Labour market crisis: changes and responses

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Outline

- The main economic and labour market trends
- Hungarian labour market: international comparisons
- Causes, reasons, escape routes
- Increasing difficulties faced by newcomers on the labour market
- Escape route: emigration – a solution to what?
The main economic and labour market trends

- In the 1990s, following the transition shock, Hungary was one of the leading economies in Central and Eastern Europe.
  - a high share of foreign direct investment,
  - economy was modernizing
  - there were favourable convergence trends (in terms of GDP per capita),
  - all of which manifested itself in a relatively high standard of living and good economic prospects.

- The trend ground to a halt in the first half of the 2000s and the country’s leading position gradually disappeared.

The main economic and labour market trends

Budget deficit was increasing during the 2000s and the economy was deteriorating but signs of labour market and social downturn were slow to manifest themselves.
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- Modest increase in GDP until 2006
- Rise in real wages (sometimes steep) until 2006
- Employment stagnating until 2006
- Following 2006 all indicators decreased

Source: HCSO Stadat online database
Hungarian labour market: international comparisons

Labour market indicators in comparison to Visegrad countries and to the EU-15, among the 15–64-year-old population, 2002–11

Unemployment was moderate region’s high-unemployment countries

Source: EUROSTAT online database, EU-LFS data
Hungarian labour market: international comparisons

Labour market indicators in comparison to Visegrad countries and to the EU-15, among the 15–64-year-old population, 2002–11

Unemployment was moderate region’s high-unemployment countries Following a period of stagnation the Hungarian employment rate dropped to the lowest Particularly alarming is the extremely low participation rate, which has not really changed different sections of the active-age population affected to varying degrees.

Source: EUROSTAT online database, EU-LFS data

Unemployment rate by age groups by comparison with the EU-27 average total

- Unemployment increased on average and in all age groups, compared to the EU-27
- Youth unemployment had the most striking increase by 2011 well above the EU average.

Source: EUROSTAT online database, EU-LFS data
Hungarian labour market: international comparisons

Unemployment rate by age groups by comparison with the EU-27 average

- Unemployment increased on average and in all age groups, compared to the EU-27.
- Youth unemployment had the most striking increase by 2011, well above the EU average.
- Difference by gender is moderate.

Source: EUROSTAT online database, EU-LFS data

Employment rate by age groups by comparison with the EU-27 average

- Unemployment rate is sensitive to regulations governing the labour market and the share of those in the labour market.
- The level of employment lags behind the EU-27, particularly among the young and old age groups.
- There is no major shortfall in the age group 25–54.

Source: EUROSTAT online database, EU-LFS data
Hungarian labour market: international comparisons

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- The level of employment lags behind the EU-27, particularly among the young and old age groups
  - There is no major shortfall in the age group 25–54
  - Particularly unfavorable among men - in all age groups, also in best working age of 25-54
  - Deteriorating among women in the end of the 2nd half of 2000s

Source: EUROSTAT online database, EULLFS data

Unemployment rate by qualification by comparison with the EU-27 average

- Unemployment of the poorly qualified (primary school or less) is far above the EU 27 average; that was already nearly at the EU-27 level in the early 2000s, when Hungary’s unemployment rate was low on average
- The increase in U has come about mainly at the expense of unqualified and is continuing to rise
- The U rate of people with secondary and tertiary education has been below the EU-27 average,

Source: EUROSTAT online database, EU-LFS data
Hungarian labour market: international comparisons

Unemployment rate by qualification by comparison with the EU-27 average

As with unemployment, so the employment rate differs considerably by level of education:
• The employment rate among those with no qualifications lags far behind the EU-27 average.
• Whereas the rate among the qualified people of best working age hardly differs from the EU-27.
Hungarian labour market: international comparisons

• As with unemployment, so the employment rate differs considerably by level of education
• The employment rate among those with no qualifications lags far behind the EU-27 average
• Whereas the rate among the qualified people of best working age hardly differs from the EU-27.
• Particularly unfavourable among poorly qualified men
• There has been some deterioration, however, in the case of men and women with secondary education and among women with tertiary education.

