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PUBLIC WORKS IN HUNGARY:  
ACTORS, ALLOCATION MECHANISMS AND LABOUR MARKET MOBILITY EFFECTS

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#### ABSTRACT

This paper reviews the past 10 years of the Hungarian public works system in an international context. It describes changes in the system of public works over time, its various forms, its regional allocation mechanisms and the decision-making and planning process. In that respect, it explores the motivations of the key players, including the central planner, the employment service and the municipalities, as well as their interactions. The analysis is based on interviews conducted in the competent ministries, at national public works providers, the county and district offices of the public employment system and municipalities on one hand, and quantitative data analyses on the entire public works database for the period of 2011-2014, on the other hand.

Originally intended to be a labour market policy tool, public works programmes assumed more significant social and municipality management functions, partly because of the extraordinary expansion of their volume. None of their functions performs adequately in the regulatory environment developed; however, they play a key role in mitigating social tensions in disadvantaged rural areas.

The planning and regional allocation mechanisms of public works are in many ways similar to the planning procedure of state socialism and provide scope for the techniques of plan bargaining, based on information asymmetry. As a result, this mechanism creates impacts different from the stated objectives in some respects. The most disadvantaged municipalities thus have proportionately fewer public works participants than would be expected based on the number of long-term unemployed. The system of public works has had a considerable impact on local power structures and transformed the functions of mayors. The responsibility for tackling labour market problems was transferred from the competent employment services to municipalities without expertise, which also had a negative impact on the Public Employment Service.

**Keywords:** public work programmes, employment policy, labour market, regional development, planning

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INTRODUCTION

Structural unemployment has been one of the most challenging social and economic policy problems for decades in many countries, to which policymakers have been struggling to find efficient and effective solutions worldwide. Especially long term unemployment (more than 12 months) has several negative consequences at the individual and society level as well, e.g. diminishing human capital, marginalisation, risk of poverty and social exclusion, but also constrains mobility and economic growth. The aim of active labour market policies (ALMPs) – used across developed, middle income and developing countries alike – is to reintegrate the unemployed and disadvantaged groups into the labour market and support better matching between jobs and workers: through the provision of individualised Public Employment Service (PES) counselling and job search assistance, training programmes for skills development and qualifications, direct employment or job-creation schemes to provide work-experience and subsidies or reductions in tax/social security contributions that make employing such a labour force cheaper for employers (Martin 2014). The idea behind is that passive policies (provision of unemployment assistance and social benefits etc.) can have a negative effect on work incentives and lead to benefit dependency and longer term detachment from the labour market, which active measures try to reverse. Both OECD and the EU<sup>2</sup> clearly advise the increased use of ALMPs, as the data prove them to be more effective than passive policies from a labour market perspective (Kálmán 2015).

The recent economic crisis has not only highlighted the importance of activation interventions and the fight against poverty, but also the strong relatedness of different elements of the unemployment and social benefit systems. According to international experience and evaluations (e.g. Martin 2014, Immervoll–Scarpetta 2012, Kluve 2016), the overall efficiency and effectiveness of active labour market measures depends on the generosity of insurance-based and social benefits, eligibility conditions, behavioural conditions and how these conditions are monitored and enforced, as well as on the sanctions applied in the event of non-compliance.

The linkage of participation in such measures with (continued) welfare benefit provision (benefit conditionality and workfare) originates from the 1990s and the US (Besley and Coate 1992), Scandinavian countries and Australia but has since been applied in many countries and, among them, most EU ones partly for reasons of better results in activation (with eligibility conditions and attached sanctions), and partly for better use and cost-effectiveness of public funds (Kálmán 2015). Conditions linked to receiving benefit in workfare systems are either those aimed at improving the employability of beneficiaries (training, rehabilitation, gaining work

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<sup>2</sup> Council Decision (EU) 2015/1848.

experience) or prescribe the performance of some publicly useful activities (free or very low paid public works), or in practice combine several of these elements.

As a consequence of the above, *public works programmes* have to be evaluated in such a complex context; they usually *combine labour market* and *social goals* (activation, transit employment, fight against poverty providing income for the poor, support for certain disadvantaged groups), but often also serve *macroeconomic ones* (tackling seasonal and/or cyclical unemployment, direct job creation, management of regional and structural labour market problems and stimulation for the economy via boosting consumer demand especially in times of downturn)<sup>3</sup>. Most of such programmes tend to offer short-term (3-12 months) employment, typically in the construction, farming and regional development sectors as well as community services (Betcherman et al. 2004). The organisers of public works can be municipalities, government organisations or public sector companies, NGOs or even contracted private firms. The targeted participants are usually special – less employable and/or long-term unemployed – social groups. This system helps the target group most in need to be reached via a ‘screening effect’, which means the conditions attract only those who are the most needy and keep the better-off away from the programme, as proved by Dutta et al. 2012 and Bakó–Molnár 2016, while a deterrent effect also appears in the literature (compliance with the requirements causes a certain level of inconvenience – frequent contact with employment services, compulsory training etc., that can motivate one to abandon their unemployed status and use their own initiative to look for other income sources or employment) – but this does not seem to be the case in Hungary. Arguments for public works programmes typically include *political popularity, creation of useful infrastructure, combating poverty and strengthening social cohesion* (OECD 2009, Martin 2014, Ravallion 1999, Ravallion et al. 2013), while arguments against are also numerous: they *can lead to the stigmatisation* of participants, do not help to gain real work experience (Kluve 2006); and in fact *constrain job-seeking* by limiting time, a *lack of true job creation* (jobs would have been created without the program too, or when public workers replace previous employees), a *high risk of displacement effects* and a possible ‘*lock-in*’ effect, which leads to a public works-benefit spiral (Brown–Koettl 2012, Csoba–Nagy 2011, Köllő 2014, Köllő–Scharle 2011, Molnár et al. 2014, Váradi 2015).

Some of the above overall goals for a public works programme might be in conflict with each other, as are short term and longer term perspectives and objectives. For example, the provision of income transfer might be a good temporary solution to deal with some disadvantaged groups’ position, *nevertheless the evaluation results are rather unfavourable in terms of long term labour market effects: public works programmes* have been found to have fairly negative effects<sup>4</sup> on subsequent employment chances and earnings of participants (Betcherman et al. 2004, Martin–Grubb 2001, Card et al. 2010, Card et al. 2015, Kluve 2010, Kluve 2016,

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3 In developing countries the above goals are complemented or substituted by disaster management, reduction of seasonal unemployment and income losses after poor harvest years, infrastructure construction etc. (Kálmán 2015).

4 Card et al. (2010) carried out a meta-analysis involving 199 programmes across the world and concluded that it was not the size and time of introduction of active labour market programmes, nor the macro-economic situation that mattered, but efficiency depended primarily on the type of programmes. While individual counselling, job search assistance and job placements and wage subsidies (roughly in this order) could be efficient, public works programmes were unsuccessful with respect to subsequent employment and earnings. Evaluating public works in developing countries Devereux–Solomon (2006), and Dar–Zanatos (1999) found that, in comparison with other development policy interventions, both in terms of poverty reduction and stimulating growth, their results were quite minimal.

Rodriguez-Planas–Benus 2010, Brown–Koettle 2012). Moreover, they are found to keep people away from primary labour markets and even contribute to the *deterioration of human capital in the long run* (Kluge 2016). Yet – if well targeted – they can perhaps fulfil the role of a social safety net in countries with significant poverty, although, for the latter, other policy tools can provide more cost-effective solutions.

