employment rates. Data show that the employment situation had already worsened among the least educated prior to the outbreak of the crisis, and did not improve among the young mothers with small children, and inhabitants of the least developed regions especially those in the small villages. Improvement is visible only among the highly educated and among older workers who were affected by the increase in the pension age.

Differences in employment rates of distinct groups of the population and their changes are affected by factors that can be influenced by policy on different time horizons. The employment rate of the least educated can only be improved through the systematic development of the education system to help

the accumulation of marketable human capital, and the removal of institutions and restrictions that make their employment more costly than necessary. Further increase of the pension age to 65 – already voted for by the Parliament – makes an increase in the employment rate of older people very likely. These are effects that work in the longer term, but there is room for improvement also in the shorter term. Following the outbreak of the crisis, the overall unemployment rate increased rapidly – it is expected to reach 11 percent during 2009 –, and a new type of unemployment appeared at the same time: that of skilled, but not highly educated people. Both of these changes in unemployment make the need for a modern unemployment support system even clearer than before. Putting personalised services in place, along with strict accounting for search efforts and the re-calibration of the unemployment benefit system to make the search for a high quality job viable also for higher earners, are tasks that are unavoidable. Finally, although it is not a measure aimed directly at employment policy, the restructuring of the tax system (and the adjustment of the system of social transfers accordingly) is instrumental in increasing the employment chances of any individual.

The second part of the *Introduction* looks at wages. Trends in the evolution of wages are characterised through the use of aggregate indicators for all earners, and additionally for several subgroups. Special attention is paid to the gender wage gap and to regional differences.

## 2. In Focus

The *In Focus* section of the *Hungarian Labour Market* yearbook usually summarises previously published research.\* This year the editors decided to depart from this tradition to some extent. The first part of this year's *In Focus* presents a simple descriptive statistical overview of the Hungarian labour market as seen through the microdata of the *European Labour Force Survey* (EU LFS). The chapter does not attempt to give an explanation for observed deviations from European trends (if any). What it undertakes to do is present the comparative data in order to bring clearly to light those specific Hungarian phenomena that actually need to be explained by future research. Naturally, this compels us to present more statistics than usual, while explanations and references to the literature will be given far less attention.

The data confirms that the substantial disadvantage observed among the entire 15–64 year old population in Hungary is primarily explained by low levels of employment among the oldest and the youngest: the transition from school

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\* *In Focus* parts of the previous volumes discussed the following topics: 2002: I. Wages: A Decade of Transformation, II. Income Support for the Jobless; 2003: I. Labour – the Supply Side, II. Labour – the Demand Side; 2004: Labour Market Inequality and Geographical Mobility in Hungary; 2005: Education and the Labour Market; 2006: Industrial Relations in Hungary; 2007: Wages: New Developments. 2008: Education and the Labour Market. Each volume can be downloaded from the homepage of the Institute of Economics-HAS: <http://econ.core.hu/english/pub/mt.html>

to work is a slow-moving process, and a large number of men over the age of 40 have left or are leaving the labour market permanently. Mothers with small children constitute a third group whose employment level lags far behind the European average. (The latter problem was discussed in detail in last years' *In Focus*.)

With regard to people "of the best working age," Hungary's disadvantage is far less pronounced thanks to a relatively low level of absenteeism and long working hours. In terms of full-time equivalent employment within the non-student population aged 15–59, Hungary occupies a medium position close to Slovakia and not far removed from Denmark, Finland, or Ireland, with a score 7.1 percent *above* the old EU members' average.

The sections on the prime-age population identify striking contrasts with the West-European patterns of employment and non-employment. The Hungarian prime-age population is divided into two groups with a remarkably sharp boundary between them: those who work the standard eight hours a day, five days a week, and a strikingly large group of those who are out of work and who do not even search for jobs. Forms of labour attachment other than full time employment are underdeveloped and rudimentary: few of the employed work part time, few workers are temporarily away from their workplace; few people have working hours deviating from the standard, and those who do, do not owe this to flexible working arrangements; few people work at home; few workers participate in adult training programmes, and even fewer attend training courses as part of their regular working hours. Of those who are not employed, few are actively seeking employment, and few register with the unemployment agency. The share of persons out of work who have no desire to find paid employment is particularly high.

Most of the above-mentioned characteristics are common to Central and East European countries, and some of them can also be observed in Southern Europe. The low level of job searching, however, is a unique feature of the Hungarian labour market compared to other former communist countries. A section comparing Hungary, Poland, and Slovakia finds that the situation in Hungary is most probably due to its system of unemployment assistance. The majority of the non-employed, including those aged 15–59, receive disability pension or child-care benefits. As a result, few of them are registered in the job centres and, in addition, few of those who are registered are actively looking for jobs. While registration practices and job searching among the registered unemployed differ substantially across the three countries considered, the linkages between job search and education, gender, age or duration of joblessness are similar.

The data on the young call into question some widely held stereotypes. The concerns voiced in connection with youth unemployment – in particular unemployment among young university graduates – appear to be overly pessimistic in light of the results of a European comparison.

The basic statistics do indicate relatively high unemployment among young people in Hungary. The exceptionally wide range of the ILO-OECD employment and unemployment rates across the EU suggest, however, that these indicators cannot accurately capture the highly complex process of transition from school to work. The section on youth employment finds that the ILO-OECD indicators are heavily affected by the system of vocational training and by the patterns of student work, both of which are factors that show extreme variation across the countries of Europe. The level of youth employment in Hungary is substantially lowered by the infrequency of apprentice work among secondary school students, and the low share of students working in parallel with their college or university studies. It is a notable feature of the data that not even student workers are likely to have jobs with atypical working hours such as part-time, seasonal, weekend, or evening/night-time employment. Hungarian student workers are also less mobile: they remain in the same job for a longer time. The data does give cause for concern, however, in the case of the young who leave the education system with only primary qualifications (mostly secondary school dropouts).