Source: EUROSTAT online database, EU-LFS data

Causes, reasons, escape routes

What are the reasons for the unfavourable process?
Why is the employment rate stubbornly refusing to increase?

- The macroeconomic environment, the business cycle and competitiveness obviously go some way to limit labour demand.
- But the Hungarian employment level is low, irrespective of the business cycle and other factors; and both the participation rate and the unemployment rate were also low for a long time.

Reasons are various:
- Employment and employability of poorly qualified
- The change and role of minimum wage
- The structural problems of social benefit system
Causes, reasons, escape routes

Employment and employability of poorly qualified people

The problem of the employment and the employability of unqualified people due to the educational system (general education, as well as vocational training and adult education) is part of the problem, as it fails to provide people with relevant skills and practical experience (Köllő, 2009; Fazekas, 2009; Kézdi et al., 2009).

The consequences of this are serious: half of the gap between Hungarian and overall EU unemployment is due to unemployment among people with no qualifications (Köllő).

Employment forecasts predict a considerable increase in unskilled labour, assuming there is no change in the educational system (Hermann and Varga, 2012).

There is a fear that recent educational reform may even exacerbate and perpetuate the present poor situation: giving up on recent attempts to narrow the gap early on and to increase skills at school, the reform lowers the school leaving age, simplifies subjects and introduces practical work at school at too early a stage.

Causes, reasons, escape routes

The change and role of minimum wage

Demand for unskilled labour has been considerably depressed by the high wage costs (high tax wedge), and the unprecedented increase in the minimum wage since 2000 has laid a heavy burden on employers.

Repeated sharp increases in the minimum wage curtailed the demand (or legal demand) for low-skilled labour in the short term and squeezed unskilled people out of the labour market.

Although the minimum wage (in PPP) is well below the developed EU-15 level, its share is high:

- 36 per cent of the average gross wage and 55 per cent of the average gross manual wage
- 50 per cent in the manufacturing sector, and around 70 per cent in the construction industry and in agriculture

The fear is that this process will continue, as it is expected that the minimum wage will again be increased and there are no effective reconciliation bodies that can debate the acceptable level of the minimum wage.
Causes, reasons, escape routes
The structural problems of social benefit system

- Although it has increased of late, unemployment in Hungary was for a long time at a low level coinciding with a low employment and a low participation rate since the mid-1990s
- Redundant labour was channelled into early retirement, and there were also generous disability pension and childcare benefit systems.
- As a consequence: financial assistance for working-age people reduced their willingness to work, which resulted in low participation, as well as in low unemployment.
- Gradual efforts to change the structure and to cut or restrict benefits have proved only partially successful, while there have been long-lasting structural effects on the labour market and on the state budget.
- Until recently, then, Hungary had a relatively generous package of social protection benefits, in spite of its worsening economic achievements through the 2000s.

Causes, reasons, escape routes
The structural problems of social benefit system

Total social expenditures in the new EU 8+2 and the EU 15 countries, in % of the GDP & PPS per inhabitants

- Economic restrictions and budget cuts since 2007 have resulted in a cut in social protection benefits - at a time – during the crisis – when other countries saw an increase in theirs.
- Since 2010, in line with its preferences, the new conservative government has sharply cut social expenditures (unemployment and social benefits, disability pension) while other benefits (childcare/family) were affected differently.

Source: Eurostat online database, social protection data
Government response: 
labour market stimulation through public works

- Roots of public work go back to the 2001 unemployment benefit reform: long-term unemployed have been directed from PES programs to the municipal governments’ public works programmes (principle of ‘work instead of benefit’) and social benefits were made conditional: a spell of public work became obligatory (although such work is not always available). Not much has changed in the last decade.

