# The labour market and social situation in Hungary in the last decade

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## Introduction

The success of a country can be measured in many ways. The most frequent indicators are level and growth of GDP and GDP per capita, domestic spending on research and development (GERD) as a percentage of GDP and also foreign direct capital inflow and stock. Further, the growth of export and its share to GDP, the state of the equilibrium (balance of the government budget and the current account) and the rate of inflation are also used frequently.

However, as good as these indicators may be, economic success means nothing if it doesn't go hand in hand with the improvement of the population's standard of living. For describing the latter the characteristics of the labour market and social conditions are the most adequate tools. Some other aspects (e.g., education and health) are helpful in gaining a deeper insight into the living standard of the population and the perspectives for its future. In the following I examine the state and changes in unemployment, consumption, real wages, income distribution, poverty, social protection expenditures of the government and the structure thereof in Hungary in the last decade, i.e., since 2004. Further attention will be given to education, demography, migration and public opinion about the EU. The examination of health indicators would be important too, but I will not deal with it

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in detail, as the state of health of the population and the efficiency of the system of health care are special problems for which a separate study should be devoted.

I am aware that even these indicators are not sufficient to describe the quality of life of a population perfectly and completely. I still think that they by and large reflect the social and political situation of a country from the viewpoint of the interests of the majority of people living on salaries, wages and unemployment benefits.

## Labour market

### Unemployment – ILO definition

Eurostat works with the internationally accepted concept of unemployment that was created by the International Labour Organization (ILO). According to the ILO definition the unemployed are those people who haven't had even a one-hour paid job in the week prior to the date of survey, actively sought work in the previous month and are available to start work within the next two weeks. They also used to be called the "active unemployed". First we examine the Hungarian labour market by using this indicator.

Unemployment in Hungary as defined above has grown considerably after accession to the EU. In 2013 there were 449,000 unemployed in Hungary, compared to 252,000 in 2004. The balk of this growth derived from the crisis beginning in 2008. Between 2004 and 2007 the number of unemployed people swelled by 60,000, while between 2007 and 2010 it grew by 163,000. Following 2010 the level remained high until 2012 when it began to decrease thanks to the efforts of the government through launching workfare programs.[2] The number of unemployed persons who have taken part in these programs has grown considerably in the last year and a half (I will return to this later).

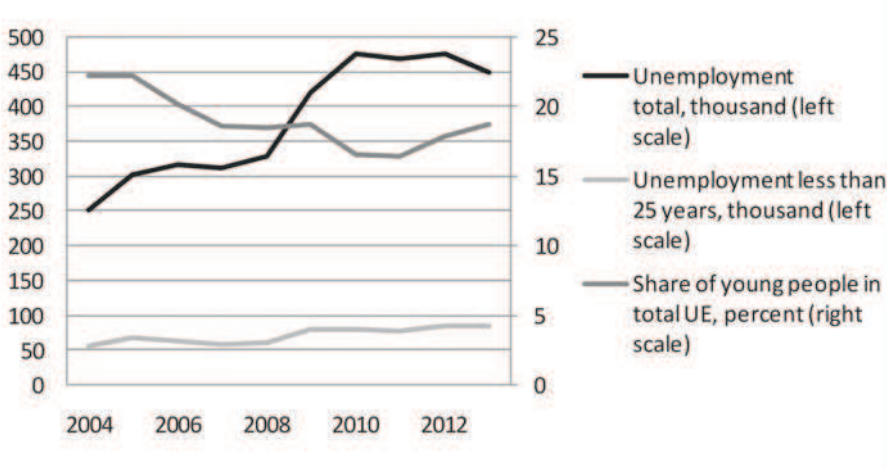
Even with these results the number of unemployed did not decrease much between 2010 and 2013. In 2013 the number of unemployed people in Hungary was 26,000 or 5.5% less than in 2010. Comparing this number with the 2004 data, unemployment has

[2] They are so-called "fostered workers".

grown by 197,000 persons and the unemployment rate rose from 6.1 to 10.2% by 2013. Within this time period the peak of the number of unemployed was 476,000 in 2012.

The situation of young people in the labour market has also deteriorated during the years of membership. The number of young unemployed under 25 years of age was 56,000 in 2004 and 84,000 in 2013. However, their share in total unemployment had been decreasing until 2011 more or less continuously. Then it began to rise and reach the pre-crisis level (Figure 1).

Figure 1. Unemployment and youth unemployment in Hungary (2004-2013)




Source: Eurostat

From the second half of 2013 the labour market situation has improved considerably inasmuch as the number and rate of both young and elder "active" unemployed decreased substantially.

In May 2014 the number of unemployed persons decreased to 355,000, which equals an unemployment rate of 7.9%. The number of unemployed youth (under 25 years of age) reached 65,000 (19.9%). The share of long-term unemployed (people who are unemployed for longer than 12 months) in total unemployment was 49.5% in the first quarter of 2014. This rate is higher than the corresponding EU average. Even with these beneficial developments in the last one

and a half years the numbers of both young and elder "active" unemployed were higher in the first quarter of 2014 than before the crisis (2008).

### Unemployment – Registered unemployed

In the previous section I used Eurostat data that follows the unemployment definition of the International Labour Organization. There is, however, another indicator, prepared by the Hungarian National Employment Service (NES) that refers to the number of people who registered themselves as jobseekers. They are also unemployed but may have occasional work and as such they are not unemployed according to the ILO definition. This means that quite a number of this category of jobseeker is not recorded in the statistics prepared by Eurostat and the Hungarian Central Statistical Office (HCSO).

