Fight against unemployment: The case of Hungary

By Zoltán Ádám, Kopint-Tárki Institute for Economic Research (Budapest, Hungary)

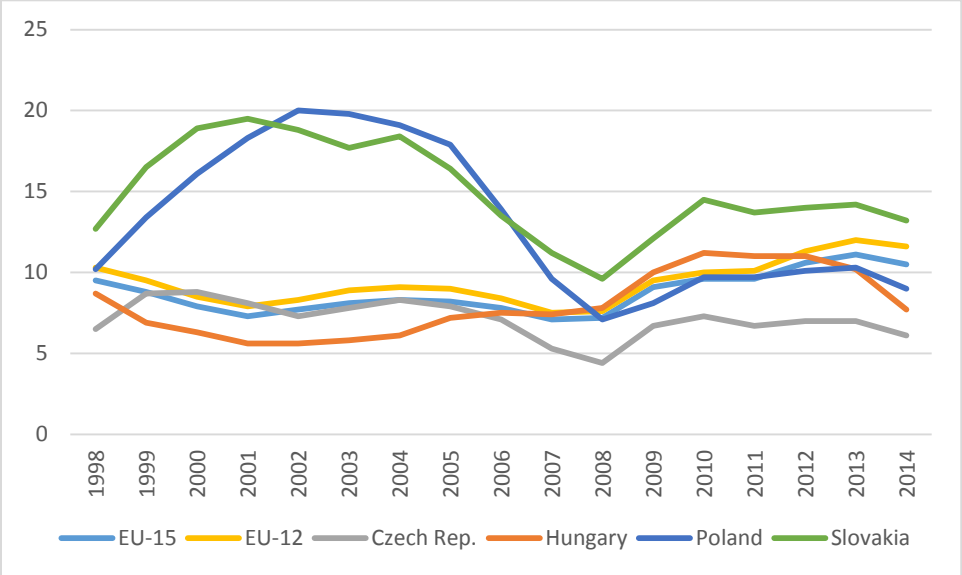
Summary

Hungary has been a special case of post-socialist transition in Central and Eastern Europe with respect to labor market developments. First, Hungary inherited a relatively lax public finance system from state socialism in which episodes of fiscal populism were rather the rule than exceptions. In this tradition, fiscal concessions are made on a recurring basis so that pacifying social conflicts. Applying this approach, the number of working age pensioners rose by about 200 thousand, whereas the number of working age inactive persons did by about 800 thousand in the 1990s. As a result, Hungary became characterized by comparatively low levels of both employment and activity, whereas unemployment also remained comparatively low. This placed a large burden on public finances that became unsustainable by the mid-2000s. The subsequent fiscal stabilization created severe social strain and political tensions. In reaction, both left and right wing governments in the following years implemented a wide range of public employment schemes that became the major anti-unemployment policy tool of the 2010s. Hence, unemployment gradually decreased, but close to half of the newly created jobs in the early 2010s were created through public employment. This, again, entails large fiscal expenditures and result in a rather questionable policy outcome as those involved in public employment do not experience an improvement of their labor market relevant skills and often find themselves locked in public work.

1. The Hungarian labor market after 1990 – a birds' eye view

Although Hungarian labor market developments many ways followed the typical CEE transition path, Hungary in the past 25 years became a special case within the regions with respect to labor market issues. Hungary, in general, has been characterized by comparatively low unemployment, employment and activity rates. In other words, a comparatively high share of the working age population became inactive and remained so, even though a gradual job recovery started in 1998 and a fast expansion of public employment programs occurred since 2010.

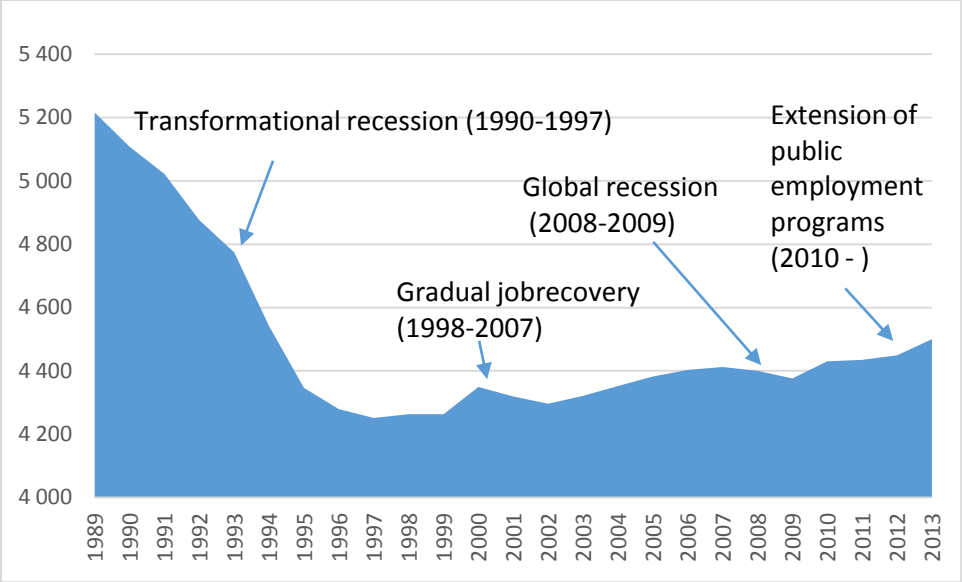
Figure 1. The rate of unemployment in the EU and in the Visegrád countries (in percent)



