

K. SZIKRA FALUS

## WAGE DIFFERENTIALS IN HUNGARY

The recent difficult economic situation in Hungary saw a renewed demand for effective financial incentives through proper wage differentiation.

Even a more differentiated wage scale, however, with a wider range of incomes does not result in more effective stimulation if wage differentials are random and economically unjustified, and not adjusted to performance standards or the labour supply. The main problem is thus the direction of the incentives. If this is given, their effectiveness depends on the degree of possible wage differentials. Even incentives in the right direction remain ineffective, if the attainable additional income is not in proportion to the extra effort or sacrifices demanded.

Income differentials — percentual differences between earnings — show a world-wide diminishing tendency. In Hungary income differentials (in official earnings in the state and cooperative sectors) have diminished at a particularly rapid and accelerating rate.

**Table 1**  
*Income differentials of full-time and part-time staff in the state  
and cooperative industry of Hungary*

Sector of the economy	Index of differentiation				
	1970	1972	1974	1976	1978*
Industry	1.87	1.89	1.88	1.83	1.81
Building industry	1.87	1.82	1.81	1.76	1.74
Agriculture and forestry	1.77	1.74	1.76	1.72	1.63
Transport and communications	1.71	1.75	1.76	1.75	1.70
Trade	1.95	1.92	1.88	1.85	1.87

*Source:* Statisztikai Időszaki Közlemények. Vol. 421. Foglalkoztatottság és kereseti arányok 1976 (Employment and relative earnings in 1976), Budapest, 1978. Központi Statisztikai Hivatal, p. 17.

\*preliminary.

The differentiation index expresses what multiple the average earnings of those earning above the average is of the average of those earning below the average. This index is highly sensitive, even a small decline indicates a levelling of earnings. As can be seen (in *Table 1*), it showed a decline between 1970 and 1978 in every part of the economy. The decline in eight years was almost as low as in the preceding 15 years. The shares of strata with the highest and lowest incomes show a clear levelling tendency.

**Table 2**  
*Share of total earnings of the lower and upper fifths  
of the working population ordered according to the size of average earnings*

Year	Lower	Upper
	20 percent of employees	
1970	10.7	33.4
1972	10.8	32.8
1974	10.8	32.8
1976	10.8	32.5
1978*	11.2	32.2

Source: *ibid.*

\*preliminary.

#### Income differentials according to performance

In state enterprises and institutions in Hungary one cannot earn considerably more by doing essentially better and more work than by doing poor and little work. The earnings of those in identical jobs usually differ only little in consequence of a difference in performance. According to a survey by the Ministry of Labour in recent years the dispersion of incomes in identical jobs has amounted to only 30–35 per cent of average earnings, a considerable part of this, however, was not related to actual performance but mainly to seniority and other factors only loosely related to performance.

Wage differentiation adjusted to performance depends to a considerable degree on the kind of wage calculation used. If a production series is sufficiently large, if the quality requirements are not too high, and both quantitative and qualitative performance can be easily checked, a growth in productivity is best assured by wages growing in proportion to quantitative performance. This may be a piece-rate or such a performance rate where various properties of the worker which cannot be expressed in quantitative terms but which are important for the enterprise (experience in the trade, versatility, adaptability, etc.) are also expressed in the form of a basic rate increased or decreased depending on quantitative performance. The scope of piece rates shows a diminishing tendency because of changing circumstances all over the world. In the middle of the last century four fifths of the workers in England were paid piece rates, today this ratio does not attain even 30 per cent in Western countries.

For technological, technical and labour organization reasons the use of quantity-determined systems of wage payment is still justified in Hungary over a relatively wide field. In this context the number of those paid in this form is relatively low (56.6 per cent in 1978 in state-owned industry), and many of them are of the degressive type offering

limited incentives only. This is also related to the system of incomes control. Owing to progressive (cumulated progressive) taxation the part of enterprise income payable as wages grows more slowly than total enterprise income. This makes it difficult to apply powerfully stimulating forms of remuneration. It is not really possible to fully abolish this kind of degressivity in enterprise income regulation. It plays an important role in keeping the flow of purchasing power within planned limits, which is of great importance in a planned economy in general, and in our days in particular. It may, however, be expedient to reduce the scope or extent of degressivity.