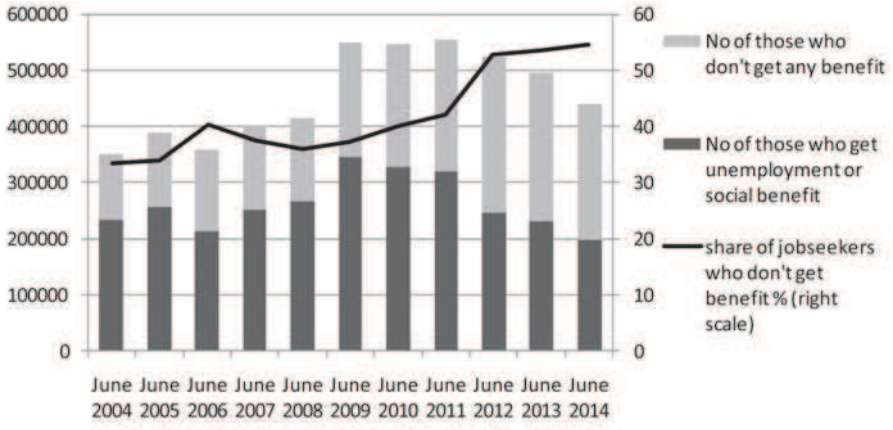
On the other hand, the number of registered unemployed people depends on some specific factors. Those jobseekers who think they can find a job quite rapidly are not likely to register because it requires time and poses other bureaucratic burdens. People with better qualifications, young people or those who are living in a region where more jobs are offered (e.g., in Budapest) are less likely to apply at the National Labour Office for registration as jobseekers. Besides, the advantages, which can be enjoyed by being registered unemployed, influence jobseekers' inclination for registration too. If the unemployment benefit is meaningful, it is worth making the effort, otherwise not. In Hungary the unemployment benefit was cut by the government in 2010, which had a discouraging effect on jobseekers' registration.

Bearing in mind the above-mentioned processes, we can assume that the number of registered jobseekers at the NES is smaller than the number of those who *are actually looking for* stable or at least relatively stable employment. Despite this, the number of jobseekers at the National Employment Service is *much higher* than that of the unemployed on the basis of the ILO definition. In May 2014 there were 355,000 unemployed persons according to the ILO definition while there were 514,000 jobseekers according to the data of the NES. As mentioned above, the labour market situation seemed to improve in the first half of 2014, thanks mainly to a de-

crease in the number of jobseekers at NES in June 2014. As a result, the official unemployment rate (ILO-definition) was 8% in the first six months of 2014 on average. This rate matches the pre-crisis level. The situation is not so promising, however, if we examine how the data on jobseekers for June of *every year* changed in the past decade.

In June 2014 there were 439,000 people in Hungary who looked for employment, according to the data of the NES. This number is 107.000 less than in June 2010 but with 23,000 more than in June 2008, i.e., before the outbreak of the crisis. Further, it is important to know that in June 2014, 291,000 jobseekers, i.e., 57% of all jobseekers *received no unemployment or social benefits.* Their number rose by 11.000 in two years (since June 2012) and by 68,000 in four years (since June 2010). *Relative to June 2004 the number of jobseekers grew by 2% in June 2014.* In the same period the number of unemployed persons receiving no benefits *has more than doubled* and the number of those who receive unemployment allowances or social aid *decreased by 15%* (Figure 2).

Figure 2. Number of jobseekers with or without unemployment or social benefit in Hungary in June of every year (2004-2014)




Source. Hungarian National Employment Service, Monthly detailed reports. http://www.afsz.hu/engine.aspx?page=full_afsz_havi_resz-letes_adatok_2014

## Fostered workers

Since 2005 Hungary has been following the guidelines of the employment policy ("guidelines") of the EU and has created an institutional structure to suits it. The crisis activated those labour market institutions and measures, for example the unemployment benefit, which helped to mitigate the socially disadvantageous effects of the crisis on people. However, the decrease in the number of unemployed was not possible until the new government restructured unemployment policy by taking a turn toward the workfare program. Participation in this program is compulsory for the unemployed, and those who participate in it are called "fostered workers". Since 2012, according to the modified labour law, all jobs that the labour offices offer to the unemployed persons are to be accepted by them even if the job has much lower qualification than the unemployed person has. Those who do not accept the job lose the social benefit that amount to approximately 76 euro per month in 2014. Three years ago this benefit was higher, but in order to motivate unemployed people to work the conservative government decreased it by 20% from 2012 on.

The workfare program has involved more and more unemployed people since 2010, reaching 129.100 people on average in 2013 and 178,700 people on average in the first half of 2014.[3] This is an exceptionally high number since the program has been launched and this is the reason why the official unemployment was considerably lower in May and June 2014 (see Table 1).

In Hungary the minimum wage is approximately 330 euro per month, and the average gross monthly earnings of workfare workers is 75-80% of that. This means a net monthly income of approximately 170 euro, which is less than 60% of the *minimum subsistence for a single person* that is given by the *HCSO.*[4] The workfare program offers cheap labour to the government and to those private sector employers who take part in the program. The unemployed, especially in disadvantaged regions where regular and formal employment can hardly be found, are usually thankful for the possibility of secure employment in the program and they hope it will continue.

[3] HCSO (2014a)

[4] HCSO online database Table 2.2.12. (Minimum subsistence since 1990, HUF/month) http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_zhc011.html

Table 1. Labour data of fostered workers in Hungary (2010 – May 2014)

| | 2010 | 2011 | 2012 | 2013 | 2014 Jan-May monthly average |
|---|---|---|---|---|---|
| Number of employees (thousands) | 87.4 | 60.9 | 90.8 | 129.1 | 178.7 |
| Of which: Number of full-time employees | 67.9 | 20.3 | 72.4 | 111.5 | 176.0 |
| Number of part-time employees | 19.5 | 40.6 | 18.4 | 17.6 | 2.7 |
| Average gross monthly earnings of full time employees (HUF) | 75,427 | 78,369 | 73,151 | 76,846 | 78,051 |

Source: HCSO. KSH Gyorstájékoztatók, Keresetek
http://www.ksh.hu/keresetek_tn

## The labour market policy of the government

The above-outlined developments reflect the socio-economic concept of the new government (since 2010) that is built on the principle of the so-called "work-based society". As such, so-called "passive" labour market policy (LMP) measures – unemployment benefits, early retirement – have been scaled back and the structure of so-called "active" measures – that aim at employability and job creation – has been changed.

