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**WHITE PAPER  
ON HUNGARIAN WORKFORCE**

**THE HUMAN FACTORS  
OF HUNGARIAN  
COMPETITIVENESS**



THE PRESENT AND THE FUTURE

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## FOREWORD

Dear Reader!

In 2005, when we started in the Hungarian labor market analysis, no one has raised the idea of an economic crisis. The GDP has increased every year, foreign capital flowed into the country.

IBM also took part in all this, and despite of all the difficulties Hungary has had an important role in the execution of the company's globally integrated enterprise model. The number of employees has increased permanently, so it is not surprising that our attention turned to the monitoring of the operating environment of labor market.

Over the past few years it has become clear that the greatest challenges of development of economy was to ensure the supply of skilled people. The competition for skilled labor is now underway, the worker's skills and the quality of the work has become the most important indicator in the country's international competitiveness. The economy today expects substantially different skills and conduct (from the previous ones) from the workers and the employers as well.

Due to the information communication technologies and the emergence of the globalized production forms the forms of work, opportunities have changed.

We hear much about these processes, but we have less information about what are the companies specific expectations for skills, work culture for the workers, and how an employee can successfully adapt, how can be merchantable in the labor market, through the skills and readiness.

The global economy offers huge opportunities in emerging countries such as Hungary as well. But the engaging to the international circulation and the contest are often highlighted that in many respects the Hungarian

workers' efficiency and productivity fall away from the professionals of developed economies. The well-known saying goes: as the water finds the path, the work migrates to where it can be best done. Therefore the global economic integration and even more focusing to the professionals and the rivalry to the skills and professionals. We believe if Hungary wants successful economy and growing employment he has to have competitive manpower on international level as well. In order to compose our proposals to improve the current situation, we decided to begin to examine the reasons with approaching the problem more broadly. We have initiated researches with the involvement of renowned experts and research institutes, total of 8 studies was born over 5 years and the main findings were summarized in this White Book now.

We are aware that the findings of the studies will not be judged the same way as the readers have different backgrounds, but our goal is not to be compliant to everyone. We believe a lot of constructive professional dialogue should be conducted in this topic. But arguing, opening discussion are rewarding only on the basis of fact. White Book does not make anything other than shows facts and concrete data supported by research. We hope this summary will bring benefits for those who want to improve the situation. Now IBM wants to contribute with this volume to restart professional dialogue in this issue. We plan to continue our research in this matter with hope that we can contribute to the economic and social development of Hungary.

We want to thank all the researchers and corporate professionals who have sacrificed their time to the success of this ambitious work.

Budapest, december 2010

Attila Suhajda  
and the staff of IBM Hungary

## INTRODUCTION

Following the system change, Hungary's labor market had to adapt to three different sets of structural challenges, all of them daunting even individually:

- \* A transformation from an outdated and at least somewhat artificial structure of total employment, directed by political motivations, and predominantly focused on industrial and agricultural fields, to a new order centered on modern technology and dominated by information and knowledge; this was punctuated by the loss of one and a half million jobs.
- \* The planned economy, its socialist megaliths, as well as their production attitudes and monopolies, were replaced by integration in the global market and liberalization, with the appearance of multinational corporations (and their mindset) in Hungary; a circle of small and medium enterprises also appeared, as did a whole generation of individual entrepreneurs. The overwhelming majority of companies active in the business sector today belong to the "de novo" segment of businesses – i.e. they were created following the transition, and had never existed in the old system.
- \* The previous two challenges listed here have radically rewritten earlier categories of education, training and value-creation in the labor market. The majority of jobs with low added value have been pushed out of the labor market, giving rise to the phenomenon of (structural) unemployment.

Two, at first seemingly contradictory, conclusions may be drawn based on the changes outlined above:

- \* On the whole, Hungary's labor force has been successful in transforming itself: the influx of working capital, as well as the (re)location of significant production ca-

pacities to Hungary, was assisted by a highly skilled and relatively cheap labor force. Thinking about how to further this process affords an opportunity to weigh several positive characteristics and unique features of Hungarian workers.

- \* At the same time, several unfavorable trends have also appeared on the Hungarian labor market – these are clearly manifestations of immobility, and are results of the continuous reemergence of structural problems.

IBM's companies in Hungary have, over the past four years, provided support to several research programs involved with the Hungarian labor market, to explore and present – partly for their own benefit as well as for the benefit of other similar companies and policy makers – the special features of the country's labor market<sup>1</sup>. The studies completed seemed to warrant the compilation of a White Paper, which collects and presents these findings, interprets them and draws new and overarching conclusions that so far have not been enunciated. The goal of such a review can be twofold:

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- <sup>1</sup> 1. Research on the Situation of Aging Employees in Hungary. GKleNET, 2005
  2. Hungary's Growth Potential, Criteria and Changes in Employment Policies. INFONIA, 2005
  3. Research on the Mobility of Employees in Hungary. GKleNET, 2006
  4. Geographic and Professional Mobility Among Hungarian Young People. ITTK, 2007
  5. Opportunities to Introduce the SSME Educational Methodology in Hungary. ITTK, 2007
  6. The Human Factors of Competitiveness in Hungary. ITTK, 2008
  7. Innovation in the Sector of Business Services: Opportunities to Utilize New Organizational Values and Knowledge. MTA, 2008
  8. The Hungarian Culture of Work in a Global Environment. ISES, 2008.



- \* To present the special features, status and defining characteristics of the Hungarian labor force. To promote the continuation of favorable trends and processes by using the latest research findings and unambiguous empirical data to present an accurate picture to members of the business sector and shapers of economic policy.
- \* To use the latest Hungarian and international developments and research findings to put forward recommendations on how to solve the most acute problems of the Hungarian labor market.

