

Finally, direct *public sector job creation* is also categorised as a measure for increasing labour demand. In Hungary this was mainly implemented via the *Pathway to Work* programme which involved a redesign of the regular social assistance and increased funding and incentives for local governments to organise public works for the long term unemployed. In 2009, average participation in the scheme increased from around 20–30 thousand people to 90–100 thousands. Most countries sought to encourage the re-employment of the unemployed by increasing the administrative capacity of the public employment service and the funds for active labour market programmes, especially for training. These measures are particularly important in the case of the unskilled young, immigrants and low skilled workers, whose chances of re-employment are much smaller and who are more likely to leave the labour market for good. As the only country in the EU or OECD (apart from Luxemburg), Hungary did not extend these measures until the beginning of 2009, in fact funding had been cut to finance the increase in job preser-

vation subsidies. The only new activation measure, the *New Prospects* programme of OFA was introduced at a later stage and even then its significance was smaller by one order compared to the funds allocated to sustaining labour demand.

The capacities of the public employment service had been insufficient even before the crisis: their budget for operating costs was half of that in countries with a similar unemployment rate (e.g. in Finland and Sweden). Staff levels in the branch offices serving the unemployed barely changed between 2004 and 2007, and even decreased in 2009 – while the number of registered unemployed increased, and the scope of duties of the branch offices widened. The large majority of EU countries and all Eastern European member states chose the opposite strategy and increased government funding for the operation of the public employment service (Czech Republic, Poland, Latvia, Lithuania, Slovakia), or decreased funding at a lower rate than the decline in unemployment (Bulgaria, Romania, Slovenia) (*Cseres-Gergely–Scharle*, 2010).

1.B) CORPORATE REACTIONS TO THE CRISIS

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In the second half of 2008 the unfavourable effects of the economic crisis appeared powerfully in the Hungarian economy, and they also became visible in the statistics. Findings of corporate climate surveys suggest that the crisis first reached the companies producing for export markets, and hit them more powerfully than the other firms, however, the companies producing mainly for domestic markets were affected by the crisis relatively quickly as well. Companies could react to the crisis in different ways: with *reactive* steps having a short-term positive effect (improving their liquidity position, cost-cutting, restructuring of credits etc.), or with *proactive* steps, more efficient in the long term (seeking new markets, organizational adjustments, transformation of the production structure etc). Reactions related to employment and wages, such as freezing wages, transforming employment and layoffs belong to corporate responses exerting a short-term effect.

Below we review the more important adaptive steps taken by the companies, and their changes in 2009–10, based on the experience of three corporate surveys.²⁰ The first data survey was carried out in March 2009, which also means that, unfortunately, we have no direct information about the initial stage of the crisis, in which the lay-off and joblessness figures already showed significant corporate adaptation.

Employment figures were between 10–19 individuals in 23 % of the firms surveyed, between 20–49 in 27 pc, between 50–99 in 21%, while 16 % of the

²⁰ The surveys were conducted by MKIK GVI in March 2009, June 2009 and March 2010, on a sample of 300 companies respectively, with the companies surveyed revisited a second time. This aim has not been achieved successfully in every case, so, in the end, the panel database contains the responses of 184 companies. For the summary of the survey findings see: *Bartha-Tóth*, 2009, *Bartha et al.*, 2009, *Czibik et al.*, 2009, 2010. Our paper outlines the more important statements of the above studies.

surveyed firms employed more than 249 people. The distribution of the sample by sector showed that 34 % of the enterprises were operating in manufacturing, 15 % in construction, 32 % in trade and 18 % in other service sectors.

In the survey the companies were asked which of several possible crisis management solutions they had applied during the last six months. The findings show that the companies typically combined different crisis management steps and applied them simultaneously, ie. we cannot find a *single* corporate strategy for handling the crisis [see *Table 1B)1.*]

In the six-month period preceding March 2009 most respondents chose seeking new sales markets (64%) and the taking of some steps to handle liquidity problems. Within this latter category the most frequently applied measures of crisis management were reducing receivables and reducing dependence on suppliers (46–46%), alongside the reduction of short-term debts (40%). The repeated surveys suggest that freezing or reducing wages and cutting down on temporarily dispensable services became dominant (80–81, 68 and 63 %) only in the later stages of the crisis (in the six-month periods preceding June 2009 and March 2010). The same period saw layoffs also becoming widespread (43 and 32% compared with the initial 21%). Reducing working hours and introducing part-time employment became twice as important within a year's time, though it was not yet typical even in the last survey (22%). Nevertheless, the application of proactive means strengthened, seeking new sales markets improved from 78 to 79%, while offering new products and services showed a change from 37 to 51 %.

