

**THE HUNGARIAN
LABOUR MARKET
IN 2009–2010**

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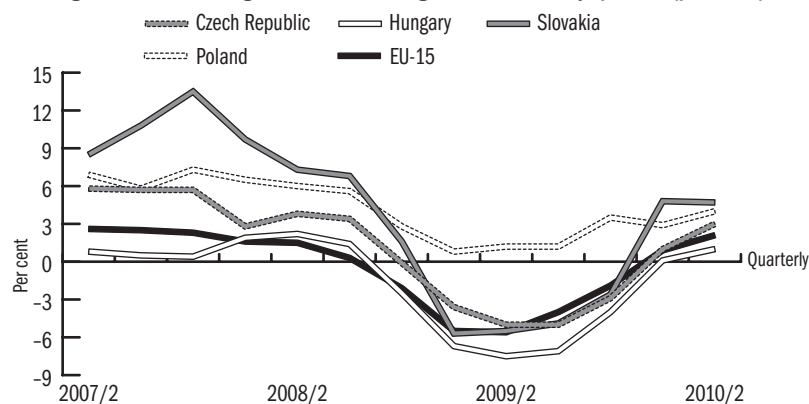
This chapter looks at the labour market processes taking place during the second half of 2009 and the first half of 2010. With the first shock of the economic crisis appearing in the autumn of 2008 behind us, the economy picked up during the period under discussion, primarily owing to the increasing demand for export. Internal demand, however, continued to remain limited, with the result that the different industries failed to have an equal share of the boom. This duality in growth structure was reflected in the labour market, which was slow to respond to the favourable processes taking place in the real economy.

THE ECONOMIC ENVIRONMENT AND EMPLOYMENT

The global crisis hitting the economy in autumn 2008 was followed by a period of recession lasting until the summer of 2009. The recession was marked by a pronounced drop in production and consumption and the contraction of both external and internal markets. During this period, EU countries typically experienced a 5 to 8 per cent decrease in their – annual – GDP. Some improvement could be observed in the third quarter of 2009, primarily due to the economic stimulus measures implemented by the governments. The positive effects of these programmes proved to be transient when at the end of their term market demand fell once again. The growth of the European – and the world – economy observed at the end of 2009 was assisted by the dynamic expansion of the demand in developing – mainly Asian – countries (*MNB*, 2010).

While the boom in the Czech Republic and Slovakia more or less follows the EU-15 average trend, Poland exhibits an achievement unique in the European Union: an increase in its GDP during the crisis. The growth of the Hungarian economy remained well below the EU-15 average in 2009, but it starts closing the gap at the beginning of 2010 (*Figure 1*).

Figure 1: Real GDP growth in the Visegrád countries by quarter (per cent)



Note: Change relative to the same period in the previous year.

Source: Eurostat on-line database (teina011).

The Hungarian economy was at its lowest during the second quarter of 2009, when the GDP was down 7.5 per cent compared to its value for the same period in the previous year. The second half of the year was characterised by a moderate decrease, and the first quarter of 2010 saw a slow rise in GDP.

Compared to the rest of the region, the recovery of the Hungarian economy commenced with some delay and showed slow progression, presumably because of the economic slowdown experienced by the country long before the global depression and as a result of the government measures implemented in response to that slowdown. The country's substantial debts presented an obstacle to boosting the budget,¹ and the contraction of demand was intensified by the decrease in credit activity on both the demand and the supply side (*MNB*, 2009).

The boom displays a dual structure. On the one hand the foremost motor of growth are the export sales targeting – via Germany, our main export partner – the Asian region, and on the other hand economic growth is held back by the fall in internal demand over the past few quarters (*MNB*, 2010).

The labour market was relatively quick to respond to the dwindling demand effected by the economic slowdown and further exacerbated by the global crisis. By international comparison, the decrease in employment experienced by Hungary relative to the 2008 baseline is not particularly large – every country suffered a drop in employment with Slovakia fairsing the worst. It is worth remembering, however, that the rest of the Visegrád countries had accrued an employment advantage during the boom of the mid-2000s, which is what was now lost. Hungary, in contrast, started at the lowest level and lost the meagre employment advantage gained over a decade essentially due to demographic processes.

The employment rate among the 15–64 year-old population rose steadily but at a slow pace up until 2003, and then, following a minor dip, stabilised at about 57 per cent. As a result of the crisis, it dropped from 56.7 per cent in the fourth quarter of 2008 to 55.5 per cent in the fourth quarter of 2009 and further to 54.5 per cent in the first quarter of 2010. This figure is 9 percentage points below the average of the 27 EU countries and corresponds to the Hungarian employment rate measured in 1998. The initial plunge may have been tempered by the fall in both public sector and private sector wages, but at the beginning of 2010 public sector wages started increasing again (*Figure 2*).

Although the first signs of recovery can now be observed (the decrease in GDP has come to a halt with the revival of export), its labour market effects can be barely perceived: while the fall in employment has slowed down, the unemployment rate continues to rise steeply. It is an encouraging observation, however, that the incidence of economic inactivity shows a slight but noticeable decreasing trend, which is likely to be explained mainly by the increase in the statutory retirement age and the improved spread of education (*Cseres-Gergely & Scharle*, 2009). Maintaining the level of activity may accelerate the process of recovering from the crisis.

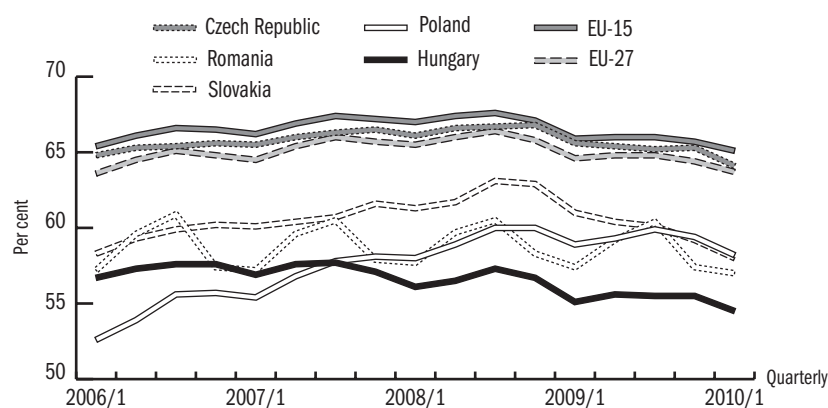
¹ In order to maintain debt sustainability the government was forced to introduce fiscal consolidation measures, which curbed internal demand. As indirect taxes (VAT and excise duty) were raised in the middle of 2009 and the mortgage support scheme became less accessible, households brought their investment decisions forward and companies postponed their planned investments or reduced their stocks (*MNB*, 2009).

