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Hungarian Country Report

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Introduction

It is a common wisdom to say that Hungary faced two historical challenges during the last fifteen years. First, the so called “regime change” in 1989-90, when the state socialist system collapsed and gave way to democratisation and market economy based on private ownership. Second, joining the European Union which formally took place on 1 May 2004. The former amounted to far-reaching changes in politics, economy and society, and at the same time represented a real brake with the past in many fields, whereas the latter meant a relatively smooth transition with incremental changes only which less affected the everyday life of Hungarian citizens. No wonder, that a huge literature of political science, economics, sociology, anthropology and even psychology deals with the “post-communist” transition/transformation (the choice between the two terms is also addressed by many writings). On the other hand, the enlargement of the EU was addressed by highly specialised papers only, characterized by a limited focus mainly on administrative, legal, economic and technical aspects. As to the nature of these papers, forecasts are dominant, whilst the substantive impacts of the EU membership will possibly evolve on the longer run, thus one have to wait for a while for those scholars who would describe actual societal changes in the enlarged Union.

Despite the huge differences between the two major changes in recent Hungarian history, what seems to be common is a sort of “catching up to the developed world” attitude, which was prevailing both in 1989-90 and around 2004 in Hungary. This predominated not only the politicians’ speeches and the public discourse, but similarly the whole population nurtured a sort of expectation of economic advancement and increasing wealth. Of course, both turning points implied major political changes too, which by and large were welcomed and rapidly accepted by the population. However, what really matters in forming the public opinion in Hungary, for instance in judging the performance of the current government by voting for or against it in a general election, is the development in terms of real wages, welfare transfers and living standard. This seems to be quite understandable in a relatively poor country, which became a backward part of Europe during the 40 years of communism, and where historical identity of being the “periphery of Europe” also dates back to the Middle Ages. That is why catching up to the core European countries and economic growth have become focal issues, just as in the majority of Third World countries. This explains the fact that the underling concept of this paper is to tell the country’s recent economic history in terms of “development paths”, and presenting different policies that made an attempt to elaborate various development strategies.

Given the abundant “transitology” literature, what this paper wants to add to the existing knowledge on post-communist countries is partly about the specificities of the Hungarian development, and partly addressing the dynamics of change by tracing the series of economic, societal and policy changes in the whole period since the transition began. Furthermore, the paper tries to highlight the interplay between different fields, especially between macroeconomic development and production systems on the one hand, and labour market changes, industrial relations and human resources development on the other hand. A draft version of the “life-cycle” approach to the recent changes is also presented in the Appendix. The usual caveats of such short paper apply, that many policy fields and components of the “employment system”, are touched upon superficially only.

Changes in political conditions: transition from state socialism to democracy and open market economy

In Hungary a strict Stalinist regime was built up between 1948-1953, but from the mid-sixties it underwent half-hearted economic reform measures to make the planned economy more efficient and to increase trade with the world, including trade with European countries on the other side of the Iron Curtain. It achieved substantial progress in establishing a basic legal and institutional framework for a market economy by the late 1980s. The foreign trade had a more varied pattern already, and companies had a number of contacts with the western markets. Thus, the initial conditions for the transition to a market economy were arguably more favourable than in other Eastern European countries, save in an even more opened Slovenia.

On the negative side, GDP grew only by an annual 1.3% between 1980 and 1990, and the country's foreign debt reached 20,000 million USD. Following the political changes of 1990, the heavy debt service compelled the successive governments to implement a rapid privatisation program and to open up the country to inward foreign direct investment, which proved to be the key condition for industrial renewal for Hungary.

The peaceful transition to political democracy took place between 1988 and 1990, with the first free general elections held in April 1990. The incoming first democratic government had to confront with a complex web of challenges. At first, it had to create the institutional system of the market economy. Secondly, it faced a deep economic crisis related to the collapse of the state socialist economic model and the former Soviet block's COMECON market as well as the global recession of 1991-4. Thirdly, it envisaged a wide-scale privatisation program in order to foster restructuring of the outdated industries. The privatisation revenue, however, also made possible to increase the income of the budget and repay foreign debt.

Economic integration of Hungary into Europe and the world market

As a result of deep economic restructuring, direction and composition of foreign trade has changed dramatically. In the 1980s Hungary exported mainly low-tech manufacturing goods to the COMECON market, especially to the Soviet Union. Nowadays the major trade partners of Hungary are EU member states, about 76% of Hungarian export is directed towards the EU, and 65% towards old (EU-15) member states. Hungary's major partner is Germany, which alone accounts for 30% of Hungarian export, while non-EU member states on the European continent do so for 13%. None the less, Russia, the former main trading partner is only receiving 1.9% of the Hungarian export. Slightly less important is the role of EU member states in imports: 69% arrive from EU member states. As far as balance of trade is concerned, Hungary has a positive trade balance with EU member states.

As far as the structure of Hungarian export is concerned, the role of machinery is outstanding (61%), while a further 28% consists of other manufactured goods. Agriculture, once a leading export sector, gives only 6% of export nowadays. The export orientation of the Hungarian

economy seems to be an unstoppable process. 2003 onwards, the volume of export is increasing annually by more than 11%, while the trade deficit is decreasing every year.

Macroeconomic development: growth and deepening budget crisis

The first half of the 90's was characterised by the survival of the stop-go cycles 'inherited' from the 80's. First, Hungary fell into a deep recession in the first years of the transition, with the GDP contracting by 17% between 1990 and 1993. Similarly, the current account deficit grew to almost 10% of GDP in 1993 and 1994. This happened against the drop of an already high level of external debt. The early years also saw a high inflation period, reaching the inflation rate of 22.5% in 1993. In March 1995, the Government introduced a stabilisation program aimed at avoiding a Mexican-style financial meltdown and putting the economy on a sustainable path of low-inflationary growth. The austerity program ("Bokros-package" named after the finance minister of the era) included currency devaluation, a new, predictable exchange-rate mechanism, a tight wage policy in the public sector, and fiscal measures to enhance revenues (through temporary extra taxation on import) and cut expenditures, including some welfare provisions. Real gross wages dropped by 8.9% in 1995 and 2.6% in 1996. The contraction in aggregate demand that followed the fiscal tightening resulted in slow GDP growth in 1995 and 1996. The implementation of the austerity measures, however, produced successful stabilisation, the Government deficit (excluding privatisation revenues) fell from 8.4% of GDP in 1994 to about 3.5% in 1996. By 1998 Hungary paid back the inherited foreign debts.

The nineties as a whole represented another decade of slow development: between 1990 and 2000, the GDP only grew by 1.5% altogether. Contrary to the eighties when the obsolete regime could maintain a slow GDP growth and avoided a major decrease in the standard of living only at the expense of hoarding debt, the nineties were characterised by a deep restructuring of the economy, and a major drop in living standards. The renewed economy, however, proved to be a fairly competitive, export-oriented market economy, which made Hungary mature for EU accession. (European Commission 2000)

Sustained economic growth began from 1997 onwards. The GDP grew by 4.4% in 1997, 5.1% in 1998, 4.2% in 1999, and 5.2% in 2000. In 2001 the growth of the economy slowed down to 3.8% and to 3.3% in 2002, following the European wide recession. 2004 marked the return to higher growth rate by 4.2%, which continued in 2005 by 4.4%. According to the forecasts economic growth in 2006 will be around 4.4 to 4.6%. Another important signal of better economic climate is the reduction of inflation. The inflation rate declined from 28% in 1995 to somewhat below to 3 % in 2006.

It is important to note that despite spectacular development of the last decade, which produced sustained growth above 2-3% of the EU-15 average, the Hungary still is a relatively poor country. In 2004, the per capita GDP measured by parity effective demand was at 56.2% of the EU15 average and 61.0% of the EU25 average.

The renewal of growth, to a certain extent, was due to increased government spending from 2000 onwards. This new era of government policy could be observed in the development of real wages. Real wages have increased rapidly since 2000: by 8.4% in 2001 and by 12.4% in 2002, the latter was facilitated by government measures to increase salaries in the public service sector by 50% and to increase the minimum wage. 2003 was another year when the increase in real wages, reaching 6%, outpaced GDP growth. It is worth noting that the

relatively rapid increase of GDP and real wages was accompanied by a relatively slow growth of employment of not more than 0.2 to 0,5% annually.

The year 2000 was the turning point in macroeconomic policy. In the context of increasing dominance of populist political discourse in Hungary, the then governing right-wing government gave up the neo-conservative economic policy that had been pursued since 1995. The new neo-keynesian style policy facilitated growth through government spending and government measures increasing real wages. In 2000 the conservative government led by the Alliance of Young Democrats-Hungarian Civic Party (Fiatal Demokraták Szövetsége – Magyar Polgári Párt, FIDESZ-MPP) unilaterally doubled the minimum wage and introduced generous subsidies for home construction. In 2002, the Hungarian Socialist Party (Magyar Szocialista Párt, MSZP), the leading party of the opposition, claimed that the policy of FIDESZ only favours the middle-class, and in its election campaign promised to spread the dividends of the economic growth across the whole society through measures in the field of social policy, and to build up a full-fledged welfare state. Coming into power in 2002, MSZP carried out its generous programme in terms of increasing the wages, pensions and social transfers, which resulted in serious macroeconomic imbalances by 2005-6.

Economic policy of the recent five years, embraced both the political left and right, however, and had controversial impacts on the economy. On the one hand, the labour cost increased by 15% in the period of 2001 and 2002 putting enormous pressure on export-oriented companies and speeding up the eastward relocation process from Hungary. (Lay – Tóth) On the other hand, both the current deficit and the debt of the budget increased. A further concern was an increasing balance of payments deficit, as exports increased by only 1.3% while imports surged by 6.4%, triggered by booming household consumption in 2003. At the same time, Hungary became a net capital exporter as FDI inflow slowed down, while the outflow grew. From summer 2003, the Hungarian currency went through a series of crises. There was a widespread view that the government needed to redress the economy's imbalances, but it was afraid of a political backlash in response to any restrictive policy measures it might take.

Hungary's EU accession implied a further pressure on the government. The criteria to join the 'Euro-zone' in the future pose new difficulties for the governing socialist-liberal coalition. Many commentators agree that the fierce 'populist-style' electoral competition between the left- and right-wing conservative political camps is the major reason for an inability on the part of the government to introduce and carry out thorough economic reforms. As to the 2002-4 term of the government, it quickly put aside several costly and risky reforms specified in its 2002 government programme, such as healthcare reform or public administration reform, because these programmes were not supported by the opposition parties. In mid 2004 the government, realising its inability to carry out the necessary reforms, postponed the target date for joining the euro-zone to 2010. Still, the conversion programme, put forward to EU, to meet the requirements of joining the Euro-zone puts the current government under severe constraints. It envisages joining the ERM-II system in 2008 and the euro-zone in 2010. To achieve this requires a drastic cut of HUF 2,000 billion (EUR 8 billion) in the state budget, by which the share of the state budget in the redistribution of GDP would decrease from the current 48% to 44%. It is clear that following the 2006 elections, the victorious socialist-liberal party-coalition has to introduce a new economic policy along neo-conservative lines in order to ensure the strict macro-economic conditions to join the euro-zone.

A further problem, that Hungary still suffers from the legacies of the socialist system, especially in the field of infrastructure under development and non-efficient institutional

system in many areas. The neglected and underdeveloped infrastructure still puts enormous burden on the budget, while appropriate reform of healthcare, education and government system is to be solved in order to be able to meet the challenges of Lisbon targets.