Where conditions are given and workers do not closely depend on each other in the work process and their performances are of a discrete nature, it is expedient to pay individual (piece) rates. If, under such conditions, remuneration is still paid to a group — there are many examples of this in Hungarian industry — workers with outstanding (above-average) skills lose interest in greater efforts. On the other hand the number of processes is growing in modern industrial production where the work done by an individual worker depends directly on that of his mates and his work performance cannot be discretely measured. (This is true e. g. in the chemical industry, in highly automated productive units of the engineering industry, etc.). In such cases one should not insist on individual performance wages, but differentiate between smaller collectives according to the actual differences in work done. In this case it is not outstanding individual performance that improves total performance, but above all sound collective work and cooperation. This is best served by group-wages and the close community of interests created by it. Group-wages prompt participants not to tolerate truants. If the management differentiates among working groups (brigades) according to their real performance, then the distribution of earnings within the brigade can be usually left to the members themselves.

It is easy to understand that differentiation of wages — either among individuals or groups — meets with the greatest difficulty where performance cannot be measured precisely. In such cases the immediate boss and his judgement has to be given a greater scope and authority than now. He knows best the work of individuals, and his position and knowledge give him a proper overview over matters which provide a proper foundation for this judgement. Wage-payment is overcentralized on the enterprise management level. Middle and low-level bosses (foremen, production engineers or section heads) usually have no say in fixing the wage-rate of workers. It is a frequent complaint that the top management often does not even listen to their opinion.

The job of differentiating wages in keeping with performance is not popular anywhere, largely because of social pressures making for levelling. A role is played there by the socialist ideal of the social and human equality of man, as well as by the rapid approximation to each other of the needs of various sections of society — in consequence of the spread of education and a number of important social movements.

The collective spirit on the job generally makes for levelling, it puts a brake on both much higher than average, and much lower than average earnings, and is inclined to mitigate the acknowledgement of outstanding individual and group performance. The

objective basis for this is that at each workplace, those of relatively average skills and average performance make up the majority and thus influence local opinion. Not infrequently, also the local organizations, such as trade union branches, exemplify these levelling tendencies. This may deflect from his intention even a manager otherwise inclined to differentiate. Every kind of levelling is particularly harmful at workplaces where innovative work is expected. If there is no strong counter-effect opposed to the levelling efforts, outstanding persons will be restricted and mediocrity will take over.

The consumer price level also has an effect on the scope for income differentiation. The rise in the price level strengthens levelling tendencies. Since compensation for price rises cannot be "set" precisely according to individuals or families and since, for political and social reasons, it is particularly important to protect the lowest income groups against losses due to price rises, the result usually is that price rises are compensated to greater extent for low-income families and to a smaller one for the high-income families. This is so in Hungary as well as in other countries.

Compensation for price rises cannot be considered a bonus; under normal conditions it is the right of every one in Hungary. But under present conditions, when the world market has considerably devalued Hungarian products, not every worker can obtain the earlier real wages for his work, the price rise is general and there is no way to fully compensate for it. It should be obvious that a rise in wages compensating or overcompensating for price rises has to be given to workers of higher than average performance and the country is compelled to use defensive measures against the decline in real wages (living standards) as incentives. But this is considered only as a transitory emergency to be passed through as quickly as possible.

### Skills and tough jobs

Diminishing wage differentials for qualifications (educational standards) and, parallel to that, growing wage differentials for difficulties inherent in the job (danger money, dirt money, etc.) are world-wide trends, observable in the long run in every country. This is related in part to a general rise in educational qualifications and to the fact that a growing proportion of training costs is taken care of by society, and in part to slow progress in mechanization and in the improvement of bad working conditions in certain areas. This trend asserts itself also in Hungary, but in a particular manner. While wage differentials according to the physical conditions of a job have steadily grown, wage differentials according to qualifications have very much diminished. The general acceleration of wage levelling discussed above may be traced back mostly to this process.

