Chapter 5

TRANSFORMATION OF THE LABOUR MARKET IN HUNGARY AND SPREADING FORMS OF ATYPICAL EMPLOYMENT

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Introduction

The results of many important and wide range research projects following the impact of the economic transformation in Hungary on the labour market show that a period has come to its end. The first "dramatic" (Laky, 1997) phase of restructuring on the Hungarian labour market has ended: from a situation of full employment and labour shortage till the end of the 80-ies the economic transformation and the deep economic crisis of the early 90-ies have led to a labour market characterized with a low level of employment, with a European average unemployment rate and with growing inactivity of the working age population. Beside stagnation of both, employment and registered unemployment one can witness the contradictory (or even if not totally but at least partially complementary) tendency of growing inactivity and the wide phenomena of "irregular" - not simply "black"-, but so called "grey", "precarious" or "occasional" employment too. This tendency discussed by Hungarian experts as the emergence of "atypical forms of employment" can be detected in both formal and informal, legal and illegal spheres of human resource utilisation and it is considered to be a stabilizing and maybe even dynamizing factor of the transformed labour market in Hungary.

Main Features of the Hungarian Labour Market after the First Years of the Economic Transformation

1996 was the first year after the economic transformation when the level of employment remained

stable. The radical decline of the employed seems to be stopped and Hungary can count cca. 3.6 million earners. (The number of "employed" is somewhat higher, 3.9 million, as this statistical category beside the active earners comprises the employed pensioners and the childcare beneficiaries as well.) This activity level is rather low: the active earners represent 60% of an active age population of 6 million - women between the age of 15-54 (15-55 since 1996) and men between 15-59 according to the Hungarian regulations. According to the ILO criteria of active age (population between 15-74 years of age) this proportion if even lower; only 45%. Even according the European calculation standards that consider those in the age between 15-64 years as active age population the Hungarian rate of active earners is around 50% while the average of the employed in the European Union is around 60%. (Laky, 1997)

The surveys and registers\(^3\) show that beside this stagnation of employment the number of registered unemployed is slowly diminishing while the number of active age non-employed is growing. The number of this inactive working age population, not registered as unemployed - remaining within the households or/and within the social assistance system - in 1996 has reached the number of 667 thousand that was cca. 40% higher then the number of the registered unemployed (477 thousand in 1996). Let's see these three tendencies together:

Table 1.

<table>
<thead>
<tr>
<th>The number (thousand persons) of</th>
<th>working age pop.</th>
<th>active earners</th>
<th>registered unemployed</th>
<th>staying in the household (within women)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980: 6.175,0</td>
<td>5.073,6</td>
<td>-</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>1985: ...</td>
<td>4.912,9</td>
<td>-</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>1990: 5.956,8</td>
<td>4.795,2</td>
<td>79,5</td>
<td>211,5 (116,8)</td>
<td></td>
</tr>
<tr>
<td>1992: 6.031,4</td>
<td>4,241,8</td>
<td>663,0</td>
<td>239,4 (110,2)</td>
<td></td>
</tr>
<tr>
<td>1996: 6.080,7</td>
<td>3,615,0</td>
<td>477,5</td>
<td>667,3 (390,6)</td>
<td></td>
</tr>
</tbody>
</table>


\(^3\) National Methodological Center of Labor Affairs (former Labour Market Center), Central Statistical Office, Hungarian Household Panel
Remaining within the households - a possibility as we can see not only for women but for men too - was not the only channel through which labour supply has diminished. The number of working age students has also increased radically together with the number of working age pensioners using early retirement schemes.

Table 2.

<table>
<thead>
<tr>
<th></th>
<th>students</th>
<th>pensioners</th>
<th>other</th>
<th>parental</th>
<th>cons</th>
<th>abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>483,0</td>
<td>251,0</td>
<td>211,5</td>
<td>244,7</td>
<td></td>
<td>3,6</td>
</tr>
<tr>
<td>1992</td>
<td>547,6</td>
<td>346,3</td>
<td>239,4</td>
<td>262,1</td>
<td>64,0</td>
<td>30,0</td>
</tr>
<tr>
<td>1994</td>
<td>577,7</td>
<td>370,5</td>
<td>503,9</td>
<td>278,7</td>
<td>62,0</td>
<td>27,0</td>
</tr>
<tr>
<td>1996</td>
<td>605,3</td>
<td>404,4</td>
<td>667,3</td>
<td>275,2</td>
<td>46,7</td>
<td>23,0</td>
</tr>
</tbody>
</table>


As we can see, altogether somewhat more than 2 million persons (of the cca. 6 million working age population) remained out from the labour force. The huge groups of working age people out of both spheres, that is out of official employment but also out from the official registers of unemployment testify of a high level of so called hidden unemployment. But the same figures -together with widespread experiences of the informal, hidden and black economy - indicate the supply side of hidden employment too.