Changes in production model

The Hungarian production regime went over a complete transformation since the beginning of the transition period. Before 1988, the state socialist industrial model rested on less than 2000 big state owned companies. The collapse of the state socialist industrialisation model and the opening up of the economy, along with far reaching political changes resulted in a complete restructuring of both company structure and the production model.

Privatisation

During the decades of state socialism, a few thousand big state-owned enterprises produced practically all the manufacturing output of Hungary. In the nineties, economic policy under a number of post-transition governments focused on a quick privatisation of manufacturing based on direct sales at market terms, deregulation and liberalisation of the economy, and the stabilisation of budgetary deficits. Privatisation was conducted in four phases: between 1990 and 1992 the major manufacturing companies, the so called “crown jewels” were sold to strategic foreign investors; between 1992 and 1994 the main emphasis was on selling medium sized state-owned enterprises, and various schemes were set up to facilitate their acquisition by domestic investors including managers and employees. In 1995-6 the major public utility companies, including the telecommunication and electricity companies, were sold to strategic foreign investors. Privatisation of manufacturing industries and major commercial banks was practically completed by the end of 1997. The period beginning with 1996 signalled a deceleration of privatisation, partly due to the political discourse in which ‘dependence of Hungary’ became a topical issue. Between 1998-2002, privatisation was practically frozen when a coalition of right wing, nationalistic parties governed the country. With the socialist-liberal come-back, 2003 saw the cautious re-launch of privatisation, and it got a new momentum again by the selling of strategic public utilities and companies in the financial sector. Interestingly, the 2004 and 2005 period marked a new historical peak in FDI, mostly due to privatisation of a few major state-owned public utility companies, like the Budapest Airport.

Privatisation went hand in hand with decentralisation and liquidation, and practically resulted in dismantling the sector of former big state-owned manufacturing companies, and inter alia the well-knit network of supply chains among the state-owned and cooperative firms. Nowadays, the private sector has a share over 80% in Hungary's GDP, and it employs more than two thirds of the labour force. Due to privatisation and influx of modern management techniques, the governance of enterprises has considerably improved.

Emergence of private small and medium sized company sector

The socialist regime limited private entrepreneurship to small-scale crafts-shops. These limits were gradually lifted in the eighties, and various forms of small-scale private undertakings bourgeoned. The return to market economy also meant the entire repelling of all legislative constraints on business start-ups in the private sector.

The number of undertakings between 1990 and 1994 doubled and reached 1 million. The majority of this increase was due to an increase in the SME sector. As a consequence of the start-ups and rapid decentralisation of state companies, the average company size in Hungary is currently well below the European average. In 2000, enterprises in Hungary had 4 employees on average, while those in the EU-15 member states employed 6 people. In 2001, SMEs were especially important in retail trade, hotels and restaurants (29, 1% of all enterprises), business services (28.3%), manufacturing (10.1%) and construction industry (8.7%). As far as employment capacity of SMEs is concerned, they provided 51.8% of employment in 2003. None the less, taking into account the 36% employment capacity of micro-enterprises, including the self-employed and undertakings with 1 to 3 employees, the sector is considerably more significant. Since 2002, the creation of jobs has slowed down in the sector, arguably due to the rapid increase of the minimum wage level.

Clearly, there are three distinct segments of SMEs. One is the micro-enterprise sector, where the face-to-face relationship practically translates into traditional informal patterns of employment practices, which are in many cases different from legally stipulated forms of employment relationship. One can find modern human relations practices and a widespread use of teamwork and quality management especially in that part of the medium sized manufacturing sector which is part of the supply network of major multinational companies. In many cases these specialised medium sized companies using best practices are fully or partially owned by strategic foreign investors, and are part of global supply networks. On the other hand, one could clearly observe in recent years the trend of more and more domestic medium sized companies embracing modern forms of human resource practices, teamwork and quality management. Yet, the SME sector is still characterised by a widespread use of traditional practices, particularly when it comes to domestic companies. This translates into lagging efficiency and a lack of product innovation. According to the statistics, in 2001, only 19% of innovations were introduced by small enterprises, and 38% of innovations came from medium sized enterprises. This low level of innovation makes the Hungarian SME sector similar to that in Portugal or Spain.

In the public discourse, the SME sector has a controversial position. On the one hand, due to the fact that major manufacturing companies are mostly foreign owned, it is a major political issue how to support the growth of the domestically owned SME sector. There have been repeated calls to lessen the “red tape” and tax burden on employment of smaller companies, as well as for developing programs which facilitate their inclusion into the global supply chains of major multinational firms. On the other hand, the SME sector is known as the major source of illegal and unregistered employment, especially in the construction industry and in the service sector. Thus public discussion also focuses on how to control tax evasion and undeclared employment practices of the sector. The third sort of national level discussion, which also affected the SME sector heavily, concerns setting the national minimum wage level. The steep increase of the minimum wage in recent years had a particularly heavy impact on the employment capacity of the SME sector. Business associations active in the

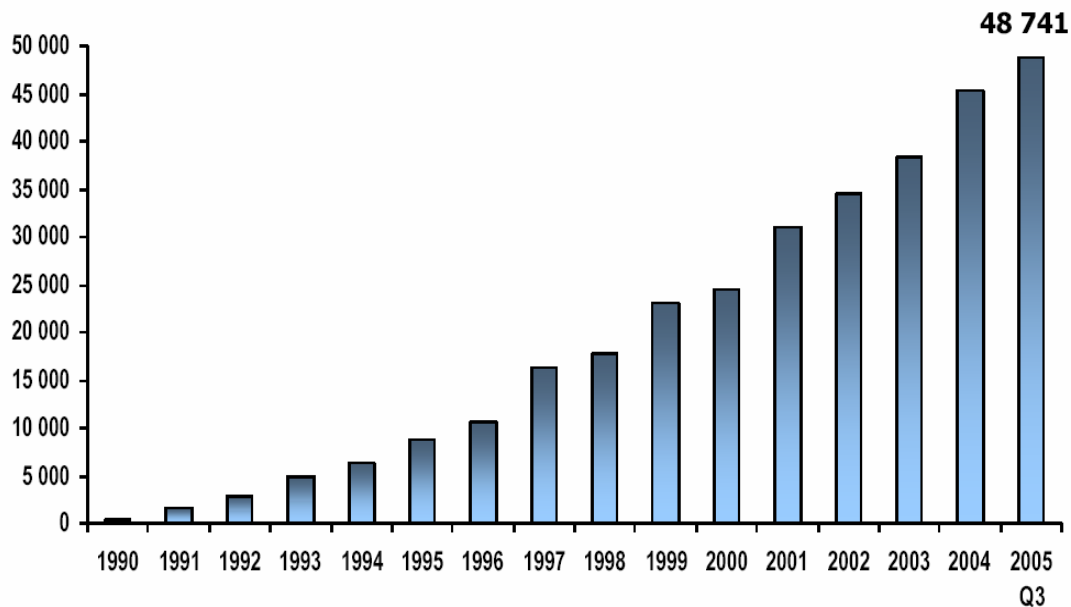
sector are especially concerned that the level of minimum wage increases have been above of the GDP growth in recent years.

Foreign Direct Investment

Between 1990 and the end of 2005, 53 billion Euros of direct investment flew into Hungary, the country recorded the highest per capita ratio of FDI in the region (EUR 5,265). About 80% of inward FDI came from EU countries, 30% from Germany alone. The following Figure shows Hungary's official statistics of cumulated inward FDI. (It worth to note that for a more precise analysis we should take into account outward FDI, the balance between inward and outward flows and the actual stock too, but such statistics are not yet available.)

Cumulated FDI in Hungary

1990-2005, in million euros



Source: Ministry of Economy and Transport

The majority of FDI projects were undertaken by strategic investors in manufacturing industries, especially in the automobile, machine engineering and electronics industries and services. In the early nineties, the main form of FDI was the acquisition of state-owned companies. In this period, the major goal of investors was to get a foothold in the local market and to acquire those manufacturing capabilities which could be springboards for launching export-oriented manufacturing. Parallel to privatisation, green field investments were also very important sources of FDI inflow. In the early nineties, mainly low-tech assembly plants were established. None the less, already in this period, such important “green field” projects were launched as the Audi and GM engine plants.

These investments underpinned the export driven economic development of Hungary. Already in 1995, 51% of Hungarian export was produced by firms with at least 10% foreign equity. Nevertheless, these firms operated in this period as ‘cathedrals in the desert’, i.e.

without any major domestic supplier background. That time the Hungarian economy was characterised as a double-layered economy: a highly efficient segment of foreign firms producing primarily to export, no connection whatsoever to the domestic economy, coexisted with a low efficient segment of domestically owned companies producing primarily for the local market.

Though with a slight decrease of overall FDI inflow, Hungary experienced a smooth shift in the mid-nineties in its main FDI focus, from privatisation to green-field investments. In 1998, for example, 94% of FDI inflows were related to green-field investments. (UNCTAD 1999) As a result, the Hungarian private economy became dominated by foreign investors by the end of the decade. Firms with foreign participation produced about 32% of the Hungarian GDP, 72% of Hungary's gross export, 45% of manufacturing value added, and employed 25% of private sector workers. (OECD 1999)

In certain industries, - like food and beverage, textile and clothing, chemicals, paper and paper products, electrical machinery and equipment, motor vehicles - the share of foreign-controlled firms is dominant in all sorts of output figures. In retail trade, the shopping malls built by major retail trade companies hit the domestic retail trade sector hard. Seven out of the top ten Hungarian companies are subsidiaries of major multinational companies, such as Audi, Philips, IBM, Deutsche Telekom, Flextronics, Metro, and General Electric. (OECD 1999)

From the second half of the nineties onwards, reinvested profits of foreign owned firms outperformed FDI inflow. This kind of capital formation became a key factor in the constant enlarging and upgrading of manufacturing capabilities of Hungary. Beyond increasing output and manufacturing depth, another important process has begun gradually: relocation of various activities with higher value added into Hungary, such as research and development, design, process engineering, control and management functions to accompany manufacturing investments. Thus the former dual-layered Hungarian economy evolved into a three-layered one. Namely, a new segment of companies emerged, small and medium sized foreign companies active in the supplier chains of major original equipment manufacturing firms (OEMs) and a layer of domestic owned small and middle sized companies (SMEs) who were able to enter into the supply chains of OEMs.

The period beginning with 2000 represented a new period in the development of Hungarian economic policy, which implies the changing nature of FDI. From 1997 onward, a slow increase of real wages began. Then the government dictated a 57% rise in the minimum wage in 2000, which was followed by another 20% increase in 2001. In the context of a European-wide recession period and the increasing opening up of Romania, Bulgaria, Ukraine and even China to FDI, the rapid wage increase resulted in new trends. On the one hand, relocation of low technology, labour intensive, assembly-line style manufacturing began to flee from Hungary into cheaper locations, especially in textile, clothing, shoe making and electronics industries. On the other hand, there was a marked increase of inward FDI into technology intensive, export-oriented manufacturing industries. In the period of 2000-2005, about two-third of FDI inflow went into car manufacturing, engineering and machine building industries. This investment process further strengthened the dependence of Hungarian economy on foreign owned firms, which performed 80% of export in 2003.