The latter is true of manual work as well. This applies even to the usual categories — skilled, semi-skilled and unskilled labour but even more so if more specific distinctions are made. Unfortunately, such data are available only for a short period, but they unequivocally point to diminishing differentials due to qualifications at almost every level (*Table 3*).

**Table 3**  
*Increase in per hour earnings*  
*of workers between 1973-76 according to the complexity of work performed*  
 (1973 = 100)

Category of complexity	National average	Industry	Transport, communications	Trade
Unskilled worker	121	120	134	117
Semi-skilled worker	121	123	119	106
Semi-skilled worker doing complex work	122	122	127	106
Skilled worker doing simple work	122	119	134	105
Skilled worker	115	114	121	111
Skilled worker doing complex work	118	120	121	113
Skilled worker doing complex and complicated work	115	116	114	115
Total	114	123	127	121

*Source:* A special survey, covering 600 000 workers carried out by a commission of the Labour Research Institute, Ministry of Labour, in the Computer-technical Institute of the Ministry of Labour.

If we proceed along the scale of complexity of work performed we find a degressive growth in hourly earnings in the whole of the economy and in the three main sectors. Except for commerce, the hourly earnings of those doing more complex skilled work rose more slowly not only than those of unskilled and semi-skilled workers, but also more slowly than the earnings of skilled workers doing less complex work. It is worth noting that in industry – against common belief – the earnings of semi-skilled workers increased fastest and not those of unskilled labour. This is true both in the short and the long term. Only the earnings of the unskilled workers doing hard or unpleasant work increased at a high rate.

There is hardly a factory in Hungary where there are no complaints that highly qualified and experienced skilled workers earn less than semi-skilled workers – sometimes even unskilled workers – doing simple routine work. The result is job-dissatisfaction, indifference towards their work, they frequently leave the trade for which they were trained at substantial cost.

A sociological survey in a Hungarian motor vehicle works recently investigated attitudes to incomes. Maintenance workers, group-leaders and machine-setters with high qualifications and occupying key positions in productive work professed themselves to be dissatisfied with their earnings to a much greater degree than the semi-skilled machine operators in their immediate environment.

One of the causes is that a greater proportion of lower qualified workers gets piece-rates or some other type of performance wage which provides greater possibilities

for raising earnings. Time rates are characteristic for skilled workers doing more complex work. (The earnings of those getting time rates generally lag behind those getting performance wages. The earnings of the latter rise automatically with rising performance without special interference.) This obviously is not the basic cause. It is closer to reality, that Hungarian enterprises have to spend a greater part of the funds which centrally determined accounting procedures allow for wage rises on recruiting and holding on to scarce unskilled labour. Not much is left as a reward for skills.

*The cause of the dwindling of skills differentials and of the growth of job unpleasantness complements is the great discrepancy between the demand for and supply of labour, particularly the chronic shortage of workers willing to do hard unpleasant work not requiring particular skills.* (Of course, certain skilled work can also be physically demanding – e. g. mining, foundry work, the baking of bread, etc. – and in these trades there is a similar shortage of labour.) The number of those ready to do tough and demanding work under difficult conditions is declining much faster than the number of jobs of that sort. Increasing financial incentives are needed to fill such jobs. But the shortage of those willing to do hard manual work is basically a consequence of the *general* shortage of (excess demand for) labour. If one can choose among many kinds of jobs, men or women – understandably – do not queue up for tough jobs, and will only do them for special financial rewards. If labour shortages are general, they are as a rule most in evidence when it comes to tough jobs in difficult conditions.

The shortage of those willing to undertake hard manual work cannot be eliminated by wages policy measures alone, – this is only a palliative with harmful side-effects – but by changing the conditions of the labour market, by mechanizing to the greatest possible degree jobs requiring particular physical effort, by adequately improving the education system (structure of training), and by eliminating the great and excessive demand for labour.