Figure 2: Major economic indicators in Hungary by quarter from 2006 (per cent)

Note: GDP volume: Q1 2006 = 100, GDP production at average prices in 2000.

Earnings: average gross earnings in private sector in Q1 2006 = 100, real earnings deflated by the Consumer Price Index.

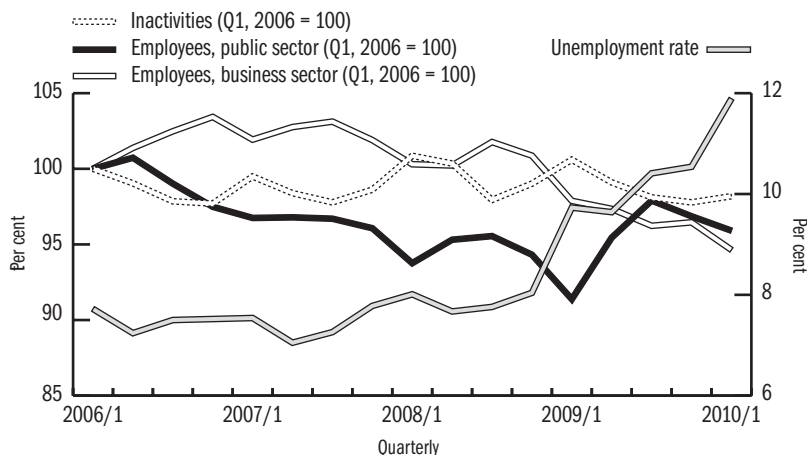
Source: GDP, earnings: authors' calculations based on *KSH Stadat*; level of employment: authors' calculations based on the *Hungarian Central Statistical Office (HCSO)* Labour Force Survey.

Figure 3: Employment rates in the Visegrád countries by quarter, 15–64 year-old population (per cent)

Source: *Eurostat* on-line database.

The decline in employment was moderated by the increase in the size of the public sector workforce starting in the second quarter of 2009 (*Figure 4*) which was a result of the substantial expansion of public work schemes. In the private sector, in contrast, there was a decrease in workforce size. The details of the adjustments in the private sector, including changes in employment, working time and wages, are discussed by János Köllő in Chapter 1 of *In Focus* in this volume. One of the most important conclusions of the study is that a fine-grain analysis seems to confirm the impression that the two sectors responded in diametrically opposed ways: the business sector through employment adjustment and the public sector through wage adjustments.

Figure 4: Major labour market indicators by quarter, 2006–2010



Note: Unemployment rate shown on the *y* axis on the right.

Source: Authors' calculations based on HCSO *Labour Force Survey* data, 15–64 year-old population.

As will be discussed in connection with job creation, the population entering employment under the *Pathway to Work* programme had a noticeable effect on the size of the public sector. We can therefore paint a more precise picture of employment by differentiating between subsidised and non-subsidised employment. Similarly to the private sector, although to a lesser extent, non-subsidised employment also declined in the public sector if we disregard the expanded participation in public employment schemes, which is unrelated to the crisis.

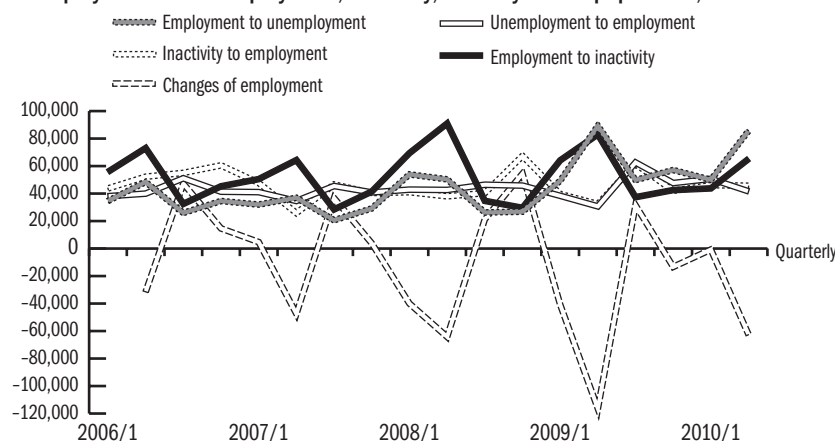
The decrease in employment was first of all accompanied by an increase in unemployment rather than in inactivity, but the usual dynamics of transition from one status to another also underwent some change. Based on *Cseres-Gergely* (2010), *Figure 5* displays stock-flow consistent calculations of labour market status transitions. Compared to previous periods, early in 2009 we find a significantly increased flow to unemployment and a decreased flow to employment both from among the inactive and the unemployed populations. The first quarter of 2010 is characterised by a further increase in unemployment inflows but there is an improvement in the proportion of workers re-entering employment. The flows between employment and inactivity also display an improving trend in the last quarter: compared to the previous period, a smaller proportion of workers become inactive and a larger proportion enter employment. This is, however, to a large extent due to the expansion of subsidised employment mentioned above.²

At the onset of the crisis, the population most heavily affected by job losses between 2008 and the first half of 2009 were skilled workers, especially those living in West or Northwest Hungary (*Cseres-Gergely & Scharle*, 2009). In 2009 as a whole and in the first half of 2010, there was some degree of conver-

2 The spread of subsidised employment is only discussed here in connection with registered vacancies, and the analysis is based on data from outside sources. The reason behind the decision is that using the information in the HCSO Labour Force Survey of 2009, we get an increase in employment of only 32 thousand people, as opposed to the figure of 100 thousand indicated by the administrative data. We have not been able to reveal the exact reason for the discrepancy, but possible factors include definitional differences between the two sources, respondents' uncertainty as to the classification of their employment as subsidised, or even that the coverage of the survey did not extend to some of the affected population.

gence between regions but as the effects of the crisis propagated and overall employment fell by about 1.5 percentage points, the disadvantage of skilled workers persisted: the rate of employment among them dropped more sharply, by about 2 percentage points between the corresponding quarters of 2008 and 2009. Higher education graduates appear to be the most resistant to the effects of the crisis: their employment figures show a decline of only 0.5 percentage points (see *Table 1*).

Figure 5: Quarter to quarter changes in employment, and its components: flows between employment and unemployment, inactivity, 15–64 year-old population, 2007–2010



Source: Authors' calculations based on *HCSO Labour Force Survey* micro-data, stock-flow consistent model.

The male and female employment curves diverge from the end of 2009 onwards: for women the employment rate rises in the third quarter of 2009 and only barely declines in the first quarter of 2010, while for men it decreases in both quarters. One reason is the slight but steady flow from inactivity to employment (see *Figure 6*), and the other explanation for the data lies in that not even the crisis could curb the flow from unemployment to employment and the likelihood of separations only slightly increased in the first quarter of 2010. The labour market, therefore, appears to have been considerably more hospitable to women than to men during the crisis period.