Following the rapid development of the infrastructure, especially that of the road network, Hungary is emerging as one of the regional logistical centres. Another important trend, which gained momentum from 2003 onward, has been the partial or full relocation of European or

CEEC regional business and management centres into Hungary. GE, for example, relocated its European headquarters into Budapest. The Ministry of Economy expects further increase in investment activities by small and medium sized companies supplying major OEMs into Hungary. This process certainly would further facilitate the emergence of clusters and tightly integrated company supply networks in the region.

Agriculture

Agriculture was also affected heavily by economic transition and went through a major crisis. After 1990, the liberalisation of agricultural prices, significant reduction of subsidies, liberalisation of foreign trade, the collapse of the Soviet market, and the disruption of production chains due to the privatisation of state-owned farms and transformation of agricultural cooperatives resulted in a serious decline of the whole sector. Privatisation and restitution resulted in a new structure of land ownership. Private farmers became the major producers and they cultivated 47% of arable land in 1995. The share of agriculture in employment is as low as 5 %, however around a million people are engaged in self-subsistence farming, cultivating small plots of 1-2 hectares. The restructuring of agriculture led to major labour shedding. Those who became unemployed in rural areas are facing major difficulties in finding jobs due to a lack of industrial employment locally, while transportation and housing problems prevent them from taking up jobs in industrial centres. This fairly limits regional mobility and preserves unemployment and poverty in rural areas, which are persistent major social problems.

Changes in HRM practices and work organisation

The current changes of shop-floor work organisation, in a narrow sense (such as introduction of new technologies, team-work, redefinition of job contents and demarcation lines, continued improvement, KANBAN, Total Quality Management), took place to a certain extent as early as before the transition. On the one hand the reform socialist regime in the eighties was relatively open, allowed the use of some of the methods specified in management literature: experiments with autonomous work teams, job enlargement, etc. were carried out in state owned companies. On the other hand, a special legal form of small business (VGMK) was introduced in 1982, in which workers of a state owned enterprise could take up orders outside the regular hours. As this form of work was exempt from wage levies, it spread very quickly. Although VGMKs operated “behind the fences of state owned factories”, the experiences they gathered partly as the seeds of genuine private businesses and partly as self-organising, self-managing work-teams later proved to be historically important.

In the course of the post-socialist restructuring of the economy, work organisation also underwent extensive changes in Hungary. The opening up of the economy was accompanied by a quick adoption of modern management techniques and efficient work organisation practices. 'Organisational learning' of management was facilitated by the inflow of strategic foreign investors and the integration of Hungarian companies into the supplier networks of major multinational companies. Case studies carried out at Hungarian subsidiaries of multinational enterprises found that many companies introduced up-to-the-minute organisational methods (such as 'just-in-time' production, KANBAN, teamwork, job rotation, 'total quality management', flat hierarchies, new pay systems linked to the introduction of appraisal systems, and new forms of employee involvement). These were not only transplanted from parent companies, but in some cases even a more efficient system was

established than at existing plants of the same companies in their home country. Investing companies made use that work practices are hardly regulated by trade unions, and the employees proved to be highly flexible to adapt new work practices.

According to HRM literature foreign owned companies had a “change agent” role in the nineties. As the FDI literature assumes they had a strong “demonstration effect” on domestic companies. In fact, in 2000 a follow-up survey done by the same researchers on the same sample revealed a levelling out between companies with different owners. Beyond the “demonstration effect”, market competition also forced domestic companies to adopt similar techniques; for instance quality assurance (like ISO) has become a basic precondition of sales in many industries even in the domestic market.

Incidence of organisational innovations (%)

Type of innovation	Hungarian owned companies	Foreign owned companies
TQM	18.4	37.5
Teamwork	55.1	66.7
Profit/cost centre	44.9	62.5
Job design	4.1	37.5
Flat hierarchy	22.4	50.0
Just-in-time	10.2	41.7
Outsourcing	8.2	29.2
ISO 9000	34.7	62.5
IT (SAP, BAN etc.)	28.6	70.8
Average	24.1	45.8

Source: Makó–Ellingstad (1999)

In spite of the spread of organisational innovations, one cannot speak about a radical breakthrough in shop-floor work organisation. With the relocation of production plants from Western Europe, Taylorism in mass production still seems to be alive in Central Eastern Europe. However, the assembly lines are not the same ones as they were 20 years ago. The new plants frequently combine traditional assembly lines with teamwork, production workers’ job content increasingly includes quality control and upgrading in skill requirement takes place. Instead of the demise of the Fordist production, academic discussions are focussed on the emerging “neo-Fordist paradigm”. Other academics speak about mutants of the Taylorist production regime. This phenomenon seems to be common in other accession countries, too, and it might be gauged by the increasing proportion of blue-collar workers involved in quality control. (Makó–Ellingstad 1999)

A series of in-depth case studies allow for a closer scrutiny. For instance, in German owned Hungarian affiliate companies, in particular at “brown-field” sites, a very cautious, pragmatic, sometimes incremental “hybridisation” approach in technology transfer is seen, which always went hand in hand with process and knowledge transfer. What makes investigation of the “model-transfer” more complicated is that the German production model can not be characterized by a single feature. Traditional assembly line work and group work are both compatible with the German production model, moreover elements of different Japanese

systems (such as Kanban or Kaizen) have also penetrated the production process. Furthermore, there are „soft“ features in the model, such as workers' commitment and consensual work organization heavily relying on the role of Works Councils. Case studies found that German enterprises first initiated the transfer of technology by setting up standardized and routine manufacturing and assembly processes. Each mother company had its particular approach to organizing and running the production process. The transfer of these company-specific production processes was the bottom-line objective everywhere, which included transfer of the factory layout, work organization, accumulated basic experience and skills. The transfer frequently included successful adaptation of teamwork, KAIZEN and visualisation in the Japanese style. However, at a later stage the adaptation included a sort of continuous improvement or the introduction of new modules together with the organisational innovations introduced at the same time as in the mother plant. It is, however, symbolic which parts of the transfer were supervised by expatriate managers and which were left to Hungarian managers: while technology, skill and the product quality issues were always strictly controlled by the headquarter, they gave their Hungarian site managers a free hand in shaping labour relations according to the local laws, wage rates and customs. The result is a one-sided adaptation of the German model, or a belated one in labour issues (such as wage system/tariffs). It also had a clearly negative impact with regard to the recognition of a union and to the role of the Works Council. There were many small and medium sized enterprises in the sample where the institutionalisation of labour relations is generally weak, even the legal criteria for establishing works councils were not met. (Fichter–Dörrenbach–Neumann–Tóth 2004)

The development of new practices was to a certain extent facilitated that unionisation rate is fairly low at export-oriented manufacturing enterprises in Hungary, where the pressure is most apparent for a highly efficient and flexible work organisation. This is especially true for small and medium-sized enterprises and for 'green-field' manufacturing plants - although there are notable exceptions. Collective agreements, if they exist at these companies at all, typically do not include stipulations on specific changes in the shop-floor work organisation, or procedures for negotiating over them. More important to note, however, that Hungarian unions are lacking the tradition of 'job control'-style trade unionism and craft traditions. It implies that the detailed regulation of job descriptions, wage tariffs and work rules are missing from the tradition of collective bargaining. Consequently, collective agreements typically regulate only the guidelines for a wage system – i.e. whether it is hourly or performance-related system - rather than the specific rules on pay. Collective agreements, also do not contain detailed job descriptions, and do not stipulate conditions for filling vacancies in different jobs.

Concerning information and consultation rights, the language of the legal authorisation of company unions and Works Councils uses a similar enumeration of issues to be consulted including “new methods of organisation of work”. (Works Councils have no co-determination rights in Hungary save the distribution of company welfare fund. However, with the latest modification of the Labour Code, company unions have the same information and consultation rights as Works Councils.) According to various surveys, changes in work organisation are rarely a priority issue on the agendas of meetings. Case studies revealed that the quality of the information and consultation process on organisational changes varies company by company, which largely depends on the parties, whether they have by-laws, code of conduct or simple precedents of earlier changes which are binding or encouraging the parties to negotiate such instances in a meaningful way. Generally, those changes in the

work organisation that have no serious impact on job security are mostly negotiated at the plant level, where the local manager is responsible for “reconciliation” of interests between the employer and local representatives. As the latter are frequently foremen or shop-floor supervisors the “reconciliation” may overlap with the operative meetings of lower level managers on the implementation of changes. Employees in turn feel that they are left without true representation in the matters of shop-floor changes. Moreover, the new wages resulting from the changes are also negotiated individually. Informality and direct communication with employees has become the prevailing technique in convincing employees, especially at workplaces where neither union nor Works Council exists. (Although setting up a Works Council is mandatory at companies with more than 50 employees, according to a survey about two-thirds of the employees concerned do not know about the Works Council at their workplace.)

Policy makers consider work organisation an internal company issue, thus public policy is mainly constrained to create an appropriate regulatory framework. Nevertheless, during the transition period Hungary created a permissive environment for foreign investors both in terms of financial conditions of investments and of the flexible use of the labour force. Following the collapse of the state-socialist regime, the new Labour Code (Act No. 22/1992) regulated individual employment relationship and industrial relations. In general, legislators aimed at confining the role of the law to setting the basic labour standards and giving the floor for collective agreements as well as individual employment contracts to provide more detailed regulations of working conditions. However, in working hour issues the labour law has been providing fairly detailed rules and it remained more important than stipulations of collective agreements. For example, the length of full working time is basically set by the Labour Code at 40 hours pro week, and collective agreements have no substantial impact on this issue.

However, the 1995 amendment of the Labour Code had two major objectives: to enhance working time flexibility and to increase the room of manoeuvring for collective bargaining. Thus the law made it possible to extend the reference period of the working time accounting up to four months through company level collective agreements, and up to six months through multi-employer collective agreement. Similarly, the maximum of the annual amount of overtime could be increased to 200 and 300 hours by company level and multi-employer collective agreements, respectively.

As to the modernisation of work organisation, the 2001 amendment of the Labour Code entailed a further step towards deregulation and also aimed at enhancing the protection of workers. Deregulation affected three dimensions: the venue of performing work, the employment contract and the working time. As to working time and the venue of work, the new law reformulated the rules for non-standard work settings. It was another novelty of the law that collective agreements may stipulate annualised working hours in certain work settings. As to the deregulation of the possible types of employment contract, the amendment also re-regulated the use of temporary agency work. Through the transposition of the 93/104/EC directive on the “organization of working time”, the major amendment of the Labour Code came into effect in the middle of 2001. As to flexibilisation, it not only further extended the role of collective agreements in allowing deviations from the law to the disadvantage of employees (the earlier legislation also used the same logic in order to encourage employers to negotiate with unions), but also “the parties” to individual employment contracts may agree on deviations in favour of the employer.

Transformation of the industrial relations system

Dismantling the dictatorial one-party socialist system and the construction of the liberal democracy between 1988 and 1990 provided the legal possibilities for freedom of association. The series of legislation of 1988-1989 ensured the legal conditions for lawful strikes, the freedom of association. In 1992 the new Labour Code further qualified the operation of trade unions and employers' associations. Bills concerning industrial relations are subject of extensive discussion at the national tripartite body, which have been established in late summer 1990. Since then, it has been a general government policy not to submit a bill to the Parliament without the consent of the tripartite body on areas related to social policy and world of work.¹

In the course of transition from the state-socialist system to parliamentary democracy and the rule of law, the former exclusive and monopolistic privileges of trade unions and company associations in the representation of interests disappeared. However, the negotiated nature of the transition made it possible to make continuous reforms, to preserve organisational continuity as well old practices and procedural routines, and to continuously adapt to the new environment rather than to totally break with the past.