Thus public works programmes – if used at all by developed countries today among their ALMPs – serve either temporary macroeconomic anti-cyclical/shock-therapy goals<sup>5</sup> (or efficiency goals to solve structural and regional unemployment problems (stop benefit-dependence) but are always heavily combined with additional active labour market policy tools (training, individual profiling, provision of work experience for increasing employability) such as in Scandinavian countries (Koltai 2013, Kálmán 2015). Moreover, developed countries use them with particular caution to not increase disparities and poverty gaps – i.e. provide tax allowances, gradual decrease/phasing out of social and unemployment benefits for those getting employment in the primary labour market, but easier and faster administration of benefits if participants get back on welfare. Evidence suggests that *the more public works programmes imitate a real employment situation*, the more efficient, the less distortive in terms of incentives and the better fit for the purposes of an activation measure they are (Martin-Grubb 2001). Atkinson (2015) also regards public works programmes as an important tool within policy packages aimed at reducing income inequalities, provided that they are carried out at for-profit companies with acceptable wage levels and not in a segregated way providing minimum wage or below.<sup>6</sup> Even so, public works programmes are contested and often thought to be ineffective- especially in a developed country context- because, on the one hand, they are highly expensive, and on the other hand, their benefits and success are uncertain, especially as in the long run they do not provide effective solutions to the original policy problems, but even worsen subsequent employment chances and earnings of participants, diminish human capital and can cause a ‘lock-in’ effect- as proved by international evaluation findings mentioned earlier.

Hungarian public works programmes also try to tackle rather opaque, complex and multiple socio-economic problems with a generalist policy tool that even evolved and enlarged over time (Váradí 2015, Bakó–Molnár 2016, Scharle 2015, Koltai 2014, Koltai et al. 2018). Serving a mix of several of the above goals – starting as an activation measure, tackling structural, regional and long term unemployment, but also social assistance with an explicit workfare flavour (Molnár et al. 2014, Csoba 2010), used as an anti-cyclical tool following the crisis (providing transitional employment opportunities and temporary income for many (Századvég 2016), but eventually evolving into a local development policy tool (Koltai et al. 2018, Molnár et al. 2018, Váradí 2015). The political goals for the programme are also quite apparent, namely the mitigation of social and ethnic tensions and strengthening the power of elites and mayors locally (Váradí 2015, Scharle 2015) – providing popularity and votes and showing the strong impacts of centralisation (Gerő–Vigvári 2019). Thus, from a programme with an employment focus for already quite diverse and heterogeneous disadvantaged groups (even changing across space and time), it fairly quickly turned into an attempt not only to provide basic social safety but also

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5 E.g. within EU after the 2008 crisis Latvia, Slovenia, Hungary, Portugal and Czech Republic introduced it to some extent, but the Hungarian programme was the largest by far in both spending and participant ratios – see Kálmán 2015.

6 This is an important point when evaluating the Hungarian public works programmes, as the conditions Atkinson mentions for successful poverty reduction were not present there: segregated implementation, not by for-profit companies and well below minimum wage compensation.

the main tool – and major funding source – for municipal operations and investments in local development (Koltai et al. 2018, Váradi 2015, Molnár et al. 2018, Koós 2016, Gerő–Vigvári 2019) that is especially vital for smaller rural municipalities lacking other revenue sources. However, it is not a universal solution for all; using direct state intervention instead of boosting market-type solutions created significant differences in access, and reproducing and aggravating regional (Czirfusz 2015, Molnár et al. 2014) and social inequalities (Váradi 2015, Virág 2015, Koós 2016, Bakó–Molnár 2016, Molnár et al. 2014), while not really leading to employment in the primary labour market (Cseres-Gergely–Molnár 2014, Bakó–Molnár 2016). It thus contributes to poverty traps<sup>7</sup> (Csoba–Nagy 2011, Köllő–Scharle 2011, Köllő 2014) rather than narrowing the gaps, and at huge cost (Molnár et al. 2018, Kálmán 2015), crowding out resources for any other employment or social policies, which therefore make it controversial.

Our study aims at providing an account of allocation mechanisms, resources and effects of the Hungarian public works programmes. On the one hand, we provide a brief summary of their evolution between 2009 and 2018, which has – to our knowledge – not been published in English so far; on the other hand, we perform a brief analysis of its regional distribution and some determinants contributing to it, while also describing actors, roles, motivations, actions and experiences at the municipality level and at the level of state-run PES. Our study is therefore undertaken using mixed methods, combining qualitative information from interviews and quantitative data analyses. Based on qualitative information, we give insights into the main actors and their roles, motivations and power relations in the implementation of Hungarian public works. An important finding is the changing role and scope of Hungarian workfare programmes: the social and municipality management functions of the system – originally intended to be a labour market tool – have become more significant and provided grounds for counter-incentives and lock-in effects. Our main quantitative result and contribution to the literature do not only confirms the unequal regional distribution of the programmes' resources and participation (which was first analysed by Czirfusz 2015) but also highlight the importance of settlement size (in larger cities the ratio of public workers to the long-term unemployed is much smaller) and its modest effect on diminishing regional development disparities and the fight against poverty (too low an extent in peripheral, least developed areas compared to more developed ones, on average).

The structure of our paper is the following: the next section gives data and methods, followed by one on the short history of public works programmes between 2009 and 2018; the next covers its regional distribution, followed by a brief section on the experiences of running public works at municipal level and another one on the role of the state-run PES, while the final section contains our conclusions.

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<sup>7</sup> For the chronically poor, temporary employment does not give a real and long-term solution and if their continuous employment is not ensured then public works are not a feasible measure to manage the problem.

## DATA AND METHODS

The information presented in this paper was obtained using two methods. The authors processed individual data from the entire Employment and Public Works Database (Foglalkoztatási és Közfoglalkoztatási Adatbázis, FOKA) for the period 2011-2014<sup>8</sup> and conducted 60 interviews over 2016-2017. Out of these, 6 were conducted in ministries (Ministry of Interior (MI), and the Ministry of National Economy (MNE)), 3 in county employment departments, 11 at various national public works providers, 27 at district employment offices, and 13 with municipal leaders (mayors and notaries). We have visited every employment department in the counties of Békés and Borsod-Abaúj-Zemplén, some of them twice. Our goal was to get an overall picture of the counties with serious employment problems, which are however in many ways different from each other. The selection of the two counties was also justified by the fact that between 2012 and 2014, the highest proportion of public workers was found in Békés county, compared to the absolute number in Borsod-Abaúj-Zemplén county.

The municipalities were selected on the basis of the experience of the district interviews, in order to conduct interviews in the settlements where the public works programmes are well organised, according to the district employment departments.

In the case of ministry, county and district interviews, we primarily asked about the planning processes of certain types of public works, while in the case of local governments, we examined the experiences of implementation. The general experience of district interviews was that employment professionals tend to over-generalise local experiences and believe that what they see in their district is generally typical of the entire county. This phenomenon is asymmetrical, in the sense that those in a better labour market position project their experiences universally, while this is not the case vice versa. To a lesser extent, a similar phenomenon can be observed among ministry professionals who have more limited and often selective field experience. (For more details see Molnár – Bazsalya – Bódis 2018)

## PUBLIC WORKS BETWEEN 2009 AND 2018

The first forerunner of the current system of public works emerged in 1987 in Hungary, following the political changes just before transition. That was the first time when municipalities had the opportunity to organise public works for job seekers in response to increasing unemployment. This was followed by a nationally organised public works scheme launched in 1996 and public works organised by the Public Employment Services (PES) in 1997. (Csoba 2010) These three programs did not differ substantially in terms of content, but they did vary by funding mechanism and by responsible body. (Bördős 2015) Public works wages were equal to the minimum wage in each.

The volume of public works was significantly expanded by the *Road to Work* programme introduced in 2009 by the second Gyurcsány government (2006-2010, socialist), which had two stated functions: to reinte-

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<sup>8</sup> For a detailed description of the data set used see Cseres-Gergely–Molnár (2015). There is no standardised public works inventory for the years preceding 2011. Data from the period after 2014 are not available; to assess that period, the authors relied on statistics published by the MI from 2013.

grate participants into the open labour market and the so-called *work test*; that is excluding individuals not willing to participate in public works from receiving benefits i.e. a classic workfare programme. (Csoba 2010) State funding for public works organised by municipalities significantly increased, which resulted in an increase in the average number of public works participants at public institutions from 31,000 in 2008 to 61,000 in 2009 and 87,000 in 2010 (Central Statistical Office, CSO 2011).

