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Employment prospects in Hungary – present and future²

For years the Hungarian labour market has been unable to get out from its imbalanced state accompanied by an extremely low level of employment. In spite of the continuously expanding productivity, the growth in employment practically stopped in 2000. This low employment rate is backed by a high rate of inactivity and not of unemployment, and it is mainly due to the very low job seeking activity of the those out of work. This study analyses four questions. What are the special characteristics of the Hungarian employment situation? What are the reasons for the extremely high inactivity? What are the reasons for the increasing unemployment rate among young people in Hungary? What shall be done in order to increase the employment rate and reduce the inactivity rate at the same time, along with reducing the social and regional differences that contribute to the inactivity? This study can be summarised in the following four sentences: the most serious problems exacerbating the Hungarian employment situation are the high inactivity of people with low levels of education, the concentration and the regeneration of the those with such educational background in certain sections of the society and in certain regions. It is imperative to concentrate more on these problems, even if other, equally important problems get less funding or attention. Better and real coordination is needed between government

institutions for the implementation of the required measures. The success of the employment policy measures lies in the systematic analysis of their effects, based on appropriate databases, expertise and institutional support.

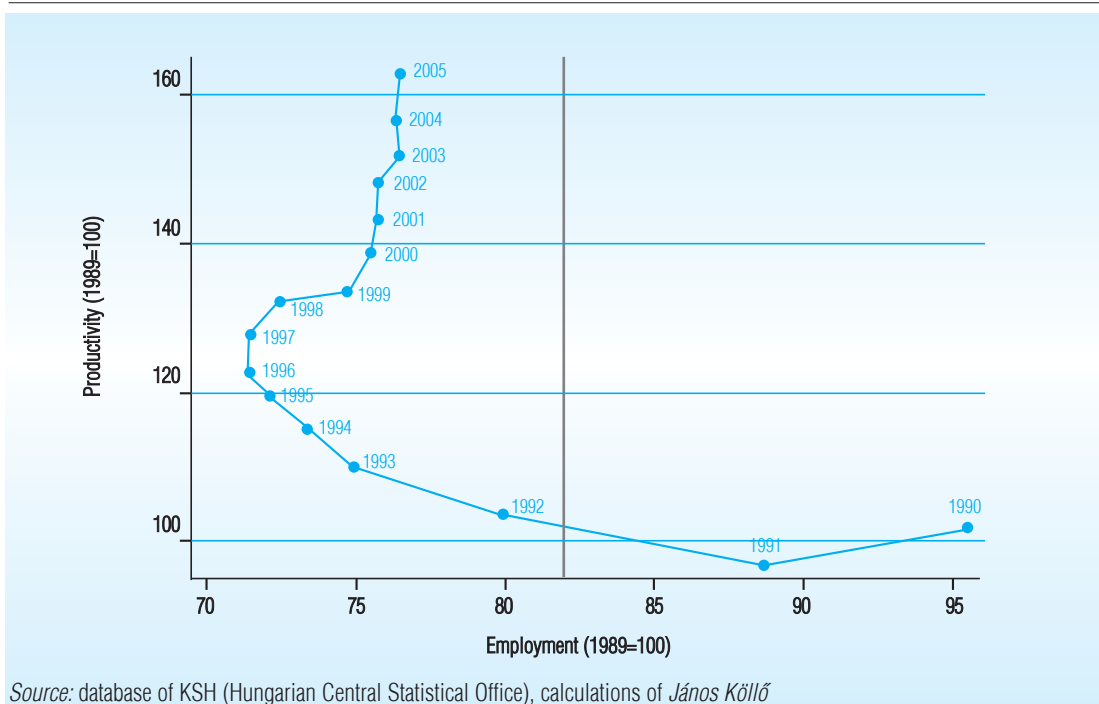
INTRODUCTION

Following the critical years of transition to market economy, Hungary is now functionally integrated into the European Union's economic, political and social system, with an economic growth rate constantly higher than the EU average. With an objective assessment of facts, it can be clearly established that through determined and appropriate governmental measures Hungary can meet the convergence requirements set by the Economic and Monetary Union. Recent events and future prospects, however, are not so much reassuring, if we take into account the state of the employment in our study.

Figure 1 demonstrates well that the Hungarian labour market does not show any improvement; it has been stuck in a steady, unfavourable state for long years, while the level of employment is extremely low. Despite the fact that the economic productivity has been continuously growing since the end of the

Figure 1

EVOLUTION OF EMPLOYMENT AND PRODUCTIVITY (1989–2005)



transformation crisis, the promising growth in employment figures, which started in 1997, practically reached a dead-end in 2000. During the period of 2000–2005, the number of Hungarian people employed rose only by 45 thousand (i.e. 1.2 percent). The thick black vertical line in the figure indicates the average employment level in the European Union. To reach this level, the number of those employed should increase by six hundred thousand, and by nine hundred thousand to achieve the Lisbon objectives³ of the European Union. Apparently, the government measures taken during the past years turned out to be inadequate to solve this problem. No substantial change can be achieved in the labour market by further reparation of the existing support schemes, active and passive labour market measures.

