

# **Hungarian transformation – from a life cycle perspective**

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# Life-course approach of the state-socialist system

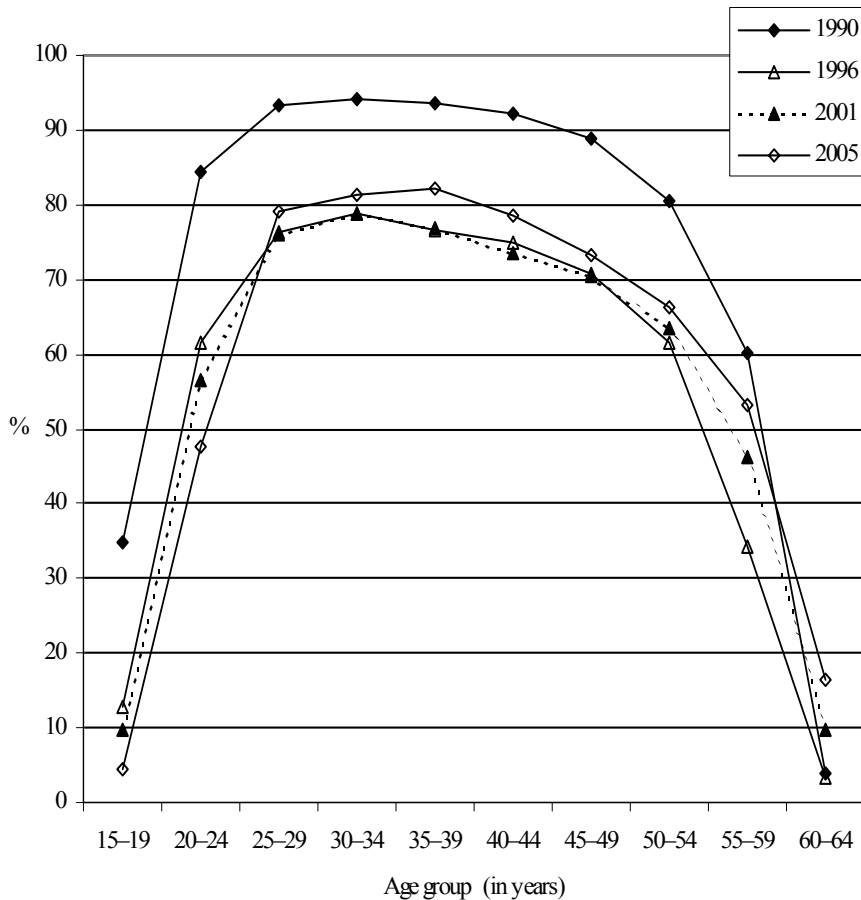
- Structure of the paper:
  - Life-cycle logic from schooling to retirement (including divorce and widowhood), institutional background and available statistics
  - Departure from the state-socialist regime
- In the state socialist redistributive systems:
  - education and training was unified and universal
  - In prime age: seniority-based wages, unemployment was “eliminated”, no disruption in the working carrier
  - old age pension had gradually grown universal
  - female employment was radically extended and supported by comprehensive family policy institutions
- It made the tripartite division of life-cycle a general phenomenon by suppressing individuality