The expansion of public works was accompanied by the reversal of the minimum family income-type social assistance system introduced in 2006, abolishing its minimum family income character. For the employable long-term unemployed who were not offered a place in public works by their municipality, a standby support of 28,500 HUF was introduced, which was less than social assistance (Cseres-Gergely–Molnár 2014). The expansion of public works organised by municipalities was partly a response to the increasing unemployment resulting from the unfolding crisis but political pressure by mayors belonging to the governing parties to reduce social assistance also played a role (Fazekas–Scharle 2012, Varró 2008).

The second Orbán government (2010–2014, right-wing) merged the previous system of public works at the beginning of 2011 and assigned the public works system to the Minister of Interior, establishing the peculiar Deputy State Secretariat for Public Works and Water Management. This was in line with the general centralisation efforts of the government according to Szikra (2014). As a result of this measure, the supervision of PES was split: public works have since then belonged to the Interior and the remaining ALMPs to the Ministry of National Economy (called Ministry of Finance since 2018). However, since 2015, this has been the case only for technical supervision. In that year the National Labour Office of the Ministry of the National Economy was dissolved and the entire PES network was incorporated into the county and district government offices as employment departments or offices. They are now under threefold governance. As a result, decision-making on the content of public works and other ALMPs is now made at the political level.

In September 2011 the gross public works wage decreased to less than three-quarters of the minimum wage, amounting to a 22 percent reduction in its net value. The amount of the public works wage relative to the minimum wage remained unchanged until 2015 but from 2016 onwards it fell by 5 percentage points annually, reaching 59 percent of the minimum wage in 2018. The new regulation stipulated that anyone wishing to receive unemployment assistance is obliged to accept the public works ‘job’ offered, regardless of their educational attainment or qualifications.

In January 2012 the standby support of 28,500 Ft, renamed employment substitution assistance, decreased to 22,800 HUF/month and the amount of available social assistance was limited regardless of family size “so that the amount of assistance received in the social benefits system should not become a disincentive to work”<sup>9</sup>. This amount has remained unchanged to date.<sup>10</sup> The law<sup>11</sup> allowed municipalities to withdraw this amount if they did not find the living environment of the family adequately tidy—i.e. room for subjective and partial decisions at the local level.

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9 The justification statement of Act CVI of 2006 on Public Works and Other Acts Related to Public Works, <https://www.parlament.hu/irom39/03500/03500.pdf>.

10 The mid-market rate of the Euro was about 290 HUF in 2012 and 320 HUF in 2018, see <http://mnbkozeparfolyam.hu/>

11 Act CVI of 2011.

While government communication emphasised that public works were significantly expanded in 2011 (see KIM 2012: 30), in fact, there was a considerable decrease.<sup>12</sup> The budget for public works fell to two-thirds of the earlier figure. It partly resulted from a reduction in the public works wage on 1 September but primarily from the decrease in the average number of public works participants (Table 1).

*Table 1.*

*The average headcount of public works participants, average duration and cost of public works, 2011–2016*

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Average headcount, thousand persons	(87) <sup>a</sup>	76	113	133 <sup>b</sup>	190 <sup>b</sup>	208	223	179	113
Average duration, months	-	3.9	5.9	5.2	6.3	7.2	7.8	7.5	-
Public expenditure, actual, billion HUF	101	66	132	171	225	254	268	266	-
Public expenditure, planned, billion HUF	-	64	132	154	184	270	340	325	225

Source: Data on headcounts and average duration: For the period 2011–2014, Bakó–Molnár (2016: Table 8 and 9). The source for data on headcounts for the period 2015–2018 is <http://kozfoglalkoztatás.kormány.hu/a-kozfoglalkoztatás-adatai-terkepen>, and for the data on duration is the Ministry of Interior (2016, 2017 and 2018).

Budget data: relevant annual Budget and Final Accounts Acts. Final accounts data for 2010–2011 are obtained from the publication of the State Audit Office (2013).

<sup>a</sup> KSH (2012). There are no comparable data for 2010 since the 87,000 persons indicated by CSO statistics only includes the state sector and therefore does not include for example participants working at municipality-owned firms. The figure significantly underestimates the actual numbers. Based on this, the number of participants was probably between 95 and 100,000 in 2010.

<sup>b</sup> According to the MI statistics, the average number of public works participants was 127,000 in 2013 and 179,000 in 2014. The difference may be due to the MI taking account of average headcounts on the closing day of the months, while Bakó–Molnár (2016) took each day into account.

The changes introduced in 2011 were based on the assumption that, by reducing unemployment assistance and tightening eligibility conditions the unemployed would be encouraged to take up employment and unemployment would decline accordingly (Cseres-Gergely–Molnár 2014). However, as a result of the crisis, demand for low-skilled labour remained low and unemployment did not change significantly (Table 2). Because of the decreasing public works wage and social assistance and the decline in the extent of public works, the income of the poor plummeted. This was shown by the increase in the number of people living in material deprivation from 21.6 percent in 2010 to 26.3 percent in 2012.<sup>13</sup>

In 2012 there was a complete reversal, and the budget for public works, and consequently the full-time equivalent headcount, doubled. Public works expenditure increased dynamically until 2016. This also had a profound impact on allocation processes. While during 2011–2014 funds were scarce, although to a decreasing extent, in 2015–2017 there were ample funds available. In both 2013 and 2014, the scarcity of funds was indicated by a mid-year amendment to the budget. In 2013 it was primarily due to seasonal public works during

<sup>12</sup> The reduction in headcounts could be presented as an increase because the competent ministry units only published the number of persons involved in public works in these years, that is, how many persons were involved in public works in a given year, regardless of the duration spent. According to this method, employing 12 persons for one month counts 12 times as much as employing 1 person for 12 months, even though they are regarded as equal when calculating average headcounts data. As opposed to previous years, in 2011 public works participation lasting 1–3 months prevailed (Table 3). Considering the number of participants, there actually was an increase (Tajti 2011 and Tajti 2012). This is of interest, because even the prevailing opinion in the profession is often that public works expanded in 2011.

<sup>13</sup> [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_mddd11&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_mddd11&lang=en)

the winter of 2013-2014, while in 2014 it was primarily due to an increase in the volume of public works before the general elections (Bakó–Molnár 2016). However, since 2015, the budget for public works has not been fully used up; budget figures have responded to the improving labour market situation with a considerable delay.

Participants increasingly became stuck in public works: the average time spent in public works in a year continuously increased between 2011 and 2016 and only decreased slightly in 2017. Although official statistics include public works participants in the category of employees and they are temporarily removed from the unemployment register, the large majority of them can in practice be considered unemployed. Hence, the actual employment problem is more serious than indicated by the unemployment statistics (Table 2).

Table 2.

*The unemployment rate and the share of public works participants among the labour force aged 15–74, %*

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Unemployment rate	11.2	11.0	11.0	10.2	7.7	6.8	5.1	4.2	3.7
Percentage of public works participants	-	1.8	2.6	3.1	4.3	4.6	4.9	3.9	2.4

Source: Unemployment rate: [http://www.ksh.hu/docs/hun/xstadat/xstadat\\_eves/i\\_qlf001.html](http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qlf001.html).

Rate of public works participants: authors' calculation based on data in Table 1.

## PLANNING PUBLIC WORKS

The headcounts of public works participants and the mechanism of allocation vary across the different types of public works. In terms of planning, there are three main types since 2011: national public works, decentralised planned public works and district Start Work model programmes. Decentralised planned public works comprise two forms: short-term public works, phased out in 2011, and a long-term type, still in operation—they only differed in duration. In long-term public works, primarily duties related to local public functions are carried out, while model programmes involve some direct value-added activities with potential revenues, which may be spent on employment. Model programmes may also aim at asset-intensive municipality management and development activities.

Some of the model programmes are countrywide but the vast majority of them are district-level. District model programmes can only be initiated in municipalities of disadvantaged districts or in disadvantaged municipalities of non-disadvantaged districts.<sup>14</sup> This arrangement aims to provide more public works opportunities for the less developed municipalities.