Disclaimer: The White Paper is not a comprehensive review of the Hungarian labor market. It does not seek to comprehensively address basic statistical data and defining features, trends and dynamics. It is merely an effort to complement these observations through a special approach and perspective. It is intended to paint a realistic picture of the current situation, contributing to the thought processes that are inevitably going on as a result of the economic crisis and to the reshaping of strategic areas. It is our hope that the White Paper will provide both the “raw material” as well as the ammunition for social scientists and the economic and political elite, by encouraging and assisting debate.



## I. THE ROAD TO THE WHITE PAPER

Hungary's economic and social problems are often seen – correctly – as being directly related to the **structural** anomalies of the country's **labor market**, the most important indicators of which are well known.

Of the **working-age population of the country**, **barely 57% are currently employed** or seeking employment; in the Scandinavian countries, this figure is between 70% and 76%. Of the approximately 3.8 million individuals employed in the country, only some 1.2 million people pay the full amount of taxes and other contributions after their salary. At the same time, Hungary spends almost twice as much on pensions as the other Visegrád countries.

As the rest of the European Union, Hungary too, unfortunately, is seeing a continuous increase of unemployment; this trend, however, is especially notable among **recent graduate young people and individuals over fifty**. What this also means, however, is that there is an abundance of labor available in Hungary.

Increasing unemployment and a demand for labor are thus present at the same time. The latter is primarily true among **blue collar workers**. This layer of society is facing tremendous difficulties as a result of a lack of adaptability and openness required to cope with rapid technological changes. Some 80–90% of new jobs require new and continuously updated skills and knowledge. It is primarily the older generation that is lacking **this ingrained culture of adaptability**, yet younger people also face similar problems. The latter group does not receive adequate preparation for this within the framework of the education system, while the over-fifty generation was never faced with the same need during their active years. Yet, unfortunately, **efforts** to equip job seekers with this skill **seldom** form a component of **educational or training programs**,

which rather address the short-term demands of enterprises offering jobs.

Hungary is living under the misconception that the country's secondary and advanced education system meets the expectations of the present. The truth, however, is that educational and adult training institutions generally do not worry about what kind of professional knowledge is required of graduates. Companies are basically left to train their own professionals to equip them with whatever knowledge may be necessary on the job. Furthermore, there are still additional opportunities in higher education: compared to the 32% average in OECD countries, only 20% of the Hungarian population possesses a higher education degree.

The regional divisions in employment and demand for labor are not offset by the low **level of mobility** among the Hungarian population. According to Eurostat figures, only 31% of Hungarian companies provide training to employees; this figure is just shy of 60% in the EU25. Only 18% of Hungarian employees participate in training programs, while the European Union average is 32%.

One important area for economic growth is **entrepreneurial activity**. The extent of this is in close correlation to job creation and economic growth. Increasing the entrepreneurial activity of already functioning companies is a key economic policy priority in every European nation. Entrepreneurial activity varies on a rather broad scale in the different EU member states, but still lags far behind the United States. Entrepreneurial and innovative companies account for only 11% of all Hungarian companies<sup>2</sup>. At the same time, Hungary's GDP per capita is only 53% of the EU average – which means the average Hungarian worker

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<sup>2</sup> László Szerb–Zoltán J. Ács–Attila Varga–József Ulbert–Éva Bodor: The Impacts of New Enterprises: An International Comparison In: Közgazdasági Szemle, LI.vol., July–August 2004. (p. 679–698).

produces one-half as much value as, for instance, his or her French counterpart.

In Hungary, **small and medium enterprises** employ approximately 70% of the labor force, while producing one-fifth of the country's GDP. Their innovation and entrepreneurial activity is also key to improving employment and working toward its structural transformation. Closely related to this is the fact that only one-third of Hungarian companies provide training to their employees, which is far below the 57% average in the EU25.

The economic and political roller coaster of the past decade, the changing trends of rising and falling, the new cultural values the individual encountered coupled with remnants of the old, socialist system, as well as the contradictions of people's behavior as they attempt to meet these challenges, have all led to an ever more **chaotic world of values and norms** in Hungary. Economic publications and journals continue to paint images of a Hungarian society lacking a vision for the future, losing its values, getting by on a low level of solidarity, a disappearing sense of security and a declining state of health. Society is lacking appropriate answers to these problems, corrective mechanisms are weak, and – as it has become clear by now – a more intense concentration on consumption has also not provided the real answers needed.

The White Paper will elaborate on these general statements by placing the following two sets of questions in the focus:

- \* **What survival mechanisms and models can be seen on the level of the individual in Hungary? What kinds of reserves and abilities do society and the labor market possess which could help move forward?**
- \* **What innovative steps could the government take, on a strategic level and in addition to well-known political initiatives, to try and move the labor market in a positive direction?**

The results of the studies commissioned by IBM's companies in Hungary, as mentioned, point to some reasons for hope. It appears that not all of the answers are disingenuous – many of the “cognitive conditions” of adaptation are actually **present, and often in a very defining way, in people's hearts and minds, as well as in some aspects of the culture.** There is, then, a basis on which we can build; though that is not to say that there is another society out there that is more positive and is very different from today's Hungarian reality, which is faced with so many problems – but there do appear to be occasional opportunities which carry within themselves the promise of a brighter future.

#### CONDITIONS FOR ECONOMIC GROWTH BASED ON HUMAN CAPITAL AND INNOVATION

In the global economic competition, national labor markets themselves become each other's competitors; accordingly, the developmental and transformational trends of the Hungarian labor market, along with its major orientations, are influenced by several global factors.