Source: Eurostat

Employment in Hungary had reached its highest rate at the end of the 1970s, when total employment existed along a new, in some ways still emerging socialist welfare state. Practically the entire working age population had a job in the formal economy, including women. The number of employed persons reached its climax in 1977 with 5 million 777 thousand. Following that, the number of employed had been declining throughout the entire 1980s. This probably had to do with the emerging informal economy that was a concession by the "reform-socialist" regime of János Kádár: so that they can improve their standard of living by producing goods and services and sell them legally. People could work in part time or – with some restrictions – in full time jobs in the emerging (semi) private sector. However, once one could legally make money without being employed in the state sector, official employment was no more an undisputed condition of normal life. In this sense, the job decline of the 1990s had been heralded by the micro-transformations of the 1980s. Nevertheless, the 1990s brought about a fundamentally new mass-phenomenon: unemployment.

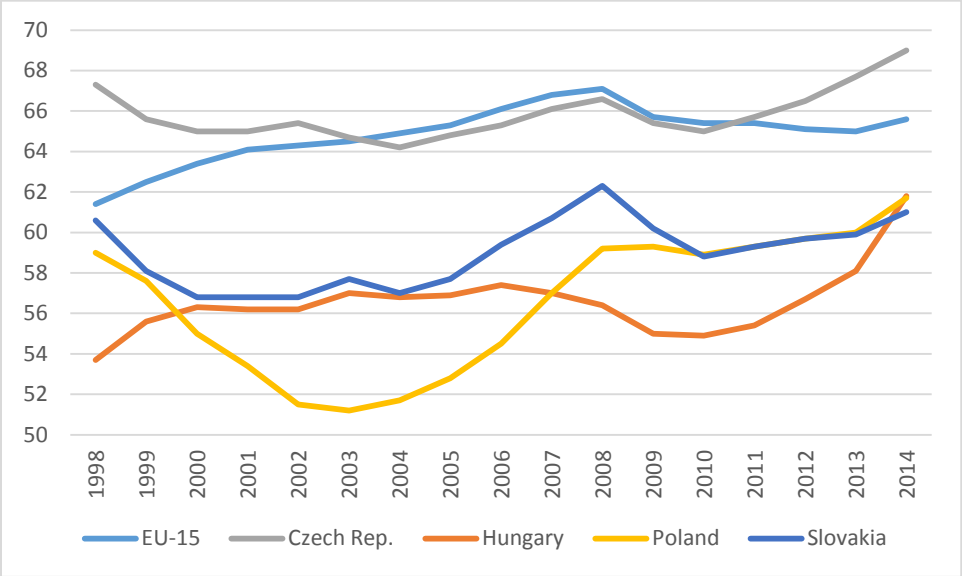
Figure 2. The economically active population of Hungary in thousand persons in 1989-2013



Source: Central Statistical Office

Between 1989 and 1997, during the so called transformational recession (Kornai 1994) close to 1 million jobs were eliminated, and the number of employed persons was cut from 5.2 million to 4.3 million. It is important to recognize that such a dramatic drop in employment was not considered to be an economic failure by the ruling elites and the public discourse dominated by them. On the contrary, the dominant Hungarian view associated unemployment with "real" economic transformation, adopting the Schumpeterian view of creative destruction. Those countries, such as the Czech Republic, that had a significantly lower level of unemployment were considered to be faking the transition process.

Figure 3. Employment rate among 15-64 years old in the EU15 and in the Visegrád countries (in percent)