National public works account for about one-fifth of all public works, while the other two types fluctuate but have more or less similar volumes. The strikingly high share of long-term public works in 2014 was due to the extraordinary seasonal public works organised in the winter of 2013–2014. The interviews suggested that

<sup>14</sup> The development level of municipalities and districts are measured with a composite indicator calculated by the Central Statistical Office, the content of which is specified in Government decrees 105/2005 and 375/2010. Districts with a value of the composite indicator below average belong to the so-called *favoured* category. This category contains the category of districts *to be developed* and those districts in the worst situation belonging to the lowest 10 percent are called *to be developed with a comprehensive programme*. There is a similar country-wide ranking performed for municipalities, and those belonging to the lowest third qualify as favoured municipalities. For the purposes of easier understanding, throughout this study we use the following terms for categorisation of districts respectively: *disadvantaged*, *very disadvantaged* and *most disadvantaged*, and *disadvantaged* with regard to favoured municipalities.

the decrease in the share of model programmes from 2015 onwards was mainly due to saturation; fewer and fewer programmes have been launched; moreover, these are mostly from where the primary labour market attracts workers.

*Table 3.*  
*The average headcount of public works participants broken down by type of funding 2011–2018, %*

	2011	2012	2013	2014	2015	2016	2017	2018
Short-term	53	0	0	0	0	0	0	0
Long-term	21	67	31	49	36	43	44	44
National	20	33	20	20	20	19	19	17
Model programmes <sup>a</sup>	0	0	49	31	44	38	37	39
Other <sup>b</sup>	6	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100

Source: 2011–2014: Bakó – Molnár (2016: Table 10); for the remaining years <http://kozfoglalkoztatasi.kormany.hu/a-kozfoglalkoztatasi-adatai-terkepen>.

<sup>a</sup> In 2011 and 2012 the public works dataset did not specify model programmes as a separate type of funding.

<sup>b</sup> The category ‘Other’ includes three schemes terminated after 2011.

The programmes are planned in the Ministry of Interior (MI), where, as a first step, the expected trends of the following year are determined based on earlier experience. In this phase, forecasts from national public works providers and municipalities are obtained. The MI provides the forecast data for the Ministry for Economy. Interviews in the Ministry showed that the over-budgeting of public works in 2016 was a result of political decisions, regardless of the technical preparations. Overall, decisions on the volume of public works, their proportion relative to other ALMPs and the launch of large projects were subject to *political rather than technical considerations*.<sup>15</sup>

After the main budget figures are determined by ME, planning takes place in the MI. The appropriation is divided into a decentrally used part and a centralised budget. The decentralised budget is spent on long-term public works, while the centralised part is allocated to the other two types. *The Minister for Interior decides on the budget of each public works programme in the centralised budget, while the MI allocates funding from the decentralised budget to the counties, which distribute it to the districts, which in turn distribute it among public works providers.* Planning starts with national public works and model programmes and the development of planning aids and guidelines constitute an important part of the process.<sup>16</sup>

As for district model programmes, municipalities submit a request for funding for assets and human resources to district employment offices, which are aggregated at district and county level and then approved by

15 A typical example is the seasonal public works, combined with training, in the winter of 2013–2014, lasting until the general elections, when a headcount of 100,000 had to be distributed among the counties, down to the municipal level. In the preceding years, the lack of public works in winter had caused serious social problems.

16 The national public works providers interviewed said that after 2011, for several years, the Ministry defined the headcounts they had to employ. This was especially true for organisations managed by the MI, such as water management bodies. The prescribed headcount often exceeded reasonably manageable headcounts but the organisations under direct government control were not in the position to negotiate, therefore they organised many public works relying on manpower instead of existing machinery.

the IM. The planning guidelines specify the unitary cost per public works participants annually for the various types of public works (even model programmes have several sub-types). The technical supervision of the programme is carried out by the county employment office below a certain budget but above that, the approval of the MI must be obtained. In this case, the competent department of the MI decides whether it is necessary to conduct a so-called *plan negotiation*.

The representative of the public works provider, the competent officials of the MI and county and district employment professionals participate in the plan negotiation and the result is approved by the Minister for Interior, based on which a contract is concluded with the mayor. *The most important questions considered during plan negotiations include whether the assets included in the budget are truly needed for carrying out the planned activities*, a sufficient number of participants may be employed by their use and after their purchase how many participants the municipality undertakes to employ for how many years in public works or in the social cooperative it establishes. This provides scope for the techniques of *plan bargaining*, based on information asymmetry, which were well-known in the time of the communist planned economy. Developing adequate concepts, drafting plans and choosing fitting tactics require sufficient skills from senior municipality officials.

For long-term public works, the MI defines headcounts and budgets for the counties, as well as the criteria for their utilisation. County budgets are further distributed by county employment offices among districts, which in turn distribute them for municipalities. The MI uses the number of registered unemployed for the previous year as a starting point, applying a multiplier of 1.5 for recipients of employment substitution assistance. A major motivation for using this formula is the government's aim to reduce the number of those receiving employment substitution assistance and involve as many of them as possible in public works.

The headcounts for long-term public works are proportionately allocated between counties based on indices obtained in this way and then amended with specialist estimates: counties that did not manage to 'use up' the allocated headcount in the previous year are allocated less, counties with tensions are allocated more.

The interviews showed that *counties are aware of the principles of decentralisation and the formula used but the districts are less aware*. Further distribution of the budget for long-term public works is not regulated centrally beyond the legal regulations but there are always expectations that are useful to take into account, such as the above-mentioned winter public works of 2013–2014, when districts were expected to involve the number of participants planned centrally. When a municipality did not manage to enrol the sufficient number of participants in training, they tried to persuade neighbouring municipalities to 'give' them more people. It was the interest of municipalities to meet such expectations because they presumed it would have a positive impact on the assessment of their future requests and, according to the interviews, it did indeed do so.

Except in national long-term public works, it is not the staff of employment offices but municipalities that make a decision on the selection of public works participants and in this way participants are at the mercy of local powers, especially mayors.

#### THE REGIONAL DISTRIBUTION OF PUBLIC WORK BETWEEN 2011 AND 2014

Czirfusz (2015) reported that the regional distribution of public works headcounts does not support the targeted reduction of unemployment. He compared the number of public works participants and that of the registered unemployed. This study relies on this approach, with the slight modification of taking account of the number of the long-term unemployed (unemployed registered for more than a year) instead of the registered unemployed, since public works participants are mostly selected from the former.

It further complicates matters that officially *public works participants are not included among the registered unemployed*, and in this way, it may happen in small municipalities that there are public works participants but the number of the unemployed is zero. In 2014, in more than one-fifth of municipalities with a population of less than 500, there were no long-term unemployed persons statistically. Therefore, to give a more realistic picture when assessing the regional distribution of public works herein, the number of public works participants is compared not only to the long-term unemployed but to the total of the long-term unemployed and public works participants broken down into regional units. This ratio is termed *public works ratio*. The public works ratio is more strongly associated with the number of public works participants than when using the total number of unemployed instead of the long-term unemployed or when using the formula of the Ministry of Interior presented in the previous sub-chapter. This suggests that the follow-up amendment with specialist estimates shifts the values obtained with the formula towards the distribution based on the number of the long-term unemployed. (See Molnár–Bazsalya–Bódis 2018)

The public works ratios of districts in 2014 compared to the national average are presented in Figure 1, broken down by total public works and the types of public works.<sup>17</sup> The value ranges widely: there are districts with a quarter of the national average and there are ones with nearly double the national average. The variation between municipalities is significantly higher than this, even among municipalities belonging to the same category of size. (Molnár–Bazsalya–Bódis 2018) The distribution of district model programmes is in accordance with the categories of districts as disadvantaged, very disadvantaged and most disadvantaged; however, the distribution of long-term and national public works is not at all in line with these categories. Districts with a better labour market situation *were compensated with long-term and national public works because they were not eligible to model programmes* (only their disadvantaged municipalities are eligible if they have such municipalities).