Regarding labour market policy expenditures of the new government since 2010, the absolute level of expenditures has been reduced with the exception of direct job creation (i.e. workfare) and employment incentives (allowances given to employers). The government spent more than the half of the total LMP expenditures on the latter two types of actions in 2012. In 2013 the budget of the workfare program was further raised to more than 180 billion HUF (approximately 600 million euro).

On the other hand, the role of training and education of the unemployed within labour market policy has significantly weakened in the last couple of years. In 2008-2009 54-55 thousand unemployed took part in some kind of training and education programs each year. This

number shrank to 36-47 thousand in 2011-2012.[5] Between 2004 and 2010 the previous governments spent an average of 50 million euros a year on labour market training. In the following years this amount fell radically, equalling only 3.4 million euros in 2012.[6]

Cutbacks of the passive measures in labour market policy have also been radical after 2010. The maximum amount of the unemployment benefit was cut from 120% of the minimum wage to 100%. The time span for receiving unemployment benefits has been reduced by two-thirds, from 270 to 90 days. The result, as I have already stated above, is that *fewer people get less unemployment benefit for a shorter period of time,* with the share and number of unemployed getting no unemployment or social benefit having increased (see Figure 2). On the other hand, the number of those who are involved in the workfare program and receiving very low wages has risen (see Table 1). As a result, it seems that in the slogan of the government's "work-based society" the word "work" is used instead of *"cheap wage-labour".* This is also reflected in the decreasing real wages in the public sector and increasing wage differentials within the labour market.

## Social conditions

### Consumption, real wages and income

First of all, it is worth casting a glance at Figure 3. This shows how the growth of real wages, real income and consumption has slowed down after 2003. They even turned into a decreasing trend following 2006 when the government was forced to apply an austerity policy because of a huge budget deficit. Here I should note that the year 2006 was an exceptional one, as in that year the government deficit grew extremely high, reaching 9.6% of the GDP. For this reason a quick and strong adjustment was necessary; it was carried out at the expense of the population. However, in the years following until 2010 government policies more or less paid attention to the interests of

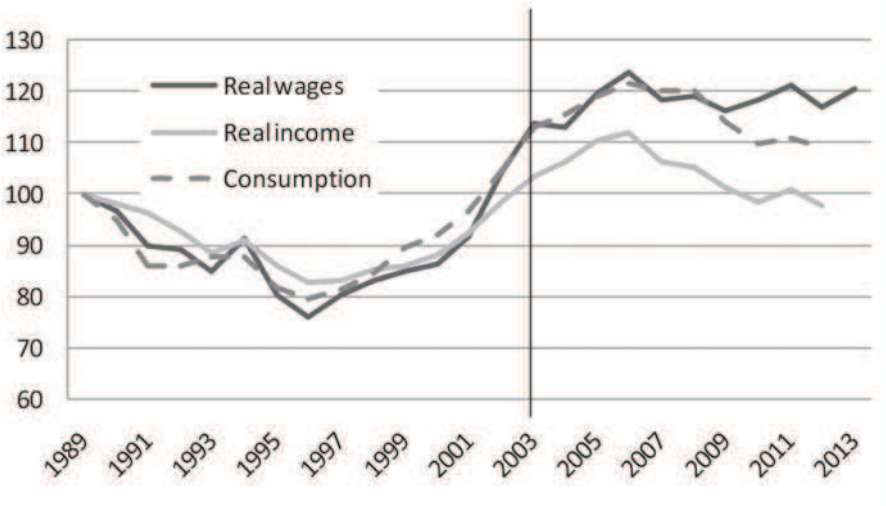
[5] Tajti (2009, 2012)

[6] Eurostat Online, Statistics by theme, Labour market, Labour market policy, Public expenditure on labour market policy (LMP) interventions.

the most helpless strata of society. Even this was not enough to satisfy the needs of the population. The shock of the crisis in 2008 and the following austerity policy resulted in a change in government at the 2010 elections. However, social conditions haven't improved since the inauguration of the new government.

In 2012 consumption and real income of the Hungarian population were below 2004 levels and real wages in 2013 were only by 6.6% higher than they were ten years earlier.

Figure 3. Real wages, real income and consumption in Hungary




Source: Own calculations on the basis of data from the Hungarian Central Statistical Office, http://www.ksh.hu/docs/hun/xstadat/xstadat_hosszu/h_zhc001.html KSH STADAT rendszer: 3.2. A háztartások jövedelme és fogyasztása (háztartási szektor makroszintű mutatói). (1960–)

Figure 3 shows an upward trend in all three indicators between 1996 and 2007. This, however, hides the differences between various strata of society. The increase of the general level of real wages, income and consumption doesn't mean that these indicators grew for all citizens. Differences have increased quickly in recent years.

This will be discussed in the following chapters.

## Growing wage differences within the group of employees

The real value of net labour incomes increased in the first years after accession to the EU and since 2006 has been more or less the same. However, the differences within the group of employees have widened.