### The income of technical staff

The technical and managerial staff create the conditions of work within the factory by their developing, organizing and controlling activities. The operation and performance of the productive organization depend mostly on them. Innovation, product and technology growth, are in their hands. The experience of the socialist countries, the lessons from the history of the Soviet Union, testify to a close relationship between the rewards granted to specialists – including hard cash – and the results attained. Outstanding results are born in general if and when specialists are well paid.

Income differentials have dwindled in Hungary not merely among manual workers. Levelling is even stronger between highly qualified technical staff and those with lower qualifications.

These figures include also data referring to top technical staff with higher earnings. Without them the percentages would be even lower. The earnings of subaltern (i. e.

**Table 4**  
*Earnings of technical staff in industry as a percentage  
of the earnings of workers*

Year	percent	year	percent
1955	172	1975	147
1958	158	1976	144
1960	157	1977	141
1964	154	1978	139
1970	151		

*Source:* A lakosság jövedelmének alakulása (Incomes of the population.) 1950–1980. Központi Statisztikai Hivatal. p. 48. – Foglalkoztatottság és kereseti arányok (Employment and relative earnings), Központi Statisztikai Hivatal. Various issues.

non-executive) specialists with higher qualification was, already in 1975, only 9.6 per cent higher than those of industrial workers in category 61, (meaning that they performed particularly complex skilled work under normal conditions). [1] Since then the difference has further diminished. Today the earnings of non-executive engineers hardly exceed those of skilled workers, not infrequently they are below them. This situation – owing to the massive demand for higher studies and the attractions of professional status – does not lead to a quantitative shortage of engineers, but it does produce quality problems and counter-selection. Apart from a few exceptions, it is not the most gifted who train as professional engineers and even those with fewer talents carry out their duties without enthusiasm, even showing dissatisfaction. They are forced to complement their income by employing a far from negligible part of their energies in the second economy. Accepting these facts means that they cannot really be disciplined for their job attitude and performance.

Changing the situation requires – as in the case of skilled workers – more than wages policy measures. The most important thing is to remember that what we need *are not so more professional men and women but rather more competent ones showing greater knowledge and a wider horizon – members of the engineering professions included – , that in professional training qualitative targets should be given priority over quantitative ones.*

Furthermore, a break must be made with an approach which, simplifying the really important task of creating and maintaining a balanced state between the financial situation of different social strata, imagines that it can cope by keeping the wages and salaries of manual and non-manual staff within an enterprise on the same, or almost the same level.

Some Hungarian enterprises pay close attention to white-collar and manual earnings and feel they have achieved something if the difference between them diminishes or

vanishes. It is only right, of course, that simple clerical work should not be better remunerated than manual work which perhaps requires as high or higher qualifications. Restricting the earnings of highly qualified staff for such reasons, however, damages the economy.

### Managerial incomes

The earnings of highly qualified non-executive professional people largely depend on those of managers, the latter acting as a ceiling for the former.

The fixed salaries of executives, particularly of the higher ranks of management, have grown much more slowly than those of other staff. Supervising authorities did not, or only barely, raise their basic wages in recent years and put official limits on bonuses and perks. While the average incomes of workers and other staff increased by 39 per cent between 1968 and 1974 and by 30 per cent between 1973 and 1977, those of managers grew by 21 per cent in the first period and by 15 in the second. Since 1977 their earnings have grown even more slowly relative to those of other staff.

**Table 5**  
*Average earnings of various groups of enterprise executives and average wages of manual workers in state industry*  
Fts/month

	1975	1976	1977	1978
General managers, managers and their deputies	8308	8550	8921	9314
Heads of departments and their deputies	6862	6999	7483	7949
Heads of sections and their deputies	5511	5717	6068	6421
Manual workers	2790	2959	3531*	3741*
Earnings of general managers, managers and their deputies as a percentage of the wages of manual workers	298	298	253	249

\*wages in September

Since, in recent years, the rise in the consumer price level has accelerated and – owing to the nature of their consumption pattern – this has reduced the real wages of those of professional status with higher incomes to a greater extent than average, the differences in real incomes have grown even larger. E. g. between 1976 and 1978 the money wages of manual workers increased by 13.6 and 11.9 per cent, respectively, the growth in real wages was 4.6 and 2.6 per cent. [1] Executives with relatively high earnings – among them managers – were affected by price rises to an even greater extent



This restriction on the increase in the earnings of managers had secondary effects putting a brake on the growth of earnings of lower-level executives and non-executive professional staff. At the same time, differences between earnings of managers on different levels dwindled.