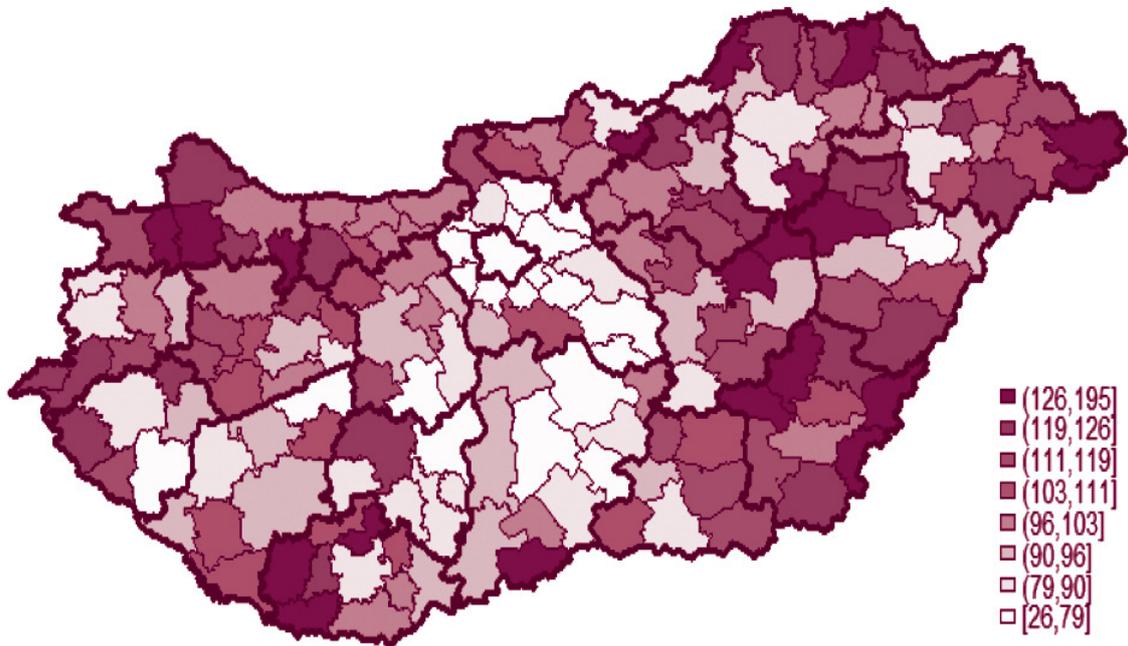
In certain cases this compensation, e.g. in Western Transdanubia, which has a particularly good labour market situation, turns into overcompensation, as seen in Map a) of Figure 1. The interviews in this study confirm that districts that are not eligible to launch model programmes are allocated more long-term public works in the county-level distribution process. There are two factors playing an important role in this: municipalities are now nearly impossible to manage without public works, and, additionally, better-off districts usually have stronger negotiating powers.

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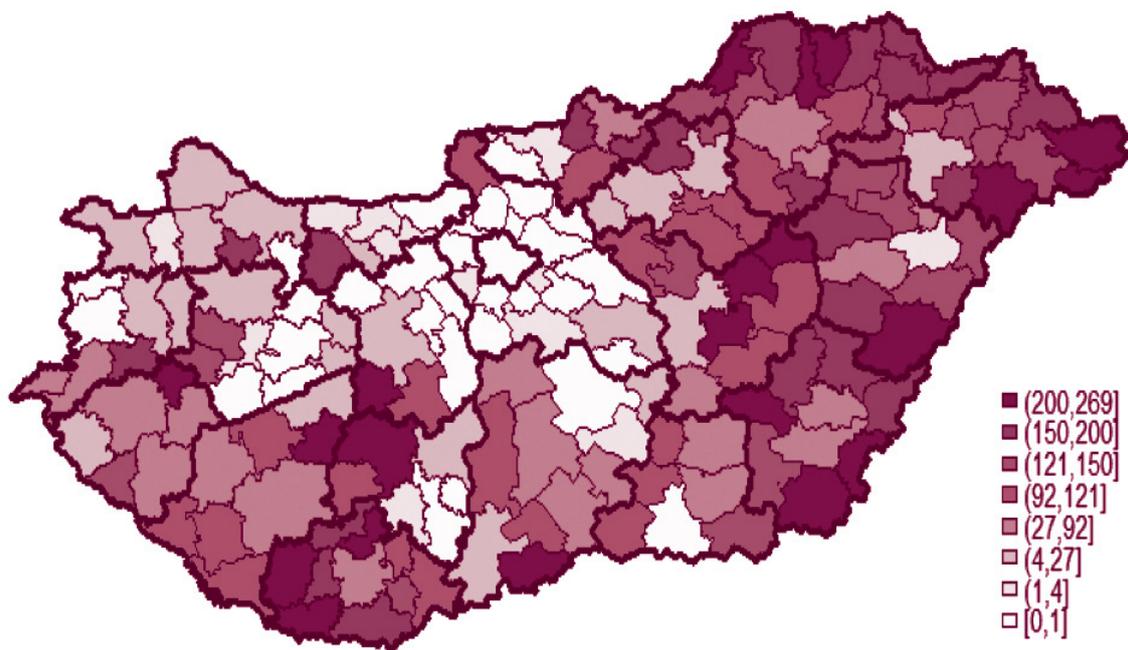
<sup>17</sup> We wish to thank Balázs Reizer for the maps and the related estimates.

Figure 1. Public works ratio by districts, as a percentage of the national average, broken down by public works types, 2014