From the reactive steps, companies mostly used cost-cutting measures first: 36 % postponed their investments, 30 % froze or reduced wages. In addition about 30% of the firms also cut down on buying several temporarily dispensable services.

Unfortunately, but quite understandably, the business climate surveys used here did not explicitly inquire about whether or not, simultaneously with the cost-cutting measures, some forms of black and grey employment (like paying partly or fully non

Table 1.B)1: Adaptive measures employed by enterprises in response to the economic crisis (% , N=916)

	% of firms applying different steps		
	March 2009	June 2009	March 2010
1. Reducing short-term debts	39.6	41.9	45.1
2. Reducing receivables	45.5	58.3	60.7
3. Postponing/slowing down planned investments	36.2	41.5	44.8
4. Layoffs (also of agency workers)	21.4	42.5	32.5
5. Switching to part-time employment or shorter working hours	10.3	16.9	22.5
6. Freezing/reducing wages/benefits	30.0	80.1	80.6
7. Cutting down on temporarily dispensable services	31.6	67.8	63.2
8. Seeking new sales markets	64.4	78.1	79.1
9. Offering new products and services	30.9	36.9	50.5
10. New suppliers/reduce dependence on suppliers	45.6	33.1	33.9
11. Use of government subsidies and EU funds	16.8	12.0	25.7
12. Preparing new long-term plan, modification of corporate strategy	32.7	35.8	39.5
13. Improving the safety of short-term finance, eg. extend bank loans	21.2	-	-
14. Cutting prices, applying new pricing	20.8	-	-
15. Selling some assets	8.3	-	-
16. Credit conversion (Foreign currency to HUF)	4.2	-	-
17. Other	17.0		

Explanation: Response options 13–17 did not feature in the June 2009 and March 2010 surveys.

disclosed income “cash in hand”, or masking employment as a contract with a subcontractor and paying contractual fees instead of wages) were also revived and applied more widely. On the basis of former surveys, however, it is justified to assume that some of the companies (primarily those that used layoffs and the reduction of working hours as a reactive step to a large extent) also applied this method

of cost-cutting in parallel with the strengthening of the effects of the crisis.

When analyzing the period following the transition to a market economy, *Laki* (1994) already pointed out that postponing or delaying tax payments or pecuniary obligations toward suppliers in order to gain time can be an important element of corporate survival strategy. *Tóth-Semjén* (1999) showed based on enterprise surveys that the legal and illegal reduction of the tax burden, i. e. tax avoidance and tax evasion become part of the companies' struggle for survival, especially among the more vulnerable small and medium-sized companies. At the same time their results also indicated that parallel with the improvements of economic environment and corporate prospects, tax discipline and the discipline of payments in general also improve and tax arrears and the default of payment to suppliers are driven back.

Based on a comparison of several empirical surveys *Semjén-Tóth* (2004) have confirmed, further elaborating the ideas presented already in *Tóth-Semjén* (1999), that economic environment and tax behaviour are closely interrelated: parallel with the improvement of economic environment and corporate prospects, companies will rely on strategies employing legally disputable, risky measures to a lesser extent, i.e. in other words, as economic stabilization proceeds, tax discipline will also improve *ceteris paribus*. It is presumable that these formerly well-documented relationships are also valid in the case of reverse changes.

Applying the conclusions of our former research to the period of economic crisis involving a significant and relatively lasting worsening of the economic climate and corporate prospects, we have good reason to presume that during the period of the crisis, with all conditions held unchanged, tax discipline and the discipline of payments will, by necessity, worsen, (statistical data unambiguously show the worsening of payment to suppliers). At the same time in companies producing not primarily for export markets and in which the rate of foreign ownership is not dominant the application of tax-saving and contribution-saving forms of employment (e.g. partly or fully pay-

ing on an invoice with pretended subcontracting) is likely to become more wide-spread again.