The European Commission is keenly interested in **promoting an “upward looking” and highly trained, quality labor force,** through professional training, more targeted support for R&D spending, and a drastic reduction of administrative burdens on employment and enterprise establishment. In today's rapidly changing economic environment, the **efficiency of adult education institutional structures is of critical importance.** Every additional year spent in school nets an average salary 6.5% higher on the level of the individual. On the level of society, **rais-**

**ing the average level of education by one year results in work productivity that is 5% higher<sup>3</sup>.**

Despite the economic crisis, the service sector will continue to expand to the detriment of agriculture and industry; by 2020, the service sector is expected to account for almost three-fourths of all jobs. At the same time, every branch of the economy will see a continuous rise in expectations related to skills, competencies and level of education. Global market trends are showing that the area of business services<sup>4</sup> will see an ongoing valuation, while in a technology-based industrial environment, the defining questions will be the level of labor force members' skills and abilities. Investors, additionally, are looking primarily for labor market stability and are weighing the costs of employment, the state of infrastructure and other motivating factors.

Accordingly, the European Union will need an increasing number of highly educated professionals who are **able to react rapidly** to economic and technological developments. The number of jobs requiring advanced training will reach **approximately one-third of all jobs** by 2020, while the share of jobs requiring a secondary school degree will be 50%. Therefore, it appears that individual strategies focused on learning and acquiring new skills could best contribute to ensuring the immunity of society and the economy to unexpected developments.

A transition to **low carbon-emitting industries** could bring about the fortification of new and innovation-oriented industries, which drive the renewal of the economy and advancement of technology; these industries include

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<sup>3</sup> Hungarian Academy of Sciences: An Introduction to Major International Trends Defining Hungary's Development Policies. Background document for National Development Policy Concept, July 2005.

<sup>4</sup> The number of employees working in knowledge-intensive business services (KIBS) is nearly 30% compared to all employees.

increased reliance on renewable energy resources and smart urban planning. These new industries are expected to attain further momentum as **the problems of an aging society** are addressed: healthcare services, for instance, as well as social work, personal services, tourism, adult education, etc. In the economic and financial situation of the present, economic activities that are able to retain employees or create new jobs receive the most attention.

Looking **at factors hindering** economic growth based on human capital and innovation, it has to be emphasized that the Hungarian labor force is less **open to technological advances**, and tends to grind to a halt at times of major technological shifts. Unfortunately, and perhaps surprisingly, the majority of Hungarian employers neither support nor require the seamlessness and acceleration of technological shifts. While foreign-owned corporations bring their innovations to Hungary, these only stay in the country as long as the particular company maintains its Hungarian presence. The processes and applications themselves do not reach the world of small and medium enterprises.

Nearly four-fifths of Hungarian companies employ between 9 and 49 individuals; yet the innovation-adaptation practices of these firms are essentially negligible. Thirty-five percent of these companies have not introduced any kind of **organizational innovations** in the past three years.

Hungary's **professional training** and, unfortunately, its **adult education system**, do not lay enough emphasis on meeting market demands and developing employees' new competencies and skills. The result is an education system that emits professionals who are **not equipped with the appropriate skills**. Very little of the instruction done in the framework of the regular educational system provides students with skills to meet the demands of the modern economy. Public education has been able to do very little for Hungary to work off its deficit, significant compared to other countries, in the fields of foreign lang-



uage knowledge, propensity for group work and advanced-level information literacy. In almost every age group, one encounters a low willingness to engage in additional learning or re-education to enter another field. What this means is that **employability** is still, compared to the past ten years, as great a problem as the lack of workplaces. This has led to the solidification of a rather inflexible Hungarian labor market. As a result of this, Hungary's labor market carries with it features of the Southern European model: **inflexible work**, inefficient use of the work-week and low levels of organic innovation.

Central-Eastern Europe has entered a new age in its development, that of the **establishment of the student economies**. The White Paper maintains that **economic growth based on human capital and innovation must be fostered**; relying solely on export- and investment-oriented growth is not a viable option. The development of the economy – from a technological and international market perspective – cannot depend on the situation of the labor market. The labor market cannot be a hindering factor. The condition **of the labor market must be seen as a critical element** of economic competitiveness. Efforts and tools aimed at fostering a sense of openness toward education, employability and technological innovation must be one of the primary means to emerge from the economic crisis.

The continuous development of employee skills, as well as increasing their **adaptability**, is a key element of catching up to other, more developed, nations. An internal desire to continuously maintain, expand and correct the skills and knowledge already obtained must become ingrained.

It would be of primary importance to carry out a **harmonization of training programs and labor market demands** as seamlessly as possible. There is still much to be done in this respect in Hungary, with many missing elements and many elements not clearly delineated. **Employ-**

**ment policies** often become mired with the problems of **managing the social welfare system**. Issues related to the labor market and to employment policies must be – or ought to be – discussed in the context of the economy, while social support programs are more related to the area of welfare.

It is also clear that in the **medium and long term, the performance of public education and higher education**, as well as its **adaptability**, will be critical as far as both **competitiveness** and **employment** are concerned. Both of these branches are underfinanced, face great difficulties and are increasingly lagging behind in international comparisons while desperately trying to work off their disadvantages; yet both must be elevated from the traps of ministry-level planning and control, and by becoming cabinet-level priorities must become capable of reliably and continuously supporting the renewal of the country's knowledge-base and intellectual treasures.

## II. THE HUMAN FACTORS OF HUNGARY'S COMPETITIVENESS

The values prevalent in Hungarian society 20–25 years ago have, for the most part, splintered, and the new values have not yet coalesced into a whole. A **transformation has, however, perceptibly started**. There is a significant and positive shift taking place in the value system and attitude of Hungarian employees. At the same time, however, the image foreign managers and corporate seniors, for instance, have of Hungarian employees is still rather negative (or at least the positive change is not yet apparent). Yet a **positive transformation is clearly present, primarily in loyalty, workload, willingness to learn, motivations, flexibility and cooperative skills**. It is likely that this transformation is still somewhat latent, and is most perceptible in the individuals' self-image and a transformation of their thinking; it is not yet, or not clearly, apparent in the everyday practices of major corporations.