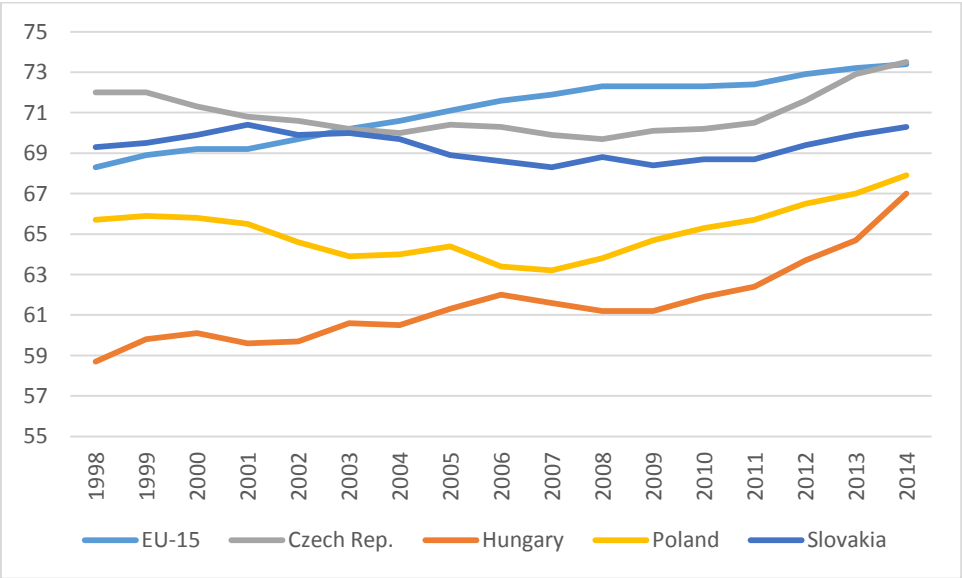
Source: Eurostat

Employment hit bottom in 1997 and slowly and gradually improved thereafter until 2008. However, job creation was limited and occurred in a particular economic context. First, during the transformational recession, a large number of domestic firms were eliminated. “Hardening of the soft budget constrain” (Kornai 2001) was particularly fast and thoroughgoing in Hungary, with strict credit conditions and a particularly harsh bankruptcy law. Hence, as Kornai showed, the number of corporate bankruptcies in Hungary significantly exceeded those in both the Czech Republic and Poland. Secondly, due to the fast Hungarian privatization method through direct sales, most competitive firms were privatized by multinational firms, and a dual economic structure emerged (Hamar 1999). In this, the economy consists of an internationally non-competitive domestic sector that, although lost a large number of jobs, still employs the majority of workers, and an internationally competitive, FDI-dominated foreign sector, whose competitiveness implies limited labor demand, and a high degree of capital and/or technology intensity.

Although the emergence of a dual economy was hardly unique in the region, the structural gap between the domestic and the foreign sector in terms of competitiveness has been the largest in Hungary (Palócz 2015). In short, this is an economy in which no major player can be expected to generate a large number of jobs. The foreign sector needs a limited number of highly skilled employees who operate high-tech production. The technologically much less advanced, internationally much less connected, and hence much less competitive domestic sector, although relatively much more labor intensive, cannot significantly expand employment because of the lack of its development capabilities.

2. Inactivity as a social policy tool

Figure 4. Activity rates among the 15-64 years old in the EU15 and in the Visegrád countries (in percent)



Source: Eurostat

East European state socialist regimes in general and the Hungarian one in particular had been characterized by a wide range of social benefits since about the 1970s. Such a broad social policy coverage served political reasons: it helped the regime legitimize itself and pacify social opposition. In this sense, populism in economic policy making had already appeared in Hungary before the political transition (Benczes 2011). This policy tradition continued in the 1990s, implying a generous social policy coverage (Kornai 1995-1996).

The fast hardening of the soft budget constraint in the 1990s was coupled with soft social policies, including the expansion of early retirement and disability retirement schemes. A large share of those who got redundant were offered retirement status, especially those being only in a few years in age from the statutory old age retirement (at that time 55 years old for women and 60 years for men). As a result, the number of inactive persons soared, and Hungary became characterized by the lowest activity rate in the region.

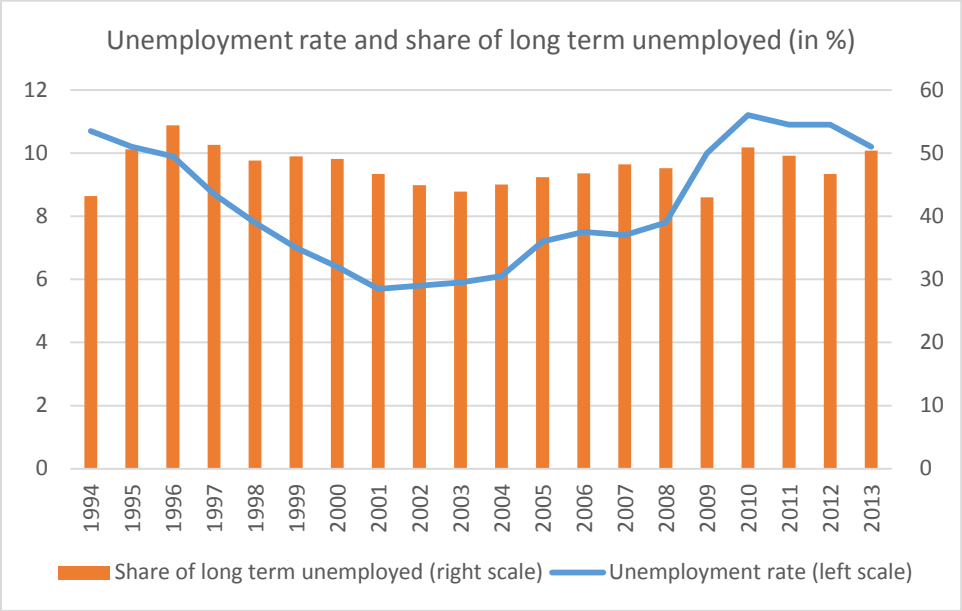
Table 1. Newly determined disability pension claims and detailed data on the number of newly determined old-age pension claims

