

FOREWORD

The *Hungarian Labour Market Yearbook* series was launched fifteen years ago by the Institute of Economics of the Hungarian Academy of Sciences with support from the National Employment Foundation. The yearbook presents the main characteristics of the Hungarian labour market and of the Hungarian employment policy, and features an in-depth analysis of a topical issue each year. From the outset, the editorial board has striven to bring relevant and usable information on trends in the Hungarian labour market, the legislative and institutional background of employment policy, and up-to-date findings from Hungarian and international research studies to policy makers, civil servants, municipalities, NGOs, higher education and research institutions, the press and electronic media.

The research published in the yearbook series should provide a good source of knowledge for higher education on the topics of labour economics and human resources management. The yearbook presents the main characteristics and trends of the Hungarian labour market in an international comparison using available statistical information, conceptual research and empirical analysis in a clearly structured and easily accessible format. Continuing our previous editorial practice, we selected an area that we considered especially important from the perspective of understanding Hungarian labour market trends and the effectiveness of evidence-based policies. Thus, this year the focus is on public works in Hungary.

The yearbook has four main parts.

1. The Hungarian labour market in 2014

Economic trends were more favourable in 2014 than in previous years, the Hungarian gross domestic product increasing by 3.6 per cent in comparison to the preceding year. Household incomes rose leading to an increase in consumption, and consequently therefore, to the creation of new jobs. The labour market survey in 2014 found that, in comparison to the previous year, the employment rate increased by 208 thousand persons, which occasioned the total number of people in employment to rise above 4.1 million. The employment rate of the 15–64 age group improved by 3.7 percentage points, from 58.1 per cent to 61.8 per cent this being the best result in the past quarter-century. Some 0.6 percentage points of the improvement are explained by a demographic factor, namely, a decrease in the number of the observed age group. Factors in the internal regulatory environment that had a significant impact on the labour market include the increase of the minimum wage, the increase of public works expenditure,

the extension of the family tax credit, and the lifting of the employment ban on recipients of the insured maternity leave [*gyed extra*].

The rise in employment took place in a context of expanding labour supply. Due to the increased retirement age, the number of people on the labour market also increased year on year, although this effect was partly offset by the opportunity for women to retire after 40 years of employment. The labour supply of younger people was increased by the fact that the school leaving age was reduced to 16 years, and that fewer students decided to continue their studies in higher education in 2013 and 2014 than before. The introduction of '*gyed extra*' typically motivated an earlier return to the labour market for those who were better educated and lived in settlements better equipped with day-care facilities for children. Finally, the labour supply was further increased by the extension of public works, which offered employment opportunities to some people who had previously been permanently excluded from the labour market.

First among the factors influencing the demand side is the extension of public works. In 2014, there were 182.4 thousand public workers as an annual average, but since public works typically do not last for 12 months, the number of people involved in this employment form was at least one and a half times more. The main employer of public works participants is still the public sector: 159.5 thousand people were employed here, however the number of people working in the private sector (typically at majority-state-owned enterprises) and at non-profit organisations increased at an above-average pace in 2014. All major data sources noted the improvement in the labour absorptive capacity of the private sector. Institutional labour statistics registered a 50 thousand increase in the number of enterprises with more than five employees, and data from the National Tax and Customs Administration show that 80 thousand more people were employed in enterprises than in the previous year (in addition to a 10 thousand increase in the number of private entrepreneurs and partnerships, and a 20 thousand increase in the number of public sector employees). The survey developed for the forecast of labour demand – pursuant to an EC regulation on job vacancy statistics – also registered a positive shift in 2014. There were 23 thousand job vacancies at the observed organisations in the private sphere, which is less by only 2.7 thousand than in 2007, the last year before the crisis, and almost twice as many as at the time of the deepest economic crisis in 2009.

The number of unemployed also significantly decreased in 2014. According to the ILO definition, it dropped from 441 thousand to 343.3 thousand, while the number of registered job seekers fell from 527.6 thousand to 422.4 thousand. The number of respondents identifying themselves as unemployed in a labour survey also dropped from 666.5 thousand to 538.8 in one year. Regarding educational attainments, the number of people with higher education was 35.4 thousand persons – representing the smallest group in 2014 – and fell short by 6.7 thousand than that of the previous year. The biggest winners of the improv-

ing unemployment situation were those with (lower and upper) secondary vocational education, the majority of whom had presumably found employment in the private sphere. The increase in the number of public works participants in 2014 could mostly mitigate unskilled unemployment.