Besides the important and inevitably necessary small-scale measures, we have to determine what fundamental changes should be

brought about in the social and economic institutions to reach a significant rise in the employment level.

FOUR QUESTIONS ON EMPLOYMENT

1 WHAT ARE THE SPECIAL CHARACTERISTICS OF THE HUNGARIAN EMPLOYMENT SITUATION?

No substantial change has occurred as far as employment is concerned in Hungary during the past five years. The increase of the employment rate, which started in 1997, lost momentum in 2001, and since the end of the millennium there has been no real change. As regards the key indicators of the labour market, in particular the rate of activity, Hungary could not break out of the circle of the EU member states lagging behind. Unfortunately, it is a Hungarian characteristic that low employment level is not coupled by a high level of unemployment; instead, it is comes with a high rate of inactivity. The low employ-

ment level is mainly due to the very low job seeking activity of the unemployed⁴. *Figure 2* shows that the decrease in the unemployment rate in the nineties was almost entirely due to the fall of the job seeking activity. Similarly, the increase in the unemployment rate during the past two years has been almost entirely due to an increase in the job seeking activity. The underlying problem, however, is not the low unemployment level and the rate of inactivity, but rather that employment difficulties are concentrated in certain layers of the society and certain regions of Hungary. The inactivity rate is especially high among men aged 25 to 54, and first of all among the undereducated living in backward, rural regions of the country.

Compared to the OECD countries, the rate of inactivity of the middle-aged men is two times higher and the inactivity of those with low levels of education is two and a half times higher in Hungary. At the same time, the employment rate of secondary school graduates and higher education graduates is equal to,

or only marginally below the respective rates of the OECD countries. (*Figure 3*) The ratio of the undereducated population excluded from the labour market is so high, that this layer, the proportion of which is relatively small, is almost entirely responsible for Hungary's lag in the aggregate employment level compared to the OECD or EU averages.

2 WHAT IS THE REASON FOR THE EXTREMELY HIGH INACTIVITY RATE?

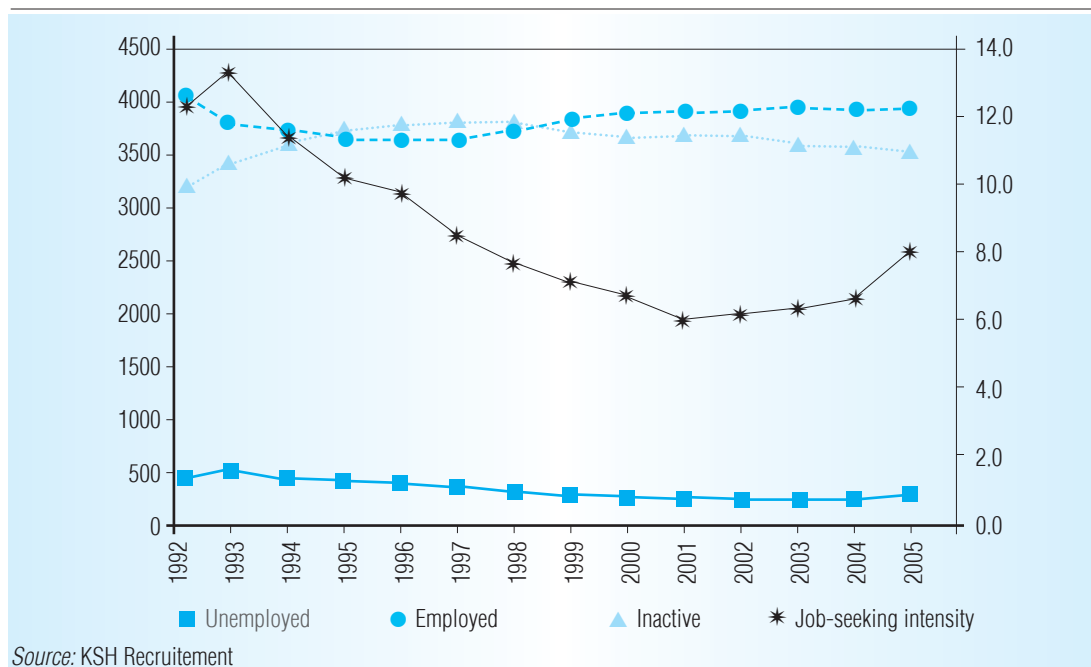
The high inactivity rate has got many reasons of different significance. Some special factors characteristic of Hungary will be highlighted here.