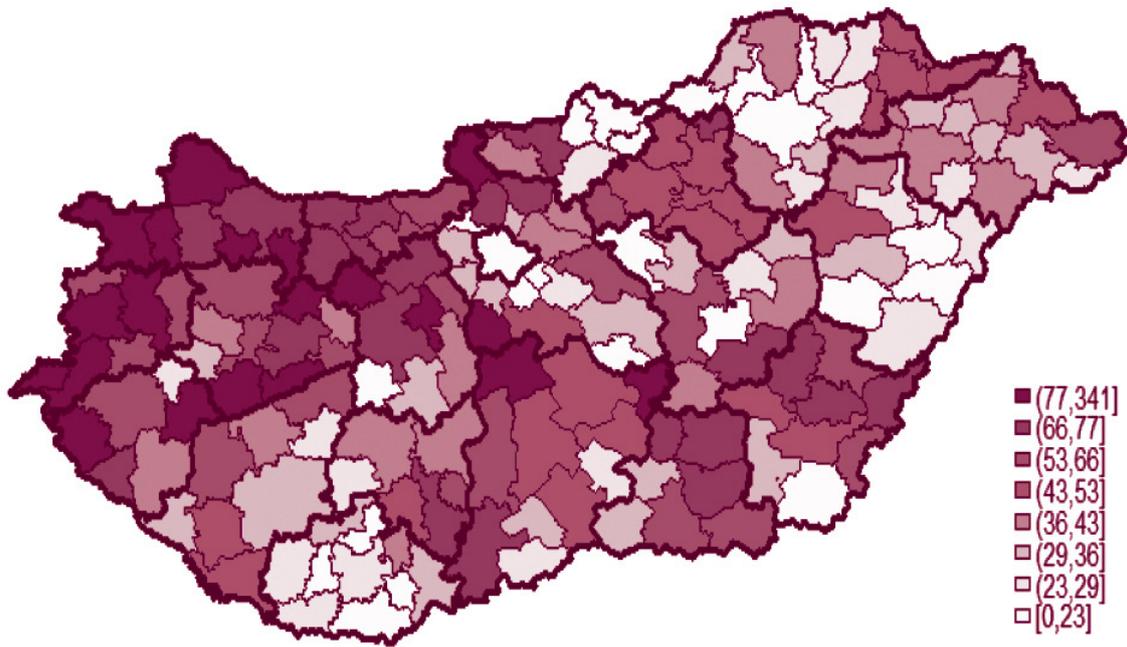
a) Total public works



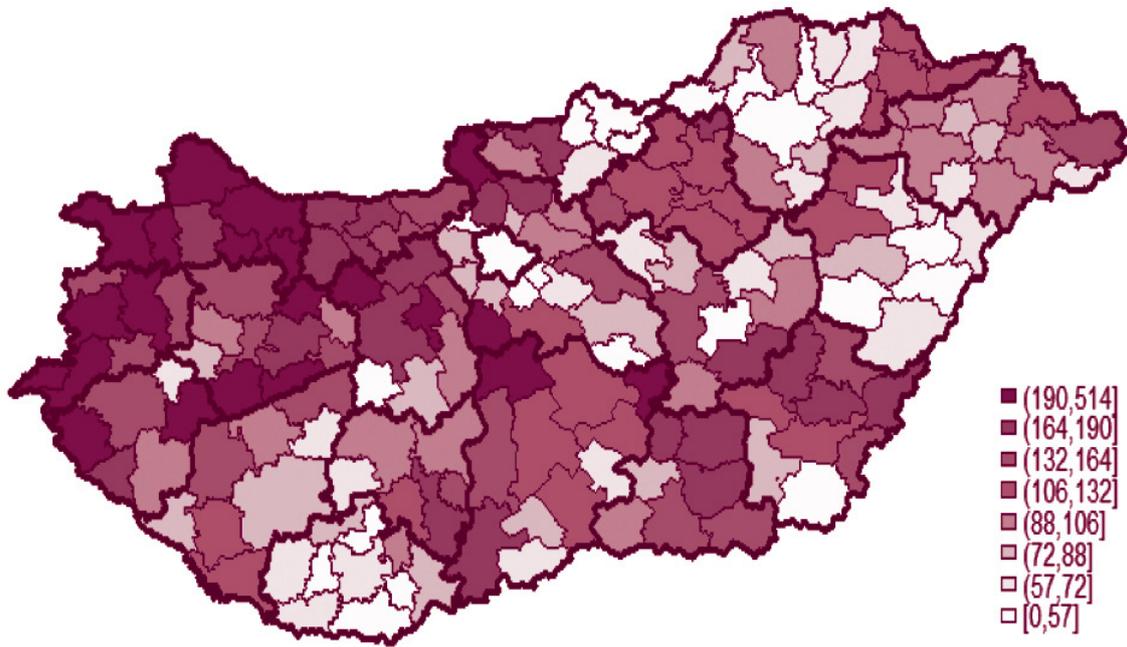
b) District model programmes



c) Long-term public works



d) National public works



We used linear regression to assess factors affecting the regional distribution of public works, examining which factors make public works differ from the level proportionate with the number of long-term unemployed (Table 4). The estimation was undertaken separately for total public works and each of the various types. We only present results for 2013 and 2014 because data on model programmes are only available for these years. The coefficient of the population size of municipalities is significantly negative, except for long-term public works, i.e. *the larger a municipality is, the lower is the proportion of public works participants relative to the long-term unemployed*. This is a general pattern in each region: the public works ratio monotonically decreases with municipality size, even with a fairly detailed breakdown of municipality size (Molnár–Bazsalya–Bódis 2018).

Table 4. Estimates of factors affecting the regional distribution of public works, broken down by total public works and the various types

Dependent variable:	Total public works		Model programmes		Long-term		National	
	2013	2014	2013	2014	2013	2014	2013	2014
Explanatory variables								
Predicted public works <sup>a</sup>	0,8**	0,9**	0,9**	0,8**	0,9**	0,9**	0,6**	0,8**
Population, thousand persons	-2,2**	-1,8**	-1,9**	-1,5**	0,0	0,1*	-0,3**	-0,4**
Disadvantageddistrictb	8,6**	6,5**	10,6**	7,8**	-2,3**	-1,0	0,3	-0,3
Very disadvantaged district <sup>b</sup>	17,7**	13,5**	20,7**	17,2**	-4,4**	-3,0*	1,3	-0,7
Most disadvantaged district <sup>b</sup>	20,8**	21,3**	24,8**	24,2**	-3,6**	-1,0	-0,4	-1,9*
Disadvantaged municipality	-6,5**	-4,6**	-2,6	0,7	-0,7	-1,8	-3,2**	-3,6**
Temporarily favoured municipality <sup>c</sup>	5,3**	5,4**	8,8**	10,3**	-0,6	-1,4	-2,8**	-3,5**
Constant	6,4**	7,4**	-2,0*	-2,2**	3,0**	4,0**	5,3**	5,6**
R2	0,87	0,94	0,57	0,50	0,94	0,97	0,60	0,80

Notes: Ordinary least square regression; \* significant at 5% level, \*\* significant at 1% level.

<sup>a</sup> The level of public works if the distribution were precisely in line with long-term unemployment.

<sup>b</sup> Disjoint categories were applied: disadvantaged districts do not include very disadvantaged, and very disadvantaged districts do not include most disadvantaged ones.

<sup>c</sup> Municipalities that do not meet the criteria for disadvantaged municipality but a government decree temporarily entitled them to launch a model programme.

The more disadvantaged a district is on the national ranking, the more public works participants it has proportionately. This is clearly due to the model programmes, in accordance with the intention of the regulations. This is why it is surprising that the coefficient of the disadvantaged municipalities is significantly negative. More than 90 percent of disadvantaged municipalities are located in disadvantaged districts. If the coefficient of disadvantaged municipalities is split into two according to the location in a disadvantaged or non-disadvantaged district, the coefficient of the latter does not significantly differ from 0 (this is not presented separately). This implies that *in disadvantaged municipalities of disadvantaged districts there are relatively fewer public works participants*. In temporarily favoured municipalities<sup>18</sup>, which are relatively better off, this tendency was not seen.

18 These municipalities used to be in the category of disadvantaged in earlier rankings, but due to favourable changes no longer belong there, but they were temporarily allowed to run model programmes.

The estimation confirms that long-term public works, especially in periods when the volume of public works is lower, partly compensate for the impact of model programmes favouring disadvantaged districts. National public works include particularly few disadvantaged municipalities. The interviews indicated that it is primarily due to their remote (less accessible) location.

In summary, the *planning and allocation mechanism of public works results in impacts different from the stated objectives*. The mechanisms leading to this are discussed in the following sub-chapter.

### EXPERIENCES OF MUNICIPALITIES OF PROVIDING PUBLIC WORKS

About 80 percent of participants of public works programmes are employed in district Start work model programmes or in long-term public works, indicating that public works are largely provided by municipalities. They are in charge of organising, coordinating and operating public works. Based on interviews with mayors, the experiences of municipalities are explored below.

With the expansion of public works programmes and the reduction of the tasks and responsibilities of municipalities, operating public works programmes has recently become the most important task of small municipalities in disadvantaged regions. As a result of the reorganisation of responsibilities, municipality management and town planning have become key responsibilities of municipalities. Partly as a result of changes in funding, several municipality management duties are carried out relying on public works, including clerical support, cleaning (maintenance), maintaining roads and green spaces, kitchen support, social care as well as duties related to cultural and leisure activities. It is against the interest of municipalities that their reliable and independent public works participants find a proper job, because it may even jeopardise the fulfilment of municipal responsibilities.

Municipalities often have to employ and integrate a number of public works participants equalling the headcount of a mid-size firm. The programmes are financed by the Public Employment Service through an allocation mechanism described above. The primary aim of public works would be to provide a kind of transitional or temporary employment until participants find a job in the primary labour market. However, in the district model programmes, quasi-farms and factories were established. In this way, municipalities must aim at two conflicting goals: to support the reintegration of public works participants into the primary labour market, on the one hand, and to operate and maintain the (public works) programmes, on the other hand. This is a major problem if turnover is high and/or the participants needed for the operation of the programme are those exiting to the primary labour market. As a consequence of this, public works often hinder integration to the primary labour market, as mayors attempt to keep employable people within the programme, since without them its implementation is in jeopardy. This problem has become significant in recent years due to the expansion of the labour market. Instead of assisting the employment of certain public workers the administrative pressure that goes with programme implementation is more important for mayors and often for the PES connected to them.