Since businesses tend to adapt to the decline in demand by curbing labour expansion, the employment of young cohorts is likely to suffer at a time of depression. This is exactly what we observe in the case of the current crisis in Hungary, but a number of other factors also play a role. *Figure 7* displays the employment curves for new labour market entrants and non-new labour market participants among younger men and women in the first quarter of 2008, 2009 and 2010. It can be clearly seen that the originally low rate of employment among the 15–19 year-old cohort further decreases substantially as a result of the crisis. Women's employment is invariably lower than men's, and the crisis does less damage to the

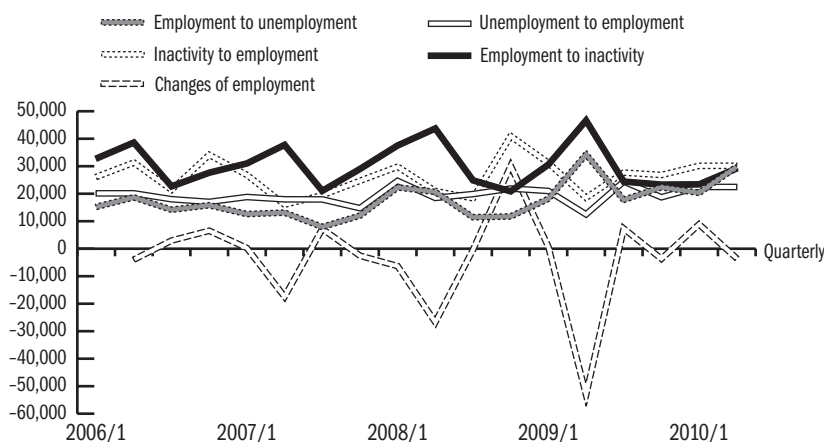
former than to the latter for each cohort. The effect is strongest at the onset of the crisis and the occasional increase is a product of the exceptionally low base-line values. The figure reveals that although the crisis meant heavier job losses for the young in general than for older people, the group that suffered most among younger cohorts are the new labour market entrants. This effect weakens with the progress of age and in some cases disappears in the second year of the crisis.

Table 1: Employment rates among 15–64 year-olds broken down by education from Q1 2006 to Q1 2010 by quarter

Quarter	Primary or less	Vocational	Upper Secondary	Higher Education
2006 Q1	27.0	68.0	61.4	82.3
2006 Q2	27.9	69.5	61.5	81.4
2006 Q3	28.1	69.5	61.7	80.8
2006 Q4	27.5	69.7	62.0	80.3
2007 Q1	26.4	68.7	61.6	80.3
2007 Q2	27.5	69.0	62.0	80.4
2007 Q3	28.3	68.8	61.7	79.6
2007 Q4	27.2	67.7	60.9	79.7
2008 Q1	26.6	66.3	60.1	79.4
2008 Q2	26.9	66.4	60.6	79.8
2008 Q3	28.3	66.9	61.2	79.5
2008 Q4	27.0	66.1	61.0	79.4
2009 Q1	24.6	63.8	59.6	78.7
2009 Q2	25.7	64.6	59.8	78.5
2009 Q3	26.3	64.3	59.0	77.7
2009 Q4	26.1	64.5	59.1	77.6
2010 Q1	24.6	62.4	58.6	78.2

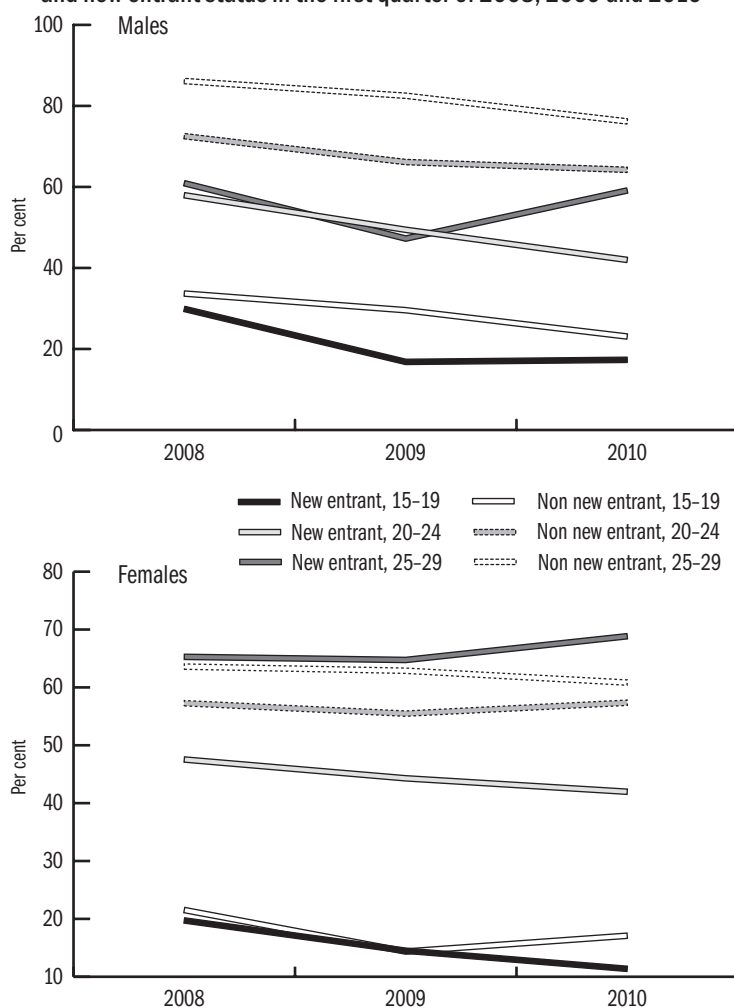
Source: Authors' calculations based on *HCSO* Labour Force Survey data.

Figure 6: Quarter to quarter changes in employment, and its components: flows between employment and unemployment, inactivity, 15–64 year-old female population, 2007–2010



Source: Authors' calculations based on *HCSO* Labour Force Survey micro-data, stock-flow consistent model.