It is usual to explain the restriction of the earnings of managers with political viewpoints. First of all it is argued that whenever there is a slowdown in the rise of living standards, lower earnings have to be raised first, since the raising of relatively high managerial incomes would provoke hostility. But the problem is more complicated. No doubt, the satisfaction of individuals considerably depends on their relative position, also on their earnings relative to others, also on their bosses. But it depends much more on the development in time of their own financial situation in absolute terms. Lack of an adequate financial acknowledgement of expert and managerial work may impair efficiency and economic growth which are conditions of the general rise in living standards. Workers are hardly compensated for the stagnation or fall of their living standards by a knowledge that those of their bosses are falling even more. The sense of justice of the masses is violated in Hungary not so much by the basic salaries of managers which, as shown in Table 5, are not excessively high but by the much higher perks of various sort which are rarely backed by honest work.

True, even if the relative, percentual, differentials of managers and executives are diminishing, the distance in absolute terms, in forints, and also in purchasing power, is growing. Of course, not even the earnings of the most successful managers ought to attain astronomical figures. This would be incompatible with the socialist social order and the Hungarian economic development level. Even their incomes must not exceed what can be spent under the given conditions on personal consumption and family investment directly serving it. But we are still far from this limit, and with development the width and contents of the limits change. It is only logical that those "awarded" a higher income must be allowed to spend it freely. The natural consequences of higher earnings must be taken into account in the pattern of consumption, and in ways of life. One cannot accept differences in earnings on the one hand and reject the corresponding differences in living styles, which do not violate what we call a socialist concept of life, on the other. And yet there are people in Hungary who find such styles of life objectionable.

Those who wish to slow down the rise in the earnings of managers argue that financial factors do not play a major role in the motivation of such executives as are socially committed. This is an over-simplification. There is no doubt that particularly with people occupying higher managerial positions stimulants other than financial rewards are important. A high degree of achievement motivation is often present. The majority of enterprise managers, chief engineers etc. even today work to the limit of their skills and energy and would not do more at doubled incomes. Their present level of official earnings does not, however, favour optimal selection in Hungary, and even results in counter-selection. Managers should really be chosen from among the most suitable, skilled and enterprising individuals. Ascetic habits are irrelevant and the claim to them even less so. The low earnings of managers bearing in mind their high status and the

importance of their duties often has a result a spurious moral base for tapping sorts of sources of income and other perks to which access is offered by higher positions in management. The proliferation at that level of such habits causes immeasurable political and social damage.

The earnings of managers have grown more slowly than average, their numbers, however, have grown more rapidly. In what is called the sectors of material production total employment increased by not quite one per cent between 1973 and 1977 but that of executives by 5 per cent. This exaggerated growth in the number of managers entails a growth in the number of control levels and, in consequence, an overcomplication of enterprise organizations impairing the efficiency of control. The growing number of executives is related to the fact that at present there is hardly any possibility in Hungary to increase earnings to any major extent in the same job. Thus we come back to the problem of wage differentiation according to performance. It seems that *fewer but better paid executives (with a greater scope of authority) could work with greater success.*

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To sum up: in my opinion, economic and social progress in Hungary requires a greater differentiation of incomes. Wage differentials according to performance should be increased, people should be allowed to earn more through more and better work, and the financial rewards of higher qualifications, knowledge and greater responsibility should grow. With this the inequality of incomes, the distance between the extreme limits, would not grow in Hungarian society. On the one hand, extremely high incomes do not come about in the state or cooperative sector of the economy, and not as part of official earnings. On the other hand, the main factor in the dispersion of per capita family incomes is not the amount of earnings of the members of family in paid employment but the ratio of employed to the total of family members. This disproportion has to be alleviated through social policy measures, not wages.

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