First, since 2006 the average private sector wage grew faster than that of the public sector. In the year of accession (2004) state employees earned 16.2% more than private sector employees. In 2009 the wages of these two sectors were essentially equal, and since then *public sector wages have been gradually lagging behind the wages of the private sector* and equalled 88.2% of the private sector average in 2013. What is more, by correcting this data with consumer price inflation we find that *the real wages of the public sector have been decreasing* since 2006 and in 2013 were under their 2004 level by 11%. In the same period of time, i.e., between 2004 and 2013, the real wages of the private sector grew by 17.6 %.

Second, the flat income tax rate that was introduced in 2011 by the new government *favoured the highest wage earner groups disproportionally* in every sector of the economy and caused increasing income inequality in society as a whole. I will discuss in more detail below. Third, between 2004 and 2013 the average gross compensation of all employees (public and private together) grew by 63% in nominal terms while consumer prices went up by 60.8%. *This means that the real value of labour compensation on average has strengthened only by 1.3%,* and in some branches has even decreased. The latter, as I have mentioned above, is characteristic of the public sector. Those who are employed as medical staff or social workers lost more in real terms. Employees in trade and construction industries enjoyed the highest real increase of their wages.[7]

Fourth, *the gap between the wages of blue and white collar workers has widened in all sectors. Blue collar employees in the public sector have suffered the largest deterioration* both in their absolute and relative position (Table 2).

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[7] HCSO: 2.1.40. Azalkalmazásbanállókrendszereshavibruttóátlagkereseténekalakulása a nemzetgazdaságban (2004–) http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qli022.html

Table 2. Net earnings of blue and white colour workers in Hungary by main sectors 2008–2012

| Rate of net earnings, percent | 2008 | 2009 | 2010 | 2011 | 2012 | 2008-2012 change in percentage point |
|---|---|---|---|---|---|---|
| Blue-collar/white-collar, total economy | 57.6 | 58.2 | 57.5 | 54.8 | 52.7 | -4.9 |
| Blue-collar/white-collar, private economy | 53.7 | 53.3 | 53.0 | 47.8 | 46.8 | -7.0 |
| Blue-collar/white-collar, government | 62.9 | 62.3 | 59.4 | 64.1 | 54.6 | -8.3 |
| Government/private economy, white-collars | 85.1 | 79.5 | 79.2 | 69.4 | 67.4 | -17.8 |
| Government/private economy, blue-collars | 99.7 | 92.9 | 88.8 | 93.2 | 78.6 | -21.1 |

Source: HCSO online statistics, STADAT. „Munkaerőpiac. Idősoros éves adatok."(Labour market. Annual data.) Table 2.1.45.and 2.1.46. http://www.ksh.hu/stadat_eves_2_1

Finally, the *gender pay gap* was over 20% in the 1990s. Until 2006 this gap had narrowed considerably, reaching 14.4% in 2006. Following that year the gap began to rise again and reached 20.1 in 2013, which was the fourth highest rate within the Central and Eastern European member states of the EU after Estonia, the Czech Republic and Slovakia, and the sixth highest in the EU28.[8]

Divergence of wage-groups is not the only problem. It is accompanied by growing poverty, social exclusion and income differences.

## Poverty, social exclusion and income distribution

The labour market situation is always in significant connection with the state of poverty. These two social factors also reflect the class content of the policy of a government. In Hungary, as we have seen above, the unemployment decreased in the last few years, but the support that the government has been offering for the unemployed people in the form of unemployment and social benefits has diminished even more. This situation leaves many people without help and

[8] Eurostat Online, Statistics by theme, Labour market, Earnings, Gender pay gap in unadjusted form.

hope although the head of government that gained a two-third support on the last two elections (2010 and 2014) promised that "we leave nobody behind"[9]. To be honest, he said it in connection with the families that are *indebted in foreign currency* and there are not many such families among the poorest ones.

Table 3. People at risk of poverty or social exclusion between 2005 and 2013 (percent of the population)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Total population** | | | | | | | | | |
| **EU28** | .. | .. | .. | .. | .. | 23.7 | 24.3 | 24.8 | .. |
| **EU27** | 25.7 | 25.3 | 24.4 | 23.7 | 23.2 | 23.7 | 24.3 | 24.8 | .. |
| **NMS12** | 41.0 | 38.0 | 35.0 | 31.7 | 30.6 | 30.8 | 30.6 | 30.7 | .. |
| **Hungary** | 32.1 | 31.4 | 29.4 | 28.2 | 29.6 | 29.9 | 31.0 | 32.4 | 33.5 |
| **Less than 6 years old** | | | | | | | | | |
| **EU28** | .. | .. | .. | .. | .. | 25.6 | 25.4 | 25.9 | .. |
| **EU27** | 26.6 | 25.7 | 24.5 | 24.6 | 24.6 | 25.6 | 25.4 | 25.9 | .. |
| **NMS12** | 42.4 | 39.4 | 35.7 | 31.7 | 31.3 | 31.4 | 31.3 | 30.7 | .. |
| **Hungary** | 36.9 | 37.7 | 33.8 | 31.7 | 37.0 | 37.1 | 36.8 | 39.1 | 42.4 |

Source: Eurostat, Statistics by theme, Income, social inclusion and living conditions

In 2013 more than one third (33.5%) of the Hungarian population was at risk of poverty or social exclusion, which is among the highest rates in the EU and it is also higher than the average rate of the new member states (NMS12). Besides, this rate is bigger than it was in 2005 in Hungary (earlier data are not available in Eurostat) when it stood at 32.1%. Within the period of 2005-2013 the number of the people at risk of poverty or social exclusion was the lowest in 2008 with 2,794 thousand. Since then the number has been continuously

[9] The Prime Minister's video massage: https://www.facebook.com/video/video.php?v=10150311565624836

growing and reached 3,285 thousand in 2013 which is *one hundred thousand more than eight years ago and with 491 thousand more than in 2008.* Children under 6 years of age are even more affected. For them the above mentioned rate of risk was 42.4% in 2013, *the highest since 2005* in Hungary and the third highest rate in the EU after Bulgaria and Romania. In 2013 there were 24 thousand more children at risk of poverty and social exclusion than eight years earlier (Table 3.).