Foreign companies operating in Hungary believe that cheap labor and **solid intellectual capital still make the Hungarian labor market very attractive**. It has to be acknowledged, however, that **education is no longer able to meet every demand** of the companies – institutions of higher education or adult training schools simply do not assess companies' needs.

Employers active in knowledge-intensive industries believe Hungarian employees have already managed to shed their old, socialist attitudes. Today's Hungarian worker understands already that he **himself is able to have an impact on the company's professional and financial success, as well as its reputation**.

**Two-thirds** of Hungarian employees believe that their own **personal performance in the workplace makes their country more successful**; 20% see no correlation between

their workplace performance and the success of the country.

One-half of employees in Hungary believe their **responsibilities in the workplace have increased** during the past six months; the number of those who saw their responsibilities decline in the same period is very low (2%).

Of opportunities to support employees' long-term plans in the workplace, financial assistance is in first place, along with a **better reconciliation of work and private life**; supporting ongoing education is only in third place.

The majority of respondents believe that **multinational companies** choose to enter Hungary as a result of low wage standards (43%), or simply because they were looking to enter a new market (25%). According to 23%, the quality of the Hungarian labor force is also attractive; but very few believe, on the other hand, that the technological level of Hungarian industry is attractive to foreign investors.

## ATTITUDES

Studies conducted over the past several years appear to paint a picture of a labor force that is **loyal, is open to helping their own advancement and mobilizing their internal reserves**. Contemporary employees are typically committed to their communities and take a **high level of responsibility**.

Hungarian employees understand that there is a great deal riding on their own personal performance; they know precisely what constitutes an **ideal employee**:

- \* professional skills (17,4%),
- \* logical thinking (17,4%),
- \* willingness to cooperate (17,2%),
- \* ingenuity, creativity (13,3%),
- \* diligence and good intellectual abilities (11,5%).

The data also indicate that these individuals do not feel as though they were tiny and insignificant wheels in a greater machinery. By their own admission, 54% of respondents have put forward some kind of recommendation related to their job during the past twelve months. This may be a greatly exaggerated figure, but it indicates clearly that employees feel and understand the significance of being able to **improve the quality and efficiency of workplace processes through their recommendations.**

They know that their job requires, above all, an “adherence to rules,” “experience,” “professional knowledge,” “confidence,” “precision,” “adaptability” and “language skills.”

Looking at their motivations, it is clear that “**appreciation**” in the workplace is more important (at 27.2%) than “salaries and other compensation” (23.0%). A “pleasant workplace atmosphere” and “environment” are important (16.4%), as is the “thorough and clear organization of work processes” (11.1%).

Of the old, socialist attitudes, employees have preserved their **need for security**, certainly: the job should be secure, the various forms of compensation should be delivered and the employee should feel that they are important.

Employers tend to see that members of the older generation are more intent to hold on to their jobs, meaning to retire from the same position – and look upon this as a positive feature. On the other hand, **younger generations make a less favorable impression:** they see them as meaning to “switch jobs every 2–3 years,” “paying no regard to that they are working for an acknowledged company,” and “wanting to move on quickly to make more money.” Salaries and other forms of compensation are important to them, so companies’ **investments in training these individuals are often not refunded.**

A radical shift in terms of a positive impression of the labor force occurs above age 50. Unfortunately, many

members of the older generation do not plan for the longer term. This is an unfortunate phenomenon because only approximately one-third of the 50–64 age group is employed today in Hungary. In terms of attitudes, also, there is a sharp generational divide between younger and older workers. Young people are open and adapt more easily, are willing to work more, learn more and take on more overtime. At the same time, they are less loyal to their employer and change jobs with greater ease, meaning that the time and money employers invest in them ultimately ends up being utilized elsewhere.

The majority of those surveyed have a rather positive view of their own jobs: 46% say they **enjoy their work and derive much pleasure** from it; in fact, their “job provides them with a goal and meaning in life.” On the other hand, 35% said their job is merely a “source of their living.”

### **Willingness to Work Overtime; Loyalty**

The Hungarian labor force, in general, boasts a **high loyalty to the workplace**; this is especially true in the countryside. Ninety percent of those surveyed believe the good **reputation of their company is important**, as is the company’s success.

In Budapest, “only” 78% of respondents would **give up their weekend** for the company; in the countryside, this figure was generally closer to 90%. This is also a sign that workers in the country are more vulnerable: they would have greater difficulties finding a new job, and so are willing to make much greater sacrifices to hold on to the one they have. Furthermore, the expectation to work overtime appears to be a basic requirement on the part of employers; on the part of employees, then, this could also be a kind of loyalty-indicator.

The overwhelming majority of Hungarian employees are **satisfied with their current job**; only one out of ten feel that their job is temporary in nature, and would like to

change jobs within 1–2 years. Nonetheless, the model of each individual having but one job for the duration of their professional career appears to be a thing of the past.

Over one-half of Hungarian employees would decline if they were offered another position promising greater flexibility and more favorable working conditions. Every other employee professing a commitment to their company intends to **remain with the company for over ten years**. Eighty-six percent of employees are willing to work weekends if the interests of the company so desire – but only 36% would be willing to **commute longer distances**.

Over one-half of employees find it important to be **informed about the long-term plans of their company**, and to be kept up-to-date about the company's present situation. Middle-aged employees desire this to a greater extent than young people.

### Cooperation and Team Work

Sixty percent of respondents **prefer work performed as part of a team** over individual work. Eighty-seven percent of respondents claim they **help their colleagues on the job**.

Surprisingly, foreign managers working in Hungary have a different opinion, with many believing that Hungarians are not good team players. They believe Hungarians do not understand the essence of being proactive and network-building. Managers tend to become isolated, as opposed to being involved in common goals.