The transformation of the union side

On the unions' side, a pluralist structure developed involving newly established non-communist grassroots organisations and the unions arising from the reform and fragmentations of Szakszervezetek Országos Tanácsa (National Council of Trade Unions, SZOT), the old trade union centre. In the period between 1988 and 1990, three new union confederations were founded: Liga, Szolidaritás and Munkástanácsok Országos Szövetsége (National Confederation of Workers' Councils, MOSZ). The new confederations were a combination of groups of 'activists' with strong political-social commitments and of workplace level unions emerging from local conflicts. In March 1990, SZOT split into four successor organisations, based on the groupings of the existing industrial federations. All seven union confederations were recognised in 1990 as nationally representative and were invited to participate in the national tripartite council by the government.

Organisational plurality and fragmentation went hand-in-hand with the decentralisation of the union structure. Simultaneously with the split of SZOT into four successor organisations, the nineteen sectoral federations broke up into smaller industrial sub-associations. These confederations became loose voluntary associations of federations and sub-sectoral federations, which themselves were set up as loose voluntary associations of company union structures. The basic building block in the new union structure remained the company union section as legal entities with the right to freely choose adherence to any confederation, federation or sub-sectoral association. As a final outcome, the Hungarian union movement is fragmented and organisationally weak, the union membership drop to 20% by 2001, and further decreased to 17% by 2004.

¹ This policy, however, was not fully respected between 1998 and 2002, when the then governing right wing conservative government intended to re-draw the Hungarian industrial relations system by distancing itself from the tradition what it claimed as 'excessive corporatism'. This particular government policy met with the rejection of trade union, and it was not possible to reach a consensus on bills concerning industrial relations system in the tripartite council.

The transformation of the employers' side

In 1989 and 1990 the socialist company associations with compulsory membership reformed themselves into voluntary employers' associations. The seven major successor organisations, however, retained a profile inherited from the socialist past. Additionally, two more employers' associations were founded by newly set up private companies, which claimed to be covering the whole economy. Altogether nine employers' associations of national importance were set up and got a seat in the national tripartite forum in 1990.

The common characteristic of all employers' associations is that membership is voluntary. As bargaining partners of unions, they have a rather limited role. Typically, employers' associations do not hold the authorisation of their members to conclude a collective agreement on the terms and conditions of employment, but draft agreements concluded by the associations are subject to approval of their members. Invariably, employers' associations perform the role of business associations, too: they provide various business services and act as lobbying organisations. In most cases, the latter function is the more important given the lack of regulations of the terms and conditions of employment through bipartite negotiations with union federations.

National level tripartism

The national-level tripartite forum, currently the National Interest Reconciliation Council (OÉT), is a central element of the Hungarian industrial relations system. It has been operating since 1990, and despite various reorganisation efforts, it has changed very little in terms of members and agenda since the early 1990s. The most recent reform of the national tripartite forum took place after the 2002 general elections. Then the incoming socialist-liberal coalition promised to re-establish national-level social dialogue and negotiate in good faith with the representatives of social partners regularly over the most important social and economic issues

OÉT discusses practically all major issues related to labour market development and regulation, including the pension system and the development of education. As far as economic policy issues are concerned, the most important function of the OÉT is to set the minimum wage and make a recommendation on wage increase for the coming year. In this bargaining process, the government is an active partner, especially in encouraging social partners to agree on the minimum wage increase and recommended wage growth by giving concessions in the tax system reform and in certain budget lines.

Following the abolition of governmental wage regulation, a three-layer wage bargaining system was developed, involving national level tripartite negotiations, multi-employer level (sectoral and sub-sectoral, holding-wide) agreements, and workplace level bargaining. At non-unionised workplaces, however, an increasingly larger share of employees are exposed to individualised wage settings.

The national level tripartite forum is the centre of annual wage negotiations between the government, employers' associations and trade unions. Traditionally, the tripartite forum annually revises the minimum wage and issues recommendations on the annual wage increase. Based upon the recommendations of the tripartite forum, multi-employer bargaining and workplace level bargaining both focus on the actual wage increase rates.

Sectoral level collective bargaining and social dialogue

In the course of preparations for a transition to the market economy, wage determination reform plans envisioned developing a sectoral/industrial level wage bargaining system. In December 1991, the national tripartite forum agreed on the suspension of central wage regulations and called employers' organisations and trade unions to conclude collective agreements at the sectoral/industry level. A year later the governmental wage regulation was completely removed.

With the new Labour Code, a fundamental revision of the regulation of collective bargaining took place in 1992. Originally, the Labour Code of 1992, prepared by the Ministry of Labour, intended to radically redesign the national industrial relations following the German model. The Ministry proposed a dual system, in which sectoral agreements would be complemented by company level "workplace agreements" reached by works councils. This proposal met the fierce opposition of trade unions. After a long debate, social partners agreed on a compromise and the final version of the Labour Code of 1992 practically re-established free collective bargaining by only setting certain obligatory, minimum standards regarding employment. The new legal regulation also makes it possible that upon the joint request of the partners concluding the agreement the Minister of Labour extends multi-employer collective agreements to the respective sector of the economy.

Despite the liberal legal regulations and repeated calls by the national tripartite council, the main arena for the social regulation of wages is still the company level wage bargaining. In a few industries sectoral bargaining plays a supplementary role by setting minimum wages for broad categories of employees (like unskilled, semi-skilled and skilled ones) at levels only slightly higher than the national minimum wage. The coverage of sectoral bargaining is low, in 2004 only 10.1 per cent of employees were covered. So far collective agreements have been extended in only four industries and only after lengthy procedures. Due to the voluntary nature of employers' organisations, multi-employer agreements basically cover organised companies, which also have workplace level collective agreements. Consequently, these agreements are not able to regulate wages in whole sectors and do not provide a safety belt for employees working at companies outside these agreements.

Undoubtedly, the most important recent development in industrial relations is the establishment of bipartite sectoral level social dialogue committees with the assistance of the EU's PHARE programme. In September 2004, the social partners and the government signed an agreement, which specified representativeness criteria employers' organisations and trade unions need to meet to become members of the new committees. So far, the project has resulted in the creation of 23 committees. Unions would very much like to convert the sectoral committee into a bargaining forum. The current government has also expressed its support for strengthening such sectoral level regulations. However, given the lack of support from the employers' side, it is more likely that the majority of the new committees will only provide social partners with a viable lobbying channel. (Ladó-Tóth 2006)

Workplace level collective bargaining

The 1992 Labour Code established the institution of works councils at the workplace level, which, however, were granted only information/consultation rights. Workplace union sections, in turn, retained the exclusive right to conclude collective agreements. Given the weakness of sectoral level bargaining, the main bargaining level is the workplace level. Nonetheless, the coverage of workplace agreements has drastically shrunk over recent years.

A recent study on the clothing industry found that at many workplaces unions are not able anymore to conclude local collective agreements and there is a shift from collective bargaining to consultation and ad-hoc problem solving. A further sign of the weakness of unions in the private sector is that there have been hardly any strike actions in recent years. Nonetheless, in contrast to sectoral agreements, company-level agreements mean a real advantage for employees in terms of wage increases.

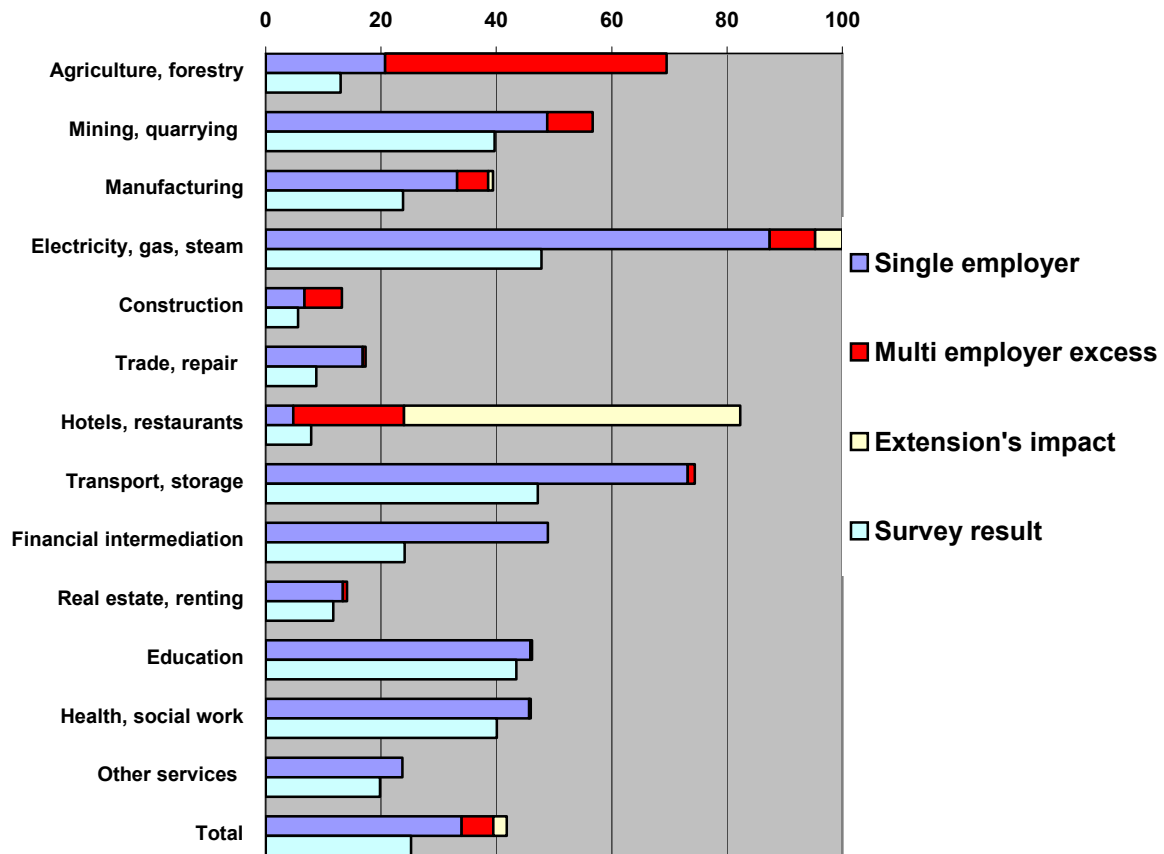
Impact of collective bargaining

In statistical terms, the share of employees directly covered by some kind of collective agreement gradually dropped from 45.2 percent in 1998 to 39.5 percent in 2004 according to the calculations of the Ministry of Employment and Labour, which runs the registry of the agreements. For year 2004, the number of covered employees grew by 2.3 percent, owing to the extension of sectoral agreements. While this institution was made available by the Labour Code in 1992, up to now it has been applied in as few as four sectors. Since in the decentralised bargaining structure company level agreements seem to be the more influential, in search for an overall estimation of coverage it seems to be sensible to take company agreements into account first, and then to add the contribution of multi-employer (sectoral) agreements and finally the impact of the extension procedure. Figure 1. shows such a calculation of cumulated coverage based on registry data, in which the overlaps between different levels are filtered out, as only the excess due to higher level agreements and ministerial decrees have been added to the company agreements' coverage. The role of multi-employer (sectoral) bargaining seems to be decisive only in a couple of branches (for instance in agriculture and forestry, hotels and restaurants), characteristically in fields where SMEs are outperform large businesses' employment capacity. On the other hand, multi-employer (sectoral) bargaining has an insignificant effect on coverage in other industries (such as in electricity, gas and steam, transport and storage), typically in industries dominated by large organisations having company agreements anyway. Similarly, the state intervention through extension has a marginal effect in industries already entirely covered by different agreements (like in electricity), whereas it might be of paramount importance in sectors dominated by SMEs (like in hotels and restaurants, and construction – in the latter conclusion and extension of a sectoral agreement was on the agenda in 2005, thus the 2004 statistics fails to indicate it.)