Low retirement age, early retirement

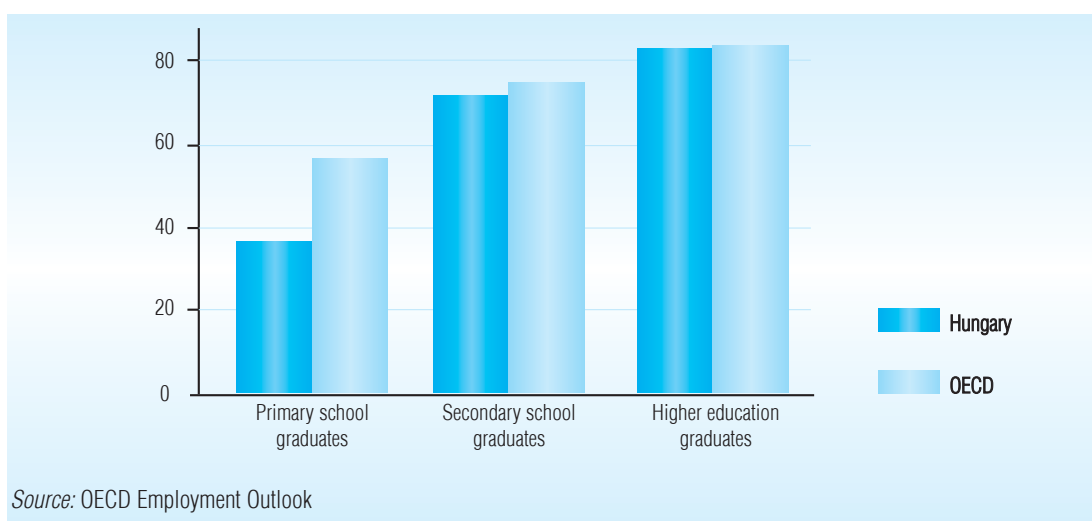
The retirement age in Hungary is still below the international standards, and the proportion of those who take early retirement is high. This decreases the employment and the unemployment rate, too. The low retirement age obviously reduces the willingness to work, which is expressed by the labour force participation rate. Early retirement reduces unemployment

Figure 2

EVOLUTION OF LABOUR MARKET ACTIVITY IN HUNGARY (1991–2005)



PROPORTION OF EMPLOYED PERSONS IN THE 25–64 YEAR OLD POPULATION SEGMENT (2002)



rate because it is a means of escape for many people from unemployment, especially from long-term unemployment.

■ *High number of hopeless non-workers*

Among the Hungarian non-workers, the proportion of hopeless non-workers is high. Due to the drastic decrease in labour demand and the radical transformation of the occupational, professional and regional structures resulting from the change in the political regime, many became excluded from the labour market, and were qualified economically inactive after giving up efforts to find a job. This group is still made up of hundreds of thousands of people, but the number of the hopeless non-workers will automatically decrease as the members of this generation gradually reach the age of retirement. (Köllő, 2004).

■ *High number of hidden job-seekers*

In Hungary, there is no substantial difference between the unemployment rate of the active job-seekers and those willing to work, but not seeking a job. This specific layer of inactive persons has been formed gradually during the past ten years in Hungary. During this process, the job seeking activity of the

non-working population has dropped to half of the initial number, while the significance of the jobseeker's allowances decreased radically in the income of the non-workers.

■ *High proportion of unregistered employees*

Compared to the average numbers in the older Member States, a bigger segment of the working-age population is employed on an unregistered basis, which may contribute to the low employment and unemployment rates in Hungary. It is probable, indeed, that only a part of these people reveal in the labour force surveys that they work in the black/grey economy, which qualifies them economically active. It is also probable, that only a part of them declare that they are unemployed.

■ *Regional concentration of the inactive population*

In Hungary, similarly to other countries of Middle and Eastern Europe, there are significant regional differences in the ratio of employed to unemployed persons. The strong concentration of the inactive population in the disadvantaged areas with low employment rate is a typical Hungarian phenomenon. The polarisation of the Hungarian labour market and the

extreme and permanent territorial differences result from the low territorial mobility of the labour force and low capital mobility. The low intensity of the labour market induced migration could be explained by the fact that the possible wage increase obtainable this way is low as well as by economic and partially cultural, traditional factors. The movement of capital, therefore the migration of workplaces, to regions with high unemployment rate is hindered by the agglomeration effects (Fazekas, 2005, 2005a). In recent years, the territorial differences in labour costs adjusted by variances in productivity have dropped significantly in Hungary. Therefore the lower wages in the higher unemployment rate regions still cannot compensate the newcomer enterprises for the loss of the positive external effects offered by the developed, urbanised areas.

■ *Employment status of the Roma population*

The employment rate of the Roma population in the years following the political transition drastically dropped. According to the results of the 1993 and 2003 representative surveys on the recruitment of the Roma population in Hungary, the employment status of the Roma population during the period under review – instead of showing improvement – settled at a level comparable to that of the third world countries. The basic characteristic of this new state, which seems to be permanent by now, is that the extremely low employment rate (30–35 percent) is accompanied by extremely high turnover rates of entering and quitting jobs. We may conclude that the social exclusion of the Roma population has reached a dramatically high level, since these employment-related characteristics are not typical of the similarly undereducated segment of the total population with maximum eight years in primary education. The employment rate of the low education level group is almost two times higher than the Roma employment rate, and their employment instability remains significantly

below, by over 50 percent, the instability level of the Roma population.