Year	Disability and accident-related disability pensions	Old-age and old-age type pensions[a]			From the total: at the age limit			From the total: under the age limit		
	Total	Male	Female	Together	Male	Female	Together	Male	Female	Together
1996	59 967	31 770	59 939	91 709	9 893	20 073	29 966	18 681	31 857	50 538
1997	48 262	37 886	32 614	70 500	10 630	1 138	11 768	24 308	28 154	52 462
1998	42 975	12 908	17 841	30 749	385	882	1 267	11 461	15 244	26 705
1999	46 701	15 181	24 418	39 599	2 601	5 808	8 409	11 494	16 922	28 416
2000	55 558	18 071	29 526	47 597	613	813	1 426	16 089	26 859	42 948
2001	54 645	28 759	14 267	43 026	2 200	4 882	7 082	25 175	7 396	32 571
2002	52 211	30 209	25 719	55 928	2 593	646	3 239	26 346	23 503	49 849
2003	48 078	32 574	13 574	46 148	3 058	5 098	8 156	28 064	6 537	34 601
2004	44 196	35 940	36 684	72 624	3 842	989	4 831	30 234	33 817	64 051
2005	41 057	33 175	48 771	81 946	4 035	6 721	10 756	27 719	40 142	67 861
2006	36 904	34 207	47 531	81 738	4 013	732	4 745	29 025	45 675	74 700
2007	34 991	51 037	62 168	113 205	3 722	6 660	10 382	45 731	54 177	99 908
2008	19 832	25 912	39 423	65 335	3 154	288	3 442	22 180	38 761	60 941
2009	21 681	37 468	15 468	52 936	4 193	6 692	10 885	32 452	8 289	40 741
2010	24 094	37 394	13 719	51 113	6 350	7 213	13 563	29 990	5 801	35 791
2011	19 340	43 240	84 922	128 162	9 058	7 938	16 996	32 400	76 019	108 419
2012	–	21 996	53 581	75 577	11 054	9 471	20 525	8 317	42 624	50 941
2013	–	19 163	38 512	57 675	17 270	12 497	29 767	282	24 991	25 273

Source: Fazekas K. and Neumann L. eds. (2014).

Unemployment benefits were also relatively broad and provisions for the long-term unemployed (benefits of those who remained without formal employment but did not enjoy a pension), although modest, relatively easy to reach. Hence, not only economic activity declined, but also long term unemployment stabilized at a high level, partly due to economic rigidities and the mismatch between labor demand and supply, partly due to relatively generous social policies used as a political tool (Tóth 2009). A sizable electorate of populist economic policies was created whose wellbeing was solely dependent on government transfers and had nothing to do with economic cycles.

Figure 5. The rate of unemployment and the share of long term unemployed (among the unemployed, in percent) in Hungary

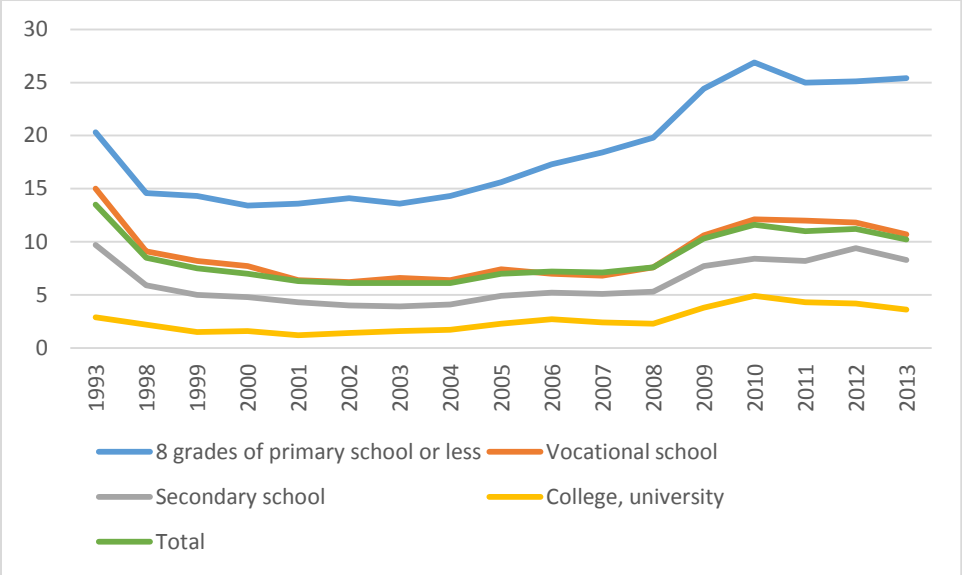


Source: Fazekas K. and Neumann L. eds. (2014).