The interviews revealed that most municipalities try to take maximum advantage of public works because, after the transfer of schools to state responsibility and the reorganisation of service responsibilities with the establishment of the district level, the only major source of revenue for municipalities (especially small

rural settlements, the majority of Hungarian local governments) is funding for public works. Municipalities are only able to accomplish their development goals by relying on material and tangible investment in public works. Planning is often based on reverse logic: first municipalities estimate what fixed assets and funds they need and then they determine the corresponding headcount. In summary, the majority of duties fulfilled by municipalities through public works have to be fulfilled anyway, though municipalities could probably fulfil them with a smaller staff. In fact, the so-called ‘unemployment within the gates’, common in centrally planned economies, was reproduced by municipalities in the Hungarian public works programs.

Public works also creates organisational problems. Municipalities lack the expertise of how to manage a headcount of a mid-size firm. Additionally, the middle management level is often missing: in disadvantaged areas, there are no employees who would be skilled and able to perform this task or they are already in the primary labour market. *One of the greatest weakness of public works programmes is that while they should integrate vulnerable groups into the labour market, they do not provide any mental and social services.*

The sustainability of the programmes is also challenging. Although the aim of establishing social cooperatives was to ensure the long-term viability of some of the programme elements without subsidies, we have not seen any examples of that. Goods produced by public works programmes may be sold by municipalities and there are some good examples. However, municipalities typically do not like to make efforts to sell them and these (primarily agricultural and artisan) products are usually not of marketable quality and quantity. If municipalities cooperated and established producer and marketing cooperatives to enter markets with larger quantities and standardised quality, they would be more likely to earn revenues. However, in this case, there would be a risk of distorting the market: goods produced with subsidised materials and human resources would enter the market and may force already existing enterprises out.

Public works have also significantly influenced local power structures: it may create local conflicts that the mayor is both the employer and elected official of public works participants, who vote for or against them in elections. This introduces a structural conflict that diminishes the efficiency of public works, on the one hand; and, on the other hand, mayors may use the selection of public works participants as a political weapon. Public works did not make people more vulnerable but in many cases they were based on already vulnerable relationships. Nevertheless, we found several rural settlements where the coordination and administrative functions of the state had been missing before but, due to operating public works programmes, mayors suddenly faced numerous administrative tasks: write daily reports and coordinate a substantial part of the life of the village. As opposed to a few abuses of power, extensively covered by the media, we found that *public works participants and mayors are generally dependent on each other*. Public works participants need this kind of work because the wages are higher than social benefits, while mayors need public works participants to manage the municipality and receive funding for investments. However, the system performs well neither in its regulatory environment nor in its functions. *Municipality management, social functions and labour market integration alike may be fulfilled more efficiently with other tools than in the current system*. This does not mean that public works programmes are not needed at all but that, due to its present volume and (recently slightly decreasing) exclusivity, it is not an adequate tool and crowds out funding for other policies. Nevertheless, it

has significantly contributed to the (slight) reduction of social tensions in disadvantaged rural areas. (Koltai et al. 2018, Váradi 2016)

*Smaller municipalities are more dependent on municipality management and development funding provided by public works, and the importance of informal relationships is greater, thus the social dimension of public works is more pronounced.*

At the same time, there is substantial variation between municipalities of the same size: the share of public works strongly depends on the competences and ambitions of mayors, i.e. to what extent they are able to and wish to apply for programme calls. Consequently, there has been a *shift in the competences required for being a mayor*: in small municipalities, mayors are considered successful if they are able to and dare to make use of public works programmes, which also requires entrepreneurship skills. In a mid-size municipality, the number of potential public works participants would reach several thousands. However, there are not enough potential middle managers to coordinate and provide work for so many workers and it is impossible to design so many programmes.

Moreover, *mayors are under double pressure*: they are accountable to the general public of the municipality for the work of public works participants, while they also have to motivate those participants to work for wages lower than the minimum wage. They often have to engage people without experience in the formal labour market and with serious health and mental health problems in regular work, and mayors usually lack both expertise and tools to do that. If they expel participants, the implementation and funding of programmes may be jeopardised; if they do not then the general public of the municipality will hold them accountable if public workers do not work.<sup>19</sup> However, in small municipalities, where nearly everyone is unemployed, this external ‘control’ from the general public is missing, thus it does not prevent the municipality from employing nearly all unemployed as public works participants, basically using it as a kind of social assistance. The larger the municipality and the more inhabitants work in the primary labour market, the stronger the controlling effect of the general public.

On the whole, municipalities have to be able to assess how many people they are able to coordinate without jeopardising the implementation of the programmes and risking acceptance by the public. *The headcounts of programmes therefore depend very much on the competences and ambitions of the mayor and the number of available competent staff* at the municipality to manage the programme. In disadvantaged small municipalities, the lack of expertise is the main problem, while in mid-size municipalities the number of potential public works participants makes it impossible to include everyone. This is the reason for the differences between municipalities in the share of public works participants relative to the unemployed.

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<sup>19</sup> The general public has become prejudiced against public workers over the years: the image of them leaning on their brooms or shovels or smoking cigarettes in the shade has become deeply ingrained in the thinking of the majority. Some have increasingly regarded the system as a public service: for example, those who kept the area in front of their house tidy for decades, now tend to phone the local council to send someone to tidy it up if it is becoming weed-ridden.

The government of Hungary issued a government resolution in March 2017<sup>20</sup> to restrict the number of public works participants administratively, stipulating that people under the age of 25 or with a vocational qualification can only be recruited to public works in exceptional cases. As mentioned before, there has also been a significant spontaneous decrease in the headcounts of public works. *The decrease was partly due to the expansion of labour demand in the primary labour market and the considerable increase in the difference between the minimum wage and the public works wage*, which made formal employment more attractive.

The decline in public works posed at least as many problems for municipalities as had its rapid expansion previously, albeit different ones. In the Start work model programmes, significant production capacities have been developed over the past few years aiming at establishing a self-sufficient local social economy in the long run. The majority of the programmes were agricultural but small-scale industry and artisanal activities also represented a significant share. As a result, several novel social cooperatives have been set up in the country. Experience shows that however much these programmes contributed to public catering in local institutions and maintaining and improving local infrastructure, they have not been able to become self-sustaining. Furthermore, the expansion of the primary labour market absorbed precisely those professionals needed for the operation of these programmes. *At present a large proportion of remaining public works participants are impossible to integrate into the primary labour market without human capital development and assistance* and they are also employable with greater difficulty even within public works due to their social, health and mental problems. Municipalities thus face lower headcounts and less employable participants, which hinders the implementation of the programmes they have already launched. The future of recently developed capacities is therefore uncertain.

*Public works played a major role in fulfilling municipality management and town planning duties* in recent years due to the prior reorganisation of local government tasks and diminishing funding. Decreasing headcounts have so far not been compensated by the amendments made to municipality grants; consequently, it is what sources municipalities will be able to fulfil these responsibilities is an open question.

Relying on fewer and more vulnerable workers, it is equally uncertain what role public works are going to play in the social, employment and municipality management fields.

### THE ROLE OF THE PUBLIC EMPLOYMENT SERVICE

Public employment services organise the support of low-qualified job seekers at risk of long-term unemployment. The efficiency of such services is fairly low internationally, which the organisations of some countries try to improve with development strategies and practical projects. The role of the employment service staff is discussed below, based on interviews conducted in county and mostly district offices of the employment service.

The most general service offered is the provision of labour market information, that is finding and publishing vacancies. Both job seekers and employers have a high share of those who are less successful in finding

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<sup>20</sup> Government decree 1139/2017. (III. 20.) Korm. on certain labour market measures. See: <https://net.jogtar.hu/jogszabaly?docid=A17H1139.KOR&timeshift=ffffff4&xtreferer=00000001.TXT>

a job or an employee. It is even more significant at the time of economic growth, when a large number of jobs are created in the primary labour market, which in principle may provide alternatives to public works.