After the crisis, the gross earnings within observed organisations in the private sphere increased significantly in nominal terms, although at a fluctuating pace: in 2012 they exceeded the level of the previous year by 7.3 per cent, in 2013 by 3.6 per cent, and in 2014 by 4.3 per cent. A significant contributing factor to the growth rate in 2014 was a greater than 10 per cent increase in irregular earnings (premiums, bonuses), which represented about 8 per cent of total earnings. The gross average wage in the public sector is 17 percent below wages in the private sector, but the gap reduces to 5 percent if public works participants are excluded from the comparison. Since there was no change in the rate of income tax or social security contributions in 2014, the growth rate of gross and net earnings had increased, and due to a 0.2 per cent fall in consumer prices, the growth rate of real earnings had exceeded that of nominal wages.

2. In Focus

This year, In Focus addresses the issue of public works. The scale of Hungarian public works is unique in Europe both in terms of the number of participants and expenditure. By 2015, the government has envisaged the employment of some 200 thousand participants from a 270 billion forints budgetary support. The public works programme has been the most important employment policy of the period since 2010 and therefore analysing its short- and long-term effects is an important task. This part consists of two chapters: the first summarises international experiences, the second presents the facts and available research findings pertaining to the Hungarian public works. In Chapter 1 *Judit Kálmán* gives an overview concerning the international experiences of public works. She presents the motives, goals and theoretical background of public works, and reviews the design and results of evaluations of some concrete public works programmes in terms of their efficiency and effectiveness.

The chapter is supplemented by three boxes which present in detail the programmes of countries or group of countries that run notable public works programmes. These texts summarise the results of evaluations of these programmes as well.

In box K.1.1 *Ágota Scharle* presents the most important characteristics of Slovak public works programmes, in box K.1.2 *Judit Kálmán* does the same for the Argentinian ones, and in box K.1.3 Tamás Bakó for the Scandinavian ones. The authors also summarise the most important evaluation results of respective programmes provided they are available.

Chapter 2 of *Közélekép* deals with the Hungarian public works programme. In section 2.1 *Katalin Bördös* sums up the *regulations* and amendments of certain

forms of public works that have been in place during different periods since the regime change. The section deals separately with the system before 2011, and the one after 2011 that has involved uniform public works. It covers the regulations and institutional changes of certain forms of public works as well as their respective implementations.

In section 2.2 *Irén Busch* and *Katalin Bördős* take account of the most important data sources on public works with regard to participation and cost figures. The section provides an overview of the types of territorial (national, local) or individual level data available in each period, evaluates each data source in terms of their reliability, and briefly addresses the possibilities of data analysis. In section 2.3 *Zsombor Cseres-Gergely* and *György Molnár* review the *basic facts* with regard to public employment. The authors assess public works participation as an episode of the customer journey in public employment services leading, possibly, to employment on the open job market. They analyse participation rates in the public employment service for each programme, including public works, and track the typical journey of the unemployed belonging to different groups and having different observable characteristics.

In section 2.4 *Luca Koltai* analyses the *values of public works employers*. It gives an account of the staff of organisations operating public works programmes by rendering their opinions, expectations, identified goals and perceived effects of the public works programmes. In section 2.5, based on a particularly large national administration panel data base, *János Köllő* provides an analysis on the rate of public workers at the end of 2011, and assesses to what extent these individuals worked before 2011 in “real”, that is, non-public works related positions. The section examines the *extent to which real and public works contributed to the employment* of public workers, then analyses the frequency and length of real employment relationships.

In section 2.6 the study of *Zsombor Cseres-Gergely* describes the nature of the participants in public works programmes, and analyses the extent these programmes are implemented in line with their declared aims, whether they really reach out to the long-term unemployed and improve the employability of participants by temporary work opportunities.

In section 2.7 *Márton Czírfusz* addresses the territorial inequalities of public works, and seeks to answer the question of whether the transformed and extended system of public works after 2008 has reproduced spatial inequalities.

In section 2.8 *Irén Busch* reviews the most important data of winter public works that is aimed at decreasing the seasonality of public works. In section 2.9 *Zsombor Cseres-Gergely* and *György Molnár* examine the individual and environmental factors related to exit from public works. The authors take into account which factors are related to exit to the open, non-public works-related job market, and which are the ones impeding that. Furthermore, they also analyse the factors that lead to returning to public works,

registered or unregistered unemployment, in contrast to employment in the open labour market.