3. The lack of labor market integration: causes and consequences

The Hungarian labor market has been traditionally characterized by a high degree of segmentation. Segmentation, in fact, already appears in elementary schools: social inequalities in the compulsory public education system are among the largest in the OECD (Radó 2014). As educational trajectories are highly selective along social status, labor market integration at different educational attainment level are so. Unemployment of unskilled labor is dramatically and persistently high, constituting a structural problem that partly related to the low level of social integration of the Roma minority. According to Kertesi and Kézdi (2011), who analyze data for 1993-2007, the ethnic employment gap between the Roma and the non-Roma has been about 40 percent for both men and women since 1993 and has remained remarkably stable. The most important factor behind is education: the worse educational attainment of the Roma, which in itself is a very complex phenomenon, also having to do with educational segregation and discrimination, is mostly responsible for this structural difference.

Figure 6. Unemployment rate by the level of education among men in Hungary (in percent)



Source: Fazekas K. and Neumann L. eds. (2014).

At the same time, the Hungarian labor market does particularly poorly in employing unskilled labor regardless of ethnicity, which is also the result of the dual economy structure described above as well as a number of other factors, including inadequate post-school skill formation and the insufficient number of functioning small businesses (Köllő 2015).

A particularly harmful set of policies with respect to labor market integration has been introduced since the beginning of the 2000s on minimum wages. As a large number of employees and self-employed persons received (or declared to be receiving) minimum wages, successive government initiated considerable minimum wage rises. This was, on the one hand, politically popular among real most "real" minimum wage earners, and was also beneficial for the budget, as income taxes and social security contributions have been attached to nominal wages, on the other one. However, as a result, a large part of low skilled employees were effectively priced out from the labor market as their productivity did not allow them for producing the value added corresponding to the cost of their employment. According to Kertesi and Köllő (2003), the 57% minimum wage hike of 2001 could be held responsible for eliminating 11 thousand jobs in the small firm sector, and turning positive employment growth into negative. Since then, the statutory minimum wage has been raised several times with paying practically no attention to the labor market integration needs of low skilled workers. On the contrary, most recent minimum wage hikes since 2011 has been associated with a substantial rise of the minimum wage tax wedge that reached 49% in 2012, up from 36.2% in 2010.

Table 2. Changes in the magnitude of the tax wedge in the case of minimum wage

Year	Minimum wage				Total wage cost in the case of minimum wage		Minimum wage tax wedge, %
	gross, HUF/month	gross, HUF/day	net, HUF/month	net, HUF/day	HUF/month	HUF/day	
1997	17 000	783	15 045	693	26 450	1 196	43,1
1998	19 500	899	17 258	795	30 297	1 369	43,0
1999	22 500	1 037	18 188	838	34 538	1 546	47,3
2000	25 500	1 175	20 213	931	38 963	1 746	48,1
2001	40 000	1 843	30 000	1 382	58 400	2 638	48,6
2002	50 000	2 304	36 750	1 694	71 250	3 226	48,4
2003	50 000	2 304	42 750	1 970	70 200	3 191	39,1
2004	53 000	2 442	45 845	2 113	74 205	3 376	38,2
2005	57 000	2 627	49 305	2 272	79 295	3 572	37,8
2006	62 500	2 880	54 063	2 491	85 388	3 910	36,7
2007	65 500	3 018	53 915	2 485	89 393	4 095	39,7
2008	69 000	3 180	56 190	2 589	94 065	4 310	40,3
2009	71 500	3 295	57 815	2 664	97 403	4 464	40,6
2010	73 500	3 387	60 236	2 776	94 448	4 352	36,2
2011	78 000	3 594	60 600	2 793	100 230	4 619	39,5
2012	93 000	4 280	60 915	2 803	119 505	5 500	49,0
2013	98 000	4 510	64 190	2 954	125 930	5 795	49,0

Source: Fazekas K. and Neumann L. eds. (2014).

4. The crises of the 2000s

Structural problems of the Hungarian economy became increasingly salient in the 2000s, and the prevalence of a large stock of inactive people appeared to be an increasingly difficult burden for the general government, first of all as a result of considerable pension and public servant wage hikes. In fact, the 2000s witnessed an increasingly fierce political competition for the pensioner vote: as the number of pensioners sharply rose in the 1990s, they had become a decisive electoral force. Obtaining a large amount of pensioner votes became a politically lucrative venture, and competing parties offered considerable concessions for pensioners actually. One of the most important reasons the center-left coalition took over power in 2012 was the Socialists' promise to gradually introduce a 13th month pension in 2002-2006 that the Socialist-Liberal government did indeed. At the same time, wages in the public sector were raised considerably, first by the right-wing coalition in 1998-2002, than the left after 2002. In addition, the left-wing government in 2002-2006 took a number of other fiscally expansionary measures, such as the cut of the personal income tax and the VAT. Hence, economic populism once again became a dominant policy line, continuing the tradition of the late Kádár-regime of the 1970s and 1980s (Benczes 2011).