Unfortunately, the above registry-based calculation does not necessarily imply that the agreements actually have an impact on wages and working conditions to such an extent. Thus it worth to compare the coverage based on registry data with the HCSO's Labour Force Survey results showing if employees perceive the impact of the agreements on their wages and working conditions. Figure 1. shows that in all industries the share of employees' positive feedback is smaller than the cumulative coverage. Moreover, with the exception of the hotels and restaurants industry, everywhere the survey results are lower than the coverage of single-employer (company level) agreements. At the same time, also in hotels and restaurants industry one can find the most striking difference between the overall coverage of an extended agreement and the employees' perception. Given that the vast majority of the respondent employees in the industry did not notice the presence of the agreements, the enforcement of extended agreement is far for being sufficient. It is very likely, that the majority of employers, in this sector characteristically SMEs not belonging to the employers' associations, do not comply, or they are simple not aware of the fact that the agreement applies in their business too, due to the ministerial extension decree. Case study evidences also allow such conclusion, as they revealed that capacities of sectoral social partners are

fairly limited in the field of enforcement, especially at non-unionised workplaces and in companies not being members of business associations or economic chambers.

Figure 2. Collective agreements' cumulated coverage by official registry and survey results on the coverage by industries (2004)



Source: Ministry of Employment and Labour and HCSO

As far as the contents of the agreements are concerned, the novelty in agreements concluded for 2002-3 is the greater use of regulations on flexible working hours, including the annualisation of working time. In turn, fewer than half of the company collective agreements included stipulations on the annual wage increase in 2003. The shrinking coverage of wage agreements and the lack of tariff agreements show that many employers tend to withdraw from wage negotiations, and individualisation of wage determination seems to be the predominant trend in the Hungarian private sector.

Statistical data tell little about to what extent collective agreements determine wages as well as the terms and conditions of the everyday workplace practice. Case studies and analysis of the language of the agreements show that Hungarian trade unions' bargaining approach is largely inherited from the state-socialist era. In the union leaders' understanding, the essential responsibility of the trade union is to develop a broad framework of working conditions. While they fight for higher wages, what they bargain for is the increase of the gross total of wages at the company, minimal wages for groups of employees (such as unskilled, semi-

skilled etc.) or broad wage tariffs that specify lowest and highest wages, and potential extra wage raise possibilities for well defined groups of employees. In Hungarian trade unions' interpretation, collectively regulated wages and working conditions mean the designing of basic frameworks within which there are broad possibilities for the management to make unilateral decisions based on the performance of individuals and groups of employees as well as to informally bargain with individuals and small groups – outside the trade unions' control. (Tóth 2006) A research on working time flexibility underpinned the finding that trade union's bargaining produces a framework agreement in nature. In certain cases the Hungarian Labour Code permits to deviate from its provisions not only through a collective agreement but also through 'agreements between the parties'. In practice, these are verbal agreements made on an occasional basis therefore it is difficult to tell the line between an agreement and a request or instruction by the boss subordinates are supposed to unconditionally fulfil. The organisation of work at workshop level greatly counts on this kind of individual bargaining both at small and large companies. A curious and special case is when the 'agreement between the parties' is a deviation from both the law and the collective agreement. There are a good many collective agreements that explicitly include the possibility of deviation from the main rule 'with the consent of the employee'. (Neumann 2004).

Consultation and information through works councils

The Labour Code of 1992 institutionalised works councils, mainly with information and consultation rights, and separated the responsibilities of workplace-level unions and of works councils. To set up a works council became mandatory for companies with more than 50 employees, while in firms employing 15 to 50 employees a single elected employee representative would exercise the rights of the works council. Researchers seem to agree that on the one hand works councils are mainly operating at companies where there is a union organisation and on the other hand hardly any non-unionised company has a works council. The co-existence of parallel structures of employee representation, however, has led to a controversial situation in many workplaces, while in others it has reinforced the role of enterprise level union organisations.

Assessment of policy changes: what about typologies?

In the last 15 years, Hungary has evolved from being a closed planned economy based on state-owned enterprise model to being an open market economy with private sector dominance, deeply integrated into the European and the world economy. It seems a commonplace to say that the evolving new capitalist order in Hungary is closer to the liberal market economy than the coordinated market economy, to use the Hall-Soskice terminology for variants of capitalism. However, retrospectively it seems relevant to ask whether the transformation of Hungarian trade unions was not completely predetermined by the socialist legacy. Obviously, in the political cycles political parties made various promises to their electorate. Most prominently, Hungary's first freely elected prime minister, József Antall had a clear vision of following the model of the Reinish capitalism; his successor, the socialist Gyula Horn, won the election in alliance with the biggest trade union federations and unions in exchange expected a comprehensive social pact in order to compensate 'the losers' of transformation and propel social partners to the position of a national player. In 2002 the incoming socialist Prime Minister Péter Medgyesi promised to revoke those pieces of legislation of the previous Orbán government which had been heavily criticised by trade unions. He not only had a vision to make social dialogue meaningful at the national and the

sectoral level but also his election slogan was “transition to welfare society”. So the hope has always (re)-emerged that the country is heading towards a coordinated market economy, despite the rather conservative economic policies pursued by the subsequent governments.

Analysing the developments of the recent 15 years, it is difficult to identify a single model of capitalism in the direction of which Hungary is heading. Escaping from the straitjacket of the state socialist system, this “model search” was a subject of intensive political fights, and also that of complex, sometimes contradictory and controversial, processes of regime-shopping, innovations and conservation of existing institutions and behaviours. Contrary to the simple “path dependency” theory, many scholars studying the transformation process stated that this process resulted in a ‘bricolage’ of institutions and policies. (Stark-Bruszt) Each of them could point towards either the Rheinish or to Anglo-Saxon direction of development, and time will tell which component is going to be the stronger in the long run. Beyond differences between the programmes of political parties, there are powerful factors driving the country in both directions.

As far as the emulation of the Rheinish model is concerned, many characteristics of the former regime (heavily institutionalised system, overall importance of state, widespread universal welfare services, dense network of catch-all institutions), the impact of the apparently very successful models of neighbouring German language countries (Austria and Germany), the influence of the European social model, including the institutionalisation and policies promoted by those segments of *acquis communautaire* and EU bureaucracies and social forces, which are protagonists of such a model. It is important to note that many domestic actors would also have welcomed such an outcome. The population, as a whole, would prefer a European style welfare model as they have been seeking stability, security and relative income equality, which are integral parts of the model. This approach confers an important role on the state so that the latter can ensure the provisions of a welfare state. Many large state-owned business organisations and domestic entrepreneurs who are well interconnected to local political elites with somewhat paternalistic attitudes would also prefer a model, ensuring security and stability in the long run. Obviously, trade unions are militant protagonists of a coordinated market economy, independently from their political affiliations.

There are factors pushing these countries towards more a liberal market economy (Anglo-Saxon) model. The weak administrative capacity of the state, weak unions, weak employers’ associations, and gradual erosion of the welfare provisions implies that these institutions are practically unable to create an appropriate framework and to ensure the proper functioning of a Rheinish model. The lack of really powerful domestic companies in the all-important export-oriented manufacturing sectors means that the economy is dependent on strategic foreign investors, FDI is also very important in facilitating upgrading the economy given the collapse of the traditional state socialist company sector. Government policies engaging in intensive competition for investments forces are also akin to Anglo-Saxon model. Part of this regime-competition is the race for lower taxes, which, at the end, means reduction in public expenditures and cut of public services. Policy push for creation of a FDI friendly, lax legal environment, deregulation trends in economic policy and neo-conservative style recommendations of international financial institution, and last but not least the prescriptions of the European Stability Pact for the monetary integration are powerful factors pushing the country towards an Anglo-Saxon style of institutional environment. As far as domestic actors are concerned, business and employer organisations are also protagonists of such an economic policy.

There are inbuilt tensions between the available models, and they can be observed at each sector of the economy and the policy-making. One example of such contradictions is that even FDI projects are generating options for both directions to develop. (See Box 1.)

Box 1

Recent shifts in the relationship between FDI and their local environment

Major investors coming to Hungary encountered a vacuum following the collapse of the traditional state socialist industrial companies. Hungary as a host country offered abundant capacities, like relatively well-trained workforce and managers, physical infrastructure, factory buildings, education institutions and a struggling supplier industry. Most foreign firms in the first years developed a market-based relationship to the local environment. They were like “cathedrals in the desert”: minimum local input as far as supply concerned, and recruited their workforce through the labour market. These firms made use of the rather flexible environment, and they were buying on the market what they needed, and, on the other hand, relying on their own national metropolitan model on various important inputs, like key suppliers, management and technical expertise. None the less, with the rapid growth of the plants, these subsidiaries have begun to alter their relationship to the local environment. They sought to establish institutional ties to ensure the seamless functioning of the production in a number of key areas, like infrastructure development, education, R+D cooperation with local universities and research institutes, building up local supply networks. This resulted in a process of embedding, which seems to be beneficial both for FDI projects and for local institutions, and people who are getting work and economic advantages through these schemes.

This local public-private partnership seems to be fit to the exigencies of globalised business practices as it maintains the advantages of a liberal national regime preferred by investors escaping from highly regulated economies, while the locality offers institutions and ability to utilize local synergies. In this sense, this model at the moment seems different from the well-established models of Continental European countries. It is a regional – local model, in which local institutions do not have at all, or have only very weak connections to regimes and institutionalisation at the national level. Local institutions have contractual relationships and less institutionalised connections to manufacturing firms, and so do firms with each other, allowing for the flexible adjustment necessary in today’s business environment. These relationships are on the whole mostly distant and contractual in character; they are partial, selective and their long-term survival is based on their utility.

Changes in the employment system

Labour market changes in the transition period and the building of new labour market institutions

Departure from the full-employment model of the state socialist system began in the mid-eighties, when the first signs of job-shedding at state owned companies appeared. Open unemployment became politically accepted and registration of the unemployed was introduced in 1986. The first clients of the state-run employment offices came from steel mills and coal pits where mass redundancies started, but at that time the collapse of heavy industries only hit some industrial towns hard in the North-East and Southern-Transdanubian areas. Redundancies became more frequent following the 1989 amendment of the Labour Code, which made it possible to terminate an employment contract for economic reasons. In the same year on the demand of trade unions mandatory severance pay was introduced.

At a time of still low unemployment, the first freely elected government introduced a generous unemployment insurance and active labour market policy (ALMP) measures. Between 1989 and 1990 the eligibility criterion for the dole was at least 18 months work over the preceding three years, and the maximum period of payment was two years. ALMPs of the early transformation period mainly focussed on collective redundancies and crisis situations in regions hit hard by plant closures. The first government built up the national network of Public Employment Service and involved social partners in decision-making on the management of the Labour Market Fund, financed mainly from the contribution of employers and employees. The jobcentres operated under the auspices of the Ministry of Labour, and social dialogue fora were set up at Ministerial and at county level.