Another important indicator concerning children and thus referring to the state of living standard of the population is the infant mortality rate. This decreased almost continuously in the 2000s, with the exception of 2007 when it increased a little (by one percent only) and then has fallen again. This favourable long trend broke in 2011. Between *2011 and 2013 the infant mortality grew by 21,000 or 4.8 %.*[10]

Material poverty is measured by the share of persons with an income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income. This is the so-called at *risk-of-poverty rate.* This is measured both *before* and *after* receiving social transfers. The good news is that in Hungary the share of the population that lives under this threshold before receiving social transfers has been decreasing (Table 4). However, the picture alters significantly if we take a look at the rate of those who live under the poverty threshold after *social* transfers. Surprisingly, this rate has been growing in recent years. In 2013 after social transfers 1.4 million people were below the risk-of-poverty threshold. This is the highest number since 2005 with the exception of 2006 (Table 4). With these two rates it is possible to calculate the rate of those whom the social protection system frees from poverty. This is also presented in Table 4. This rate increased from 2005 until 2008. Since that year it has been declining and its decline has been accelerating since 2010. The rate of the population whom the social policy lifts out of material poverty was the lowest in 2013 (since 2005).

[10] HCSO online database, Table 6.1.4.http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_wdsd006.html

Table 4. At risk of poverty rate before and after social transfers in Hungary (2005-2013, percent)

| GEO/TIME | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **At risk of poverty rate before social transfers (A)** | 29.4 | 29.6 | 29.3 | 30.4 | 28.9 | 28.4 | 28.9 | 27.1 | 26.3 |
| **At risk of poverty rate after social transfers (B)** | 13.5 | 15.9 | 12.3 | 12.4 | 12.4 | 12.3 | 13.8 | 14 | 14.3 |
| **Rate of those whom the social sytem help (A-B)** | 15.9 | 13.7 | 17.0 | 18.0 | 16.5 | 16.1 | 15.1 | 13.1 | 12.0 |

Source: Eurostat, Statistics by theme, Income and living conditions, Monetary poverty.

Similar tendencies are to be found when examining the number of *severely materially deprived people,* i.e., those whose living conditions are severely constrained by the lack of resources.[11] Their number decreased from 2.3 million (22.9% of the population) in 2005 to 1.8 million in 2008. After that year, however, the number of people within this group began to rise and reached more than 2.6 million in 2013 (26.8% of the population).[12]

The Gini coefficient is the generally accepted measure of income inequality. In the case of Hungary this coefficient was unusually high (33.3%) in the exceptional year of 2006 but then had eased down to 24.1% in 2010. Since then inequality has been on rise again, reaching 28% in 2013.[13] The distribution of income by income deciles presents the "perverse redistribution" after 2010 even more clearly. Between

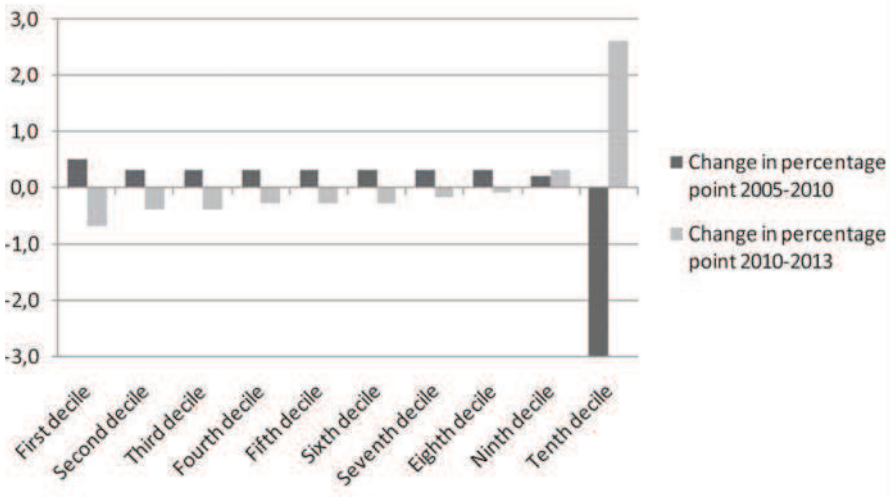
[11] Those people, who – according to the Eurostat definition – "experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone." See Eurostat Europe 2020 indicators explanatory notes. http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

[12] Eurostat, Statistics by theme, Income and living conditions, Material deprivation.

[13] Eurostat, Statistics by theme, Income and living conditions, Income distribution and monetary poverty.

2005 and 2010 the share of the bottom nine income deciles in the national income grew and the share of the tenth decile, i.e., the richest 10% of the population, lessened. After 2010 the trend reversed. Between 2010 and 2013 only the ninth and tenth deciles saw their positions improve and the upper 10% of the population has gained the most. All the other deciles lost and the first decile, the poorest ten percent of the population, lost the most (see Figure 4).

Figure 4. Distribution of the national income by income deciles in Hungary 2005-2013 (changes in percentage point)




Source: Eurostat, Statistics by theme, Income and living conditions, Distribution of income, Distribution of income by quantiles.

As a consequence, the ratio of the tenth decile to the first one increased from 4.8 to 6.5 between 2010 and 2013. Before 2010 the trend line was the opposite, even despite the unhappy year of 2006 when for the above-mentioned reasons income distribution deteriorated significantly but was quickly corrected afterward.