- In late 2008 (with increasing U) a large-scale public works program was launched (‘Road to Work’). In spite of the original expectations, the temporary employment of the long-term unemployed offered no real opportunity to get a job on the open labour market. (Benefit conditions became stricter)

- The new government promptly stopped the costly programme in 2010 and replaced it with a new public works programme with stricter eligibility criteria and benefit regulations (i.e. a cut in the claims period and the benefit level).

- The scale of the public works scheme dwarfs other programmes: a large-scale public works programme is believed to stimulate labour market demand. The scheme has been developed at the expense of other active labour market measures that could boost the employability of the unemployed. Public work has, in fact, been the source of slightly rising employment recently.

Increasing difficulties faced by newcomers on the labour market

- Young people face difficulties in the labour market described above. Youth unemployment is increasing and is high in international terms. (26.1 per cent in 2011, while the EU-27 average was 21.4 per cent)

- The reasons for this are varied:
  - primarily, the unemployment rate depends on the participation rate of the corresponding age group, which is connected to the proportion of those in school,
  - the type of vocational school system (i.e. classroom or dual vocational training; how much practical and work experience those at school receive) and
  - also the practice of students at school being employed part time.

- All these reasons combine to make activity among young people rather low in Hungary. Youth unemployment rate is high.

- However, the youth unemployment ratio was around 6.5 per cent in Hungary, compared to 9.1 per cent in 2011 in the EU-27.
Increasing difficulties faced by newcomers on the labour market

The problems behind the unfavourable data are structural and employment policy measures that only partly address the core of the problem. As for education and training, not much effort can be discerned to help young folk transition into work.

Unemployment rate of youth and share of youth among total number of unemployed (age 15–24 vs. 25–29)

- Youth unemployment is connected to the general labour market situation.
- Youth unemployment is characteristic of the age group 15–24.
- Whereas in the age group 25–29 the situation is similar to the overall trend.

Source: Hungarian LFS

Increasing difficulties faced by newcomers on the labour market

- Young people are mainly employees. More and more of them have fixed-term contracts (about 15 per cent of age group 20–29 in 2010) and finding their first job requires considerable time, according to the Hungarian LFS.
- As for the 25–29 age group, its labour market position is better, proving that the transition from school to work is generally completed before the age of 25.
- Level of education strongly influences the labour market situation of young people.
- The employment of those youth with secondary school education (without a skill) is low, while others have better labour market chances.
- Those with a low level of education (primary schooling or less) are in the worst position – they find it very hard to get employment and the unemployment rate of those who are on the labour market is extremely high. The extremely unfavourable position of the low skilled, however, does not improve with age.
Increasing difficulties faced by newcomers on the labour market

- It is hard to forecast the impact of the recent educational reform on the youth labour market, on labour supply and demand. The reduction in the school leaving age will bring more unskilled young people into the pool of labour, but their employability will be even more fragile and unemployment among this group will likely increase.

- Another important impact on the educational front is also likely to influence the youth labour market: the reshaping of entrance to and financing of tertiary education. The reform, in principle, shifts tertiary education toward self-financing and a cut in the tertiary education budget.

- One consequence is expected to be that university students and graduates seek to study and find a job abroad. The indications are alarming, though research evidence is still scarce. Nevertheless, the short- to medium-term effects of the potential emigration of university graduates could be serious.

Escape route: emigration – a solution to what?

- Until recently Hungary has been a low emigration country
- Recent signs of emigration + economic and social deterioration called overreacted (?) attention

The puzzle:

- what were the impediment factors that kept Hungarian emigration low?
- what has been changed recently that gave migration somewhat strong impetus?
- What are the short and long term prospect?

Recent changes indicate that the emigration pattern is not a natural trait or characteristic: it is basically driven by economic motivations and is largely sensitive to economic and social changes.
Escape route: emigration – a solution to what?