# Radical change in the labour market

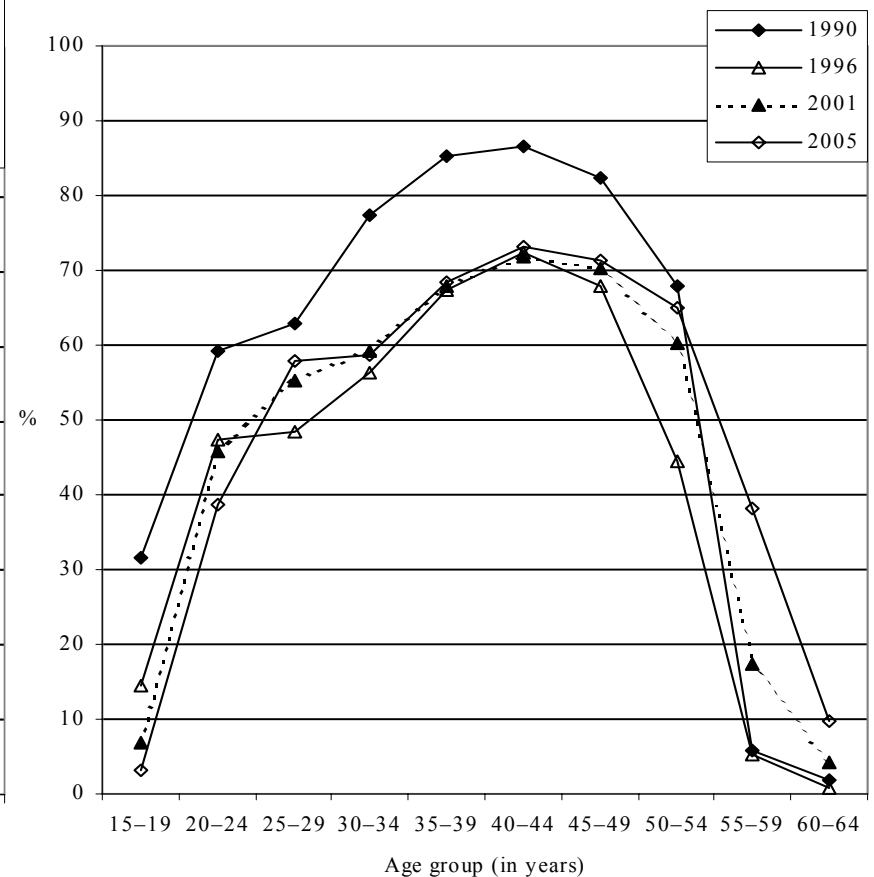
- From full employment to open unemployment
- Lack of efficient trade unions: employees became much more vulnerable – fierce competition and wage differences grew enormously
- Three phases of labour market transformation:
  - 1989-1994: collapse of old industries, destruction of 700,000 jobs, unemployment reached at 14% in 1994
  - 1995-2000: slow recovery began, job creation/preservation by incoming FDI
  - 2000- : inward FDI slowed down, capital flight, low unemployment (5-7%), but persistently low employment rate (56%)

# Employment rate by age group and gender 1990-2005

Male



Female



# From school to work: Changes in the education system

- Expansion in higher and upper secondary education
  - Four-fold enrolment growth among full-time university students.
  - High share (80%) of general secondary education, schools mainly not providing any vocational qualification
- Changes in financing higher education:
  - 1992-2002: government spending dropped from 6.7% to 5.2 % of GDP. Shift towards a mix of public and private funding
- Deep crisis of vocational training
  - Mismatch, quality of secondary vocational training declined
  - New private companies do not have training facilities
  - Becoming schools for disadvantaged young people (Roma ethnicity, learning handicapped) until reaching the end of the compulsory education

# Entry jobs

- University boom: the labour market by and large absorbed new graduates
  - 1990's: high wage premium for young graduates;
  - Changing wage policy of companies: from seniority-based to rewarding diplomas and qualifications
  - Nowadays: facing difficulties (lower wage premium, increasingly employed in non-graduate jobs)
- Shortage of skilled workers (with appropriate skills)
- Undereducated: growing rate of young unemployment (under 25), it reached 19.4% by 2005
- Major problem: high share of early school leavers (20%)  
High drop-out rate in elementary schools reproduces the unemployed on the long run

# Leaving the parental home: Changes in housing market

- Housing under the state socialist system:
  - In rural areas: home ownership, self-funded construction
  - In cities: state-owned flats, state funded construction
- 1990's:
  - privatisation of council houses to tenants, state-financed projects ceased, extreme high home ownership (92%)
  - Private rent is not available for the young (expensive, only 3%)
  - State decision: not to develop the state-owned housing sector, but to offer young persons subsidised loans to purchase their own homes. Governments often changed the conditions of mortgages.
  - By 2004: more than 400,000 have taken such loans, mainly for small flats