The exclusion of the Roma workforce from the labour market is mainly due to discrimination, their low levels of education and their unfavourable territorial distribution. In addition, the active labour market programmes, which concern mainly the Roma population – communal work etc. – further contribute to the preservation of the temporary and unstable forms of employment, and do not increase the chance of the Roma for permanent employment. (Kertesi, 2005).

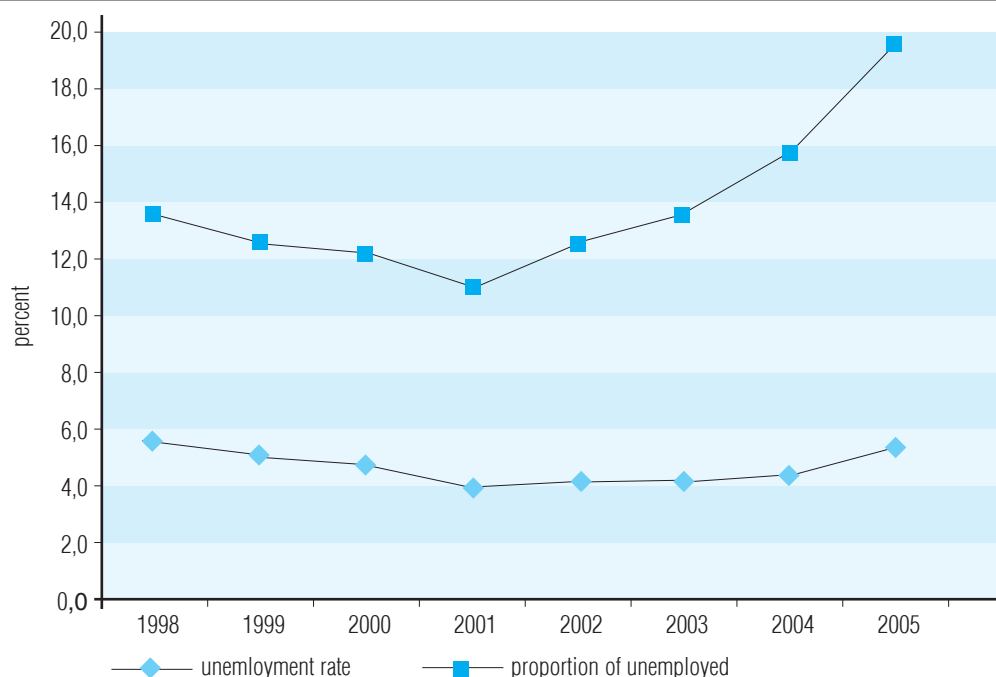
③ WHAT ARE THE REASONS FOR THE INCREASING UNEMPLOYMENT RATE OF YOUNG PEOPLE IN HUNGARY?

Between 2001 and 2005, the unemployment rate increased from 10.8 percent to 19.4 percent in the age group of 15–24. Before studying the reasons for this situation, which is definitely getting worse, we have to point out that the unemployment rate of this age-group cannot be compared to any other age groups. The reason for this is that in this group the proportion of students is very high, therefore the number of active persons is very low. A higher proportion of students among young people increases the unemployment rate, even if the number of the unemployed persons is not increasing, or, on the contrary, it is decreasing. *Figure 4* shows that between 2001 and 2005 the unemployment rate of those between 15–24 increased by almost 10 percentiles, while the proportion of the unemployed people increased only by 1.4 percentiles.

It can also be seen that during the past years the unemployment rate of young people grew only among those with low levels of education. The employment rate of the population with higher education is above 70% in the age group of 15–24. Among those with primary education only, this figure is just 7.2 percent. There is a popular belief, which cannot be possibly justified, that the employment prospects of young

Figure 4

EVOLUTION IN THE PROPORTION OF THE UNEMPLOYED AND EVOLUTION OF THE UNEMPLOYMENT RATE IN THE AGE GROUP OF 15–24



Source: KSH (Hungarian Central Statistical Office) database, Recruitement

people have dramatically worsened because of the overproduction of graduates in higher education. The calculations made by Kertesi and Köllő show clearly that during the past few years, besides a marked decrease in the wage premium of the higher education graduates, which is still very high on an international scale, the chances of employment of the higher education graduates are much better compared to those without vocational skills or with only secondary education.

4 WHAT SHALL BE DONE IN ORDER TO INCREASE THE EMPLOYMENT RATE AND TO REDUCE THE RATE OF INACTIVITY AT THE SAME TIME, ALONG WITH REDUCING THE SOCIAL AND REGIONAL DIFFERENCES THAT CONTRIBUTE TO THE INACTIVITY?