Figure 7: Employment rates among younger cohorts by gender and new entrant status in the first quarter of 2008, 2009 and 2010



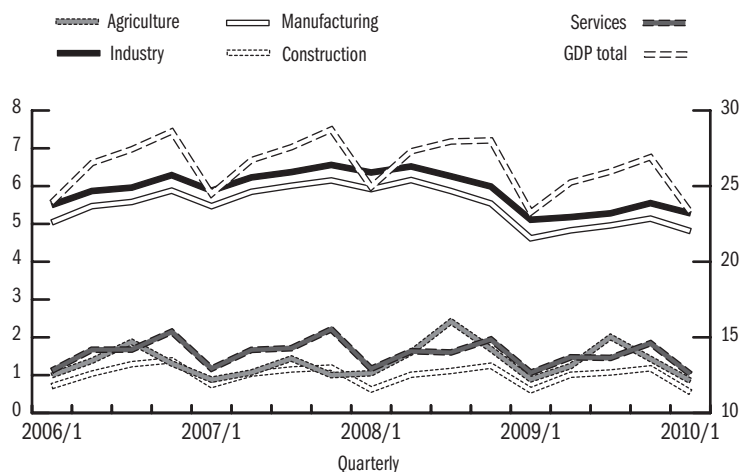
Note: A new employment entrant is defined as a worker in employment and not in full-time education who was a student a year before data collection. A new labour market entrant is defined as a person not in full-time education who was a student preceding data collection. The non-new employed are those in employment and not in full-time education who were not students one year before data collection. Non-new labour market participants are those not in full-time education who were not students preceding data collection. The figures for 30–34 year-old new labour market entrants are omitted because of the large error margin associated with low cell counts.

LABOUR DEMAND

The effects of the crisis on the output of the various sectors of the economy varied in degree but were mostly negative. During the recession, industrial production slumped to a substantial extent, but – mainly thanks to the expansion

of the heavily export oriented manufacturing industry – some improvement has been observed recently (*Figure 8*). Looking at the GDP contribution of the construction industry – relative to that of agriculture – we find a slow but steady decline starting even before the onset of the crisis. For services, however, the figures reveal a relatively stable overall performance: while the economic contribution of enterprises with sales in the internal market (retail and travel accommodation industries) substantially decreased, the performance of financial, real estate and other business services has steadily risen over the past year (*MNB, 2010*). Finally, agriculture showed an outstanding performance in 2008 and 2009, and, relative to its size, made a substantial contribution to the economy's gross domestic product.

Figure 8: Quarterly real output by industry, 2006–2010



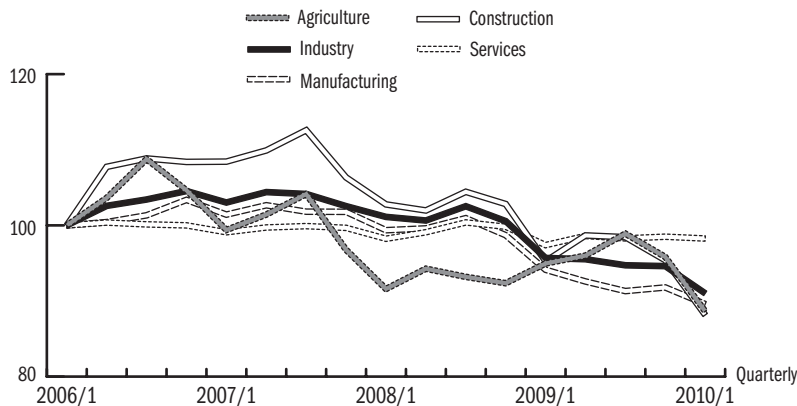
Note: At constant prices (base year: 2000), agriculture GDP in Q1, 2006 = 100. The GDP contributions shown in the figure are relative to the contribution of agriculture, e.g., in the first quarter of 2006 services contributed more than ten times, and manufacturing contributed more than four times the contribution of agriculture.

Source: Authors' calculations based on *HCSO Stadat*.

In terms of their demand for labour, and thus employment, the different sectors reacted to the changes in production with varying sensitivity (having different production elasticities, cf. *Kőrösi, 2005*). The largest degree of employment reduction was observed in the industrial sector, especially in construction, where there was a 7.4 per cent decrease in workforce size between Q1 2008 and Q1 2009 and a further 7.5 per cent decrease between Q1 2009 and Q1 2010. During the same periods, construction GDP fell by 3.1 and 8.7 per cent respectively (*Figure 9*). The production elasticity of industry is considerably lower than that of other sectors, and the drastic decrease in employment is the result of an unusually strong negative demand shock. In manufacturing, production first fell by 21 per cent and then grew by 4.2 per cent during the same period.

The gentle decline in employment (–5.3 and –4.8 per cent) is explained by the low (0.4 per cent) production elasticity of labour demand in manufacturing, which is about the usual level for Hungary. In absolute numbers, the large sector of manufacturing suffered the highest number of job losses. The output of the service sector – which is the sector with the highest GDP contribution – first dipped slightly compared to its pre-crisis level and then stabilised. This is also reflected in the negligible fluctuation in workforce size. Looking at agriculture, thanks to the above average output in 2008, labour demand grew by 3.7 per cent between Q1 2008 and Q1 2009, and in the subsequent quarter fell by 6.7 per cent.

Figure 9: Employment by sector (Q1, 2006 = 100)



Source: Authors' calculations based on *HCSO* Labour Force Survey.

The number of employees at any firm continually changes because of natural movement to and from the firm, and both types of movement may be affected in response to a recession: through the creation and destruction of jobs. An important – though certainly not the only – component of job destruction are mass layoffs, which are recorded by the Public Employment Service. The number of jobs lost in declared layoffs peaked in the first quarter of 2009 (close to 16 thousand employees were separated from their jobs) and subsequently decreased. During the first half of 2010 only 5,400 employees were displaced through announced layoffs, which is less than a quarter of the corresponding figure for the same period of the previous year and approaches the pre-crisis level. Although layoffs may be interpreted as an adaptive strategy implemented by surviving firms, this is not necessarily the case. In Chapter 1 of *In Focus* János Köllő provides evidence that layoffs were far more likely to be employed by companies that had to close down later, i.e., layoffs often turned out to be a forewarning of failure rather than a form of adaptation.

The pattern of mass layoffs provides a good map of both the geographical and the sectoral spread of the crisis. Following the appearance of the crisis,

mass layoffs were announced by firms operating in relatively developed industrialised regions (West Hungary), while later on – as the recession spread from production industries to other sectors of the economy (services) – this step was more likely to be taken in the Southern and Eastern regions of the country (*ÁFSZ*, 2010).

The economic activity of people separated from their jobs through mass layoffs is indicated by the percentage of the displaced population registering as job seekers. Between October 2008 and December 2009, more than 50 per cent of this population registered with Job Centres (Public Employment Service communication). Looking at regional data, the lowest figures appear for Central Hungary (30 per cent) and Western Transdanubia (34 per cent) and the highest figure for Southern Transdanubia (95 per cent) (*ÁFSZ*, 2010).