# Leaving the parental home

- Social implications of new financing of housing:
  - widening inequalities in wealth and income resulted in a robust differentiation in the method of attaining one's home
  - Parental help is crucial (1999 survey results: 70% mentioned)
  - Or: independent living (paying mortgage) assumes two earners in a young family
- Leaving the parental home: later in the life course than two decades ago.
  - 1960s-1980s: 40% of young people left home by the age 21;  
now: 80% in parental household at age 21
  - One of the reasons: longer education period

# Prime age I.

## Reconciliation work and family

- Generous, almost universal socialist welfare state:
  - cash support, in-kind transfers and housing subsidies
- 1990's:
  - the system became unpredictable due to governmental changes, but still exists...(Mainly due to population policy considerations.)
  - It became a general attitude among women to pursue career and having a family and child(ren) parallel
- Obstacles:
  - The restructured labour market allows less room for reconciling the two than in the pre-1990 period
  - Labour law on 'return from parental leave' is not enforceable
  - Very low share of part-time work by international comparison
  - 1999 survey: only 46% of the respondents expected to return to be re-employed at their original workplace and

# Prime age II.

## Being unemployed

- Unemployment insurance and ALMPs:
  - generous in the beginning, but series of tightening on the eligibility criteria. (Substitution rate dropped from 72% to 51%, dole equals to 26% of average wages)
  - Now: ‘Welfare to work’ style measures targeting the inactive
- High share of long term unemployment
  - 45% of the registered for longer than a year, many have not been re-employed since the transition
  - Huge regional disparities
- Experiences with unemployment in biographies
  - 2001 survey: 37.5% of the ever-employed men and 35.8% of the ever-employed women had experienced at least one period of unemployment
  - half of the young middle-aged (30-39) managed to have a traditional, uninterrupted career. (Long tenure is still prevailing?)

# Early retirement

- Low employment rate among elder males
  - LFS: In 1996 only 27% of Hungarian males aged 55-67 were employed, (EU15 average: 47%, and Lisbon targets)
  - 2006: over 3,000,000 receiving pensions, or other ‘pension-like transfers’ of the 10,000,000 residents of Hungary. 800,000 had not yet reached the official age for retirement.
- The Hungarian way of handling social tensions of restructuring was allowing a variety of methods for elder people to go into retirement.
  - Majority of early retirement through different ‘disability pension’ schemes. It was not an open government policy, mainly went on by ‘soft handling’ of medical control
  - Only 51% of the generation born between 1937 and 1941 actually retired when they reached the official age around 2000

# Old-age pension

- Financing the pension system is a source of recurring tensions
  - 1996-2009: gradual increase of the retirement age (from 55 for women and 60 for men to a universal 62)
  - 1997-1998: pension reform, along with the state run system, set up a private insurance system, mandatory for young people (the second pillar) and supports voluntary pre-pension savings (third pillar). This resulted in increased the deficit of the central budget by an annual 1.5% of GDP
  - In recent years, promises of pension raises and other measures favours to pensioners have become central elements of political campaigns as half of the voters are pensioners.
  - Now: new plans about further increasing the retirement age
- Due to the recent raises the ‘real’ old age pensioners are forming a relatively well-off strata of the society

# Typical households: an estimation of employment and poverty risk in different families

		Men	Women
<b>Young labor market entrants</b>			
1	Single persons (age 20-39) living with parents (family of origin)		
2	Single persons (age 20-39) living alone		
<b>Childless couples</b>			
3	Childless couples (age 20-39) living with parents (family of origin)		
4	Childless couples (age 20-39)		
<b>Couple households with children living at home</b>			
5	Couples, with youngest child(ren) 0-2 years		
6	Couples, with youngest child(ren) 3-6 years		
7	Couples, with youngest child(ren) 7-14 years		
8	Couples, with youngest child(ren) 15-18 years		
<b>Lone parent families with children at home</b>			
9	Youngest child(ren) 0-6 years		
10	Youngest child(ren) 7-14 years		
11	Youngest child(ren) 15-18 years		
<b>Older couples</b>			
12	Midlife “empty nest” couples (respondent age 40-59), without resident children		
13	Older “retireing” couples (respondent age 60-75) without resident children		
<b>Widowed females</b>			
14	Widowed women (aged 60-75) living alone		

# Employment and poverty rate by different household types