### Training

Companies must spend significant amounts of money on training employees – yet labor is still considered inexpensive. Talented and capable **young people still attract foreign companies**, although several organizations – including, for instance, research institutes – have indicated that they will eventually transfer their operations to locations

**where training is more advanced and the country spends more on educating its labor force.**

Almost every second employee believes it would be beneficial if they were able to **learn more from their workplace environment**. Workers living in large cities in the countryside are much more open to continuing their education or participating in training programs (70% would find it useful) than their counterparts in smaller towns or in Budapest (only half would want to return to some kind of school).

Unfortunately, the majority (63%) of the over-fifty population **no longer plans for the longer term**; their professional plans simply do not include learning or training. This is especially worrisome, because as far as the labor market is concerned, it is precisely this group which is most vulnerable. The over-fifty age group is one of the largest segments of the population, yet the employment rate is among the lowest in this bracket.

### **Mobility**

Hungarians change jobs at roughly the same rate as their European peers: one-half of respondents professed to be thinking about changing jobs. Most employees would **consider changing jobs** in the hope of a higher salary, more flexible working hours, personal development, training and better advancement opportunities.

If they found the perfect company, young people and men would be more willing to travel greater distances; but even among these two groups, only 40% would be **willing to commute** every day.

For the most part, Hungarian employees, when changing jobs, would be more inclined to join a Hungarian **corporation, small enterprise or medium enterprise** – only 24% of those surveyed would join a multinational company.



## THE STRATIFICATION OF THE HUNGARIAN LABOR FORCE ACCORDING TO ATTITUDES

Based on an examination of the attitudes of Hungarian employees, three different employee groups emerge:

1. investors,
2. passive individuals,
3. materially motivated individuals.

Members of the **“investors” group** tend to be internally motivated in their job, and are willing to invest in their own human capital. They are proud of their own professional skills and knowledge, often rely on their problem-solving skills in the workplace and find that continuous learning is important in their jobs.

Members of the **“passive” group** expect the company employing them to adhere and transform to meet their expectations as employees. Companies must, then, make efforts to keep their good employees on board, and they have to meet the individual needs of their staff members. These individuals tend to agree most with the statement that it is necessary to try out new fields every 3–4 years, and that these ambitions have to be supported by the companies.

**“Materially motivated”** individuals look primarily at salaries when seeking employment, and they are the ones most likely to feel that they are not employed in a position where they could make the most of their skills and knowledge.

The most notable differences are actually found when the different industries are examined. Mining and industry are two areas with values and attitudes reminiscent of the industrial age; for “investors,” these are knowledge-intensive and service sectors. Unfortunately, it becomes clear that public administration tends to attract the more passive individuals, even though in today’s world this sector should also operate and develop similarly to the competitive sector.

The attitudes of individuals working in the various sectors vary greatly: knowledge-intensive, service sectors tend to employ members of the “investor” group, with public administration picking up “passive” individuals and “materially motivated” workers choosing industry and mining.

#### EMPLOYERS' EXPECTATIONS OF EMPLOYEE ATTITUDES

According to employee answers, it is clear that the majority of Hungarian workers believe **cooperative skills, adaptability and personal responsibility are key** to meet the demands of their jobs today (86% say so). A willingness to use **info-communications tools, to work on weekends and continuous learning** were seldom cited.

There are three different types of workplaces based on expectations on the job:

1. those requiring independence,
2. those requiring conformity and loyalty,
3. and those requiring innovative approaches.

Mid-level managers, direct production supervisors, small entrepreneurs performing physical labor, intellectual freelancers, individuals completing advanced level training courses and college graduates believe independence is the most important workplace requirement. In terms of industry, financial and insurance services, commerce, and telecommunications belong to this category.

The significance of traits related to conformity is felt primarily by lower-level managers and those in senior-level management positions; employers expect them to demonstrate a high level of adaptability and loyalty. It also must be emphasized that female employees sense a much greater expectation of conformity from their workplace than male employees; this is related to the phenomenon that education, science and healthcare belong to this category, which feature a significant overrepresentation of female employees.

## OPPORTUNITIES TO LOCALLY REGULATE FLEXIBLE SECURITY

Over 90% of employees would be willing to work over-time, which means that employers are able to deviate from regulations governing working hours and rest periods **without having to anticipate any animosity from employees or a drop in workplace efficiency.**

Over 60% of companies believe it is important that labor unions and employers be able to make decisions locally about **temporary work contracts, the length of the working day, working on weekends and simplifying dismissals.** Companies working in the service sector found it most important to regulate flexibility in employment locally and to execute dismissals more easily.

Based on experiences of other European Union member states, as well as the data collected, it may be surmised that the current **system of workers' rights is outdated both on a national as well as on a European level,** no longer being in tune to the needs of employees and employers, and **not suitable for improving competitiveness.**



### III. SPECIAL FEATURES OF THE ECONOMY

#### THE SERVICE SECTOR

Innovation, along with the performance of the service sector, is one of the most defining elements of economic development today. The latter segment, for instance, provides over 75% of the U.S. GDP; similarly, Canada, Australia, Japan and Germany are considered **service economies**. Despite the economic crisis and decline, the numbers still indicate that further development is expected in the field of business solutions; at the same time, the concept of **service sector innovation** is still not widely understood.

Hungary has also gone a long ways, during the past several years, in the development of its service industry: while three-fourths of new developments in 2004 pertained to industry, and only one-third involved service projects, the two areas have just about balanced out by 2008 (with industrial projects accounting for 58% and service projects for 42%).