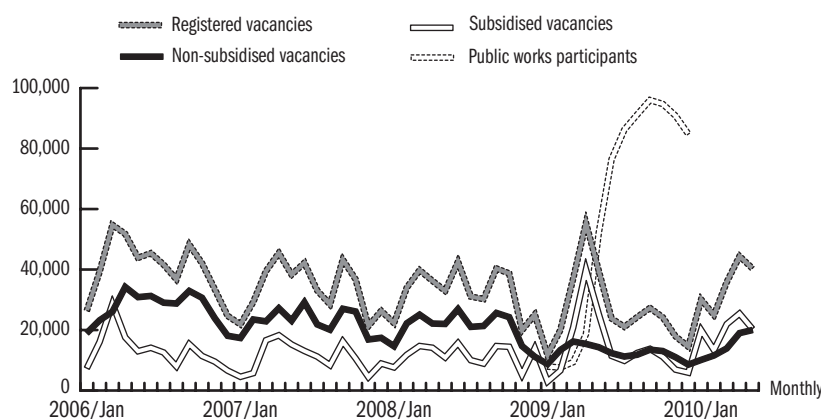
As shown in a previous publication, at the onset of the crisis, the population most vulnerable to the decline in employment were male skilled workers living in the western parts of Hungary (*Cseres-Gergely & Scharle*, 2009). The effects of education and geographical location were then explained by the attributes of the economic sectors most severely damaged by the crisis. The figures for the period between Q1 2009 and Q1 2010, however, do not reveal statistically significant differences of the sort measured in the previous period. That is, the differences observed at present should be put down to the losses suffered in 2008–2009.

Besides layoffs, the restraint shown in job creation also played a role in the decline in employment. One indicator of job creation activity is the number of new job announcements recorded by the Public Employment Service (*Figure 10*). At the beginning of 2009, the majority of registered new jobs were subsidised, presumably several of them were created within the *Pathway to Work* programme. There was only a slight increase in the number of non-subsidised jobs, as we have seen in *Figure 6* above. The number of non-subsidised announced jobs stabilised at a low level in 2009. A real turnaround did not come until the late spring or early summer of 2010, when the number of non-subsidised new jobs finally escaped from the low level where it had hovered in 2009.

A more subtle form of labour demand adjustment is a reduction of working time. Although a mild rising trend had been observed before, the share of part-time workers within the total working population perceptibly increased at the time of the crisis, even though the nature of statistical analysis prevents us from observing some parts of this increase through simple calculations – see Chapter 1 of *In Focus* for details. Among men, the share of part-time employment first decreased and then increased during the first phase of the crisis, and later decreased once again as a result of the positive processes taking place in the real economy. This suggests that the increase observed early on during the crisis was purely an adjustment strategy. Looking at women, the long-term increasing trend appears to persist but this difference between the genders may

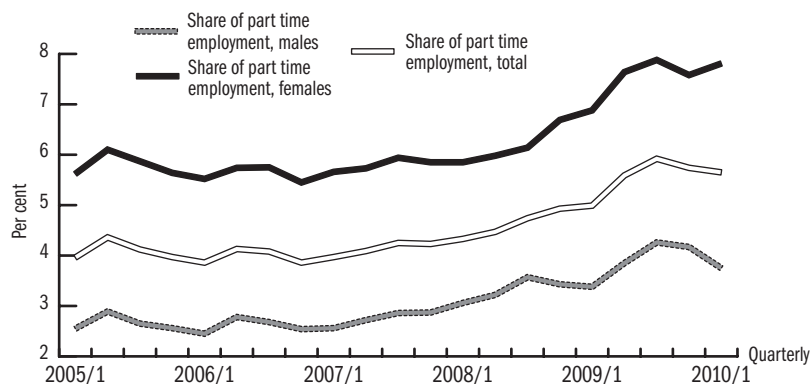
be partially explained by the policy implemented on 1st January 2010 stating that mothers returning to the public sector from maternity leave must be offered part-time employment until the child's third birthday. This explanation is supported by a separate analysis of full-time and part-time employment in the private and the public sectors: among men, the decline in the share of part-time work is clearly steeper in the public sector, while the opposite pattern is observed for women, i.e., a mild decrease is followed by stabilisation in the private sector, while there is a pronounced increase in the public sector.

Figure 10: Announced subsidised and non-subsidised jobs



Source: Number of jobs: *Public Employment Service*; number of employees in public work schemes: *KSH, 2010b*.

Figure 11: Share of part-timers in total employment, 2005–2010

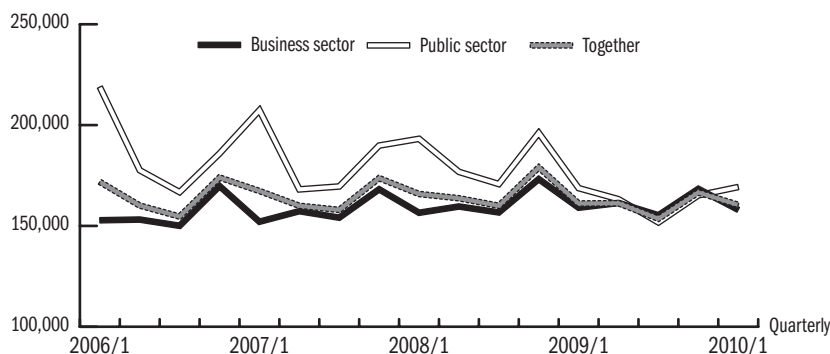


Source: *CSSO Labour Force Survey*.

Besides the quantitative adjustments in labour, there were significant changes in wages, i.e., the price of labour, in 2009 and at the beginning of 2010. By the middle of 2009, the wage advantage of the public sector over the private sector disappeared, although at the beginning of 2009 there had still been a gap of

more than 10 per cent in nominal average wage, both before and after tax (*Figure 12*). In 2009 the average wage in the public sector decreased far beyond the level of seasonal fluctuation as a result of a number of events: the 13th month's pay was abolished or replaced by smaller premiums distributed over the year, there was no annual pay rise and the share of low-pay employment increased as a result of the expanded public employment programme.

Figure 12: Gross real wages in the public and the private sectors by quarter, 2006–2010 (Q1, 2006 prices)



Source: Authors' calculations based on *HCSO Stadat*.

The more positive processes observed in the private sector are primarily explained by changes in the composition of its workforce. As a consequence of the mass layoffs among blue-collar workers, there was an increase in the share of white-collar employees. Private sector wages were at the same time reduced when companies withheld premiums and bonuses as a wage adjustment strategy (*KSH*, 2009b). As discussed in Chapter 1 of *In Focus*, the strategy of withholding wages favoured by employees in German speaking countries was almost entirely absent in Hungary.