During the “transitional recession” between 1990-1994, Hungary lost almost 1.5 million jobs, practically one quarter of all jobs. The unemployment rate grew steeply, reaching a record 13%, about 700 thousands unemployed, in 1993. Nevertheless, another 800 thousands chose to withdraw from the labour market in some other way: many opted for pension (early retirement and disability pension), women were more likely to choose child care support (the government maintained the maximum three-year period, and extended it for mothers with three or more children), young people postponed their labour market entry and many simply gave up job search and engaged (or not) in some informal activity to make a living. The informal or illegal economy certainly grew in this period, estimated to have accounted for 25% of GDP. (Árvai-vértes 1994) More recent estimates, however, put it at only 18 %. (Lackó 2004) The share of the inactive population remained high, even in the later period when the unemployment rate (both calculated by the ILO standards and the number of those registered at the jobcentres) fell substantially. The other constant feature of the labour market is significant regional differences, largely coinciding with inequalities in economic development: the capital and North-Western counties have the lowest unemployment rate, while the North-East ones have the highest ones.

During the transition period, the more unemployed applied for the dole, the stricter the eligibility criteria became because of financial constrains. The rules changed several times: for instance in 1993 the period of payment ranged between three months and one year,

depending on the previous service period, and the income compensation rate (the benefit/wage ratio) was 75 % for the first third of the of entitlement period and only 60 % later. As of early 1993, means-tested unemployment assistance was introduced without time limitation for those who exhausted their benefit period. In the meantime various governments tried different ALMPs; as commentators noted “there is no such programme that cannot be found in the Hungarian practice.” In 1993 the number of the participants in ALMPs was 210,000. (Frey 2000)

With the stabilisation of the economy and the successful restructuring of manufacturing industries, the number of registered unemployment began to decline from March 1993 and, though slightly fluctuating, dropped to 10.6% in 1997. The socialist government (1994-8) raised the retirement age to 62 for both sexes (earlier it was 55 for women, 60 for men), tightened the eligibility criteria for social benefits and gave lower income support than the unemployment assistance. Major changes in the unemployment assistance system occurred in 1999 under the right wing government. Although unemployment stagnated at around 6.5 % since 1997, the eligibility criteria were tightened again and the dole period was shortened considerably. Moreover, the income support for those who exhausted the unemployment insurance period was replaced by a means-tested assistance which required recipients to actively search for jobs and spend at least thirty days in public work. The objective was to trigger off a “welfare to work” style change, but the reform proved to be a failure: it reduced the number of benefit claimants significantly but without raising non-subsidised private-sector employment. (Fazekas, 2002)

What several researchers agree on is that wages are remarkably elastic. Compared to estimates from elsewhere, Hungarian wages appear to be responsive to market conditions. Demand elasticities, albeit they fell over time, do not compare unfavourably to those of other European countries. (Köllő–Nacsá 2004) Comparative statistical studies of Central and Eastern European countries, however, show that as early as in 1988 wages were the most differentiated in Hungary throughout the region. In the transition period the purchasing power of wages declined in all of these countries and inequalities grew, with Hungary leading the list for the latter. The Gini coefficient, measuring inequality, was 0.27 in Hungary in 1988 while ranged between 0.16 and 0.22 in the rest of the region; in 1993 it rose to 0.30 in Hungary and to 0.22 to 0.27 in the other countries. (Rutkowski, 1996)

Welfare reforms

In the early phase of transition, Hungarian economist János Kornai coined the expression ‘premature welfare state’ because, in his view, "Hungary can vie with the most developed Scandinavian countries in the range of codified entitlements to benefits and in the proportion of GDP laid out on social spending" (Kornai 1996, p. 944). While the metaphor of the early-born child became popular among reformers, their views on the reforms implemented to effectively mitigate the social cost of the ‘transition recession’ have remained widely varied. One typical assertion was that the liberal model of the welfare state had been formed, often inspired by international financial institutions. (Ferge 1996, Barr 1994, Vaughan-Whitehead 2003.) For instance, Ferge identifies the following trends in Hungary in the early nineties: most universal benefits and universal public services had been abolished and were transformed either into means-tested schemes or into insurance; the standards of benefits (pension, sick pay, health services) were continuously lowered, and eligibility criteria were toughening (unemployment insurance); the legitimacy of public insurance schemes was

undermined, thereby paving the way for alternative, particularly private/privatised solutions while the state in its role of owner, financing agent, and service deliverer was slowly (or rapidly) withdrawing from the welfare sector; the spreading of market or near-market solutions excluded certain groups from access, and/or two-tier systems were created that reinforced inequalities. (Ferge 1996)

Although reforms of the welfare system inherited from the state-socialist regime have been a recurring issue ever since the transformation began, the governments have managed to reform only two sub-systems in the recent decade: the unemployment benefit and pensions. As far as the pension system is concerned, first a law was passed in 1996 on the gradual increase of the retirement age to 62 years universally, with favourable early retirement options for the most affected transitional cohorts. Secondly, the 1997 pension reform introduced a three-pillar system. The first pillar is the traditional, publicly-managed social security pension scheme, a mandatory, universal system encompassing all occupational groups. The second pillar is based on privately-managed individual saving accounts. Private pension funds are voluntary mutual associations in which savings are accumulated through mandatory individual contributions. The third pillar is made up by voluntary private pension funds, first introduced in 1994. Recent studies have found that the membership and assets of mandatory pension funds have grown rapidly, in 2003 the 2.3 million members accounted for about 60% of the employed population. At the same time there are serious concerns about the effectiveness of the system as the investment performance of the funds was very poor. In addition, there was overselling of the new mixed system by the private savings funds, and many older workers decided to join even though they lost more from the public system, that they could hope to gain in a few years from the private one. The government has recently made some restorations to workers near retirement (Matis 2004). Moreover, the state run first pillar is still unsustainable due to the aging society, thus further increase of the retirement age is on the agenda again.

As for social benefits, the various governments have adopted different policies. The Horn government tried to introduce means tested child care benefits and made an attempt to introduce tuition fees depending on the families' income level, whilst its right wing successor repealed these measures and developed a 'social policy' which supported middle class families through deductible personal income tax and subsidised credits for construction of housing. The present left wing coalition tries to withdraw housing subsidies that proved to be unsustainable, and introduce targeted benefits for the most disadvantaged groups.

Education and health care are the two big budgetary financed systems in which reforms have been postponed by the successive governments. While higher education has undergone a bottom-initiated expansion and market reforms have been gradually introduced, the continually neglected health care reform results in deteriorating services, persistent complaints of patients and growing financial crisis for the state budget. Attempts for partial reforms (like privatisation of hospitals) have met the fierce resistance of health workers' trade unions and representation organisation of physicians.

Recent labour market developments and debates

Since 2004 labour market indicators improved only slowly. The overall picture showed a sort of stagnation rather than any successful transformation of economic growth into job creation. In 2004 the main data on the Hungarian labour market were as follows:

- Of the active-age population (i.e. aged 15–64) 60.5% were present in the labour market as employed (57%) or as active job seekers (4%). Compared to 2003, the number of the working age population as defined by Hungarian laws rose by 50 thousand as a result of raising the retirement age of women from 58 to 59 years. The female activity rate was 58.4%. The employment rate of the population aged 15–64 was 56.8%, the third lowest level in the EU after Poland and Malta.
- Within one single year, in 2004 the number of agricultural employees dropped by 10 thousand and manufacturing lost 32 thousand jobs. In the service industries, trade and transport registered losses (7 thousand jobs each), while all other industries had net gains. Consequently, the employment share of agriculture and industry (5.3 and 32.8%, respectively) declined further and the service sector attained 61.9%.
- The number of the unemployed had been rising since 2002. The annual average number of unemployed was 253 thousand, corresponding to an unemployment rate of 6.1%. In 2004, the unemployment rate of women reached that of men. 5% of the unemployed earlier worked in agriculture, 41% in industry and 54% in the services.
- In the population aged 15–64, the rate of the economically inactive remained essentially unchanged in 2004 at 40%. Out of the inactive 42% were full time students; 15% were on child-care leave; 41% were pensioners, mostly disability pensioners.
- Regional discrepancies somewhat decreased. The ratio of the highest and lowest regional unemployment rates, however, still was 2.2 and 2.9 across the counties. (Laky 2005)

Clearly, the main problem of the Hungarian labour market is the low employment rate, more than 10 percentage points lower than the EU average. Labour economics research has found that the key determinant of labour market changes has been the revaluation of education and work experience since the beginning of transition. There has been a growing demand for educated labour, and – at least in part – this has caused the persistent low level of employment. The latest (2001) census data showed that the share of lower educated people in the Hungarian population was larger than the EU (15) average and that their employment possibilities were worse than in the EU. While the share of those aged 20 with a lower education had decreased since the seventies, this trend came to an end in the mid 1980s. Between 1985 and 2000 at least 20 per cent of each cohort entered the labour market without any qualification. It means that the reproduction of the low-educated continues and the harmful consequences of this process will have an effect on the labour market for at least another thirty years. (Kertesi–Varga 2004) The policy implication of these research findings is that to increase the employment rate profound reforms in the Hungarian primary education system are needed. Tackling drop-out rates of and discrimination against the children of the Roma minority are the most crucial tasks.

These conclusions are underpinned by statistical information on the output quality of the education system. The rate of pupils not completing the 8 grade primary education by the age of 16, (the age limit for the compulsory schooling) has been steadily about 5% in recent years, and 4-5% of those completing primary school do not enter secondary education in the following year. Thus, about 9% of each age group does not go on to secondary education.

In the traditional vocational schools the drop-out rate was above 20 % in the nineties, but grew to 35% in the early of 2000s.

Share of early school leavers aged 18-24, %

	2000	2001	2002	2003	2004
Total	13.6	12.9	12.2	11.8	12.6
Men	14.1	13.3	12.5	12.4	13.7
Women	13	12.6	11.8	11.1	11.4

Source: Central Statistical Office

The results of the PISA survey in 2003 showed that Hungary is one of the countries where the education system fails to offset inequalities stemming from the family background. In Hungary the differences between schools cause more of the differences in pupils' performance than in other countries participating in the survey. (Source: Varga 2006)

The mismatch between labour market supply and demand in terms of educational attainment highlights other dysfunctions of the educational system. Employer/business organisations often complain about the obsolete vocational training system: with the privatisation of the major companies running the training workshops the dual system developed under state socialism became useless, traditional vocational schools have lost their pupils to upper secondary education (providing the school-leavers with a certificate required for higher educational studies), which started to rapidly expand in the second half of the eighties. The real expansion in education took place in higher education. Between 1990 and 2002, the number of full-time students admitted to higher education tripled. The total number of students in higher education of all types (full-time, part-time, correspondent courses) quadrupled. In 1990 full-time higher education students made up 8.5 per cent of the 18–22 age cohort, in 2002 this percentage was 25. (Lannert 2004)

None the less, the evaluation of the higher education boom is controversial. Labour economist stress the rapid increase of the number of those going back to education. In the first phase of the transition process (until 1995 or 1996) a large number of older and less educated workers quit the labour market and the demand for educated workers did not increase either. The second phase (until the end of the '90s) was characterised by a massive restructuring of the economy, more and more modern jobs were created and the demand for educated workers grew. As a result, wage premiums for the young and better educated workers were considerably hiked, and the labour market experience of older workers was devalued. Despite the palpable reconfiguration of jobs filled by university graduates, the sustainable wage premium justified the higher education boom, the economy absorbed the extra number of degree holders turned out by the higher education boom and rewarded their knowledge – as suggested by the sustainable wage premium.