Of the proactive steps, seeking new sales markets was already detectable as early as March 2009, and later its rate continued to increase (from 64% to 78–79%), while the occurrence of steps taken to launch new products or services on the market grew significantly (to 51 %) only in the period covered by the last survey. Seeking new suppliers and reducing the dependence on suppliers also belong to proactive measures, and so does the application of government funds or EU subsidies, but these were only applied by a smaller part of the firms during the survey period.

Companies were usually compelled to apply several steps simultaneously during the crisis. Already the findings of the March 2009 survey suggested that Hungarian enterprises were dramatically hit by the crisis. This was reflected by the fact that 44% of the companies surveyed applied five or more measures out of the 12 types of reaction that were offered in all of the surveys. The fact that the companies were forced to apply newer and newer measures to handle the crisis as time passed by indirectly underlines the long-term nature of the crisis and the short-term ineffectiveness of the steps taken. While in March 2009 the companies named on average four types of reaction, in 2010 they already used on average 5.5 types of reaction to ward off the crisis.

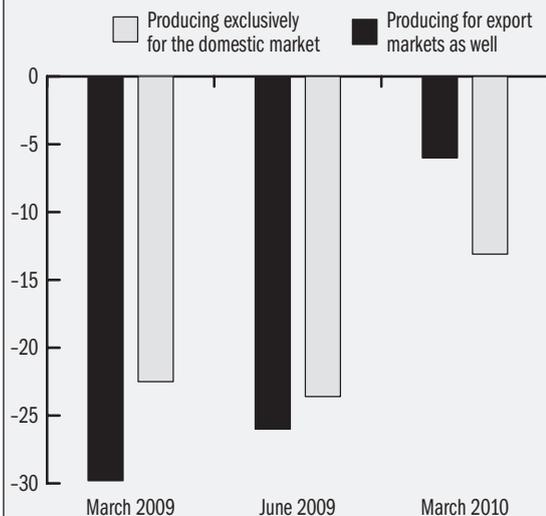
Our findings suggest that for exporting companies the first state of the crisis was a good deal more striking than for those producing exclusively for the domestic market. On the one hand, the business climate index measuring their position showed much lower values in March 2009 than for those producing only for domestic buyers [see Figure 1.B)1]. On the other hand, exporters, to respond to the crisis, were forced to apply more measures at the same time than those producing only for domestic markets. This relationship holds for all three surveys, but it appears especially powerfully in June 2009 [see Figure 1.B)2]. The rate of companies applying layoffs showed a fluctuation in the different sectors during the three surveys [see Figure 1.B)3]. While in March and June 2009 the rate of those forced to lay off staff was the

highest in enterprises operating in trade and commerce (28 and 48%), by March 2010 we found the lowest rate exactly in this sector (30%). The deep and lasting crisis of the construction sector is reflected by the fact that while in March 2009 the rate of companies applying layoffs in the sector was relatively low (10%), later, in spite of the fact that the spring and the summer are usually stronger in this sector due to seasonality, the number of firms applying layoffs grew to 40%, and probably stabilized later at this high level.

There are no data available regarding the effectiveness of the crisis management measures mentioned above. Company CEOs were asked in the March 2010 survey to name the most successful measures based on their company's experience. Their answers suggest that new sales markets may have had a deci-

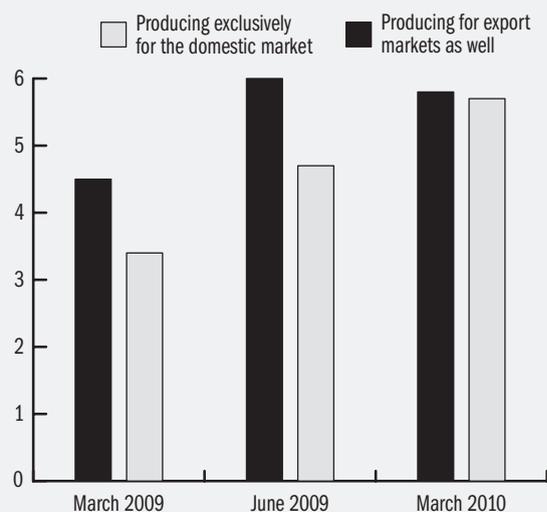
sive role in the adaptation to the crisis: 64 % of CEOs mentioned that seeking new sales markets proved useful in overcoming the effects of the crisis. In addition 41 % of CEOs mentioned freezing or reducing wages and other benefits among the more effective or successful measures, while 37 % of CEOs mentioned the reduction of receivables as successful in protecting the firm from the negative effects of the crisis. Cutting down on dispensable services or the postponement/slow-down of investments were mentioned as successful measures by 25–21 % of the respondents. Layoffs (the reduction of employment) proved even less effective as indicated by the relatively low 11 % share of CEOs mentioning it, while switching to part-time employment was mentioned only by 5 % of respondents as useful. [Cf. Figure 1.B)4].