Policies affecting labour demand

The demand for labour was also shaped by government measures introduced at the beginning of 2009. The *Pathway to Work* programme mentioned above was not originally aimed at tackling the crisis, but workers losing their jobs because of the crisis became eligible at the end of 2009, when they had been unemployed for the specified period of time – more will be said about this later. There were also a number of new support programmes implemented with the specific objective of relieving the crisis, and these also had their effects on labour demand.³

According to the Hungarian Central Statistical Office (*KSH*, 2010b) and Office for Employment and Social Affairs reports, small and mid-sized companies showed substantial interest in the relief funds financed by the Social Renewal Operational Programme (*TÁMOP*), while micro-businesses and large

³ The Hungarian crisis-relief package deviated from the tools used in other countries of the European Union in several respects (see Péter Elek and Ágota Scharle's report following Chapter 1 of *In Focus*), and the distribution of resources was less than ideal, especially with regard to the welfare effects of the package (see Chapter 1 by János Köllő and Chapter 6 by Katalin Gáspár and Áron Kiss in *In Focus*).

firms showed considerably less interest (*Table 2*). We can only conjecture that the difference in popularity may be related to the period of the funds' availability as well as to the varied administrative requirements of the programmes. There are several gaps in the information available on these support schemes: virtually nothing is known about their targeting, associated dead weight losses or their effectiveness (i.e., whether the employment situation improved more with them than it would have done without them).

Table 2: Major financial indicators of government programmes aimed at job preservation and potentially increasing labour demand (billion HUF)

Programme	Size of fund	Amount used in 2009
Hungarian Employment Fund preservation programme	9.5 (2009–2010)	7.3
Central programme of job preservation support	0.7 (2009)	0.6
Job preservation programmes managed by regional employment centres	10.0	10.2
TÁMOP 2.3.3/A. Job preservation through working time reduction and training (for small and mid-sized companies)	20.0	4.8
TÁMOP 2.3.3/B Training support for large companies	10.0	0.4
TÁMOP 2.3.3/C Job preservation support with training for businesses with fewer than 5 employees in Central Hungary	2.5	1.1

Source: *Office for Employment and Social Affairs*.

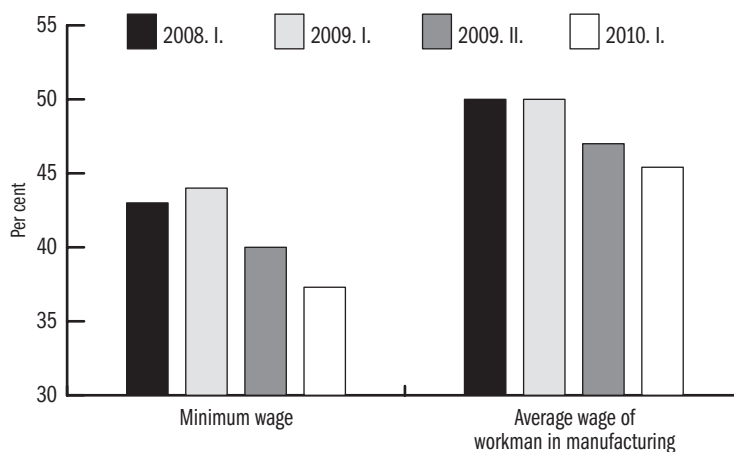
The demand for labour was affected by a number of other measures: the obligation of employers to offer part-time work to women returning from maternity leave, the support – equivalent to the amount of Work Availability Allowance – paid to employers for hiring an unemployed person, and the more than five-fold increase of the rehabilitation benefit. No analyses are as yet available on the effects of any of these interventions, but as was mentioned above, the first of these may have played a role in the increase in part-time employment among women.

In addition to direct interventions, the demand for labour can be encouraged at government level by amending wage costs – considering results published in *Kőrösi* (2005) – this can indeed have a non-negligible effect. The wage elasticity of labour demand was between -0.4 (manufacturing) and -0.2 (other sectors) in the early 2000s. This means that a one per cent decrease in labour wage costs leads to an increase of 0.2 – 0.4 per cent in employment, everything else held constant.⁴ That is, relying solely on this strategy in their efforts to counteract the decrease of approximately 3 per cent in employment in two years, the government would have to reduce wage costs by 7.5–15 per cent. Official estimates put the employer contribution reduction of 2009 not far off this target: in the short run, the tax cut may have increased employment by 0.3–2.8 per cent (for details, see the brief report by Péter Elek and Ágota Scharle following Chapter 1). The tax wedge was further lowered in 2010, especially at the level

⁴ We must of course be cautious with our conclusions, since the results of surveys conducted in “peacetime” cannot be projected onto a different set of circumstances, if there has been no occasion to observe similar events in the past. It remains the case, however, that at least we have an empirically motivated, plausible estimate of the operation of this tool.

of the minimum wage (thanks to the abolition of the fixed health contribution), which – because of the higher wage elasticity of unskilled labour – may lead to an increase in employment similar in extent to that in 2009 (*Figure 13*).

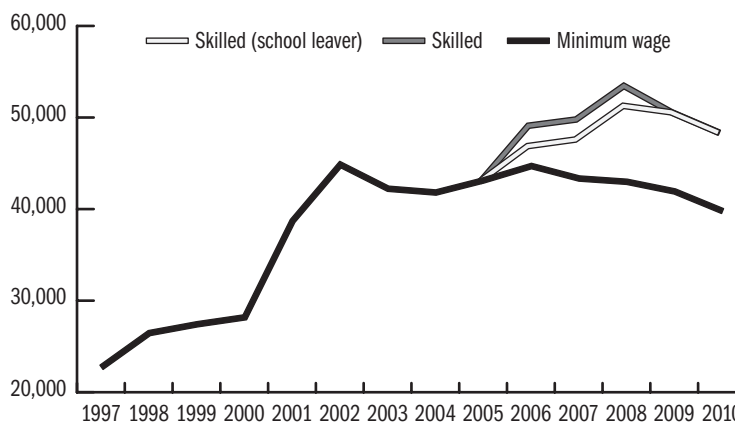
Figure 13: Tax wedge at the minimum wage and for an average wage in manufacturing, 2008–2010, bi-annual series (per cent)



Note: The tax wedge is shown as a percentage of the total wage cost (Figure 12 in the introduction to the 2009 volume of the Hungarian Labour Market shows the tax wedge as a percentage of the gross wage, for the English version see *Cseres-Gergely & Scharle, 2010, p. 29*).

Source: Taxes and contributions from Hungarian Tax Authority data; gross wages HCSO institutional statistics.

Figure 14: The minimum wage and skilled workers' wage minimum in real value, 1997–2010



Notes: HUF at 1997 level, in 2010 using the Hungarian National Bank's 4.9 per cent inflation projection (*MNB, 2010*). The values for 2009 were weighted with reference to changes in employer contributions during the year. The skilled workers' wage minimum is the lowest wage payable to employees in jobs requiring general or vocational secondary education (before July 2009 the pay could be slightly lower if the employee had less than 2 years' experience).

Wage cost reductions are accompanied by a smaller loss of revenue if the level of the minimum wage and the skilled workers' wage minimum are set with restraint. As shown in *Figure 14*, the total wage cost of the wage minimum declined in real value in 2010 – the combined effect of the slightly below-inflation rise in its level (2.8 per cent) and the reduction in the tax burden – which may have contributed to the prevention of further decline in labour demand.