If employers think that the employment office does not sufficiently consider their interests, in other words they are not satisfied with the quality of job seekers sent, they will not use the service in the future. It is the official task of the public employment office to check if the unemployed are eligible for assistance: if they take the necessary steps to find employment and accept suitable job offers.

It would be unacceptable for employers if the public employment office – exercising their legal right – checked the eligibility of all unemployed individuals at their expense. On the other hand, some low-paying companies or those with unattractive working conditions may decide to recruit by relying on threats of exclusion from benefits.

Larsen and Vesan (2011) conducted an interview-based survey at 40 private firms in six European countries (including Hungary) on why public employment services are not successful in supplying low-skilled labour and they also classified the roles observed. The authors highlight the importance of motivating the parties involved and having a suitable development strategy and efficient procedures.

The most complex and at the same time the most promising strategy for public employment offices is radically to leave behind their traditional conflicting roles and only indirectly participate in the process. They support autonomous information-seeking, and create a virtual labour market, where it is the interest of job seekers and employers to provide precise information on themselves and the process is made accessible for disadvantaged job seekers. The behavioural eligibility of receiving cash benefits is verified by interviews on autonomous job search. In order to screen job seekers according to their skills and support them in gaining work experience, job placement is combined with other active labour market policy tools, such as mentoring or short-term wage subsidies. This is part of the activation policy, which is becoming widespread in the majority of developed countries, discussed in the introductory chapter of this study.

When developing the Hungarian public employment service, this combined model was included in the modernisation recommendations drafted in EU co-funded projects before EU accession. An essential element of the model is profiling, also mentioned in the introductory chapter, which is the classifying procedure supporting the orientation of clients among the various services. (Bódis 2012)

Although programmes have been launched to introduce several elements of the model, the systemic development and operation of the public employment service has however not been compliant with these recommendations since the EU accession of Hungary. It does not fit in any of the categories of roles described by Larsen–Vesan (2011), although it includes elements from each of them.

The employment service has initiated the use of a simplified form of profiling several times but it has not had a significant impact on either targeting services or distributing capacities (Cseres-Gergely–Scharle 2010, Bördős–Adamecz–Völgyi–Békés 2018).

While in other countries the mutually supporting procedures of assistance and verification are undertaken by employment service staff, in Hungary a large share of tasks of the employment service has been taken

over by the central administration and municipalities. However, none of them can substitute for the measures of active labour market policy that guarantee efficient intervention as described in the introduction. The incentive and controlling problems related to the take-up of cash benefits were tackled by decision makers in the simplest and worst targeted way: by dramatically reducing the time of provision. Individual support for disadvantaged job seekers can only be provided at organisations providing direct client service, and district government offices and municipalities lack sufficient capacities for that. At the latter, both economies of scale and the conflict of interest arising from their role as employers hinder the efficient support of public works participants in obtaining jobs in the primary labour market.

District employment offices have more opportunities for motivating employers and job seekers in procedures where they assume double roles as service providers and an authority than in cases when they only provide services or only act as an authority for both parties. (Bódis 2012).

Double service is primarily provided in the field of job placement, where there is an irresolvable contradiction in the practical volume of pre-screening. In addition to firms, public works providers also prefer screening and employment offices face the problem of how to distribute capable job seekers among them. National public works providers complain about the disadvantages suffered in the job placement procedure compared to municipality programmes. In addition, they and their employees have to overcome the difficulties of commuting to workplaces at changing or remote locations. Municipalities tend to contact employment offices with the list of job seekers they wish to employ; national public service providers also conform to that and their representatives often recruit participants in municipalities.

The complex relationship with job seekers and activation are less present in offering cash benefits than in offering and accepting training. Since the beginning of 2017, the law requires the employment service to increase the impact of active labour market programmes, that is, the entry of public works participants to the primary labour market. When selecting clients for training courses, PES staff tend to select the most able participant (cream-skimming), although chances for that soon diminish when there are several training courses offered at the same time for nearly identical target groups. The training courses offered by national public works providers often only prepare participants for the work undertaken at these providers; however, they rarely offer a permanent job for well-performing public works participants.

Regional public employment offices primarily contribute to organising public works at municipalities in the following three ways. They decide on long-term public works, although they have little support for analysis capabilities. Some district employment offices initiate and provide expertise for municipality model programmes and disseminate best practice. They also provide information and mediate between the competent Ministry and municipalities concerning the changing expectations of the Ministry and the interests and practices of municipalities in relation the model programmes.

## CONCLUSIONS

In 2011 the system of public works underwent comprehensive restructuring: the public works wage was reduced below the minimum wage and both the volume of public works and the amount of unemployment assistance were cut back. The changes were based on the assumption that, by tightening conditions, it is possible to diminish unemployment. The failure of this intervention led to the radical increase in the volume of public works and focusing on its social function. As a result of the transformation of the municipal system, the takeover of several municipal functions by the state and the cuts in funding, public works has assumed the function of municipality management.

As a result, the social and municipality management functions of the system of public works –originally intended to be a labour market tool – have become more significant. However, in the regulatory environment developed, none of these functions perform adequately. Municipality management, social functions and labour market integration alike may be fulfilled more efficiently with other tools than those currently applied. This does not mean that public works programmes are not needed at all but that, due to their present volume and (recently slightly decreasing) exclusivity, they are not an adequate tool. Nevertheless, they have significantly contributed to the (slight) reduction in social tensions in disadvantaged rural areas.

Dividing the technical supervision of PES and separating the governance of public works from the remaining ALMPs and placing them under the charge of the Ministry of Interior resulted in most of the technical decision-making being made at the political level. This contributed to the public works system being slow to respond to the improving labour market situation.

The mechanism of the planning and regional allocation of public works is in many ways similar to the planning procedure of state socialism. A central planner assembles the suggestions of national public works providers and municipalities and, on this basis, decides on budget figures. In the case of national programmes and direct value-adding model programmes (which account for about 60 percent of public works), the Minister for Interior decides on the budget of programmes. Concerning the decentralised funds, the MI allocates certain amounts for the counties, which distribute it among districts, which in turn distribute it among municipalities. This process provides scope for the techniques of plan bargaining, based on information asymmetry, which were well-known in the time of the communist planned economy.

The larger a municipality is, the smaller the proportion of public works participants relative to the long-term unemployed. This is, on the one hand, due to limited local capacity for work organisation and, on the other hand, due to the behaviour of those working in the primary labour market affecting decision making at the municipality. Because of the weaker negotiating powers of their senior officials, the most disadvantaged municipalities have proportionately fewer public works participants than would be expected based on the number of the long-term unemployed. The planning and allocation mechanism of public works thus results in impacts different from the stated objectives.

The system of public works has had a considerable impact on local power structures: mayors are both employers and elected officials of public works participants. This introduces a structural conflict in the system,

which reduces the efficiency of public works, and the mayor may also use it as a political weapon. Public works did not make people more vulnerable but in many cases they were based on already vulnerable relationships and entrenched them. Nevertheless, we found several rural settlements where the coordination and administrative functions of the state had been missing before, but now they emerged along with public works programmes.

The planning and allocation system of public works established structures that create incentives for municipalities to retain well-performing public works participants and not to let them leave for the primary labour market. At the same time, they are not interested in activating the least employable unemployed.

In an increasing number of countries, activation policy aims at improving employment by combining supporting services and supervising expected independent job search. When developing the Hungarian public employment service, this combined model was suggested by the EU co-funded modernisation recommendations prepared before the EU accession. In practice, neither supporting services nor the eligibility check for assistance received sufficient focus and the importance of the service decreased significantly after 2010. The task of tackling labour market problems was largely shifted from a competent network of employment offices to municipalities with no knowledge. The centralisation of some of the decisions and the decentralisation of another part resulted in emptying the middle level, which also hinders improving the efficiency of traditional employment services.

On the level of local governments, a structural conflict appeared between the effective implementation of public works programmes and the exit of public workers towards the primary labour market.

Participation in training programmes that develop skills required by primary labour market jobs is both an opportunity and an obligation for public works participants, which could enhance their future employment and would help solving the discrepancy of still having a large volume of public works and significant unemployment at the same time.

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