Figure 1.B)1: The change of the Business Climate Index (BCI) for firms and companies producing exclusively for the domestic market and producing for export markets as well, % (March 2009 – March 2010, N = 916)*



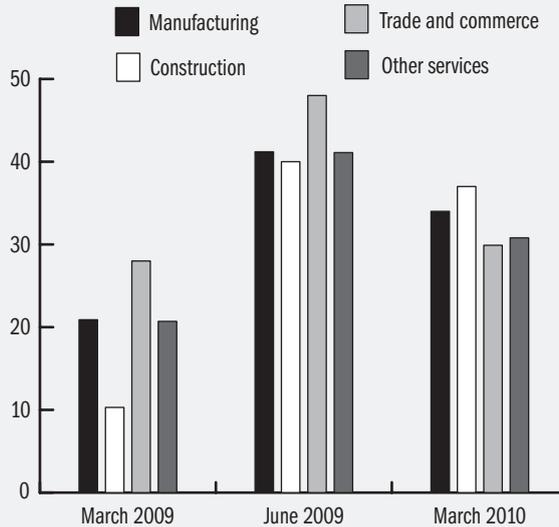
Note: The definition of the Business Climate Index is the following:
 $BCI = (\text{business climate at present} + \text{business prospects (expectations)} + \text{predicted investments} + \text{predicted employment} + \text{predicted wages}) / 5$. The value of BCI can be between -100 and + 100, where a -100 value of

Figure 1.B)2: The average number of measures taken as a response to the crisis for firms and companies producing exclusively for the domestic market and producing for export markets as well, % (March 2009 – March 2010, N = 916)



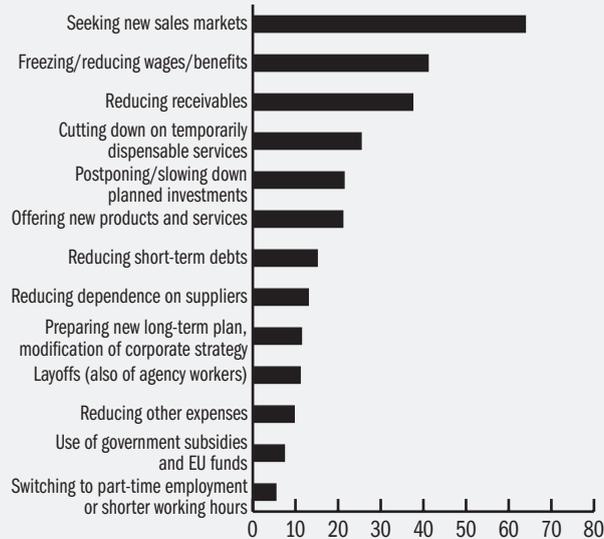
the index indicates that all the firms surveyed gave negative answers (“bad” or “deteriorating”) for every indicator, while an index value of +100 indicates that all the firms surveyed gave only positive answers (“good”, “improving” or “expanding”) for all the indicators covered by the index.

Figure 1.B)3: The share of firms applying layoffs as a response to the crisis by sector, %, (March 2009 – March 2010, N = 916)



Source: *Czibik – Makó – Tóth, 2010.*

Figure 1.B)4: Percentage of firms mentioning particular crisis management measures as successful in protecting the firm from the unfavourable effects of the crisis, % (March 2010, N = 299)



Source: *Czibik – Makó – Tóth, 2010.*