LABOUR SUPPLY

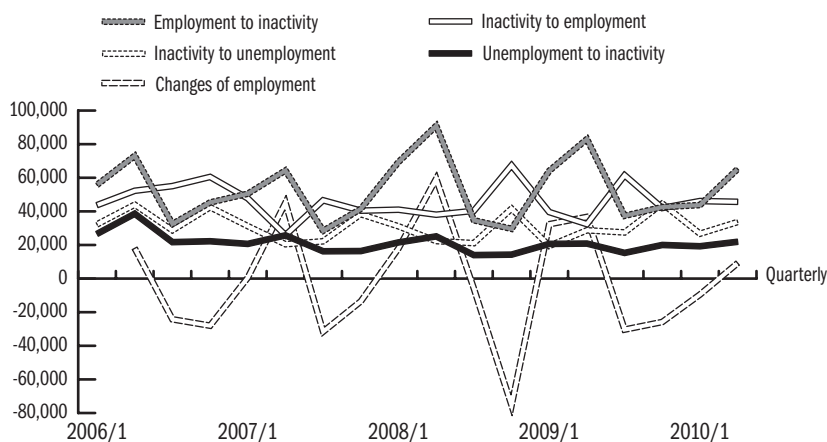
All responsibility for the crisis emerging at the end of 2008 is borne by the demand shock; no crisis-induced changes were observed in labour supply. What changes there were on the supply side were caused by government policies and economic interventions. The analysis that follows therefore focuses on these events, and the overall analysis of labour supply published in last year's volume of the Hungarian Labour Market will not be repeated here (*Cseres-Gergely & Scharle*, 2010). In 2009 and the first half of 2010, there was a slight increase in the economic activity of the population, which gives no support to the conjecture that people separated from their jobs because of the crisis may have chosen inactivity either without any social security benefit or relying on some type of pension allowance. Given almost 100 thousand job separations and a sudden surge in unemployment, this is a significant achievement in itself, which could contribute to the growth of employment once the crisis is over. However, if a policy committed to preserving the level of activity is also to achieve results in welfare, the job seekers' and low-income employees' social support programmes should be redesigned (see Katalin Gáspár and Áron Kis's discussion of this in Chapter 6 of *In Focus*).

Similarly to employment, economic activity is also shaped by two opposing forces. The stable level of activity is a product first, of the strong ties between the labour market and those who have just been displaced – more will be said about this in connection with unemployment – and second, of the absence of programmes that may aid long-term exits from the labour market, such as some kind of early, fast-track retirement, which the government refrained from introducing. As can be seen in *Figure 15*, the flow from unemployment to inactivity is not any higher than it was before. The figure also reveals, however, that the usual summer dip in the flow from employment to inactivity – made possible by the opening of seasonal jobs – does not appear in 2009. Similarly to the data on new labour market entrants, this also testifies to the vulnerability of people with weak labour market ties.

From the second half of 2009 onwards, the level of economic activity was raised as a result of a number of interventions, most of which were introduced by the government. The first of these is the *Pathway to Work* programme, which is intended to offer community jobs of various duration to those in long-term unemployment. Although no information is available on the ILO labour mar-

ket status of participants, previous research has revealed that only 60 per cent of registered participants seek work actively (Bajnai *et al*, 2008). Inactivity is likely to be even more frequent among the long-term unemployed, as suggested by the fact that the inactivity to employment flow shifted back a quarter in 2009: the *Pathway to Work* programme admitted participants starting in April, but the labour absorbing effect of seasonal summer jobs could not be felt. While the *Pathway to Work* programme may direct people from inactivity to employment, it may also have the effect of increasing the flow from inactivity to unemployment because of the increased risk of being called upon to perform community work and the stricter sanctions that may in some cases be imposed in the event of refusal. This problem – similarly to other aspects of the *Pathway to Work* programme – however, requires a more thorough analysis.

Figure 15: Quarter to quarter changes in inactivity, and its components: flows between inactivity and employment, unemployment, 15–64 year-old population, 2007–2010



Source: Authors' calculations based on *HCSO* Labour Force Survey micro-data, stock-flow consistent model.

The demand for skilled labour may have been increased by the new two-bracket, tax base maximising tax scheme introduced in January 2010, which reduced the tax burden of taxpayers in the centre of the income distribution. At the same time, tax credits were now phased out in the upper income bracket, which raised the marginal tax rate on excess income, which in turn may have the effect of encouraging the top quintile of taxpayers to reduce their working hours or to undervalue their declared income (Scharle *et al*, 2010).

In the second half of 2009 and the first half of 2010, no other measures were brought in that may already have an observable effect in 2010, but decisions were made on actions with significant mid-term effects. A new maternity allowance system was introduced on 1st May, which limited the duration of entitlement to two years and tied the higher rate of maternity allowance (GYED) to a longer period of prior employment than had been required by previous regulations.

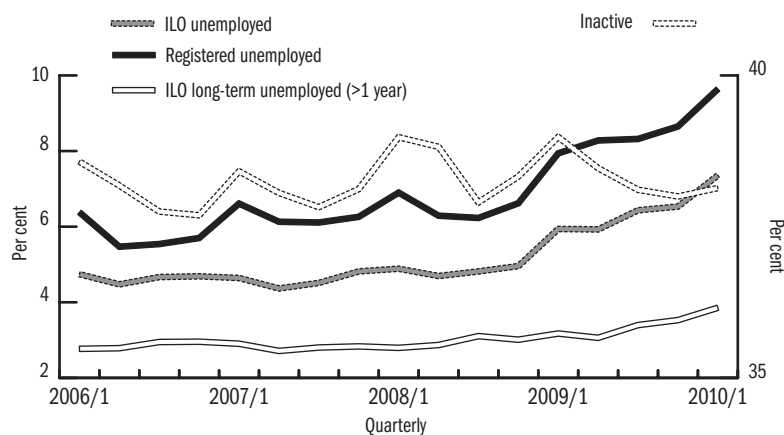
In 2010 it became possible to admit children under the age of three together with older children to public nursery schools in settlements where there are no other suitable day care facilities for under-threes. Both steps are expected to increase female labour supply provided that certain criteria are met (accessibility of workplace, day care services of adequate quality), since they reduce the costs of employment for the worker.

UNEMPLOYMENT

Besides the decline in employment rate starting with the fourth quarter of 2008, the recession was also reflected in unemployment figures. The unemployment rate – as defined by the ILO and measured by the Hungarian Central Statistical Office – rose steeply from its typical pre-crisis value of about 7.5 per cent to over 10 per cent in 2009, then after peaking at 11.9 per cent in the first quarter of 2010, it settled at 11.2 per cent in the second quarter.