Table 3. Labor force participation of the population over 14 years, in thousands

Year	Population of male 15–59 and female 15–54								Population of male over 59 and female over 54			
	Employed	Unemployed	Inactive					Total	Employed	Unemployed	Pensioner, other inactive	Total
			Pensioner	Full time student	On child care leave	Other inactive	Inactive total					
1980	4 887,9	0,0	300,8	370,1	259,0	339,7	1 269,6	6 157,5	570,3	0,0	1 632,1	2 202,4
1990	4 534,3	62,4	284,3	548,9	249,7	297,5	1 380,4	5 977,1	345,7	0,0	1 944,9	2 290,6
1991	4 270,5	253,3	335,6	578,2	259,8	317,1	1 490,7	6 014,5	249,5	0,0	2 045,2	2 294,7
1992	3 898,4	434,9	392,7	620,0	262,1	435,9	1 710,7	6 044,0	184,3	9,8	2 101,7	2 295,8
1993	3 689,5	502,6	437,5	683,9	270,5	480,1	1 872,0	6 064,1	137,5	16,3	2 141,2	2 295,0
1994	3 633,1	437,4	476,5	708,2	280,9	540,7	2 006,3	6 076,8	118,4	11,9	2 163,8	2 294,1
1995	3 571,3	410,0	495,2	723,4	285,3	596,1	2 100,0	6 081,3	107,5	6,4	2 180,6	2 294,5
1996	3 546,1	394,0	512,7	740,0	289,2	599,4	2 141,2	6 081,3	102,1	6,1	2 184,6	2 292,8
1997	3 549,5	342,5	542,9	752,0	289,0	599,9	2 183,8	6 075,8	96,9	6,3	2 189,0	2 292,2
1998	3 608,5	305,5	588,8	697,0	295,5	565,7	2 147,0	6 061,0	89,3	7,5	2 197,6	2 294,4
1999	3 701,0	283,3	534,7	675,6	295,3	549,8	2 055,4	6 039,6	110,4	1,4	2 185,2	2 297,0
2000	3 745,9	261,4	517,9	721,7	281,4	571,4	2 092,4	6 099,7	130,3	2,3	2 268,0	2 400,6
2001	3 742,6	231,7	516,3	717,9	286,6	601,6	2 122,4	6 096,7	140,7	2,4	2 271,8	2 414,9
2002	3 719,6	235,7	507,1	738,3	286,8	593,0	2 125,2	6 080,5	164,1	3,2	2 263,9	2 431,2
2003	3 719,0	239,6	485,0	730,7	286,9	595,0	2 097,6	6 056,2	202,9	4,9	2 245,6	2 453,4
2004	3 663,1	247,2	480,5	739,8	282,4	622,4	2 125,1	6 035,4	237,3	5,7	2 236,1	2 479,1
2005	3 653,9	296,0	449,7	740,8	278,6	590,3	2 059,4	6 009,3	247,6	7,9	2 258,3	2 513,8
2006	3 679,6	308,8	432,9	810,9	270,0	500,7	2 014,5	6 002,9	250,5	8,4	2 268,0	2 526,9
2007	3 676,6	303,7	426,8	832,6	267,2	475,8	2 002,4	5 982,7	249,5	8,2	2 296,1	2 553,8
2008	3 631,4	318,5	408,6	819,6	279,8	493,1	2 001,1	5 951,0	248,1	10,7	2 327,7	2 586,5
2009	3 516,8	406,4	364,5	814,6	278,7	529,3	1 987,1	5 910,3	265,1	14,3	2 348,0	2 627,4
2010	3 485,7	455,2	338,7	814,6	267,0	500,7	1 921,0	5 861,9	295,5	19,6	2 356,0	2 671,1
2011	3 484,2	444,1	290,7	794,4	280,5	519,0	1 884,6	5 813,0	327,7	23,8	2 357,6	2 709,1
2012	3 552,2	451,6	250,6	770,0	269,2	496,5	1 786,3	5 790,1	325,6	24,0	2 376,2	2 725,8
2013	3 599,2	425,1	245,8	751,2	257,2	368,4	1 622,6	5 647,0	339,2	23,8	2 346,2	2 709,1

Source: Fazekas K. and Neumann L. eds. (2014).

However, just as in the 1980s, when Hungary had to be effectively bailed out by the IMF in 1982, as well as in 1995, when the Bokros package was introduced, the fiscal trajectory once again became unsustainable. The re-elected Socialist-Liberal coalition imposed fiscal restriction, in 2006 and took further restrictive measures in 2008-2009, once again under IMF control. These included the suspension of the 13th month salary of public employees, a nominal freeze of public sector wages and the elimination of the 13th month pension. In this environment, the still prevalent long term unemployment of a substantial part of the working age population, a heritage from the 1990s that economic development did not mitigate, became a source of increasing social and political tension. The rising far right mobilized an expanding electorate with an increasingly loud anti-Roma discourse, describing them as lazy, not working people who tend to commit crimes and threaten the honest, hard-working people of villages and remote suburban areas. In this political climate, mayors and local governments claimed a more extensive mandate to discipline the non-working population, first of all the Roma, with more stringent controls over their social benefits. In response, the Socialist-Liberal coalition in 2008 decided to extend considerably the already existing public employment schemes, and making it a criteria for receiving the long-term unemployed social benefit that those who are offered public employment accept it.