According to all data sources Hungarian emigration still modest…

**National residents abroad, EU 8 new members (of 2004)**

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<tr>
<th>change in emigrant stock</th>
<th>change in % of national population</th>
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The modest level of emigration started to move upwards after 2007, received a further impetus in 2011 following the economic and labour market trend outlined above. Stock is slowly increasing; share is still low (in 2010)

Source: mirror statistics, Eurostat foreign pop, corr. with NIESR and own calculations

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**Emigration of Hungarians, by destination countries in the EU-15**

- In resident population, Hungarians in Germany seem to be overrepresented.
- LFS also counts non-resident, commuting and unregistered labour migrants, and so Austria appears to be the main destination country.
- UK has the 3rd place according to any data source

Source: mirror statistics, Eurostat foreign pop, corr. with NIESR, (1st Jan data refer to the previous years), HU LFS own calc.
Escape route: emigration – a solution to what?

- Emigration from Hungary is increasing - relative to the previous trend
- The share of the emigrant population is still modest, or is about the low average in the main destination countries, particularly the UK and Germany. Austria is a more attractive destination country for Hungarians, but even in that labour market Romanians outnumber Hungarians.
- But increase outnumbers other new member countries’ emigration in the main destination countries: Germany and Austria.
- Hungarians’ main destinations are different to other new EU members’ destinations – in this destination countries share and increase is high but total share is still moderate.
- Emigration data by main destination countries:

In spite of increasing emigration Hungarians prove marginal according to share or stock of emigrants in the UK

National Insurance Number Allocation by nationality & mirror statistics, Eurostat foreign pop, corr. with NIESR
Escape route: emigration – a solution to what?

Emigration to Germany, following May 2011

Increase in emigrant population outnumbers other new EU member countries
Relative size of emigrant population (share of national population) increasing
Germany: Hungarians main emigrant country while others face to other destinations

Source: Statistik der Bundesagentur für Arbeit

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Escape route: emigration – a solution to what?

Migration to Austria 2002-2010

Hungary became the most important emigrant country of the new EU members in Austria

Source: Statistics Austria, population register
Escape route: emigration – a solution to what? Some lessons

- Increasing emigration is in line with the economic restrictions and the post-2007 financial crisis. It has intensified since 2011 in response to the deteriorating economic and social prospects and the serious reduction in social welfare and benefit systems.
- Remarkably, Hungarian emigration was moderate for a long period, even when the employment and participation rates were also low in Hungary.
- A low propensity to migrate (hard to prove) and a lack of language skills are the common explanations for the moderate emigration of Hungarians.
- The reasons behind the low intensity of emigration are economic and institutional, however - and similar to the low employment rate. Hárs (2009) considers the high welfare benefits (relative to the region) to be among the factors that previously hindered or constrained the decision to migrate. (Kurekova (2010) came to a similar conclusion in the Czech R).
- Although their labour market position is not good, unskilled people scarcely feature in emigration. Consequently, an increasing share of unskilled labour is to be expected on the national labour market.
- Emigration is basically the emigration of skilled labour, and the rising number of highly qualified young emigrants is a further unfavourable development.

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Escape route: emigration – a solution to what? Some lessons

- The emerging emigration provides an alarming signal of the changing economic and social circumstances, but it is hard to forecast the magnitude or structure of the phenomenon on the basis of such a short history.
- In those new EU Member States where emigration was substantial, employment abroad played an important role in balancing the home country's labour market and unemployment. That was the case in Poland, Slovakia, the Baltic countries and Romania.
- The emigration pattern may follow the Polish or the Slovak case: an unfavourable economic and labour market situation induced emigration, and economic recovery turned the trend,
- or it may prove to be lasting emigration, as in the Baltic or the Romanian case.
- Depending on economic, social and political developments, the emerging emigration potential and accelerating emigration may turn Hungary into a new country of emigration. The incentives to emigrate are increasing, and constraints on emigration are diminishing, but so far there is no evidence as to whether these are short-term or long-term changes.