A basic prerequisite of the elaboration of an employment scheme is the assessment of the national characteristics, their reasons and their

consequences. However, in reality, more needs to be done in order to define objectives and priorities. To find the right answer, further questions shall be asked. With well-targeted questions, we can avoid analysing evident facts, automatically accepting popular, but unjustified beliefs and failing to notice the really important, but less obvious connections. Let's just go back to the foundations and ask three basic questions which are believed to be answered for a long time, therefore these have been neglected.

■ *Is it really necessary to increase the rate of employment in Hungary, and if so, at what cost?*

The connections between a low employment rate and the other factors presented above justify that the main objective in Hungary cannot be “to raise the employment rate by this or that percent during the forthcoming years”, since the main problem is not only the very low employment rate, but the extreme differences

in the inactivity rate, which seem to be permanent, among the various segments of the society and certain regions. This difficult situation creates social problems that go far beyond the labour market, and they result in, for example, the uneven regional and demographic distribution of households with children and without wage-earners, living in extreme poverty.

Therefore, the rate of employment is to be increased, however, the existing differences among the regions and social strata should be decreased at the same time. On the other hand, a higher employment rate would not automatically reduce the public financing needs related to measures aiming to reduce social disparities, but it could even increase them, for example due to the changes in the wage-earner/dependent family member ratio.

Hereby, we should highlight certain often neglected fact.

◆ If the increase of the employment rate results only in the fact that people move from the single income family model to the multiple income model, we have to take into consideration the undesirable motivation-related consequences of this change. The increasing popularity of the multiple income family model increases the economically desirable wage differences by weakening the links between the wages of the individual employees and the earnings per capita in the households. Thus, with the prevailing multiple income model, the relative differences in wages become less motivating. The increasing spread of the multiple income family model decreases the socially possible wage differences, because at a higher earner/dependent ratio the average income per capita in a household is higher, compared to the average wages. This is one of the factors determining the minimal wages.

◆ We also have to take into consideration that there is a contradiction between the adjustment of the wages to those of the more developed European Union member states and

the increase of the employment rate. There is a short-term and a long-term exchange relationship between the increase of the employment rate and the increase of the productivity, even if the guidelines of the European Union suggest the opposite. In the long run, however, the evolution of the real wage level is mainly determined by the trends of the productivity. Consequently, when the economic growth is an outcome of the increased productivity, rather than an increasing employment rate, the wage adjustment will occur faster. And vice versa: it is easier to catch up as far as employment is concerned, if the wages are adjusted to the average wages of the European Union at a slower pace.

◆ We also have to see that the economic growth that results from a higher rate of employment is somewhat illusory, because a higher rate of employment generally means only that certain unregistered activities carried out in the household sector become official market or communal activities.

Employment rate increasing measures have got a number of other, shorter- and longer-term micro- and macroeconomic effects, which cannot be possibly listed here. With the above-mentioned examples we only intend to suggest that we always have to consider the advantages and the disadvantages of such measures, when we assess the desirable changes of the employment.

■ *To what extent do high wage related tax and contribution rates hinder the growth of employment*

Contrarily to common beliefs, there is no correlation between the rate of the tax burden and the labour cost per production unit as employers gradually pass on the burdens represented by the higher taxes to the employees in the form of lower net wages. We have to take into consideration that the labour cost reducing effect of an eventual burden moderation, aiming to increase the number of employees, can be neutralised by the subsequent labour cost increasing effect of the higher net wages.

We also have to take into account that the labour cost flexibility of the labour demand of the Hungarian enterprises is about -0.3 . This means for example, that a significant, 10 percent tax and contribution moderation, which would reduce gross labour costs by approximately three percent, would raise labour demand by 1 percent at most. General tax moderation, therefore, would have only very modest results.

It must be also mentioned that Hungary, contrarily to popular beliefs, has got a relatively moderate rate of wage related labour taxes and contributions on an international scale. However, taking into account the total tax burden rate on net wages (contributions, income tax, VAT) Hungary is in the upper third of the OECD countries with the heaviest tax burdens. The tax burdens on gross wages (labour costs), which contain the non-cash benefits as well, have a greater influence on the labour costs than the tax burdens on the net wages. However, if we take into account the non-cash benefits and exclude VAT, a single income Hungarian family with two children in 2003 has got a tax burden rate of 30.3 percent on the gross labour cost, which is only 3.5 percentiles higher than the OECD average, and lower than the tax burden rates calculated in the same way in many other European Union member states.