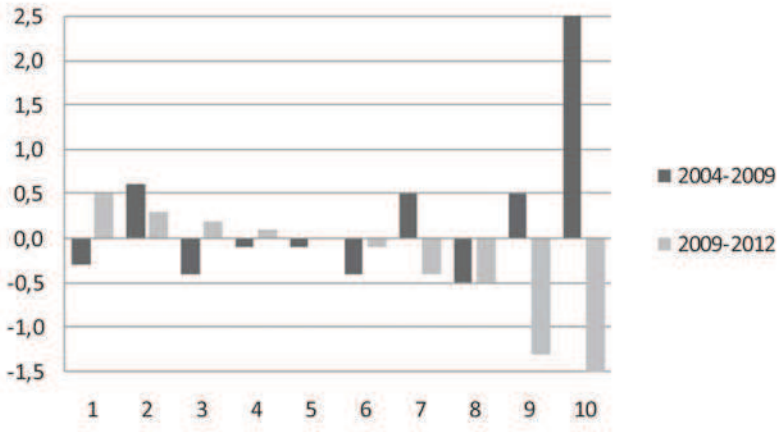
### The social policy of the government

How is the government dealing with the impoverishment of the lower strata of society? In the last few years the government did very little to prevent this compared with the efforts to push the public deficit

under three percent, which it did successfully. Besides, the government aims to reduce national debt and retrieve a substantial part of the economy from foreign owners and into Hungarian private and public hands. Regarding these goals the principles of "who doesn't work shall not eat" and the "work-based society" are coupled with the eventuality of dismantling the social protection system.

According to Eurostat data[14] the social protection expenditures of the Hungarian state were equal to 17.1% of the GDP in 2012. That rate is the lowest since 2006 and is substantially lower than the average of the EU28 (19.9% in 2012). In 2012 the level of social protection expenditures was only 0.5% higher than in 2009, meaning a decrease in real terms (Figure 5).

Figure 5. Structural change* in government expenditure in Hungary: government expenditure as a share of GDP (change in percentage point)



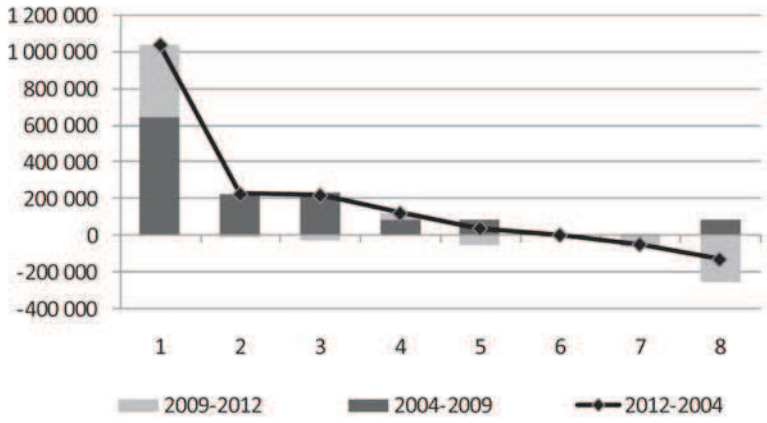

* Note: 1. Recreation, culture and religion; 2. Economic affairs; 3. Health; 4. Environment protection; 5. Public order and safety; 6. Defence; 7. Housing and community amenities; 8. Education; 9; General public services; 10. Social protection.

Source: Eurostat Statistics by theme, Government statistics, General government expenditure by function

[14] Eurostat Statistics by theme, Government statistics, General government expenditure by function.

Since 2004 the structure of the social protection expenditures has changed at the expense of the poorest people. The most disadvantageous developments in this respect happened after 2009. Between 2009 and 2012, within the social protection expenditures, only old age pensions and benefits to survivors gained bigger shares and sums, whereas the amount of money devoted to sickness, disability, family and children, housing, unemployment, social protection and exclusion (not specified elsewhere) decreased. The government saved close to 400 billion HUF (1.3 billion euro) on these latter items in 2010, 2011 and 2012 together (Figure 6).

Figure 6. Structural change in social protection expenditures of the government in Hungary 2004-2009 and 2009-2012 (change in million HUF)




* Note: 1. Old age; 2. Sickness and disability; 3. Family and children; 4. Survivors; 5. Unemployment; 6. R&D Social protection; 7. Housing; 8. Social protection and social exclusion n.e.c.

Source: Eurostat Statistics by theme, Government statistics, General government expenditure by function

## Education

In the last two decades the participation rate in education for the 15-24 years of age cohort has been growing faster in Hungary than in the EU on average. Before 2004 the Hungarian participation rate was

lower than the average of the EU27. In 2004 the rates were equal, and then the Hungarian rate continued to rise. In 2012 66.6% of the Hungarian population aged 15-24 years participated in formal education compared with 62% in the EU28. The Hungarian rate was the ninth-highest in the Union. This is partly thanks to the extension of the private education sector in Hungary that originated in the reform processes of the 1990s, when the establishment of private schools on all levels of education became possible. Further, persistent unemployment has also inspired young people to learn more and for longer as participation in post-secondary and tertiary education (ISCED 4-6) is an advantage in finding better-paid jobs after finishing school and also serves as a means of avoiding unemployment for some time.