According to other researchers, however, the higher education boom is not necessarily a welcomed development. They claim that economic development and the extent of higher education should strongly correlate, and a well-structured education system must produce exactly those qualifications the economy needs. Otherwise the public and private resources are wasted, graduates squeeze out lower educated job applicants and cause a growing unemployment, the overeducated are dissatisfied and tend to be drained away. Given the current trend in higher education enrolment rates, in 2015 every third employee will have a higher education degree in Hungary, which is matching the rate of the UK or Sweden, while economic development will be obviously lagging behind. Over-education is especially

increasing in the fields of humanities, including economics, while there are too few technical university students. These arguments are underpinned by survey results on incongruence between the diploma of the higher educated and their job-contents. (The extent of this mismatch is estimated at 15%) As to the policy implication, the authors claim that a coherent state policy and planning based on long-term forecasts is missing in Hungary. Nowadays the self-interest of the universities and the pressure from would-be students seem to set enrolment quotas. As to the students and their parents, their demand is a consequence of the post-socialist societal change, i.e. a university diploma is perceived as a precondition to upward mobility to the middle class, and universities are fashionable because they are part of the life-style of the middle class youth. (Kővári – Polonyi 2005)

The government in power introduced a number of new active labour market measures in order to get more of the inactive into work. In 2004, targeted active ALMPs were introduced to increase the employment rate among the Roma. Another measure involved targeted cuts in employers' social contributions: employers may pay only half the social security contribution if they hire young job-seekers, women returning to work from parental leave and long-term unemployed aged over 50. In April 2005, the Government announced a series of piecemeal reform measures, called the "Hundred Steps Programme". In the field of employment, the program includes support for the unemployed to help their active job search and actions to crack down grey-sector employment.

These measures are in line with the targets of the EU's Lisbon strategy which was adopted by the National Employment Plan and submitted to the EU by the Hungarian government in the fall of 2004, following several years of cooperation between the EU and Hungary in the field of labour market policies. Given the low level of employment, in 2004 the Hungarian government set the following targets regarding employment:

Lisbon targets of the EU and Hungary

Employment rate	EU average		EU Objectives		Hungary	National Objectives	
	Actual (2003)		2005	2010	Baseline	2006	2010
	EU-15	EU-25	EU-25	EU-25	(2003)		
Total	64.3	62.9	67	70	57.0	59	63
Women	56.0	55.0	57	60	50.9	53	57
Men	72.5	70.8	-	-	63.4	64	69
55+	41.7	40.2	-	50	29.0	33	37

As far as the Lisbon indices of quality of employment are concerned, Hungary lags far behind the EU average in terms of ICT penetration, R+D expenditures and, in general, of transition towards knowledge based society. Hungary spends around 1% of the GDP on R+D, which is quite far from the 3% level specified in the Lisbon strategy. Moreover, the share of business expenditures is about 30% instead of the 70% target figure. (At the same time, the 'old' Member States of the European Union spend 2% of their GDP on research and development, and about 55% of it comes from the private sector.) Several factors explain the differences in the R+D expenditure and in the spread of information society. The share of researchers in the population in Hungary is half of the EU average, while their average age is relatively high.

As for young people, the share of graduates in technical and natural sciences within the age group of 20-29 years old is one third of the EU15 average. Save a few examples, strong multinational companies seldom do their development activities in Hungary. The exchange of professionals between research centres and enterprises and the mobility of researchers between institutions and research fields are weak; the rate of young researchers returning from work abroad is not satisfactory either. Despite of earlier efforts of the government, the penetration of PCs, broadband Internet access and the use of ICT tools and services are weak among the households and business actors. (National Reform Programme for Growth and Employment 2005-2008)

Final thoughts

Over the past 15 years Hungary has managed to break with the state-socialist system and develop a market economy which is well integrated in European and global markets. This transformation required both enormous institution building efforts and the restructuring of the inherited backward industries. Institutional reforms began in the mid-eighties and then accelerated with the political changes. The main driving force of the changes was fast and far-reaching privatisation and attracting FDI. Contrary to initial expectations, the “transition recession” in economic terms was deeper than the Great Depression: it involved a 20% drop in GDP and an even sharper decline in industrial output and investments as well as the collapse of a large part of the productive capacities. The “social cost” was also enormous: real wages dropped by almost 20%, unemployment rose dramatically due to a mass-scale loss of jobs and the employment rate has been persistently low ever since as a result of various forms of withdrawal from the labour market. Popular support for market reforms could be maintained by preserving the provisions of the welfare state and by introducing – in the beginning – generous unemployment insurance and various ALMPs.

Yet, Hungary recovered from this crisis by the second half of the nineties mainly due to FDI driven restructuring of manufacturing industries. In the nineties, government policies created favourable conditions to this kind of development through privatisation rules, various subsidies and tax holidays as well as by deregulation of the labour law. Also political stability, stringent and predictable fiscal and macroeconomic policies (following the mid-eighties’ austerity measures) and the weakness of trade union movement were among the perceived comparative advantages of the country. And last but not least, the large pool of redundant workforce with factory experience gained under state-socialism suited the assembly style plants of multinational enterprises. The characteristics of this employment model are the reemployment of the relatively low-skill-low-wage workforce, hiring policies creaming-off the local labour market (which is evidenced by the growing demand for more educated workers in the labour market), a modest wage increase, flexible labour contracts, wages, job contents and working time schedules and a growing non-unionised sector. The problem with this model was that the overall employment rate remained low in the country, wage inequalities grew across companies and regions and maintaining social cohesion needed relatively generous welfare transfers.

This development path, however, seemed to be exhausted by the turn of the millennium. One

of the causes was that Hungary had lost the advantage of being a forerunner in the region in terms of market reforms, privatisation and attracting FDI. Regime competition between the neighbouring post-socialist countries coincided with domestic political changes nurturing hostility against foreign capital and preferring wage increase to stringent macroeconomic policy. Obviously, promoting wage increase by public policies seemed to be a popular move, at least it met with the general expectation of the public to catch up with the living standard of the “old” member states - something Hungarians had really longed for since the beginning of the political transition. Furthermore, during the accession period trade unions made their claim that wages should “catch up with European wages”.

Interestingly, the central-right government of 1998-2002 was the first to set the objective of achieving fast economic growth to be met through inflating the overall demand by budget overspending. Naturally, this neo-Keynesian policy could not be successful in an export-oriented open economy. Moreover, growing labour costs resulted in losing the competitive advantage and then in capital flight. Paradoxically, the FDI driven growth momentum was lost because the country entered the EU, the competition regulations of which limited the possibility for subsidies to attract FDI.

The advocates of fast economic growth found their model countries outside Europe, mainly in the Asian Newly Industrialised Countries (NIC). Within Europe, Ireland served as a model, especially during the accession period: politicians viewed the performance of this country in the utilisation of EU transfers exemplary, especially in view of the new sources for economic development Hungary became eligible for after the EU accession. Furthermore, emulating the slogan of ‘Celtic Tiger’ right wing politicians nurtured the vision of a ‘Pannon Tiger’ (Pannonia was the ancient Roman name of Trans-Danubia.). Interestingly, the Irish social pacts, a negotiated macroeconomic policy-making together with the social partners were rarely among the perceived lessons of this model. The steep increase of the minimum wage corresponded to the economic policy of certain more developed NIC countries (especially Singapore’s in the eighties), which successfully upgraded their FDI dominated industries, as low-wage-low-cost industries fled from the country and new ones requiring higher skills replaced them. The Asian lesson also shows, however, that the precondition of such an upgrading is enormous public investments in human resources development, primarily in the education sector. This is also crucial for increasing the overall employment rate in the country, not only to meet the commitment to the Lisbon strategy but also to lessen the budget’s welfare expenditure. Current political changes may help this development path as the ruling socialist-liberal coalition, winning its mandate for a second term, is committed both to “modernizing the country” relying on the European integration and to enhance social cohesion.

As far as the upgrading of the Hungarian manufacturing sector is concerned, the relocation of low-skill-low-wage industries has already begun and there have been a few promising cases of incoming higher value added activities. However, similarly to the transformation recession, job destruction tends to outperform job creation again, and it is very doubtful whether the large pool of low-skilled workers employed at the assembly lines can find new jobs, or the same will happen as in the early nineties, i.e. mass-scale withdrawal from the labour market will undermine social cohesion.

Apparently, neither traditional government policies towards FDI seem to be successful enough in promoting such an upgrading strategy of foreign firms, nor the education system is able to supply highly skilled workforce meeting the demand of upgraded activities. As

moving upward in the value chain is crucial for further economic development, it is very likely that the education reform is the key issue for the coming period. Clearly, the Hungarian government is far from being an Asian-style “development state” to finance generous public programmes, especially in view of current macroeconomic imbalances and the policies envisaging the introduction of Euro as a national currency soon. Therefore, as many experts stress it, appropriate targeting of the available resources is crucial. As far as the education system is concerned, diminishing the drop-out rate in the primary education and in vocational training schools meeting the needs of employers and improving quality are the most urging tasks. Within the country’s National Development Plan, which technically makes EU funding possible, human resources development is already a top priority. It is, however, uncertain whether the long-term support of social partners and the public can be gained for a policy of long-term investments instead of maintaining steep wage increases and welfare transfers.

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Appendix

The dynamics of national employment model and life-cycles (Outline of stage 2 of the Hungarian national report)

Life-stages and transitions between them, referred to in the *Guidelines*, are basically connected to the programmes of a welfare state and to the triple division determined by labour market participation, which constitute the stages before, during and after the employment cycle. In the *Guidelines*, the middle stage is further divided into three periods: entry into the labour market (from education to first employment); the employment of youth (from first entries to careers), the purpose of which, on the other hand, is the acquisition of independent living; career and non career paths in prime age (where transitions between jobs and between periods of employment and the risks of unemployment are discussed).

As the purpose of the research is to identify challenges facing the employment model (in our interpretation the organisational/institutional structure and social structure, or welfare model) and the family / generational systems, it seems reasonable to take into account, in relation to the above-mentioned stages, some of the standard key events of the demographic life-cycle (entering into the first partnership, getting the first child and further children, getting widowed, and possibly divorces as well). These key events influence the possibilities of those concerned in the labour market, they change their positions in the macro-level redistribution (as these events bring about several welfare transfers), and affect the voluntary transfers among households. These transfers, therefore, strongly influence the positions (their pecuniary standing, poverty risks, frustrations, etc.) of individuals in the inequality system, resulting, as a consequence, in challenges for the prevailing „employment model”.

In Hungary the effects of the change of the political regime and the changes in the economic structure around 1990 played a highly significant role in the life-cycles of middle-aged or older generations. The collapse of the socialist economy and the privatisation of state companies, terminated the careers of many, or forced them to change, in some sense, their living strategies (through becoming „forced entrepreneurs”). On the other hand, those starting their employment cycles/careers after the change of the regime had to face opportunities and challenges different from those in front of older generations who finished their studies during socialism. It is therefore of great outstanding importance to look at the age of the generations at the time of the change of the regime.