■ *In what way does the flexibility of the labour market hinder the growth of the employment rate?*

Contrarily to popular beliefs, the Hungarian labour market is considered to be very flexible, if the assessment is based on the legal and institutional factors regulating the workforce recruitment and dismissal and work related rules. The flexible adaptation to the changing labour demand is mainly limited by geographic mobility factors. We would like to draw the attention to the two main forms of geographic mobility. The first form is daily commuting. Its possible range and accessibility are mostly determined by the rate of development of the interurban public transport (network density, journey time etc.)

and transport costs. The second form is the change of domicile, which becomes more widespread, when flat lease is preferred to private home ownership. This means that geographic mobility represents the biggest difficulty for groups who live in hardly accessible, remote places, and have low levels of education.

The most important factor that determines the occupational mobility is the level of education: the more educated people can change occupation much easier. The possible intensity of the workplace mobility depends on two main mutually dependant factors: how much the different occupations have in common concerning vocational skills, and whether the vocational skills taught by the vocational training institutes are adapted to the needs of the market.

After listing the most important mobility factors, it becomes clear that the promotion of workers' mobility, although it is crucial, cannot promise spectacular or magical results. Obviously, the improvement of the work force mobility could not change alone, not even in the long run, the permanent regional differences in the employment and unemployment rates, and discriminative, unequal opportunities of employment.

OBJECTIVES AND PRIORITIES

The 32-page National Development Action Programme adopted by the Hungarian Government in 2004 describes the employment objectives quantified by the Employment Action Programme and the objectives to be achieved by 2005 and 2010 respectively as defined by the European Union. The Lisbon Action Programme for Growth and Employment adopted in October 2005, groups the priorities of the employment objectives for the next years under 12 headings, in accordance with the relevant Community directives. It is obvious by now that neither the European, nor the

Hungarian objectives can be accomplished. We have to set realistic, attainable goals which take into account the characteristics of the Hungarian labour market.

We have to know, where and at what costs is it possible to increase the rate of employment, what the most serious problems are and what the priorities are defined by the government in the possible fields of activity and for the possible measures. Much improvement is needed in a number of fields and various instruments have to be applied in order to reach the employment objectives. At the same time, resources shall be concentrated to the fields defined by the priorities.

There is no doubt that the government, during the elaboration of the Hungarian employment policy objectives, shall take into consideration the directives adopted by the European Union. In order to reduce Hungary's lag behind the overseas OECD countries, these priorities aim to raise the employment rate and to improve the low labour market flexibility, considered to be the main reason for the low employment level. The priorities emphasize the need for the continuous accumulation of human capital, too.

However, during the definition of the Hungarian priorities, we have to take into account first of all the Hungarian characteristics, which are only partially common with those of the acceding Member States of Central and Eastern Europe. The characteristics considered to be the most important in the definition of the priorities are the following:

- exclusion of people with low levels of education from the labour market,
- nearly complete exclusion of the Roma from the labour market,
- the rate and permanence of regional differences.

The phenomena such as the regeneration and the high inactivity of the population with low educational levels, the exclusion of the

Roma from the labour market and the continuously increasing lag of the disadvantaged municipalities are connected to each other and they cumulate a number of disadvantages on the labour market. The accumulation of the educational, ethnic and regional disadvantages is such an extremely serious problem of the Hungarian society, unknown in the OECD countries, or in the recent past of the European Union, before Hungary's accession. We believe that the resolution of this problem will be the main priority of the next decades in Hungary, even if resources have to be reallocated for this purpose from other high-priority fields of the European Employment Policy, like the equality between men and women or the creation of the necessary conditions for life-long learning.

WORK HAS TO BE DONE ACCORDING TO THE PRIORITIES

We think that the answers given to the following three answers forecast the success or failure of the government's employment policy in the years to come.

- Is the government able to concentrate resources to the high priority fields?
- Is it capable coordinating efficiently the key government units?
- Is it able to evaluate the effects of the employment policy measures systematically, and carry out the necessary modifications according to the impact assessments?

① FOCUS RESOURCES ON THE MEASURES REDUCING EDUCATIONAL, ETHNICAL, AND REGIONAL DISADVANTAGES

■ *Measures reducing educational disadvantages*

Current instruments are evidently not sufficient to reach the objective of reducing the rate of the people with low education levels.

This segment consists of groups who did not finish primary school or have not acquired the basic skills, or they dropped out from secondary education, therefore, they have very little chance to get into the adult education and acquire vocational skills. The Ministry of Education and the other ministries concerned should elaborate programmes to follow those who drop out of school early and return them to the educational system. It would be worthwhile to consider restarting the education of the working adults and initiate similar programmes that develop the skills of those, who dropped out of secondary education, in order to enable them to start vocational training later.

Obviously, the necessary measures extend far beyond the competencies of the employment policy or the Ministry of Education. Just to reveal the complexity and diversity of the tasks, we are going to list some of the measures that were defined by a research programme⁵ focused on the exploration of the correlations between the educational system and the labour market, prepared in 2005 at the Institute of Economics.

◆ First of all, we have to focus on the primary schools (schools in small municipalities, schools of single school municipalities, suburban schools etc.) in the proximity of which disadvantaged students are living and where they learn. More precisely, the objective is to equilibrate major qualitative differences in the primary education services between regions, municipalities and residential areas.