In the first years of EU-membership (between 2004 and 2007) and in 2010 government spending on education relative to the GDP was higher than the EU27average. In 2012 the Hungarian rate decreased to 4.8%,which is considerably lower than the average of the EU and *one percentage point lower than at the time of accession to the EU.* Again, similarly to other disadvantageous social developments, most of the decrease happened in 2011 and 2012, when the conservative government that was elected by a two-thirds majority withdrew 789 million euros from education. As a result, the money devoted to education in 2012 is *the lowest since accession to the EU* and 85 million Euros (or 1.8%) less than in 2004. With this Hungary is one of the two member states that spent less money on education in 2012 than in 2004. The other country is Portugal where the decrease was 7.2% in the same period. The EU as a whole (without Croatia) increased education budgets by 24.1% between 2004 and 2012, although the absolute level of expenditures stagnated in 2011 and 2012.[15]

Between 2004 and 2008 the ratio of students to teachers at the ISCED 1-3 level decreased: after that it increased and became higher in 2012 than in 2004. The rate of early school leavers from education and training aged 18 to 24 years who finished the level ISCED 3 lessened considerably until 2010 and then began to grow. This means

[15] Eurostat, Statistics by theme, Government statistics, General government expenditure by function.

that in the last three years Hungary has rolled away from the Europe 2020 target on education according to which the rate of early school leaving is to be reduced to below 10% (Table 5).

Table 5. Some indicators of education in Hungary 2004-2013

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Participation rates in education, ISCED 1-6, aged 15-24 years (%) | 59.7 | 61.6 | 62.6 | 63.7 | 64.5 | 64.6 | 65.6 | 66.3 | 66.6 | n. a. |
| Ratio of students to teachers, ISCED 1-3 | 11.0 | 11.0 | 10.9 | 10.8 | 11.3 | 11.4 | 11.4 | 11.3 | 11.3 | n. a. |
| Early leavers from education and training, from 18 to 24 years (%) | 12.6 | 12.5 | 12.6 | 11.4 | 11.7 | 11.2 | 10.5 | 11.2 | 11.5 | 11.8 |
| Entrants at theoretical starting age in ISCED level 5 as % of all persons of the corresponding age group | 12.3 | 12.7 | 11.8 | 11.8 | 11.2 | 9.3 | 9.1 | 8.0 | 6.9 | n. a. |
| Entrants at the theoretical starting age in ISCED level 5 as % of all entrants in ISCED level 5 | 15.2 | 15.3 | 14.2 | 14.9 | 15.4 | 13.7 | 12.5 | 10.8 | 9.3 | n. a. |

Source: Eurostat online, Statistics by them, education and training, Education indicators - non-finance

According to PISA assessments between 2000 and 2009 the performance of the Hungarian 15-year old pupils improved in reading literacy and did not change significantly in mathematics and science.[16] In 2009 the scores of Hungary in all fields were around the

[16] Halász (2011)

OECD average.[17] The results of the assessment in 2012 showed considerable deterioration.[18] On the basis of this data and indicators of the social conditions in Hungary, the balance of the last decade shows a negative result at the end of the period.

## Demographics, migration and the judgement of the EU

Similar to the general trend in Europe, Hungary's population has been decreasing for decades, by approximately 35-40 thousand persons per year. The number of marriages per thousand inhabitants has been decreasing and more than half of marriages end with divorce. While the birth rate is low and decreasing, more and more children are born outside marriage. Although these trends are naturally results of socio-economic development in general, they reflect not only positive developments.

Contrary to more developed countries, where net immigration frequently outnumbers the natural decrease of the population, Hungary doesn't attract enough foreigners. What is more, in the last years the number of emigrants has risen as a consequence of growing unemployment (due to the crisis) on one hand and the opening of the German and Austrian labour markets on the other. There is no reliable data on emigration. Politicians and newspapers speak of about 300-500 thousand or even more, while the Central Statistical Office puts this number at 95.000 in the first quarter of 2014. The HCSO also stated that emigration showed an upward trend between 2011 and 2013 but now seems to have halted: emigration in the first 3 months of 2014 was not higher than a year ago.[19]

The general feeling among people, however, is that many Hungarians under 40 years of age are leaving or at least planning to take their chances in some Western-European country to find a better-

[17] Reading: Hungary 494, OECD 493. Mathematics: Hungary 490, OECD 496. Science: Hungary 503, OECD 501.https://docs.google.com/spreadsheet/ccc?key=0AoBYy67Qwoevd-HIyc2Rha2VYamZ0LUI0Xy1TdUszRkE&usp=sharing#gid=2

[18] Reading: Hungary 488, OECD 496. Mathematics: Hungary 477, OECD 494. Science: Hungary 494, OECD 501.https://docs.google.com/spreadsheet/ccc?key=0AoBYy67Qwoevd-HIyc2Rha2VYamZ0LUI0Xy1TdUszRkE&usp=sharing#gid=0

[19] HCSO (2014b), p. 2.

paid job. The amount of the money in euro that Hungarians can earn in more developed member states of the EU inspire them, as well as other Eastern Europeans, to work in them at least for a while.

The above is especially true for young people in general and particularly for those students who have had the possibility to get acquainted with life abroad thanks to the EU student exchange program (Erasmus). According to the last Eurobarometer results, Hungarians appreciate the Erasmus program of the EU quite a lot. 30% of those surveyed stated that the Erasmus program is the most positive result of the EU against 23% on average in the EU28.[20]

The opportunity to work and study in other EU countries likely played a role in the growing popularity of the EU in Hungary in recent years. Optimism concerning the future of the European Union has grown and became the majority view in Hungary (53% in spring 2014 vs. 44% in autumn 2013). A growing proportion of Hungarians (59% in spring 2014) feels that they are citizens of the EU too. Optimism regarding the crisis on the job market has also been increasing, and Hungary was among the four most optimistic EU member states in spring 2014 in this aspect. 61% of respondents thought that the crisis in the job market had already reached its peak.[21] Still, 46% of respondents felt they could fall into poverty, which is the fifth-highest rate in the EU28.

## Changing governments – changing concepts

Although the crisis has played a crucial role in the changes in the labour market and in the social conditions of the majority of employed and unemployed people, the effect of the policies of Hungarian governments cannot be neglected in these processes. As I have presented above, the most disadvantageous developments for the most vulnerable strata of the society happened after 2010, when the bulk of the negative effects of the crisis had already passed. Since 2010 new legislations have come into force. Their essence shows a clear preference for the upper-middle and – even more so – the top

[20] EC (2014a), p. 4.
[21] EC (2014b), pp. 11., 22., 27., 29.

income strata. The negligence of education disadvantageously affects foremost the lower-income segments of the population.