5. The No. 1 Hungarian anti-unemployment policy weapon: public employment schemes

The annual average number of participants in public employment programs jumped, from 21.2 thousand in 2008 to 135.3 thousand in 2009. Their number rose further to 164.5 thousand in 2010 (that was an election year) to witness considerable decline in 2011-2012. Yet, as the 2014 elections were approached, the number of participants in public employment programs once again rose substantially in 2013, to 149.5 thousand. At the same time, the number of unemployed who did not receive any provision showed an inverse trend, peaking at 281.1 thousand in 2012.

Table 4. Benefit recipients and participation in active labor market programs

Year		Unemployment benefit	Regular social assistance	UA for school-leavers	Do not receive provision	Public employment	Retraining	Wage subsidy	Other programmes	Total
1990	In thousand	42,5	–	–	18,6	..	..	..	..	61,0
	Per cent	69,6	n.a.	n.a.	30,4	..	..	..	..	100,0
2000	In thousand	117,0	139,7	0,0	106,5	26,7	25,3	27,5	73,5	516,2
	Per cent	22,7	27,1	0,0	20,6	5,2	4,9	5,3	14,2	100,0
2001	In thousand	111,8	113,2	0,0	105,2	29,0	30,0	25,8	37,2	452,2
	Per cent	24,7	25,0	0,0	23,3	6,4	6,6	5,7	8,2	100,0
2002	In thousand	104,8	107,6	–	115,3	21,6	23,5	21,2	32,8	426,8
	Per cent	24,6	25,2	–	27,0	5,1	5,5	5,0	7,7	100,0
2003	In thousand	105,1	109,5	–	125,0	21,2	22,5	20,1	36,6	440,0
	Per cent	23,9	24,9	–	28,4	4,8	5,1	4,6	8,3	100,0
2004	In thousand	117,4	118,4	–	132,3	16,8	12,6	16,8	28,5	442,8
	Per cent	26,5	26,7	–	29,9	3,8	2,8	3,8	6,4	100,0
2005	In thousand	125,6	127,8	–	140,2	21,5	14,7	20,8	31,0	481,6
	Per cent	26,1	26,5	–	29,1	4,5	3,1	4,3	6,4	100,0
2006	In thousand	117,7	112,9	–	146,4	16,6	12,3	14,6	13,8	434,3
	Per cent	27,1	26,0	–	33,7	3,8	2,8	3,4	3,2	100,0
2007	In thousand	128,0	133,1	–	151,8	19,3	14,6	23,4	6,8	477,0
	Per cent	27,6	28,7	–	32,7	2,7	2,3	3,7	2,3	100,0
2008	In thousand	120.7	145,7	–	158,2	21,2	21,2	25,0	14,1	506,1
	Per cent	23,8	28,8	–	31,3	4,2	4,2	4,9	2,8	100,0
2009	In thousand	202,8	151,9	–	215,0	135,3	13,6	17,8	54,1	790,5
	Per cent	25,7	19,2	–	27,2	17,1	1,7	2,3	6,8	100,0
2010	In thousand	159,6	163,5	–	222,4	164,5	17,8	26,7	40,3	794,8
	Per cent	20,1	20,6	–	28,0	20,7	2,2	3,4	5,1	100,0
2011	In thousand	122,8	168,2	–	239,8	91,6	13,6	20,4	39,9	696,3
	Per cent	17,6	24,2	–	34,4	13,2	2,0	2,9	5,7	100,0
2012	In thousand	56,3	185,6	–	281,1	92,4	15,4	30,0	2,2	663,0
	Per cent	8,5	28,0	–	42,4	13,9	2,3	4,5	0,3	100,0
2013	In thousand	55,3	169,3	–	264,0	149,5	42.0	31,7	3,8	715,5
	Per cent	7,7	23,6	–	36,9	20,9	5,9	4,4	0,5	100,0

Public-type employment: community service, public service, public work programmes.

Source: Fazekas K. and Neumann L. eds. (2014).

The number of participants in public employment programs rose further in subsequent years: in Q1 2014, right before the 2014 elections it reached 181.3 thousand. Although it dropped to 166.7 thousand in the next quarter, since then it has been increasing steadily, to having attained 232.3 thousand in Q4 2015, 30.4% more than a year earlier. (The number of employees outside of public employment was 4.027 million in Q4 2005, 1.6% up year-on-year.) Hence, public employment still plays a major role in reducing unemployment, although ordinary job creation has also resumed as the economy has been expanding since 2013.