Hungary's Central Statistical Office has reviewed employment figures for the various sectors of the economy between 1999 and 2003. Based on that data, the following trends may be observed within the service sector:

- \* The number of individuals employed in commerce continues to grow.
- \* There is considerable fluctuation, year to year, in tourism; but looking at the four year cycle indicated, the number of individuals employed in this sector has not changed.
- \* It is interesting to note that the number of people employed in logistics and telecommunications has not changed.
- \* Employment in the financial sector shows a marked increase starting in 2001.
- \* Data for public administration and social security shows, surprisingly, an increase starting in 2001.
- \* No major shift was observed in the field of education.

For one of our studies, the service sector was divided into twelve subsectors; these, accordingly, were then further divided into four parts each: economic, political, scientific and social. Each of these was examined in terms of competitiveness, employment and transformation.

According to the results of that study, sectors which are **supposed to demonstrate a strong propensity for transformation**, yet according to the latest Hungarian figures still earned low or “weak” marks, were special target areas: these **included education, science (research and development), public administration and tourism**.

Sectors which earned a “high” mark for their transformational ability generally tended to be active in support activities aimed at international competitiveness and export expansion. These included business services, the **content industry and information- and knowledge-services**.

The most typical changes resulting from the information age can be seen in the structure of employment, the comparative weight of each sector in the national economy and relevant to each other, as well as in the composition of consumption. Based on comparative international studies, the trends of the past several decades have not changed: the industrial and agricultural sectors are being replaced by the information- and knowledge-sector, services (including financial and HR services, analysis and technical consulting) and cultural industries. Accordingly, any economic policy based on an awareness of the situation should focus on areas which can have the greatest impact on other fields, as a result of the domino effect. **These areas are, primarily, government and education.**

It is also worthwhile to pay special attention to certain niche areas which may act as key fields in the competition areas of the next generation. This covers the entire **“experience” sector** (tourism and the content industry), **culture**, and – once again – **education**. This is how the term “creative industries” is infused with meaning (or becomes a collective concept).

The lessons of competitiveness rankings may be translated into steps to be taken in each industry (which we have already seen so far) as well as into comprehensive, more “horizontal,” tasks, according to the following:

1. Certain missing skills, abilities and know-how (such as foreign language knowledge – primarily a knowledge of English; communications skills, teamwork, individual problem-solving skills, the culture of management) may only be substituted by services as long as it takes for them to become available to the masses; this paves the way for members of each particular industry to later rely on these areas themselves;
2. It is clear which areas could see a marked increase in competitiveness-indicators as a result of appropriate strategic steps and planning, as well as projects. These include the number of foreign students studying in Hungary and the number of people participating in various life-long learning programs. These indicators point primarily to the whole sphere of education, as a special area, but all sectors would receive tasks from this branch.

The figures of the international comparison seem to indicate that Hungary **does not have an over-abundance of graduates**, and that the number of people with college or university diplomas is actually not high. There are still additional opportunities in higher education: compared to the 32% average in OECD countries, only 20% of the Hungarian population possesses higher education degrees.

At the same time, Hungary lags behind considerably when it comes to higher education institutions equipping students with basic skills and developing these. The International Adult Literacy Survey<sup>5</sup> conducted by the OECD indicates that in **reading-comprehension** among adults

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<sup>5</sup> OECD: International Adult Literacy Survey (IALS), 1999.

(between 16 and 65), Hungary is one of the last countries in the group of 20 looked at<sup>6</sup>. It is especially surprising that the results of those with an advanced education in Hungary also placed among the lowest of all countries examined. The results produced by Hungarian graduates are nearly identical to the results of the Swedish possessing less than a secondary school education. Another interesting element of the study, as far as Hungary is concerned, is that Hungarians are still satisfied with their reading skills. Nearly three-fourths of those with the lowest scores believed their abilities were actually good. Unfortunately, the results can simply be explained by the fact that the overwhelming majority of Hungarian employees (95%) performing poorly in text comprehension simply **do not need to read to do their work**.

The OECD's Commission on Science and Technology Policy, in its country report, says of Hungary's **performance in innovation that the weight of innovative SMEs in the economy is low**, enterprises do not cooperate and universities and the Hungarian Academy of Sciences do not adapt to the challenges of a knowledge-based society.

The country's strengths, on the other hand, include the openness of the economy, the continuously increasing efficiency of the economy and the generally sound performance of the sciences (especially in physics, mathematics, biology, chemistry, clinical medicine and engineering). The number of publications per researcher is actually closer to the EU average than the financing of the sector would suggest. At the same time, the report pointed out as a weakness the **low intensity of R&D**, its unfavorable regional concentration (in the region of Central Hungary) and weak patent activity. Science and technology simply do not have enough professionals, and the number of college or university graduates among the working age population is also low.

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<sup>6</sup> Report on Public Education in Hungary, 2000.



## IV. CHALLENGES OF THE LABOR MARKET IN AN AGEING SOCIETY

Hungary's population in early 2001 was 10 million 200 thousand people; by early 2021, this figure is only expected to be 9 million 850 thousand people, indicating a drop of 3.5%. The percentage of elderly members of society is expected to increase from 15.1% in 2000 to 20.4% in 2020.

Similarly to other European countries, **Hungary too is struggling with problems related to an aging population.** The Hungarian labor market generally has a low rate of activity; as individuals approach retirement age, the rate of activity declines sharply for both sexes. The lower rate of activity among the elderly segment of the population is due in part to their lower level of schooling. A further important characteristic is that the percentage of disability-pensioners is rather high in the 45 and over age group. This is further aggravated by a propensity for early retirement (at the age of 58, as opposed to 63–65 years typical in Ireland or in Scandinavia).

A total of 1.3 million individuals are employed at medium and large companies; roughly 45% of their employees are over the age of 45 (566 thousand individuals).

The percentage of over-45 employees shows no distinct correlation to the types of companies employing them. There are, however, more significant differences between the various industries: the percentage of elderly employees working at medium and large companies dealing with financial activities, real estate and economic services is only 32%. In agriculture, education, health care and other services, this figure is 57%.