The results for men older than 40 are less astonishing given Hungary's infamously permissive retirement policies. Among the 24 European countries under analysis, Hungary has the highest share of men in retirement or permanently disabled within each education group, and the situation is especially alarming for the youngest cohort aged 40–49.

More in line with our usual practice, in the second part of *In Focus* a specific aspect of the labour market is discussed in as much detail as is possible, on the basis of currently available research evidence. *Vocational training* is a relatively under-researched area of the Hungarian labour market, even though not a day goes by without businessmen and policy makers making explicit comments on the shortage of skilled workers, the quality of training, and the desirable direction of development.

“Uncertified” vocational training, in which no upper secondary (Matura) qualifications are awarded, remains an important segment of the Hungarian education system. Research addressing the quality of training and the skills and labour market careers of vocational school graduates depicts a troubling picture of this form of education. The chapter summarises the main findings of the Hungarian literature, and presents the most important data supporting the belief that vocational training is an ailing part of the educational system, and is an area where profound reforms are required.

Vocational training school (VTS) students have always come from relatively poor and uneducated social backgrounds and from among the lowest-achieving primary school graduates, but the gap between secondary schools and VTS has critically widened over the past decade. The children of parents who have a primary school background are eight times more likely to enrol in vocational train-

ing than children from better educated middle class backgrounds. Almost two thirds of Roma children in post-primary education attend this type of school. Children of parents who have at least Matura qualifications represent no more than a quarter of VTS students. These schools are characterised by five to six times higher dropout rates, and two and a half to three times higher grade retention rates than vocational or academic secondary schools. The students and graduates tend to show very poor performance on skills assessment tests. The data on wages indicates that the market value of vocational qualifications has been depreciating, and the only reason why employment remained relatively high was that a large share of VTS graduates became employed in simple jobs requiring no qualifications.

While adverse selection is a part of the picture, it cannot be accepted as the sole explanation for the low level of skills typical of VTS graduates, or as an excuse for the failures of the education system. Those graduating from VTS displayed substantially poorer performance than those graduating from secondary schools *prior to* the contraction of traditional vocational training. Data from the mid-1990s on the basic skills of VTS graduates did not show the kind of improvement relative to older generations that was observed in the case of secondary school graduates. Furthermore, adverse selection obviously does not lessen, but merely transforms and makes more difficult the task facing educators: schools have to educate students with lower initial abilities to a level that helps them find employment in the service sector and modern manufacturing industry.

The data and research results discussed in this part of *In Focus* suggest that vocational training fails to equip students with the basic skills and competencies needed for post-school development and adaptation. This conclusion is supported by direct observations such as test scores, as well as indirect evidence based on the employment careers and wages of VTS graduates. Occupational mismatch and the deficiencies of practical skills are part of the problem, but the authors believe that by focusing on the problem of basic skills, they are addressing the key issue.

Hungarian firms are keen to employ workers with vocational qualifications (preferred to primary school educated workers) for jobs with low literacy requirements, but even the VTS graduates are excluded from knowledge-intensive jobs. With respect to literacy, the demands of new workplaces are much closer to the Western pattern than those of old workplaces. An especially marked change can be observed in blue-collar jobs. Changing demands and the low level of basic skills have a major impact on the employment prospects of the VTS graduates.

The importance of basic skills is also highlighted by research on “skill shortages”. While we have convincing empirical evidence that vocational qualifications have become less marketable, the media, business chambers, and economic policy makers have repeatedly complained of a shortage of skilled blue-collar

workers. The available firm-level evidence suggests that the problem essentially lies in difficulties in adjusting to technological advances rather than in some sort of “underproduction” of vocational qualifications.

The chapter arrives at some conclusions relevant to training policy. If, as is often demanded, the training system is tailored to companies’ short-term needs, the long-term employment prospects of participants will suffer. Publicly financed vocational training should focus on enhancing participants’ general competencies and core vocational skills, since it is these that empower skilled workers to successfully participate in advanced training and retraining programmes and in company-funded on-the-job training programmes that are necessary to acquire the specialised knowledge required by their employers throughout their careers, i.e., to enjoy long-term labour market success. Education programmes that neglect to emphasize the enhancement of basic skills leave their graduates in a despondent position.

### 3. The Legal and Institutional Environment of the Labour Market

The previous issues of the Labour Market Review provided an overview each year of the main changes in the legal and institutional context of the labour market and the drivers of these changes. This year, instead of presenting the changes, we provide up-to-date information on current regulations. As has happened on several occasions in the past, this year once again a major legislative review – the *Pathway to Work Programme* – was also commenced during the writing of this volume. The final proposal, however, was not available at the time of its submission. Therefore, in addition to the facts, the likely changes will also be discussed. The legal basis of the current institutional system of the Hungarian labour market was created by Act IV of 1991 on the Promotion of Employment and Unemployment Compensation (Employment Act), which created a stream of insurance for unemployment benefits, established the institutions of organised social dialogue, established a single public employment service, and expanded the range of active labour market policies. Their current legislative framework and implementation is reviewed in this chapter.

### 4. Statistical Data

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

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