The co-existence of high hidden unemployment and hidden forms of employment is however rather complex. The unemployed and the inactive population represent a labour supply of hidden employment together with the officially employed wage earners who may and often do participate - beside their official employment - in other, "irregular", "informal" activities. (Sik, 1994) At the same time the unemployed (and officially encountered as those) and the inactifs, out of the labour market, do not have "automatic" acces to the hidden forms of employment. In the most critical employment zones of the Northern and Eastern regions of the country demand for labour is low even on the
Unemployment and the Unemployed

As our earlier data have already indicated unemployment has reached its peak after the first few years of the economic transformation and since then it started to decrease in Hungary. Unemployment rate according to both calculations (the registers of the National Labour Market Center and the Labour Force Survey of the Central Statistical Office) was the highest in the first quarter of 1993. Taking into consideration the proportion of the registered unemployed this indicator was 13.9 %, while for the same period the Labour Force Survey using the ILO criteria showed its highest, 11.8 % unemployment rate. (CSO, 1995) At the end of 1996 both sources show a certain decrease of unemployment. Unemployment rate based on the registration data was 11 %, while the Labour Force Survey showed 9.2 %.

Another development with respect to the early 90-ies is the higher turnover of the unemployed. While then the out-flows from unemployment were very low, recently there are some positive developments in this respect. Though the majority of the unemployed leaves the registers as inactive, benefit-exhausters or because of participation in active labour market programs (public works, training, etc.), there is however a considerable improvement of flowing back to employment. Follow-up surveys of benefit exhausters (Lazar-Szekely, 1996) showed that while the proportion of those re-employed in 1993 was only 26.9 %, in 1996 the same percentage was already 44 among those questioned in this survey.

A seemingly inherent feature of the economic transformation is the long duration of unemployment in Hungary. In 1996 the rate of long-term unemployed reached already 53 % within the registers. Taking into account those inactifs too who after having exhausted their benefit entitlement period having left not only the registers but the labour force, the phenomenon of long-term, for certain age groups even definitive expulsion from the labour market reveals to be more dramatic.

Though actually 2/5 of the unemployed has a max. 8 years elementary school level of education, but the number of skilled persons among the unemployed can be also considered rather high. One third of the unemployed has a vocational qualification and one fifth of them has an even higher level (secondary, post-secondary) education. The unemployment of skilled and qualified persons is due to deep recession and the following rationalisation in most of the manufacturing branches and in agriculture. However its is more serious in certain critical regions where effects of the close-down of
the few important industrial and agricultural employers were added to the lay-offs of the local, once commuting rural population in the distant industrial centers.

As to the unemployment of women Hungary is among the very few European countries (with Britain and Sweden) where it is lower than that of the men. The Labour Force Survey measured a 10 % unemployment rate of men in the last quarter of 1996, while only a 8,2 % rate of women within the average 9,2 %. This indicator however is not the sign of a better labour market position of women. The employment positions of women have radically deteriorated with the economic transformation. While in 1989 84 % of working age women were employed, in 1995 only 62 % of them. This means that most often women rather leave the labour market than chose the unemployed status. In the beginning of 1996 only 7,2 % of the active age women were unemployed, but 30 % of them were inactive as pensioners or as household members. Experts at the same time warn that forcoming reforms and rationalisations of public administration, health and education - sectors with high women participation - would further increase both women unemployment and inactivity. (Laky, 1997)

The youth unemployment is another serious problem of the transformed Hungarian labour market. In 1996 27 % of the unemployed were in the age group between 15-24 years. The unemployment rate within the same age group was 15,7% (higher than the average) in 1996. At the same time this is already a considerably lower figure than the almost 30 % of 1993. Further improvements in young people's labour market situation are expected by the 1997 prognosis of the National Labour Market Center. Job creation for young people is forseen especially in manufacturing beacuse of conjuctural reasons but also because of new incentives of the active labour market policies. Since 1996 the special unemployment allowance of young job seekers has been substituted by wage support to job creation, to stages and to employment in public works for young people.