◆ Essentially, this means that as far as educational opportunities are concerned, a general primary school rehabilitation programme would be necessary especially for the disadvantaged children. This programme would concentrate on the complex development of the institutions frequented by these pupils (including facilities, staff, educational programmes, social support etc).

◆ A central scholarship programme, as an indispensable part of this programme, financed by the Ministry of Education would offer the opportunity for young teachers to study abroad for a number of years in the colleges and universities of the Scandinavian countries, the Netherlands, the United Kingdom for example, which have got a long tradition of the competent education of disadvantaged children. A programme like this has to be prepared accompanied by a rehabilitation programme for the disadvantaged schools, because the major obstacle of the rehabilitation is the lack of well-trained teachers. It can hardly be expected from the current, rigid and obsolete training system to train teachers with the necessary modern views. A well-planned international scholarship programme involving a high number of teachers would help to overcome this obstacle. Young teachers participating in this program would sign a contract for at least 5 years and they would engage themselves to work for at least 5 years after the programme in one of the disadvantaged schools.

◆ Commuting aid should be allocated to poor families, whose children (intend to) go to school in a different municipality. Many children raised in poor families cannot go to a better school, if it is located outside the family's residential area due to the commuting costs. Furthermore, the accessibility of underdeveloped, small-size municipalities should be improved. In many cases, there are no local bus lines or their time-tables are not adjusted to the school time-tables, which constrain the children of the poor families to go to the local "ghetto" schools. Middle-class parents take their children by car from these places to the better schools in their proximity. If we do not improve these conditions, we will deprive a large number of children of the poor families from the advantages of the free selection of schools, already before the application.

■ *Measures to improve the labour market conditions of the Roma population*

The Roma population, which have been long excluded from the labour market, and live far from the urban labour markets, unable to finance the commuting costs and having low levels of education, are rather employed through welfare employment, which, however, does not help to find a way to the long-term employment. The wide application of socially integrating projects would be necessary, which, if operated well, could offer a real chance to acquire the skills and knowledge needed for the employment. Such solutions could be provided on one hand by the programs managed by competent non-profit organisations who could promote the economic self-organisation of the Roma. On the other hand, rehabilitation programs in the fields of economy, transports, education, health care and the social institutions could be a solution for the densely populated, depressed rural regions where Roma people live. It would not be a perfect solution, but a much better one compared to the existing scheme, to establish a system of aid and support functioning according to uniform principles in a uniform way, on the basis of the network of the local employment centres. It is also very important to follow up the situation of the Roma population by means of statistical analysis conducted on sufficiently large-scale, representative samples. It is unacceptable that there are not even plans on about the possible surveys on the situation of the Roma population in Hungary: their way, their frequency, the resources and the data collecting organisations have to be specified.

■ *Measures to reduce regional disparities*

The harmonisation of employment policies with other policies, such as housing, transport and education etc., and a closer cooperation between the ministries responsible for the employment policy and regional development would be a significant step towards the eco-

nomical catching up of the depressed areas. Obviously, financial support of the regional development cannot compensate alone the negative effects of the agglomeration effect which reproduces infrastructural, logistic and educational inequalities, however, they affect territorial mobility and the distribution of human capital, too. A better support of schools in the disadvantaged regions would have a major achievement in the elimination of these regional disadvantages. The most urging task of the Ministry of Education is the complex evaluation of the effects of the instruments which serve the regional compensation of the employment differences, aiming to improve the territorial distribution of the population. Without this, the principle to finance measures which serve the best the aimed objectives, considering regional characteristics as well, cannot be implemented.

Discussion is needed as soon as possible between the Ministry of Economic Affairs and Transport and the Ministry of Education in order to prepare the governmental decisions on the development of the transport infrastructure, falling under the authority of the Ministry of Economic Affairs and Transport. We have to change to the current approach and the practice, which stresses only the beneficial employment effects that will be brought about by 2015, following the construction of the Hungarian Helsinki corridors and the other highways, which solves the problem of the strongly centralised road network. On the other hand, the development of local road networks does not receive enough attention, and the timing of the construction of the express roads serves only transport politics and transport organisation interests. We believe that in the construction of the highways, priority should be given to those stretches that reach the most disadvantaged areas. The construction and modernisation of the secondary and auxiliary road networks should receive more atten-

tion in order to facilitate commuting between villages and local labour market centres, along with the financing of public transport lines, which are not economical, but they are vital for the affected villages.

2 IMPROVE THE COORDINATION BETWEEN INSTITUTIONS PLAYING A KEY ROLE IN THE ELABORATION OF THE EMPLOYMENT AIMS AND PRIORITIES AND IN THE IMPLEMENTATION OF MEASURES

According to the employment principles of the European Union, “The governments of the Member States shall seek to ensure the development and the execution of the action plans that enable the citizens to take care of themselves and of their families, of their health of their old age security and to contribute at the same time to the functioning of a knowledge-based, competitive economy”.