In the first quarter of 2010, job seekers registered with the Public Employment Service represented a considerably higher percentage (15 per cent) of the 15–64 year-old economically active population than indicated by the ILO unemployment figure (*Figure 16*). The rising curves of the two indicators tend to run in parallel suggesting that a substantial share of those separated from their jobs become active job seekers. While the rising trend in the number of unemployed has still not turned round, it remains a favourable phenomenon that the restructuring of the labour market takes place among the economically active populations, leaving the size of the inactive population essentially constant (disregarding seasonal fluctuation) or only slightly increasing.

Figure 16: Non-employed subpopulations (partially overlapping) among the 15–64 year old population after 2006 by quarter

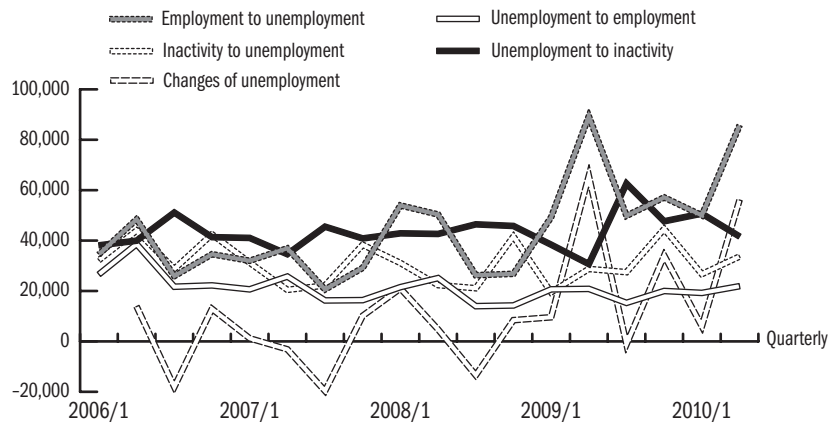


Source: ILO-unemployed, long-term unemployed, inactive: authors' calculations based on HCSO Labour Force Survey; registered job seekers: authors' calculations based on *Office for Employment and Social Affairs* data.

The dominant factor shaping changes in unemployment is the flow arriving from employment, but we can also observe an increase in the number of transitions from unemployment to employment. As a result of the bloated unemployed stock, however, the probability of exiting in any direction was constant for the period under discussion with the exception of the second quarter of 2009 (*Figure 17*). It seems likely that the increased unemployment to employment flow is explained by the *Pathway to Work* programme, but this hypothesis cannot be directly confirmed.

In the short term, the balance of transitions between the unemployed and the inactive populations is positive in the sense that movement from inactivity to unemployment, i.e., towards economic activity, has a higher incidence than transitions in the opposite direction. *Figure 16* reveals, however, that the size of the long-term unemployed population began to grow after 2009 suggesting that the odds of this constantly expanding group being re-employed substantially diminished during the crisis.

Figure 17: Quarter to quarter changes in unemployment, and its components: flows between unemployment and employment, inactivity, 15–64 year-old population, 2007–2010



Source: Authors' calculations based on *HCSO* Labour Force Survey micro-data, stock-flow consistent model.

As in the case of job separations, the risk of unemployment varies between the genders and age cohorts. The crisis brought about a change in the distribution by educational attainment of the registered unemployed: it is now more similar to the corresponding distribution of the employed population than to previous unemployed patterns. The changes did not, however, have a significant effect on the usual seasonal regularity in the distribution: among the entrants to unemployment there is a higher share of those with secondary education at the end of the school year and during the summer, while as winter approaches and seasonal jobs close, elementary and secondary qualifications become more frequent. The percentage of new labour market entrants registering as unem-

ployed steadily increases starting with 2007 over and above the strong seasonal effect of school leavers.

Industries typically employing more male than female labour, such as manufacturing and construction, were hit harder by the crisis with the result that the risk of unemployment increased more sharply among men. By the end of 2008, men's unemployment rate exceeded women's and this pattern has not turned round since: in the second quarter of 2010 the gap is 1.3 percentage points. The incidence of unemployment is higher among the young, especially among young men, but the rising trend seems to slow down in the first quarter of 2010.

The characteristic geographical distribution of industries and occupations is also reflected in the geography of unemployment. This will not be discussed here, however, as it is the topic of Hajnalka Lőcsei's study in Chapter 4 of *In Focus*.

Policy Interventions

In addition to the interventions discussed above, the unemployment situation was also affected by the absence of certain government actions. Although the crisis clearly placed an extra burden on the Public Employment Service, the government failed to boost the resources required for the operation of its job centres. As demonstrated by Péter Elek and Ágota Scharle in their brief report following Chapter 1 of *In Focus*, this could have been an almost automatic step in crisis-relief efforts, one that was taken in all EU countries (with the exception of Luxemburg and Hungary). The allocation of extra resources would have been justified simply by the task of dealing with claims and applications. Added to this, a crisis substantially raises the risk of long-term unemployment, which could be forestalled by putting more tools and attention in the service of maintaining job seeking activity.

The *Pathway to Work* programme has not been revised since its launch. The only publication, *KSH-FSZH* (2010), relies on data supplied by the Hungarian Treasury and shows the number of Regular Social Assistance and Job Seekers' Allowance claimants as well as the number of workers employed in community jobs through *Pathway to Work*.⁵ Table 16 of the publication reveals that by November 2009 almost 90 thousand workers participated in the programme, which is a large number in all respects. The one notable event in the history of the programme has been its expansion and extension by the *Pathway to the World of Work* SROP 1.1.3 programme worth HUF 7.5 billion. The aim of the extension is to allow job centres to offer employment other than public work to long-term unemployed Job Seekers' Allowance claimants. If a labour market position is available at the job centre, this should be offered in preference to public work, and it is this process that the extension programme supports.

An important change to the Job Seekers' Allowance scheme has been that as of 1st January 2010 – only one person per family is entitled to the allowance.

⁵ There are no official publications on the number of participants that could be used to calculate the average annual size of the programme.

If a family has more than one eligible unemployed member of active age, one may continue to claim Job Seekers' Allowance while the others are only entitled to public work scheme participation (as a priority group) or training, and are given priority to participate in the *Pathway to the World of Work* programme. This change is difficult to justify on economic grounds and its welfare effects are questionable (see Katalin Gáspár and Áron Kiss's study in Chapter 6 of *In Focus* for details). The change of government in spring 2010 has been accompanied by major changes in several areas of government administration and it would be little surprise if there was a turn in employment policy. As the Ministry for Social and Labour Policy has been dissolved, employment policy has been moved under the jurisdiction of the pertinent department of the Ministry for National Economy. The new government has replaced the head of the Office for Employment and Social Affairs and a substantial share of the Public Employment Service regional job centres, and projected a radical overhaul of the entire system.

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