Another important feature of unemployment in Hungary is the persisting regional difference in its level. Since the beginning of the 90-ies certain counties show 3-4 times higher unemployment rates than others of than the capital. In 1996 Budapest had a 5 % unemployment rate and the Western counties of Gyor-Moson-Sopron and Vas 6,7-6,8 %, while Szabolcs-Szatmar-Bereg to the East had 19 %, Borsod-Abauj-Zemplen to the North had 18,4 % unemployment rate. (Data based on the number of registered unemployed) The Hungarian Household Panel confronted since the beginning of the 90-ies the labour market situations of towns and small villages and both, unemployment and inactivity were found to be and remained much higher in villages than in towns.
Unemployment Insurance and Unemployment Assistance

The compensation of lost earnings and the assistance of jobless people (unemployed and inactifs) is one of the most serious social and political, but even budgetary problem of the economic transformation. The Employment Act of 1991 set up three types of the income support: 1. the insurance based unemployment benefit, 2. the unemployment assistance of young first job seekers and 3. the pre-pension for unemployed near to their retirement age. The 2. one has been replaced by active programs for young people since July 1996, while the 3. option will be substituted from 1998 on with a special unemployment benefit for those before retirement.

Since 1993 the Social Act introduced a special social assistance for employment benefit exhausters who still seek employment and remain registered unemployed. Since July 1995 this assistance (80 % of the minimum pension) can be paid only for 2 years, after that wage and jobless people might ask for the so called regular social aid. This way the system responsible for a certain income maintenance of the jobless is composed by three components: 1. by the benefit paying unemployment insurance, 2. the unemployment assistance, 3. the social aid of the unemployed.

At the end of 1996 only 29 % of the registered unemployed (477.459 persons) received unemployment benefit and 44,3 % of them received already the unemployment assistance having already exhausted the benefit entitlement period. At the same time 26,5 % of the registered unemployed was without any kind of income support. In the same period the average of the unemployment benefit was somewhat more than 13 thousand forints, less than 30 % of the average (gros) earning and only cca. 90 % of the legal minimum income. The value of the employment benefit has further deteriorated in 1997 with respect to both the average earning and the minimum income. (Frey, 1997, Laky, 1997) As the benefit is related to earlier earnings this low level of the income support shows that the benefit receiving unemployed are coming from the lowest income level groups often paid even beneath the legal minimum wage.

Costs of Passive Measures and Active Programmes of the Employment Policy

The costs of measures concerning unemployment untill very recently were mainly covered by two funds, by the Solidraity Fund and by the Employment Fund. The first one - based on contributions of employers and employees - financed the unemployment benefits and allowances together with the labour market administration, while the second was the basis of the active labour market programs. Between 1991 and 95 the government contributed with cca. 10 % of the "passive costs" to the
spendings of the Solidarity Fund. (Frey, 1997)

The other fund, the Employment Fund was constituted from the state budget and from privatization incomes of the government. The utilisation and the allocation to the counties and to different programmes of these means were decided in the national level tripartite Labour Market Commission.

In the slowly changing situation when more and more unemployed have already exhausted their benefit entitlement period, when certain labour market programs (like business start up programs) proved to be less successful and when more attention was paid to re-activate the unemployed instead of keeping them out of the labour market the different Funds dealing with employment issues were centralized into one fund. This Labour Market Fund was created in the beginning of 1996. The same developments have led to changes in financing the social assistance of the unemployed. This spending is covered by the social normative supports of the local administrations and 50 % of it was covered by the budget of social policy. This half of the unemployed social assistance spendings has been taken over now by the unified Labour Market Fund whose contribution will further increase to 74 % of this assistance in 1997. (Frey, 1997)

The labour market spendings were the highest both in absolut and in relative terms in 1993 when they reached 100 milliard Hfts, that is 3 % of the GDP. Since then these pending are diminishing in both terms.
Table 3.