Subsidized employment, mainly although not exclusively within public employment schemes, played an increasingly important role in 2008-2013 in making registered unemployed persons landing in a job. In 2013, 60.2% of newly hired registered unemployed persons were recruited in public employment, making it the sole most important active labor market policy tool.

Table 5. The number of registered unemployed who became employed on subsidized and non-subsidized employment

	2008		2009		2010		2011		2012		2013	
	Persons	Per cent	Persons	Per cent	Persons	Per cent	Persons	Per cent	Persons	Per cent	Persons	Per cent
Subsidised employment	118 703	34,0	170 464	40,0	198 974	38,5	282 673	48,5	261 631	50,0	359 962	60,2
Non-subsidised employment	230 558	66,0	255 356	60,0	317 622	61,5	299 716	51,5	261 581	50,0	237 795	39,8
Total	349 261	100,0	425 820	100,0	516 596	100,0	582 389	100,0	523 212	100,0	597 757	100,0

Source: Fazekas K. and Neumann L. eds. (2014).

The dramatic expansion of public employment as a policy tool, however, raises a number of policy questions. First of all, those recruited in public employment schemes on a recurring basis get used to fulfil non-market based, in many cases artificially created jobs without any development of their skill basis. The way out of public employment seldom leads toward the regular job market: most low-skill public employees remain oscillating between public employment and unemployment (Köllő and Scharle 2012). Secondly, public employment schemes are very expansive and prevent spending on other more effective active labor market policy tools. For instance, personalized tutoring or subsidized private employment schemes promise better policy outcomes according to international evidence (Hudomiet and Kézdi 2012). Thirdly, as public employment used as a substitute form of employment and characterized by particularly low productivity, it reduces potential GDP and renders participants into a second-rank employee status (Messing 2012). Participants of public employee programs tend to perceive themselves so, impacting negatively on their job search intensity. In other words, they internalize the perception of their social environment on them, locking them in to the public employment schemes (Csoba and Nagy 2012).

6. Other active labor market policy tools

A number of other active labor market policy tools have been implemented in past years. These included the reform of vocational education; the (theoretical) introduction of job rotation and job sharing schemes; special job incentives and job protection schemes for people below 25 and above 55, for the permanently unemployed, and for those having little children in their household. In addition, companies investing at least 100 million forint in the most deprived regions of Hungary while increasing employment can pay no social security contribution after new employees in the first two years, and a reduced rate from the third to the fifth. The following description of these measures is based on Cseres-Gergely and Varadovics (2014).

- The reform of vocational education was introduced in 2012-2013, stipulating new rules for the official licensing of adult training activities, requirements for specific training programs, and the support framework and the supervision of institutions.
- Job rotation and job sharing are in theory promoted by reduced social security contribution rates introduced in 2011-2012. Its extent is 7% of either the gross salaries of the two employees added together, or, as a maximum, of the double of the minimum wage.
- Employment incentives were introduced as part of the so called Job Protection Act. They seek to promote the employment of young adults below the age of 25, people over the age of 55, the permanently unemployed, employees having small children and employees

working in low skill requirement jobs. For them, again, a reduced rate of the Social Contribution Tax (financing social security services) and a reduced vocational education contribution apply. Reduced rates can apply for those already employed as well as just recruited. Depending on the target group of employees, rate reduction varies, but can be effected in any case up to a 100 thousand forint part of a gross salary and up to 14.5 percentage points (more than half of the statutory Social Contribution Tax).

- Since 2013, so called free enterprise zones have been created to stimulate the development of the most deprived parts of Hungary. The status is assigned for 5 years on a renewable basis. Employers in these zones carrying out at least 100 million forint investment while increasing the number of employees can claim a tax credit. The rate of the Social Contribution Tax payable after the first 100 thousand forint part of a gross salary per month is reduced by 27 percentage points in the first two years and by 14.5 percentage points in the third year of employment. Companies can get exemption from paying the 1.5 percentage points Vocational Education Contribution in the first two years of employment after the first 100 thousand forint wage per month, effectively implying full exemption from paying social security contributions for the first 100 thousand forint wage of new employees. The tax credit can be claimed for a maximum of 5 years.

7. Policy lessons

- Letting market forces eliminate a large number of jobs while not improving the skills of job losers entails the risk of massive long term unemployment.
- If economic transformation result in a dual economic structure with a weak domestic sector and a lack of competitive small and medium sized companies, unskilled labor will have an even smaller chance of getting (re)employed.
- Letting job losers leave the labor market and cease to exist as economically active persons places a large burden on public finance and creates an electorate for populist economic policies.
- Fast rising minimum wages may prevent a sizeable part of the low skill labor force from getting employed.
- At times of economic hardship, social and political tensions may make benefits of inactive persons difficult to sustain. Such tensions may be utilized by the far right that can also mobilize ethnic tensions.
- Large scale public employment schemes, used to mitigate the problem of long term unemployment and structural inactivity, are expensive and carry the risk of locking in participants. Although activity rates can be raised fast and unemployment decrease, large scale public employment tend not to improve participants' chances of getting employed in the regular labor market.

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