Last year, with my colleagues who work at the Institute of Economics of the Hungarian Academy of Sciences (HAS), we participated in the evaluation of the National Development Programme related documents, of the National Development Action Programme of 2004, and of the Lisbon Programme for Growth and Employment. Based on our experience, the Hungarian institutional conditions of governmental action do not favour the elaboration and the execution of an overall employment strategy that could consistently control the objectives.

In the field of the employment policy, the preparation and the responsible execution of the action plans – in theory – are carried out in collaboration with all the ministries and high authorities, which are coordinated by the Ministry of Education. In practice, however, the contribution of the different governmental organisations is generally restricted to the supply of data and to the expression of the opinion, and there is not much initiative to collaborate in the analysis of the conditions and effects

needed to the elaboration of a coherent programme. This situation has different reasons. On one hand, there has not been any agreement between the governing parties following each other about the basic questions of the employment policy, and we lack the stable organisational and personal framework and the continuity to execute the necessary measures. On the other hand, there are no authorised, competent institutions to manage the collaboration.

The directives of the European Union require that the government has to conduct a substantial debate with the social partners. There is no doubt that during the past years the Ministry of Education responsible for the preparation of the employment policy concepts has made efforts to debate the programmes with the various non-governmental partners, for example with the representatives of the employers' and workers' organisations. Typically, none of the intervening parties presented professionally founded propositions, specifying employers' or employees' needs that would differ from the existing action plan. The propositions were restricted to certain fields, employees urged adjustment of the wages to the European wages (unrealistic compared to the Hungarian economy's productivity) and urged to respect the obsolete Labour Code rules. The elaboration of propositions to increase the chances of employment of the unemployed persons remain still outside the sphere of interest of both employers' and employees' organisations.

3 THE EFFECTS OF THE MEASURES SHALL BE CONTINUOUSLY EVALUATED AND THE INSTITUTIONS AND PROCEDURES HAVE TO BE CONTINUOUSLY UPDATED AND DEVELOPED ACCORDING TO THE EVALUATIONS

Employment policy measures cover a number of fields, for example the curtailing of support, the increase of minimum wages, which have

been analysed during the last years. Professional impact assessments were prepared, and fact-finding studies were conducted on several additional, restricted fields like education and labour market, working-age inactivity rate, unemployment benefit regime, gender-equality, the situation of the Roma, the problems in the employment of disabled persons and the hidden economy. These data can be useful for the evaluation of the measures. In certain areas, indeed, no results are available, sometimes not even raw data can be found, to be able to assess the impacts of the measures. This is the case, for example, in the collection of representative data about the situation of the Roma population, or in the creation of databases that allow the follow-up of the effects of the different income transfers on the labour supply and on the labour demand.

However, it is not sufficient to envisage the necessary surveys, analyses and impact studies. Appropriate personal, legal and institutional conditions have to be created in order to connect the existing statistical and administrative

public administration databases on an individual level and to carry out evaluations. Without these prerequisites, it is not possible to follow up the effects of the employment policy measures. It is not by chance that we emphasise the need for systematic work. During the recent years a number of programmes have been in operation, which revealed information of basic importance regarding certain periods, like the analysis of the sectorial and regional wage differences adjusted for the compound effects; the impact study of the minimum wage increase; and the impact study of the public work. Researchers work in these fields occasionally and prepare these studies in the framework of independent research projects. However, employment policy decisions continuously require such information. The supply of information cannot be guaranteed by programmes within the framework of short-term projects. Appropriate conditions are needed for that the public institutions could prepare the necessary reports and calculations on a regular basis.

NOTES

¹ This study was prepared on the request of the Economic and Social Council, and it relies substantially on the labour market researches carried out by the Institute of Economics of the Hungarian Academy of Sciences (HAS), with particular regard to the National Research and Development Programme entitled “Knowledge-based society and labour market in the 21st century”, a research programme prepared by the Institute of Economics (IE) for the Ministry of Labour, entitled “A comprehensive evaluation of the Hungarian employment policy of the past five years, within the context of the European Employment” and the HAS-MEH (Hungarian Academy of Sciences – Prime Minister's Office) strategic research programme entitled “Hungary 2015”.

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³ At the Lisbon European Council held in March 2000, Heads of State and Government of the Member States made a commitment to raise the employment rate of the 15–64 year old population to 70%, female employment rate to 60% by 2010.

⁴ Job seeking activity is the ratio of the unemployed to the not employed population.

⁵ “Knowledge-based society and labour market in the 21st century”, research No. 5/180/2001. The results of the research were published in *Munkaerőpiaci Tükör 2004* (Labour Market Bulletin) in the thematic section entitled Education and Labour Market, and in the book series of IE under the title of “Education and Labour Market”.

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