<table>
<thead>
<tr>
<th>Costs of Unemployment (milliard forints)</th>
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<tbody>
<tr>
<td>unemployment benefit</td>
<td>62,6</td>
<td>68,3</td>
<td>42,4</td>
<td>37,4</td>
</tr>
<tr>
<td>first job seekers allow.</td>
<td>2,2</td>
<td>3,2</td>
<td>2,7</td>
<td></td>
</tr>
<tr>
<td>re-qualification allow.</td>
<td>1,3</td>
<td>2,8</td>
<td>3,3</td>
<td>1,9</td>
</tr>
<tr>
<td>soc. insurance after compensation for lay-off</td>
<td>0,7</td>
<td>1,2</td>
<td>1,0</td>
<td>0,9</td>
</tr>
<tr>
<td>total</td>
<td>64,7</td>
<td>74,6</td>
<td>50,0</td>
<td>43,4</td>
</tr>
<tr>
<td>Pre-pension</td>
<td>0,7</td>
<td>2,8</td>
<td>5,7</td>
<td>10,0</td>
</tr>
<tr>
<td>Early retirement scheme</td>
<td>0,9</td>
<td>1,0</td>
<td>0,8</td>
<td>0,7</td>
</tr>
<tr>
<td>Lab. mark. administration</td>
<td>4,3</td>
<td>5,3</td>
<td>6,4</td>
<td>7,1</td>
</tr>
<tr>
<td>Active programs</td>
<td>12,2</td>
<td>15,3</td>
<td>17,0</td>
<td>16,1</td>
</tr>
<tr>
<td>Unempl. social assistance</td>
<td>5,4</td>
<td>13,3</td>
<td>19,2</td>
<td></td>
</tr>
<tr>
<td>% of the GDP</td>
<td>2,81</td>
<td>2,94</td>
<td>2,14</td>
<td>1,43</td>
</tr>
</tbody>
</table>


As to the spendings within the active labour market programmes the changes are remarkable. Labour market trainings seems to be the only stable element of the active programs; their part within the active labour market policy spendings was 21 % in 1992, 22,9 in 1994 and 19,9 in 1996. At the same time spending on public works represented only 12 % in 1992 while it reached 40 % in 1996 within these programs. Wage support made 2,5 % of the active spending in 1992, 14 % in 1995 but already only 11,7 % in 1996. Support to job creation represented 23 % in 1992, but only 4,9 % in 1996. These changes show that labour administration tried to handle the rapid collapse of the former employment system and the dramatic labour market situation with several means. Many of these programs proved to be succesful in terms of maintaining a certain income level of the unemployed.
and a certain level of social integration but could not led back to the labour market the jobless people. While labour demand remained low and the social and financial costs of unemployment got higher, labour market policy closely followed the impact of its programs and changes in the different programs might be considered not only as signs of uncertainty but responsiveness to the gravity of the social and economic problems.

Structural Changes in Employment and Job Creation

The most important structural changes within the main branches of the economy have come through in a very short time in the first few years of the 90-ies. The agriculture that employed 17.5% of the employees in 1990 has employed already only 10% in 1993. The employment in industry (together with the building industry) represented 36% of the total in 1990 and only 33% three years later. The third sector, services gave jobs to 46% of the employees in 1990 and to 57% already in 1993. The shift in employment towards services has continued and in 1996 it arrived to 60%, while both industrial and agricultural employment continued to diminish. The most developing new fields within services are the financial (2% of the employed in 1996) and real estate activities (5%) as well as communal, public and personal services (4%).

As statistics do not follow propriety relations, the complexity of the new structure of public, private and mixed companies and their interwoven control and holding system permits only estimation concerning the economic output or the employment share of the private sector. Usually those firms are considered to be out from the public sector in which the majority of the capital can be considered as private. In this sense in 1996 60% of the Hungarian employees were not working already in the public sector. In the private sphere the foreign companies and the joint ventures have increased their employment share together with the small firms having less than 10 employees.

A radical change is characterizing the dimensional structure of employment too. 97% of all the economic organizations have less then 11 employees. These "micro firms", with 1.7 employee in average (!), employed 30% of all the earners - a great part of whom were self-employed earners - in 1996 (CSO, 1997) Big firms having more than 300 employees - with an average of 1,200 persons - gave job to 46% of the earners in this same year.