The percentage of employees over 45 years of age at majority foreign owned companies is only 33%; this number is 47% in the case of companies with majority domestic

ownership. Over half (55%) of the employees at state- or local government-owned companies are said to be elderly.

Of new employees hired during the past three years at Hungarian companies employing over fifty individuals, the 15–29 age group is the most represented (39%). The percentage of new workers between 30 and 44 is 24%; the percentage of the 45–49 age group is 16%. Only 37% of new employees during the past three years were over 45 years of age; only 0.5% of companies were willing to hire seniors over 60 years of age. And only 23% of companies were willing to **concede that the age of an applicant is a factor** when making hiring decisions. At the same time, other indicators also confirm that companies' willingness to hire individuals over 45 is significantly lower than in the case of younger people; and most companies will hire **applicants over 50 only if there is absolutely no other option**.

#### TRAINING AND RE-TRAINING

Hungarian companies (employing a minimum of 50 individuals) **clearly prefer to provide training opportunities for employees under 45**. On the whole, our experience is that the older an employee is, the less importance their employers attach to their training. There are clear indications that **elderly employees' rights to equal opportunities are impinged** upon when it comes to expanding their professional skills, which contributes to worsening their opportunities in the labor market.

Sixteen percent of Hungary's adult population has participated in some kind of training or re-training program during the last three years, which represents 28% of economically active respondents.

There is a strong correlation between an individual's highest level of education and their participation in further training programs: the more educated an individual, the more opportunities they have for additional training. What

this means, essentially, is that it is precisely those segments of society who would have the most need for participation in adult education programs that are the ones who do not get to do so. A total of 8% of individuals below the age of 45 had participated in **IT training during the last year, while only 3% of those over 45 did the same.**

The goal of most labor market training programs targeting older generations is to provide participants with skills for a new profession or an additional profession; individuals who already possess a higher education degree tend to return to school for a second degree. The costs of the training are typically borne by the employer; in some cases, the Public Employment Service helps out. Individual contributions to acquire new knowledge or renewing existing skills are extremely low. At the same time, employees over 45 are generally not satisfied with training programs offered by their employers.

Training and re-training courses assist members of the **over-45 group primarily in maintaining their current position in the labor market.** They also contribute to improve their salaries, and the resulting higher self-confidence and better mood is probably an indirect and positive factor on their motivation in the workplace. It also improves their work performance in general. Participation in these programs has little impact on realizing employees' efforts at switching jobs, getting promoted or significantly increasing their salaries.

## DIGITAL LITERACY

By their own admission, over one-half of Hungary's adult population cannot use the computer at all. Those who claim to use the computer with significant confidence only account for 21% of the country's adult population. The world of computers and the internet is most familiar to young people, students, and individuals with higher schooling and higher social status.

If we examine figures for the under-45 age group together with figures for their older counterparts, we see that 55% of those under 45 are at least moderately familiar with the computer; 46% say the same about the internet. In the case of the older age group, only 17% and 11%, respectively, would say the same; the majority (81% and 87%, respectively) admit being novices or only having a fairly minimal familiarity with computers and the internet.

Eighteen percent of Hungary's adult population uses the computer in their jobs; 12% use the internet. This means that using the computer on the job is necessary for 36% of the economically active segment of the population (those who regularly earn money for their activities); and 23% use the internet.

It is noteworthy, then, that computer and internet use (as an expectation) does not affect the over-45 segment of the population in the labor market to any lower degree than young people (although, as we have seen, there are much greater discrepancies when it comes to individuals' describing their own skills).

## U. MOBILITY, AND YOUNG PEOPLE'S OPPORTUNITIES AT MOBILITY

European Union leaders declared 2006 the year of mobility. A series of studies were published by the European Commission about the impact labor flowing from new member states has had on the market of "old members."

Following Hungary's accession to the EU, and contrary to expectations, **Hungarians did not begin to migrate abroad in masses**, which was due, among other factors, to **the generally low geographic and professional mobility of Hungarian citizens**. It has to be acknowledged that some researchers believe this phenomenon was due to the generous Hungarian welfare system. (perhaps as a comment).

As far as the labor market is concerned, it is important to understand what skill groups are most likely to take on a job abroad. Surveys show that low-skill workers only intend to leave the country for the short term. Engaging, perhaps, in seasonal and other short-term jobs is the most realistic option for them. The majority of skilled laborers are willing to consider a stay of several years or even settling abroad. Individuals with higher education degrees tended to pick short and long-term foreign employment options in great numbers; this is still not high, however, considering the number of potential employees in the labor market.

According to the survey, nearly one-fourth (23%) of the over-18 population would be **willing to resettle domestically if necessary to change jobs**. Among them, 22% (approx. 410 thousand individuals) intend to move to another location within the next five years to change jobs. Apart from the elderly, 7% of respondents between 18 and 59 indicated that they intend to move domestically within the next five years. Willingness to move declines with age:

over one-half of those between 18 and 29 would be willing to change their place of residence if necessary to acquire a new job; one-third of individuals in their 30s would do the same, compared to one-fifth in the 40s age group and 16% in the over-50 group. Of those willing to consider moving, the number of those actually planning a move is highest in the 18–29 age group (31%), those with a higher education degree (28%), those living in a village (27%) and those living in Southern Transdanubia (35%).

Managers of Hungarian companies employing at least fifty people tend to believe that **Hungarian employees are very reluctant to move in order to acquire a new job.** Companies active in Northern Hungary find employees to be most mobile, but even their assessment provides a fairly negative image of Hungarians' willingness to move. These companies' assessment is supported by results of the study indicating that only one-tenth of companies employing over fifty people have an employee who has moved in the past two years to acquire a job. Companies with fifty or more employees mentioned a total of 3400 individuals who had moved from their previous place of residence to obtain a new job.