I. Transition from school to the labour market

1) Acquisition of the first workplace

Following the change of the regime, an educational expansion took place in Hungary, as a result of which the number of those in higher education tripled and nearly half of the youth takes part in higher education. This corresponds to changing market demands, which can absorb this supply mainly in the service sector. On the other hand this expansion might lead to a surplus supply of those with a higher education degree, which is a result of the devaluation of higher education degrees and the saturation of the market. Vocational training only very

haltingly follows the demand that has changed as a result of quick economic restructuring; on the market of skilled workers there is a mismatch between supply and demand. Despite the educational expansion a large number of people do not complete secondary education, or drop out of primary or secondary education, which can form the basis of a future, long-term unemployment and projects the burdens of the social welfare system.

In the course of the expansion, financing of the education has changed. Despite increasing budget expenditures, Hungary switched to a mixed public-private financing from a public-sector funded education. Tuition fees, where they exist, of higher education institutions, are predominantly covered by the parents' resources, which obviously projects the transmission of social inequalities through the education system. At the same time, it is a new phenomenon, compared to the situation twenty years ago, that a significant quota of full time university students regularly work parallel to their studies.

The function of the newly introduced student loan system is yet to be clarified: it certainly helps students to gain independence from their parents; we can assume that the loan helps a segment of lower middle class to balance the negative consequences of the marketisation of education. On the other hand it determines the long-term bonds of their future lives (consumption). (Although there are numerous examples of the parent paying back the entire amount of the loan in one lump instead of their children.)

Studying the characteristics of, and the conflicts arising from, the entry into the labour market (first job/s) on the basis of education, occupations, industries, sectors, etc., the segmentation of the labour market facing entrants still needs to be clarified. Our assumption is that in today's Hungary it is not the opposition of fixed-term vs. permanent labour contract what constitutes the main rupture but the division between public/private and the large company/small company, as well as divisions along the lines of education/qualification seem to be more important. It is unclear what opportunities the black economy provides for unemployed „entrants”.

II. From first employment to career

2) Moving away from family home, transitions to independent living

Young people today generally leave the family home later than their counterparts twenty years ago. One reason for this is the change in the segmentation of life-cycles (young people spend more time in the education system, they attain their first secure jobs later, they establish long-term relationships later and child birth comes at a later point). Another reason for this is the marketisation of the housing sector, which necessitates more substantial financial resources for the entry into the market (for the acquisition of a new flat). Since the privatisation of the housing sector in the 90's, when tenants had the chance to buy their flats of dilapidated condition at a reduced price, ownership of flats has been more dominant in Hungary, while flat renting is only a transitional option for the youth. The increasing inequalities in income and wealth cause a powerful differentiation in the ways of access to flats. The two extremes are the following: a part of the youth live in flats bought by their parents in the course of their studies, while for another part the preconditions to getting flats are a stable relationship (two stable incomes, a „start-up capital” of two sets of parents) and the decision to bear a child and taking out various loans. Numerous governmental programmes have been introduced in this domain, which aim to resolve accumulated conflicts (home loans, „Fészekrakó” – a state sponsored housing support programme), which include

previous state supports for buying flats (like „szoc. pol”, the support based on the number of children) and some entirely new elements. It is also certain that access to flats in the cities continues to differ from acquiring flats in the countryside. To sum up: access to flats is strongly connected to (the parents’) social inequalities, and there are differences in using the household wealth transfers, the welfare redistribution, and the „financing options” provided by the market.

3) Entering into long term relationships, setting up a common household

It is not only the above-mentioned structural reasons (education, labour market) that cause young people to enter into long term relationships later but a change in values (individualisation) as well. This makes it possible for the workforce to move more freely (both domestically and abroad) but free move is hindered by the absence of a more significant rental flat sector and by the attitudes of those concerned. A dual-income family model is inevitable for a secure livelihood and for accessing the housing system, which otherwise corresponds to the ideas and desires of those concerned as well. This model makes necessary the „adjustment” of the employment of the partners to each other’s (which creates tensions after the decision has been made on child bearing). This will create different problems for people living in Budapest and in its surroundings, than for those living in the countryside. To sum up: while the changing character of family formation helps the adjustment to labour market, the housing sector hinders it.

III. Labour market careers and activity changes in prime age

Applying a gender perspective to studying the shifts in the labour market, including changes in activity, and separately to the development of careers, a large number of overlaps, or approaches, are to be found in numerous domains but there are also significant differences as well. We interpret the characteristics of women in the dilemma of family vs. work; while with regard to men we highlight the problem of employment vs. unemployment. (Of course the risk of unemployment concerns women as well and family needs play a role in the employment of men too.) We separately deal with the transformation of the situation of generations in the labour market.

4) Competition of generations in the labour market

The labour market has valorised highly qualified youth, which is clearly shown by age-specific wages (Köllő, 2000). While salaries prior to the change of the regime were linked to seniority, in the second half of the 1990s wage differences were more strongly related to education and qualification. Young people (aged 25-32), especially those with higher education degrees but even those with secondary education, had significant earning advantages compared to elders (Köllő, 2000). Analyses claim that in the background of this phenomenon there are the differences in production and the selection processes in workforce recruitment, which are disadvantageous to older people. According research in labour economics, the chances to get a job for older and less qualified workers have become worse. The economic shock of the transition still makes itself felt; there is a large proportion of the massive inactive population who lost their jobs in the first half of the nineties and have been excluded from the labour market for good.

5) Balancing child care, work and family

The most critical stage of a woman’s life-cycle is balancing the needs of child bearing (and

then child rearing) and the demands of work.

For the first sight this might seem surprising in the former socialist countries, since here a model was created relatively early which promised a resolution of this problem, placing it out of the key questions of the labour market/reproduction. A system of childcare support was established, along with childcare institutions, as a result of which the sequences of employment – motherhood positions- and changes in activity took place more or less in everyone's life. It seemed that this problem was resolved, even if with some conflicts.

Today „following” a female life-cycle implies many more risks. Maternity support have been in part transformed („is constantly changing”) but a more important fact is the transformation of the labour market, as a result of which return to it is extremely difficult after the otherwise rather long maternity leave (lasting even for three years in some cases). This is what women concerned claim, which is further testified by the selection criteria of employers. If return to the labour market is successful, then intense work makes balancing the demands of child care and employment much more difficult. While women would like to have children and would like to work as well, which is also in the interest of the community, in many cases balancing the demands is successful only if the parents are able to help out with child care. Many factors come into play in resolving this tension. The most important of these are reducing the vulnerability of those affected in the labour market; the spreading of employment patterns that help balancing work and life (part time employment, flexible working hours, etc.), increasing the security of these, and ensuring that these do not function only to satisfy the flexibility claims of the employers in work place practice – which is the prevailing practice at the Hungarian workplaces.. On the other hand an increased participation of men (husbands, partners) in child rearing could also improve the situation of women/families. Therefore transformation of gender roles has to be discussed also.

Work – life balance (child rearing) often coincides with the problem of looking after and attending parents / family members who are ill. Whether the middle generation becomes a „sandwich generation” or not depends on which the age child bearing is concentrated on, and on how life expectancy and health conditions of the older generations develop.

6) Unemployment and fighting unemployment

Unemployment is one of the biggest risks in life for employed men and women alike. Unemployment implies the shrinking of livelihood (consumption) and material resources, and the questioning of identity at the same time. (There is a difference between the sexes in that while unemployment entirely questions the male role, for women the role of a mother can partly compensate for the role of the employed.) Out of the unemployment risks in Hungary we highlight geographical concentration, which can result a) household / family concentration, b) a more difficult re-employment in a given micro-region. (There is of course spatially dispersed unemployment, in the case of which the acquisition of a new work place is less problematic.) Family and geographical concentration renders it more difficult to cushion the negative consequences of unemployment and results in few resources for household transfers. Tackling geographical unemployment is made difficult by the character of the housing sector, the low propensity of mobility on the part of those concerned, the very high budgetary burden of initiatives to boost employment (job creation, provisions for commuting), and the low efficiency of life long learning opportunities provided for the middle-aged population.

7) The consequences of divorce

Divorce/moving apart is not a planned life-cycle event but the welfare system has to calculate with it as the current practice shows that 40 % of marriages are likely to end in divorce in Hungary. The negative consequences of divorces are obvious: disadvantaged financial circumstances (impoverishment, homelessness), increased difficulties with regard to child rearing, a decline in the performance of the child, the occurrence of deviances (alcoholism, traumatisation of the child). Divorces often necessitate a reliance of the divorcees on the resources of the parents (moving back to the parents', parents helping out with child raising/looking after the child, etc.), as well as the intensification of formerly decayed or past friendships, which become a network of support. Divorce demands active participation from the redistribution (benefit/support) system as well. Since divorce causes transitional crisis, it requires the establishment of welfare/support institutions limited in time (crisis consultation, crisis homes, etc.).

IV. Exit from the labour market

In the course of aging we suffer three large, life-changing losses: we end our careers in the labour market, we lose our spouse/partner, and our health deteriorates.

8) Disability pension and early retirement

The function and characteristic of the pension system, formed during the political-economic transition, enabling the older middle-aged/young elders to exit the labour market for good early, has an inertia even today, which puts further burden on the generational contract in addition to aging.

As is known, labour market has radically shrunk as a result of economic transition. As a consequence of this, only one part of employees excluded from the labour market became unemployed, since the exit from the labour market of older active age groups happened with the loosening of retirement criteria. Early retirement and retirement on the grounds of disability were the institutional ways of exit. However, it has to be noted that a large scale „invalidation” was a „practice” already before the change of the regime, in the late 80's. This practice seemed to be beneficial for all: with it the state managed to avoid political tensions; those affected managed to avoid the ambiguous status of unemployed, which implied a resort to benefits for a determined period; for the employers this looked like a possibility to apply a „humane” arrangement. This practice „softened up” the criteria used by the doctors and officials administering retirement and created a new customary practice, which prevails even today, the data testify, despite the tightening of regulations. (At the same time, attention should be paid to the fact that those undergoing a disability retirement are in worse health than those who remain active.) This practice, of course, implies the consolidation of the burdens of redistribution, since those people receive this form of pension, who otherwise, maybe following re-training, could return to the labour market and become tax-payers again.

9) Old-age pension: The necessity of increasing the retirement age and its challenges

Although the majority of people close to retirement age (63.3%) looks forward to retiring – because they got „tired” (39.6%), or because they „would like to spend more time with their families” (23.8%), or because of impaired health (conditions) (8%) – the decrease in activity and in income, pertaining to retirement, is only appreciated afterwards. For those, who lost their jobs middle-aged, retirement provides a certain existential security. Nevertheless

retirement brings about a break in the life of the individual, which is hard to foresee.

Just like in other countries, the financing of pensions is an acute problem in Hungary as well. The problems of the Hungarian 'pay as you go' pension system arise predominantly from the fact that there are too few earners for one pensioner (this ratio was 1:1.25 in 2002) and the funds – despite the pension scheme reform of the 90's – derive from the contributions of wage earners. Even if we look at old-age pensions and those on disability pension after retirement age, this value still does not reach 2.0. The employment system, and the development of the population both play a role in the accelerating problems of the pension scheme. Since the number of those employed stagnates, and the number of population over retirement age is growing as a result of aging, constant redistribution is required to maintaining the level of pensions. (Government measures for indexation of pensions are „continuously ensured” by the high propensity of pensioners to vote.)