After the rapid rise of the small firms in the employment share at the early 90-ies the tendency of job creation seems to be changing. In the lasting recession many of the small firms faced bankruptcy and for those surviving the high social costs of employment are considered to be obstacles of further
hiring. In 1996 the new green field foreign investments and further developments of big foreign and mixed companies became the main - however still very modest - job creators on the Hungarian labour market. In 1996 3-5 thousand jobs were created by new green field investments. Between 1992 and 1996 the newly established foreign firms are estimated to having created 45-50 thousand new jobs. In the almost same period of 1992-1995 the number of sole proprietors ("individual enterpreneurs"), their employees and their family workers has grown from 483 thousand to 648 thousand. But the number of the sole proprietors started to diminish in 1996 for the first time since the late 80-ies though the number of the employed by those who remained is still slightly growing. (Laky, 1997)

Atypical Employment, Definition and Measurement Problems

From different research approaches, from studies of the unemployment phenomenon and the labour market programs as well as from research on shifts in employment, some similar new experiences have emerged concerning changing patterns of labour force or more generally, of human resource utilisation. This group of problems were identified with the not yet well defined - however more and more widely used - expression of atypical employment.

The studies of life chances and adaptivity of the jobless, especially of the long-term unemployed showed a great variety of activities; paid and unpaid ones, temporary or continous activities, domestic utilisation of their labour force or their valorization in reciprocity relations, etc. that call attention to the fact that human ressources excluded from the labour market are utilized in "irregular" forms. (Simonyi, 1996) The research of first job seekers also shows that young people get access to the labour market through steps of different kinds of "precarious", "occasional" or "irregular" jobs.

Research concerning the different labour market programs and active policies found several solutions that were generated by social and employment policies and not by market demand. Subsidized employment, employment within so called financially supported "foundations" or "partnerships", policy financed practical work of young apprentices, public utility works are employment possibilities for the unemployed or for those threatened by it, but they are also "atypical" with respect to traditional forms of employment.
At the same time the search for flexibility in big as well as in small firms show changing patterns of employment relations. Stable jobs, indefinite contracts, full day work defined by collective agreements carried out at the sites of the employer are getting less and less general in the developed countries too, while definite time contracts, part-time jobs, home- and telework, manpower leasing, etc. are spreading. Small firms often base their flexibility on "black" or "grey" work, on family work or on different forms of occasional work. The spreading forms of self-employment also show a different character compared to "salary work".

In the past few years research of the transition on the Hungarian labour market led to experiences that show not simply the existence of such "atypical forms" of labour force utilisation, but their social, political and economic importance in stabilizing the labour market situation, in opening possibilities of social adaptation in serious crisis situations and in assuring flexibility of the heterogenous system of economic organizations.

The research\textsuperscript{5} of this phenomenon though only at its beginning is rather rich but mostly qualitative. For definition problems statistical data collection is experimental yet. Data might be connected on employment forms that differ from the traditional for the length of contract duration, or that differ for the length of daily work, the financement of the job, for its character combined with training or for the periodicity of work, etc. All these features that might define part-time jobs, temporary work, seasonal or occasional work, apprenticeship type work are not yet precisely defined by Hungarian labour and employment laws to be easily followed by statistical means.

As to occasional work surveys show that cca. 1 % of the employed are engaged in some forms of it, though experiences of informal and black occasional work show this phenomenon much larger. Part-time workers acting for less than 34 hours/week represent 1.8 % of the employed. The self-employed so called "sole proprietors" and their family members were around 8 % of the earners in 1996. This data is not containing the not yet well defined number of agricultural independent producers. And we know how widespread is the phenomenon of "domestic work" or "neighbourhood services" among the unemployed and inactive population.

Subsidized employment - wage support to certain jobs, policy financed training/work combinations, employment partnerships for the jobless, public utility works - altogether offered shorter or longer period of work in Hungary for cca. 220 thousand persons in 1996.

\textsuperscript{5} The labour force subgroup of the Hungarian government initiated Integrational Strategy
Workgroup has dedicated one of its very recent publication to this problem. See: Laky ed. 1997. Research of productive organizations and employers' employment strategies showed the spread of definite time contracts that offer the flexibility not only of lay offs but also of hiring. In certain firms this atypical form of employment relation is becoming the typical access to their internal labour markets. (Mako, 1997)

Better definition of these atypical forms of employment would not only make it more detectable but would open possibilities to stimulate their creation as part of new active labour market programs.

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