#### MOBILITY AMONG YOUNG PEOPLE

Hungarian young people, as far as **employment and learning are concerned, cannot be considered a mobile layer of society**; willingness to commute or move is just as low among representatives of this group, with quite a few unexpected factors mentioned as hindering factors.

As far as geographic mobility goes, results show that Hungarian young people between 18 and 29 – regardless of how important they consider continuous learning to be – are not willing to commute several hours a day to be able to study. Statistical data show that individuals who were mobile during their university years tend to remain mobile later on, after completing their degree and entering

the labor market; this mobility applies to moving both domestically and internationally.

Interviews of young people between 18 and 29 reveal that some 46–55% of young Hungarians live in the same place where they were born; this holds true for all regions of the country. These data also indicate that **recent graduates are no more mobile domestically than other age groups**. Villages, however, have a higher number of young people who have already moved, whether with parents or on their own.

**Nearly two-fifths (38%) of employed young people commute** between their place of residence and their workplace. The overwhelming majority commute from a distance under 50 km (30%) to get to their workplaces; 5% commute distances greater than 50 km each day.

Social-economic status is clearly proportional to mobility. Individuals already in more favorable circumstances tend to be more willing to move. Members of social groups who would really need to be mobile – i.e. live in a difficult financial situation, in backward regions, in small towns, have less education or are unemployed – are actually the ones who show the least willingness to move. Individuals with less than an elementary education and skilled laborers tend to look abroad when seeking a job; half of those with a maximum of eight years of elementary school belong to the perfectly immobile group.

Two-thirds (66%) of young people feel it is primarily their **immediate surroundings** (parents, close ties to home, friends, etc.) **which keep them** from taking a job outside Hungary or commencing studies far from home. It is noteworthy that the number of individuals who cite some kind of administrative hurdle as a hindering factor is relatively low – even though the literature emphasizes the importance of Hungary's lack of an institutional framework which would foster mobility. The most important mobility factor, "naturally," is **money**, with 90% of young people citing it as their motivation. Over half of them

(57%) would travel to **learn languages**; somewhat fewer (42%) are looking for **adventure and new experiences**. Interestingly, only 11% of young people said they would consider moving simply because they do not like living in Hungary.

A surprising finding of the studies is that Hungarian young people **switch jobs quite often**. On average, the young people included in the sample have each held almost four jobs (3.7), covering nearly three (2.8) different fields. Unfortunately, this means that the majority of this group has negative experiences with work and is lacking in professional knowledge. This may also be behind the surprising result that young people do not look at jobs as opportunities for professional development and continuous learning. Focus conversations have shown that young people could imagine expanding their knowledge base or acquiring new competencies and skills only in the framework of the educational system.

It is an unexpected finding of the study that negative attitudes toward mobility and difficult experiences with employment are much more prevalent among young people than originally expected.



## VI. EPILOGUE

The earth-shattering changes the Hungarian labor market experienced in the decade and a half since the system change have slowly ended, and the country's new institutional and industrial structure has **solidified** (including issues of structural unemployment, recent graduate young people and employment of the elderly). The most serious problem, as we have already established, is **the high ratio of inactive individuals** in the working age population. Activity levels in Hungarian society are generally low; in the case of two subgroups of the working age population, **young people** and **individuals over 50**, this activity rate is especially low. **Hungarian workers** – including young people just beginning their careers – are rarely **willing to move to obtain a new job**<sup>7</sup>. The reintegration into the labor market, in large numbers or even just sporadically, of individuals who have been forced out of the labor market since the system change due to low schooling or a seriously disadvantaged social situation, has also not been successful.

As a strategic question – in several waves – certain **job-creation support measures** have been on the agenda (primarily to make Hungary attractive to international corporations), as have plans to **make telecommuting a real option**, but **corrective mechanisms have stayed in the focus** over the long term and in a dominant way (i.e. helping laggards catch up, weaving the web of social support stronger, providing training to help individuals emerge from problems related to low schooling, public works projects, employment of the disabled, etc.).

<sup>7</sup> In the case of companies employing over 50 people, we have heard of only 4000 employees who were willing to give up their previous place of residence to acquire a new job. Interviews of young people between 18 and 29 reveal that some 46–55% of young Hungarians live in the same place where they were born; this holds true for all regions of the country.

Yet it is becoming clearer that the labor market pyramid is difficult to reform from the bottom up. The segment of the labor force that will be freed up as a result of automatization, modern production schemes and IT developments can only be mobilized if they are given a chance **to move toward higher value added activities**. If the labor force that is freed up as a result of the processes just mentioned has to seek employment in jobs requiring a lower level of education or knowledge, the individuals will experience that as a kind of step back. "Over-educated" individuals employed in jobs not equivalent to their knowledge also feel the same way. At the same time, the transformation of jobs is also increasingly placing unskilled members of the labor market at a disadvantage, further hindering mobility from the bottom. As a result of all of these factors, Hungary so far has **proven unable to influence the direction of necessary structural changes through social, employment or education reform programs**.

This need, at this moment, is normative: the realities, at first glance, of the current state of the country's human infrastructure do not offer much chances of success. The frighteningly low figures of foreign language knowledge or willingness to study, combined with the stubborn repetition of data indicating low schooling, are enough to suggest as much. Large-scale progress, under these circumstances, can only be the result of a slow process of evolution.

From this point of view, the snapshot presented here, through the results of the studies conducted of the Hungarian labor force, provide a reason for hope: **positive attitudes, flexibility and creativity can all carry a transformational effect**, as long as they meet the right **environment of opportunities**. As a sequel to this analytical study, we have developed a vision, based on the considerations above, which will provide a real and strategic answer to this ever more topical challenge.