The governments ruling before the crisis were convinced that the best direction of the country's development and its successful integration into the world economy was to make Hungary a place where globalized capital finds it worth producing and investing in. This resulted in a neoliberal policy where the largest companies could exploit the incentives of the government most successfully and where either the manufacturing and service industries or financial institutions could gain substantial profits from their operation. This strategy was justified by the increasing stock of foreign direct investments (FDI) in the country and also with the relatively high rate of GDP growth. In the 2000s the stock of FDI as a percentage of GDP in Hungary had been among the highest of the new member states of the EU, being surpassed by Bulgaria and Estonia only. After accession to the EU the annual growth of the Hungarian economy was around 4% until 2007.

EU membership has supported these processes and the strategy of these governments seemed to be on track in terms of increasing real incomes, salaries and consumption. This was, however, a short period of time, and was fuelled by the financial (credit) bubble that the same governments allowed to take place, rather irresponsibly. First, the immense budget deficit in 2006, then the subsequent collapse of economic growth in 2007 and finally the outbreak of the crisis in 2008 questioned the validity of the neoliberal model, especially because the growth of the economy that was led by external factors had gone hand in hand with the indebtedness of private households. These factors made the failure of the neoliberal economic policy inevitable.

Still, as the data above has illustrated, the neoliberal governments paid attention to the problems of the most vulnerable strata of the society and did their best in the frame of the global capitalism to redistribute incomes in favour of lower income groups. In this sense the governments before 2010 can be called "left-neoliberal". What they did, however, was far from satisfactory for people living on wages, salaries or social benefits and carrying the burden of the crisis. The reason for this is that in the meantime the Hungarian econ-

omy has become “empty”. National capital has been forced back by the market processes and/or has not been able to grow out from the small and medium-sized enterprise sector because of the stronger competitiveness of the much larger foreign companies. Thus, the Hungarian economy with its national capital has become strongly dependent on globalized “foreign” capital. This model of development is a natural and frequently repeated mode of integration into the world economy by less developed countries. It is also true for bigger countries, for example Brazil. Larger countries, especially if they are well-endowed with natural resources, seem to have a larger playing field and more possibilities to stand on their own feet. However, even they need partners in order to catch up, as the cooperation between the large and dynamic BRICS countries proves.

Returning to Hungary, the new conservative (or “right-neoliberal”) government was able to win the last two elections on the wave of general social dissatisfaction that was caused by the weakness of the national economy and the lack of perspective for a stable future for those who can make a living from selling their labour only.

Since 2010 the new government has changed the strategy of national development, but not completely. The government endeavours to turn, at least partly, the supportive power of the state towards national capital instead of the foreign capital. This does not mean giving up neoliberal principles. First, the new government has been supporting foreign investments in the manufacturing sector. Second, it has been creating an environment that offers good profit opportunities to both national and foreign capital by creating a low wage environment and a weakly protected labour market.

From the viewpoint of the labour market, however, these two directions have the same consequences: the share of the labour in added value inevitably decreases, as this stimulates competitiveness.

## Conclusions

In this paper I have tried to assess the state of the Hungarian labour market and social conditions since accession to the EU on the basis of statistical data available in Eurostat and Hungarian Central Statistical Office databases. The majority of the indicators show an inverse

U-turn from the viewpoint of the majority of the population. This means that most of the indicators improved in the first half but deteriorated in the second half of the examined period. The most recent values of the examined indicators in most of the cases are worse than those at the beginning of the examined decade.

In some cases, for example the number of unemployed people, the turning point is the year of the crisis and the concomitant austerity policy of the government. However, the first three years of the crisis don't explain the recent state of labour market properly. For most issues deterioration happened or worsened after 2010, when the new government with its new socio-economic concept came to power.

The concept of the new government is to build the economy of Hungary on stronger national capital with the help of more and cheaper labour. This policy does not contradict the rules of the market. What's more, it is rather liberal in the sense that it favours the interest of company owners. The core of competitiveness is unit labour cost. With increasing productivity, i.e., strong investments in technological innovations, ULC can be cut back so that in the meantime the level of the compensation of employees and hence their standard of living increase or at least do not decrease. However, in the absence of or insufficient level of technological progress the growth of productivity cannot substitute for the absolute decrease of wages. To increase productivity, however, a substantial amount of capital is needed: an amount that weaker companies don't have.

To help smaller, technologically less developed, less competitive firms, like the national capital of a small country usually is, a government has to decrease the unit labour cost by pushing down the absolute level of wages. Domestic companies are technologically and financially less developed than the large, globalized foreign companies used to be. This means that competitiveness of national capital can be developed by decreasing the unit labour cost through the absolute decrease of the labour costs.

The result of this "national capital-minded" economic policy is reflected in the labour market and social situation of Hungary and in the unequal redistribution of national income in favour of the better-off strata of society. As a consequence, the ratio of the compensation

of employees as a share of GDP decreased from 46.8% in 2007 to 45.5% in 2013. Those who produce the added value receive less and less of it. This strategy is however beneficial for foreign capital too, at least in the short run. In 2012 the inflow of FDI to Hungary hit an all-time record high level and Hungary attracted the most foreign capital after Poland within the Central and Eastern European EU member states in the four years between 2010 and 2013.[22]

In the longer run, increasing inequalities, the growing number of poor people within the society and the worsening conditions in education and healthcare will backfire by creating a morally, intellectually and physically ill society in which less profit can be generated both for foreign and national capital.

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