Finally, the paper by *János Köllő* in section 2.10 examines the potential reintegration of public workers from the perspective of their fellow workers: whether in genuine work organisations, with peers employed in the primary labour market, or in separate public works units. While the former may facilitate a situation whereby job seekers and employers find each other, separation does not provide an opportunity for employers to form an opinion regarding the skills and productivity of public workers in a genuine work environment and this can hinder the reintegration of public workers, and their transition from welfare to work.

The compiled analyses of In Focus examine public works from various angles. More detailed and evidence-based analyses are currently not available concerning public works in Hungary. The international overview enables us to assess the Hungarian programme also in the light of international experiences. We hope that this collection of studies will support a more evidence-based decision making in public policy and enable professionals in the field to use the research findings presented. Likewise, we hope that the non-professional audience interested in the topic may also acquaint themselves with the nature, results and problems of public works.

3. Instruments of labour market policy (February 2014 – April 2015)

The most important changes affected the institutional system of employment policy. On 1st of January 2015, the National Employment Office was dissolved without a successor entity, and its tasks and competences were distributed among other public agencies. Employment policy has since been managed by the minister responsible for employment policy, while vocational and adult training were entrusted to the National Institute of Vocational and Adult Education, which is a newly established agency by the Ministry of Economy. As of 1st of April 2015, the independent agencies have been converted – in the framework of reforming government agencies – to ministerial departments, where tasks and competencies are assumed by regional government agencies and their appointed government commissioners.

Co-financed by the European Union, new and comprehensive programmes for the 2014–2020 development phase have been launched. Projects on employment policy were primarily realised in the framework of the Economic Development and Innovation Operation Programme, and also according to two priorities (Improving the competitiveness of enterprises and encouraging employment, and Encouraging employment and developing corporate adaptability.) Furthermore, the Territorial and Settlement Development, Human Resources Development and Competitive Central Hungary Operational Programmes also had activities that aimed at increasing employment and the labour market integration of job seekers and the disabled.

The regulation of the development tax benefit intended to encourage employment was changed from July 2014, primarily in accordance with a development map defined by the European Commission for the 2012–2020 period, and the equality of opportunity dimensions thereof. Changes in the intensity of supports mainly favour small and middle enterprises. In the framework of employment protection, action plan recipients of the insured and flat rate parental benefits were affected by a positive change. In the regulation of the main job creating programme, which was public works, only minor changes were made during this period.

From 1st of January 2015, the pension system was amended in a way that abolished the possibility of early retirement in certain occupations. From 1st of March 2015, municipalities have increased autonomy in designing means-tested social benefits, except for the means-tested unemployment assistance, which will be administered by government agencies at the micro-region level. The regular social benefit was renamed as disability and childcare allowance and long-term unemployed persons aged over 50 are no longer eligible for this, but instead can apply for the means-tested unemployment assistance. Other allowances (e.g. for housing or medicine) were merged and renamed as local assistance and municipalities have considerable freedom in setting the conditions of entitlement.

4. Statistical data

This section gives detailed information on the main economic trends, population, labour market participation, employment, unemployment, inactivity, wages, education, labour demand, regional disparities, migration, labour relations, and social welfare assistance as well as an international comparison of selected labour market indicators. The data presented here have two main sources: on the one hand, the regular institutional and population surveys of the Central Statistical Office – Labour Force Survey, institutional-based labour statistics, labour force accounting census; on the other hand, the register of the National Labour Office and its data collections – the unemployment register database, short-term labour market forecast, wage tariff surveys, and the NLO’s Labour Relations Information System. More information is provided on these at the end of the statistical section. In addition to the two main data providers, the Central Administration of National Pension Insurance has provided the data on old age and disability pensions and assistance. Finally, some tables and figures are based on information from the online databases of the CSOs, the National Tax and Customs Administration and the Eurostat.

All tables and figures can be downloaded in Excel format following the links provided. All tables with labour market data published in the Hungarian Labour Market Yearbook since 2000 are available to download from the following website: <http://adatbank.krtk.mta.hu/tukor>.

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The editorial board would like to thank staff at the *Institute of Economics – Research Centre for Economic and Regional Studies – HAS*, *Central Statistical Office*, the *Human Resource Department of Corvinus University*, the *National Employment Service*, the *Ministry for National Economy*, *Ministry of Human Resources*, the *Budapest Institute for Policy Analysis*, the *National Bank of Hungary*, the *Budget Committee*, and members of the *Economics of Human Resources Committee of the Hungarian Academy of Sciences* for their help in collecting and checking the necessary information and preparing this publication. Last but not least, we would also like to thank the leadership of the *Hungarian Academy of Sciences* and the *Board of OTP Together for Future Jobs Foundation* for financially supporting the publication of the yearbook series.